



**BANCA D'ITALIA**  
EUROSISTEMA

## Welcome address

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"Financial Stability and Regulation"

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### Opening

- It is wonderful to be here today to welcome you to the fourth biennial Financial Stability and Regulation conference organized by the Bank of Italy, the Baffi Centre at Bocconi University, and the CEPR. I wish to thank all the participants – keynote speakers, session chairs, paper presenters and discussants – for their contribution, as well as the scientific and organizing committees for their efforts in putting together this programme and arranging this event.
- Research insights are a necessary input to help policymakers address the challenges they face in their work. This is even more so the case when it comes to financial stability and macroprudential policy, an area that needs to be flexible as it grows in response to a fast-evolving financial environment. In my brief remarks today, I would like to share with you some thoughts on the important issues that the conference will address in more detail and depth, specifically on liquidity risk, digitalization, climate risk, and safe assets.

### Liquidity risk and the 2023 banking distress

- One year ago, with the global tightening of monetary policy going on in the background, we witnessed the most notable system-wide banking distress episode since the Global Financial Crisis (GFC). In a matter of weeks, four mid-size US banks failed amidst a loss of confidence by their depositors, and Swiss authorities had to assist with extraordinary measures the acquisition of an ailing globally systemic institution by its main competitor. Despite these tensions, the global banking system showed remarkable resilience, largely thanks to the comprehensive regulatory and supervisory reforms implemented following the GFC. These reforms likely prevented significant economic damage.<sup>1</sup>

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<sup>1</sup> See ['The banking crises of 2023: Some initial reflections'](#), address by Paolo Angelini, Deputy Governor of the Bank of Italy, at the 'Promoting Accountability in Times of Crisis' event hosted by the Corte dei Conti, Rome, 8 November 2023.

- Nevertheless, the resilience we observed should not make us complacent. The unfolding of the US banking distress last year points to the limits and risks inherent in an unevenly regulated banking system (including when it comes to managing crises), as well as to the need for improving the existing liquidity regulation.<sup>2</sup>
- Given this, I truly appreciate how the papers that we will discuss today and tomorrow tackle some of these important issues, from very different perspectives.
- In particular, over the course of these two days, we will hear about the ongoing secular changes in bank business models – driven, among other things, by the progressive reduction in the number of bank branches and by the decline in the ratio of loans to total assets – and about the consequences of these changes for financial stability, macroprudential policy, and financial regulation.<sup>3</sup>
- We will delve into the relationship between monetary policy rate changes, maturity mismatch, and financial stability. We will also be presented with evidence from historical data, which offer us new insights into when monetary policy changes could pose concrete risks to financial stability,<sup>4</sup> and we will hear suggestions for better policy design through the lenses of rigorous macroeconomic models.<sup>5</sup>
- We will look at the interaction between liquidity regulation and risk-taking by banks, which is paramount for overcoming the weaknesses in the regulatory architecture that were underscored by the 2023 distress,<sup>6</sup> and we will begin to scratch the surface of financial intermediation by non-bank financial institutions,<sup>7</sup> which we need to understand in order to improve our regulatory and policy frameworks.<sup>8</sup>

## Digitalization

- Another very current issue we will see covered in the programme is the growing digitalization of nearly every aspect of banks' business models, a development that offers opportunities while posing challenges. The potential impact of digitalization

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<sup>2</sup> Over recent years the Bank of Italy has been studying ways to further strengthen the crisis management framework and make it more effective, for example through an orderly liquidation framework for smaller banks, in line with the IMF recommendations (see De Aldisio, Aloia, Bentivegna, Gagliano, Giorgiantonio, Lanfranchi, Maltese, August 2019, '[Towards a framework for orderly liquidation of banks in the EU](#),' Banca d'Italia, Notes on Financial Stability and Supervision, 15, and IMF Staff, July 2018, '[Euro area policies: Financial sector assessment program – Technical note – Bank resolution and crisis management](#),' IMF, Country Report).

<sup>3</sup> These topics are covered by the keynote speeches by Prof. Strahan and Prof. Seru, as well as by the conference papers by [Benmelech, Yang, and Zator \(2023\)](#) and [Kundu, Muir, and Zhang \(2024\)](#) (mimeo).

<sup>4</sup> Conference paper [Jiménez, Kushinov, Peydró, and Richter \(2023\)](#).

<sup>5</sup> Conference paper [Boissay, Collard, Gali, and Manea \(2023\)](#).

<sup>6</sup> Conference paper [Bosshardt, Kakhbod, and Saidi \(2023\)](#).

<sup>7</sup> Conference papers [Hinzen \(2023\)](#) and [Giannetti, Jotikasthira, Rapp, and Waibel \(2023\)](#).

<sup>8</sup> See the speech by Luigi Federico Signorini, Senior Deputy Governor of the Bank of Italy, at the [54<sup>th</sup> Credit Day](#), Rome, 3 November 2022.

on households, firms and output is enormous, and we therefore need to understand each and every aspect of this transformation.<sup>9</sup>

- While initial concerns focused on how Fintech companies could disrupt traditional financial institutions, evidence suggests that banks have adapted to the new technologies and some have even acquired Fintech firms. Still, traditional institutions should continue to innovate in the provision of financial services to guard from other challenges in this field, like those that could come from BigTech companies that can leverage on the combination of a large amount of customer data and advanced technologies.<sup>10</sup>
- I therefore view the presentations we will hear on the uses and benefits of Big Data for banks as extremely timely. The papers we will discuss today give us a sense of the surplus created by such technologies for borrowers and lenders, and of the scope for technology adoption by banks. This type of research helps regulators and policymakers understand how the ongoing wave of innovations could affect the credit market structure.<sup>11</sup>
- In turn, policymakers find themselves having to keep pace with innovation in the financial sector. During the course of the conference, we will hear about how supervisors can take advantage of similar innovations – a phenomenon known as SupTech – and what results they can expect.<sup>12</sup>

