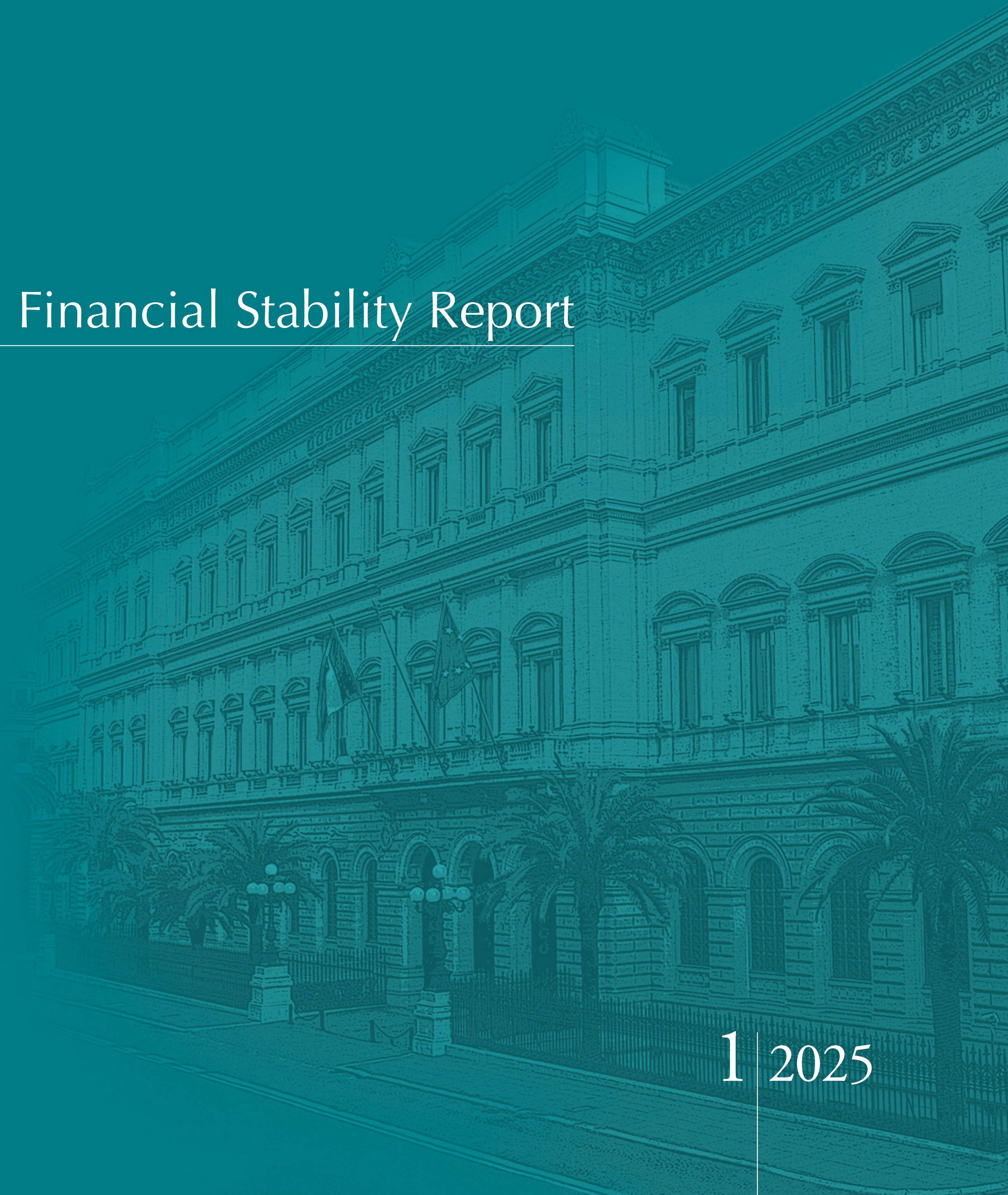
BANCA D'ITALIA

EUROSISTEMA

# Financial Stability Report



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# Financial Stability Report

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**April**

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# CONTENTS



## BOXES



The Appendix is available online at: www.bancaditalia.it

## SYMBOLS AND CONVENTIONS

Unless otherwise specified, Banca d'Italia calculations; for Banca d'Italia data, the source is omitted.

