Rating Update:

Creditreform Rating affirms the Italian Republic's credit ratings at "BBB-", outlook "negative"

Rating Action

Neuss, 05 March 2021

Creditreform Rating has affirmed the unsolicited long-term sovereign rating of "BBB-" for the Italian Republic. Creditreform Rating has also affirmed Italy's unsolicited ratings for foreign and local currency senior unsecured long-term debt of "BBB-". The outlook is negative.

Reasons for the Rating Decision and Latest Developments

Macroeconomic Performance

In addition to featuring a large and wealthy economy, Italy's macroeconomic profile remains buttressed by a good degree of economic diversification. Risk-bearing capacities with a view to a high net wealth of the household sector and a comparatively moderate level of non-financial debt add to resilience, whereas persistently low productivity growth, structural deficiencies on the labor market, and room to improve on the business environment put a strain on potential growth. We think that the sizeable EU-level funding to overcome the corona crisis, for which there is now somewhat more detail, represents a potentially decisive credit positive element, as it could not only help to prevent longer-lasting adverse effects on the economy, but also boost potential growth over the coming years, if used effectively.

In the meantime, Italy will have to deal with sizable short-term consequences of the pandemic, and the near-term outlook remains strongly dependent on the evolving vaccination campaign. As of 1 March (ECDC data), the national vaccine uptake for the first dose stood at 4.2%, slightly below Germany (5.4%) and France (5.1%). Any delays would mean a higher likelihood of renewed or prolonged restrictions, which in turn would hamper GDP growth. Following a steep fall, in particular in Q2-20 amid a sharp lockdown, overall economic output saw a strong rebound in Q3-20, but owing to another lockdown in light of rapidly rising infection numbers in the autumn, real GDP contracted again in Q4-20 (-1.9% q-o-q, euro area (EA): -0.6%), resulting in an overall decline of GDP by 8.9% for 2020 (2019: 0.3%). Domestic demand (excl. inventories) decreased strongly, accounting for a negative contribution of 7.8 p.p. to the overall outcome. Both private consumption and gross fixed capital formation contracted heavily (-10.7% and -9.1%, respectively, Istat data). By comparison, net exports exerted a less negative effect, taking 0.8 p.p. off GDP growth last year, but both exports and imports posted pronounced declines.

Despite a relaxation of measures in most regions from 1 February, real GDP looks likely to fall in Q1-21 as well; however, we maintain our view that the impact of containment measures has been less severe than last spring, as both businesses and consumers have adapted their behavior, and also as construction and manufacturing production were not as severely affected this time around. Latest business climate indices such as Istat's business confidence indicator back this assessment. We expect a recovery from the second quarter as immunization progresses

and containment measures are lifted. With wage-supplementing schemes and support to families playing an important role in cushioning incomes, private consumption should resume growth this year. Judging by the relatively high propensity of households to save (Q3-20: 14.6%, Istat), the potential for a strong release of pent-up demand does exist, but cautionary behavior may take some time to unwind. Subdued consumer confidence seems to back this, despite a palpable increase in February (Istat data). On a brighter note, the envisaged tax relief for low and middle incomes could support private consumption beyond this year.

Thanks to measures meant to safeguard employment, negative effects on Italy's labor market have been limited so far, with employment seeing a moderate increase (Q4-20: 0.3% q-o-q). The monthly unemployment rate, at 9.0% in December, remains below the pre-crisis level, despite a temporary rise over the course of 2020; however, the share of inactive people remained well above the preceding year's level. While we expect the unemployment rate to increase eventually in 2021, we would also flag the risk of a possibly stronger adverse effect on the labor market, especially if a higher number of enterprises would have to file for bankruptcy, e.g. in case the economic upswing took longer to materialize.

With a view to investment, extensive fiscal support to enterprises of all sizes in tandem with ongoing favorable financing conditions should provide fertile ground for a sizeable rebound, especially for recovering investment in machinery and equipment. Public investment looks set to rise markedly, although a modest track record in terms of ESIF fund absorption (see below) may rein in overly optimistic expectations. However, we acknowledge that the government is committed to improving administrative capacities, thus creating necessary conditions for better use of targeted means.

