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The economic situation and monetary policy

The global economy is experiencing a period of great uncertainty. Russia's attack on Ukraine is having serious repercussions on manufacturing and on trade and is driving up inflation, which in Europe in particular reflects the continuing and exceptional rises in energy commodity prices, and to a lesser extent, of food prices. The outlook is also being affected by the ongoing difficulties in international supply chains for intermediate goods, recently made worse by the restrictions introduced in China to counter the spread of COVID-19 cases. There is the risk of a sharp slowdown in some advanced economies, above all in the United States, where the containment of inflation, also caused by a considerable increase in aggregate demand and in labour costs, requires a particularly vigorous monetary policy response. Global economic activity in any case remains exposed to possible resurgences of the pandemic.

In the Eurosystem's projections of early June, euro-area growth in 2022 was lowered to 2.8 per cent from the 4.2 per cent forecast in December. This increase had already largely been achieved thanks to the strong recovery in 2021, and implies an expansion lower than 1 per cent over the course of this year. GDP is currently being driven by the full re-opening of business activities, especially in services, which are also benefiting from the impetus provided by the strong resumption of tourism; the negative effects of the energy shock on household spending are mitigated by the ample availability of savings, by fiscal measures and by the gradual recovery of the labour market.

In June, consumer prices increased by 8.6 per cent in the euro area compared with the same month last year. Their growth continues to be fuelled by the rise in oil prices and above all gas prices that, following further cuts in supplies from Russia, have risen sharply from €80 to more than €180 per megawatt hour since mid-June; they stood at around €30 one year ago, when flows from Russia had already declined, and at just over €10 before the pandemic. Net of the most volatile components, inflation has reached 3.7 per cent, since it, too, is influenced by the transmission of higher energy costs to the final prices of other goods and services.

Inflation is likely to remain very high on average this year; it is expected to fall markedly in 2023 and then return to around 2 per cent in 2024. The latest forecasts from the leading international institutions and private analysts, as well as those inferred from the prices of financial assets indexed to consumer prices, confirm that long-term expectations remain broadly in line with the European Central Bank's (ECB) definition of monetary stability.

Nevertheless, in the current environment of high inflation, a gradual normalization of monetary policy, which had been calibrated to contain deflationary and recessionary pressures during the most serious phase of the pandemic crisis, is needed. The risk that, in the long run, exceptionally high price increases will eventually impact expectations or trigger a price-wage spiral should be countered, although wage growth, despite having strengthened, remains moderate for the time being. The ECB Governing Council therefore decided to end its net asset purchases from the end of last week. In addition, it announced its intention to raise the key interest rates by 25 basis points at the meeting on 21 July; an even larger increase could be appropriate in September if the medium-term inflation outlook does not improve. The pace of the subsequent gradual but sustained process of interest rate increases will depend on the new economic and financial data and on how they will affect the prospects for prices.

Partly because of the unjustified perception of a particularly aggressive monetary policy stance, the first half of June was characterized by a sharp upward revision of expectations for key interest rate rises and by an abrupt increase in long-term interest rates, which play a key role in the economic activity of firms and households. Tensions have overwhelmed the markets for public and private bonds and spread to the equity market. The considerable widening of yield spreads between the government bonds of euro-area countries perceived as being more vulnerable and German bonds points to growing risks of market fragmentation along national borders.

Given these trends, at an extraordinary meeting on 15 June, the Governing Council decided that reinvestments under the pandemic emergency purchase programme (PEPP) would be conducted flexibly, and announced the acceleration of work to create a new tool designed to counter fragmentation. These measures aim to ensure as homogeneous a transmission of monetary policy as possible across euro-area countries, ensuring the smooth normalization needed to bring inflation back into line with the price stability objective.

The announcement of the Council's decisions contributed to a sudden and significant reduction in public bond spreads; the peak of around 250 basis points reached in the spread between Italian and German ten-year government bond yields shortly before mid-June is inconsistent with the fundamentals of Italy's economy. The context is still one of high volatility: it therefore remains crucial to prevent financial conditions from becoming excessively tight, as this would have serious repercussions for financial stability, for economic activity and, ultimately, for medium-term price growth. It is essential that monetary policy action be combined with a clear determination on the part of the fiscal authorities to keep the public finances on an even keel.

