Creditreform Sovereign Rating

Creditreform Rating
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Rating Object	Rating Information		
ITALIAN REPUBLIC	Assigned Ratings/Outlook: **BBB- /stable**	Type: Monitoring, unsolicited	
Long-term sovereign rating Foreign currency senior unsecured long-term debt Local currency senior unsecured long-term debt	Initial Rating Publication Date: Rating Renewal: Rating Methodologies:	28-10-2016 31-08-2018 "Sovereign Ratings"	

Rating Action

Neuss, 31 August 2018

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 stable.

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Key Rating Drivers

1. Very large, diversified and wealthy economy which is plagued by an unfavorable business environment, and labor market inefficiencies; growth has picked up and is set to remain robust, although growth momentum should slow amid signs of an on-going recovery in the labor market and banking sector
2. Elevated risk of backtracking on and watering down of reforms, with the newly formed government potentially overturning some of the progress with structural reforms
3. Extremely high general government debt coupled with high, though receding, interest expenditure; debt sustainability should be warranted due to prudent debt management and the concurrent improvement in the sovereign's debt profile
4. While awaiting the budget draft and an eventually legislated budget law, headline deficits beyond 2018 likely to increase on the back of envisaged costly revenue and expenditure measures, resulting in an elevated probability that debt may decline only very gradually
5. Further strengthening external position owing to robust current account surpluses, buttressed by improved cost competitiveness and the ECB's PSPP

Reasons for the Rating Decision

We affirm the Italian Republic's credit rating of "BBB-", reflecting its moderate macroeconomic performance, solid institutional quality, and an improving external position. On the other hand, the sovereign's credit rating is mainly constrained by poor fiscal metrics, still impaired banking asset quality, and heightened political uncertainty.

First and foremost, Italy's macroeconomic performance continues to be buttressed by its large and wealthy economy, providing the Italian economy with sizable buffers against external shocks. Italian households are among the wealthiest in Europe, with private households' net assets equating to 192.5% of GDP in Q4-17, the third-highest reading in the euro area (behind Belgium and the Netherlands). In the same vein, the private sector in Italy appears to have considerable risk-bearing capacities. Non-financial corporations (NFCs) as well as private households display a relatively low and gradually declining leverage, with debt standing at 103.4 and 51.3% of GDP in this year's first quarter, well below the respective euro area average (138.5 and 63.6% of GDP). As illustrated by IMF data, Italy is the third largest economy in the euro area and the ninth largest in the world (2017: USD 1.94tr), and displays a high per capita income, which is estimated to have stood at USD 38,140 in 2017 (in PPP terms). However, Italy lags all other major economies in the euro area, not only showing a significant gap towards Germany and France with a GDP per capita of USD 50,425 and 43,761 respectively, but also standing below Spain, which has overtaken Italy more recently (2017: USD 38,286). Due to the rather disappointing growth performance over the recent years, Italy's GDP p.c. fell below the EU-28 average in 2013 and has not recovered since, posting at 96% in 2017 (Eurostat data).

On average, real GDP grew by a mere 0.7% in 2014-16, with peer economies growing at a much faster pace (Spain: 2.7%, Germany: 1.8%, France: 1.1%). Although still well below the euro area rate of 2.4%, Italian growth accelerated notably in 2017, increasing from 0.9% in 2016 to 1.5%. Higher output growth was due to the rise in investment and stronger export performance. Owing to the synchronized pick-up in economic activity in its main trading partners and some gains in cost competitiveness (see below), exports rose by 5.4%, the highest reading since 2010. As imports evolved equally vividly, export growth resulted in a small positive growth contribution (0.1 p.p., 2016: -0.3 p.p.). At the same time, higher external demand, tax incentives and low funding costs supported the ongoing recovery of investment activity, although fixed investment was still approx. 21% below its 2008 level. Last year, growth in gross fixed capital formation reached 3.8% (2016: 3.2%), mainly driven by larger purchases of machinery, equipment and transport equipment, expanding by 8.3%. Construction investment remained anemic (2017: +1.1%), though cyclical conditions seem to be improving, mirroring developments on the housing market, where the contraction in prices has decelerated over the last three years. Benefiting from the improving situation in the labor market and from favorable financing conditions, private household spending remained the main driver of growth, with consumption growth unchanged at 1.4%.

