

Italian Republic

Rating report

Rating rationale

Core euro area member: Italy benefits from supportive fiscal and monetary policy frameworks under the EU and euro area institutional architecture. The economy's systemic relevance further underpins the high likelihood of support from European institutions under stressed scenarios.

Large, wealthy and diversified economy: Italy's EUR 2trn economy is the third largest in the EU and benefits from a wide diversification across sectors, supporting its economic resilience to shocks. Italy is set to receive EUR 194.4bn of Next Generation EU recovery funds (9.6% of average GDP over 2021-26F), which together with associated reforms should support its economic outlook.

Strong external position: Italy's record of current account surpluses has turned the country into a net creditor. This position, together with the euro's status as a global reserve currency, shields the country from external risks.

Low private indebtedness: Moderate private debt levels among Italian non-financial corporates and households support the stability of the financial system and reduce the risk of private sector liabilities materialising on the government's balance sheet.

Rating challenges: i) high government debt and funding needs, which are expected to remain elevated over the long term; ii) weak longer-run economic growth; iii) labour-market rigidities; and iv) an ageing and declining working-age population.

Figure 1: Italy's sovereign rating drivers

Risk pillars		Quantitative		Reserve currency*	Political risk**	Qualitative***	Final rating
		Weight	Indicative rating	Notches	Notches	Notches	
Domestic economic risk		35%	aa+	EUR	Italy	0	BBB+
Public finance risk		20%	b			- 2/3	
External economic risk		10%	bbb-			0	
Financial stability risk		10%	aaa			0	
ESG risk	Environmental factors	5%	bbb-	[+1]	[-0]	0	
	Social factors	7.5%	cc			- 1/3	
	Governance factors	12.5%	a-			- 1/3	
Sovereign Quantitative Model		a-				-1	
Additional considerations						0	

*The reserve-currency quantitative adjustment applies to currencies in the IMF's Special Drawing Rights (SDR) basket.

**The political-risk quantitative adjustment is based on the World Bank's Political Stability & Absence of Violence/Terrorism index.

***The qualitative scorecard analyst adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

Foreign currency

Long-term issuer rating/Outlook

BBB+/Stable

Senior unsecured debt

BBB+/Stable

Short-term issuer rating/Outlook

S-2/Stable

Local currency

Long-term issuer rating/Outlook

BBB+/Stable

Senior unsecured debt

BBB+/Stable

Short-term issuer rating/Outlook

S-2/Stable

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Credit strengths and challenges

