REPUBLIC OF ITALY

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

Rating Analysis - 8/18/23

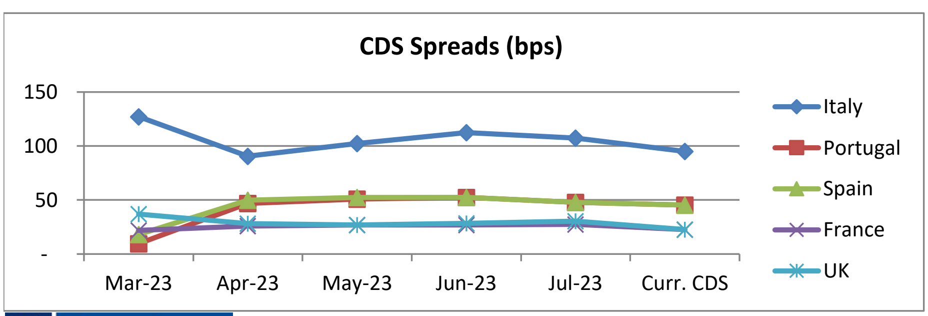
The projected GDP growth of Italy, is expected to decrease to 1.2% in 2023 and 1% in 2024. This decline is attributed to several factors, including high inflation, which is impacting real incomes due to subdued wage growth. Additionally, tightening financial conditions and the gradual withdrawal of exceptional fiscal support linked to the energy crisis are putting pressure on private consumption and investment.

While domestic risks are broadly balanced, there is a positive aspect in the form of accumulated household savings, which could potentially contribute to a quicker rebound of domestic demand beyond current expectations. The mildly restrictive fiscal stance is considered appropriate, but further consolidation will be necessary in the future to ensure a more sustainable debt ratio. To sustain economic activity in the short term and foster sustainable growth in the medium term, the timely implementation of structural reforms and public investment plans outlined in the National Recovery and Resilience Plan ("NRRP") will be of paramount importance. Affirming.

	Annual Ratios (source for past results: IMF)					
CREDIT POSITION	2020	2021	2022	P2023	P2024	P2025
Debt/ GDP (%)	183.3	174.7	151.3	143.4	135.4	126.9
Govt. Sur/Def to GDP (%)	-9.9	-8.9	-7.8	-6.3	-4.6	-3.1
Adjusted Debt/GDP (%)	183.3	174.7	151.3	143.4	135.4	126.9
Interest Expense/ Taxes (%)	12.0	12.0	14.6	14.0	13.4	13.0
GDP Growth (%)	-7.5	7.6	6.8	2.5	3.6	3.6
Foreign Reserves/Debt (%)	1.3	1.4	1.5	1.6	1.6	1.7
Implied Sen. Rating	BB-	BB+	BBB-	BB+	BBB-	BBB

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	65.3	-2.6	65.3	2.7	7.4	AA+
French Republic	AA	117.1	-4.2	117.1	6.1	5.5	A-
United Kingdom	AA	147.9	-5.5	147.9	15.0	9.7	BBB
Portugal Republic	BB+	116.6	-0.7	116.6	7.6	11.4	BB+
Kingdom Of Spain	BBB	117.7	-4.2	117.7	9.6	10.0	BBB-

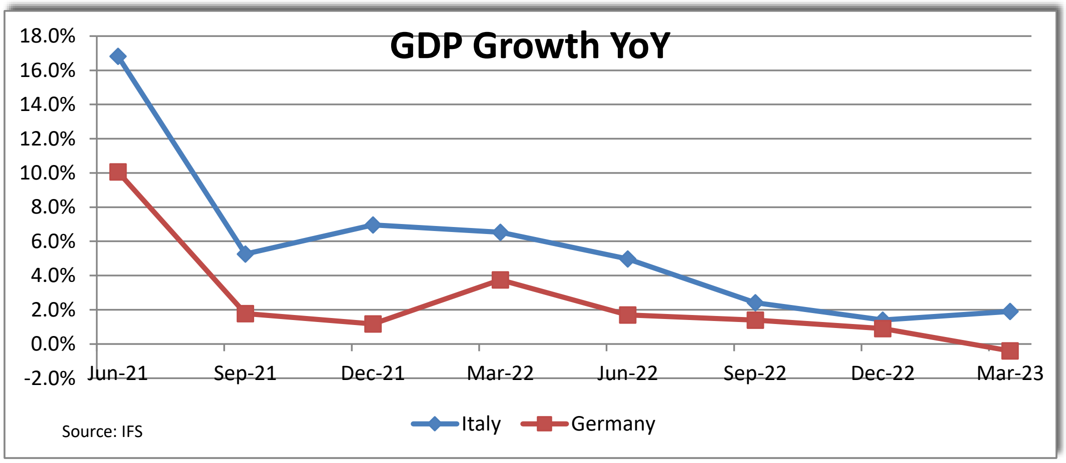


Country	EJR Rtg.	CDS
Italy	BBB-	95
Portugal	BBB-	45
Spain	BBB+	45
France	A+	23
UK	A+	23

