REPUBLIC OF ITALY

Rating Analysis - 12/6/19

*EJR Sen Rating(Curr/Prj) BBB-/ NR
*EJR CP Rating: A2

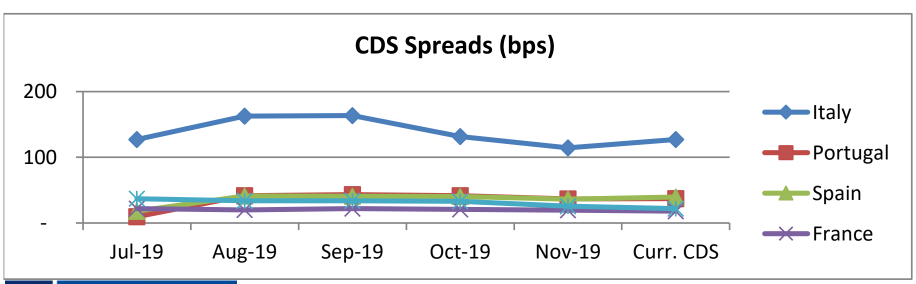
Italy has a public debt equal to 135% of its GDP which is a cause of concern given the possibility of the change in the Eurozone's bailout fund rules. Thus far, the country's ruling coalition has failed to reach an agreement with the EU over the planned changes - of specific concern are changes that would make it easier to restructure sovereign bonds in case financial crisis strikes again.

On the positive side, after months of downward adjustments, observers foresee better economic news for Italy in 2020 and 2021, although few predict rapid growth for Italy over the next two years. Manufacturing has suffered greatly from the negative impact of the global economic outlook, esp. from close production and trade links with Germany. This weakness was partly offset by a small expansion in services and construction. The fiscal stress caused by this is likely to be offset next year when the government plans to levy a new "web tax", which will force big digital companies to pay a 3% levy on some Internet transactions. The Italian web tax will be applied to companies with annual revenues worth at least €750M and digital services exceeding €5.5M. We are affirming with a developing watch.

		Annual Ratios (source for past results: IMF)				
CREDIT POSITION	2016	2017	2018	P2019	P2020	P2021
Debt/ GDP (%)	154.5	152.1	147.3	145.2	143.4	141.6
Govt. Sur/Def to GDP (%)	-3.0	-2.8	-2.7	-2.9	-3.1	-3.3
Adjusted Debt/GDP (%)	154.5	152.1	147.3	145.2	143.4	141.6
Interest Expense/ Taxes (%)	13.4	13.1	12.9	13.1	13.4	13.7
GDP Growth (%)	2.4	2.4	1.7	2.3	2.3	2.5
Foreign Reserves/Debt (%)	1.2	1.2	1.3	1.3	1.4	1.3
Implied Sen. Rating	BB+	BBB-	BB+	BBB-	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	69.2	1.8	69.2	3.9	3.1	AA+
French Republic	AA	122.1	-2.4	122.1	5.6	2.5	BBB+
United Kingdom	AA	113.2	-0.4	113.2	9.0	3.3	A+
Portugal Republic	BB+	139.0	-1.2	139.0	13.4	4.1	BBB+
Kingdom Of Spain	BBB	113.9	-2.7	113.9	10.8	3.5	A

