



Italy sovereign rating outlook

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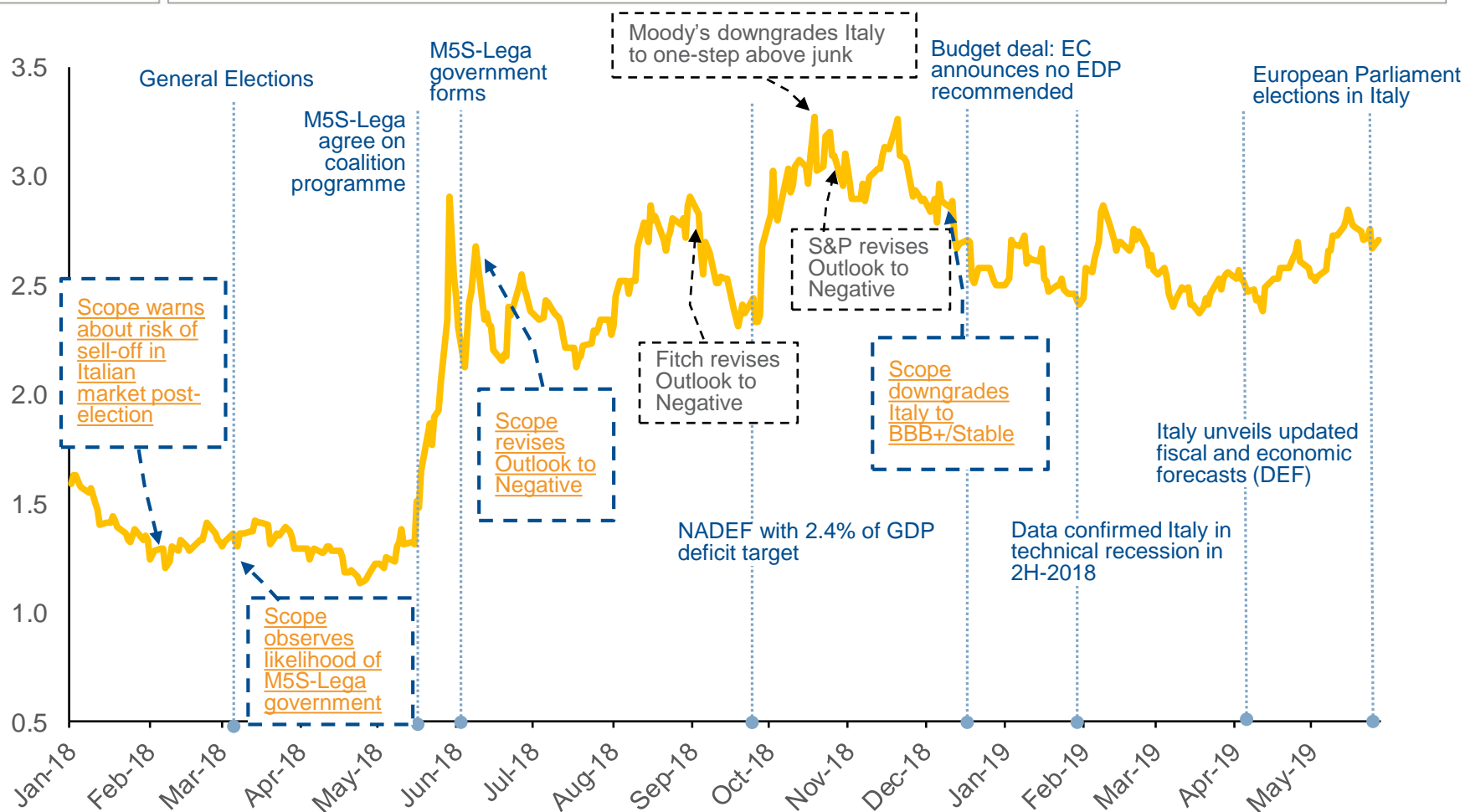


*Giulia Branz assisted the preparation of this presentation.

Presentation Deck, 28 May 2019, Frankfurt

Outlook on Italy

Timeline of events: 2018 to present

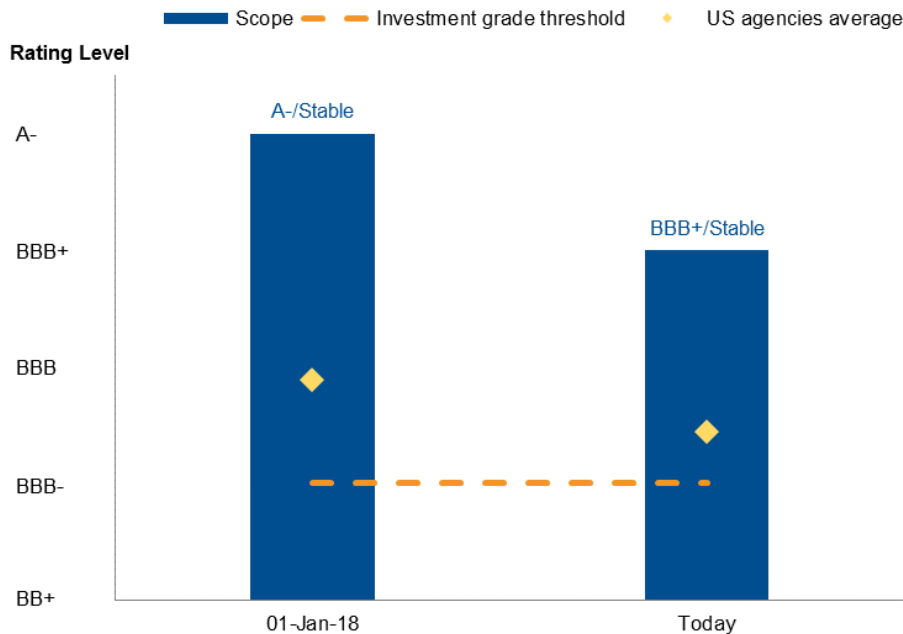


10-year Italian government bond yield spreads to Germany (%), as of 27 May 2019. Source: Bloomberg.

