BANCA D'ITALIA
EUROSISTEMA

Address by the Governor

Ordinary Meeting of Shareholders
Rome, 31 March 2025

131st FINANCIAL YEAR

2024

Financial Year 131st

BANCA D'ITALIA
EUROSISTEMA

Address by the Governor

Ordinary Meeting of Shareholders
Rome, 31 March 2025

Ladies and Gentlemen,

Global uncertainty remains high, fuelled by persistent geopolitical and trade tensions. This environment hinders international trade and exacerbates the fragmentation of the global economy, contributing to a further slowdown in economic activity.

The European economy, already marked by a stagnating manufacturing sector, is particularly affected by these dynamics due to its high exposure to international trade.

Since last June, the ECB Governing Council has gradually lowered its key interest rates, reflecting the progress made in the fight against inflation. However, credit is being affected, with the usual lags, by the monetary tightening of the previous years and by a weak business cycle.

Looking ahead, we cannot yet say that the battle against inflation is over. It is crucial that we monitor any factors that could prevent inflation from returning to its 2 per cent target.

Monetary policy decisions will have to balance two aspects. On the one hand, the weakness of the European economy and geopolitical tensions are curbing consumption and investment, holding down inflation. On the other hand, the growing uncertainty – due above all to the sometimes contradictory announcements on US trade policies – requires a prudent approach to policy rate cuts.

As I will explain shortly, the negative impact of high policy rates over the past year is reflected in Banca d'Italia's 2024 Annual Accounts, which are submitted to you for approval today.

Monetary policy and its impact on Banca d'Italia's Annual Accounts

The policy rates remained unchanged for the first five months of 2024. Since June, the ECB Governing Council has started to make gradual cuts: between then and the end of last year, it lowered the Eurosystem deposit facility rate by 100 basis points, to 3 per cent.

As of 18 September 2024, to limit the volatility of short-term market rates, the spread between the MRO rate and the deposit facility rate was reduced from 50 to 15 basis points.

Subsequently, over the course of 2025, the ECB Governing Council has cut the policy rates by a further 50 basis points.

Alongside this, it reduced reinvestments of maturing securities purchased under the pandemic emergency purchase programme (PEPP) by €7.5 billion per month over the second half of 2024, fully discontinuing them by the end of the year. Also taking into account maturing securities held under the asset purchase programme (APP), the overall amount of securities held by the Eurosystem for monetary policy purposes shrank by around €400 billion compared with 2023.

The amount of funding granted to euro-area banks through Eurosystem refinancing operations fell sharply, from €410 billion to €34 billion. This contraction was mainly due to the final repayments under the third series of targeted longer-term refinancing operations (TLTRO III).

At the end of 2024, the Eurosystem's overall exposure to monetary policy counterparties was entirely accounted for by weekly main refinancing operations and longer-term operations with 3-month maturities.

Overall, the developments in monetary policy operations led to a significant reduction in euro-area excess liquidity, namely banks' funds above the reserve requirements held with the Eurosystem. At the end of 2024, excess liquidity was €2,827 billion, down by €519 billion on the previous year.

The balance sheet

In 2024, the Bank's balance sheet shrank for the third consecutive year, by €149 billion, in line with what was observed at Eurosystem level. Since 2021, the balance sheet has contracted by a total of 28 per cent, from €1,538 billion to €1,104 billion.

On the asset side, the decrease was mainly due to the reduction in refinancing operations, down from €150 billion to €23 billion, and in securities held for monetary policy purposes, which went from €657 billion to €591 billion, with Italian government bonds accounting for €544 billion.

On the liability side, there was a decline both in deposits held by banks, which fell by €66 billion, and in the Bank's negative TARGET balance, which dropped from €521 billion to €416 billion. The reduction in the latter was largely due to foreign investment in Italian, mostly public sector, securities. The disbursement of the fifth and sixth tranches of Recovery and Resilience Facility funds to the Italian State through the TARGET system also contributed to the decrease in the Bank's negative balance.

The negative TARGET balance has continued to decline in the first months of 2025, to around €400 billion on average in March.

Main drivers of the 2024 net profit and outlook

In 2024, the Bank's financial result before tax and before the release of the general risk provision was negative by €7.3 billion, €0.2 billion lower than in the previous year.

In the Annual Accounts for 2022, we had already anticipated that Banca d'Italia would post a gross loss for the following two years, before the release of the general risk provision, largely due to the sharp contraction in net interest income. As pointed out last year, the rate hike cycle that began in 2022 led to an increase in the cost of balance sheet liabilities – mainly bank deposits – with no corresponding increase in the yield on monetary policy assets. These assets are actually less sensitive to changes in interest rates, as they consist mainly of fixed-rate securities with medium to long-term maturities.

In 2024, despite the gradual reduction, key interest rates remained higher than in 2023 on average. As a result, the profit and loss account was again affected both by net interest income (-€4.2 billion) and by the net result of pooling monetary income (-€1.9 billion).

In the years prior to 2023, the Bank built up its financial buffers in anticipation of potential future losses, thanks to particularly high profits during that period.

In the 2024 accounts, the release of €5.8 billion from the general risk provision, along with the positive contribution of about €2.4 billion from the carryforward of the tax loss, enabled the Bank to close the year with a net profit of €0.8 billion.

This release from the general risk provision is consistent with the Bank's lower exposure to financial risk, stemming from its shrinking balance sheet. This risk will continue to decline in the coming years owing to the discontinuation of the reinvestment of the principal payments from the entire portfolio of securities held for monetary policy purposes.