Geopolitical tensions are having a marked impact on the Italian economy too, which, together with that of Germany, is one of those most dependent on commodity imports from Russia. In January, we expected output growth to be above 3 per cent on average in the years 2022-23; in the June baseline scenario, in which war-related tensions are assumed to persist throughout 2022 but with no suspension of gas supplies from Russia, growth has been revised downwards, by 2 percentage points for the two years as a whole, close to the values of the euro area. Inflation, which in June exceeded 8 per cent in Italy as well (four fifths of which due to the direct and indirect effects of energy and food prices), is holding back growth by significantly compressing incomes in real terms, only partly offset by fiscal measures.

In an adverse scenario featuring a halt in supplies from the third quarter of this year, only partially replaced by other sources, GDP would contract on average in the years 2022-23, and return to growth in 2024. The direct effects of an interruption on the more energy-intensive sectors, further increases in commodity prices, a more marked slowdown in foreign trade, a deterioration in confidence and an increase in uncertainty would all contribute to the worsening of the macroeconomic situation.

Substantial support to economic activity is in any case coming from the measures outlined in the National Recovery and Resilience Plan (NRRP), which is being implemented according to the set deadlines. In the coming weeks, the European Commission will assess whether the 45 milestones and targets agreed for the first half of 2022 have effectively been achieved, which is linked to the disbursement of a new €21 billion tranche of funding. For this period, the Plan envisaged progress on major reforms, such as the code of public contracts and public employment, as well as the launch of several investment programmes. The difficulties encountered in awarding a number of tenders have not compromised the ability to stick to the timeframe and achieve the expected results.

In the coming months, the commitment to implementing complex reforms, such as those for competition and the justice system, will need to be flanked by a gradual acceleration in investment programmes. If local authorities have difficulty in planning and implementing measures, it will be important to make timely use of the technical support instruments already envisaged. Rising energy prices and problems in the supply of raw materials pose further challenges. These difficulties, which are being countered by specific compensation measures already partly introduced, do not require a radical review of the Plan, nor do they imply a slowdown in its implementation. On the contrary, they make it even more urgent to step up the measures relating to the green transition, also by using the additional resources made available by the REPowerEU programme.

Banks

Italy's banks are responding to this difficult cyclical situation from a position of substantial equilibrium. At the end of March, the CET1 ratio was equal to 14.6 per cent; despite the resumption of dividend payments, it remains higher than it was before the outbreak of the pandemic. In the first quarter, the annualized return on equity came to 6.4 per cent, less than in the corresponding period of last year, but slightly higher than the level recorded for 2021 as a whole. The new non-performing loan (NPL) rate, computed on an annualized basis and adjusted for seasonal effects, fell by 0.2 per cent in the first three months of this year, to 1 per cent; in the absence of significant disposals, the stock of these loans net of loan loss provisions and, again, relative to total loans, remained broadly unchanged. By contrast, losses on the securities portfolio associated with market volatility are on the rise.

Credit supply conditions have become less favourable in recent months, although lending to the non-financial private sector continues to grow, albeit at a moderate pace for firms. The liquidity position of the latter nevertheless remains good. Possible liquidity needs associated with the economic fallout of the war could also be met through State-guaranteed loans; in fact, the new credit support measures taken by the Government after the outbreak of the conflict in Ukraine extended the application window for these loans until the end of this year, in line with the EU's State Aid Temporary Framework.

The rise in interest rates is not expected to halt credit growth. The impact on banks' profitability should be positive overall, owing to the increase in net interest income, whose performance will depend on the maturity structure of individual banks' assets and liabilities, with quite significant differences among intermediaries.

Over the medium term, the amount of additional loan loss provisions corresponding to the rise in NPLs should be more than offset by the positive impact of higher interest rates on net interest income.

A fall in Italian government bond prices has a direct impact on regulatory capital, even when the corresponding losses are not recorded in the income statement. If we consider the stock of on-balance-sheet securities recorded at market value at the end of May, it can be estimated that an increase of 100 basis points along the entire yield curve would lead to a reduction of around 20 basis points in the CET1 ratio.

The withdrawal of the support measures put in place to address the pandemic crisis is ongoing, with no significant repercussions on credit quality. Although it is increasing, the share of loans classified as NPLs that have benefited from moratoriums remains relatively low, while that of loans for which banks have recorded a significant increase in credit risk since origination (classified as 'Stage 2' according to international accounting standards) is diminishing. The data on delays in payments on performing loans do not show signs of a significant deterioration for now.