Outlook on Italy

Scope's assessment on Italy higher than that from US agencies

Scope rating versus US agencies



Source: Bloomberg, Scope Ratings GmbH

Drivers of Scope rating differential

- ❖ Scope's accounting of Italy's EU and euro area membership in the context of enhanced regional institutions
- ❖ Systemic financial importance of Italian debt and increased likelihood of multilateral support in severe crises
- ❖ Track record of primary surpluses and favourable debt structure
- ❖ Moderate private debt

Outlook on Italy

Sovereign rating drivers: Downside and upside

Drivers for a rating/outlook downgrade

- ↓ Questions on the direction of economic policymaking, risking rising debt ratio
- ↓ A weaker commitment to fiscal consolidation and structural reforms
- ↓ Tensions heighten with European institutions, compromising crisis-time access to European facilities

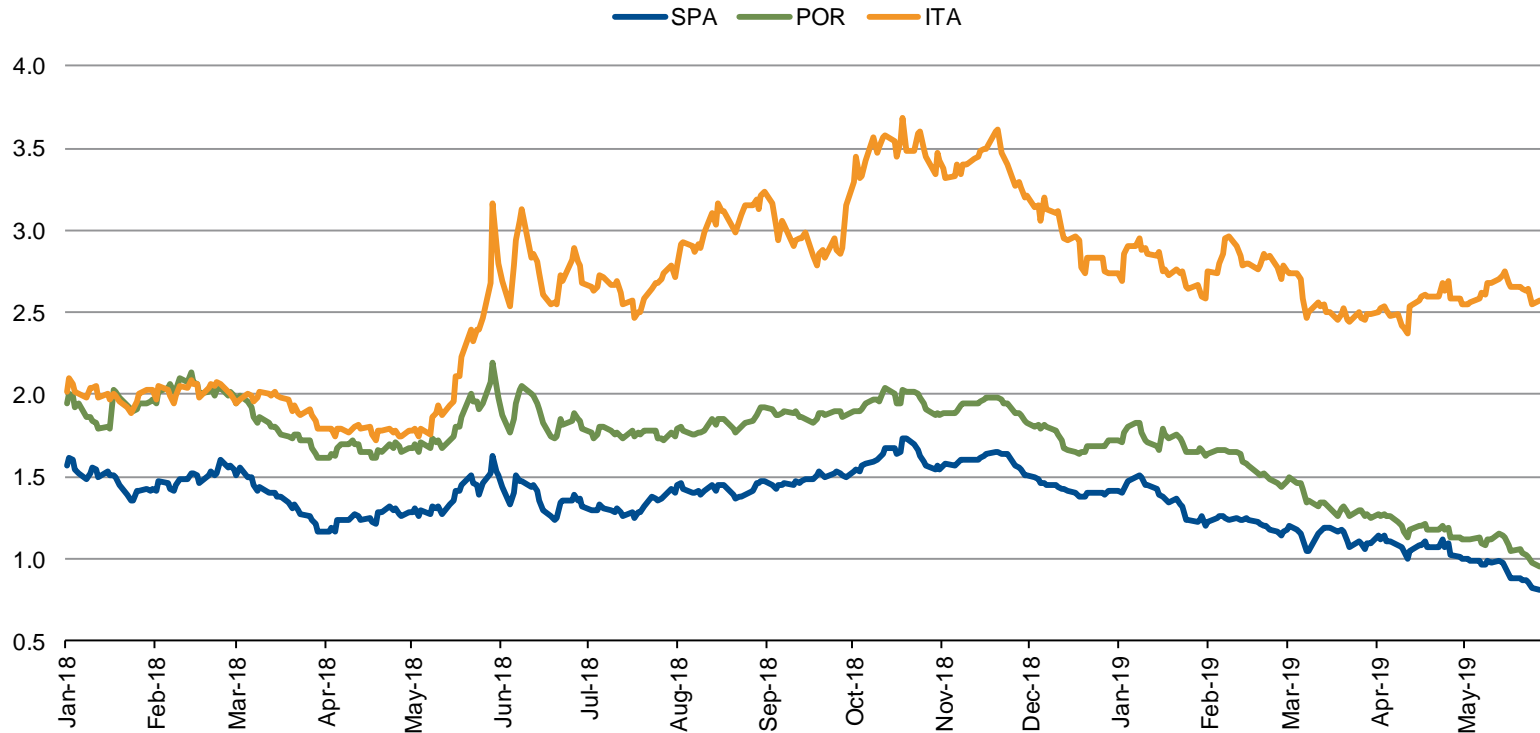
Drivers for a rating/outlook upgrade

- ↑ Renewed attention on fiscal consolidation and structural reform, supporting debt sustainability
- ↑ Relations with Europe prove less confrontational than anticipated

Outlook on Italy

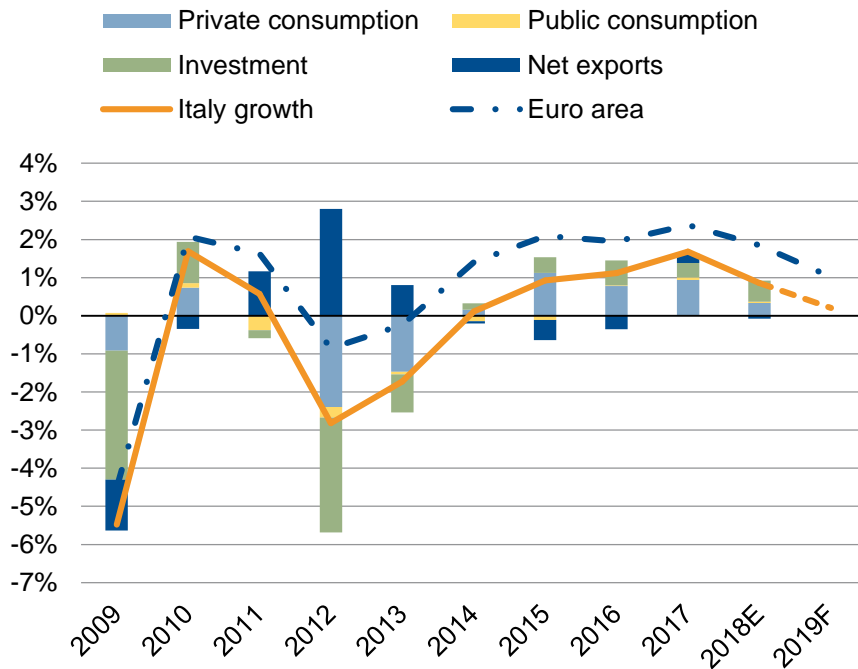
Sovereign bond yields have fallen since last November

