

Country Insight Snapshot

Italy

April 2023



OVERALL COUNTRY/REGION RISK INDICATOR

Current Risk Indicator:



- Last change: March 2022 (DB4a → DB4c)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

WorldWatch Headline

Falling producer price inflation, strong exports and robust investment might be the prelude to resilient growth; upgrade in short-term economic outlook reflects this sentiment.

Recent Changes

- In February, producer price inflation growth returned to its June 2021 levels, at 1.6% y/y, down from 32% in December, consolidating a trend that will likely lead to less downstream pressure on prices and demand in the coming months.
- On the back of this, we have upgraded the short-term economic outlook score from DB5c to DB5a, the market environment score from DB5a to DB4c and the credit environment from DB3d to DB3c.
- At the same time, the drop in producer price inflation will contribute to reducing pressure on the country's market potential; the outlook for this category has been upgraded from 'deteriorating' to 'stable'.
- In February, the government scrapped the 'Superbonus' introduced during the pandemic; the scheme gave homeowners a tax credit of up to 110% on the cost of improving their property and prompted a wave of building renovations.
- Italy avoided recession in 2022, recording 3.9% growth in economic output. We now expect GDP to grow 0.7% in 2023, an improvement on our previous forecast of 0.5%.

Events to Watch

- Labour markets remain resilient in many eurozone countries, adding to inflation pressures; the ECB will prioritise inflation, although falling prices and the recent turmoil in the financial sector may drive a less aggressive increase in interest rates.
- The euro remains weak against the US dollar; however, it has regained ground since October.
- Overall business confidence returned to expansion territory in January, and, in March, the Composite Output PMI stood at 55.2 points, a level last seen in November 2021.
- However, the Construction PMI remains significantly below the contraction threshold.

Call to Action

- Expect consumer prices to remain elevated, but to moderate over the course of H1.
- Closely watch the cash flow of energy-intensive companies, and expect consumer spending to be adversely affected as the cost of living increases.
- Hedge against FX risk on account of the gradually appreciating euro.

COUNTRY INSIGHT HEADLINES

CREDIT ENVIRONMENT

Current Risk Indicator:



- Last change: April 2023 (DB3d → DB3c)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

Risks and Opportunities

- The outlook for the credit environment is heavily dependent on growth and on the EBC's policy strategy to fight inflation.
- Interest rates are likely to rise further, tightening financial conditions in the eurozone.
- However, growth in 2022 was more resilient than expected and is likely to pick up again towards the end of Q2 2023 or in H2.
- Producer price inflation is decreasing sharply, suggesting that pressure on consumer prices might also fall in the coming months.
- Taking all of this into account, we have upgraded the credit environment score from DB3d to DB3c; the outlook remains at 'stable'.
- But risks remain: Dun & Bradstreet proprietary data shows that the share of prompt payments in Italy is much lower than the European average.
- Usual payment terms in Italy are 30-120 days; this is much longer than in other European markets, where 30-day terms tend to be the norm.
- Dun & Bradstreet's sectoral risk rating shows that payment and bankruptcy risks are more severe in the financial services, chemical and agriculture sectors.

Trade Terms

Description	Terms
Minimum Terms	SD
Recommended Terms	SD
Usual Terms	30-120 days

Note: OA: Open Account; SD: Sight Draft (Documentary Collection); LC: Letter of Credit; CLC: Confirmed Letter of Credit; CIA: Cash in Advance. **Source:** Dun & Bradstreet

Export Credit Cover

Agency	Cover
US Eximbank	Full cover available
Eksport Kredit Fonden (EKF)	Full cover available, conditions apply
ECGD	Medium- or long- term cover only
Euler Hermes AG	Medium- or long- term cover available, limited short-term cover

Source: Export Credit Agencies

Call to Action

- Watch for the risk of non-payment; after falling in 2020-22, the number of insolvencies is still low but is likely to increase in the near future.
- [Assess the creditworthiness of energy-intensive companies](#), given the current high price of energy.
- Note that export credit cover for the country is available from most export credit insurers, reducing risks when dealing with Italy-based counterparts.
- Keep a close eye on customers' payments performance, as delays are common.

SUPPLY ENVIRONMENT

Current Risk Indicator:



- Last change: March 2022 (DB3a → DB3b)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

Risks and Opportunities

- On the back of disruption to business continuity caused by the invasion in Ukraine, in March 2022 we downgraded the supply environment score by one quartile, from DB3a to DB3b.
- However, the market environment has progressively stabilised, leading us to upgrade the supply environment outlook from 'deteriorating' to 'stable' in November, indicating that we do not anticipate a change in the score in the near term.
- Italy's gas storage facilities are full after efforts to secure liquefied natural gas (LNG) from countries such as Algeria.
- Earthquakes are frequent in Italy, at times exacting a big toll in terms of victims and economic damage.
- Italy's infrastructure may witness upgrades over the next few years as the country implements the EU-approved National Recovery and Resilience Plan (NRRP).

Call to Action

- **Monitor the solvency of businesses**, especially small and medium-sized enterprises (SMEs), which are overrepresented in Italy compared with peer countries and which could be exposed as the government withdraws some of its energy-related support.
- Expect increased scrutiny and possible government intervention in sectors that are considered strategic.
- Factor in a change in the relationships with Brussels and Beijing.
- Expect a strong relationship with the US.
- **Discover how Dun & Bradstreet data** can help you uncover relationships among entities and individuals that attempt to threaten national security or trade illegally.
- Monitor suppliers' economic viability more closely, and line up alternative providers of goods and services in due course.