In the tables:

– the phenomenon does not exist;

.... the phenomenon exists but its value is not known;

.. the value is nil or less than half of the final digit shown;

:: not statistically significant;

() provisional.

In the figures with different right- and left-hand scales, the right-hand scale is identified in the notes.

For the country abbreviations in this publication, see the European Union's Interinstitutional Style Guide (https://style-guide.europa.eu/en/home)

# OVERVIEW

*At the beginning of April, the US administration's announcement of new tariffs triggered a phase of heightened uncertainty and tensions in global financial markets, which was followed by a downward shift in expectations for global economic growth. Long-term Treasury bonds in the United States, which initially benefited from an increase in demand, as typically occurs in times of turmoil, subsequently experienced a sharp sell-off. Although the strains have eased in the weeks following the announcement, the risks to financial stability have increased.*

*The effects of these developments were also felt in Italy, along with the other major European countries. Tensions on the Italian financial markets intensified in the first few days of April, especially owing to the increase in the volatility of equity and corporate bond prices, which experienced steep declines.*

*In the government bond market, the yield spread between ten-year Italian and German government securities has fallen since last autumn despite an increase in volatility. Liquidity conditions remain good, although trading decreased in April.*

*Against a background that remains stable overall, Italy continued to benefit from a strong labour market, low inflation and from the positive net international investment position. These are some of the factors that contributed to the recent upgrade of the country's creditworthiness by one rating agency.*

*House prices continued to rise in the second half of 2024, while commercial property prices remained unchanged. Overall, the risk to financial stability posed by the real estate sector is not high.*

*Risks for households remain limited, thanks in part to an increase in their financial wealth in 2024 and to the further reduction in their debt as a share of disposable income. Looking ahead, however, their financial situation could be affected by a weakening economy.*

*After having already declined in 2024, the profitability of firms, especially those in the sectors most exposed to the possible repercussions of trade tensions, could fall further. Despite the decline in interest rates and indebtedness, firms' ability to service their debt is showing some signs of deterioration, especially in the construction sector and, to a lesser extent, in the industrial sector.*

*Conditions in the Italian banking system remain stable. Profitability and capitalization stayed at high levels in the second half of 2024. The liquidity situation remains balanced even after the TLTRO III repayments. A sharp increase in trade restrictions between countries could lead to a deterioration in credit quality, which the system will nonetheless be able to address from a stronger position than in the past, owing to its solid capitalization and thanks in part to the systemic risk buffer introduced by Banca d'Italia last year. Exposure to cyber and operational risks continues to require close monitoring.*

*In the insurance sector, the recovery in life premium income has helped to improve liquidity. Profitability has been stable. Capitalization is still high. A European-wide stress test exercise has confirmed the sector's resilience to adverse shocks.*

*Although net subscriptions to Italian investment funds were positive in the first quarter of the year, total assets fell due to the sharp drop in prices on financial markets. In the first few days of April, immediately after the US announced new tariffs, moderate outflows were observed. The risks stemming from the asset management sector remain limited overall.*

*Five special-focus boxes are included in this Report. The first describes trends in the crypto-asset market, explaining its features, risks and regulatory developments in Europe and the United States. The second provides an overview of the uptake in Italy and in the main euro-area countries of* *certificates, which are complex to assess and may expose holders to heavy losses in adverse scenarios. The third box discusses Italian less significant banks' use of government guarantees to support lending to firms, as well as the measures taken by Banca d'Italia to address some weaknesses in the related management and control systems. The fourth describes the results of an initial analysis of the exposure of Italian and euro-area banks to the economic sectors likely most vulnerable to trade tensions. The final box analyses the introduction of the requirement for Italian firms to take out insurance contracts to cover damage directly caused by natural disasters and catastrophes.*

