REPUBLIC OF ITALY

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

Rating Analysis - 8/16/24

In 2023, real GDP expanded by 0.9%, driven by robust growth in capital spending. Significant tax credits incentivizing energy-efficient renovations in residential buildings continued to exert a positive impact throughout the year. Both household and govt consumption expenditures increased by 1.2%. Net exports contributed positively to growth, with a slight decrease in goods exports offsetting continued strong growth in services trade.

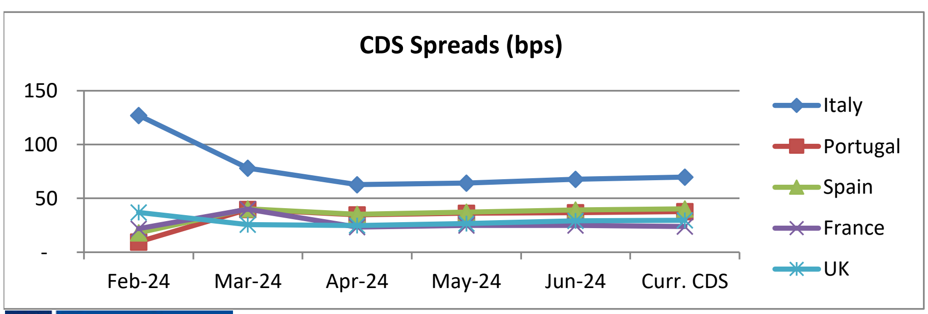
For 2024, economic activity is expected to maintain the same growth rate of 0.9%. Government incentives supporting housing investment are projected to phase out, while investments in infrastructure and equipment are anticipated to gradually increase. Looking ahead to 2025, private consumption is expected to benefit from continued growth in real wages. Accelerated implementation of projects supported by the Recovery and Resilience Facility (RRF) is anticipated to offset the decrease in housing investment. This could lead to increased import demand, resulting in a minor negative contribution from net exports. Overall, GDP growth is projected to slightly accelerate to 1.1%. Affirming.

Annual Ratios (source for past results: IMF)

CREDIT POSITION	2021	2022	2023	P2024	P2025	P2026
Debt/ GDP (%)	171.2	147.7	151.4	160.2	167.4	172.9
Govt. Sur/Def to GDP (%)	-8.6	-8.2	-6.8	-5.2	-3.5	-2.0
Adjusted Debt/GDP (%)	171.2	147.7	151.4	160.2	167.4	172.9
Interest Expense/ Taxes (%)	12.0	14.5	12.7	12.1	11.5	11.0
GDP Growth (%)	9.7	7.7	6.2	2.5	3.6	3.6
Foreign Reserves/Debt (%)	1.4	1.5	1.4	1.3	1.2	1.1
Implied Sen. Rating	BB+	BBB-	BBB-	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

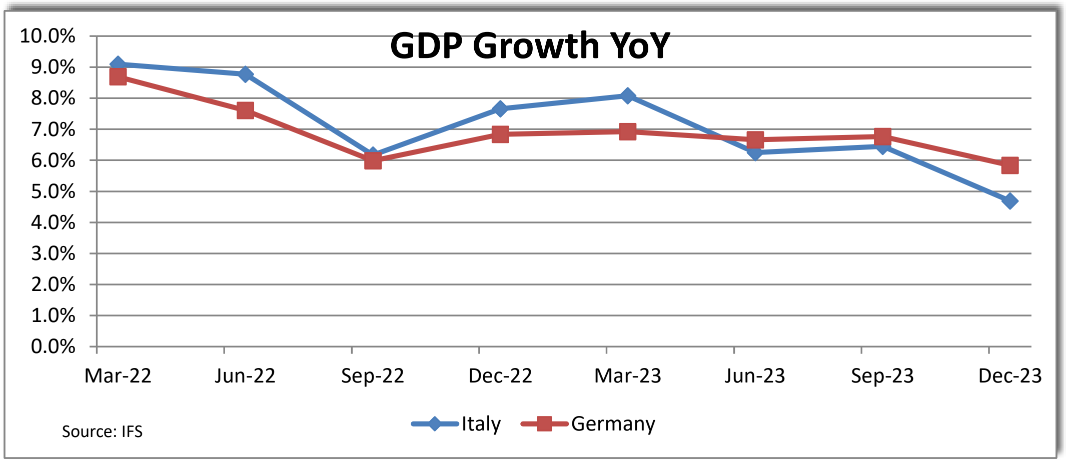
PEER RATIOS	Other NRSRO Sen.	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic Of Germany	AAA	64.0	-2.6	64.0	3.8	6.3	AA+
French Republic	AA	117.2	-4.8	117.2	5.9	6.2	A-
United Kingdom	AA	143.8	-6.2	143.8	10.5	7.2	BBB
Portugal Republic	BB+	105.8	1.1	105.8	8.6	9.6	BB+
Kingdom Of Spain	BBB	114.1	-2.9	114.1	10.2	8.6	BBB-



