S&P Global Ratings

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Italy 'BBB/A-2' Ratings Affirmed; Outlook Negative

24-Apr-2020 21:03 BST

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Overview

To mitigate the economic consequences of the public health emergency, Italian authorities have launched budgetary stimulus measures worth 1.5% of GDP, and provided guarantees to small and midsize enterprise (SMEs) and exporters worth 25% of GDP.

These measures, in tandem with pre-existing automatic stabilizers, will push Italy's general government deficit to an estimated 6.3% of GDP this year, and increase public debt to close to 153% of GDP by end-2020, according to our projections.

The ECB is backstopping this additional public borrowing under its pre-existing and newly launched asset purchase programs, together worth over 9% of eurozone GDP.

Italy's other credit strengths--its diversified and wealthy economy, net external creditor position, and the lowest levels of private debt in the G7--partly offset the drag from high public leverage on Italy's creditworthiness, in our opinion.

We are affirming the sovereign credit ratings on Italy at 'BBB/A-2' with a negative outlook.

Rating Action

On April 24, 2020, S&P Global Ratings affirmed its unsolicited long- and short-term foreign and local currency sovereign credit ratings on Italy at 'BBB/A-2'. The outlook is negative.

Outlook

We could lower the ratings if government debt to GDP fails to shift onto a clearly discernible downward path over the next three years, or if there is a marked deterioration in borrowing conditions that jeopardizes the sovereign's public finance sustainability, including for example due to insufficiently supportive policy measures at the eurozone level. At present, the ECB's current financing backstop enables Italy to refinance its debt at real interest rates of around 0%.

We could revise the outlook to stable if we see Italy's economy performing better than our current prognosis, leading to fiscal outcomes stronger than we are currently forecasting.

We could also revise the outlook to stable if Italy's banking system weathers the shock to the real economy from COVID-19, without a material increase in nonperforming loans (NPLs) or a depletion of its capital base.

Rationale

On March 9, government authorities put Italy on a nationwide lockdown to contain the spread of COVID-19. Encouragingly, the last two weeks of data indicate progress in lowering hospitalization and mortality rates.

To mitigate the economic fallout from the lockdown, the Italian authorities have launched budgetary stimulus measures worth 1.5% of GDP, over and above the budget's automatic stabilizers, as well as providing guarantees to SMEs and exporters equivalent to 25% of GDP.

These measures, in tandem with pre-existing automatic stabilizers, are likely to push Italy's general government deficit to an estimated 6.3% of GDP this year compared to 2019's fiscal deficit of 1.6%, which was the lowest budgetary gap since 2007. On the back of this year's expected near 10% contraction of GDP, we project that Italian gross general government debt will increase to 153% of GDP by end-2020, before declining toward 140% of GDP by 2023 as the economy stages a comeback.

We expect that most of the Italian sovereign debt newly created this year as a consequence of the pandemic will be purchased by the ECB under pre-existing and new initiatives, including a new €750 billion asset purchase program called the Pandemic Emergency Purchase Programme (PEPP). We expect that the ECB's net asset purchases during 2020 will comfortably exceed 9% of eurozone GDP. The ECB's governing board has emphasized its willingness to increase the size of its asset purchase programs and to widen its criteria for acquiring public and private bonds so as to support the euro area economy throughout 2020. In our view, that commitment means that the Italian government will be able to finance itself at nominal rates of around 0.8% on average this year compared to the 2.5% average borrowing rate on its existing debt stock. In nominal terms, and absent a significant deterioration in borrowing costs, Italy will pay less to service its total debt stock this year and into 2021-2023, than it paid in 2019.

While public debt stocks are high and rising, Italian private debt levels are the lowest in both the G7 and Western Europe. As of end-2019, Italian household plus corporate debt levels totaled 110% of GDP versus 114% in Germany, 150% in Spain, and 250% in the Netherlands. Including financial sector debt, Italian private debt has declined by more than public debt has increased since the global financial crisis. As of fourth-quarter 2019, Italy became a net external creditor to the rest of the world. The economy is, moreover, running a current account surplus of around 3% of GDP, the eighth highest external surplus in the world in absolute terms.