# 1 MACROECONOMIC, FINANCIAL AND SECTORAL RISKS

## 1.1 GLOBAL RISKS AND EURO-AREA RISKS

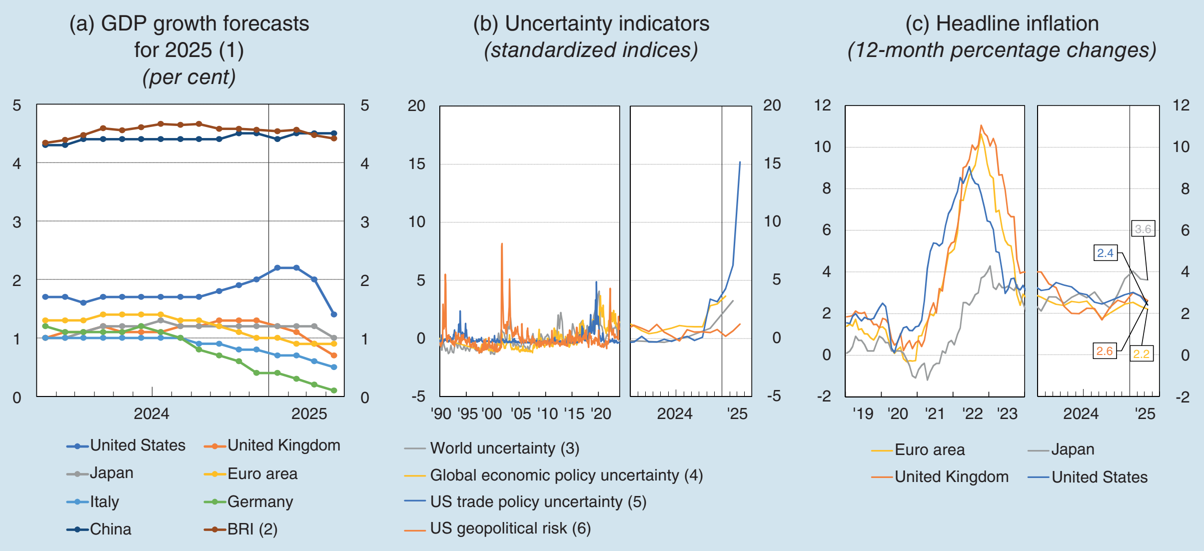
The global economy grew at a moderate pace in 2024, in line with the previous year. Growth in the main advanced economies was uneven – sustained in the United States, and weak in the euro area, the United Kingdom and Japan. Growth was robust in China, although its economy is still slowing compared with previous years.

In the early months of 2025, the global economy showed signs of weakening (Figure 1.1.a). Growth forecasts for the main advanced economies, already revised downwards in recent months, were scaled down further after the US administration announced new tariffs on all imports on 2 April, which had negative repercussions on the world economy, partly because of the uncertainty over their application (Figure 1.1.b). The revision in growth expectations was particularly pronounced for the United States, where the likelihood of a recession in 2025 increased significantly, according to the leading forecasters.

**Figure 1.1**

**Growth expectations, uncertainty indicators and inflation**

*(monthly data)*




Sources: Consensus Economics for GDP growth forecasts, and national statistics for inflation.
(1) The x-axis shows the month the forecast is published. – (2) Average of the forecasts for Brazil, Russia and India (BRI), weighted on the basis of each country's GDP (IMF, World Economic Outlook Database, April 2025). – (3) H. Ahir, N. Bloom and D. Furceri, 'The world uncertainty index', NBER Working Paper Series, 29763, 2022. – (4) S.J. Davis, 'An index of global economic policy uncertainty', NBER Working Paper, 22740, 2016. – (5) S.R. Baker, N. Bloom and S.J. Davis, 'Measuring economic policy uncertainty', *The Quarterly Journal of Economics*, 131, 4, 2016, pp. 1593-1636. – (6) D. Caldara and M. Iacoviello, 'Measuring geopolitical risk', *American Economic Review*, 112, 4, 2022, pp. 1194-1225.