The quality of State-guaranteed loans to the firms hit hardest by the pandemic, which can be requested until the end of June, also continues to be good. The new NPL rate is still low, although for loans granted in the early stages of the pandemic, the grace period during which firms were permitted to make just interest payments is now ending. The preliminary data also suggest that only a few borrowers have availed of the recently introduced possibility of requesting an extension.

Direct exposures to the countries affected by the war have remained broadly stable; the intermediaries with which these claims are concentrated have reviewed their accounting classifications and increased their loan loss provisions accordingly. The ECB and Banca d'Italia have urged banks to carry out in-depth analyses of the solvency outlook for the firms hardest hit by the consequences of the conflict, in particular those most impacted by the extraordinary increase in energy costs. Recognizing the heightened risks involved, many banks have started to increase loan loss provisions on these exposures as well.

As I recalled earlier, there is a real risk of a contraction in economic activity. Policies for the distribution of profits and for provisions must take due account of the heightened uncertainty and the considerable downside risks to macroeconomic developments.

Supervision, crisis management and banking union

Over the past few years, Banca d'Italia's supervisory action on the less significant banks has aimed at identifying the most fragile intermediaries ahead of time and requesting increasingly intensive remedial actions to prevent their economic and financial conditions from deteriorating. This has led to more robust small and medium-sized banks overall, as witnessed by the general improvement in capitalization levels and the reduction of risks, which have also benefited indirectly from support measures for access to credit introduced by the Government to address the effects of the pandemic crisis.

At the end of 2020, we had conducted a survey on the sustainability of the business models of a large sample of less significant banks, followed in 2021 by actions tailored to the conditions of the individual banks involved. While the situation is balanced for most banks, elements of fragility remain in some cases, especially in relation to banks' ability to generate income flows suited to managing risks, funding innovative investments and remunerating capital. For some less proactive banks with deficiencies in management, the weaknesses identified may jeopardize the sustainability of their business model to the point that they may become non-viable; in these instances, they have then been called on to make a rapid assessment of options to overcome the crisis, including through possible mergers with other banks.

In recent years, a special public fund has been established to support the orderly winding-up of banks with total assets of below €5 billion, which can only be availed of until next November. In view of the approaching deadline, new instruments need to be found to finance the restructuring of the most fragile institutions, when possible preventing crises and the resulting negative externalities for the whole sector. While it is still desirable for operators to enter the market that are specialized in bank restructuring and equipped with the capital resources and professional skills necessary to support their revitalization, this need could also be met by the banking system itself setting up a dedicated vehicle funded at market conditions and supported by public entities.

Supervisory activities pay the utmost attention to the adequacy of corporate governance, to the professional profile of managers, and to the appropriateness of the time that directors spend on performing their duties. Corporate governance systems that value professional skill sets, are open to innovation, and are capable not only of facilitating the formulation of strategies consistent with the new

competitive scenario but also of adequately monitoring new risks, are indispensable for the stability of individual intermediaries and that of the banking system as a whole. On the other hand, weaknesses in these areas, especially shortcomings in mechanisms for balancing powers and decision-making processes, have been one of the main causes of banking crises in recent years.

Corporate governance surveys suggest that there is room for improvement in the levels of diversification of boards of directors by gender and expertise. In the less significant banks, women are particularly under-represented in senior management roles and their numbers must be increased, also in line with Banca d'Italia's most recent provisions and recommendations. There is, moreover, a clear need to strengthen the capacity to innovate and to safeguard against the related risks by increasing the presence of IT experts; critical scrutiny of managerial proposals and efforts to discuss key issues thoroughly also need to be stepped up.

The need to strengthen corporate governance, to formulate and implement appropriate strategic plans and to pursue greater efficiency and better risk management at group level, while maintaining strong local ties, underpinned the choice of the legislature to launch the cooperative credit banks reform of 2016. Six years later, despite several initial difficulties and an unfavourable cyclical situation, the new groups have reduced their share of non-performing loans, lowered cost-to-income ratios, and almost completely closed the profitability gap that was separating them from the banking system average. At the same time, they have continued to support the local economies where they operate and increased their market share in terms of financing to households and firms. They have played a prominent role in putting public support measures in place to counter the effects of the pandemic crisis. Banca d'Italia remains open to dialogue with the cooperative credit banking groups in order to identify areas where supervisory practices and regulation can be simplified so as to take due account of their particular features.