As far as trade developments are concerned, downside risks seem to fade somewhat against the expected improvement of the international trade environment in light of the new US presidency and with regard to an existing post-Brexit deal between the EU and UK. While tourism looks set to remain hampered until there is broad-based confidence in herd immunity in most places, thus for now restraining respective services exports, we would expect net trade to make a moderately positive growth contribution this year, despite rebounding import growth as domestic demand should pick up substantially.

Overall, given the likely weak start into 2021, we cautiously estimate real GDP to rebound by about 4.0% in 2021, with the recovery gaining traction in the course of the year, as more people are vaccinated and economic activity begins to normalize. We think that, if effectively implemented, Next Generation EU (NGEU) should provide a significant boost for Italian growth over the next few years, starting from 2021 if, as the previous government intended, grants from the Recovery and Resilience Facility (RRF) are applied in a front-loaded way. Italy would be among the biggest beneficiaries in the EU. Including loans via the RRF and other components within NGEU, the country looks set to receive EUR 223.9bn over the period 2021-26 (UPB data). We gather that, according to Istat, Italy's GDP could be 2.3 p.p. higher in 2025 compared to their base scenario. In light of the expected impetus through NGEU, not only in Italy but for all of its European partners, we currently pencil in broad-based GDP growth of 4.2% for Italy in 2022.

The government plans to enhance digitalization and innovation, green the economy and make it socially more inclusive. Increasing women's labor participation is a declared goal as well. Moreover, a particular focus is to be on territorial cohesion, among other things by means of a more inclusive and effective tax regime and intensified infrastructure investment. To this end, the

draft National Recovery and Resilience Plan (PNRR) under former Prime Minister Conte put forward a number of projects, but we gather that the plan is to be redrafted under new Prime Minister Draghi, with a stronger emphasis on longer-term strategic goals. Commitment to closing the gender gap at work and to greening the economy in any case remains strong. The latter is underscored by the creation of the new ecological transition ministry, which will streamline efforts in this respect.

Apart from the urgent need to bring Covid-19 under control, the new government will focus on working towards enhancing Italy's potential growth and set out a strategy on how to achieve this. Italian potential growth is estimated to have lagged markedly behind other major euro area economies over many years, dragged down by low productivity growth amid apparent innovation gaps, comparatively low investment-to-GDP, and persisting structural bottlenecks on the labor market, to name a few factors. We also view as positive the intention to swiftly address long-standing challenges as regards the efficiency of public administration and the justice system, along with the aim to improve the business environment to help achieve a sustainably higher growth path. We will continue to monitor progress towards these issues over the coming months.

Institutional Structure

Italy's credit rating is supported by its generally strong institutional framework, also involving EU/EA membership which entails significant benefits such as the ECB's credible and currently very accommodative monetary policy, and substantial EU-level support during the current crisis, not least via NGEU. Political volatility indicated by frequent changes in government balances this to some extent, as it presents the risk of a possible delay for timely and decisive implementation of reform proposals to enhance potential growth. Furthermore, the modest track record with respect to the absorption of EU funds (ESIF) is adding to some reservations here. Against this backdrop, broad-based cross-party support for the new Italian government and the suggested reform priorities seem constructive, but it remains to be seen whether political stability will be retained beyond the acute pandemic phase.

To this end, we observe that Italy continues to lag the euro area median when it comes to the perception of government effectiveness in the latest vintage of the World Bank's Worldwide Governance Indicators (WGI), where Italy is ranked 65th out of 209 economies (regarding WGI estimate ranging from -2.5 to 2.5; EA median: rank 35). Room to improve remains ample as far as rule of law and control of corruption are concerned, where Italy is placed in 81st and 80th position out of 209 economies as compared to a euro area median of 33 and 42 respectively. This being said, with a view to the perception of freedom of speech and media, Italy's gap to the EA median is less pronounced (rank 42/209 vs. 26).