We expect the economy to lose some of its momentum going forward, edging down to 1.2% this year and 1.1% in 2019. Recent quarterly national accounts data also points to an economic slowdown. According to ISTAT's flash estimate, real GDP continued to grow in the second quarter of 2018, but only at a yearly rate of 1.1% (0.2% q-o-q), down from 1.4% in Q1 and below the 1.6% seen in last year's second quarter.

Export growth should hold up well – due to solid growth in main trading partners Germany, France, the US, the UK, and Spain (standing for more than 40% of total exports). Still,

we assume that net external trade's contribution to GDP growth will be broadly neutral, as exports decelerate somewhat with a view to the deteriorating external environment and gradually slowing global trade, while softening domestic demand should dampen import growth. Growth will mainly be driven by domestic demand, with the recovery of fixed investment remaining in place. Although investment is likely to ease gradually going forward, we expect it to remain resilient. Investment activity thus continues to be aided by government measures. The super- and hyper-amortization schemes, tax bonuses on depreciation related to investments in machinery and equipment, were extended into 2019 and should facilitate investment, as should be the case with the extended 'New Sabatini law', which incorporates a subsidized funding scheme in favor of SMEs, and the corporate income tax (CIT) cut from 27 to 24%. Survey data on new orders and export expectations, as well as business sentiment (ESI, PMI), have come off their heights reached at the turn of the year, but are compatible with continued investment growth. Moreover, capacity utilization in the industry sector has stood at the highest level since 2007 (Q3-18: 77.9%) and well above the long-term average (1980-2017: 74.8%). Although tailwinds from monetary policy should begin to subside, financial conditions will remain supportive to domestic demand. On a positive note, we assess that bank lending is beginning to improve, as the 12-month change in loans to NFCs appears to have turned the corner, posting at 1.1% in Q1-18 (Banca d'Italia data). We expect that private consumption will continue to expand on the back of employment growth, which is likely to slow over the coming years given the decelerating growth momentum, the impetus from government action, incentivizing higher employment of younger people by cutting social security contributions paid by private sector employers, still favorable sentiment, and higher wages in the public sector. That said, wage dynamics should remain moderate, and returning inflation, fueled by rising energy prices, will prospectively weigh on real disposable income and, in turn, consumption growth.

In the absence of clarity on the policy outcome of discussions regarding a flat tax on personal and corporate income (see below), our forecast is based on the assumption of unchanged policies. As of now, political uncertainty could drag down domestic demand, as investment and consumption decisions may be postponed and financial conditions are subject to elevated volatility.

By the same token, the impact on employment by the labor market reform adopted in July 2018 ('Dignity Decree') is not clear-cut at this stage. The reform will partly reverse the 2015 Jobs Act, reducing some of the labor market flexibility gains, with the maximum length of temporary contracts falling from 36 to 24 months, making unfair dismissals more costly, and requiring employers to justify why a temporary contract is warranted for an employment duration of more than twelve months. While this is intended to incentivize more permanent work contracts, we believe that – apart from higher legal uncertainty – adverse impacts on temporary employment and labor demand may predominate.

In fact, recent employment gains have been buttressed mainly by temporary employment. Employment increased by 0.9% to 22.4m in 2017 (2016: 1.2%), reaching the highest level since 2008 – with fixed-term employment leaping by 12.2% as compared to broadly unchanged permanent employment (+0.1%). More recently, labor market conditions contin-

ued to improve as total employment was up by 0.4% y-o-y in Q1-18 (temporary employment: +15.2%). Still, we view economic resilience as being weighed down by labor market conditions, as unemployment remains high, totaling 11.0% in Q1-18 – the third highest reading in the EU, behind Greece and Spain. And although labor market participation has climbed to record highs over the recent quarters (Q1-18: 65.5%), it remains well below the euro area average of 73.3%. What is more, Italy is among the worst performers in Europe as regards the Social Rights Indicators, with most indicators on 'watch' or 'critical situation'.

