REPUBLIC OF ITALY

Rating Analysis - 9/3/21

EJR Sen Rating(Curr/Prj) BBB-/ NR

EJR CP Rating: A2

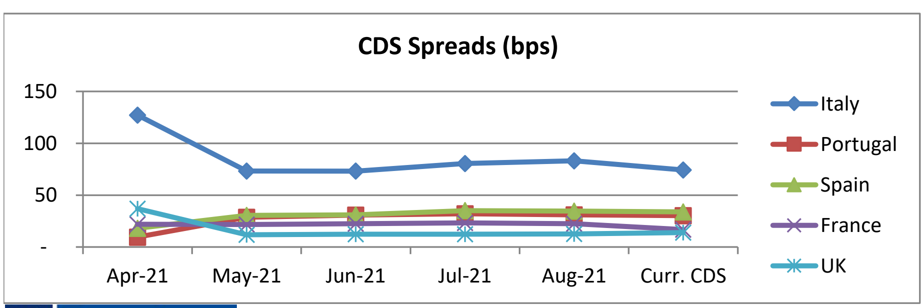
Growth will rise to 4.5% in 2021 as the vaccine rollout accelerates, and remain strong at 4.4% in 2022. Additional fiscal policy support will boost growth in the second half of 2021 and preserve productive capacity, but will also raise public debt levels. Faster global growth will support the rebound in manufacturing, exports and investment, the latter also benefitting from higher public investment. Consumption will recover as mobility restrictions are lifted and employment growth resumes. High current levels of saving will come down gradually. The government's budget seeks to promote greener, digitised and more inclusive growth, using Next Generation EU funds together with generous incentives for hiring and investment.

Since the start of 2021, confidence has risen in business services, but by less, remaining below 2019 levels. The government intends to keep policy supportive for some time, with the budget deficit rising from 2020 to 2021, before gradually falling to below 3% of GDP in 2025. The large government stimulus, increased vaccination rates and the easing of restrictions will drive the economic recovery. The manufacturing sector and exports will lead the recovery, as global growth rebounds, supporting private sector investment. Policy support should be gradually reduced as the recovery becomes more durable. In the near term, the early warning system for bankruptcy and civil court case administration will need additional resources. We are affirming with a developing watch.

	Annual Ratios (source for past results: IMF)					
CREDIT POSITION	2018	2019	2020	P2021	P2022	P2023
Debt/ GDP (%)	146.8	154.5	184.1	182.3	182.2	174.1
Govt. Sur/Def to GDP (%)	-2.8	-2.0	-9.7	-12.6	-14.6	-14.2
Adjusted Debt/GDP (%)	146.8	154.5	184.1	182.3	182.2	174.1
Interest Expense/ Taxes (%)	12.8	11.7	11.9	13.0	14.2	14.4
GDP Growth (%)	2.0	1.1	-7.8	2.5	3.0	3.0
Foreign Reserves/Debt (%)	1.3	1.4	1.3	1.3	1.1	1.1
Implied Sen. Rating	BBB-	BB+	BB-	BB	BB	BB

INDICATIVE CREDIT RATIOS	AA	A	BBB	BB	B	CCC
Debt/ GDP (%)	100.0	115.0	130.0	145.0	170.0	200.0
Govt. Sur/Def to GDP (%)	2.5	0.5	-2.0	-5.0	-8.0	-10.0
Adjusted Debt/GDP (%)	95.0	110.0	125.0	140.0	160.0	190.0
Interest Expense/ Taxes (%)	9.0	12.0	15.0	22.0	26.0	35.0
GDP Growth (%)	3.5	3.0	2.0	1.0	-1.0	-5.0
Foreign Reserves/Debt (%)	3.0	2.5	2.0	1.5	1.0	0.5