Country	EJR Rtg.	CDS
Italy	BBB-	70
Portugal	BBB-	38
Spain	BBB+	40
France	A+	24
UK	A+	30

Economic Growth

After moderate growth in the first quarter of 2024, Italy's GDP continued to expand modestly through the spring, as estimated. The growth was primarily driven by services, especially tourism-related activities, which benefited from increased spending by foreign travelers. However, both construction and manufacturing sectors experienced declines in activity during this period. On the demand side, exports showed further growth, and there were positive indications in consumption, although investment trends were less favorable. Recent macroeconomic projections from the Eurosystem staff indicate GDP growth of 0.6% in 2024 (0.8% without calendar adjustments), followed by increases of 0.9% in 2025 and 1.1% in 2026. In the first quarter of 2024, Italy's current account surplus expanded, reflecting improvements in the goods balance. Non-resident investors notably increased their holdings of Italian securities, particularly those issued by the public sector.



Fiscal Policy

In 2023, the general government deficit decreased to 7.4% of GDP from 8.6% in 2022. This improvement was driven by reductions in both the primary deficit—aided by lower costs for measures mitigating high energy prices (-1.4 percentage points of GDP to 1.0% of GDP)—and interest expenditure, owing to reduced impacts from inflation-linked securities. Current taxes grew faster than nominal GDP, primarily due to higher income taxes and the return to standard levels of taxation on fuels and electricity.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Italy	-6.85	151.35	69.77
Germany	-2.55	64.01	11.51
France	-4.84	117.19	24.00
UK	-6.24	143.77	29.72
Portugal	1.08	105.78	37.73
Spain	-2.93	114.12	40.25

Sources: Thomson Reuters and IFS

Unemployment

In 2023, total employment grew by 1.8%, maintaining the robust pace seen in the previous year, supported in part by increased self-employment facilitated by a more favorable tax regime. However, this trend is expected to be temporary, with a projected decline in self-employment starting this year. Despite higher participation rates, the unemployment rate decreased throughout 2023 and is forecasted to continue its decline, reaching 7.3% by 2025.

Unemployment (%)	2022	2023
Italy	8.08	7.67
Germany	3.07	3.03
France	7.32	7.34
UK	3.90	3.80
Portugal	6.16	6.58
Spain	12.93	12.12