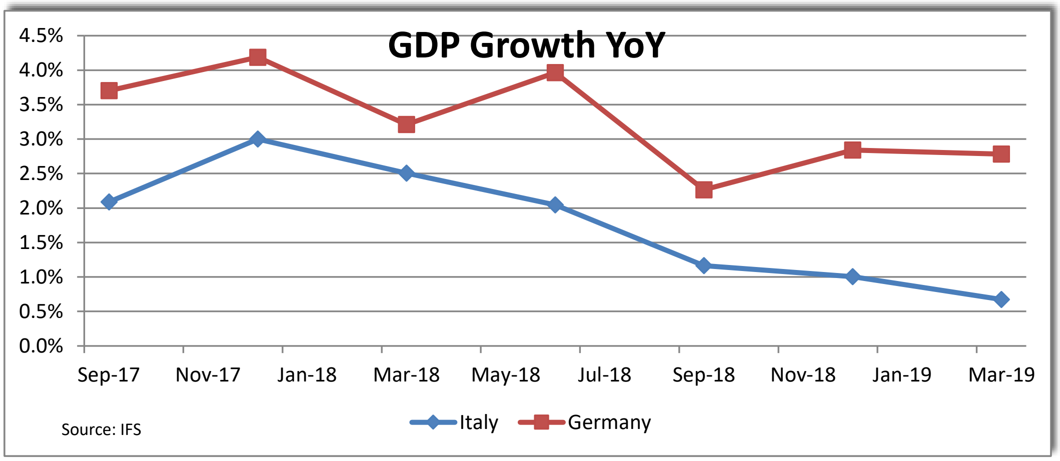


Country	CDS
Italy	127
Portugal	37
Spain	40
France	18
UK	22

Economic Growth

Italy's economy eked out marginal growth of 0.1% in Q3'19 vs. Q2'19, supported by domestic demand, continuing a long-running trend of virtual stagnation. The rise in gross domestic product between July and September was the fourth consecutive quarter to post 0.1% QoQ growth. GDP rose 0.3% on an annual basis, which was the strongest YOY rate since Q3'18.

Relative strength in private consumption is not surprising, given past labor market resilience and low inflation. Looking ahead, there seems to be little reason to expect either a substantial acceleration or a sudden dive in Italian GDP over the current quarter. The combined reading of available indicators against a backdrop of rising domestic political noise seems to point to a continuation of the current soft patch.



Fiscal Policy

European Commission stated that an Excessive Deficit Procedure against Italy is 'warranted', owing to the latter's violations of the EU debt criterion in 2018 alongside an expected deviation in 2019. So far, the Italian government has responded that it expects the 2019 deficit to come in instead at a more modest 2.1%-2.2% of GDP (compared to the Commission's 2.5% estimate). Italy's debt load - currently at €2.3T - is the highest in the EU. 27.5% of its debt (35.6% of GDP) comes due before the end of 2020, meaning that a higher interest refinancing burden could undermine growth.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Italy	-2.67	147.31	117.64
Germany	1.77	69.18	9.87
France	-2.35	122.14	17.07
UK	-0.39	113.24	20.03
Portugal	-1.18	139.04	92.16
Spain	-2.71	113.89	55.61

Sources: Thomson Reuters and IFS

Unemployment

The euro zone's third largest economy has been broadly stagnant for the last seven quarters. The unemployment rate has followed a very gradual downward trend since the start of 2017. Italy's overall employment rate, one of the lowest in the euro zone, was stable for a third month running in October at 59.2%. In October, the youth unemployment rate, measuring job-seekers between 15 and 24 years old, fell to 27.8% from 28.6% in September. In January 2017 its youth unemployment rate stood at 37.3%.

Unemployment (%)

	2017	2018
Italy	11.23	10.62
Germany	3.76	3.40
France	9.43	9.11
UK	4.40	4.09
Portugal	9.02	7.05
Spain	17.23	15.26

Source: Intl. Finance Statistics

Banking Sector

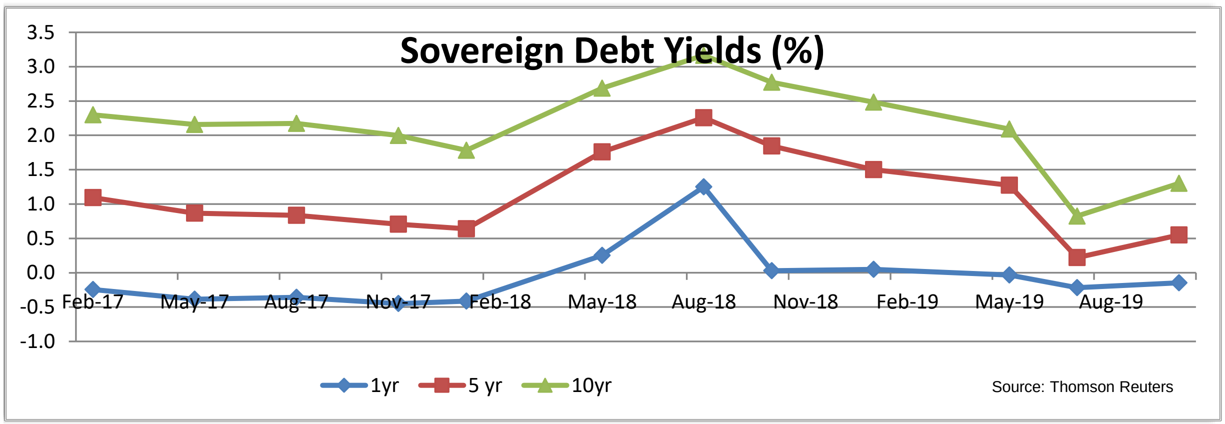
Italian banks have been big buyers of the bonds sold by the government, and their financial position becomes shakier if those bonds decline in value. The markets are worried about a "doom loop" of weak growth, a rising deficit, losses on bonds and failing banks. The Italian banking sector owns a total of €387B worth of domestic sovereign debt, according to the European Central Bank.

