

Issuer: Italy

Date of Rating Committee: 23/04/2020

Date of Appeal Rating Committee: 27/04/2020

Rating Committee Chair confirms that the Rating Action Report (RAR) is complete and correct, including:

Indicator of default is disclosed, where available (CDS Implied Rating) (Y) Indicator for economic development is disclosed (EM/DM indicator) (Y) Weightings of quantitative and qualitative factors are disclosed for changes in existing ratings or Outlooks and for newly assigned ratings (Y) SRM Output:

A QO Adjustment: -4 notches (-1 for Macroeconomic Policy and Performance, -2 for Public Finances, -1 for External Finances)

Final Rating: BBB- stable

Summary of Discussion

The appeal rating committee on 27/04/2020 discussed the following key issues:

The additional material provided by the issuer for the appeal committee;

Stability Programme 2020 (Documento di Economia e Finanza) key assumptions and variables; Potential for growth-enhancing reforms that could enhance public debt dynamics; Conclusions of the EU Council meeting and prospects for the creation of a European Recovery Fund. Potential implications for Italy's public finances.

Implications of European support (ECB Pandemic Purchase Programme (PEPP) and the additional crisis response instruments agreed by the Eurogroup) for Italy's sovereign financing.

The original rating committee on 23/04/2020 discussed the following key issues:

Implications of European support (ECB Pandemic Purchase Programme (PEPP) and the additional crisis response instruments agreed by the Eurogroup) for Italy's sovereign financing;

Recent political developments;

How the coronavirus crisis and the EU response is affecting the political backdrop; risks to the stability of the Conte government; potential future political scenarios;

Current status of lockdown measures and economic impact; potential future scenarios in relation to lifting of lockdown measures ("Phase 2");

Potential GDP growth post-recovery and the prospect of growth-enhancing reforms;

Fiscal outturns in 2019 and projections; record of fiscal performance;

Public debt dynamics; including assumptions around state-guaranteed loans (stock-flow adjustments), assumptions on marginal cost of new debt, and medium-term path of primary surplus. Sensitivities and risks around our debt projections;

Banking sector outlook and risks; risk of rise in non-performing loans as a result of the coronavirus crisis; recent trend and outlook for profitability, consolidation, funding, capitalisation, and lending; implications of ECB liquidity support measures for the sector; sovereign bank-nexus; Credit strengths and weaknesses, and rating peer comparisons. Potential rating actions, drivers, sensitivities and assumptions. The main opinions and conclusions of the committee are recorded in the RAC.