Research Update:

Italy Outlook Revised To Stable From Negative; Ratings Affirmed At 'BBB/A-2'

October 23, 2020

Overview

- The COVID-19 pandemic has hit Italy's economy hard; under our projections, GDP will not return to 2019 levels until 2023.
- In response, the government has introduced extraordinary fiscal measures for 2020 worth 6.1% of GDP, and has drafted a pro-growth 2021 budget, with a headline deficit target of 7% of GDP, including additional stimulus.
- At the supranational level, the European Central Bank (ECB) has expanded the size and duration of its asset purchase programs, ensuring historically low debt refinancing costs, while the EU has launched a Recovery and Resilience Fund, which is set to provide Italy up to 12.5% of GDP in grants and loans, conditioned on pro-growth reforms.
- In our view, despite macroeconomic uncertainties, these steps provide Italian authorities an opportunity to restart economic growth and to reverse the deterioration of its budgetary performance. We are therefore revising our outlook to stable from negative and affirming our 'BBB/A-2' ratings on Italy.

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Rating Action

On Oct. 23, 2020, S&P Global Ratings revised its outlook on Italy to stable from negative and affirmed its unsolicited 'BBB/A-2' long- and short-term foreign and local currency sovereign credit ratings.

Outlook

The stable outlook balances the consequences of the pandemic on public finances at the national level against the extraordinary policy response by the ECB, which has stepped up quantitative easing to lower yields, ease financial conditions, and support asset prices and demand, as well as by the EU, which established a new Recovery and Resilience Fund set to disburse up to 12.5% of GDP in loans and grants to Italy over the next four years.

Downside scenario

We could lower the ratings if our projections of an economic recovery followed by gradual fiscal consolidation fail to materialize, or should rising contingent liabilities from the extensive guarantees provided by the central government crystallize on its balance sheet on a large scale.

Upside scenario

We could raise the ratings if we see Italy's economy performing better than our current prognosis, for example via the implementation of pro-growth structural and fiscal reforms, and the effective deployment of resources available to Italy from the newly created Recovery and Resilience Fund. Under this scenario, Italy's budgetary performance would likely improve over the next two to three years, supporting a higher rating.

Rationale

Between 2015 and 2019, Italian nominal GDP growth averaged just below 2%, the lowest pace of all advanced economies with the exception of Switzerland and Japan. Despite anemic growth, by operating recurrent primary surpluses between 2015 and 2019, the Italian government managed to stabilize public debt at about 133% of GDP last year. Over the same period, the private sector continued to deleverage, with total household, corporate, and financial sector debt ending first-quarter 2020 at 172% of GDP (compared with 236% of GDP in the U.S. and 290% of GDP in the euro area), the lowest of all major advanced economies. Including financial sector debt, Italian private debt has declined by more than public debt has increased since the global financial crisis.

The pandemic has disrupted this equilibrium. Intermittent lockdowns and protracted economic uncertainty have elevated household sector savings rates to multiyear highs (19.3% on a calendar and seasonally adjusted basis as of second-quarter 2020 versus the long-term average of 10.1%), while corporates have had to increase their borrowing to manage a severe squeeze on cash flows. In response, public sector dissaving has risen rapidly, with Italy's primary government budgetary deficit set to deteriorate during 2020 by roughly the same amount that private savings are increasing. We estimate that the economy will contract by about 9% this year, before recovering by 6.4% next year, based on our assumption that an effective treatment or vaccine against COVID-19 is widely available no later than second-half 2021 or the effects of the pandemic otherwise soften. Recent recurrences of COVID-19 outbreaks in Italy and its trading partners imply downside risks to that forecast.

To mitigate the economic consequences of the pandemic, the Italian government has enacted fiscal stimulus measures at the national level worth an estimated 6.1% of GDP for 2020, including €16.6 billion or 1.0% of GDP on a short-term work scheme (Cassa Integrazione), the expansion of which almost certainly prevented the economy from undergoing an even deeper recession this year. In its 2021 draft budget, the government has extended the work scheme, and added new stimulus via increases in spending on health and education, and support for small and midsize enterprises (SMEs).

Fiscal stimulus is also forthcoming at the supranational level. Italy, which has traditionally been a net contributor to the EU budget, will be the major beneficiary of the newly created EU Recovery and Resilience Fund. In principal, this could mean the receipt of as much as 12.5% of GDP in loans and grants between 2021 and 2023 (or an estimated 4.3% of GDP net future repayments). Should the funds be fully deployed, Italy's capital account surplus would likely average at least 1.4% of

GDP over 2021-2023.