Further out, we view growth as constrained by Italy's modest growth potential. While the above-mentioned pick-up in labor supply bodes well for potential growth, this is not likely to raise it to the already moderate pre-crisis levels. The EU Commission estimated potential growth at 0.3%, and projects an increase to 0.5% by 2019, leaving Italy outpaced by Germany, France and Spain. In general, potential growth is constrained by weak TFP growth, which had reached the level of 2010 only in 2017, and the slump in investment, with investment-to-GDP being among the lowest in Europe (2017: 17.5%). The Italian economy is plagued by poor labor productivity growth, averaging at a mere 0.1% over the last five years. Accordingly, nominal labor productivity per hour worked as a percentage of EU average has followed a downward trajectory since 2010 – now standing on par with the EU-28 average (2017: 100.7%).

Italy's business environment remains a major stumbling block to stronger potential growth. According to the World Bank's latest Doing Business report, Italy received a relatively weak ranking at 46, thus being the worst performer among major economies in the euro area (France 31, Spain 28, Germany 20), and on par with Hungary (48) and Romania (45). Against this background, Italy's main weaknesses are reported to be 'dealing with construction permits' (rank 96), 'paying taxes' (112) and 'enforcing contracts' (108). Adding to these impediments, labor market efficiency and financial market development are still perceived as weak points, as attested by respective ranks 116 and 126 out of 137 economies in the World Economic Forum's (WEF) Global Competitiveness report.

We continue to view these challenges as compounded by comparatively weak government effectiveness and weaknesses in its institutional set-up in general. As measured by the World Bank's Worldwide Governance Indicators (WGI), Italy scores worse than the other major European economies and the euro area median on every indicator we consider. Particularly weak, from a euro area perspective, is the performance in terms of government effectiveness (rank 60 out of 209 economies, EA-19 median 35), rule of law (86 vs. 32), and control of corruption (85 vs. 41). Ample room to improve is underscored by the first pillar of the WEF's global competitiveness index, ranking Italy 95th out of 137 economies, and 'inefficient government bureaucracy' being acknowledged as the most problematic factor for doing business in Italy.

Meanwhile, we believe that the Italian Republic greatly benefits from euro area membership, which entails broader and deeper capital markets as well as advantages associated with the euro as a reserve currency. In addition, we hold Italy as a major beneficiary of the ECB's PSPP, accounting for 16.9% of total net purchases of government bonds under the PSPP (as of Jun-18). Banca d'Italia reckons that the ECB's policy measures since

2014 have a significant impact on economic activity, contributing roughly half a percentage point to GDP growth in 2018 and 2019 respectively. Furthermore, Italy's inflation rate is closely aligned with the euro area average, and consumer price inflation tends to be less volatile than in other European economies.

On the positive side, the sovereign has stepped up reform efforts, pushing forward several key reforms over the past years – namely (i) the Jobs Act, reforms providing for new social safety nets, and the Buona Scuola reform; (ii) fiscal reforms aimed at improved VAT collection, incentivizing investment and R&D, and implementing spending reviews at the government level; (iv) public administration reforms, as well as reforms targeted towards improving the judicial system and mitigate pervasive corruption; and (v) measures geared towards reforming the banking sector.

However, we assess an elevated risk of watering down already implemented reforms or – even worse – of backtracking, thus jeopardizing earlier reform success. Following the general election in early March, the anti-establishment parties, the Five Star Movement (M5S) and the far-right League (L), gathered 50% of the votes (M5S: 32.69%, L: 17.35%) and formed a government in June, with 352 of the 630 seats in the Chamber of Deputies. Although the coalition agreement still reflects some skepticism towards the euro area and EU policies in general, policy pledges that would point towards Italy's exit out of the euro area have been scrapped.