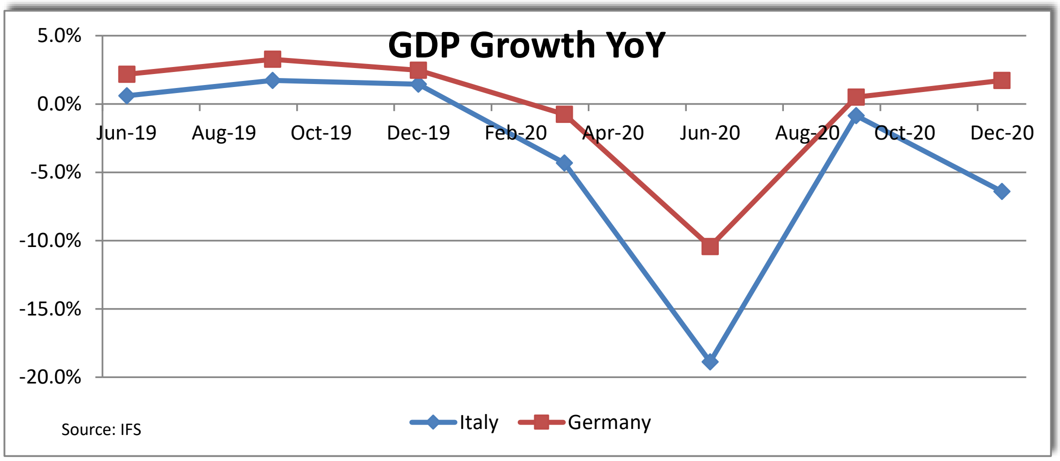
PEER RATIOS	Other NRSRO Sen.	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic Of Germany	AAA	79.7	-4.2	79.7	2.9	-3.3	A+
French Republic	AA	145.9	-8.8	145.9	4.2	-5.5	BBB
United Kingdom	AA	187.8	-12.8	187.8	7.2	-4.8	BBB-
Portugal Republic	BBB	155.1	-6.3	155.1	11.8	-5.4	BB
Kingdom Of Spain	A	146.7	-11.1	146.7	9.8	-9.9	BB+



Country	EJR Rtg.	CDS
Italy	BBB-	74
Portugal	BBB-	30
Spain	BBB	34
France	A+	17
UK	A+	14

Economic Growth

The Italian economy expanded 2.7% on quarter in the three months to June of 2021, accelerating from a 0.2% growth in the previous period, and matching preliminary estimates. Consumption rose 3.4% and gross fixed capital formation 2.4%. Exports were up 2.3% and imports 3.2%, with net foreign demand adding 0.3 percentage points to growth. On the other hand, inventories subtracted 0.8 percentage points. Year-on-year, the economy advanced 17.3%, also in line with initial figures. Considering the first 6 months of the year, the GDP grew 4.7%. Mario Draghi's government began easing restrictions in April and almost all curbs on business and internal movement have been removed. The Bank of Italy expects the economy to grow 5.1% in 2021 and sees it returning to pre-pandemic level in the second half of 2022.



Fiscal Policy

In April, the Government approved the 2021 Economic and Financial Document, updating its estimates and objectives for the public accounts. Planned debt for this year is equal to 159.8 per cent of GDP, up by 4 percentage points of GDP compared with 2020. Looking ahead, bringing the debt-to-GDP ratio back to a downward path will require a return to growth, relaxed financial conditions and, when the macroeconomic situation permits, a gradual and progressive fiscal adjustment.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Italy	-9.72	184.12	74.36
Germany	-4.19	79.69	10.21
France	-8.79	145.87	16.80
UK	-12.82	187.83	13.79
Portugal	-6.26	155.13	30.12
Spain	-11.15	146.73	33.88

Sources: Thomson Reuters and IFS

Unemployment

The unemployment rate in Italy edged down to 9.3% in July of 2021 from a downwardly revised 9.4% in June, well below market forecasts of 9.7%. It is the lowest reading since May last year, as both employed (-23K) and unemployed (-29K) declined while the number of inactive people increased (+28K). The youth unemployment rate tumbled to 27.7% from 29.3%. "The strong growth recorded in the previous five months resulted in a balance of 550,000 more employed persons compared to January 2021. However, we have not yet returned to pre-pandemic levels. The number of employed people is more than 260,000 lower, the employment and unemployment rates remain lower, while the inactivity rate is 0.7% higher. According to Banca D'Italia, over the next three years, the number of hours worked is projected to increase by over 11%, returning to pre-pandemic levels at the end of 2022.