Egan-Jones Ratings Company

Economic Growth

After experiencing a contraction in Q4'22, the real GDP showed a pick-up of 0.6% in Q1'23. The economy shrank 0.3% in seasonally adjusted quarter-on-quarter terms in Q2, contrasting Q1's 0.6% expansion and surprising markets on the downside. The quarterly downturn came amid sticky inflation and rising interest rates. Looking at the breakdown of the quarter-on-quarter growth figure by expenditure, the statistical office said that domestic demand gross of inventories made a negative contribution to the final reading, while external demand made no contribution overall. The primary and secondary sectors contracted, while the tertiary sector expanded slightly. Compared with Q2 2022, GDP increased 0.6% on a seasonally adjusted annual basis in Q2, following the 1.8% rise recorded in the previous quarter.



Fiscal Policy

The euro area's monetary policy tightening has resulted in a significant rise in borrowing costs for households and businesses, with bank lending rates increasing by more than 2 percentage points in the past year. This increase is also impacting the government's cost of refinancing its substantial public debt, with debt servicing costs anticipated to reach approximately 4% of GDP in 2024. To mitigate the impact of the energy price shock on households and businesses, the government had implemented fiscal measures in response to the 2022 energy crisis.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Italy	-7.83	151.26	95.04
Germany	-2.62	65.28	15.01
France	-4.25	117.11	22.50
UK	-5.52	147.88	22.67
Portugal	-0.66	116.63	45.31
Spain	-4.24	117.70	45.32

Sources: Thomson Reuters and IFS

Unemployment

In June 2023, Italy's jobless rate declined to 7.4%, which was lower than the market's expectation of 7.7% and the lowest rate recorded since April 2009, showing improvement from the previous month's rate of 7.5%. This reduction in the unemployment rate aligns with the ongoing tight labor force situation in the Eurozone, providing room for the European Central Bank to continue its tightening campaign. During this period, the number of unemployed individuals decreased by 44 thousand, marking the most

Unemployment (%)	2021	2022
Italy	9.56	8.08
Germany	3.58	3.07
France	7.88	7.32
UK	0.00	0.00
Portugal	6.59	6.04
Spain	14.79	0.00

Source: Intl. Finance Statistics

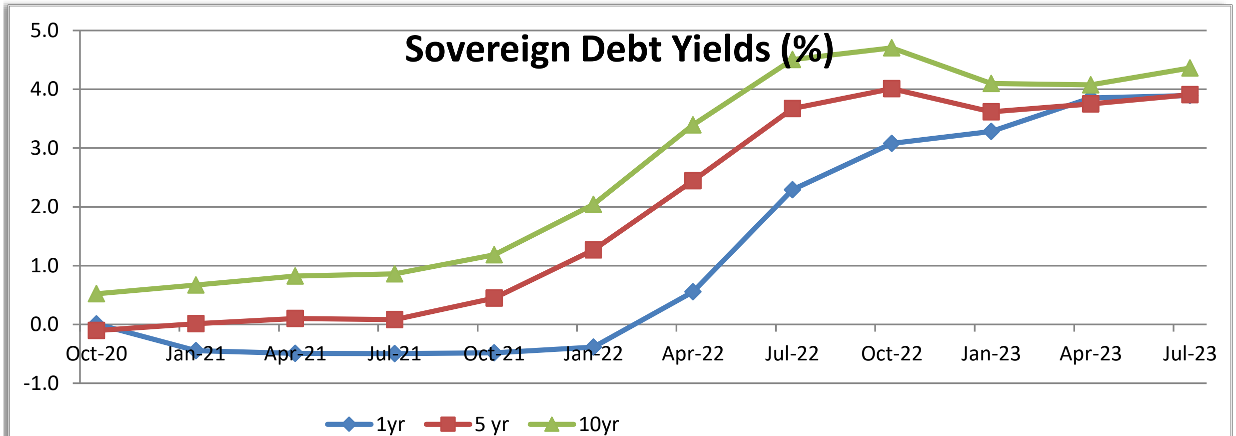
Banking Sector

Italian banks are facing the consequences of a surge in sovereign borrowing costs, triggered by market concerns over the ruling coalition's ambitious budget plans. These banks currently hold around 375 billion euros ($426 billion) worth of the country's government bonds. Banca Monte dei Paschi di Siena (MPS) serves as an example, as it had to be rescued by the state in 2016 due to its inability to raise sufficient funds from investors for balance-sheet cleanup.