We think that a stable political environment would be beneficial to effectively putting growth-enhancing reforms into practice. Italy's political landscape remains subject to relatively high volatility, as once more illustrated by the collapse of the previous government coalition in January 2021 following controversy, among other things over how NGEU funding should be deployed. Shortly after Italia Viva pulled out of the government coalition with the Five Stars, Partito Democratico, and Liberi e Uguali established in September 2019, former PM Conte resigned for a second time, having once done so when the previous coalition consisting of the Lega and the Five Stars fell apart.

In our view, the broad-based cross-party support for Mario Draghi's newly formed government, which comprises both party representatives from across the political spectrum and non-partisan technocrats, should lead to some momentum in tackling structural reforms that would facilitate higher potential growth. At the same time, given that there are about two years until the next regular election, time pressure seems high. What is more, the demonstrated cohesion would have to last beyond the acute phase of the Covid-19 pandemic. A snap election before March 2023 cannot be ruled out. However, we consider it unlikely at this juncture. In the constitutional referendum that took place last September, 69.64% of participating Italians (Ministry of the Interior data) voted to lower the number of elected MPs in both chambers from a total of 945 to 600 (400 seats in the Chamber of Deputies and 200 seats in the Senate). Thus, a considerable number of current MPs would lose their seat in the next general election. Secondly, a new electoral law might have to be fleshed out before an election is held, which would require some time. Developments will have to be followed closely in this respect.

Given the urgent need to not only manage the acute health crisis and the vaccination campaign but also to lay the ground for a meaningful and sustainable economic recovery on the back of the PNRR, we would highlight a risk of delayed implementation in the event of repeated phases of political uncertainty. While we recall that Italy's ESIF funding absorption has been rather sluggish, with 43% of eligible funds spent over the 2014-2020 period compared to 51% in the euro area, we think that NGEU could constitute a game changer for the Italian economy against the backdrop of an ambitious reform agenda.

By strengthening administrative capacities as also envisaged by the new government, improving fund absorption especially in the structurally weaker southern part of the country may pave the way for tackling long-standing issues such as territorial rebalancing and development of the Mezzogiorno. Including funds from React EU, the latest draft of PNRR foresaw dedicating the lion's share of the overall NGEU means to the green transition (EUR 69.8bn). Roughly EUR 46.3bn was to go towards fostering digitization, innovation, competitiveness, and culture, while smaller, similar-sized funding packages were foreseen to be directed towards infrastructure of sustainable mobility, education and research, as well as inclusion and cohesion. Amid the green transition, one partial aim was to increase the share of renewable energy sources in energy production and the development of a supply-chain industry in this area, where apparently just over a third of planned investment was to be focused in the southern part of the country (draft PNRR as of 12 January 2021). Important levers as identified in the Sud 2030 plan thus could have received a required boost. Whether these aims and priorities will shift slightly under an updated RRF plan will have to be seen.

Fiscal Sustainability

We maintain our view that, given Italy's high debt level and track record of repeated fiscal slippages as well as postponed debt reduction targets, fiscal sustainability risks constitute the main credit weakness of the sovereign. Remaining vulnerabilities in the banking sector and potentially counterproductive political volatility that could hamper budget execution add to that. As, for instance, a relatively high estimated VAT gap suggests, structural challenges persist with regard to the latter. With a longer-term view, unfavorable projections as far as age-related spending is concerned also weigh somewhat on the sovereign's fiscal prospects. While extraordinarily costly, though indispensable, Covid-19 measures aggravate fiscal sustainability risks, also in light of a higher contingent risk related to public guarantees, we think that these risks are partly mitigated by high debt affordability amid ongoing

accommodative monetary policy, and by financial relief via NGEU. If implemented effectively and in a timely manner, we think the EU-level initiative could become a decisive stepping stone to lift potential growth and thus be a crucial step towards sending the debt level on a downward trajectory in the medium-to-longer term.

Following a gradually declining path since 2015, the general government deficit decreased to 1.6% of GDP in 2019, with the primary surplus rising by 0.3 p.p. to 1.8% of GDP in 2018-19. In light of the economic fallout from the pandemic, coupled with the extensive fiscal response to protect incomes and restart economic activity, the 2020 headline deficit leapt to 9.5% of GDP, with the primary balance turning into a deficit of 6.0% of GDP.