10-year yield (%): Italy, Spain and Portugal



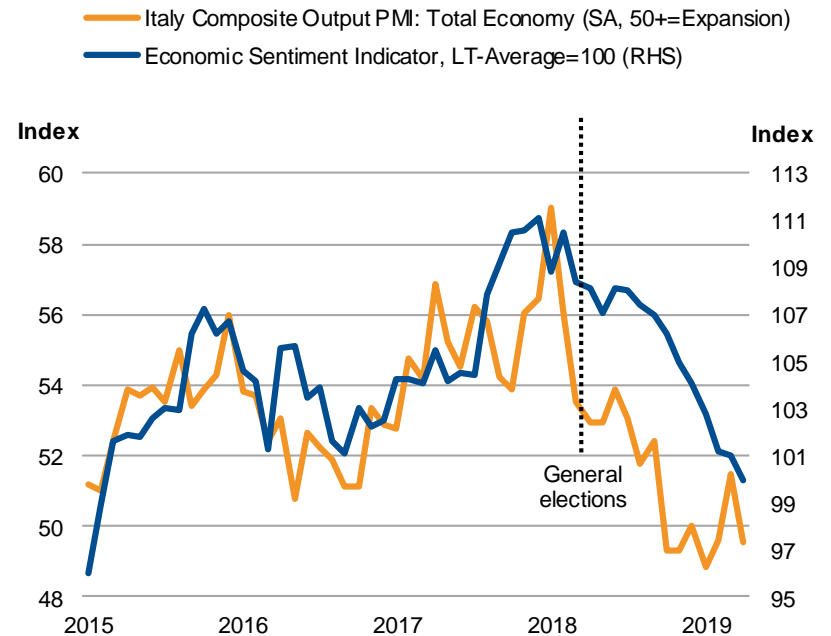
As of 27 May 2019. Source: Bloomberg, Scope Ratings GmbH.

Real GDP growth, and comparison with euro area average growth



Source: ISTAT, Scope Ratings GmbH

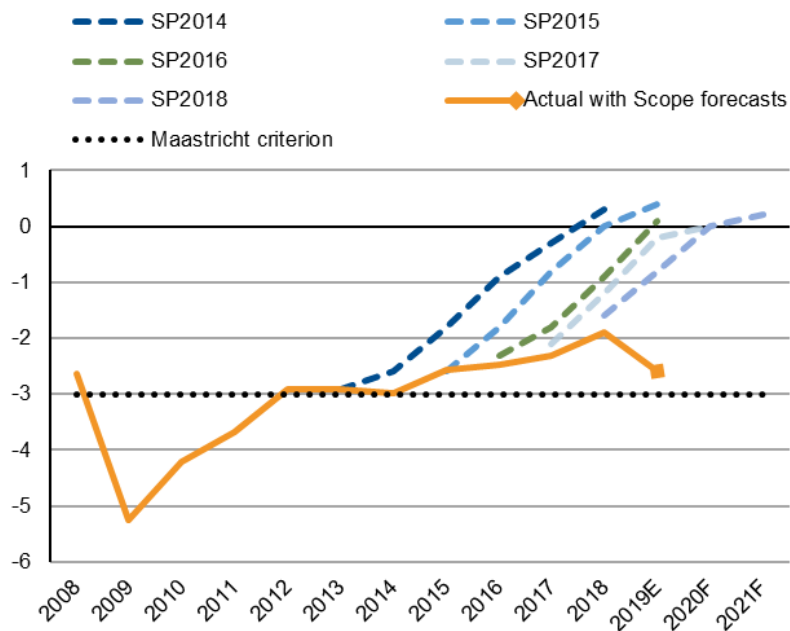
Composite PMI and Economic Sentiment Indicator