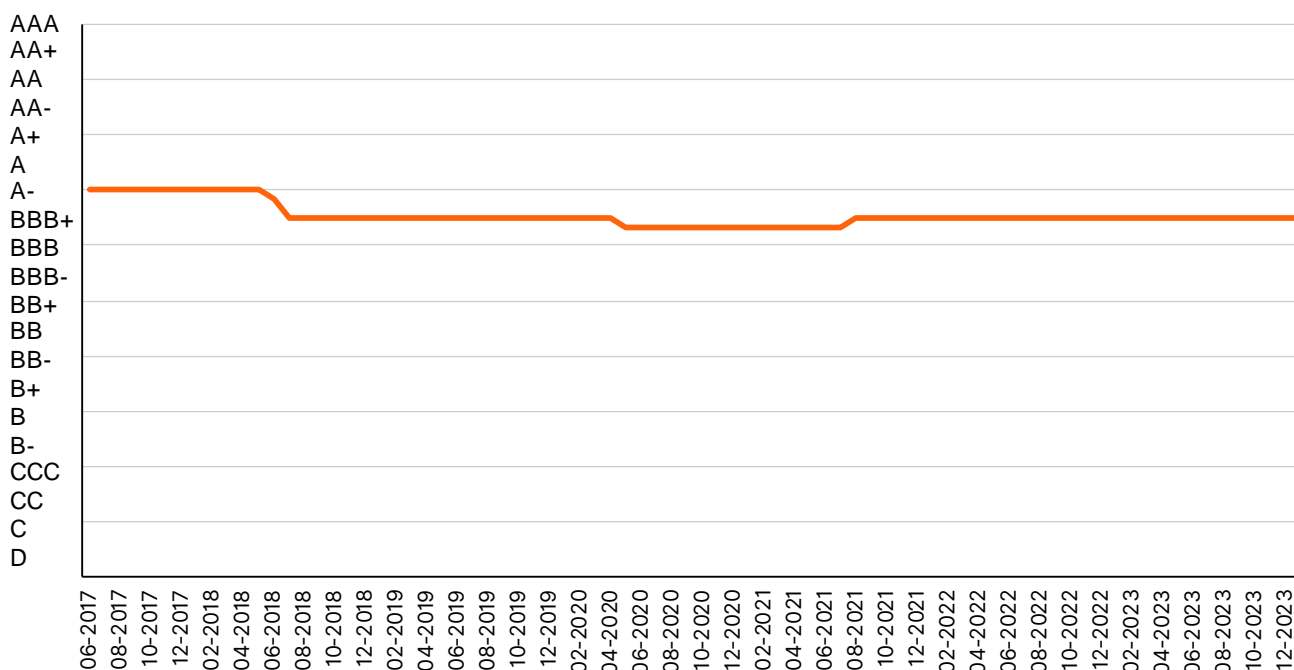
Credit strengths	Credit challenges
<ul style="list-style-type: none"> • Systemic importance for EU and EA • Large, wealthy and diversified economy • Strong external position • Low private sector debt 	<ul style="list-style-type: none"> • High public debt and funding needs • Weak long-run economic growth • Labour market rigidities • Challenging demographic trends

Outlook and rating triggers

The Stable Outlook reflects Scope’s view that risks to the ratings are balanced.

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> • Debt-to-GDP remains on a firm downward trajectory • Investment and reform implementation raise economic growth potential 	<ul style="list-style-type: none"> • Reduced support from European institutions • Weaker economic growth outlook • Weaker fiscal outlook

Figure 2: Rating history¹



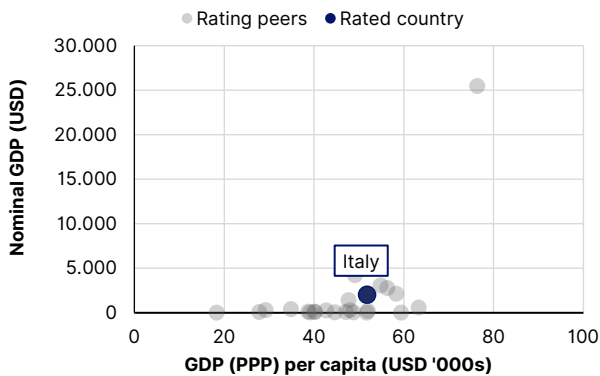
¹Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

Domestic economic risk

Overview of Scope's assessments of Italy's Domestic Economic Risk

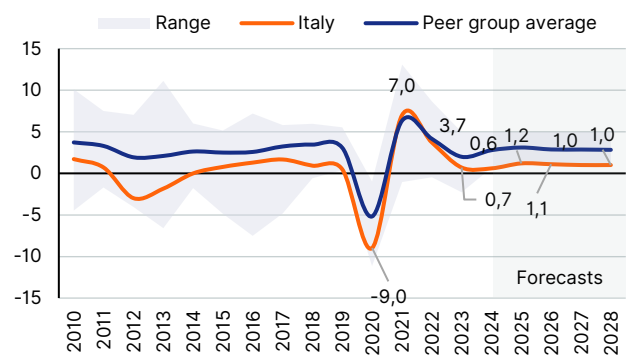
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa+	Growth potential and outlook	Weak	-1/3	Weak growth potential
	Monetary policy framework	Strong	+1/3	ECB is a credible and effective central bank
	Macroeconomic stability and sustainability	Neutral	0	Large and diversified economy, stagnant productivity and weak labour market outcome