We understand that including additional expansionary measures to bridge the necessary renewed lockdown in Q4-20 ('relief' decrees), the government enacted discretionary measures to the tune of about EUR 108bn (MEF data), or about 6.2% of GDP, by the end of 2020. On top of that, another set of measures amounting to about EUR 32bn geared towards extending support to corporates and households was greenlighted this February. Wage supplementation schemes and support to families, besides dedicated grants to SME and spending on healthcare, account for the largest parts of the packages. In some cases, wage supplementation schemes have been extended up to June 2021. These measures are flanked by a large amount of guarantees for business loans, covering a credit volume in excess of 30% of GDP.

Overall, we estimate the general government deficit to fall slightly to about 9.2% of GDP this year. For 2021, envisaged discretionary measures would exert a budgetary impact of roughly 3.2% of GDP. We gather that part of the fiscal measures included in the DBP21 may not be deemed as temporary, such as social security contribution relief to poorer regions and extension of tax credit to the South.

The budget mentions additional investments that would amount to about 0.6% of GDP, financed by RRF grants, with a neutral budgetary impact. Together with previously indicated investment expenditure as per prior budget laws, public expenditure on gross fixed capital formation could rise by more than 30% in 2021,significantly driving up the comparatively low public investment-to-GDP ratio (2019: 2.3%, EA: 2.8%). That said, we view this aim as rather ambitious, all the more so as prevailing concern over lasting political cohesion raises questions over the ability to meet the required administrative and implementation effort in such a relatively short time.

We consider as positive that, at the end of December 2020, parliament approved the budget law for the years 2021-23, thus giving some welcome forward guidance, notwithstanding high uncertainty in the face of the global health crisis. Apart from the extension of social security contribution relief for firms operating in the South and on the islands, and of measures to support private investment, main new expansionary measures relate to a single and universal children's allowance from the second half of 2021, and a tax reform involving relief for middle and low incomes from 2022.

In view of the adopted budget law, we would expect Italy's primary balance to return to positive territory only from 2023. As to the NGEU funds that Italy is set to receive, the Conte-government seemed to pursue a more front-loaded approach with regard to grants, aiming for 70% of the total amount allocated to Italy for the period 2021-23, whereas the loan part was to have a full bearing in the years 2024-26.

In light of the large headline deficit and falling economic output, Italy's already high debt-to-GDP ratio surged to 155.6% of GDP in 2020, from 134.6% of GDP in 2019, continuing to leave the

sovereign among the EU member states with the highest public indebtedness. We expect the public debt ratio to edge up to about 158.1% of GDP this year before starting to gradually decline, reaching about 156.4% of GDP in 2022. We positively assess the previous government's longer-term objective to bring the general government debt to below the pre-Covid-19 level by the end of the decade, mainly on the back of a significantly improving primary balance and a higher GDP growth trend compared to the past decade. In this context, we also welcome the former government's presentation of a longer-term fiscal plan as a constructive step in terms of fiscal guidance.

Risks to fiscal sustainability prevail with regard to the country's banking sector, where asset quality has continued to improve, but still compares unfavorably in the European context. Judging by EBA data, the NPL ratio has declined to 5.4% as of Sep-20 (Sep-19: 7.2%), against 2.8% for the EU. Drawing on more comprehensive Banca d'Italia (BdI) data, the NPL ratio (banks and CDP) has come down to 6.5% as of Sep-20 (Sep-19: 8.2%). Bank restructuring remains a work in progress, as illustrated by the case of Monte dei Paschi for which the previous government was reportedly sounding out possibilities for a merger with a suitable candidate to reduce its stake. Meanwhile, bank capitalization as measured by the CET1 ratio has more or less caught up with the EU-level as of Q3-20 (15.2%, EU: 15.4%, EBA data), thus pointing to higher buffers. Drawing on BdI data, the CET1 ratio increased from 15.2% in the first quarter of 2020 to 16.5% in Q3. We flag the risk of a possibly rising number of insolvencies and associated redundancies that could lead to a renewed deterioration of banks' asset quality, along with concerns over bank profitability. At least in Q3-20, the ROA (EBA) of Italian banks was in positive territory and broadly comparable to the EU overall. With regard to a recently increasing level of non-financial corporate debt in particular, developments will have to be monitored here. Banks' relatively high exposure to Italian government debt generally points to persisting vulnerabilities from a fiscal perspective in a scenario involving state support to banks. However, we recall that progressing bank restructuring/resolution, as well as the ECB's monetary policy measures, seem to limit these for the time being.