Source: IHS Markit, European Commission, Scope Ratings GmbH

Government balance projections in Stability Programmes, with 2019 forecast

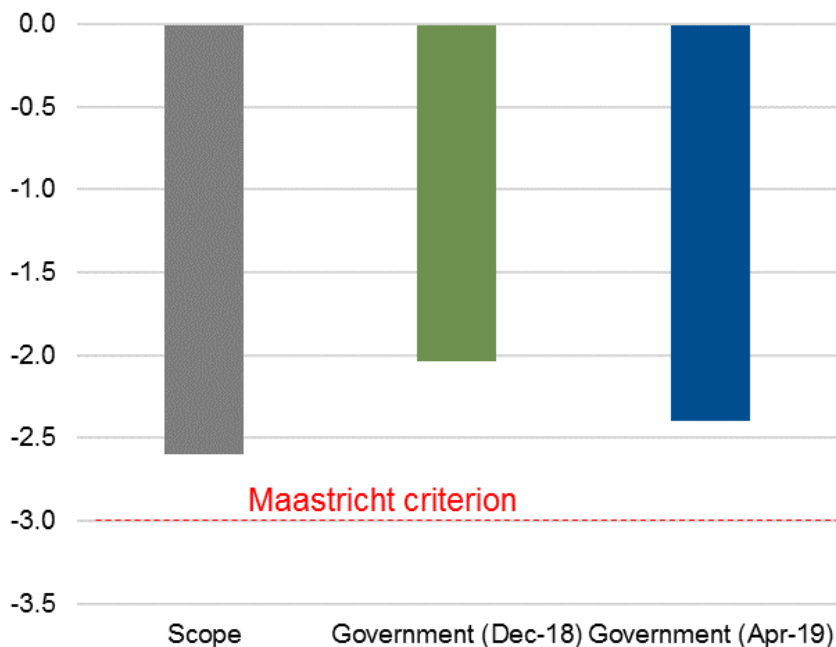
% of GDP



Source: European Commission, ECB, Scope Ratings GmbH calculations

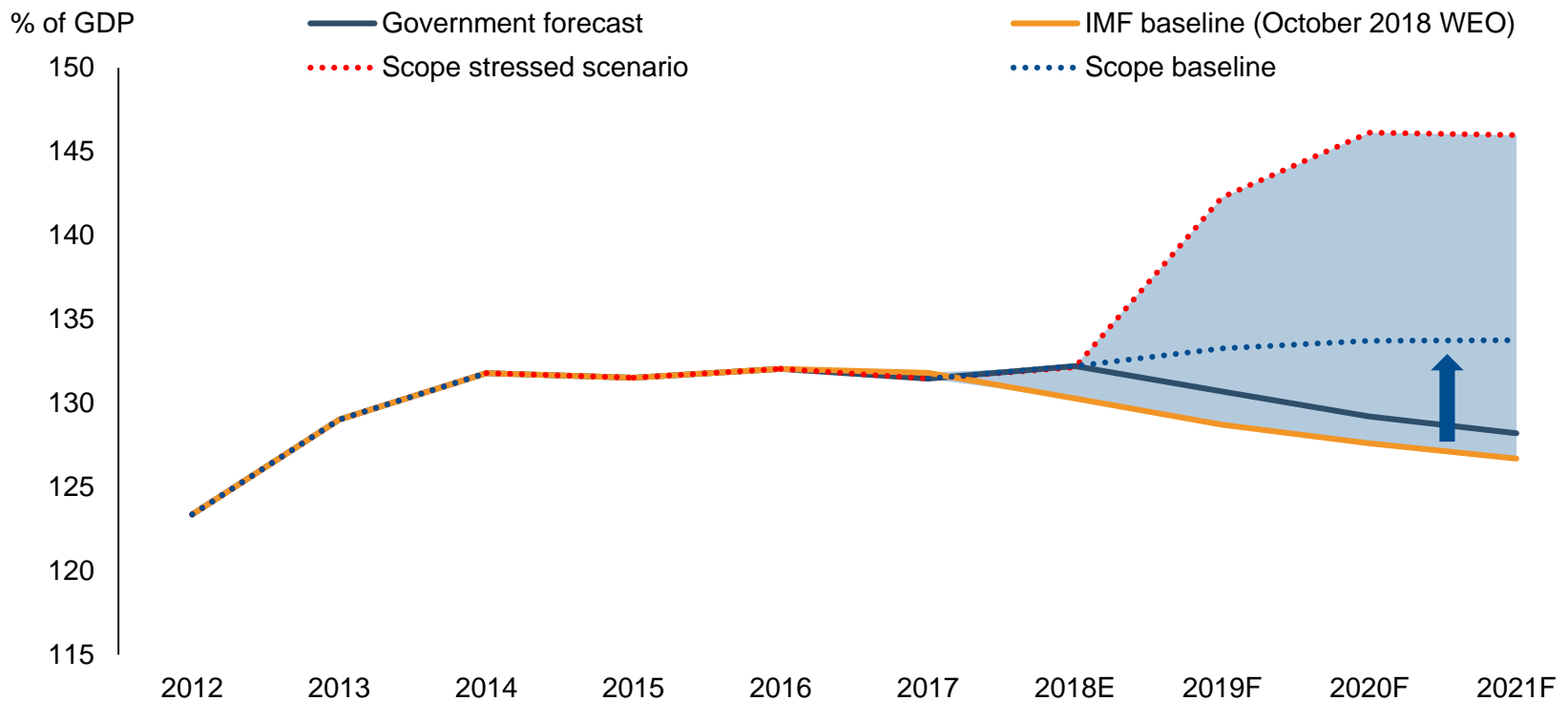
Projections of the 2019 budget balance, Scope vs Italian government forecasts

% of GDP



Source: Italian Ministry of Finance, European Commission, Scope Ratings GmbH

Scope debt sustainability baseline scenario vs other scenarios



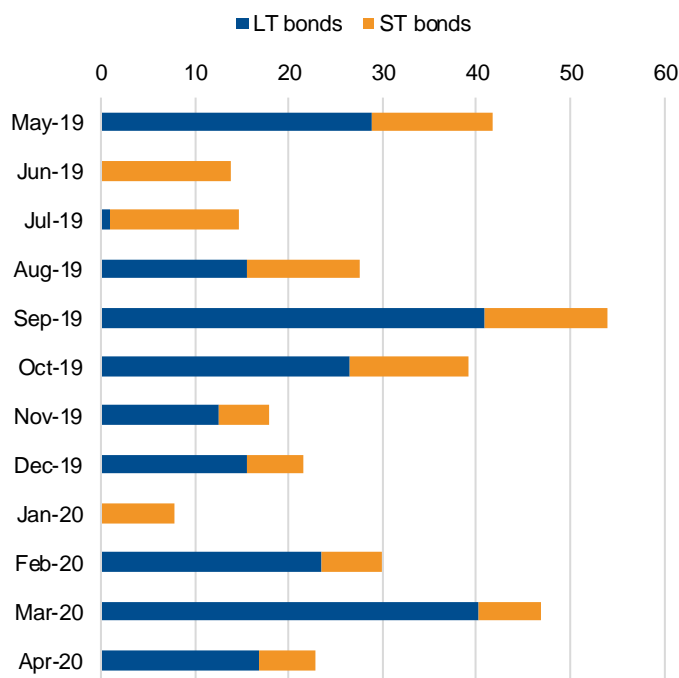
Source: IMFWEO, Italian Ministry of Finance, Scope Ratings GmbH