Notwithstanding, the newly formed government foresees overturning the 2011 Fornero pension reform, while the former government's landmark reform aimed at improving labor market conditions was already watered down by the Dignity Decree discussed above. Furthermore, the governing coalition is contemplating adopting a series of tax and spending measures which should come at high fiscal costs; namely, the implementation of a flat corporate income tax of 15% and a dual tax on personal income (15/20%), higher welfare spending, the introduction of a universal basic income ('citizens wage') of up to EUR 780 conditional on active job search. In addition, the coalition agreement envisages a 'radical review' of bail-in rules in the EU and a 'discussion' of the Basel accords. The implementation of the reform enacted by the former government, which is aimed at strengthening financial stability, urging small cooperative and mutual banks to merge, was delayed. Accordingly, we view policy uncertainty as very high at the current junction, jeopardizing business and consumer sentiment and leading to heightened volatility in financial conditions (see below).

Less predictable and stable policies exacerbate uncertainties related to the fiscal outlook and the already elevated risk of fiscal slippages, which we continue to view, together with an extremely high debt stock, high interest outlays, legacy issues weighing on banking sector stability, and demographic risks, as Italy's key credit weaknesses.

Having said this, stronger economic activity and a sustained primary budget surplus of 1.5% (2016: 1.5%) translated into a further decline in the general government's headline deficit which edged down from 2.5 to 2.3% of GDP in 2016-17. The deficit was increased by the financial support to Banca Popolare di Vicenza and Veneto Banca (0.28% of GDP). Concurrently, interest costs dropped by 0.2% of GDP, as did final consumption

expenditure, and public wage growth was contained (+0.1%), with the wage bill coming in at 9.6% of GDP, the lowest reading in years. Also, the government further cut down on fixed investment, which dropped by 5.6% to EUR 33.7bn or 2.0% of GDP as compared to 3.0% a decade ago. On the revenue side, Italy's faster pace of growth and the further improving labor market led to an increase in net social contributions of 2.5% in nominal terms, and higher personal income tax receipts which grew by 1.7%. Corporate tax revenues decreased by 0.5% due to tax incentives to stimulate investment and R&D, but this was more than compensated for by significantly stronger VAT collection (+5.7%).

Looking forward, we expect that the headline deficit will decrease to 1.7% of GDP in 2018. The further decline should be supported by economic growth and the ongoing recovery on the labor market, which will foster a stronger intake of income and indirect taxes. In this vein, we believe that tax receipts will be boosted by measures to facilitate tax payment demands and combat tax evasion, as well as the delay of the new corporate income tax IRI. On the other hand, the deactivation of the safeguard clauses, which would have increased VAT and excise duties, will not lend support to deficit-reduction. As regards expenditure, authorities envisaged curtailing general government outlays by the ministries' spending reviews, generating savings of EUR 1bn, and the reprogramming of transfers in the State budget (approx. EUR 1.4bn in 2018). Deficit-increasing measures include rising public wages and lower social security contributions as part of the scheme to incentivize employment of younger people.

Whereas Italy's deficit should fall further this year, the picture is much less clear with regard to 2019 due to numerous factors of uncertainty at hand. Without major policy changes, we would have expected the headline deficit to remain broadly unchanged due to further tax cuts and spending measures offsetting revenue gains from income tax rises and improved efficiency in VAT collection, as well as expenditure cuts stemming from the spending review, which will continue through 2019. As mentioned above, however, authorities have announced potentially costly revenue and expenditure measures, while not explaining concrete measures and how these are intended to be counter-financed.