Unemployment (%)

	2019	2020
Italy	9.95	9.31
Germany	3.20	4.31
France	8.43	8.62
UK	3.74	4.34
Portugal	6.46	7.20
Spain	13.96	15.50

Source: Intl. Finance Statistics

Banking Sector

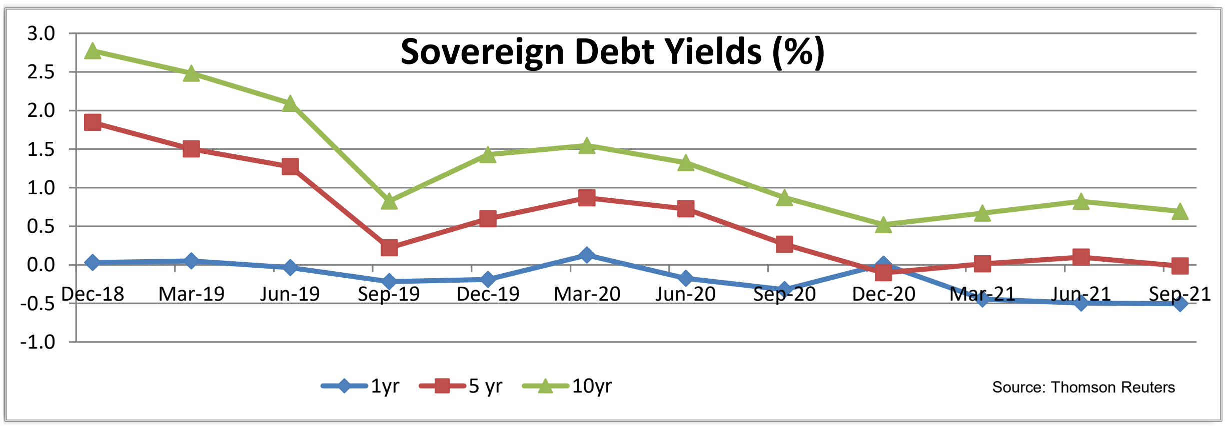
In Italy, the risks to financial stability are mitigated by the economic support measures, but there is still a high degree of uncertainty about longer-term dynamics. While the state of the Italian banking sector has improved since 2017 due to certain government actions (e.g. recapitalisation), many banks continued to suffer from high operating costs and low profitability, while non-performing loans increased due to the sharp recession seen in 2020. Italian banks hold a relatively high share government debt (accounting for around 10% of their portfolios).

Bank Assets (billions of local currency)

	Assets	Mkt Cap/ Assets %
UniCredit SpA	931.5	2.59
Intesa Sanpaolo SpA	1,002.6	4.69
Banco Bpm SpA	183.7	2.33
Banca Monte dei Paschi	150.3	0.75
UBI Banca	131.3	3.13
Total	2,399.4	
EJR's est. of cap shortfall at 10% of assets less market cap		159.3
Italy's GDP		1,651.6

Funding Costs

In light of strong support from fiscal policy, with the use of both national and EU funds, favourable monetary and financial conditions will be maintained. Under the technical assumptions, Italian ten-year government securities will remain stable at 0.9% this year and increase only gradually in the subsequent two years, in line with the expectations implied in market prices, which reflect the intention expressed by the Eurosystem to maintain a very expansionary monetary stance for a prolonged period of time. The Italy 10Y Government Bond currently has a 0.669% yield and 5-Years Credit Default Swap quotation is 74.00 and implied probability of default is 1.23%.



Ease of Doing Business

Major factors for growing the economy are the ease of doing business and the economic freedom; although not the sole factor for determining economic growth, a country which makes it easy for businesses to operate and provides a reasonably free environment to conduct business has a good chance for growth. The chart on the right indicates that with an overall rank of 58 (1 is best, 189 worst) is above average.

