

BEST'S COUNTRY RISK REPORT

Italy CRT-2

August 22, 2018

Region: Europe

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Italy, a CRT-2 country, is a founding member of the EU and the eurozone. It has low levels of economic and political risk and moderate levels of financial system risks.
- GDP growth was 1.5% in 2017, driven by an increase in exports due to higher external demand. Medium-term growth is expected to range between 1.0% and 1.5%.
- To increase growth, Italy will need to address ongoing structural issues, a lack of competitiveness, and low productivity levels. Without labor market reforms, economic growth will be further constrained.
- 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.



- Country Risk Tier 1 (CRT-1) Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2) Low Level of Country Risk
- Country Risk Tier 3 (CRT-3) Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4) High Level of Country Risk
- Country Risk Tier 5 (CRT-5) Very High Level of Country Risk

Regional Summary: Western Europe

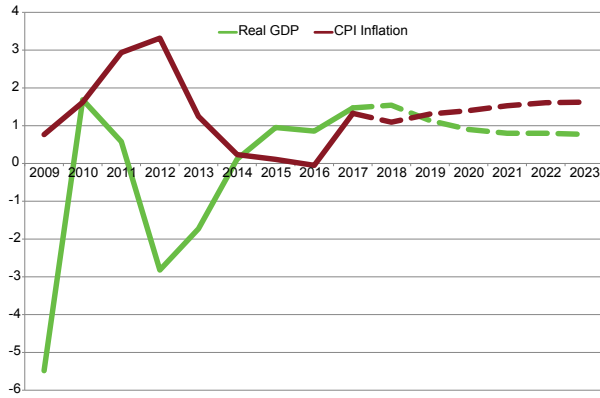
- Western Europe is a highly developed and affluent region. The 28 countries of the EU accounted for approximately 21.9% of the world's domestic product in 2016 and 21.6% in 2017, a figure that is projected to grow to 22.5% in 2018.
- Growth has been driven largely by rising domestic demand due to growing consumer and business confidence, lower unemployment rates, and credit growth.
- The European Central Bank (ECB) has decided to end its three-year EUR2.4 trillion quantitative easing program by the end of 2018, although it did signal that any rise in interest rates before September 2019 was unlikely. The policy rate has been below 1.0% since July 2012 and has been at 0.0% since March 2016.
- Concerns include political instability in certain countries, ongoing uncertainty about Brexit and its potential implications, and below-trend growth and inflation.

Vital Statistics 2017		
Nominal GDP	USD bn	1937.89
Population	mil	60.6
GDP Per Capita	USD	31,984
Real GDP Growth	%	1.5
Inflation Rate	%	1.3
United Nations Estimates		
Literacy Rate	%	99.2
Urbanization	%	69.3
Dependency Ratio	%	56.5
Life Expectancy	Years	82.3
Median Age	Years	45.5
Insurance Statistics		
Insurance Regulator	The Institute for the Supervision of Insurance Companies (IVASS)	
Premiums Written (Life)	USD mil	113,947
Premiums Written (Non-Life)	USD mil	41,562
Premiums Growth (2016 - 2017)	%	-5.7
Regional Comparison		
	Country Risk Tier	
Italy	CRT-2	
France	CRT-1	
Germany	CRT-1	
Spain	CRT-2	
Switzerland	CRT-1	
United Kingdom	CRT-1	

Source: IMF, UN, Swiss Re, Axco and A.M. Best



Economic Growth (%)



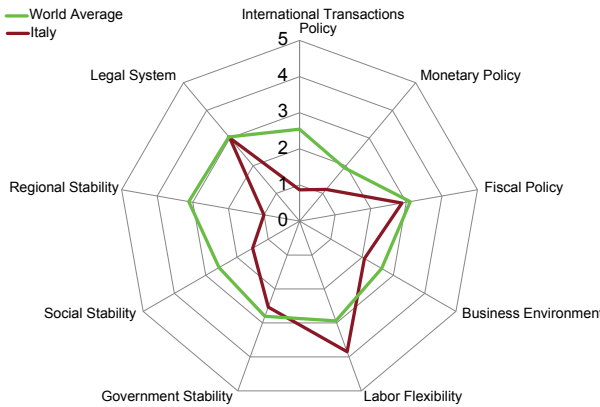
Source: IMF World Economic Outlook and A.M. Best

Economic Risk: Low

- Italy's economy is the third largest in the eurozone and it has recovered modestly since the financial crisis.
- Historically, Italy's northern region has been industrial and highly developed, while the southern region has been primarily agricultural and less developed. In the hopes of diminishing the difference between the two, Italy will be investing heavily in infrastructure in the south.
- Italy has a sizeable underground economy, with some estimating it at more than 15% of GDP, which has raised concerns about over weak corporate governance.
- Exports have lagged other European countries, as Italy's wage costs are higher than many of its peers' due to inflexible labor laws.
- Consumer spending has been constrained due to elevated unemployment (above 10%), political turmoil, and a squeeze on real wage growth.

Political Risk Summary

Score 1 (best) to 5 (worst)

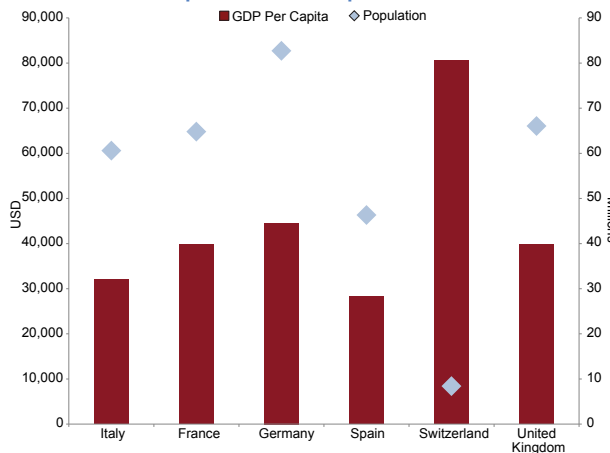


Source: A.M. Best

Political Risk: Low

- After months of lengthy coalition talks, the populist Five Star Movement, and the far-right League formed a government in June 2018. Their political policies will likely focus on tightening immigration and lowering taxes, while increasing government spending and social benefits spending.
- Political instability is possible, owing to the government's shift from austerity to higher spending and tax cuts. These policies are likely to evoke opposition from the European Central Bank and the European Commission. Italy's government has one of the highest debt levels in the world, estimated at around 130% of GDP in 2017.
- In contrast with its European neighbors, Italy has slow and inefficient bureaucratic, judicial, and tax systems. Reforms in these sectors have been implemented, but additional reforms will be needed to improve the business climate.
- Additional challenges for Italy include high levels of corruption and organized crime, declining living standards, sharp regional divergences, and a heightened security environment.

GDP Per Capita and Population



Source: IMF and A.M. Best

Financial System Risk: Moderate

- The Institute for Insurance Supervision (IVASS) regulates the insurance industry.
- Non-performing loans continue to burden the banking industry, inhibiting their lending ability, and weaken bank balance sheets. Although initiatives to address NPLs have been launched, accelerating the resolution of NPLs should remain a priority.
- A previous government provided support to help recapitalize several weak banks. The banking sector remains weighed down by a substantial number of distressed loans. As of March 2018, the banking sector's bad loans remained high, at over EUR163 billion, or around 10% of GDP.