The completion of the banking union, which currently rests on the two pillars of the Single Supervisory Mechanism and the Single Resolution Mechanism, cannot neglect the establishment of the third pillar, a single deposit insurance scheme with a full loss-absorbing capacity when it is completely phased in. However, in the current political, economic and financial environment, it has become clear that it is not possible at present to find a balance between the different positions of the Member States.

The Euro Summit statement of 24 June therefore took note of the Eurogroup's decision of 16 June to focus its work on banking union in the coming months solely on the review of the regulatory framework for bank crisis management. The current framework still does not provide effective tools for small and medium-sized banks: these banks are excluded from the application of the resolution procedure due to failure to pass the 'public interest test' and, in the absence of other solutions and in the event of a crisis, would be destined for piecemeal liquidation, unsuitable for ensuring an orderly market exit. The inefficiency of the current situation is compounded by the limited room for manoeuvre available to deposit guarantee funds, which risk being unable to provide sufficient support to ensure the transfer of assets and liabilities to a potential buyer, thereby avoiding corporate dismantling and serious consequences for unprotected creditors, for customers and for employees.

The Eurogroup has specifically agreed that the main elements of the review should be: a harmonized rewriting of the concept of public interest in order to extend the application of the resolution procedure to more banks, including smaller ones; finding more sources for resolution funding, which is necessary to make the above-mentioned extension feasible, through a greater involvement of guarantee funds and a 'least cost criterion' test based on common criteria at European level but managed by national authorities; and the harmonization of specific elements of Member States' insolvency regimes to make them consistent with the European framework. The European Commission has been invited to consider the submission of a proposal and the co-legislators called upon to complete the relative work by the beginning of 2024.

As part of this general approach, some important aspects still need to be defined, starting with the expansion in the number of banks that can access the resolution framework. It will also have to be made clear how the minimum requirement for own funds and eligible liabilities (MREL) will apply to small and medium-sized banks, which, as a result of the abovementioned expansion, would be destined for resolution. Given their limited capacity to place financial instruments on the capital market, applying a bail-in to these banks, even at the minimum 8 per cent of total liabilities needed to access the single resolution fund, would ultimately affect depositors as well as senior creditors.

In our assessment, a reasonable extension of the range of banks that can access the resolution procedure could be feasible, provided that there is an extension of the intervention capacity of the deposit protection fund made possible by removing the super-priority, potentially accompanied by a reduction in the minimum bail-in required to access the resolution fund. By facilitating

compliance with the least cost criterion test, this removal would also improve the ability of the funds to intervene (alternatives to repaying protected deposits) to support the disposal of assets and liabilities in national liquidation procedures. These considerations are confirmed by the results of an impact analysis conducted last year by the European Banking Authority at the request of the Commission. The analysis pointed out that, under realistic loss scenarios, a significant number of intermediaries (including some of the banks for which, in the event of a crisis, a resolution procedure would be triggered) would currently not be able to undergo a minimum bail-in of 8 per cent of liabilities without affecting depositors.

Initial estimates made by Banca d'Italia confirm that, if the scope for resolution were extended, it would be difficult for less significant Italian banks to comply with the obligation to bail in the minimum required under the current European rules without creating losses for depositors. For the many smaller banks that would remain outside the scope of resolution, the same estimates highlight the limits of deposit protection funds in helping to fund disposals of assets and liabilities in liquidation. Given the difficulty in overcoming the least cost criterion test, the removal of the super-priority and maintaining the possibility for funds to continue carrying out the alternative measures, already provided for by European legislation, seem to be the conditions necessary for preventing the crises of small banks from having to be managed via piecemeal liquidations.

Also in connection with the revision of the crisis management framework, the Commission has launched a public consultation in recent weeks on a possible reform of the regulatory framework for State aid for banks in difficulty. The objective – of which the Eurogroup has taken note – is to assess the extent to which the current rules have helped to preserve financial stability, while minimizing distortion of competition and the burden on taxpayers. There will also be an assessment as to whether there is scope for simplifying the rules and improving their interaction with the crisis management framework. It is desirable for the rules to remain reasonably flexible in order to safeguard a proper balance between financial stability and protecting competition.