MARKET ENVIRONMENT

Current Risk Indicator:



- Last change: April 2023 (DB5a → DB4c)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

Risks and Opportunities

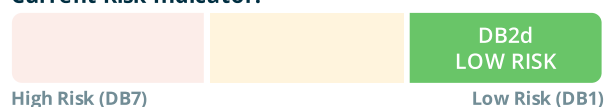
- Italy's market environment continues to be impacted by high consumer prices, reducing market potential.
- However, with producer price inflation moderating strongly, the short-term economic outlook is rosier than previously expected.
- On the back of these developments, we have upgraded the score for the market environment from DB5a to DB4c.
- In November, the Meloni government signed off a new budget that introduces a flat tax rate of 15% for the self-employed with an annual income of up to EUR85,000 (up from the current threshold of EUR65,000).
- More than EUR21bn will be spent on energy subsidies for households and businesses in 2023.
- Real GDP per capita has fallen around 5.0% over the past 20 years (in the EU, it has risen more than 20%), highlighting Italy's decline as a result of structural problems.

Call to Action

- Factor in business disruption and a distorted market environment until the Russia-Ukraine crisis subsides.
- Make use of **analytical tools** to identify potential customers and market opportunities.
- Note that the judicial system is highly inefficient, making court disputes very costly; make sure contracts and **business partners are thoroughly scrutinised**.

POLITICAL ENVIRONMENT

Current Risk Indicator:



- Last change: September 2021 (DB3a → DB2d)
- Green indicates that **Positive** factors/influences dominate
- Rating outlook is **STABLE**

LOW RISK Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns at a future date.

Risks and Opportunities

- The overall political environment is stable, and the risk of expropriation is moderate.
- Giorgia Meloni's leadership can count on a strong majority, which has been further strengthened by the victory that her coalition secured at the February 2023 regional elections in two of the biggest Italian regions (Lombardy and Lazio).
- The impact of Mario Draghi's departure on relations with Brussels has so far been negligible.
- While Meloni is notoriously critical of the EU's institutional settings and policies, she has progressively moderated her stance, sending strong signals of a willingness to collaborate with Brussels, leading us to keep the outlook at 'stable'.
- However, the government has recently signalled its willingness to assume more leeway over how the NGEU's funds have to be allocated and spent; this could trigger tensions between Meloni's government and Brussels.
- Moreover, in March, the European Commission suspended funds worth EUR19bn from the NGEU due to slow progress on Italy's implementation of reforms.

Call to Action

- Expect the government to be committed to unrolling the NGEU's projects according to the schedule agreed with the EC, but factor in bumps in the road during the implementation of the planned reforms.
- Note that the Meloni government is expected to have largely business-friendly policies, though firms with a footprint in strategic areas of national interest might face elevated risks.
- Monitor financial developments in the eurozone, which may affect the long-term growth and stability of the Italian economy.
- Urge investors in strategic sectors to exercise caution and take appropriate risk-mitigation measures; the new government is likely to use its 'golden share' prerogatives more frequently.

STATISTICAL REFERENCE

KEY INDICATORS AND FORECASTS

Historical Data/Forecasts

Metric	2018	2019	2020	2021	2022	2023f	2024f	2025f	2026f	2027f
Real GDP growth (%)	0.8	0.5	-9.1	6.7	3.9	0.7	1.2	1.3	1.4	1.2
Nominal GDP in USDbn	2,091	2,011	1,891	2,106	2,007	1,941	2,403	2,201	2,396	2,455
Nominal GDP in local currency	1.8tn	1.8tn	1.7tn	1.8tn	1.9tn	1.8tn	2.2tn	2.0tn	2.1tn	2.2tn
GDP per Capita in USD	34,492	33,216	31,283	34,886	33,311	32,270	40,036	36,758	40,124	41,218
Population (year-end, m)	60.6	60.6	60.5	60.4	60.3	60.1	60	59.9	59.7	59.6
Exchange rate (yr ave, USD-LCU)	0.8	0.9	0.9	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Current Account in USDbn	54	66.3	74.5	54.9	4.2	2.2	14.8	27.7	53.8	52.3
Current Account (% of GDP)	2.6	3.3	3.9	2.6	0.2	0.1	0.6	1.3	2.2	2.1
FX reserves (year-end, USDbn)	378.4	386.6	422.9	568.7	591.8	622	673.2	743.1	836.4	978.5
Import Cover (months)	1.3	1.4	1.6	2	2.2	2.1	2.1	2.2	2.4	2.6
Inflation (annual ave, %)	1.3	0.6	-0.2	1.9	8.7	6	2.4	1.5	1.3	2
Govt Balance (% GDP)	-2.2	-1.5	-9.5	-7.2	-5.5	-4.3	-3.9	-2.1	-1.8	-1.8

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Italy	France	Germany	Spain	UK
Income per Capita (USD)	32,270	47,329	54,201	32,432	47,945
Country Population (m)	60.1	64.8	83.3	47.5	67.7
Internet users (% of population)	70.5	84.8	89.8	93.2	94.8

Source: Various sources/Dun & Bradstreet

Transfer Situation

Type	Delay
FX/Bank Delays	No delays reported
Local Delays	0-2 months

Note: Length of delay for completion of local and foreign transfers Source: Dun & Bradstreet

Trade Payment Restrictions

Trade Payment Restriction	Italy	Western & Central Europe	OECD Average
Restrictions on non-Residents' Accounts	0	0	0.06
Restrictions on Payments for Imports	0	0.12	0.06
Restrictions on Payments for Invisible and other Current Transfers	0	0.36	0.35

Note: for a definition of the Trade Payment Restrictions please see the online [user guide](#) Source: International Monetary Fund



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User Guide

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