Though we believe even higher public debt levels may be sustainable in economies like Italy's, where private debt continues to decline, the current policy settings within the euro area are not optimal. Specifically, the eurozone appears hampered, compared with the U.S. and U.K., by the lack of a central fiscal capacity capable of handling economic shocks, such as those following the pandemic. Indeed, the absence of private and public cross-border risk sharing--and the vigorous disagreements around mutualizing debt issuance--appears to place the eurozone and its individual economies at a disadvantage compared with older monetary areas such as the U.S. and the U.K., which issue common risk-free instruments.

Institutional and economic profile: Backed by the ECB, Italian authorities have delivered a coherent response to a public health emergency

Italy has been in lockdown since March 9, with negative implications for growth, and public finances.
Employment protection policies should limit the rise in unemployment to around 1.3 percentage points (ppts) on average this year, considerably less than most of its European peers.
Italy's economy is diversified and rich, with household savings in excess of 10% of disposable income and notably low private sector debt levels.
After Germany, Italy is the most open economy in the G7, with exports totaling 32% of Italian GDP. Italy remains the seventh-largest exporter in the world and is a diversified and wealthy economy, with no single export category exceeding 4.5% of the total. The economy's openness, and its sizable current account surplus, make it sensitive to global developments including this year's synchronized global recession.

Italy's lockdown, in place since March 9, is already testing the resilience of its economy, including the SME sector--the source of over 75% of total nonfinancial business employment.

Our projection that GDP contracts by just under 10% this year is based on our revised assumption that the lockdown lasts for eight weeks (compared to six previously), but also that the exit from current restrictions is gradual--meaning that the Italian government will require two weeks to reopen the economy, starting with small shops, then bigger shops, then schools and restaurants. We do not expect the authorities to condone large gatherings before the end of the summer. Finally, we assume that some social distancing measures will have to stay in place for at least a year, until a vaccine is found, which could be sometime in mid-2021. Under this scenario, the size of the Italian economy will probably remain below last year's until early 2023.

Italy's weak economic growth performance pre-dates the pandemic, reflecting several factors:

A rigid labor market, where wages are set at a national rather than company level, and the high cost of redundancies tend to dissuade employers, particularly SMEs, from hiring.
The tax burden on the formal economy is elevated. For example, the World Bank estimates the total tax and contribution rate for businesses at 53%, versus 47% in Spain and 49% in Germany.
Enforcing contracts is time-consuming and expensive.
The population is ageing, with the working-age population declining on average by 0.4% per year since 2015.
Italy's banks continue to grapple with relatively high levels of NPLs and large exposures to the public sector. The economic lockdown will almost certainly increase the number of NPLs after several years of decline.
For 2021, we project that GDP will recover by 6.4%, but the timing and shape of that recovery remains uncertain. Several factors could lend momentum to a gradual recovery beyond 2021. These include:

Greater certainty about the current government's budgetary plan and its compliance with the EU Stability and Growth Pact (last year's budget deficit was the lowest since 2007).
Historically low borrowing costs for both the public and private sector.
The potential for a rise in public and private investment, the latter on the reintroduction of the accelerated depreciation tax scheme, also reflecting lower interest rates.
The government's measures to reduce the tax wedge (which is the difference between the hourly labor cost for employers and the hourly post tax earnings for employees) on labor could push up participation in Italy's labor market.
Italy's near-term economic outlook is uncertain. We forecast the average unemployment rate will rise to 11.2% this year versus less than 10% on average during 2019, signifying quite low elasticity of unemployment to real GDP growth. The rigidity in Italy's labor market, particularly in manufacturing, may play a stabilizing role in the face of the global pandemic. At the same time, this rigidity may constrain the extent of the economic recovery during 2021 and 2022. Employment in many seasonal sectors such as tourism and agriculture is less protected and likely to suffer a higher pace of job destruction over the next few months.

One reason for Italy's low growth is the private sector's propensity to save rather than spend. Funded by these private savings, domestic banks and other financial institutions have become the Italian government's single largest creditor, holding an estimated 45% of Italy's debt stock as of end-January 2020 (but below their 48% share of the total at end-2018). Banca d'Italia holds another 16.7% of outstanding debt (this figure excludes the 3% of Italy's general government debt held by the Eurosystem under the ECB's securities markets program and public sector purchase programs). Since March 26, when the ECB began to purchase debt under the newly introduced PEPP, we expect that the Eurosystem's holdings of Italian public debt will have increased.