The World Bank's Doing Business Survey*

	2021 Rank	2020 Rank	Change in Rank
Overall Country Rank:	**58**	**58**	**0**
Scores:			
Starting a Business	98	98	0
Construction Permits	97	97	0
Getting Electricity	38	38	0
Registering Property	26	26	0
Getting Credit	119	119	0
Protecting Investors	51	51	0
Paying Taxes	128	128	0
Trading Across Borders	1	1	0
Enforcing Contracts	122	122	0
Resolving Insolvency	21	21	0

* Based on a scale of 1 to 189 with 1 being the highest ranking.

Economic Freedom

As can be seen below, Italy is above average in its overall rank of 64.9 for Economic Freedom with 100 being best.

Heritage Foundation 2021 Index of Economic Freedom
World Rank 64.9*

	2021 Rank**	2020 Rank	Change in Rank	World Avg.
Property Rights	75.7	75.4	0.3	53.6
Government Integrity	62.3	62.2	0.1	45.9
Judical Effectiveness	63.7	51.3	12.4	45.4
Tax Burden	58.1	56.0	2.1	77.7
Gov't Spending	28.9	28.5	0.4	67.1
Fiscal Health	73.0	71.1	1.9	72.1
Business Freedom	68.1	70.4	-2.3	63.2
Labor Freedom	50.5	50.9	-0.4	59.5
Monetary Freedom	84.2	83.2	1.0	74.7
Trade Freedom	84.0	86.4	-2.4	70.7

*Based on a scale of 1-100 with 100 being the highest ranking.
**The ten economic freedoms are based on a scale of 0 (least free) to 100 (most free).
Source: The Heritage Foundation

Credit Quality Driver: Taxes Growth:
REPUBLIC OF ITALY has seen a decline in taxes of 6.7% per annum in the last fiscal year which is disappointing. We expect tax revenues will decline by approximately 6.7% per annum over the next couple of years and 0.5% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:
REPUBLIC OF ITALY's total revenue growth has been less than its peers and we assumed a 5.7% decline in total revenue over the next two years.

Income Statement	Peer Median	Issuer Avg.	Assumptions Yr 1&2	Yr 3,4,5
Taxes Growth%	(6.5)	(6.7)	**(6.7)**	**0.5**
Social Contributions Growth %	0.8	(5.6)	**0.5**	**0.5**
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	(6.5)	**(13.4)**	**(13.4)**
Total Revenue Growth%	(5.0)	(6.4)	**(5.7)**	**(5.1)**
Compensation of Employees Growth%	4.5	0.3	**0.3**	**0.3**
Use of Goods & Services Growth%	3.2	2.8	**2.8**	**2.8**
Social Benefits Growth%	7.9	9.6	**9.6**	**9.6**
Subsidies Growth%	130.5	14.5		
Other Expenses Growth%	0.0			
Interest Expense	1.8	1.9	**1.9**	
Currency and Deposits (asset) Growth%	26.8	0.0		
Securities other than Shares LT (asset) Growth%	(3.7)	0.0		
Loans (asset) Growth%	(67.7)	(294.7)	**(6.7)**	**(6.7)**
Shares and Other Equity (asset) Growth%	(86.6)	(30.6)	**2.0**	**2.0**
Insurance Technical Reserves (asset) Growth%	2.5	0.0		
Financial Derivatives (asset) Growth%	3.7	0.0		
Other Accounts Receivable LT Growth%	(1.5)	2.6	**2.6**	**2.6**
Monetary Gold and SDR's Growth %	0.0	0.0	**5.0**	**5.0**
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	2.7	7.2	**3.0**	**3.0**
Currency & Deposits (liability) Growth%	1.7	0.7	**0.7**	**0.7**
Securities Other than Shares (liability) Growth%	14.4	10.5	**7.3**	**7.3**
Loans (liability) Growth%	3.6	10.3	**10.3**	**10.3**
Insurance Technical Reserves (liability) Growth%	0.0	100.3	**20.0**	**20.0**
Financial Derivatives (liability) Growth%	5.5	10.1	**10.1**	**10.1**
Additional ST debt (1st year)(millions EUR)	0.0	0.0		

ANNUAL OPERATING STATEMENTS

Below are REPUBLIC OF ITALY's annual income statements with the projected years based on the assumptions listed on page 5.

