Highlights of the Sovereign Rating on the Republic of Italy

Updated Rating
Long-term Local Currency: A_i-
Long-term Foreign Currency: A_i-
Outlook：Negative
Previous Rating
Long-term Local Currency: A_i-
Long-term Foreign Currency: A_i-
Outlook：Stable

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Rating Opinions

United Ratings has decided to maintain the long-term local and foreign currency ratings of the Republic of Italy (hereafter referred to as “Italy”) at A_i-, but adjust the outlook from Stable to Negative. In view of the coming referendum on constitution revision in October 2016, the risks of political stability and policy continuity are rising significantly. The country’s banking sector has an extremely high NPL ratio, risk events and long-lasting low interest rate policy could trigger banking sector crisis. Therefore, even though the country’s micro-economy is recovering somehow, its fiscal consolidation is promoted, and external status remains stable, its sovereign ratings are very likely to be downgraded due to the increase of political and financial risks.

Reasons for Adjusting Outlook

- The uncertainties brought by the incoming referendum is increasing the risks of political stability and policy continuity.
- Similar to other European countries, terrorist attacks add up Italian domestic security risks, while as a principal passage in the Southern Europe for African and Middle East migrants, immigration crisis increases the country’s fiscal burden.
- The country’s economy is immerging from the continuous recession, but the growth tendency is weak.
- The fiscal deficit narrows gradually, and the high government debt burden is expected to rollback.
- The Non-performing Loan Ratio of the country's banking sector is extremely high, so risk events and long-lasting low interest rate policy may cause a crisis of the banking sector.
- The surplus in current account will keep achieved.

To sum up, the Italian economy has recovered to some extent, the fiscal consolidation keeps undergoing, the external status remains stable, and the government's payment ability in local and foreign currencies doesn't change significantly. But the result of the referendum to be held in October 2016 is facing a high degree of uncertainty; the risks of the banking sector is gradually disclosed, and the bailout plan or solution is still depending on the negotiation between the Italian government and the European Union. For the points mentioned above, United Ratings decided to adjust the outlook of the country's sovereign ratings in local and foreign currencies in the coming 1-2 years from Stable to Negative.

Key Indicators of the Sovereign Rating for the Republic of Italy

	2011	2012	2013	2014	2015	2016[f]
Nominal GDP（billion USD）	2279.8	2073.9	2130.7	2143.3	1814.8	1817.0
GDP per capita（USD）	38200.2	34716.8	35648.1	35848.2	30350	30390
Real GDP growth（%）	0.7	-2.9	-1.8	-0.3	0.6	0.7
Inflation rate (%)	2.9	3.3	1.3	0.2	0.1	1.3
Total lending/GDP (%)	166.4	178.9	166.4	187.8	186.2	184.2
Domestic credit growth (%)	4.4	6.5	-3.2	0.7	0.4	0.8
M2 growth (%)	0.6	6.9	2.8	3.5	3.8	4.2
Budget balance of governments/GDP (%)	-3.5	-2.9	-2.9	-3.0	-2.6	-2.4
Primary balance governments/GDP (%)	1.2	2.3	1.9	1.6	1.6	1.3
Public debt/GDP (%)	116.5	123.3	129.0	132.4	132.8	132.3
Current-account balance/GDP (%)	-3.1	-0.4	0.9	1.9	2.1	2.1

Source: Sovereign Rating Database of United Ratings.
Note: "f" stands for forecasts.