The average cost of debt for 2020 is estimated at 2.5% across the entire debt profile. Despite COVID-related spread-widening, Italy's current average yield at issuance is just under 0.8% as of mid-April.

One of Italy's macroeconomic vulnerabilities, in our view, is its large untaxed gray economy, particularly in the south. Widespread economic informality explains why official labor participation data indicates that 65.7% only of Italy's working-age population is active in the formal labor market. This is the fifth-lowest participation rate among the 34 members of the OECD, after Turkey, South Africa, Mexico, and North Macedonia; it is nearly 8 ppts below the 73.4% average labor participation rate in the EU.

Flexibility and performance profile: COVID-19 will push the budgetary deficit to levels beyond those during the global financial crisis

We expect the public health emergency to push the general government deficit to 6.3% of GDP this year, before it narrows back to 3.0% in 2021 on a recovering economy.
General government debt to GDP is projected to end 2020 at 153% of GDP before declining thereafter.
Italy is a net external creditor. Its current account surplus is the eighth-largest in the world in absolute terms.
The damage that the economic standstill does to the SME sector is likely to boost NPLs.
To mitigate the economic fallout from the lockdown, Italy has launched budgetary stimulus measures worth 1.5% of GDP, alongside the provision of guarantees to SMEs and exporters equivalent to 25% of GDP.

Specific measures included in the "Cura Italia" Decree of March 9 include:

€3 billion (0.2% of GDP) of transfers to the National Health System and Civil Protection
Worker Protection: A broadening of workers' eligibility for benefits disbursed by Italy's unemployment fund, Cassa Integrazione Guadagni (CIG). Transfers to the self-employed and other workers ineligible for CIG.
Tax deferrals and relief for firms, particularly those in more hard hit regions.
Liquidity Support: Guarantees for SME loans, as well as a moratorium on mortgage payments.
These measures, in tandem with the automatic stabilizers and an anticipated decline in tax receipts, are likely to push Italy's general government deficit to an estimated 6.3% of GDP. That compares to 2019's fiscal deficit of 1.6% of GDP, which was the lowest budgetary gap since 2007. A widening of the deficit on that scale would exceed the fiscal

deterioration suffered in the first year of the global financial crisis (2009), but we expect the fiscal situation to improve faster in 2020 than it did in 2010. This reflects a stronger starting position in 2019, and also solid progress made in reducing VAT evasion thanks to a highly effective digitization policy.

Based on our fiscal and growth projections this year, we estimate that Italian general government debt will increase to 153% of GDP by end-2020, compared to 132.6% in 2019 before declining toward 140% by 2023 as the economy recovers. Our debt estimates exclude Italy's portion of guarantees on European Financial Stability Facility (EFSF) issuance (in contrast to Eurostat methodology). These projections are highly uncertain, hinging on a relatively smooth relaunching of the economy commending in mid-May.

Since the ECB launched its quantitative easing program in March 2015, the Italian Treasury has improved the government debt profile in several ways:

By lengthening the average maturity of debt to about seven years, hence reducing gross expected refinancing substantially.
By locking in lower average financing costs.
As a result, the lag between rising borrowing costs and increasing interest expenditure has lengthened. We estimate that a 100 basis points increase in Italy's average funding costs would increase its interest expenditure in the first year by 0.1% of GDP compared with the base year, and by 0.3% of GDP in the second year.

Our estimates exclude guarantees given to the EFSF (see "S&P Clarifies Its Approach To Accounting For EFSF Liabilities When Rating The Sovereign Guarantors," published Nov. 2, 2011).

Italian public and private claims on the rest of the world exceed the world's financial claims on Italian residents. Levels of private debt (household plus corporate) are the lowest in the G7 and the lowest in advanced Europe at around 109.6% of GDP (at end-2019 according to Banca d'Italia) or less than half of levels in the Netherlands (250%). We estimate that, including financial sector debt, overall private debt levels in Italy have declined by 48 ppts of GDP, or even more than public debt has increased (27 ppts), since the onset of the global financial crisis.