## Climate risk

- The conference also touches upon the financial sector risks associated with climate change, one of the key policy challenges of our times. The transition to a net-zero carbon emission economy requires the introduction of financial disincentives for the use of fossil fuels and the adoption of environmentally sustainable technologies. An effective environmental policy and a sound financial sector go hand-in-hand to

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<sup>9</sup> Recent works by researchers at the Bank of Italy point to how digitalization was instrumental in the resilience demonstrated by the Italian economy during the pandemic and how it correlates to better bank performance (see [Branzoli, Rainone, Supino, 2024](#)). The Bank of Italy also follows this theme closely through different initiatives aimed at interacting with private operators directly, including: the *Fintech Channel*, the point of contact through which operators can dialogue easily and informally with the Bank of Italy, presenting innovative projects and technological solutions; the *Milano Hub*, the innovation centre supporting the digital evolution of the financial market and encouraging talent attraction and investment; and the *Regulatory Sandbox*, which allows supervised entities to test innovative products and services in the banking, financial and insurance sectors for a limited period (see [Fintech Channel](#), the [Milano Hub](#) and the [Regulatory Sandbox](#)).

<sup>10</sup> See '[Economic developments and monetary policy in the euro area](#),' speech by Fabio Panetta, Governor of the Bank of Italy, at the 30th ASSIOM FOREX Congress, Genoa, 10 February 2024, and the lectio magistralis on '[Digital innovation: Challenges and opportunities for central banks \(only in Italian\)](#),' by Alessandra Perrazzelli, Deputy Governor of the Bank of Italy, before the Italian Association of Financial Analysts and Consultants (AIAF), Milan, 15 June 2023.

<sup>11</sup> The conference paper [Yin \(2022\)](#).

<sup>12</sup> The conference paper [Degryse, Huylebroek, and Van Doornik \(2024\)](#) (mimeo).

encourage green investments across all sectors, including brown energy-intensive ones, which must reduce their environmental footprint.<sup>13</sup>

- Economists have been investigating the interplay between environmental policy, credit supply and green investments<sup>14</sup> and, more broadly, the repercussions of climate change for the economic and financial systems.<sup>15</sup> As a contribution to this avenue of research, I find empirical analyses on the pricing of transition risk by financial markets in reaction to large-scale environmental policies to be very interesting. They shed light on the interplay between governmental policies, investors' willingness to finance the green transition and financial stability.<sup>16</sup>

### Safe assets

- Last but not least, this conference touches on the key theme of the provision, role, and effects of safe assets in financial markets. Such issues are particularly important in the euro area, where the absence of a European safe asset might hamper the development of a liquid, diversified, and resilient Capital Markets Union.<sup>17</sup>
- The contributions offered during this conference should help us better understand two specific issues related to safe assets. First, we will discuss the potential financial stability implications of crowding out private safe asset creation through public safe asset supply.<sup>18</sup> Second, we will also dig deeper into how satisfying demand for safety leads to long intermediation chains, creating interconnections that can be a source of distress propagation during crises.<sup>19</sup>

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<sup>13</sup> Regarding these issues, the Bank of Italy is putting in relentless effort on multiple fronts. As an investor, the Bank of Italy integrates ESG criteria in the management of portfolios not associated with the conduct of monetary policy, as well as engaging in dialogue with high-emitting firms to enable better evaluation of their transition plans. As a supervisor, the Bank of Italy monitors the exposures of regulated intermediaries to both physical and transition risk, with an eye to combatting greenwashing. In addition, in April 2022, the Bank of Italy published its '[Supervisory expectations for climate-related and environmental risks](#),' with the goal of raising banks' awareness of climate risk. For these efforts, the Bank of Italy was recognized by the Green Central Banking Scorecard as the second greenest G20 central bank – see '[Il contributo della Banca d'Italia al dibattito e alle strategie sulla sostenibilità](#),' address by Alessandra Perrazzelli, Deputy Governor of the Bank of Italy, at Assolombarda, Milan, 15 February 2023 (only in Italian); and the paper on decarbonisation strategies by Deputy Governor [Angelini \(2024\)](#).

<sup>14</sup> Contributions from Bank of Italy economists on this topic include [Accetturo, Barboni, Casciaro, Garcia-Appendini and Tomasi \(2022\)](#), [Apicella and Fabiani \(2023\)](#), and [Aiello and Angelico \(2023\)](#).

<sup>15</sup> Contributions from Bank of Italy economists on this topic include [Alpino, Citino, De Blasio and Zeni \(2022\)](#).

<sup>16</sup> Conference paper Bauer, Offner and Rudebusch (2023) (mimeo).

<sup>17</sup> The issuance of joint bonds under the Next Generation EU programme shows that progress towards some form of euro-area public safe asset is possible. Research at the Bank of Italy shows that the gains associated with fiscal diversification would be sizable ([Pallara and Renne, 2024](#)). Risk-adjusted redistribution mechanisms could be devised to avoid mutualized debt issuance leading to the systematic transfer of resources to countries with the highest public debt levels (see [Cioffi, Rizza, Romanelli and Tommasino, 2019](#), as well as the reference to this contribution made by Governor Visco in his [Concluding Remarks for 2020](#)).

<sup>18</sup> Conference paper [Altinoglu \(2023\)](#).

<sup>19</sup> Conference paper [Farias and Suarez \(2023\)](#).

## Conclusion

- I conclude by again thanking the keynote speakers, session chairs, presenters, discussants, and all the other participants for being here today. I wish you all two days of very fruitful exchange and discussion.