Figure 3: Nominal GDP and GDP per capita



Source: IMF World Economic Outlook (WEO), Scope Ratings

Figure 4: Real GDP growth, %



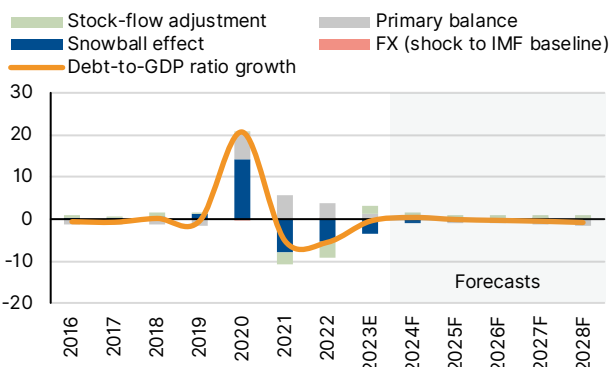
Source: IMF WEO, Scope Ratings forecasts

Public Finance Risk

Overview of Scope's assessments of Italy's Public Finance Risk

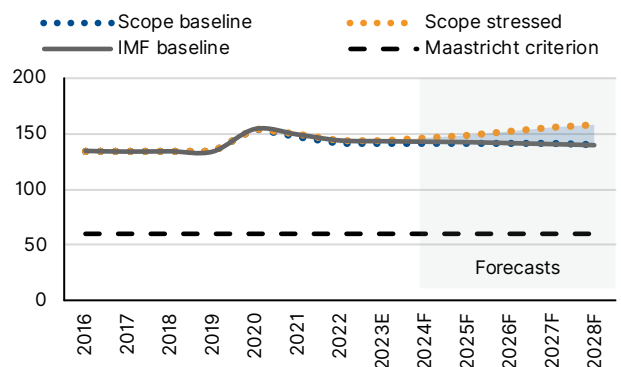
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b	Fiscal policy framework	Weak	-1/3	Expectation of gradual return to primary surplus; very limited fiscal space; future application of revised EU fiscal framework
	Long-term debt trajectory	Weak	-1/3	High debt stock vulnerable to permanent increases during shocks; high off-balance sheet debt; rising ageing-related and interest expenditure
	Debt profile and market access	Neutral	0	Strong domestic investor base; large central-bank holdings of public debt; resilient debt structure, but significant financing requirements

Figure 5: Contributions to change in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 6: Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

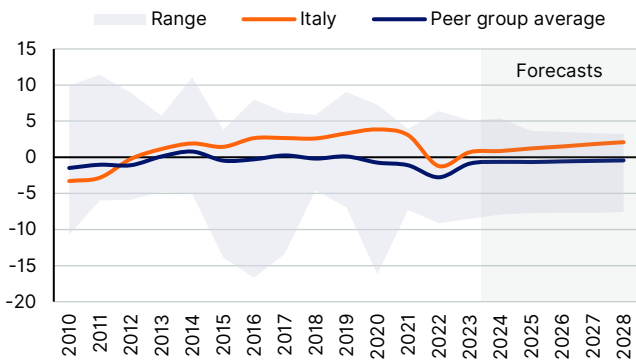
*Sovereign Quantitative Model.

External economic risk

Overview of Scope's assessments of Italy's External Economic Risk

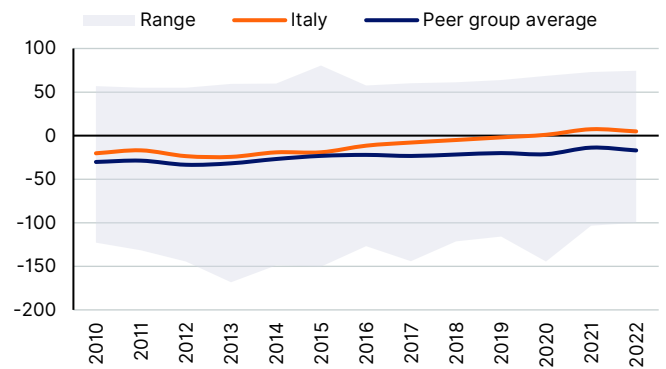
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb-	Current account resilience	Neutral	0	Diversified and competitive export base; record of current account surpluses
	External debt structure	Neutral	0	Low external debt stock; composition by sector and maturity similar to peers
	Resilience to short-term external shocks	Neutral	0	Euro-area membership protects against short-term external shocks