We expect Italy's net external creditor position to continue to increase over the next half decade. Moreover, we project that Italy will continue to operate current account surpluses of about 2%-3% of GDP over our forecast period. During 2020, we expect a sharp decline in goods and services exports (including tourism) to be offset by a proportional contraction in imports (including tourism, given that Italy is one of the largest importers of tourism services in the world), and lower energy prices. We calculate Italy's net energy imports to be equivalent to 2.5% of GDP; savings due to a near 50% correction in the price of oil should exceed 1% of Italian GDP this year. That implies that Italy will continue to operate a current account surplus this year of about 2.6% of GDP compared to 3.0% last year.

We see Italy's membership in the eurozone as an institutional strength, but we note that it entails a loss of monetary flexibility when competitiveness trends diverge from those of other large eurozone members. Despite falling short of meeting its inflation target of just below 2%, we believe the ECB maintains a credible monetary policy. This is, in our assessment, due to its overall track record on inflation, the depth of the eurozone's capital markets, and its policy response to date in addressing risks from financial flows across the eurozone.

Between now and 2022, we expect inflation in Italy to remain significantly below the ECB's about 2% target.

Up until February of this year, progress on NPL reduction had been steady, but the economic standstill combined with the moratorium on mortgage payments will almost certainly weigh on asset quality going forward.

Key Statistics

Table 1

Italy Selected Indicators

Mil. €	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Economic indicators (%)										
Nominal GDP (bil. LC)	1,627	1,655	1,696	1,737	1,766	1,788	1,622	1,744	1,822	1,874
Nominal GDP (bil. $)	2,162	1,837	1,877	1,962	2,086	2,001	1,773	1,982	2,053	2,081
GDP per capita (000s $)	35.6	30.2	30.9	32.4	34.5	33.2	29.4	33.0	34.2	34.8
Real GDP growth	(0.0)	0.8	1.3	1.7	0.8	0.3	(9.9)	6.4	3.2	1.6
Real GDP per capita growth	(1.8)	0.8	1.5	1.8	1.0	0.5	(9.7)	6.7	3.4	1.8
Real investment growth	(2.2)	1.8	4.0	3.2	3.1	1.4	(9.8)	6.7	3.7	2.3
Investment/GDP	17.0	17.1	17.6	18.1	18.3	18.0	17.2	17.2	17.2	17.2
Savings/GDP	18.9	18.5	20.2	20.6	20.8	20.9	19.9	20.5	20.7	20.9
Exports/GDP	29.1	29.7	29.3	30.7	31.5	31.6	31.3	33.2	34.9	36.0
Real exports growth	2.6	4.3	1.9	5.4	2.3	1.2	(10.5)	11.4	7.1	3.6
Unemployment rate	12.7	11.9	11.7	11.2	10.6	9.9	11.1	11.2	10.6	10.0