Awaiting the budget draft and eventually legislated budget law, catering for a clearer picture, we attach a very high probability to fiscal slippages, implying that the final deficit readings for 2019 may be significantly higher, surpassing last year's 2.3% of GDP. Certainly, this depends on the degree to which some of the pledges will be dropped completely over the course of discussions, be partly or gradually implemented, or result in a general shift in economic and fiscal policies. Still, government officials have already begun to question the Stability and Growth Pact's requirement to respect the headline deficit threshold of 3% of GDP. Moreover, Italy has generally displayed a track record of fiscal slippages in the past; recently, Italy revised its fiscal target for 2019 downwards.

Hence, with the envisaged fiscal loosening, general government debt is likely to decline only very gradually. Italy's debt as measured by GDP inched down to 131.8% in 2017, after having peaked at 132.0% a year before – the second highest debt level in Europe (behind Greece) and among the highest worldwide. Moreover, debt affordability continues to be relatively weak by European standards, though improving. As illustrated by our preferred measure, interest expenditure-to-revenues, the sovereign exhibits the second

highest level of interest outlays in the EU-28, totaling a high 8.2% last year – well above other major economies Germany (2.3%), France (3.3%), and Spain (6.8%), and only ahead of Portugal (9.0%).

Notwithstanding, debt sustainability should be warranted in the near term, mainly on the grounds of the authorities' prudent debt management and the concurrent improvement in the sovereign's debt profile. The government continued to take advantage of the beneficial interest rate environment. We assess 2017 as the third consecutive year in which the average time to maturity was extended, climbing from 6.7 years to 6.8 in 2016-17 (2014: 6.2 years), and the share of debt with a maturity of 5 years and less in total outstanding debt was reduced significantly from 39.4 to 25.6% over the last five years (upB data). Although financing conditions remain relatively favorable from a longer-term perspective, 10-year bond yields and Bund spreads have widened significantly. After the formation of the new governing coalition and publication of the coalition agreement in May-18, the 10y-yield leapt from 1.780% at the end of April to 3.104% at the end of May. Volatility remains high; while yields had fallen by approx. 63bp up to mid-July, they were trading at 3.102% by mid-August again, with the Bund spread having increased to approx. 280bp, compared to 120bp at end of April.

We note that contingent liability risks to Italy's budget remain in place, though soundness indicators have been improving over the recent quarters and the healing of the bank's balance sheets have remained on track. However, asset quality remains comparatively weak and the banking sector vulnerable as the latest events in connection to Banca Monte dei Paschi di Siena, Banca Popolare di Vicenza, and Veneto Banca have shown. According to EBA data, non-performing loans accounted for 10.8% of total loans in Q1-18. Hence, Italy's NPL ratio was still among the highest in Europe (EU-28 avg. 3.9%), but has been following a firm downward trend, having declined by 5.8 p.p. since Q1-16. What is more, Banca d'Italia data reveals that the flow of new NPLs is steadily receding, with the new NPL rate posting at 1.7% in the first quarter of 2018, down from 2.0% in Q4-17 and well below the 6% seen at the end of 2013. In addition, capital buffers were strengthened, as the CET 1 ratio increased from 11.8% in Q1-17 to 13.2% in the first quarter of 2018 (EU-28 average 14.4%). Meanwhile, we observe minor public guarantees which rose from 2.4 to 3.7% of GDP in 2016-17, with the amount dedicated to the financial sector now at 1.5% of GDP.

Furthermore, ageing costs continue to put pressure on Italy's public finances. As documented by the EU's recent Ageing report, age-related costs are expected to rise from elevated levels by 1.4 p.p. to 29.5% of GDP by 2030, the fourth highest reading in the EU-28, while being projected to decrease by 0.4 p.p. GDP in the long run (2070). Against the backdrop of the newly formed government's considerations to roll back on the pension reform, this policy area has to be monitored vigilantly, as these may have severe negative repercussions on fiscal sustainability. In 2016 Italy already had one of the highest levels of pension spending in the EU, at 15.6% of GDP.