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



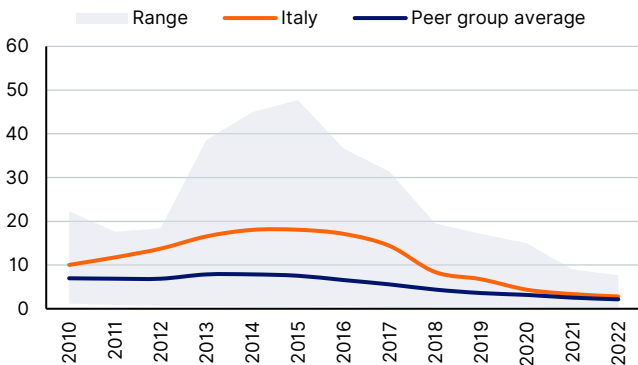
Source: IMF, Scope Ratings

Financial stability risk

Overview of Scope's assessments of Italy's Financial Stability Risk

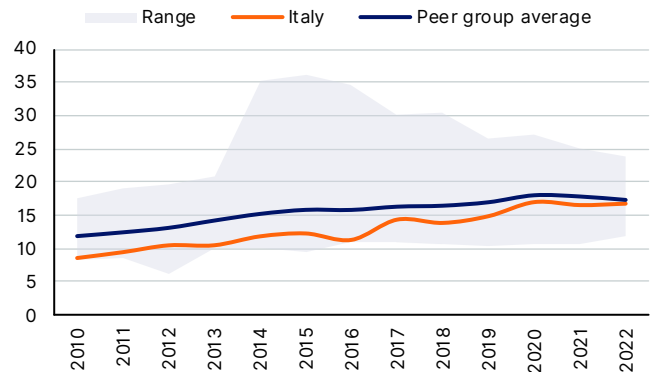
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Solid capital buffers, high liquidity and improved profitability; sovereign-bank nexus remains a core risk
	Financial sector oversight and governance	Neutral	0	Effective oversight under European Banking Union and the Bank of Italy, as well as the national markets authority, insurance supervisor and the pension funds supervisor
	Financial imbalances	Neutral	0	Low private-sector indebtedness; declining credit growth; real estate price dynamics in line with economic conditions

Figure 9: Non-performing loans, % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



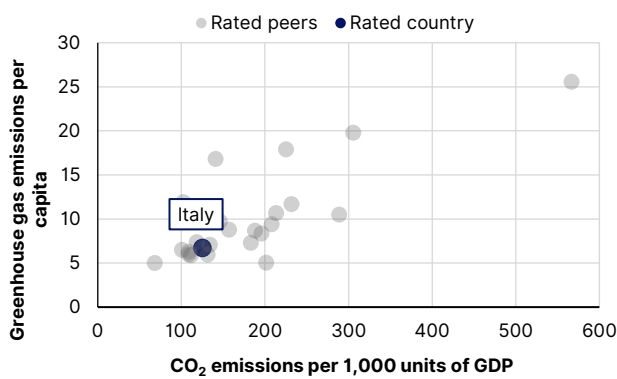
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) risk