External indicators (%)										
Current account balance/GDP	1.9	1.4	2.6	2.6	2.5	3.0	2.6	3.3	3.5	3.7
Current account balance/CARs	5.6	4.2	7.6	7.2	6.8	8.1	7.0	8.5	8.7	8.9
CARs/GDP	33.9	33.9	34.0	35.9	36.9	36.5	37.3	38.6	40.0	41.1
Trade balance/GDP	3.0	3.3	3.5	3.1	2.6	3.2	3.4	4.1	4.4	4.6
Net FDI/GDP	(0.1)	(0.1)	0.7	(0.0)	0.0	0.1	(0.1)	(0.1)	(0.1)	(0.1)
Net portfolio equity inflow/GDP	1.2	0.3	0.4	0.5	(0.8)	0.7	0.5	0.5	0.5	0.5
Gross external financing needs/CARs plus usable reserves	217.5	219.0	205.7	210.3	224.5	231.0	226.0	213.8	212.4	211.4
Narrow net external debt/CARs	229.5	255.9	239.7	255.4	218.8	227.9	259.0	229.0	218.9	213.9
Narrow net external debt/CAPs	243.1	267.1	259.4	275.1	234.6	248.0	278.7	250.2	239.8	234.9
Net external liabilities/CARs	40.4	47.6	27.5	21.5	12.1	(0.3)	(8.1)	(12.7)	(17.4)	(23.0)
Net external liabilities/CAPs	42.7	49.6	29.8	23.1	12.9	(0.3)	(8.8)	(13.9)	(19.1)	(25.3)
Short-term external debt by remaining maturity/CARs	166.2	173.2	155.3	157.9	175.5	187.3	192.9	170.8	164.1	159.3
Usable reserves/CAPs (months)	2.5	2.9	2.7	2.5	2.5	2.7	3.4	3.0	2.7	2.4
Usable reserves (mil. $)	142,224	130,679	135,259	151,617	152,428	174,946	173,585	165,702	157,819	157,819
Fiscal indicators (general government; %)										
Balance/GDP	(3.0)	(2.6)	(2.4)	(2.4)	(2.2)	(1.6)	(6.3)	(3.0)	(1.8)	(1.5)
Change in net debt/GDP	3.4	2.7	1.8	3.0	2.7	2.1	6.9	3.8	2.6	2.3
Primary balance/GDP	1.6	1.6	1.5	1.3	1.5	1.7	(2.8)	0.1	1.0	1.3
Revenue/GDP	47.9	47.8	46.7	46.3	46.3	47.1	48.2	47.0	47.0	47.0
Expenditures/GDP	50.9	50.3	49.1	48.8	48.5	48.7	54.5	50.0	48.8	48.5
Interest/revenues	9.6	8.6	8.4	8.1	7.9	7.2	7.2	6.6	6.0	5.9
Debt/GDP	133.1	133.1	132.7	131.9	132.6	132.6	153.1	146.2	142.5	140.9
Debt/revenues	277.8	278.7	284.2	284.8	286.1	281.7	317.6	311.1	303.3	299.7
Net debt/GDP	127.0	127.6	126.4	126.4	126.9	127.5	147.4	140.9	137.5	136.0
Liquid assets/GDP	6.0	5.5	6.3	5.5	5.7	5.1	5.7	5.3	5.1	4.9
Monetary indicators (%)										
CPI growth	0.2	0.1	(0.1)	1.4	1.2	0.7	0.2	1.0	1.1	1.1
GDP deflator growth	0.9	0.9	1.1	0.7	0.9	0.9	0.7	1.0	1.2	1.2
Exchange rate, year-end (LC/$)	0.82	0.92	0.95	0.83	0.87	0.89	0.91	0.88	0.89	0.91
Banks' claims on resident non-gov't sector growth	(2.0)	(1.0)	(0.6)	(2.5)	(2.6)	(0.6)	2.0	2.0	2.0	2.0
Banks' claims on resident non-gov't sector/GDP	109.1	106.1	103.0	98.1	93.9	92.3	103.7	98.4	96.1	95.3
Foreign currency share of claims by banks on residents	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Foreign currency share of residents' bank deposits	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Real effective exchange rate growth	2.0	(3.7)	(0.5)	0.4	1.0	(1.4)	N/A	N/A	N/A	N/A

Sources: Eurostat (Economic Indicators), Bank of Italy (External Indicators), Eurostat (Fiscal Indicators), and Bank of Italy, International Monetary Fund (Monetary Indicators).
Adjustments: Government debt adjusted by excluding guarantees on debt issued by EFSF.
Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid assets held by nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A--Not applicable. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. e--Estimate. f--Forecast. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Ratings Score Snapshot