With the exception of Japan, inflation continued to slow, while remaining above the rate targeted by central banks (Figure 1.1.c). Oil and natural gas prices have declined, especially after the 2 April announcement.

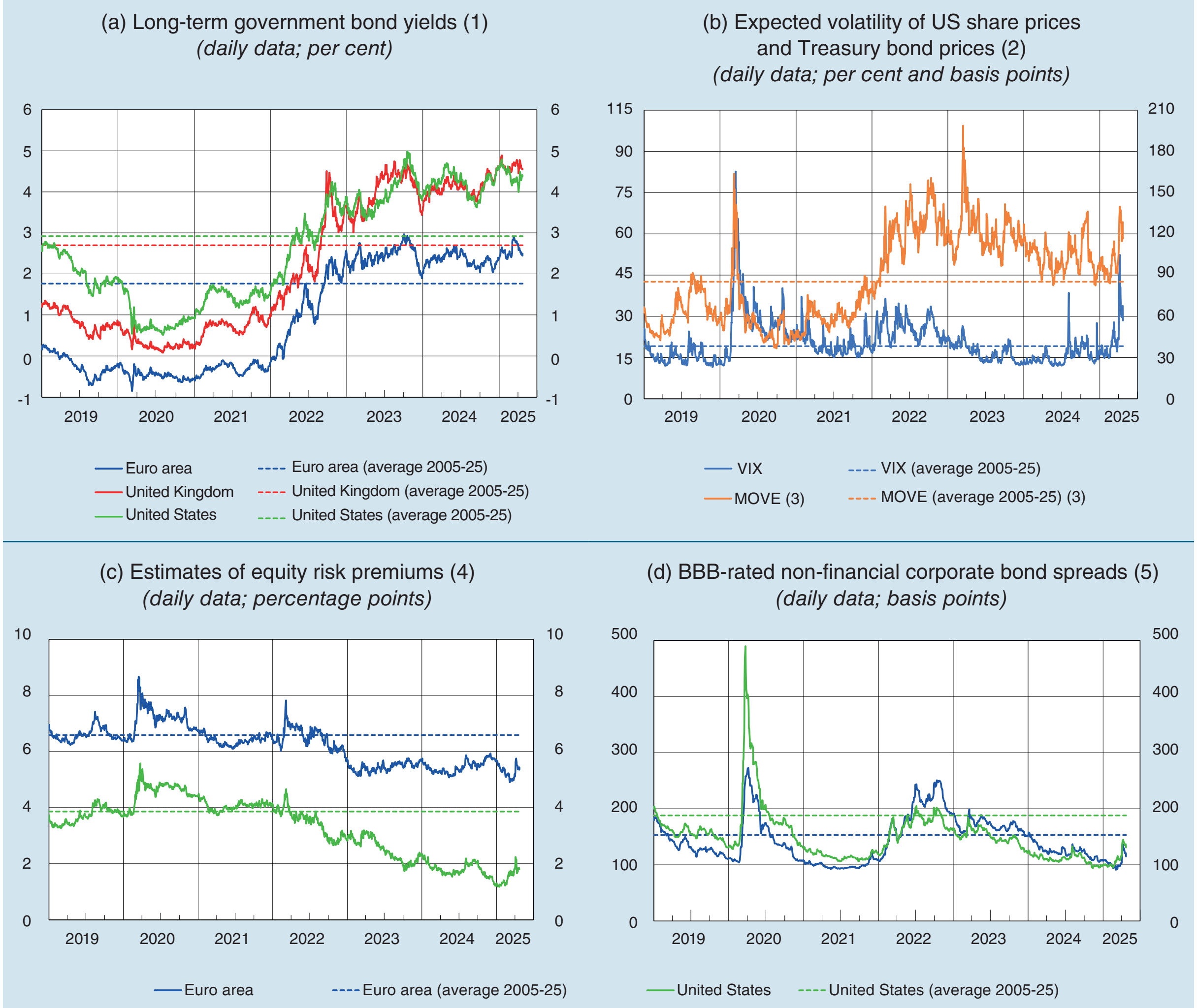
Nevertheless, considerable upside risks to global inflation remain, stemming from the trade policies of the new US administration.