The challenges ahead

The pandemic crisis was the first test bench we were able to use to assess the current macroprudential framework in a period of stress. The authorities responded in a timely manner using a number of tools. In some cases, they intervened by fully or partially releasing the countercyclical capital buffer (CCyB) or by cancelling

scheduled increases to it. In other cases, the systemic risk buffer (SyRB) or the capital buffers for systemically important institutions were reduced or cancelled. In countries like ours, where the conditions of the financial cycle in the years preceding the outbreak of the pandemic were not such as to justify the build-up of capital buffers, there was less room for manoeuvre.

Therefore, there is now a need to expand the macroprudential space available to the authorities, with the aim of increasing the amount of capital buffers that can be released in the face of large and disruptive systemic shocks that could go beyond normal cyclical fluctuations. Moreover, borrower-based instruments, such as limits on the loan-to-value ratio, should be harmonized, even if only minimally, based on the recommendations already issued by the European Systemic Risk Board.

Last March, we sent the results of the public consultation to the European Commission, publishing them on Banca d'Italia's website as part of the periodic review of macroprudential provisions. It is important that the design, activation and calibration of these instruments remain the responsibility of the national authorities, given the heterogeneity of national credit and real estate markets. Within its field of competence, the ECB can at the same time foster their consistent use across countries.

The difficult cyclical situation should not induce banks to reduce their efforts to respond to structural challenges, in particular those posed by the 'twin' green and digital transitions. Lowering our guard on these aspects would mean making up for lost time over the next few years, trying to catch up with the competition, rather than anticipating it and adjusting to the new rules.

I have often pointed out that it is essential to increase investment in new technologies, innovate products and processes, and upgrade the skills of bank managers and employees in order to respond to the competitive pressures from other market participants (regulated and non-regulated) and to increase efficiency. There is still a long way to go, but there are encouraging signs coming from our surveys.

Last year, a survey of banks showed that the use of artificial intelligence applications, even if still limited, is growing. These applications make risk estimates for customers more precise and speed up assessments of creditworthiness, favouring faster loan disbursement. The survey also indicated that while banks are aware of the need to adopt models that can be easily understood, they are not as

alert to the need to strengthen their corporate governance arrangements against risks arising from outsourcing their assessment activities. Safeguards should also be strengthened to ensure that individual rights are adequately protected and that the methodologies used do not result in discriminatory practices.

The provision of online credit is increasing. At the end of last year, the share of banks offering loans to households and firms via digital channels was 44 and 25 per cent respectively. The capacity to lend remotely and the use of digital tools to assess customers' creditworthiness allowed banks with a higher rate of technological innovation to increase their market share during the pandemic crisis.

However, the recent acceleration in the use of new technologies has exposed us to greater risks, as witnessed in some major cyber incidents. With the outbreak of the conflict in Ukraine, risks are increasing again and so, together with Consob, IVASS and Italy's Financial Intelligence Unit (UIF), we promptly warned the banks that they needed to raise their guard against potential attacks. Against this backdrop, we have also urged banks and the main technology service providers to conduct a risk assessment linked to the use of software from Russia. So far, there has been no evidence of any successful cyber attacks on the financial market that can be directly related to the conflict.

Of the 12 incidents reported in 2021, eight were reported in the first six months, of which 5 were associated with a single attack on an external service provider. That episode highlights the risks involved when outsourcing is concentrated around a small number of operators. In 2020, Banca d'Italia intensified its controls in this context, making specific and repeated surveys and on-site inspections of its suppliers. The Bank also undertook target investigations of the financial market's payment systems and infrastructures.

As I recalled in the last Concluding Remarks, some crypto-assets are not backed by any real or financial assets. They have no intrinsic value and are subject to very high volatility, as the episodes we have recently observed have indeed shown. Other crypto-assets are, instead, backed by real or financial assets. If these assets are duly regulated and issued by clearly identifiable entities, they could also potentially be useful, under specific conditions, as a means of payment. They can also be distinguished by differing levels of transparency, liquidity of reserves, and disclosure of their valuation processes. They are, however, suitable for regulation within a system similar to that applied to more traditional instruments that perform a similar function.

The time needed to introduce new rules is not always compatible with the rapid dissemination of new technologies. While waiting for the subject to be at least partly regulated by European legislation (on which a first agreement at a political level has been reached in the last few days), we recently published a communication on our website explaining the necessary conceptual distinctions, alerting the public to the possible risks, and giving professional operators some indications of possible safeguards to reduce these risks. We will continue to work together with the other supervisory authorities, and with Consob in particular, to contribute to putting regulations in place at all levels and to applying them in practice, with the aim of promoting genuine innovation and avoiding the dangers arising from the less than genuine variety. This is a task that will become more complex in the near future because it will involve the construction of a comprehensive informational and analytical framework.