Table 2

Italy Ratings Score Snapshot

Key rating factors	Score	Explanation
Institutional assessment	3	Generally effective policymaking in recent years. Institutional bottlenecks including an ineffective judicial system are major thorns in the reform effort. Timely and reliable data and statistical information.
Economic assessment	3	Based on GDP per capita ($) as per the Selected Indicators table above.
External assessment	3	Weighted average real GDP per capita trend growth over a 10-year period is at 0.6%, which is below the threshold for sovereigns with an initial economic score of '2'. Based on narrow net external debt and gross external financing needs as per the Selected Indicators table above. Italy continues to benefit from recurrent current account surpluses, with the goods and services surplus now on par with levels last seen pre-euro area entry, although this is partly a result of weak domestic demand. In the context of our external assessment, we treat Italy, a member of Economic and Monetary Union, as if the currency was actively traded. Italy's external short term debt by remaining maturity represents more than 100% of current account receipts. Italy's net international investment position more favorable than the economy's narrow net external debt position by more than 100% of current account receipts.
Fiscal assessment: flexibility and performance	3	Based on the change in net general government debt (% of GDP) as per Selected Indicators in Table 1, and excluding the exceptional deviation of 2020
Fiscal assessment: debt burden	6	Based on net general government debt (% of GDP) and general government interest expenditures (% of general government revenues) as per Selected Indicators in Table 1.
Monetary assessment	3	In the context of our monetary assessment, we consider Euro as a reserve currency. European Central Bank has an established track record in monetary authority independence with clear objectives and wide array of policy instruments, including non-conventional tools. The CPI is low and in line with that of its trading partners. The transmission mechanism is weak as a result of stress in the resident financial system, coupled with the current market pressure on banks' funding costs, referring to the relevant criterion in the sovereign rating methodology. Italy is a member of Economic and Monetary Union.
Indicative rating	bbb+	As per Table 1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	-1	Government debt in Italy is one of the highest among all the rated sovereigns. Therefore, a downward adjustment to the indicative rating.
Final rating		
Foreign currency	BBB	
Notches of uplift	0	Default risks do not apply differently to foreign- and local-currency debt
Local currency	BBB	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

Criteria | Governments | Sovereigns: Sovereign Rating Methodology (/en_US/web/guest/article/-/view/sourceId/10221157), Dec. 18, 2017
General Criteria: Methodology For Linking Long-Term And Short-Term Ratings (/en_US/web/guest/article/-/view/sourceId/10011703), April 7, 2017
General Criteria: Use Of CreditWatch And Outlooks (/en_US/web/guest/article/-/view/sourceId/5612636), Sept. 14, 2009

General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments (/en_US/web/guest/article/-/view/sourceId/5402435), May 18, 2009

Related Research

COVID-19 Deals A Larger, Longer Hit To Global GDP (/en_US/web/guest/article/-/view/sourceId/11440500), April 16, 2020
Credit FAQ: Sovereign Ratings And The Effects Of The COVID-19 Pandemic (/en_US/web/guest/article/-/view/sourceId/11441131), April 16, 2020
Sovereign Ratings History (/en_US/web/guest/article/-/view/sourceId/11421299), April 7, 2020
Sovereign Ratings List (/en_US/web/guest/article/-/view/sourceId/11421300), April 7, 2020
Sovereign Ratings Score Snapshot (/en_US/web/guest/article/-/view/sourceId/11419910), April 1, 2020
Sovereign Risk Indicators (/en_US/web/guest/article/-/view/sourceId/11281946), Dec. 12, 2019. An interactive version is also available at http://www.spratings.com/sri
Default, Transition, and Recovery: 2018 Annual Sovereign Default And Rating Transition Study (/en_US/web/guest/article/-/view/sourceId/10883767), March 15, 2019
In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

	Ratings Affirmed
Italy	
Sovereign Credit Rating |U^	BBB/Negative/A-2
Transfer & Convertibility Assessment |U^	AAA

|U^ Unsolicited ratings with issuer participation, access to internal documents and access to management.
This unsolicited rating(s) was initiated by a party other than the Issuer (as defined in S&P Global Ratings' policies). It may be based solely on publicly available information and may or may not involve the participation of the Issuer and/or access to the Issuer's internal documents and/or access to management. S&P Global Ratings has used information from sources believed to be reliable based on standards established in our policies and procedures, but does not guarantee the accuracy, adequacy, or completeness of any information used.

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Disclosures include requirements relating to press releases or reports published in accordance with Article 10(1), 10(2), and 10(5), and Annex I, Section D, I, 1, 2, 2a, 4, and 5. These requirements are available by rating via the link titled "Regulatory Disclosure" and include, but are not limited to:

Key Elements Underlying The Credit Rating

ESG Credit Factors
Solicited Or Unsolicited Status
Analysts Primarily Responsible For The Credit Rating
Office Responsible For The Credit Rating
Materials Used In The Credit Rating Process
Criteria Applied
Models Applied, Loss, And Cash Flow Analysis Performed
Scenario Analysis
Sensitivity Analysis
Risk Warning, Understanding Credit Rating Categorizations, And Criteria
Rated Entity Notification
Ancillary And Additional Services
Attributes And Limitations Of The Credit Rating
Information Specific To Structured Finance And Securitization Instruments

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