Conditions on the global financial markets have worsened compared with last November, and volatility shot up at the beginning of April. In spite of tensions easing to some extent over the following weeks, the risks to financial stability have increased overall.

The yields on long-term government bonds issued by the main advanced economies displayed wide fluctuations and strong differences across regions (Figure 1.2.a). Following the announcement of

**Figure 1.2**

**Government bond yields, volatility and risk premiums**




Sources: Bloomberg, ICE Bank of America Merrill Lynch (BofAML) and LSEG.
(1) Yields on the German 10-year Bund for the euro area; yields on the US 10-year Treasury for the United States and yields on the UK 10-year Gilt for the United Kingdom. – (2) VIX: implied volatility in the prices of 1-month options on the S&P 500 index. MOVE: implied volatility in the prices of 1-month options on futures on US Treasury bonds with various maturities. – (3) Right-hand scale. – (4) For the S&P 500 (United States) and Datastream EMU Total Market (euro area) indices, the ratio of the 10-year moving average of earnings to the value of the stock index (both at constant prices) is calculated. From the resulting ratio, which is an estimate of the expected real return on the shares, we deduct the real rate obtained by subtracting the inflation swap rate from the 10-year overnight indexed swap (OIS) rate. The resulting figure is an estimate of the equity risk premium. – (5) Yield spreads between corporate bonds issued by non-financial corporations and the corresponding risk-free bonds (obtained from the yield curve of German government bonds for euro-denominated securities and the yield curve of US Treasury bonds for securities in dollars), option-adjusted and weighted by the market value of the companies' individual bonds.

tariff increases, US government bonds initially benefited from an expansion in demand, as typically occurs in times of stress. Subsequently, there was a swift increase in yields – largely driven by a rise in risk premiums and coinciding with a depreciation in the dollar – which reflected a deterioration in their status as safe assets. In the euro area, yields rose sharply in early March, boosted by the easing of German government debt limits and the prospect of higher defence spending, but later fell, due to downside risks to the economy.

The levels recorded by volatility indicators remained moderate until the end of February, in spite of high uncertainty, though volatility later increased (Figure 1.2.b).

Since last November, equity risk premiums have risen in the United States and fallen in the euro area, although they remain below their long-term average in both areas (Figure 1.2.c). In early April, the announcement of tariffs heightened fears that global economic conditions could worsen and led to a sizeable correction in share prices in the major stock market indices which was partly reversed in the following weeks.

In the corporate bond sector, risk premiums on bonds issued by non-financial corporations increased (Figure 1.2.d). During the more tense phases, fears of an increase in insolvencies for weaker firms led to a contraction in market liquidity and to a significant widening in spreads; this was particularly true in the high-yield segment, where spreads had remained remarkably low for some years.

After the new US administration took office and following the announcement of its initiatives to promote the use of crypto-assets, there was also a temporary but sharp increase in global market prices for these products, including highly speculative ones. If these instruments were to become more closely entwined with the traditional financial system, there could be greater vulnerabilities for markets and intermediaries (see the box ‘Developments in the crypto-assets market and the risks to financial stability’).