Bank Assets (billions of local currency)	Assets	Mkt Cap/ Assets %
UniCredit SpA	857.8	4.80
Intesa Sanpaolo SpA	974.6	4.41
Banco Bpm SpA	189.7	3.36
Banca Monte dei Paschi	120.2	2.40
UBI Banca	131.3	3.11
Total	2,273.6	
EJR's est. of cap shortfall at 10% of assets less market cap		129.8
Italy's GDP		1,909.2

Funding Costs

Currently, the Italy 10Y Government Bond offers a yield of 4.135%. Furthermore, the 10 Years vs 2 Years bond spread is at 45.8 basis points, reflecting the difference in yields between longer-term and shorter-term maturities. There is also a normal convexity observed between long-term and short-term maturities.



Source: Thomson Reuters

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 62.3 for Economic Freedom with 100 being best.

Heritage Foundation 2023 Index of Economic Freedom
World Rank 62.3*

	2023 Rank**	2022 Rank	Change in Rank	World Avg.
Property Rights	81.2	81.7	-0.5	53.3
Government Integrity	61.1	57.3	3.8	44.4
Judical Effectiveness	77.9	78.6	-0.7	48.3
Tax Burden	57.3	57.7	-0.4	78.1
Gov't Spending	13.7	20.6	-6.9	64.3
Fiscal Health	20.4	49.0	-28.6	54.5
Business Freedom	73.8	73.8	0.0	59.8
Labor Freedom	70.6	70.4	0.2	55.5
Monetary Freedom	82.6	86.2	-3.6	72.1
Trade Freedom	78.6	79.2	-0.6	69.6

*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 grown its taxes of 7.4% per annum in the last fiscal year which is average. We expect tax revenues will grow approximately 7.4% per annum over the next couple of years and 6.7% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:
REPUBLIC OF ITALY's total revenue growth has been more than its peers and we assumed a 8.4% growth in total revenue over the next two years.

Income Statement	Peer Median	Issuer Avg.	Assumptions Yr 1&2	Yr 3,4,5
Taxes Growth%	7.9	7.4	**7.4**	**6.7**
Social Contributions Growth %	6.2	6.1	**6.0**	**6.0**
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	15.8	**14.8**	**14.8**
Total Revenue Growth%	7.3	7.9	**8.4**	**7.6**
Compensation of Employees Growth%	4.2	5.8	**5.8**	**5.8**
Use of Goods & Services Growth%	6.4	4.5	**4.5**	**4.5**
Social Benefits Growth%	3.5	2.7	**2.7**	**2.7**
Subsidies Growth%	(25.8)	43.3		
Other Expenses Growth%	0.0			
Interest Expense	1.8	2.9	**2.9**	
Currency and Deposits (asset) Growth%	(11.4)	0.0		
Securities other than Shares LT (asset) Growth%	(6.0)	0.0		
Loans (asset) Growth%	18.7	(123.1)	**7.4**	**7.4**
Shares and Other Equity (asset) Growth%	(25.3)	61.7	**61.7**	**55.5**
Insurance Technical Reserves (asset) Growth%	0.0	(11.8)	**2.0**	**2.0**
Financial Derivatives (asset) Growth%	14.6	0.0		
Other Accounts Receivable LT Growth%	3.5	(1.9)	**(1.9)**	**(1.9)**
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%	3.1	50.5	**5.0**	**5.0**
Currency & Deposits (liability) Growth%	(1.2)	(2.6)	**0.5**	**0.5**
Securities Other than Shares (liability) Growth%	(17.3)	(13.9)	**(9.8)**	**(9.8)**
Loans (liability) Growth%	0.4	16.6	**16.6**	**14.9**
Insurance Technical Reserves (liability) Growth%	0.7	2.8	**2.8**	**2.8**
Financial Derivatives (liability) Growth%	(18.0)	(94.8)	**(10.0)**	**(10.0)**
Additional ST debt (1st year)(millions EUR)	0.0	0.0		