Source: Intl. Finance Statistics

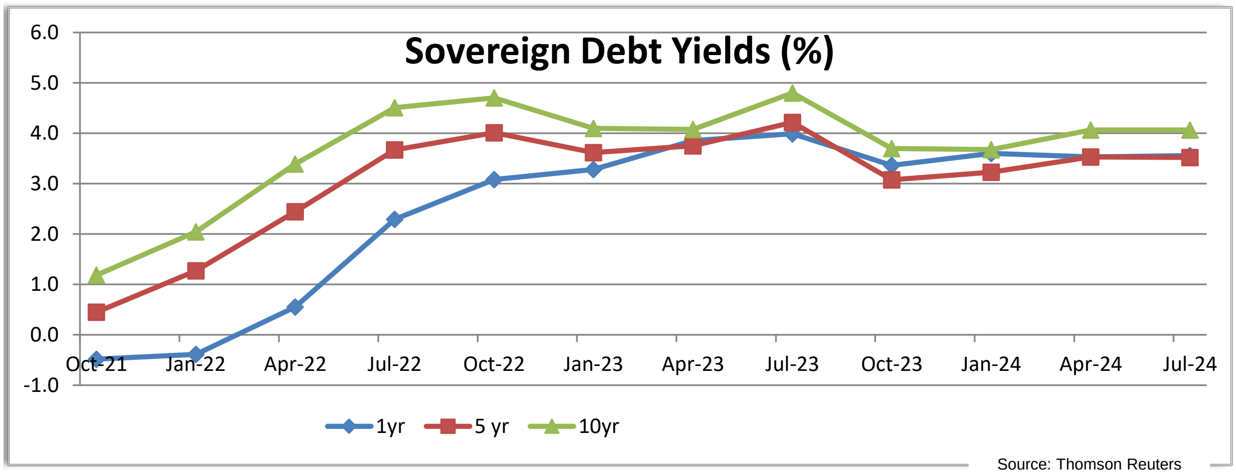
Banking Sector

The Italian banking sector has made substantial progress in recent years, but still faces important weaknesses. Bank capitalization and asset quality have improved considerably but remain below the European Union average. The financial sector has large exposures to the Italian sovereign, making it vulnerable. The banking sector faces significant vulnerabilities and a challenging baseline outlook.

Bank Assets (billions of local currency)	Assets	Mkt Cap/ Assets %
UniCredit SpA	785.0	7.49
Intesa Sanpaolo SpA	963.6	6.65
Banco Bpm SpA	202.1	4.63
Banca Monte dei Paschi	122.6	4.75
UBI Banca	131.3	3.11
Total	2,204.6	
EJR's est. of cap shortfall at 10% of assets less market cap		78.3
Italy's GDP		2,085.4

Funding Costs

Monetary tightening continues to impact the cost of credit, with lending to firms experiencing ongoing declines, albeit at a slower rate. This trend reflects subdued demand for financing amidst high interest rates and weak investment prospects, compounded by stringent credit standards due to perceived risks across the board.



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 60.1 for Economic Freedom with 100 being best.

Heritage Foundation 2024 Index of Economic Freedom
World Rank 60.1*

	2024 Rank**	2023 Rank	Change in Rank	World Avg.
Property Rights	81.6	81.2	0.4	53.4
Government Integrity	60.7	61.1	-0.4	43.7
Judical Effectiveness	77.7	77.9	-0.2	48.8
Tax Burden	57.0	57.3	-0.3	78.1
Gov't Spending	2.5	13.7	-11.2	64.2
Fiscal Health	0.0	20.4	-20.4	52.1
Business Freedom	77.6	73.8	3.8	62.1
Labor Freedom	70.7	70.6	0.1	55.9
Monetary Freedom	74.1	82.6	-8.5	67.2
Trade Freedom	79.2	78.6	0.6	69.8

*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 7.8% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 7.8% per annum over the next couple of years and 7.0% 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 no 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%	5.2	7.8	**7.8**	**7.0**
Social Contributions Growth %	6.4	3.0	**3.0**	**3.0**
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	7.4	**7.4**	**7.4**
Total Revenue Growth%	4.4	6.4	**6.4**	**5.8**
Compensation of Employees Growth%	6.1	(0.5)	**(0.5)**	**(0.5)**
Use of Goods & Services Growth%	7.5	2.4	**2.4**	**2.4**
Social Benefits Growth%	4.8	4.4	**4.4**	**4.4**
Subsidies Growth%	(9.9)	1.0		
Other Expenses Growth%	0.0			
Interest Expense	1.8	2.5	**2.5**	
Currency and Deposits (asset) Growth%	(8.2)	0.0		
Securities other than Shares LT (asset) Growth%	8.2	0.0		
Loans (asset) Growth%	2.5	(311.7)	**7.8**	**7.8**
Shares and Other Equity (asset) Growth%	(43.9)	(66.6)	**2.0**	**2.0**
Insurance Technical Reserves (asset) Growth%	4.6	17.3	**17.3**	**15.6**
Financial Derivatives (asset) Growth%	(3.2)	(64.2)	**(10.0)**	**(10.0)**
Other Accounts Receivable LT Growth%	1.5	(0.5)	**(0.5)**	**(0.5)**
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%	1.9	21.1	**5.0**	**5.0**
Currency & Deposits (liability) Growth%	2.6	(8.3)	**0.5**	**0.5**
Securities Other than Shares (liability) Growth%	8.8	9.1	**6.4**	**6.4**
Loans (liability) Growth%	(4.2)	10.1	**10.1**	**10.1**
Insurance Technical Reserves (liability) Growth%	0.8	6.2	**6.2**	**6.2**
Financial Derivatives (liability) Growth%	(9.9)	2.3	**2.3**	**2.3**
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)