Related to the above, we remain vigilant concerning the evolution of public guarantees. By 24 February, applications to the Fondo di Garanzia which focuses on SME amounted to about EUR 141.6bn, while SACE covered guarantees to the tune of EUR 21.6bn (MEF data), hinting at considerable contingent liability risks. With a longer-term view, risks related to the projected increase in already relatively high age-related spending would add to reservations over fiscal sustainability.

At the same time, we have to emphasize Italy's sound debt management, favorable debt profile, and high debt affordability as factors that continue to mitigate fiscal risks at this stage. The average weighted maturity of the government's debt portfolio was stable at 6.9y in Jan-21 compared to Jan-20 (ECB data). Moreover, roughly 22% of government bonds were held by the official sector, i.e. BdI and the foreign official sector as at Q2-20 (latest available IMF data). Over the twelve months up to January 2021, ECB reported net purchases of Italian government bonds of EUR 46.7bn under PSPP, implying that cumulative net purchases had increased by 12.7% y-o-y. Meanwhile, the PEPP envelope was increased by EUR 500bn to a total of EUR 1,850bn, while the horizon for net purchases under PEPP was extended to at least the end of March 2022 along with extended and enhanced refinancing operations (TLTRO, PELTRO). At the end of January, net purchases of Italian government bonds under PEPP amounted to roughly EUR 136.3bn, corresponding to approx. 18% of the total PEPP volume. We expect Italian bond yields to stay near

historical lows for the time being, as the ECB remains firmly committed to its very accommodative stance.

Foreign Exposure

Despite a relatively high level of gross external debt, risks regarding the sovereign's external position seem broadly manageable. A comparatively resilient current account surplus contributes to this, helping to push the net international investment position (NIIP) to a balanced position.

Italy's current account surplus widened to 3.5% of GDP in Q3-20 (four-quarter moving sum), from 2.6% in Q3-19, mainly due to a widening goods surplus (+1.0 p.p.), which came to 3.8% of GDP in Q3-20 against the backdrop of strongly recovering export growth that exceeded recovering growth in import activity alongside lower oil prices. Also contributing to the expanding current account surplus was a larger primary income surplus (+0.3 p.p. to 1.2% of GDP in Q3-20) on the back of portfolio income. The services trade deficit, on the other hand, increased from 0.1% of GDP to 0.4% of GDP over the same period, weighed down by the shrinking tourism surplus. Going forward, we would expect the current account to move at close to recent levels - possibly somewhat lower, as import growth should be strengthening amid recovering domestic demand.

The sustained current account surplus has continued to support the NIIP, which for the first time in over thirty years turned mildly positive in Q3-20 (0.2% of GDP, Q3-19: -4.4% of GDP), underscoring diminishing external risks. The NIIP excluding non-defaultable investment confirms this conclusion, posting at -1.3% of GDP, narrowing from -3.8% of GDP in Q3-19 and -15.5% in Q3-16.

Rating Outlook and Sensitivity

Our rating outlook for Italy's long-term credit ratings is negative, as the temporarily soaring public debt ratio from an already high level amid still high pandemic-related uncertainty and renewed political volatility accentuates the sovereign's key credit weakness. While prospects have brightened somewhat on account of higher visibility on NGEU-backed reform plans, we think that uncertainty over the ability to bring public debt on a sustained downward trajectory over the medium term remains in place. We continue to refrain from providing some forward guidance on the time frame underlying our outlook at this stage, owing to the unpredictability pertaining to developments around coronavirus as well as the related economic fallout.

