

# Italian Republic

## Rating Report



### Credit strengths

- Systemic importance for EU and EA
- Large, wealthy and diversified economy
- Strong external position
- Low private sector debt

### Credit challenges

- High public debt and funding needs
- Weak long-run economic growth
- Labour market rigidities
- Challenging demographic trends

### Rating rationale:

**Core euro area member:** Italy benefits from supportive fiscal and monetary policy frameworks under the EU and euro area institutional architecture. The economy's systemic relevance further underpins the high likelihood of support from European institutions under stressed scenarios.

**Large, wealthy and diversified economy:** Italy's EUR 1.9trn economy is the third largest in the EU and benefits from a wide diversification across sectors, supporting its economic resilience to shocks. Italy is set to receive EUR 194.4bn of Next Generation EU recovery funds (9.6% of average GDP over 2021-26F), which together with associated reforms should support its economic outlook.

**Strong external position:** Italy's record of current account surpluses has turned the country into a net creditor. This position, together with the euro's status as a global reserve currency, shields the country from external risks.

**Low private indebtedness:** Moderate private debt levels among Italian non-financial corporates and households support the stability of the financial system and reduce the risk of private sector liabilities materialising on the government's balance sheet.

**Ratings challenges include:** i) high government debt and funding needs, which are expected to remain elevated over the long term; ii) weak longer-run economic growth; iii) labour-market rigidities; and iv) an ageing and declining working-age population.

### Italy's sovereign-rating drivers

Risk pillars	Quantitative		Reserve currency*	Qualitative**	Final rating	
	Weight	Indicative rating	Notches	Notches		
Domestic Economic Risk	35%	aa	EUR [+1]	0	BBB+	
Public Finance Risk	20%	b		-2/3		
External Economic Risk	10%	bbb		0		
Financial Stability Risk	10%	aaa		0		
ESG Risk	Environmental Factors	5%		b-		0
	Social Factors	7.5%		ccc		-1/3
	Governance Factors	12.5%		bb+		-1/3
<b>Indicative outcome</b>				<b>a-</b>	<b>-1</b>	
<b>Additional considerations</b>					<b>0</b>	

Note: \*The reserve-currency adjustment applies to currencies in the IMF's SDR basket. \*\*The qualitative-scorecard adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

### Outlook and rating triggers

The Stable Outlook reflects our view that risks to the ratings are balanced.

#### Positive rating-change drivers

- Debt-to-GDP remains on a firm downward trajectory
- Investment and reform implementation raise economic growth potential

#### Negative rating-change drivers

- Reduced support from European institutions
- Weaker economic growth outlook
- Weaker fiscal outlook

### Ratings and Outlook

#### Foreign currency

Long-term issuer rating	BBB+/Stable
Senior unsecured debt	BBB+/Stable
Short-term issuer rating	S-2/Stable

#### Local currency

Long-term issuer rating	BBB+/Stable
Senior unsecured debt	BBB+/Stable
Short-term issuer rating	S-2/Stable

#### Lead Analyst

Alvise Lennkh-Yunus  
+49 69 6677389-85  
[a.lennkh@scoperatings.com](mailto:a.lennkh@scoperatings.com)

#### Team Leader

Dr Giacomo Barisone  
+49 69 6677389-22  
[g.barisone@scoperatings.com](mailto:g.barisone@scoperatings.com)

#### Scope Ratings GmbH

Neue Mainzer Straße 66-68  
60311 Frankfurt am Main

Phone +49 69 6677389-0

#### Headquarters

Lennéstraße 5  
10785 Berlin

Phone +49 30 27891-0  
Fax +49 30 27891-100

[info@scoperatings.com](mailto:info@scoperatings.com)  
[www.scoperatings.com](http://www.scoperatings.com)