	2020	2021	2022	2023	P2024	P2025
Taxes	479,023	530,018	572,213	617,106	665,240	717,129
Social Contributions	229,689	246,072	261,408	269,221	277,268	285,555
Grant Revenue						
Other Revenue						
Other Operating Income	78,709	90,073	102,689	110,263	110,263	110,263
Total Revenue	787,421	866,163	936,310	996,590	1,052,771	1,112,947
Compensation of Employees	173,239	176,803	187,419	186,475	185,536	184,601
Use of Goods & Services	103,029	110,722	119,246	122,067	124,955	127,911
Social Benefits	445,335	445,689	456,658	476,819	497,870	519,851
Subsidies	32,674	36,160	51,116	51,636	51,641	51,646
Other Expenses				167,573	167,573	167,573
Grant Expense						
Depreciation	49,482	51,587	54,713	56,212	56,212	56,212
Total Expenses excluding interest	889,545	959,697	1,014,946	1,060,782	1,083,787	1,107,794
Operating Surplus/Shortfall	-102,124	-93,534	-78,636	-64,192	-31,016	5,153
Interest Expense	57,310	63,694	82,878	78,612	80,570	82,577
Net Operating Balance	-159,436	-157,230	-161,514	-142,803	-111,586	-77,424

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	2020	2021	2022	2023	P2024	P2025
Currency and Deposits (asset)	90,136	96,720	86,307	91,117	146,138	146,138
Securities other than Shares LT (asset)	21,565	22,156	22,460	22,323	22,323	22,323
Loans (asset)	2,721	-1,600	1,369	-2,898	-3,124	-3,368
Shares and Other Equity (asset)	3,236	5,337	8,303	2,771	2,826	2,883
Insurance Technical Reserves (asset)	1,106	1,159	1,022	1,199	1,407	1,650
Financial Derivatives (asset)			5,246	1,877	1,689	1,520
Other Accounts Receivable LT	126,297	128,806	126,473	125,810	125,150	124,494
Monetary Gold and SDR's						
Other Assets					316,176	316,176
Additional Assets	297,835	306,951	297,478	316,176		
Total Financial Assets	542,896	559,529	548,658	558,375	612,586	611,817
LIABILITIES						
Other Accounts Payable	103,927	158,964	249,984	302,729	317,865	333,759
Currency & Deposits (liability)	230,292	225,449	219,507	201,201	201,201	201,201
Securities Other than Shares (liability)	2,494,908	2,487,825	2,141,145	2,336,270	2,485,305	2,643,847
Loans (liability)	196,568	225,905	263,846	290,411	401,997	479,421
Insurance Technical Reserves (liability)	16,261	21,613	24,202	25,709	27,310	29,010
Financial Derivatives (liability)	29,730	19,717	1,028	1,052	1,077	1,102
Other Liabilities	300	4,328	309	309	309	309
Liabilities	3,071,986	3,143,801	2,900,021	3,157,681	3,323,478	3,400,133
Net Financial Worth	-2,529,090	-2,584,272	-2,351,363	-2,599,306	-2,710,892	-2,788,316
Total Liabilities & Equity	542,896	559,529	548,658	558,375	612,586	611,817

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%	7.8	11.8	3.8	BB+	BB+	BB+
Social Contributions Growth %	3.0	6.0	(0.0)	BB+	BB+	BB+
Other Revenue Growth %		3.0	(3.0)	BB+	BB+	BB+
Total Revenue Growth%	6.4	8.4	4.4	BB+	BB+	BB+
Monetary Gold and SDR's Growth %	5.0	7.0	3.0	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: **Today's Date**

Aug 16, 2024

Subramanian NG
Senior Rating Analyst

Reviewer Signature: **Today's Date**

Steve Zhang

Aug 16, 2024

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.