Bank Assets (billions of local currency)

	Assets	Mkt Cap/ Assets %
UniCredit SpA	831.5	3.34
Intesa Sanpaolo SpA	787.7	5.20
Banco Bpm SpA	160.5	1.96
Banca Monte dei Paschi	130.5	1.24
UBI Banca	125.3	2.70
Total	2,035.4	
EJR's est. of cap shortfall at 10% of assets less market cap		126.6
Italy's GDP		1,765.4

Funding Costs

The fortunes of Italy's debt have been transformed this year, with the benchmark 10-year yield on course for its biggest annual drop since 2014, even leading to talk among analysts that it could touch 0% in 2020. The country's benchmark yield, comfortably above 1%, stands out given the equivalent German and French debt is negative, locking in a loss for investors holding it to maturity. The ECB's economic stimulus which restarted in November, with its purchases of €20B ($22B) a month of debt, is likely to help underwrite demand for Italy's bonds.



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*

	2019 Rank	2018 Rank	Change in Rank
Overall Country Rank:	**58**	**46**	**-12**
Scores:			
Starting a Business	98	66	-32
Construction Permits	97	96	-1
Getting Electricity	38	28	-10
Registering Property	26	23	-3
Getting Credit	119	105	-14
Protecting Investors	51	62	11
Paying Taxes	128	112	-16
Trading Across Borders	1	1	0
Enforcing Contracts	122	108	-14
Resolving Insolvency	21	24	3

* 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 62.2 for Economic Freedom with 100 being best.

Heritage Foundation 2019 Index of Economic Freedom
World Rank 62.2*

	2019 Rank**	2018 Rank	Change in Rank	World Avg.
Property Rights	71.7	71.2	0.5	52.3
Government Integrity	49.8	40.1	9.7	44.9
Judical Effectiveness	43.7	60.9	-17.2	41.5
Tax Burden	55.6	55.2	0.4	77.2
Gov't Spending	26.5	24.1	2.4	64.2
Fiscal Health	71.3	68.2	3.1	66.0
Business Freedom	71.7	70.3	1.4	63.5
Labor Freedom	51.1	50.3	0.8	59.4
Monetary Freedom	84.0	88.2	-4.2	75.1
Trade Freedom	86.0	86.9	-0.9	74.3

*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 0.5% per annum in the last fiscal year which is disappointing. We expect tax revenues will grow approximately 0.5% 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 1.5% 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%	5.1	0.5	**0.5**	**0.5**
Social Contributions Growth %	4.2	4.2	**4.0**	**4.0**
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	0.6	**1.0**	**1.0**
Total Revenue Growth%	4.8	1.6	**1.5**	**1.4**
Compensation of Employees Growth%	3.0	3.1	**3.1**	**3.1**
Use of Goods & Services Growth%	3.5	1.2	**1.2**	**1.2**
Social Benefits Growth%	2.8	2.2	**2.2**	**2.2**
Subsidies Growth%	3.4	0.7		
Other Expenses Growth%	0.0			
Interest Expense	1.8	2.5	**2.5**	**2.5**
Currency and Deposits (asset) Growth%	3.0	0.0		
Securities other than Shares LT (asset) Growth%	8.5	0.0		
Loans (asset) Growth%	(1.3)	(0.5)	**(0.5)**	**(0.5)**
Shares and Other Equity (asset) Growth%	1.3	1.1	**1.1**	**1.1**
Insurance Technical Reserves (asset) Growth%	0.0	0.0		
Financial Derivatives (asset) Growth%	(8.7)	0.0		
Other Accounts Receivable LT Growth%	(0.1)	(1.3)	**(1.3)**	**(1.3)**
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%	3.0	2.2	**3.0**	**3.0**
Currency & Deposits (liability) Growth%	4.6	2.3	**2.3**	**2.3**
Securities Other than Shares (liability) Growth%	2.0	(2.1)	**(1.5)**	**(1.5)**
Loans (liability) Growth%	(4.9)	(2.4)	**0.5**	**0.5**
Insurance Technical Reserves (liability) Growth%	0.0	16.4	**2.0**	**2.0**
Financial Derivatives (liability) Growth%	(7.0)	(10.0)	**(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)