Italy's creditworthiness benefits from its membership in the Economic and Monetary Union (EMU). Since we last published on Italy on April 24, 2020, the ECB has ramped up its response to COVID-19 by increasing its pandemic emergency purchase program (PEPP) to €1.35 trillion, or 11.3% of euro area GDP, on top of asset purchase program (APP) purchases this year of an estimated €360 billion, or 3.0% of GDP.

As a result, we expect that most of the Italian sovereign debt newly created this year as a consequence of the pandemic will be purchased by the ECB under pre-existing and new initiatives. In our view, that commitment means that the Italian government will be able to finance itself at nominal rates of about 0.8% on average this year compared with the 2.5% average borrowing rate on its existing debt stock. In nominal terms, and absent a significant deterioration in borrowing costs, Italy will pay less to service its total debt stock this year and into 2021-2023, than it paid in 2019.

Institutional and economic profile: Italy's EMU and EU memberships mitigate the economic and budgetary impact of the pandemic

- Since we last reviewed our rating on Italy in April 2020, the ECB has stepped up quantitative easing to lower yields, ease financial conditions, and support asset prices and demand.
- The newly created EU Recovery and Resilience Fund is set to provide to Italy loans and transfers worth as much as 12.7% of Italian GDP.
- Fiscal stimulus will be extended into 2021.

For 2020, we project a 8.9% drop in GDP, followed by a recovery of 6.4% in 2021 and 2.3% in 2022. Even our relatively constructive forecasts of Italy's national accounts would mean that Italian GDP would not return to pre-pandemic figures until 2023. This unprecedented drop in economic output has elicited an unprecedented policy response at the national and EU levels. The ECB has stepped up quantitative easing (government bond purchases) to lower yields, ease financial conditions, and support asset prices and demand.

The change in fiscal policy has been even more profound. At the national level, Italy has moved quickly to introduce measures to prevent productive businesses from bankruptcy and workers from dismissal due to a temporary, albeit outsized, liquidity shock. Since the spring, the government has announced COVID-19-specific expenditure measures worth just under 5% of GDP under the decree law "Cura Italia," including: the expansion of Italy's short-term work scheme (Cassa Integrazione); child-care support; subsidies on rent for SMEs; deferrals on corporate, personal, and value-added tax (VAT) obligations as well as on firms' social security payables; and increases in expenditure on medical equipment and health staff. The draft budget for 2021 includes additional stimulus measures, including increases on expenditure for education, health, and SMEs worth an additional 1.5% of GDP.

On top of direct fiscal support, the Italian government is providing indirect stimulus by underwriting credit to firms and households. Of these measures, only about 0.2% of GDP represent so-called "below the line" transactions that require upfront financing. We consider the remainder--whether guarantees or other liquidity measures--to be contingent liabilities totaling a maximum envelope of about €600 billion or 33% of GDP, which has so far not been fully utilized. These include:

- The Fondo Centrale di Garanzia, which guarantees up to €5 million in financial liabilities of companies with fewer than 500 employees until Dec. 31, 2020. The total size of the facility is

€100 billion.

- Additional state guarantees covering up to 30% of the value of SME loans subject to moratorium (€70 billion) and 70%-90% of the value of loans for all businesses (€200 billion).
- Up to €200 billion of loan guarantees from SACE, the Italian export credit finance agency. These loans cover a maximum of 90% of a loan's principal. Borrowers must pay a fee for the guarantee ranging from 25 basis points (bps)-50 bps for the first year, increasing to 100-200 bps for the fourth to sixth year.
- The government's €0.5 billion guarantee to back a Committed Fund State Development Bank managed and guaranteed by State Development Bank Cassa Depositi e Prestiti. The purpose is to guarantee the liabilities of larger companies, defined as those with annual turnover exceeding €50 million on an annual basis.
- A moratorium agreement, under which liquidity-constrained SMEs can postpone principal payments on debt, recently extended to January 2021. Affected households are also eligible for moratoriums on mortgages. More than anything else, these moratoria explain the absence so far of a rise in Italy's nonperforming loans (NPLs).