ANNUAL INCOME 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)	2019	2020	2021	2022	P2023	P2024
Taxes	516,964	478,750	529,412	568,648	610,728	655,922
Social Contributions	242,225	229,686	246,062	261,004	276,664	293,264
Grant Revenue						
Other Revenue						
Other Operating Income	84,592	77,842	87,926	101,778	101,778	101,778
Total Revenue	843,781	786,278	863,400	931,430	989,170	1,050,964
Compensation of Employees	172,921	173,159	176,752	186,917	197,667	209,034
Use of Goods & Services	101,175	102,858	110,284	115,248	120,435	125,856
Social Benefits	406,929	445,330	445,676	457,689	470,026	482,695
Subsidies	27,903	32,660	34,780	49,854	49,859	49,864
Other Expenses				133,295	133,295	133,295
Grant Expense						
Depreciation	49,128	49,457	51,333	54,659	54,659	54,659
Total Expenses excluding interest	817,470	892,926	959,047	997,662	1,025,941	1,055,404
Operating Surplus/Shortfall	26,311	-106,648	-95,647	-66,232	-36,771	-4,440
Interest Expense	60,401	57,310	63,693	83,206	85,603	88,070
Net Operating Balance	-34,090	-163,959	-159,338	-149,438	-122,374	-92,510

ANNUAL BALANCE SHEETS

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

	ANNUAL BALANCE SHEETS (MILLIONS EUR)					
Base Case						
ASSETS	2019	2020	2021	2022	P2023	P2024
Currency and Deposits (asset)	73,954	90,136	96,848	85,700	85,700	85,700
Securities other than Shares LT (asset)	25,358	21,565	22,206	22,638	22,638	22,638
Loans (asset)	-596	2,719	-1,573	364	391	420
Shares and Other Equity (asset)	1,674	3,236	5,375	8,691	14,053	22,722
Insurance Technical Reserves (asset)	1,119	1,106	1,159	1,022	1,042	1,063
Financial Derivatives (asset)				5,246	5,246	5,246
Other Accounts Receivable LT	122,399	125,492	125,575	123,219	120,907	118,639
Monetary Gold and SDR's						
Other Assets					298,005	298,005
Additional Assets	297,631	297,834	307,118	298,005		
Total Financial Assets	521,539	542,088	556,708	544,885	547,982	554,433
LIABILITIES						
Other Accounts Payable	95,344	104,120	157,777	237,479	249,353	261,821
Currency & Deposits (liability)	227,860	230,292	225,449	219,511	219,511	219,511
Securities Other than Shares (liability)	2,259,070	2,494,913	2,487,831	2,140,805	1,931,771	1,743,148
Loans (liability)	177,782	195,787	224,952	262,205	384,579	477,089
Insurance Technical Reserves (liability)	9,929	19,821	26,967	27,735	28,525	29,337
Financial Derivatives (liability)	27,002	29,730	19,717	1,028	925	833
Other Liabilities	328	300	4,328	305	305	305
Liabilities	2,797,315	3,074,963	3,147,021	2,889,068	3,014,539	3,113,500
Net Financial Worth	-2,275,776	-2,532,875	-2,590,313	-2,344,183	-2,466,557	-2,559,067
Total Liabilities & Equity	521,539	542,088	556,708	544,885	547,982	554,433

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 "BBB-"; 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

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+) other than those deep into speculative grade; for CC, C, and D there are no 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 methodology version #16 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 page 3 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 dependant 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 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources. In some cases, the information is limited because of issues such as short operating histories, the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such shortcomings 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 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, governmental filings and other similar sources for ratings on publicly-traded issuers. In the case of private issuers, EJR relies on information provided mainly by 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 high quality and readily avail.

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%	7.4	11.4	3.4	BBB-	BBB-	BBB-
Social Contributions Growth %	6.0	9.0	3.0	BBB-	BBB-	BBB-
Other Revenue Growth %		3.0	(3.0)	BBB-	BBB-	BBB-
Total Revenue Growth%	8.4	10.4	6.4	BBB-	BBB-	BBB-
Monetary Gold and SDR's Growth %	5.0	7.0	3.0	BBB-	BBB-	BBB-

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: **Today's Date**

August 18, 2023

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Subramanian NG
Senior Rating Analyst

Reviewer Signature: **Today's Date**

Steve Zhang

August 18, 2023

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Steve Zhang
Senior Rating Analyst

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 the 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.