Outlook on Italy

Moreover, government financing needs are significant

Italian debt maturities by month

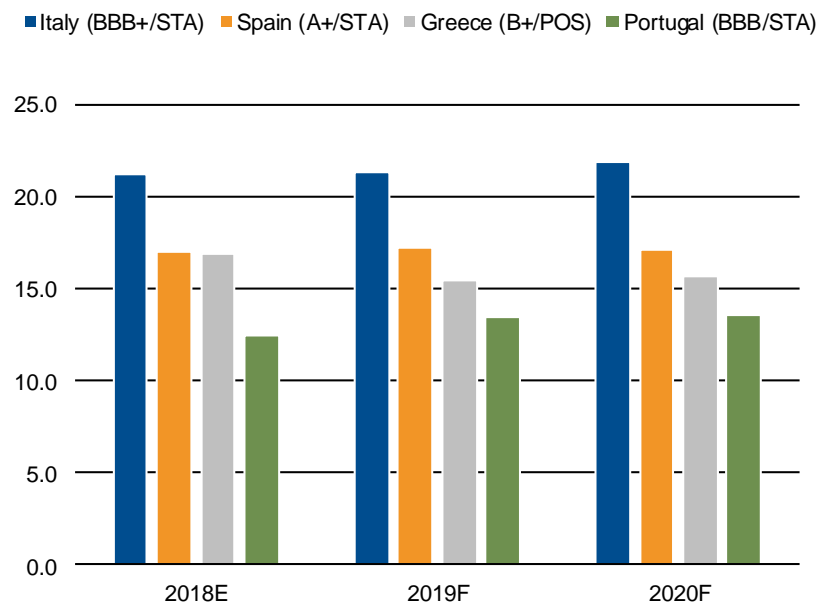
May 2019 to March 2020, EUR billion



Source: FT, Bloomberg, Italian Ministry of Finance, Scope Ratings GmbH

Gross government financing needs

% of GDP



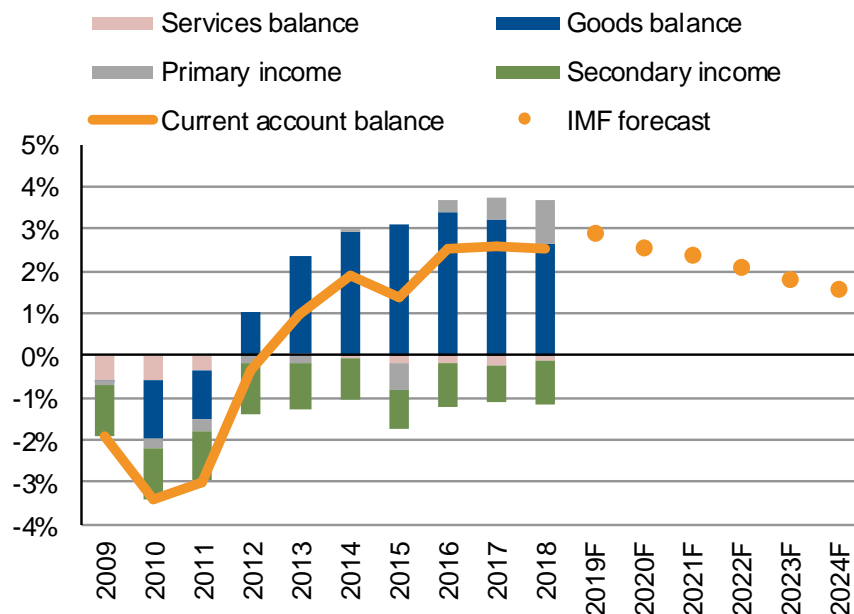
Source: European Commission, Fiscal Sustainability Report 2018, Volume 1, Institutional Paper 094 | January 2019

Outlook on Italy

External sector remains credit strength; sovereign-bank nexus a risk

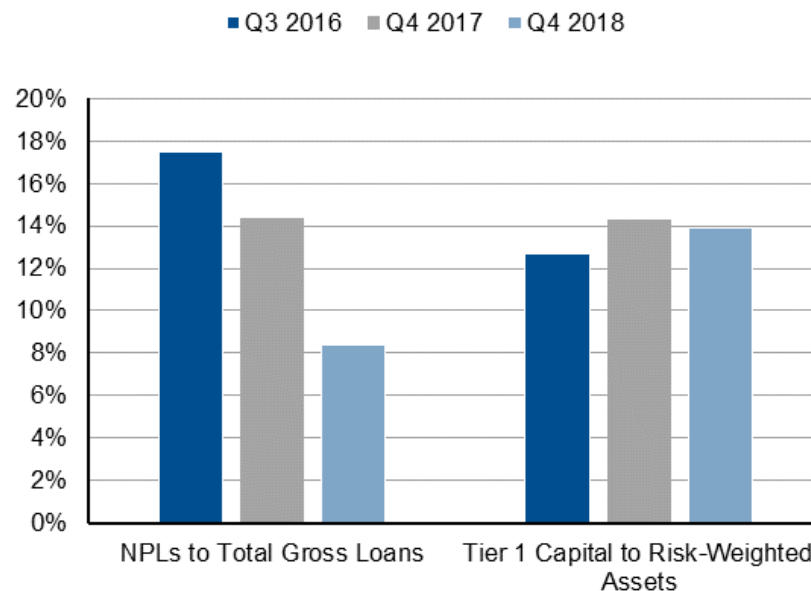
Current account balance

% of GDP



Source: Bank of Italy, Scope Ratings GmbH

Non-performing loans and tier 1 capital ratios



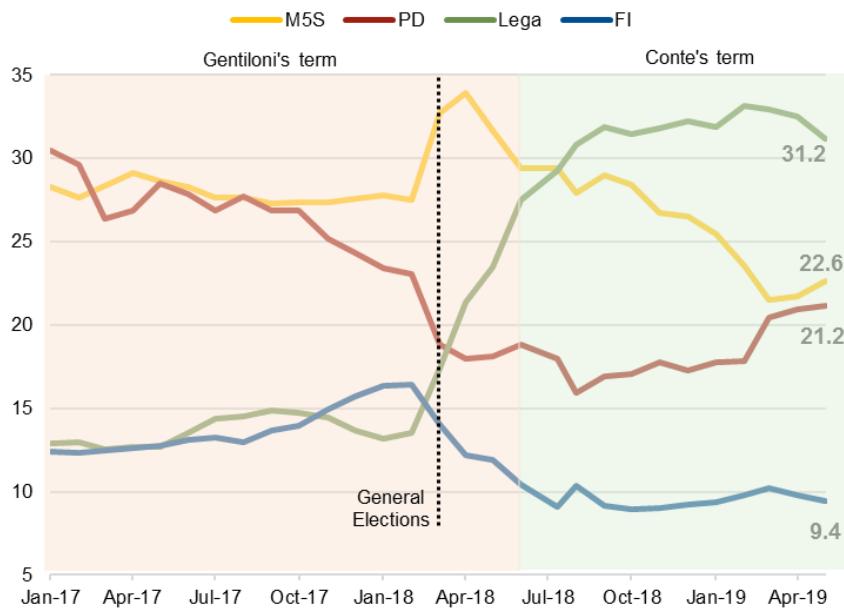
Source: Bank of Italy, Scope Ratings GmbH