	ANNUAL REVENUE AND EXPENSE STATEMENT\ (MILLIONS EUR)					
	2017	2018	2019	2020	P2021	P2022
Taxes	501,142	504,618	517,111	482,412	450,090	419,934
Social Contributions	225,565	234,452	242,230	228,644	229,787	230,936
Grant Revenue						
Other Revenue						
Other Operating Income	78,100	79,454	83,762	78,303	78,303	78,303
Total Revenue	804,807	818,524	843,103	789,359	758,181	729,173
Compensation of Employees	167,220	172,634	172,912	173,356	173,801	174,247
Use of Goods & Services	98,802	100,746	101,384	104,220	107,135	110,132
Social Benefits	386,525	394,553	406,815	445,992	488,942	536,028
Subsidies	26,601	27,324	27,906	31,943	31,946	31,949
Other Expenses				87,511	87,511	87,511
Grant Expense						
Depreciation	48,628	49,016	49,385	49,642	49,642	49,642
Total Expenses excluding interest	790,982	803,151	817,965	892,664	938,977	989,510
Operating Surplus/Shortfall	13,825	15,373	25,138	-103,305	-180,797	-260,336
Interest Expense	65,458	64,596	60,350	57,310	58,390	59,490
Net Operating Balance	-51,633	-49,222	-35,212	-160,615	-239,187	-319,827

ANNUAL BALANCE SHEETS

Below are REPUBLIC OF ITALY's balance sheets with the projected years based on the assumptions listed on page 5.

Base Case	ANNUAL BALANCE SHEETS (MILLIONS EUR)					
ASSETS	2017	2018	2019	2020	P2021	P2022
Currency and Deposits (asset)	77,836	87,381	86,425	99,451	99,451	99,451
Securities other than Shares LT (asset)	28,246	28,069	31,736	32,465	32,465	32,465
Loans (asset)	7,549	-1,831	-1,484	2,890	2,696	2,516
Shares and Other Equity (asset)	10,538	2,942	2,912	2,020	2,060	2,102
Insurance Technical Reserves (asset)	1,206	1,111	1,119	1,106	1,106	1,106
Financial Derivatives (asset)						
Other Accounts Receivable LT	118,957	118,985	120,206	123,286	126,445	129,685
Monetary Gold and SDR's						
Other Assets					288,994	288,994
Additional Assets	259,805	276,850	284,328	288,994		
Total Financial Assets	504,137	513,507	525,242	550,212	553,218	556,318
LIABILITIES						
Other Accounts Payable	84,924	88,131	93,911	100,715	103,736	106,849
Currency & Deposits (liability)	232,370	237,605	227,292	228,929	228,929	228,929
Securities Other than Shares (liability)	2,125,039	2,080,231	2,259,221	2,495,965	2,679,052	2,875,568
Loans (liability)	189,356	185,192	177,125	195,282	434,469	754,296
Insurance Technical Reserves (liability)	7,890	9,184	10,023	20,075	24,090	28,908
Financial Derivatives (liability)	23,599	21,246	26,995	29,726	32,733	36,045
Other Liabilities				-1	-1	-1
Liabilities	2,663,178	2,621,589	2,794,567	3,070,691	3,312,884	3,635,811
Net Financial Worth	-2,159,041	-2,108,082	-2,269,325	-2,520,479	-2,759,666	-3,079,493
Total Liabilities & Equity	504,137	513,507	525,242	550,212	553,218	556,318

Comments on the Difference between the Model and Assigned Rating
In this case, there has been little change in the recent results and therefore we have used our best judgement in making adjustments which are reflected in the results for the projected ratings. We have assigned a rating of "BBB-" whereas the ratio-implied rating for the most recent period is "BB-"; the median rating for the peers is significantly higher than the issuer's rating.

Changes in Indicative Ratios
We have not made any adjustment in the indicative ratios at this time.