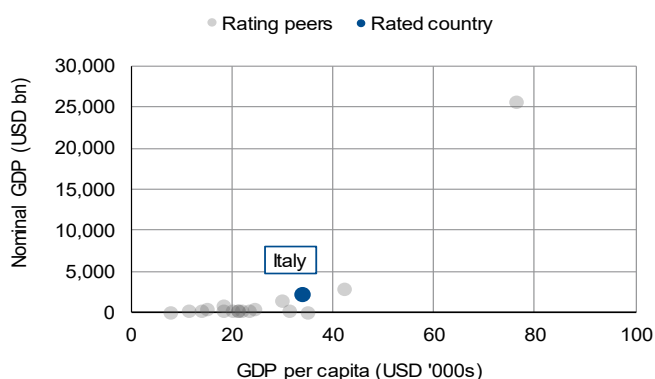
Bloomberg: RESP SCOP

### Domestic Economic Risk

Overview of Scope's qualitative assessments for Italy's *Domestic Economic Risk*

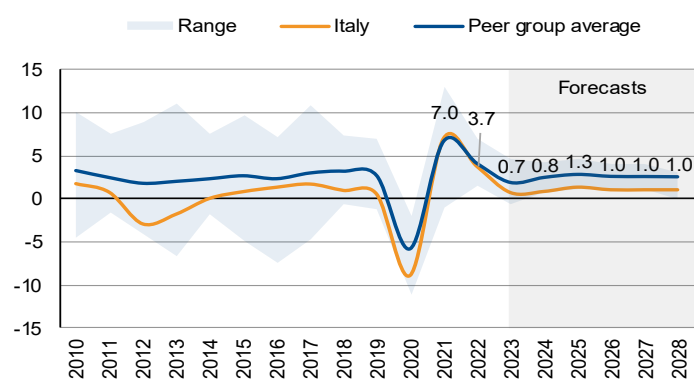
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa	Growth potential of the economy	Weak	-1/3	Weak growth potential
	Monetary policy framework	Strong	+1/3	ECB is a credible and effective central bank
	Macro-economic stability and sustainability	Neutral	0	Large and diversified economy, stagnant productivity and weak labour market outcome

#### Nominal GDP and GDP per capita



Source: IMF World Economic Outlook (WEO), Scope Ratings

#### Real GDP growth, %



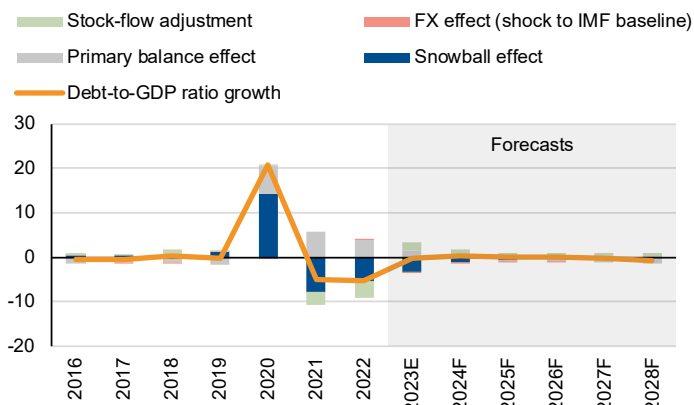
Source: IMF WEO, Scope Ratings forecasts

### Public Finance Risk

Overview of Scope's qualitative assessments for Italy's *Public Finance Risk*

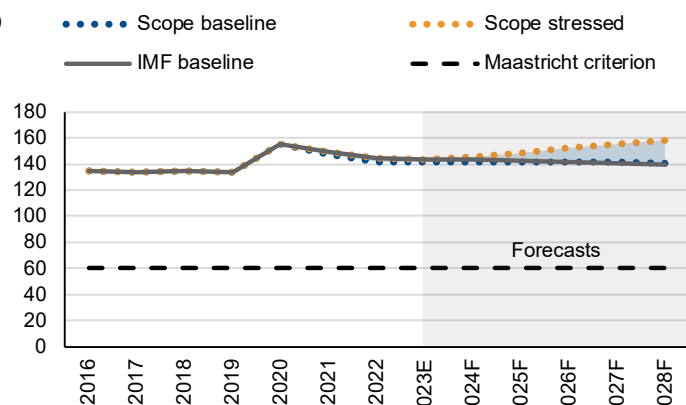
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b	Fiscal policy framework	Weak	-1/3	Expectation of gradual return to primary surplus; very limited fiscal space; EU fiscal framework in transition
	Debt sustainability	Weak	-1/3	High debt stock vulnerable to permanent increases during shocks; high off-balance sheet debt; rising ageing-related and interest expenditure
	Debt profile and market access	Neutral	0	Strong domestic investor base; large central-bank holdings of public debt; resilient debt structure, but significant financing requirements