Outlook on Italy

Amidst early election risk, Lega's centre-right's polling has strengthened

Opinion polls by party

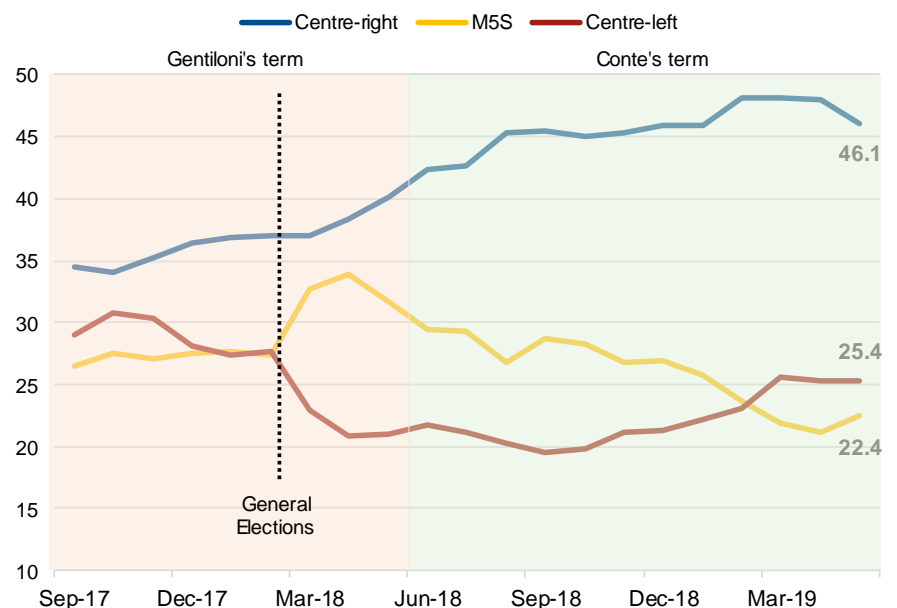
Jan/2017 to May/2019



*M5S=Five Star Movement; PD=Democratic Party; FI=Forza Italia.
Source: Various polling companies, Scope Ratings GmbH

Opinion polls by coalition group

Sep/2017 to May/2019



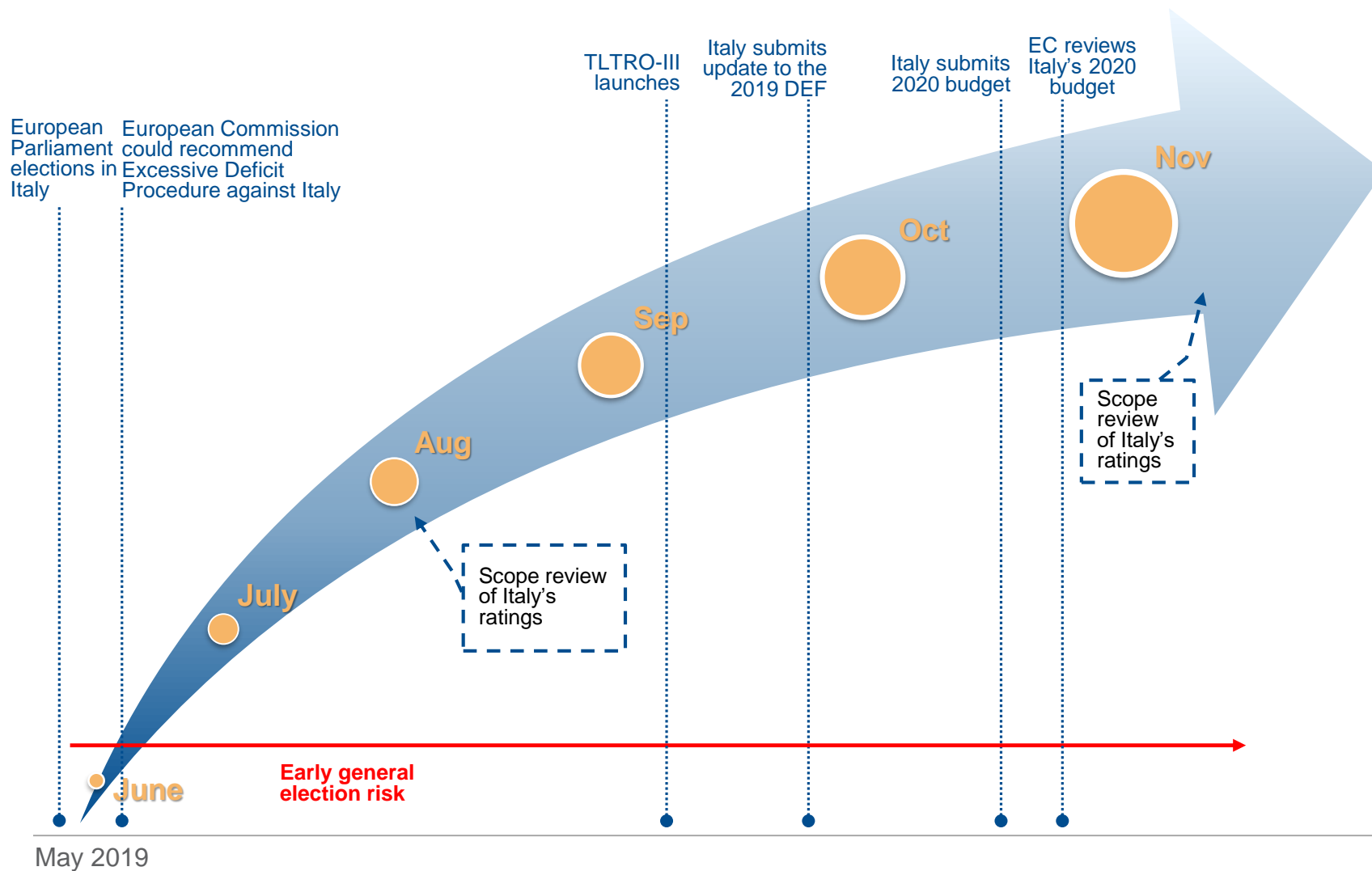
Source: Various polling companies, Scope Ratings GmbH

Examples of contested policy areas between M5S and Lega

- ❖ Fiscal policy (tax cuts versus Citizen's Income, reductions in debt/GDP)
- ❖ Security policy and immigration – “Salvini decree”
- ❖ TAV high speed rail between Turin and Lyon
- ❖ Criminal case brought against Salvini by Sicilian prosecutor
- ❖ M5S' push for Sunday/holiday closures of shops
- ❖ Disagreements over participation in China's One Belt, One Road
- ❖ Regional autonomy for northern regions
- ❖ President Conte's level of impartiality between the two parties