Overview of Scope's assessments of Italy's ESG Risk

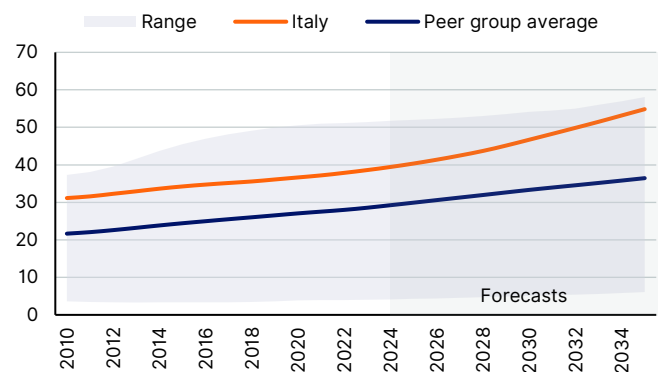
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb+	Environmental factors	Neutral	0	Exposure to natural disaster risk; ambitious green transition investment programme
	Social factors	Weak	-1/3	Adverse demographics, moderate educational outcomes, risk of social exclusion
	Governance factors	Weak	-1/3	Fragmented political environment leading to frequent episodes of political instability; government has clear parliamentary majority

Figure 11: CO₂ emissions per GDP, mtCO₂e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

Reserve-currency adjustment

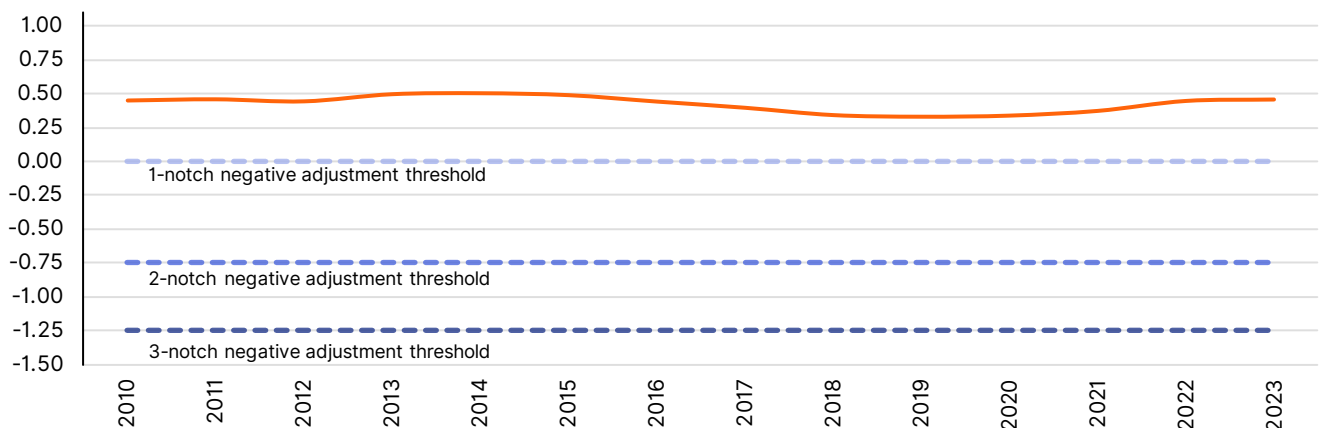
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	Euro	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	29.3	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	1	1	1	1	0

Source: IMF, Scope Ratings

Political-risk adjustment

Figure 14: WB Political Stability & Absence of Violence/Terrorism index, Italy, 3-year moving average



