

## Euler Hermes: First green shoots of recovery in Italian non-payments

- After three years of recession, Italy may see a light at the end of the tunnel: higher GDP (+0.3%) in 2015 and in 2016 (+0.8%)
- Trading trends continued to worsen through 2014, despite some favorable signs. Both the frequency and severity of non-payments reversed their trend vs 2013, by -30% and -8% respectively. However, average non-payment amounts stood 63% above 2007 pre-crisis levels.
- Commodities and the paper segment recorded the most payment defaults; performance improved for food and pharmaceuticals for the second consecutive year
- Exporters could benefit from quantitative easing (QE), cheaper euro.

**MILAN - 24 FEBRUARY 2015** - [Euler Hermes](#), the worldwide leader in credit insurance, issued its first 2015 edition of the [Non-Payments Report](#), a quarterly research into non-payment trends among Italian businesses. Detailed analysis of individual Italian regions, including in-depth research by trade sector, is drawn from daily monitoring of payments across the company's proprietary database of approx. 450,000 businesses.

"The continued economic slowdown, flat consumption, the credit crunch and contracting investments remain the main contributors to the weakening of Italian businesses in 2014," said Ludovic Subran, Euler Hermes chief economist. "The decreasing non-payment trend should be seen as a clear indicator of the slowdown impacting the entire national economy, and not as improved trade exchanges among Italian businesses."

In 2014, non-payment between Italian businesses decreased in frequency (-30%) and severity (- 8%) compared to 2013. In transactions between Italian and foreign businesses, non-payment frequency decreased by 16%, while severity remained almost unchanged (+1%). However, 2014 data confirms that average outstanding amounts were still above 2007 pre-crisis levels: 63% domestically and 57% in export markets.

### Business Non-Payments per Sector

Very positive signs were registered in the agri-food and chemical/pharmaceutical sectors: an encouraging double-digit decrease in non-payments was recorded for the second consecutive year. The textile sector improved remarkably, especially compared to 2007 pre-crisis levels, after the latest economic cycle pushed marginal and small-sized businesses out of the market. Machinery and steel-making are on the rebound due to reorganization and restructuring efforts made by more companies from these sectors than others in the past two years.

"Our 2014 research confirms that the non-payment trend of the past two years continues, especially in the domestic market," said Massimo Reale, director of Information & Grading at Euler Hermes Italia. "On one hand, Italian businesses proved able to manage liquidity, allocating funds to short-term operational management. On the other hand, however, following the economic crisis they concentrated on a smaller number of business partners, thus increasing non-payment severity even for well-established trade relationships."

### 2015 Outlook

2015 should mark the end of Italy's three-year recession. GDP should timidly return to positive growth (+0.3%) on the back of growing domestic consumption and the driving force of exports (+2.6%) that is supported by an army of approx. 214,000 exporters. In 2015 more than €10 billion of additional exports will involve mainly traditional partners like France and Germany as a quantitative easing (QE) benefit, as well as the U.S. and Switzerland, where euro depreciation will create additional advantages for export-oriented businesses. Chemistry, food, machinery and textiles will record the highest growth abroad. Continuing Russian sanctions will play a major role, but Italian companies have already begun seeking other export markets for the "made-in-Italy" brand, such as

Poland and Romania. Business and consumer confidence index is expected to rise, supporting consumption growth. Investments will remain weak, but financial leverage will be under less pressure from the second half of 2015.

“In 2015, Italy should record a slight improvement of Days Sales Outstanding (DSO) to around 111 days, and in non-payments and insolvencies (-2%). The risk of foreign partners’ insolvency should also improve - the only exceptions being the Czech Republic and Russian and the emerging Brazil and China markets,” concluded Subran.

### 2014 Non-payment trends for Italian companies

	2014 > 2013		2014 > 2007	
	Frequency	Severity	Frequency	Severity
DOMESTIC	-30%	-8%	-63%	+63%
<b>EXPORT</b>	<b>-16%</b>	<b>+1%</b>	<b>-71%</b>	<b>+57%</b>

**2007 pre-crisis year**

Source: Banca Dati Euler Hermes Italia

### 2014 Non-payment trends for Italian companies – Regions

	2014 > 2013		2014 > 2007			2014 > 2013		2014 > 2007	
	Frequency	Severity	Frequency	Severity		Frequency	Severity	Frequency	Severity
Trentino A.A.	-27%	+100%	-72%	+100%	Umbria	-42%	+38%	-63%	+100%
Veneto	-24%	+4%	-56%	+26%	Lazio	-29%	-54%	-63%	-2%
Friuli V.G.	-7%	+2%	-30%	+55%	Abruzzo	-45%	-15%	-70%	+18%
Lombardia	-38%	-37%	-53%	+28%	Molise	-32%	-8%	-63%	+100%
Piemonte	-40%	-32%	-63%	+7%	Puglia	-34%	-31%	-70%	+14%
Valle d’Aosta	+78%	+41%	-47%	-16%	Campania	-14%	-25%	-67%	+13%
Emilia Romagna	-26%	-52%	-49%	+16%	Basilicata	-8%	-11%	-55%	+3%
Liguria	-35%	+24%	-70%	+46%	Calabria	-20%	+17%	-67%	+26%
Toscana	-32%	+100%	-65%	+100%	Sicilia	-24%	-14%	-70%	+40%
Marche	-37%	0%	-58%	+100%	Sardegna	-49%	+29%	-81%	+80%

Source: Banca Dati Euler Hermes Italia

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