Last November, we disclosed the results of our in-depth analysis of the characteristics and risks associated with the development of open banking, through which banks can now share customer information with third parties if those customers are in agreement. Although the use of these services is still relatively limited, the number of providers involved is not negligible. Technological risks for intermediaries, including those arising from possible cyber attacks, are matched by the need for adequate customer protection and for safeguards against money laundering. This is of particular importance at a time when new technologies are being developed and put into use. Further problems could arise from the establishment of third parties outside the European Union.

The ECB is about to communicate the results of the climate-related stress test exercise conducted on a sample of 104 significant banks (of which 10 are Italian). Along with the thematic review, deep-dive analyses of commercial real estate exposures and future targeted inspections, the exercise contributes to the ongoing dialogue between supervisory authorities and intermediaries to strengthen their capacity to manage this new type of risk.

This exercise is unlike those previously conducted since, in addition to making the classic projections, it also involves collecting a vast amount of qualitative and quantitative information on data availability, on the level of preparedness of banks in designing appropriate scenarios and conducting climate-related stress tests, and on how the results are integrated into their business strategies. The intermediaries have provided a large amount of data and information, but much work remains to be done to fully take account of the effects of climate change in their models

and their medium and long-term development plans. As a supervisory authority, we will continue to advise banks along this path, providing them with clear guidance and verifying that it is followed precisely.

The banks' unwavering commitment to the prevention and combating of money laundering is essential to ensure both the integrity of the financial system and the sound and prudent management of intermediaries. Banca d'Italia regularly asks supervised entities to monitor developments and emerging risks.

Alongside traditional risks, connected, for example, with tax crimes and corruption, new ones are emerging: the pandemic has in fact provided additional opportunities for organized crime, exposing the economic and financial system to illegal and fraudulent behaviour, sometimes linked to the misuse of government support measures for the economy. Innovative technological solutions, too, while helping to strengthen the safeguards and controls on financial flows, also open up new scenarios in which crime can occur, exploiting the weaknesses of a regulatory framework not yet fully harmonized at European level and not yet in step with rapid technological developments.

The complexity and continuous evolution of these risks require effective and timely supervisory action. Banca d'Italia decided to strengthen its action by creating an autonomous structure, the Anti-Money Laundering Supervision and Regulation Unit, which reports directly to the Governing Board. The reform will also allow the Bank to interact more effectively in the new European system under development.

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In many countries, and certainly in the euro area, the high inflation that we continue to observe is one of the main economic consequences of the conflict in Ukraine. The ECB Governing Council is determined to bring it back down to levels in line with its objective of price stability. Reassuring signs that this could be achieved through a gradual normalization of monetary policy and without causing a sharp slowdown in the economy can be found in the medium to long-term inflation expectations, which remain broadly anchored to the target, and in wage growth, which at this time does not appear to point to the start of a wage-price spiral.

For central bank action to be effective, it is crucial that there is no amplification of the cost of money in individual jurisdictions due to financial market reactions that are not justified by country fundamentals. If this occurs, it can be counteracted by decisively using, as in the past, all the tools possessed by the central bank and,

if necessary, by employing new ones. For monetary policy to be fully successful, however, there must be a shared commitment, in practice, in the proposals and in the requests for fiscal action, to keep the public debt on a path that continues to ensure its full sustainability. It will also be essential to continue strengthening, via appropriate and well-balanced structural reforms, the development capacities of the euro-area countries.

The Italian economy is expected to grow in line with the euro area in 2022-23. The risks at global level are, however, significant. During this delicate phase, the contribution that the financial system is called upon to provide with regard to the allocation of credit flows and support to the economy is particularly important. To fulfil these tasks, we must tackle the challenges posed by the difficult and uncertain cyclical situation head on, as well as those arising, on a structural level, from the digital transition and the financial effects of climate change. Banks must continue to pay close attention to the principles on which sound business management is based: prudence in provisioning and distribution decisions; monitoring of traditional and new risks; transparency and fairness vis-à-vis customers; and improving efficiency and cost containment, including through the necessary investment in technological innovation. The experience of recent years shows that Italian intermediaries have the capacity to overcome the challenges they face today; they should apply it assiduously and with foresight.

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