Outlook on Italy

Timeline of events: Moving ahead





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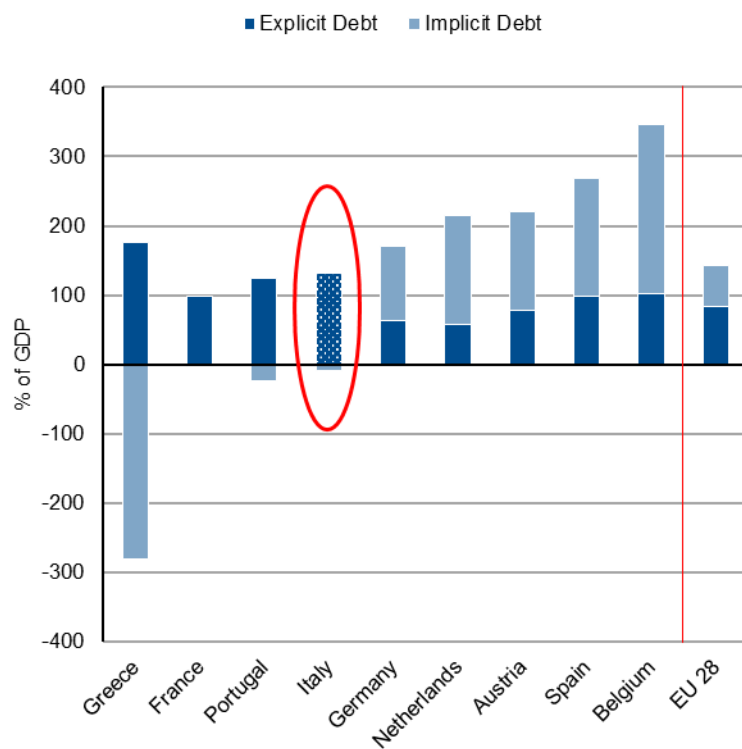
Haakon VII's gate 6
0161 Oslo



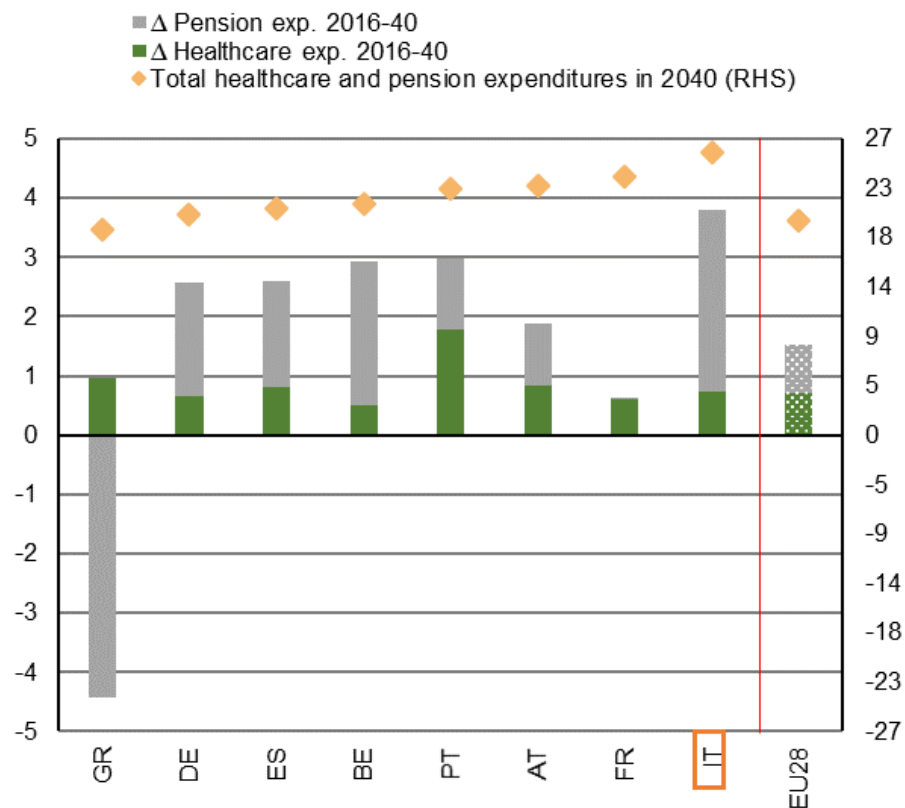
PARIS – FRANCE

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Explicit and implicit debt, % of GDP



Pension and healthcare expenditures, % GDP

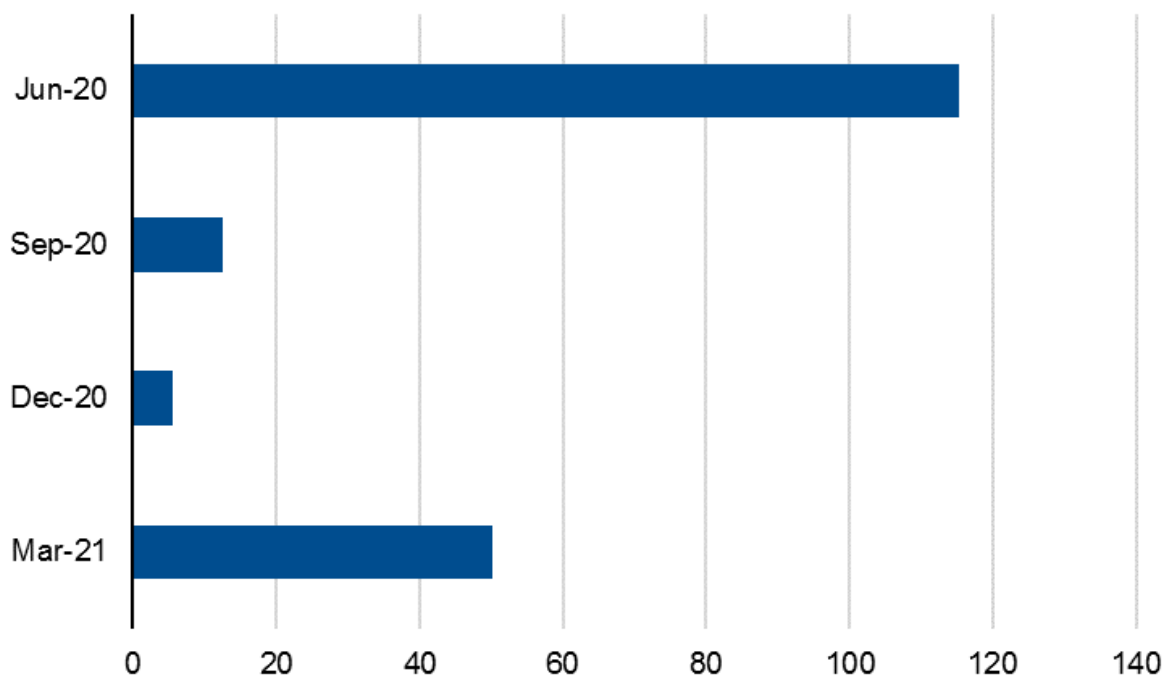


Source: <https://www.stiftung-marktwirtschaft.de/inhalte/themen/generationenbilanz/>

Source: EC Ageing Report 2018, Scope Ratings GmbH

TLTRO outstanding amounts by maturities – Italian banks

Total of banks that have disclosed, EUR billion



Source: Bloomberg, Scope Ratings GmbH

Debt sustainability analyses (assumptions)

