

Republic of Italy

This annex refers to the release of the rating action of 20 August 2021.

Annex I: Summary of core variable scorecard, reserve currency adjustment and qualitative scorecard¹

Implied rating of core variable scorecard (CVS)		bbb+
Reserve currency adjustment		1
Weight	Qualitative scorecard (QS) for long-term issuer ratings	
20%	Growth potential of the economy	Weak
	Monetary policy framework	Strong
	Macro-economic stability and sustainability	Neutral
20%	Fiscal policy framework	Neutral
	Debt sustainability	Weak
	Debt profile and market access	Neutral
20%	Current account resilience	Neutral
	External debt structure	Neutral
	Resilience to short-term shocks	Neutral
20%	Banking sector performance	Neutral
	Banking sector oversight	Neutral
	Financial imbalances	Neutral
20%	Environmental risks	Neutral
	Social risks	Weak
	Institutional and political risks	Neutral
QS adjustment (notches)		-1
Additional considerations (notches)		0
Final rating		BBB+ STA

Annex II: Selected indicators

Selected macroeconomic indicators	2016	2017	2018	2019	2020	2021F	2022F
GDP per capita (USD '000s), EOP	30.9	32.4	34.6	33.2	31.3	35.0	37.1
Real GDP, % change	1.3	1.7	0.9	0.3	-8.9	6.1	3.8
Unemployment rate, %	11.7	11.3	10.6	9.9	9.3	9.9	9.1
CPI, % change	-0.1	1.3	1.2	0.6	-0.1	0.8	0.9
Policy rate*, %, EOP	-0.4	-0.4	-0.4	-0.5	-0.5	-0.5	-0.5
General government balance, % of GDP	-2.4	-2.4	-2.2	-1.6	-9.5	-11.7	-7.1
General government debt, % of GDP, EOP	134.8	134.1	134.4	134.6	155.8	157.7	157.5
Current account balance, % of GDP	2.6	2.6	2.5	3.0	3.6	3.5	3.4

*Shown for the ECB deposit facility rate. Source: Macrobond, IMF, Bank of Italy, Scope Ratings GmbH.

Annex III: Economic development and default indicators

IMF Development Classification ²	AE
5y USD CDS spread (bps) as of 17 August 2021	72

¹ The weighting and explanation of all rating factors are described in Scope's 'Sovereign Ratings' methodology, available on www.scooperatings.com. In line with this methodology, movements between indicative ratings are not immediate but rather executed after analyst review of CVS results. The rating committee approved an implied Core Variable Scorecard (CVS) indicative rating of 'bbb+'.

² AE = advanced economy; EMDE = emerging market and developing economy

Annex IV: Analytical rationale for QS assessments

Italy	August 2021	Assessment	Rationale
Peers*	Cyprus, Portugal, Slovakia, Spain, Bulgaria, Hungary, Romania, China		
Domestic economic risk	Growth potential	Weak	Weak growth potential, below that of peers
	Monetary policy framework	Strong	ECB is a highly credible and effective central bank; high weight in ECB monetary-policy decision making
	Macro-economic stability & sustainability	Neutral	Large and diversified economy; labour-market rigidities
Public finance risk	Fiscal policy framework	Neutral	Appropriate countercyclical response to Covid-19 crisis, but deficits to remain elevated over coming years; EU fiscal framework in state of transition
	Debt sustainability	Weak	Elevated debt stock vulnerable to permanent increases during adverse shocks, significant off-balance-sheet debt, rising ageing-related expenditure
	Debt profile & market access	Neutral	Strong domestic investor base, large central-bank holdings of public debt, local-currency debt denomination, ultra-low financing rates but significant financing needs
External economic risk	Current account resilience	Neutral	Diversified and competitive export base, track record of current-account surpluses
	External debt structure	Neutral	External debt ratio below that of peers
	Resilience to short-term shocks	Neutral	Euro-area membership shields against short-term external shocks
Financial stability risk	Banking sector performance	Neutral	Improved banking-system capitalisation and NPLs have declined
	Banking sector oversight	Neutral	Sovereign-bank nexus; oversight under European Banking Union and the Bank of Italy
	Financial imbalances	Neutral	Low private-sector indebtedness
ESG risk	Environmental risks	Neutral	Exposure to natural disasters; ambitious ecological transition investment programme
	Social risks	Weak	Adverse demographics, moderate educational outcomes, gender gap, risks of social exclusion
	Institutional and political risks	Neutral	Improved political stability under government of “national unity”, but parliament remains fragmented

*Peers relate to selected sovereigns with a similar indicative rating per Scope’s Core Variable Scorecard after the reserve-currency adjustment.