#### Contributions to changes in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

#### Debt-to-GDP forecasts, % of GDP



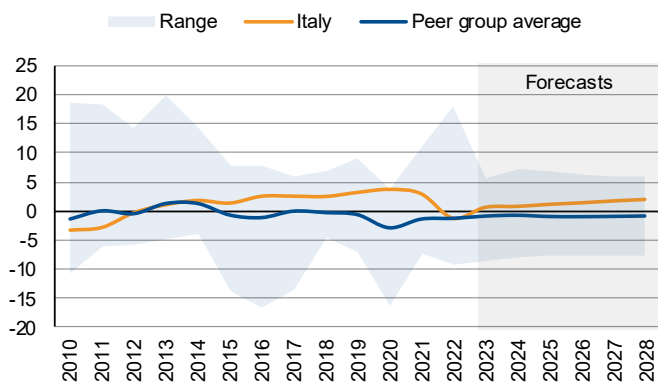
Source: IMF WEO, Scope Ratings forecasts

### External Economic Risk

#### Overview of Scope's qualitative assessments for Italy's *External Economic Risk*

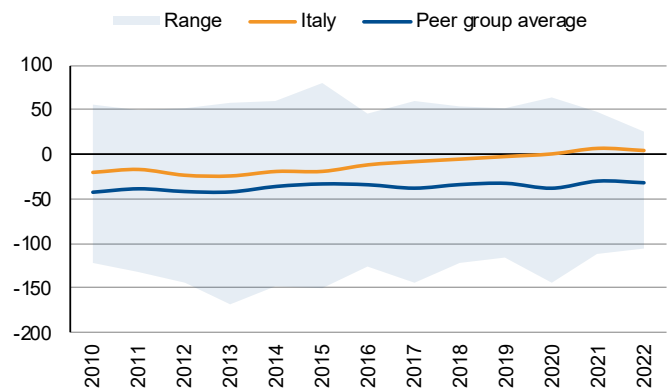
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb	Current account resilience	Neutral	0	Diversified and competitive export base; record of current account surpluses
	External debt structure	Neutral	0	Low external debt stock; composition by sector and maturity similar to peers
	Resilience to short-term external shocks	Neutral	0	Euro-area membership protects against short-term external shocks

#### Current-account balance, % of GDP



Source: IMF WEO, Scope Ratings

#### Net international investment position (NIIP), % of GDP



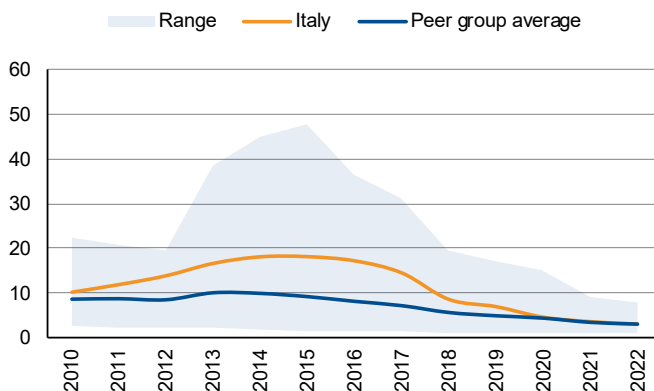
Source: IMF, Scope Ratings

### Financial Stability Risk

#### Overview of Scope's qualitative assessments for Italy's *Financial Stability Risk*

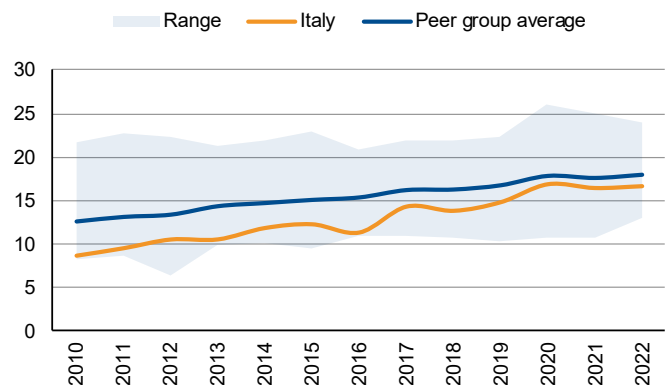
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Solid capital buffers, high liquidity and improved profitability; sovereign-bank nexus remains a core risk
	Banking sector oversight	Neutral	0	Effective oversight under European Banking Union and the Bank of Italy
	Financial imbalances	Neutral	0	Low private-sector indebtedness; declining credit growth; real estate price dynamics in line with economic conditions