At the supranational level, the fiscal response has been equally powerful. On July 21, the 27 EU member states approved the establishment of a €750 billion Recovery and Resilience Fund, endowed with the ability to borrow in financial markets to finance (and in effect mutualize) lending and transfers to those member states hit hardest by the pandemic, Italy included.

After Germany, Italy is the most open economy in the G7, with exports totaling 32% of Italian GDP. Italy remains the seventh-largest exporter in the world and is a diversified and wealthy economy, with no single export category exceeding 4.5% of the total. The economy's openness, and its sizable current account surplus, make it sensitive to global developments, including this year's synchronized global recession.

SMEs dominate the Italian economy, accounting for an estimated 78% of all employment versus 67% on average in the EU--an apparent economic vulnerability. In comparison with other European economies, Italy lags on digitalization, ranking 25th in the EU in the Digital Economy and Society Index, published by the European Commission in June 2020. According to the report, only 74% of Italians are regular internet users, and the number of information and communications technology graduates is well below the EU average. In this regard, Italy's low starting point may open up an opportunity for the government to invest heavily in digital infrastructure and training.

Italy's weak economic growth performance pre-dates the pandemic, reflecting its rigid labor market, an ageing population, a high tax burden, a large gray economy, as well as administrative, judicial, and bureaucratic burdens on business and job creation, and anti-competitive product and service sector regulations.

Several factors could lend momentum to a gradual recovery beyond 2021. These include:

- The Recovery and Resilience Fund, which is set to provide Italy loans and transfers worth as much as 12.7% of Italian GDP. Depending on the return on government's ability to administer, absorb, and effectively invest these funds, Italy can replenish its capital stock without incurring government debt.
- Greater certainty about the current government's budgetary plan and its compliance with the EU Stability and Growth Pact (last year's budget deficit was the lowest since 2007).
- Historically low borrowing costs for both the public and private sector.
- The government's measures to reduce the tax wedge on labor (the difference between the

hourly labor cost for employers and the hourly post tax earnings for employees), which could push up participation in Italy's labor market.

Prime Minister Giuseppe Conte heads a coalition between Movimento Cinque Stelle (M5S) and Il Partito Democratico (PD), a center-left party. Positive public perceptions of Conte's management of the public health crisis have supported his personal approval ratings. Nevertheless, while the government is not required to call elections until March 2023, intra-coalition dynamics remain complex, and Italian politics continue to be fluid. Sept. 21 regional elections were, in the end, a stalemate, with both PD and Lega holding on to key seats. In what can be construed as a victory for M5S, Italians approved of the ballot initiative to downsize the upper and lower houses of parliament from 630 and 315 members to 400 and 200, respectively. With a smaller parliament, pressure is now on the coalition to formulate a new electoral law.

Flexibility and performance profile: Private surpluses, public deficits

- We project general government deficits of 11% of GDP in 2020 and 7% of GDP in 2021.
- Budgetary consolidation is likely to be gradual and back-loaded.
- We expect Italy's net external creditor position will continue to increase over the next half decade.

Given the anticipated fallout from the pandemic on household and company incomes, we expect the retraction of fiscal stimulus over the next three years to be back-loaded and gradual.

For 2020, the general government deficit is set to deteriorate to approximately 11% of GDP compared with 1.6% in 2019 as the economy contracts by 9% this year, the cost of COVID-19-specific measures will total close to 5% of GDP, and indirect tax receipts decline. We project a 2021 general government deficit of 7.0% of GDP, in line with government targets, with nearly all of the narrowing of the budget next year due to a cyclical recovery in tax receipts, as the labor market slowly improves. Under our estimates, Italy won't operate a primary budgetary surplus until 2024.

Despite rising government debt to GDP, one key component of public expenditure, interest expenditure to GDP, continues to decline. Reflecting the ECB's extraordinary policy interventions, for 2020, we estimate interest payments at 3.4% of GDP for 2020 versus over 5% of GDP in 2012. Given that the Italian Treasury continues to refinance maturing debt with an average rate of 2.53% at a rate of about 0.7%, we think interest expenditure to GDP will continue to decline over the next few years toward 3.0% of GDP by 2022.

Since the ECB launched its quantitative easing program in March 2015, the Italian Treasury has improved the government debt profile in several ways:

- By lengthening the average maturity of debt to about seven years, hence reducing gross expected refinancing needs substantially.
- By locking in lower average financing costs.