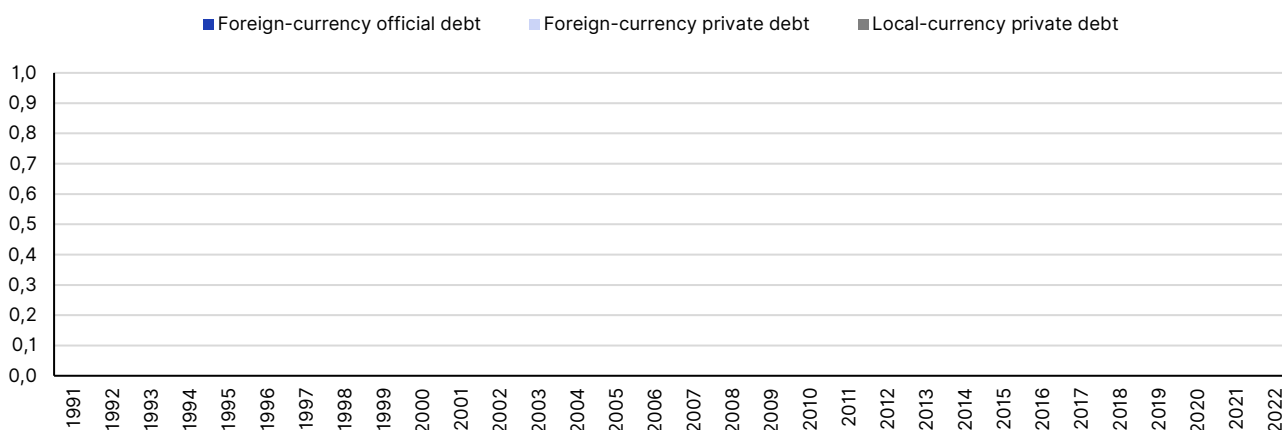
Source: WB, Scope Ratings

Additional considerations

No adjustment was applied to the rating from additional considerations.

Appendix I. Sovereign default history

Figure 15: Sovereign default history, USD m



Depicted private-debt defaults may not always constitute a credit event under [Scope's credit-rating definitions](#).
 Source: [Bank of Canada–Bank of England Sovereign Default Database](#), Scope Ratings.

Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
Bulgaria
Croatia
Cyprus
Estonia
Latvia
Poland
Portugal
Slovakia
Spain
United States

*Publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

Appendix III. Economic development and default indicators

IMF Development Classification

Advanced economy

5y USD CDS spread (bp) as of 8 February 2024

76.3

Appendix IV. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope's quantitative model, in line with Scope's Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

Pillar	Core variable	Source	2018	2019	2020	2021	2022	2023
Domestic Economic	GDP per capita (PPP), USD '000s	IMF	43.6	44.7	41.3	46.5	51.8	54.3
	Nominal GDP, USD bn	IMF	2,093	2,012	1,896	2,116	2,012	2,186
	Real growth, %	IMF	0.9	0.5	-9.0	7.0	3.7	0.7
	CPI inflation, %	IMF	1.2	0.6	-0.1	1.9	8.7	6.0
	Unemployment rate, %	WB	10.6	10.0	9.2	9.5	8.1	-
Public Finance	Public debt, % of GDP	IMF	134.4	134.2	154.9	149.9	144.4	143.7
	Net interest payment, % of government revenue	IMF	7.5	6.8	6.9	7.0	8.6	8.0
	Primary balance, % of GDP	IMF	1.3	1.7	-6.4	-5.6	-3.8	-1.1
External Economic	Current-account balance, % of GDP	IMF	2.6	3.3	3.9	3.1	-1.2	0.7
	Total reserves, months of imports	IMF	2.7	3.3	4.7	3.9	3.2	-
	NIIP, % of GDP	IMF	-5.0	-2.0	1.0	7.3	4.8	-
Financial Stability	NPL ratio, % of total loans	IMF	8.4	6.7	4.4	3.3	2.8	-
	Tier 1 ratio, % of risk-weighted assets	IMF	14.3	13.9	14.9	16.9	16.5	-
	Credit to the private sector, % of GDP	WB	76.7	73.7	83.1	76.8	71.5	-
ESG	CO₂ per EUR 1,000 of GDP, mtCO₂e	EC	133.9	129.9	126.9	128.9	125.2	-
	Income share of bottom 50%, %	WID	16.4	16.5	16.6	16.6	-	-
	Labour-force participation rate, %	WB	66.0	66.1	64.4	64.7	-	-
	Old-age dependency ratio, %	UN	35.6	36.1	36.7	37.2	37.9	38.6
	Composite governance indicators*	WB	0.5	0.6	0.5	0.5	0.6	-
	Political stability, index	WB	0.3	0.4	0.4	0.6	0.4	-

*Average of the following five World Bank Worldwide Governance Indicators: *Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality*.

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