#### Non-performing loans (NPLs), % of total loans



Source: World Bank, Scope Ratings

#### Tier 1 capital, % of risk-weighted assets



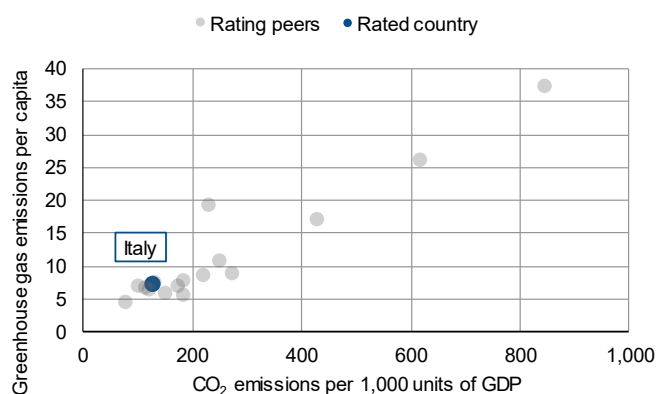
Source: IMF, Scope Ratings

### Environmental, Social and Governance (ESG) Risk

#### Overview of Scope's qualitative assessments for Italy's ESG Risk

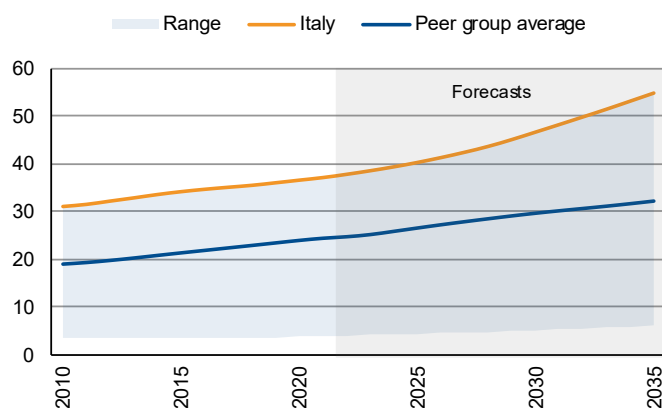
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b+	Environmental factors	Neutral	0	Exposure to natural disaster risk; ambitious green transition investment programme
	Social factors	Weak	-1/3	Adverse demographics, moderate educational outcomes, risk of social exclusion
	Governance factors	Weak	-1/3	Fragmented political environment leading to frequent episodes of political instability; government has clear parliamentary majority

CO<sub>2</sub> emissions per GDP, mtCO<sub>2</sub>e



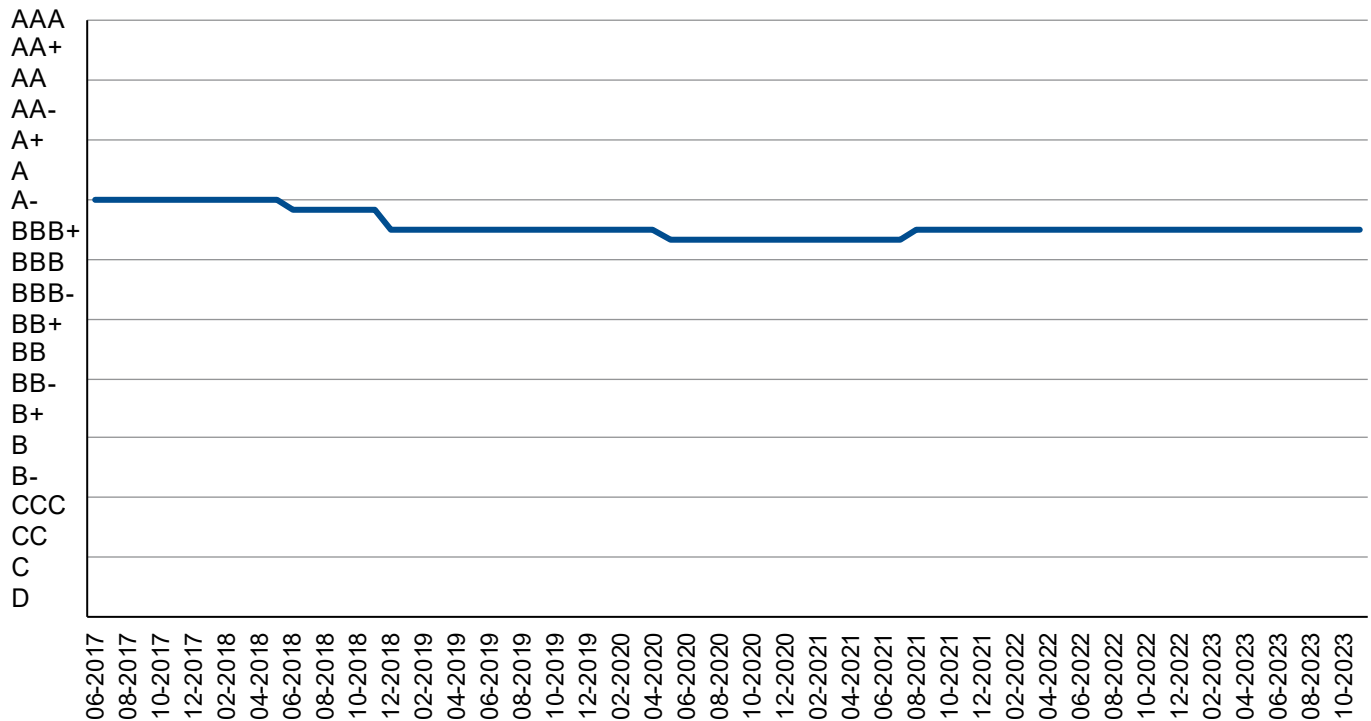
Source: European Commission, Scope Ratings