Risks pertaining to the sovereign's external position have continued to abate. Italy's net international investment position (NIIP) improved slightly from -8.6% of GDP in Q1-17 to -8.5% in this year's first quarter, after having hovered at around -20% of GDP up to 2015,

reflecting net portfolio investment shifting into positive territory (from -12% to 8% of GDP in 2015-17) on the back of an increase in resident households' investments abroad. The stronger external position was largely driven by the increasing current account surplus which rose from 2.6 to 2.8% of GDP in 2016-17, the highest reading since 1996 (2.9%). External demand from the euro area and favorable terms of trade facilitated exports of goods, translating into a robust trade of goods surplus of 3.2% of GDP in 2017 (2013-17 avg. 2.6%), while valuation effects entailed by the ECB's PSPP resulted in an increase of the primary income surplus to 0.6% of GDP (2016: 0.3%). Looking ahead, Italy's current account surplus should ease somewhat but remain robust in 2018/19, as strengthening domestic demand should be somewhat cushioned by resilient exports which benefit from the recovery in cost competitiveness. Cost competitiveness continued to improve in 2017, mirrored by real unit labor costs which were down by 1.0% in 2017, mainly driven by wage moderation. Likewise, Italy's export market share has stabilized over the recent years, now amounting to 2.68% of the world total, the highest level since 2011. We expect that remaining labor market slack should provide for moderate wage increases going forward, broadly expanding in line with productivity.

Rating Outlook and Sensitivity

Our Rating outlook on the long-term sovereign rating is stable, as we assume that the risk situation underlying the key factors affecting sovereign credit risk – including macroeconomic performance, institutional structure, fiscal sustainability, and foreign exposure – is likely to remain fundamentally unchanged over the next twelve months.

Downward pressure on the rating could be exerted by significant fiscal slippages, due to the implementation of fiscal policies which were detrimental to the consolidation process going forward. More generally, we could lower the rating if we perceive that already implemented reforms have been watered down or reversed, jeopardizing reform success achieved over the recent years. Additionally, there are downside risks associated with the current account shifting into a deficit, worsening the sovereign's external balance sheet, or if medium-term growth turns out to be lower than projected.

While an upgrade is rather unlikely at this stage, upward pressure on the outlook or rating could arise if general government debt declines in the absence of setbacks in the fiscal consolidation process. Faster progress in the resolution of non-performing loans is also an upside risk. A positive rating action could also be prompted by a substantial acceleration of Italy's economic activity accompanied by structural reform efforts, or by significantly decreasing political risks and uncertainty.

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Ratings*

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

*) Unsolicited

Economic Data

	2012	2013	2014	2015	2016	2017	2018e
Real GDP growth	-2.8	-1.7	0.1	1.0	0.9	1.5	1.2
GDP per capita (PPP, USD)	35,052	34,805	35,311	36,026	36,877	38,140	39,500
HICP inflation rate, y-o-y change	3.3	1.2	0.2	0.1	-0.1	1.3	1.3
Default history (years since default)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Life expectancy at birth (years)	82.4	82.9	83.2	82.7	83.4	n.a.	n.a.
Fiscal balance/GDP	-2.9	-2.9	-3.0	-2.6	-2.5	-2.3	-1.7
Current account balance/GDP	-0.3	1.0	1.9	1.5	2.6	2.8	n.a.
External debt/GDP	119.4	119.1	124.1	125.2	123.2	124.2	n.a.

Source: International Monetary Fund, Eurostat, own estimates

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

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.

This sovereign rating is an unsolicited credit rating. Neither the rated sovereign nor a related third party participated in the credit rating process. Creditreform Rating AG had no access to the accounts, representatives or other relevant internal documents for the rated entity or a related third party. Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

The rating was conducted on the basis of CRAG´s "Sovereign Ratings" methodology in conjunction with its basic document "Rating Criteria and Definitions". 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 the following internet page: www.creditreform-rating.de/en/regulatory-requirements/.

To prepare this credit rating, CRAG has used 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, European Stability Mechanism (ESM), 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 to 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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