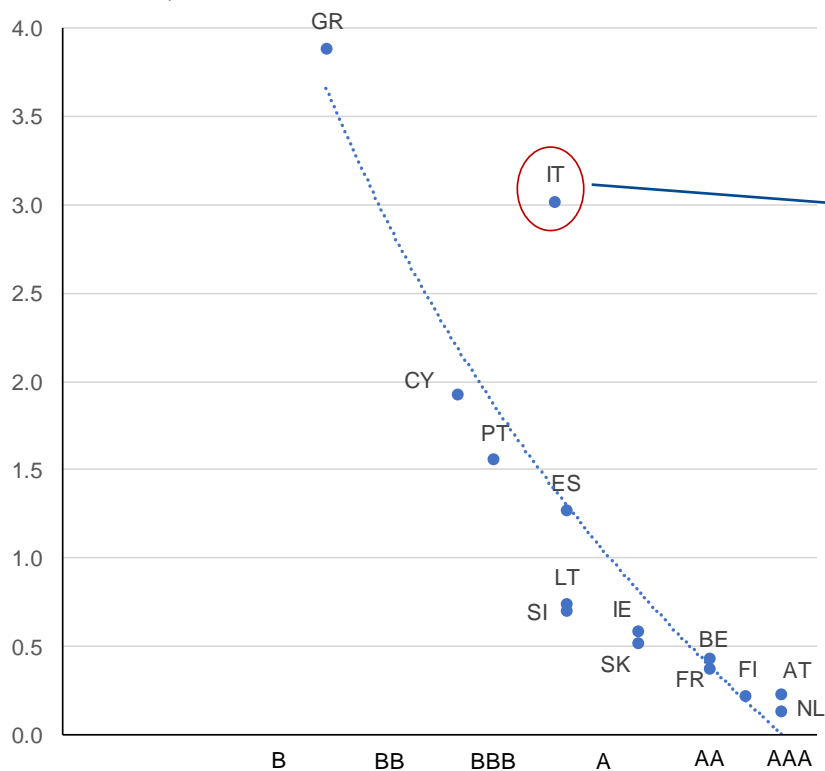
	2018E	2019F	2020F	2021F
Real growth, %YoY				
Scope Baseline	0.73	0.20	0.60	0.75
Scope Stress Case		-4.86	-1.10	1.55
Government Forecast	1.00	1.00	1.10	1.00
IMF Baseline (Oct-2018 WEO)	1.17	1.03	0.87	0.77
Primary Balance, % of GDP				
Scope Baseline	1.6	0.8	0.8	0.9
Scope Stress Case		-1.5	0.2	0.5
Government Forecast	1.7	1.6	2.0	2.4
IMF Baseline (Oct-2018 WEO)	1.8	1.7	1.6	1.5
Nominal Effective Interest Rate, %				
Scope Baseline	2.8	2.7	2.6	2.5
Scope Stress Case		3.1	3.3	3.3
Government Forecast	2.7	2.7	2.9	3.0
IMF Baseline (Oct-2018 WEO)	2.6	2.6	2.7	2.8
Debt, End of Period, % of GDP				
Scope Baseline	132.2	133.3	133.7	133.8
Scope Stress Case		142.3	146.1	146.0
Government Forecast	132.2	130.7	129.2	128.2
IMF Baseline (Oct-2018 WEO)	130.3	128.7	127.6	126.7

Source: IMFWEO, Italian Ministry of Finance, Scope Ratings GmbH

Outlook on Italy

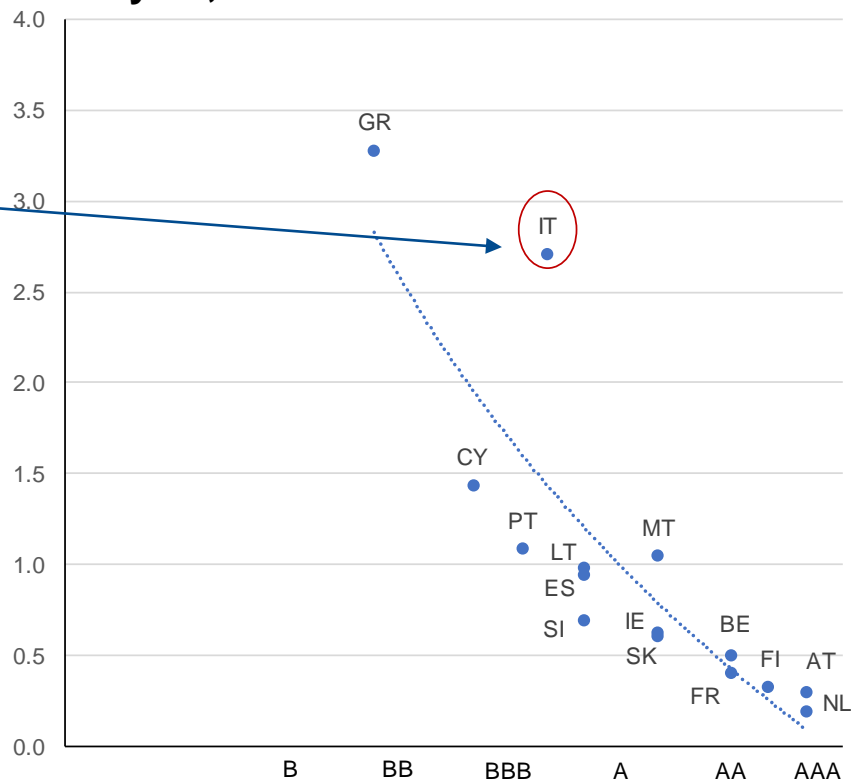
Annex: Market assessment on Italy more pessimistic than Scope's rating assessment

**Scope Ratings vs 10-Year Spread:
Oct 19, 2018**



*Spread to German Bunds. Source: Bloomberg, Scope Ratings GmbH.

**Scope Ratings vs 10-Year Spread:
May 27, 2019**



*Spread to German Bunds. Source: Bloomberg, Scope Ratings GmbH.

Additional documentation

- ✓ [Challenges regarding Italy's credit outlook remain, even as sovereign bond yields moderate](#) (28 Mar)
- ✓ [Italy's economic and fiscal underperformance may pose rating implications](#) (27 Feb)
- ✓ [Scope downgrades Italy's sovereign rating to BBB+ and changes Outlook to Stable](#) (7 Dec)



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