We could contemplate a positive rating action if we gain sufficient confidence that the debt trend will embark on a firm downward path and we start to see envisaged action being implemented with a view to ultimately lowering the public debt ratio to more sustainable levels over the medium term. Upward pressure would also result from a more pronounced rebound in economic activity, with no lasting effects from Covid-19 weighing on Italy's medium-term growth potential. More importantly, consequent implementation of initiatives aimed at enhancing productivity growth and potential growth, which would contribute to bringing debt-to-GDP onto a sustainable downward path, could also prompt a positive rating action.

Contrary to our belief, and less likely against the backdrop of reinforced EU-level support to overcome the pandemic and assist the economic recovery, we could lower our ratings if the expected significant deterioration of the public debt ratio becomes more entrenched, meaning

that the public debt ratio fails to resume a downward trajectory. Materializing contingent liability risks related to rapidly rising NPLs and/or comprehensive public guarantees might also feature in such an adverse scenario. A negative rating action could also be triggered if medium-term growth prospects fail to pick up, e.g. if vaccination campaigns are delayed or prove less effective against virus mutations, if we witness more lasting damage incurred by the labor market, or in the event of lacking progress in terms of enhancing productivity.

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Ratings*

Long-term sovereign rating	BBB- /negative
Foreign currency senior unsecured long-term debt	BBB- /negative
Local currency senior unsecured long-term debt	BBB- /negative

*) Unsolicited

Economic Data

[in %, otherwise noted]	2015	2016	2017	2018	2019	2020e	2021e
Real GDP growth	0.8	1.3	1.7	0.9	0.3	-8.9	4.0
GDP per capita (PPP, USD)	36,870	39,898	41,748	43,167	44,161	40,066	43,139
HICP inflation rate, y-o-y change	0.1	-0.1	1.3	1.2	0.6	-0.1	0.9
Default history (years since default)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Life expectancy at birth (years)	82.7	83.4	83.1	83.4	83.7	n.a.	n.a.
Fiscal balance/GDP	-2.6	-2.4	-2.4	-2.2	-1.6	-9.5	-9.2
Current account balance/GDP	1.4	2.6	2.6	2.5	3.0	n.a.	n.a.
External debt/GDP	125.5	122.8	122.1	120.5	124.5	n.a.	n.a.

Source: International Monetary Fund, Eurostat, own estimates

ESG Factors

While there is no universal and commonly agreed typology or definition of environment, social, and governance (ESG) criteria, Creditreform Rating views ESG factors as an essential yardstick for assessing the sustainability of a state. Creditreform Rating thus takes account of ESG factors

in its decision-making process before arriving at a sovereign credit rating. In what follows, we explain how and to which degree any of the key drivers behind the credit rating or the related outlook is associated with what we understand to be an ESG factor and outline why these ESG factors were material to the credit rating or rating outlook.

For further information on the conceptual approach pertaining to ESG factors in public finance and the relevance of ESG factors to sovereign credit ratings and to Creditreform Rating credit ratings more generally, we refer to the basic documentation, which lays down key principles of the impact of ESG factors on credit ratings.

ESG Factor Box

Environ-mental Quality	Ecological Risks	Ressource Management	Education	Health	**Demo-graphics**
Labor	Equality	Technology & Infrastructure	Safety & Security	**Judicial system**	**Quality of Public Services**
Integrity of Public Officials	Quality and Efficacy of Regulations	**Civil Liber-ties/ Political Participation**	Market Access	**Business Environ-ment**	Data Transparency

Environment	Social	Governance	Highly significant	Significant	Less significant	Hardly significant

The governance dimension plays a pivotal role in forming our opinion on the creditworthiness of the sovereign. As the World Bank's Worldwide Governance Indicators Rule of Law, Government Effectiveness, Voice and Accountability, and Control of corruption have a material impact on Creditreform Rating's assessment of the sovereign's institutional set-up, which we regard as a key rating driver, we consider the ESG factors 'Judicial System and Property Rights', 'Quality of Public Services and Policies', 'Civil Liberties and Political Participation', and 'Integrity of Public Officials' as highly significant to the credit rating.