As a result, the lag between rising borrowing costs and increasing government interest expenditure has lengthened. We estimate that a 100-basis-point increase in Italy's average funding costs would increase its interest expenditure in the first year by 0.1% of GDP compared with the base year, and by 0.3% of GDP in the second year.

Under our projections, net general government debt is set to reach a record 149.8% of GDP at the end of 2020, before stabilizing at about 147.1% of GDP in 2021. Indirect fiscal costs are also on the rise, including those from the government's provision for up to 33% of GDP in direct and indirect guarantees to SMEs and other businesses, alongside debt moratoria (though we understand the take up on guarantees so far has been a fraction of the total on offer).

Our estimates of gross and net general government debt exclude guarantees extended to the European Financial Stability Facility (see "S&P Clarifies Its Approach To Accounting For EFSF Liabilities When Rating The Sovereign Guarantors," published Nov. 2, 2011).

The Italian economy has been operating current account surpluses averaging 2.5%-3.0% of GDP since 2016. Last year, in dollar terms, Italy's external surplus was the eighth highest in the world. As a consequence, as of fourth-quarter 2019, Italy became a net external creditor to the rest of the world.

Italian public and private claims on the rest of the world exceed the world's financial claims on Italian residents. Levels of private debt (household plus corporate) are the lowest in the G7 and the lowest in advanced Europe at about 109.6% of GDP (at end-2019 according to Banca d'Italia) or less than half of levels in the Netherlands (250%). We estimate that, including financial sector debt, overall private debt levels in Italy have declined by 48 percentage points of GDP, or even more than public debt has increased (27 percentage points), since the onset of the 2008 global financial crisis.

We expect Italy's net external creditor position will continue to increase over the next half decade. Moreover, we project that Italy will continue to operate current account surpluses of about 2%-3% of GDP over our forecast period. During 2020, we expect a sharp decline in goods and services exports (including tourism) to be offset by a proportional contraction in imports (including tourism, given that Italy is one of the largest importers of tourism services in the world), and lower energy prices. We calculate Italy's net energy imports are equivalent to 2.5% of GDP; savings, due to a near 50% correction in the price of oil, should exceed 1% of Italian GDP this year. This implies that Italy will continue to operate a current account surplus this year of about 2.5% of GDP compared with 3.0% last year.

We see Italy's membership in the euro area as a credit strength. To fight the pandemic's disinflationary consequences, the euro area monetary authority has launched a new APP, the pandemic emergency purchase program. It currently has an envelope of €1.35 trillion, or 11.3% of euro area GDP. We expect the ECB to further expand this envelope over the coming months. By the end of 2020, we project that Banca d'Italia's holdings of Italian government securities will approach one-quarter of the stock outstanding, compared with 5% of the stock before the ECB launched quantitative easing in March 2015. Italian commercial bank claims on the central government--including holdings of domestic government securities and other central government exposures--have increased during 2020 by an estimated €67 billion or 4.1% of GDP, to 27% of all central government financial obligations, according to data published by the Banca d'Italia.

Up until August of this year, progress on NPL reduction had been steady, but the economic standstill combined with the moratorium on mortgage payments will almost certainly weigh on asset quality. We believe, however, that the decline in NPL levels, together with the resolute ECB monetary policy measures, including with respect to the banking sector, have been supportive of monetary transmission in Italy.

