Press Release

Euler Hermes: The two faces of the Italian crisis -
fewer non-payments in 2013, but more severe

Non-Payment Report by sector and region

- The second consecutive year of recession in Italy (GDP in 2013 down by –1.9%, after -2.5% in 2012) contributed to the deterioration of trade transactions among businesses and increased the severity of non-payments
- While the number of non-payments decreased (frequency -18% vs. 2012), the average outstanding amounts increased (severity +9% vs. 2012). Average non-payment amounts are currently 78% above pre-crisis levels
- The most severely impacted sectors are steel (severity +22% vs. 2012) following the domestic demand drop, and commodities (severity +42% vs. 2012), where the oil sector suffers from lower consumption, excess supply and moderation in prices
- Food and textiles sector non-payments have contracted or stabilized; exports are their most important growth driver
- Regionally, Emilia Romagna, Lombardy and Latium are the most impacted by high and severe non-payments.

MILAN -- 21 FEBRUARY 2014 -- Euler Hermes Italy has issued its 2014 edition of the Non-Payment Report, a quarterly research of non-payment trends among Italian businesses. The 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 increase in non-payment severity is basically due to two factors: the contraction of economic growth and the financial credit crunch," said Michele Pignotti, head of Mediterranean Countries, Middle East and Africa at Euler Hermes. "Credit leverage is under increasing pressure: on one hand companies have to cope with late payments or non-payments and, on the other hand, in order to sustain business they must meet short-term obligations such as raw material and supplier payments. All this reduces their cash availability, a situation which further weakens their financial situation."

Compared to 2012, Italian companies' non-payments decreased in terms of frequency in 2013, both domestically (-18%) and in the export markets (-17%). Conversely, the severity rate increased both domestically (+9%) and abroad (+ 6%). More worryingly, in December 2013, average outstanding amounts of non-payments stood 78% above the 2007 pre-crisis levels.

The Italian economic scenario

After two years of recession, the first signs of a recovery seem to be emerging in Italy. GDP growth is expected to progressively improve in 2014 and 2015 (by +0.3% and +0.8% respectively), although downside risks prevail, notably due to political instability. Exports should continue to be the main drivers of growth (+2.6% in 2014 and +3.0% in 2015), notably on the back of the increased demand from advanced economies that are expected to grow at the fastest pace since 2010. Domestic demand should continue to remain weak due to contracting private investment (-1.4% in 2014 and -0.9% in 2015) and sluggish household spending (-0.4% in 2014 and +0.5% in 2015). Unemployment will remain a concern in 2014 (12.4%) before slightly decreasing in 2015 (11.7%). In the medium term, Italy needs to continue implementing structural reforms and regain competitiveness compared to its main competitors.

Non-payments among businesses

In the domestic market, steel and commodities sectors are showing signs of trouble due to non-payments, especially in the medium range of amounts outstanding.

“Commodities -- and especially oil distribution -- have reported the highest non-payment rate: 94,000 euros on average,” said Massimo Reale, head of Risk Underwriting at Euler Hermes Italy. “Sector risk has increased due to falling consumption, volatile raw material prices and excess supply. In the steel industry, long and flat product manufacturers are affected. Reduced consumption reduction is aggravated by the negative market trends, such as construction for long products, and automotive and white goods for flat steel.”

Export market non-payment rates are growing in the construction and automotive sectors. The former is discounting the slowdown of some advanced economies in 2013, including France, Germany and Spain, to whom Italy exports construction materials such as ceramic tiles manufactured in the Emilia Romagna region. The automotive market saw growth of non-payments for spares and components especially in Eastern Europe (Poland and Romania).

Food and textiles sector non-payment trends are contracting or stabilizing. Exports are the most important growth drivers for both sectors. Non-payment tensions in the food industry domestically seem to have been resolved, following the pressure on company liquidity created by the peremptory implementation of the Late Payments Directive. Some problems remain for medium-sized mass market retailers. The textile sector non-payment rate continued to slow from Q1 2013. Top-of-the-range clothing and textiles are still good performers. Some Italian regions do show signs of difficulty, such as shoemaking in Fermo, however foreign sales there are improving.

Regionally, Emilia Romagna reports the highest average amount of non-payments (35,000 euros) in 2013, although this trend reversed in the last quarter. The cities reporting the greatest amount of unpaid debts are Reggio Emilia, Piacenza and Modena for the construction, mechanical and steel sectors. Lombardy follows with 31,000 euros and Latium with 29,000 euros.

“The 2014 non-payments outlook among Italian businesses should see a slight improvement in severity, due, among other factors, to the nation’s economic recovery. However the government will play a decisive role, needing to develop a structural, economic and tax reform plan to stimulate more employment, internationalization and recovery of competitiveness for the Italian industrial system. The impending release of public administration payments and the softening of credit access parameters for businesses will give an additional impetus to reviving growth,” concluded Michele Pignotti.

Non Payments trend for Italian companies

	Domestic				Export			
	2011 *	2012 *	2013 *	2013 **	2011 *	2012 *	2013 *	2013 **
Frequency	+ 42%	+15%	- 18%	- 44%	0	- 3%	- 17%	- 63%
Severity	+ 17%	-3%	+ 9%	+ 78%	+ 7%	+ 16%	+ 6%	+ 46%

* Variation y/y
**Variation 2013 vs 2007 (pre-crisis year)

Source: Euler Hermes Italia

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Euler Hermes Italy
Euler Hermes established trade credit insurance activities in Italy in 2002 with the acquisition of Società Italiana Assicurazione Crediti (SIAC), which was originally established in 1927. With 400 employees based in the Rome headquarters and regional office, Euler Hermes Italy realized a 2013 turnover of approximately € 235 million and today serves more than 4,500 customers across a range of business sectors and sizes. www.eulerhermes.it

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