Old age dependency ratio, %



Source: United Nations, Scope Ratings

## Appendix I. Rating history (foreign-currency long-term issuer rating)



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

## Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's core variable scorecard after accounting for a methodological reserve-currency adjustment.

Peer group*
Bulgaria
Croatia
Cyprus
France
Latvia
Malta
Poland
Portugal
Slovakia
Spain
United States

Publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

### Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the core variable scorecard, in line with Scope's [Sovereign Rating Methodology](#). The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

Pillar	Core variable	Source	2018	2019	2020	2021	2022
Domestic Economic	GDP per capita, USD '000s	IMF	34.9	33.6	31.8	35.7	34.1
	Nominal GDP, USD bn	IMF	2,092.9	2,011.5	1,895.7	2,115.8	2,012.0
	Real growth, %	IMF	0.9	0.5	-9.0	7.0	3.7
	CPI inflation, %	IMF	1.2	0.6	-0.1	1.9	8.7
	Unemployment rate, %	WB	10.6	10.0	9.2	9.5	8.1
Public Finance	Public debt, % of GDP	IMF	134.4	134.2	154.9	149.9	144.4
	Net interest payment, % of revenue	IMF	7.5	6.8	6.9	7.0	8.6
	Primary balance, % of GDP	IMF	1.3	1.7	-6.4	-5.6	-3.8
External Economic	Current-account balance, % of GDP	IMF	2.6	3.3	3.9	3.1	-1.2
	Total reserves, months of imports	WB	2.7	3.3	4.7	3.9	3.2
	NIIP, % of GDP	IMF	-5.0	-2.0	1.0	7.3	4.8
Financial Stability	NPL ratio, % of total loans	IMF	8.4	6.7	4.4	3.3	2.8
	Tier 1 ratio, % of risk-weighted assets	IMF	14.3	13.9	14.9	16.9	16.5
	Credit to the private sector, % of GDP	WB	76.7	73.7	83.1	78.3	72.9
ESG	CO <sub>2</sub> per EUR 1,000 of GDP, mtCO <sub>2</sub> e	EC	133.9	129.9	126.9	128.9	125.2
	Income share of bottom 50%, %	WID	16.4	16.5	16.6	16.6	-
	Labour-force participation rate, %	WB	66.0	66.1	64.4	64.7	-
	Old-age dependency ratio, %	UN	35.6	36.1	36.7	37.2	37.9
	Composite governance indicators*	WB	0.5	0.5	0.5	0.5	0.5

\* Average of the six World Bank Worldwide Governance Indicators.

### Appendix IV. Economic development and default indicators

IMF Development Classification

5y USD CDS spread (bps) as of 30 November 2023

Emerging market and developing economy

90.2



## Scope Ratings GmbH

### Headquarters Berlin

Lennéstraße 5  
D-10785 Berlin

Phone +49 30 27891 0

### Oslo

Karenslyst allé 53  
N-0279 Oslo

Phone +47 21 09 38 35

### Frankfurt am Main

Neue Mainzer Straße 66-68  
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

### Madrid

Paseo de la Castellana 141  
E-28046 Madrid

Phone +34 91 572 67 11

### Paris

10 avenue de Messine  
FR-75008 Paris

Phone +33 6 6289 3512

### Milan

Via Nino Bixio, 31  
20129 Milano MI

Phone +39 02 8295 8254

## Scope Ratings UK Limited

### London

52 Grosvenor Gardens  
London SW1W 0AU

Phone +44 20 7824 5180

[info@scoperatings.com](mailto:info@scoperatings.com)  
[www.scoperatings.com](http://www.scoperatings.com)

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