Key Statistics

Table 1

Italy Selected Indicators

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Mil. €										
Economic indicators (%)										
Nominal GDP (bil. LC)	1,627	1,655	1,696	1,737	1,771	1,790	1,642	1,765	1,827	1,877
Nominal GDP (bil. $)	2,162	1,837	1,877	1,962	2,092	2,004	1,871	2,116	2,193	2,252
GDP per capita (000s $)	35.6	30.2	30.9	32.4	34.6	33.2	31.1	35.2	36.5	37.6
Real GDP growth	(0.0)	0.8	1.3	1.7	0.9	0.3	(8.9)	6.4	2.3	1.5
Real GDP per capita growth	(1.8)	0.8	1.5	1.8	1.1	0.5	(8.7)	6.7	2.5	1.7
Real investment growth	(2.2)	1.8	4.0	3.2	3.1	1.6	(11.3)	9.8	3.8	2.3
Investment/GDP	17.0	17.1	17.6	18.1	18.5	18.1	17.3	17.8	17.9	18.0
Savings/GDP	18.9	18.5	20.2	20.6	21.0	21.0	19.8	20.8	21.0	21.2
Exports/GDP	29.1	29.7	29.3	30.7	31.4	31.5	28.8	31.0	32.2	33.2
Real exports growth	2.6	4.3	1.9	5.4	2.2	1.0	(16.5)	13.0	5.0	3.3
Unemployment rate	12.7	11.9	11.7	11.2	10.6	10.0	9.3	10.8	10.5	10.0
External indicators (%)										
Current account balance/GDP	1.9	1.4	2.6	2.6	2.5	3.0	2.5	3.0	3.1	3.2
Current account balance/CARs	5.6	4.2	7.6	7.2	6.8	8.1	7.3	8.4	8.3	8.5
CARs/GDP	33.9	33.9	34.0	35.9	36.8	36.4	33.5	36.1	37.0	38.0
Trade balance/GDP	3.0	3.3	3.5	3.1	2.6	3.2	2.7	3.2	3.4	3.5
Net FDI/GDP	(0.1)	(0.1)	0.7	(0.0)	0.0	0.1	(0.1)	(0.1)	(0.1)	(0.1)
Net portfolio equity inflow/GDP	1.2	0.3	0.4	0.5	(0.8)	0.7	0.5	0.5	0.5	0.5
Gross external financing needs/CARs plus usable reserves	217.5	219.0	205.7	210.3	224.5	231.0	231.5	207.7	209.5	209.4
Narrow net external debt/CARs	229.5	255.9	239.7	255.4	218.8	227.9	268.4	226.8	219.9	214.9
Narrow net external debt/CAPs	243.1	267.1	259.4	275.1	234.6	248.0	289.7	247.6	239.7	234.8
Net external liabilities/CARs	40.4	47.6	27.5	21.5	12.1	(0.3)	(14.1)	(16.7)	(20.8)	(24.7)
Net external liabilities/CAPs	42.7	49.6	29.8	23.1	12.9	(0.3)	(15.3)	(18.3)	(22.7)	(27.0)
Short-term external debt by remaining maturity/CARs	166.2	173.2	155.3	157.9	175.5	187.4	203.5	171.9	166.6	160.3
Usable reserves/CAPs (months)	2.5	2.9	2.7	2.5	2.5	2.7	3.6	3.5	3.0	2.7
Usable reserves (bil. $)	142.2	130.7	135.3	151.6	152.4	174.9	205.1	189.4	173.6	157.8
Fiscal indicators (general government; %)										
Balance/GDP	(3.0)	(2.6)	(2.4)	(2.4)	(2.2)	(1.6)	(11)	(7.0)	(4.1)	(3.3)
Change in net debt/GDP	3.4	2.7	1.8	3.0	2.4	1.7	11.6	7.8	4.9	4.1

Table 1

Italy Selected Indicators (cont.)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Primary balance/GDP	1.6	1.6	1.5	1.3	1.5	1.7	(7.6)	(3.8)	(1.1)	(0.3)
Revenue/GDP	47.9	47.8	46.7	46.3	46.2	47.0	47.4	47.4	46.8	46.8
Expenditures/GDP	50.9	50.3	49.1	48.8	48.4	48.7	58.4	54.4	50.9	50.1
Interest/revenues	9.6	8.6	8.4	8.1	7.9	7.2	7.2	6.7	6.3	6.4
Debt/GDP	133.1	133.1	132.7	131.9	132.2	132.5	156.0	152.9	152.7	152.7
Debt/revenues	277.8	278.7	284.3	284.8	286.2	281.8	329.2	322.7	326.2	326.4
Net debt/GDP	127.0	127.6	126.3	126.3	126.3	126.7	149.8	147.1	147.0	147.2
Liquid assets/GDP	6.1	5.6	6.4	5.6	5.9	5.8	6.3	5.8	5.7	5.5
Monetary indicators (%)										
CPI growth	0.2	0.1	(0.1)	1.4	1.2	0.7	0.1	1.0	1.1	1.1
GDP deflator growth	0.9	0.9	1.1	0.7	1.0	0.7	0.7	1.0	1.2	1.2
Exchange rate, year-end (LC/$)	0.82	0.92	0.95	0.83	0.87	0.89	0.84	0.83	0.83	0.83
Banks' claims on resident non-gov't sector growth	(2.0)	(1.0)	(0.6)	(2.5)	(2.6)	(0.6)	2.0	2.0	2.0	2.0
Banks' claims on resident non-gov't sector/GDP	109.1	106.1	103.0	98.1	93.6	92.2	102.4	97.2	95.8	95.1
Foreign currency share of claims by banks on residents	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Foreign currency share of residents' bank deposits	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Real effective exchange rate growth	2.0	(3.5)	(0.5)	0.6	0.9	(1.6)	N/A	N/A	N/A	N/A

