Italy
CRT-2
August 22, 2019
Region: Europe
Country Risk Criteria Procedures
Guide to Best’s Country Risk Tiers
• The Country Risk Tier (CRT) reflects AM Best’s assessment of three categories of risk: Economic, Political, and Financial System Risk.

Italy is a CRT-2 country, with low levels of economic and political risk, and a moderate level of financial system risk.

• Italy’s GDP growth rate is expected to further slow down over the coming year. In 2018, grow registered at 0.9% and is expected to drop to 0.1% in 2019. The inflation rate is also set to decline from 2018 to 2019 from an estimated 1.2% to 0.8%.

• The leading industries in Italy are tourism and manufacturing.

• The majority of countries pictured in the map are categorized as CRT-1 and CRT-2, notable exceptions are Bosnia and Herzegovina, Belarus, and Ukraine.

Regional Summary: Western Europe
• Composed of 28 countries, the EU accounts for slightly over a fifth of the world’s GDP. The IMF predicts that GDP for the region will be 18.71 trillion euros in 2019, largely flat from 18.75 trillion euros in 2018.

• Uncertainty about Britain’s exit from the EU lingers, weighing on regional growth prospects. A decision on Brexit is due in October, with a “no deal” Brexit remaining a possibility.

• Growth in Western Europe has stagnated; impediments include weakness in the region’s manufacturing sectors, heightened trade tensions, and a general worldwide economic slowdown.

• The European Central Bank (ECB) ended its unprecedented quantitative easing program in December 2018. However, the ECB has signaled that further stimulus could be forthcoming if economic softness persists.
Economic Risk: Low

- Growth in the Italian economy has been slow since the 2007 global financial crisis. Unlike the rest of the region, Italy has had multiple years of negative growth. Even in years in which growth has been positive, it has not been substantial. The global growth slowdown is expected to further pressure the economy.

- Tension with the EU over fiscal policy is expected to continue, given the increase in Italy’s deficit in 2019, and its plans to lower taxes and raise welfare payments. Italy’s debt to GDP ratio is one of the highest in the world—an estimated 133% of GDP for 2019.

- Other structural challenges for the economy include anemic income growth and unemployment. Unemployment is especially high among youth and threatens the country’s long-term economic growth outlook.

- Italy ranks 51st out of 190 countries on the World Bank’s Ease of Doing Business Survey. The country scores especially poorly on paying taxes, enforcing contracts and getting credit.

Political Risk: Low

- The coalition between Italy’s Lega Nord party and its Five Star Movement (M5S) party collapsed in August 2019 with the resignation of independent Prime Minister Giuseppe Conte. President Sergio Mattarella may either call for early elections or attempt to form a new coalition.

- The Italian government has come into conflict with the EC over its desire to lift the Russia sanctions, refusal and reluctance to aid migrants, and desire for an expansionary fiscal policy.

- The government aims to encourage growth and raise the per capita income level, which has largely stagnated since the financial crisis. However, the rollback of previous reforms related to pensions has raised concern from the IMF.

- Corruption remains an issue for the country with high ranking government officials under scrutiny. Ranked 53 out of 190 total countries, Italy generally scores worse than much of Western Europe on Transparency International’s Corruption Perception Index.

- Growing violence and social risks in Libya are a cause for concern in Italy. Around a fifth of Italy’s oil and a tenth of Italy’s natural gas come from Libya; the Libyan crisis has also driven many migrants to seek refuge in Italy.

Financial System Risk: Moderate

- The Institute for Insurance Supervision (IVASS) regulates the insurance industry.

- The 10 largest insurance groups hold around 80% of the market share in Italy’s insurance industry.

- The banking system has strengthened since the financial crisis, but non-performing loans remain high. Additional headwinds for the banking system include high sovereign bond yields and general weak profitability.