Since indicators relating to the competitive stance of the sovereign such as the World Bank's Ease of Doing Business index and the World Economic Forum's Global Competitiveness Indicator add further input to our rating or adjustments thereof, we judge the ESG factor 'Business Environment' as significant.

The social dimension plays an important role in forming our opinion on the creditworthiness of the sovereign. Labor market metrics constitute crucial goalposts in Creditreform Rating's considerations on macroeconomic performance of the sovereign, and we regard the ESG factor 'Labor' as significant to the credit rating or adjustments thereof. Indicators or projections providing insight into likely demographic developments and related cost represent a social component affecting our rating or adjustments thereof. We regard the ESG factor 'Demographics' as less significant.

While Covid-19 may have significant adverse effects on several components in our ESG factor framework in the medium to long term, it has not been visible in the relevant metrics we consider in the context of ESG factors – though it has a significant bearing concerning economic prospects and public finances. To be sure, we will follow ESG dynamics closely in this regard.

Appendix

Rating History

Event	Publication Date	Rating /Outlook
Initial Rating	28.10.2016	BBB- /stable
Monitoring	29.09.2017	BBB- /stable
Monitoring	31.08.2018	BBB- /stable
Monitoring	30.08.2019	BBB- /stable
Monitoring	21.08.2020	BBB- /negative
Monitoring	05.03.2021	BBB- /negative

Regulatory Requirements

In 2011 Creditreform Rating AG (CRAG) was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation. The rating was not endorsed by Creditreform Rating AG from a third country as defined in Article 4 (3) of the CRA-Regulation.

This sovereign rating is an unsolicited credit rating. The Ministero dell'Economia e delle Finanze (MEF) participated in the credit rating process as it provided additional information and commented on a draft version of the rating report. Thus, this report represents an updated version, which was augmented in response to the factual remarks of MEF during their review. However, the rating outcome as well as the related outlook remained unchanged.

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	YES
With Access to Internal Documents	NO
With Access to Management	NO

The rating was conducted on the basis of CRAG's "Sovereign Ratings" methodology (v1.2, July 2016) in conjunction with its basic document "Rating Criteria and Definitions" (v1.3, January 2018). CRAG ensures that methodologies, models and key rating assumptions for determining sovereign credit ratings are properly maintained, up-to-date, and subject to a comprehensive review on a periodic basis. A complete description of CRAG´s rating methodologies and basic document "Rating Criteria and Definitions" is published on our website.

To prepare this credit rating, CRAG used the following substantially material sources: International Monetary Fund, World Bank, Organization for Economic Co-operation and Development, Eurostat, European Commission, European Banking Authority, European Central Bank, World

Economic Forum, European Investment Bank, European Centre for Disease Prevention and Control, Blavatnik School of Government, Dipartimento del Tesoro/ Ministero dell'Economia e delle Finanze, Banca d'Italia, Istituto Nazionale di Statistica, Ufficio Parliamentare di Bilancio.

A Rating Committee was called consisting of highly qualified analysts of CRAG. The quality and extent of information available on the rated entity was considered satisfactory. The analysts and committee members declared that the rules of the Code of Conduct were complied with. No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks. The analysts presented the results of the quantitative and qualitative analyses and provided the Committee with a recommendation for the rating decision. After the discussion of the relevant quantitative and qualitative risk factors, the Rating Committee arrived at a unanimous rating decision. The weighting of all risk factors is described in CRAG´s "Sovereign Ratings" methodology. The main arguments that were raised in the discussion are summarized in the "Reasons for the Rating Decision".

As regards the rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the credit rating report. There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRAG website. In case of providing ancillary services to the rated entity, CRAG will disclose all ancillary services in the credit rating report.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the rating report; the first release is indicated as "initial rating"; other updates are indicated as an "update", "upgrade or downgrade", "not rated", "affirmed", "selective default" or "default".

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available on the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

An explanatory statement of the meaning of each rating category and the definition of default are available in the credit rating methodologies disclosed on the website.

Disclaimer

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