	2015	2016	2017	2018	P2019	P2020
Taxes	490,955	495,013	501,345	503,961	506,481	509,013
Social Contributions	219,065	220,648	225,567	234,964	244,363	254,137
Grant Revenue						
Other Revenue						
Other Operating Income	77,252	70,359	76,697	77,188	77,188	77,188
Total Revenue	787,272	786,020	803,609	816,113	828,031	840,338
Compensation of Employees	162,075	164,097	166,683	171,826	177,128	182,593
Use of Goods & Services	89,939	92,085	96,831	97,967	99,116	100,279
Social Benefits	376,650	380,923	386,171	394,782	403,585	412,584
Subsidies	28,177	29,317	25,930	26,113	26,116	26,118
Other Expenses				60,427	60,427	60,427
Grant Expense						
Depreciation	44,594	44,280	46,576	47,186	47,186	47,186
Total Expenses excluding interest	769,584	770,111	786,438	798,301	813,558	829,188
Operating Surplus/Shortfall	17,688	15,909	17,171	17,812	14,474	11,151
Interest Expense	68,057	66,288	65,599	64,978	66,602	68,266
Net Operating Balance	-50,370	-50,378	-48,427	-47,164	-52,128	-57,115

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	2015	2016	2017	2018	P2019	P2020
Currency and Deposits (asset)	76,083	86,907	75,498	81,648	81,648	81,648
Securities other than Shares LT (asset)	27,920	26,619	28,095	29,069	29,069	29,069
Loans (asset)	96,234	96,497	103,581	103,114	102,649	102,186
Shares and Other Equity (asset)	140,054	151,040	160,099	161,797	163,513	165,247
Insurance Technical Reserves (asset)	1,278	1,318	1,206	1,111	1,111	1,111
Financial Derivatives (asset)						
Other Accounts Receivable LT	137,092	133,448	134,138	132,399	130,683	128,988
Monetary Gold and SDR's						
Other Assets						
Additional Assets		1				
Total Financial Assets	478,661	495,830	502,617	509,138	508,673	508,250
LIABILITIES						
Other Accounts Payable	76,259	81,831	85,653	87,551	90,178	92,883
Currency & Deposits (liability)	239,749	234,887	233,712	239,162	239,162	239,162
Securities Other than Shares (liability)	2,095,835	2,118,253	2,125,316	2,080,336	2,049,516	2,019,153
Loans (liability)	177,770	179,502	188,886	184,326	236,454	293,569
Insurance Technical Reserves (liability)	3,803	4,965	7,890	9,185	9,369	9,556
Financial Derivatives (liability)	31,899	30,110	23,599	21,246	19,128	17,220
Other Liabilities	1					
Liabilities	2,625,316	2,649,548	2,665,056	2,621,806	2,673,468	2,730,161
Net Financial Worth	-2,146,655	-2,153,718	-2,162,439	-2,112,668	-2,164,796	-2,221,911
Total Liabilities & Equity	478,661	495,830	502,617	509,138	508,673	508,250

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

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 #13 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%	0.5	4.5	(3.5)	BBB-	BBB-	BB+
Social Contributions Growth %	4.0	7.0	1.0	BBB-	BBB-	BBB-
Other Revenue Growth %		3.0	(3.0)	BBB-	BBB-	BBB-
Total Revenue Growth%	1.5	3.5	(0.5)	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:

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

Today's Date

December 06, 2019
……………………………………………

Reviewer Signature:

Steve Zhang
……………………………………………………..
Steve Zhang
Senior Rating Analyst

Today's Date

December 06, 2019
……………………………………………

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.