Despite the total reduction of €11.4 billion in the general risk provision in the last two years, the degree of risk coverage remains adequate over the short and the medium term. Furthermore, given the current market expectations for the path of interest rates, we still expect 2025 to mark a return to gross profit.

I would like to emphasize that the primary goal of the Eurosystem is to maintain price stability, not to maximize profit. Monetary policy decisions are taken solely pursuant to this mandate, even when they temporarily lead to a reduction in the financial results reported by the central banks.

While central banks can fulfil this mandate effectively even when they report losses, financial independence remains vital for enabling them to properly perform their tasks. This is why we must welcome any tool or initiative that could help strengthen it. This philosophy has steered our provisioning policy in the past and will continue to do so in the future.

The digital euro project, designed to safeguard monetary sovereignty in the euro area and generate benefits for households and firms, can also contribute to the financial soundness of central banks, thereby protecting seigniorage. This would become even more important should the growth in banknotes in circulation slow as a result of increasing recourse to private means of digital payment.

Organizational measures and digital transformation

One year ago, in this very setting, I stressed the Bank's commitment to the process of modernization in order to align its internal organizational structure with the changing environment and to make work processes more efficient, fully seizing the opportunities offered by digital transformation.

The evolution of the payment system has made the Bank's responsibilities and tasks more complex as we are called on to ensure that it functions properly and efficiently. In response to this growing complexity, last year we reorganized the Directorate General for Markets and Payment Systems, splitting it in two to form the Directorate General for Markets and Monetary Policy Operations and the Directorate General for Payments and Market Infrastructures. This decision was taken to increase the effectiveness and specialization of our organization in these areas.

We also established the Digital Euro Unit, reporting directly to the Governing Board, in order to concentrate the Bank's work on the Eurosystem's digital euro project in a single dedicated structure.

Alongside this, as part of the treasury services that Banca d'Italia performs on behalf of the government, the ReTes operating system, an extensive programme for re-engineering treasury procedures, became operational at the beginning of this year. Thanks to an innovative IT architecture, ReTes makes it possible to significantly simplify processes, replace obsolete tools and impose a single standard for exchanges with all local and central government entities.

This infrastructure will cut operating costs and improve the quality of the service that the Bank provides to the State, leading to a more effective use of the Treasury's information assets and making it easier to monitor the public accounts.

Given the continuing importance of cash for the general public, Banca d'Italia is an active participant in the Eurosystem's work on designing the third series of euro banknotes. In addition to a new look, this series boasts more technologically advanced security features and will be environmentally sustainable.

In the meantime, the plan to restructure the branch network and expand its functions has entered the implementation phase. The goal is to strengthen the role of the branches in highly strategic business areas with greater growth potential, thereby increasing the contribution the Bank can make locally.

I have stressed many times how the branches are one of the strengths of our organization. Their roots in the local community, their ties with local institutions and their proximity to economic and financial operators are essential components of the Bank's operations. They are a valuable asset, which we will continue to put to good use.

At the same time, we must be mindful of the emerging needs of local communities and developments in the economic and financial system. The reorganization plan, whose impact on the staff is currently under discussion with the trade unions, aims to reinforce the link between the Bank and its local stakeholders, while at the same time strengthening the coordination and integration between the branches and the head office. The goal is to ensure a more flexible organizational model, capable of effectively balancing operations and resources.

Moving on to innovation, a comprehensive programme of initiatives is being finalized to accelerate the Bank's digital transformation, with a view to improving the quality of the services offered, raising operational efficiency and making the Bank more agile and better equipped to face future challenges.

The programme is built around three main ideas: investing in cutting-edge technologies, expanding the range of digital services and fostering a strategic and balanced use of artificial intelligence; streamlining and innovating internal processes, thanks to the integration of information systems and the exploitation of new technologies; and completing the digitalization of document flows, further reducing recourse to paper-based processes.

Digital transformation and the progressive streamlining of administrative work, with the consequent reallocation of resources towards institutional functions and strategic priorities, will be two pillars of the new Strategic Plan, to be drawn up by the beginning of next year.

In keeping with our tradition, we will continue to invest in our people, knowing that the success of any initiative hinges on their active participation, on the continuous development of their skills and on leveraging their talent.

Proposal for the allocation of the net profit

Dear Shareholders,

Pursuant to Article 38 of the Statute, acting on a proposal of the Governing Board and after hearing the opinion of the Board of Auditors, I present for your approval the Board of Directors' proposal for the allocation of the net profit for 2024.

Under the current dividend policy, the amount paid to the Shareholders is kept within a range of €340 million to €380 million, provided that the net profit is sufficient and without prejudice to the Bank's capital adequacy.

Shareholders' dividends may fall outside this range if there is a strongly negative profitability trend, as occurred last year.

Accordingly, from the net profit for 2024 of €844 million, I propose allocating €200 million as a dividend to the Shareholders, the same as in the previous year, and €644 million to the State, €29 million more than in 2023.

To supplement the current dividend allocated to the Shareholders, the amount of €140 million is released from the special item for stabilizing dividends, which will therefore be brought to zero. The Shareholders will thus receive a total of €340 million.

The total amount effectively allocated to the Shareholders over the last five years is therefore €1,633 million, while the total allocated to the State over the same period in the form of profits amounts to €14,406 million, in addition to the current taxes for IRES and IRAP purposes of €3,361 million.

Designed by the Printing and Publishing Division of the Bank of Italy