SEC Rule 17g-7(a) Disclosure (Non-NRSRO)

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:

For the issuer REPUBLIC OF ITALY with the ticker of 2103Z IM we have assigned the senior unsecured rating of BBB-. There are three notches in our rating categories (e.g., A- A, and A+) except for AAA and those deep into speculative grade, i.e., CC, C, and D do not have notches.

2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:

We are using the Methodologies for Determining Credit Ratings (Main Methodology) version #15a available via egan-jones.com under the tab at the bottom of the page "Methodologies".

3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:

The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to projections on pages 1, 6, and 7 of this Rating Analysis Report.

4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:

Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer.

5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:

Our rating is dependent on numerous factors including the reliability, accuracy, and quality of the data relied used in determining the credit rating. The data is sourced from publicly available information from the IMF and other similar sources. In some cases, the information is limited because of issues such as the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such issues are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:

EJR does not utilize third-party due diligence services.

7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:

Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/ municipal issuers). Regarding surveillance, the minimum time period for corporation issuers is normally one year.

8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:

EJR uses publicly available information from the IMF, governmental filings, and other similar sources for ratings on sovereign issuers.

9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7:

The information is generally adequate and acceptable.

10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:

This rating is unsolicited.

11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:

Our rating aims to assess the probability of the payment of obligations in full and on-time. Factors which affect such probability, and in turn our rating include changes in the operating performance of the issuer, changes in capital structure, and merger and acquisition events.

12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:

Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, exhibit 1. The expected probability of default and the expected loss in the event of default is listed on the first page of this report.

13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:

Below is a summary of the impact of the 5 assumptions which independently would have the greatest impact on our "ratio-implied rating":

	Assumptions			Resulting Ratio-Implied Rating		
	Base	Optimistic	Pessimistic	Base	Optimistic	Pessimistic
Taxes Growth%	(6.7)	(2.7)	(10.7)	BB	BB	BB
Social Contributions Growth %	0.5	3.5	(2.5)	BB	BB	BB
Other Revenue Growth %	0.0	3.0	(3.0)	BB	BB	BB
Total Revenue Growth%	(5.7)	0.1	(7.7)	BB	BB	BB
Monetary Gold and SDR's Growth %	2.6	4.6	0.6	BB	BB	BB

14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:

This credit rating is not assigned to an asset-backed security.

ATTESTATION FORM

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

1) No part of the credit rating was influenced by any other business activities,
2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

Analyst Signature:

……………………………………………………..
Subramanian NG
Senior Rating Analyst

Today's Date

September 03, 2021
……………………………………….

Reviewer Signature:

Steve Zhang

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Steve Zhang
Senior Rating Analyst

Today's Date

September 03, 2021
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Sovereign Rating Methodology (Non-NRSRO)

Scope and Limitations: Sovereign Issuer Credit Quality Ratings (CQR) are a forward-looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and on time. Sovereigns are assigned two CQRs: a Local-Currency CQR, which reflects the likelihood of default on debt issued and payable in the currency of the sovereign, and a Foreign-Currency CQR, which is an assessment of the credit risk associated with debt issued and payable in foreign currencies.

Key Rating Drivers: EJR's approach to sovereign risk analysis is a synthesis of quantitative and qualitative judgments. The quantitative factors EJR uses are:

- Debt in relation to GDP.
- Surplus or deficit in relation to GDP.
- Debt plus potential under-funding of major banks in relation to GDP.
- Interest expense in relation to taxes.
- GDP growth.
- Foreign reserves in relation to debt.

Debt levels for many sovereign issuers have increased at an accelerating rate over the past decade, affecting implied ratings. EJR also considers unemployment levels and funding costs. EJR recognizes that no model can fully capture all the relevant influences on sovereign creditworthiness, meaning that its sovereign ratings can and do differ from those implied by the rating model. Some of the qualitative factors that impact its ultimate assessment of credit quality include the flexibility, stability and overall strength of the economy, efficiency of tax collection, acceptance of contract law, ease of doing business, trade balances, prospects for future growth and health and monetary policy, and economic freedom. These subjective and dynamic qualitative issues are not captured by the model but affect sovereign ratings.

For additional information, please see Exhibit 2: Methodologies in EJR's Form NRSRO.