Sources: Eurostat (Economic Indicators), Bank of Italy (External Indicators), Eurostat (Fiscal Indicators), and Bank of Italy, International Monetary Fund (Monetary Indicators).
Adjustments: Government debt adjusted by excluding guarantees on debt issued by EFSF.
Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A--Not applicable. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Ratings Score Snapshot

Table 2

Italy Ratings Score Snapshot

Key rating factors	Score	Explanation
Institutional assessment	3	Generally effective policymaking in recent years. Institutional bottlenecks including an ineffective judicial system are major thorns in the reform effort. Timely and reliable data and statistical information.

Table 2

Italy Ratings Score Snapshot (cont.)

Key rating factors	Score	Explanation
Economic assessment	3	Based on GDP per capita ($) as per the Selected Indicators table above.
		Weighted average real GDP per capita trend growth over a 10-year period is at 0.6%, which is below the threshold for sovereigns with an initial economic score of '2'.
External assessment	3	Based on narrow net external debt and gross external financing needs as per the Selected Indicators table above.
		Italy continues to benefit from recurrent current account surpluses, recently having averaged 3% of GDP, with the goods and services surplus now on par with levels last seen pre-euro area entry, although this is partly a result of weak domestic demand. Italy is the seventh-largest exporter in the world in absolute terms.
		In the context of our external assessment, we treat Italy, a member of the Economic and Monetary Union, as if the currency was actively traded. Italy's external short-term debt by remaining maturity represents more than 100% of current account receipts.
		Italy's net international investment position is more favorable than the economy's narrow net external debt position by more than 200% of current account receipts. We include the short-term current and deposits liability of Italy's national central bank, the Banca d'Italia, in our estimates of Italy´s financial sector external short-term debt. At end-2019, that figure was €455 billion, or 62% of current account receipts.
Fiscal assessment: flexibility and performance	4	Based on the change in net general government debt (% of GDP) as per Selected Indicators in Table 1.
Fiscal assessment: debt burden	6	Based on net general government debt (% of GDP) and general government interest expenditures (% of general government revenues) as per Selected Indicators in Table 1.
Monetary assessment	2	In the context of our monetary assessment, we consider the euro as a reserve currency. The European Central Bank has an established track record in monetary authority independence with clear objectives and a wide array of policy instruments, including nonconventional tools. The CPI is low and in line with that of its trading partners.
		Italy is a member of the Economic and Monetary Union.
Indicative rating	bbb+	As per Table 1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	(1)	Government debt in Italy is one of the highest among all the rated sovereigns. Therefore, a downward adjustment to the indicative rating.
Final rating		
Foreign currency	BBB	
Notches of uplift	0	Default risks do not apply differently to foreign- and local-currency debt
Local currency	BBB	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Sovereign Ratings List, Oct. 14, 2020
- Sovereign Ratings History, Oct. 14, 2020
- Sovereign Risk Indicators, Oct. 12, 2020; a free interactive version is available at http://www.spratings.com/sri
- Sovereign Ratings Score Snapshot, Oct. 2, 2020
- Banking Industry Country Risk Assessment Update: September 2020, Sept. 25, 2020
- European Developed Sovereign Rating Trends Midyear 2020, July 31, 2020
- Default, Transition, and Recovery: 2019 Annual Sovereign Default And Rating Transition Study, May 18, 2020
- Banking Industry Country Risk Assessment: Italy, May 18, 2020
- S&P Clarifies Its Approach To Accounting For EFSF Liabilities When Rating The Sovereign Guarantors, Nov. 2, 2011

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Italy		
Sovereign Credit Rating |U~	BBB/Stable/A-2	BBB/Negative/A-2
Ratings Affirmed		
Transfer & Convertibility Assessment |U~	AAA	

|U~ Unsolicited ratings with no issuer participation, and/or no access to internal documents, and/or no access to management.

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.