

**Republic of Italy**

This annex refers to the release of the monitoring note of 5 March 2021.

**Annex I: Summary of core variable scorecard, reserve currency adjustment and qualitative scorecard<sup>1</sup>**

<b>Implied rating of core variable scorecard (CVS)</b>		<b>bbb+</b>
<b>Reserve currency adjustment</b>		<b>1</b>
<b>Weight</b>	<b>Qualitative scorecard (QS) for long-term issuer ratings</b>	
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
<b>QS adjustment (notches)</b>		<b>-1</b>
<b>Additional considerations (notches)</b>		<b>0</b>
<b>Final rating</b>		<b>BBB+ NEG</b>

**Annex II: Selected indicators**

	2015	2016	2017	2018	2019	2020E	2021F	2022F
GDP per capita (USD '000s)	30,213	30,933	32,367	34,500	33,159	30,657	35,062	36,690
Real GDP, % change	0.8	1.3	1.7	0.8	0.3	-8.9	5.6	-
CPI, % change	0.1	-0.1	1.3	1.2	0.6	-0.1	0.6	0.9
General government balance, % of GDP	-2.6	-2.4	-2.4	-2.2	-1.6	-9.5	-9.0	-
General government debt, % of GDP	135.3	134.8	134.1	134.8	134.8	155.6	158.3	-
Current account balance, % of GDP	1.4	2.6	2.6	2.5	3.0	3.7	3.0	3.1
Gross external debt, % of GDP	118.2	116.3	114.7	113.9	117.5	-	-	-

Source: Macrobond, Bank of Italy, Scope Ratings GmbH and IMF forecasts

**Annex III: Economic development and default indicators**

IMF Development Classification<sup>2</sup>

AE

5y USD CDS spread (bps) as of 4 March 2021

74

<sup>1</sup> The weighting and explanation of all rating factors are described in Scope's 'Sovereign Ratings' methodology, available on [www.scooperatings.com](http://www.scooperatings.com)

<sup>2</sup> AE = advanced economy; EMDE = emerging market and developing economy

Annex IV: Analytical rationale for QS assessments

Italy	March 2021	Assessment	Analytical rationale
Peers*	Spain, Portugal, France, Cyprus, Hungary, Romania		
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; appropriate response to the 2020 global crisis; 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	Track record of primary surpluses pre-crisis; appropriate countercyclical response to Covid-19 crisis, but deficits remain elevated
	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 gov't debt, local-currency debt denomination, accommodative financing rates but significant financing needs and higher funding rates than peers
External economic risk	Current account resilience	Neutral	Diversified and competitive export base, track record of current-account surpluses
	External debt structure	Neutral	External debt 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, but profitability pressures
	Banking sector oversight	Neutral	Significant 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 and policy programme
	Social risks	Weak	Adverse demographics, inadequate educational outcomes, gender gap, risk 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.