### DEVELOPMENTS IN THE CRYPTO-ASSETS MARKET AND THE RISKS TO FINANCIAL STABILITY[1]

The market value of crypto-assets, which had already grown during 2024, rose further after the US presidential election and the announcement by the new administration of initiatives to strengthen the adoption of dollar-denominated digital instruments.[2] The value then declined, to $2.75 trillion at the end of March (see the figure). More than 60 per cent of the market is represented by Bitcoin, 30 per cent by other unbacked crypto-assets, while only 9 per cent are digital assets issued by entities that peg their price to benchmark traditional currencies (stablecoins).

The strong growth of Bitcoin and of other crypto-assets with high price volatility means risks not only for investors but also potentially for financial stability, given the growing interconnections between the digital asset ecosystem, the traditional financial sector and the real economy.

Some market participants are actually rewriting their business models and financial choices, focusing more on crypto-assets. According to information from specialized websites,[3] a large share of Bitcoin is reportedly held by issuers of exchange traded funds (ETFs) and by the treasuries of some

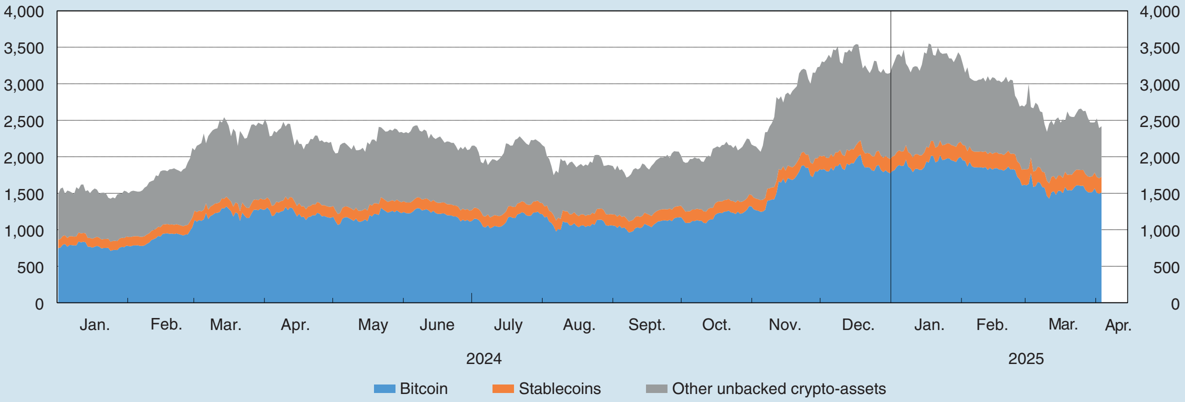
[1] By Andrea Nobili.

[2] The President of the United States signed an executive order last January that introduced schemes to promote stablecoins denominated in dollars on a global scale. More recently, the official establishment of the Strategic Bitcoin Reserve and of an additional reserve for other crypto-assets considered strategic (Digital Asset Stockpile) was announced. On 7 March, the US Office of the Comptroller of the Currency (OCC) announced that federal banks and savings associations are authorized to carry out digital asset transactions without necessarily having to obtain a prior opinion from the authority, as was previously the case.

[3] For more details, see the bitcointreasuries.net website.

Figure

**Crypto-assets market**
*(daily data, billions of US dollars)*




Source: Based on CoinmarketCap data.

non-financial corporations. Specifically, the latter invest in the belief that Bitcoin can support their share prices, although this exposes them to its marked price volatility. Furthermore, a significant portion of Bitcoin is held by companies operating exclusively in the digital asset sector (e.g. trading platforms), which are not subject to specific governance requirements and may therefore have significant conflicts of interest. Three quarters of these firms are based in the US, and some are in China, Canada and the UK; they currently have a negligible presence in the euro area.

The growing interest of banks and other intermediaries in distributed ledger technology solutions and in decentralized global infrastructures could increase the use of crypto-assets for both traditional financial transactions and the issuance of innovative instruments and services, including through interaction with BigTech companies.[4]

The stablecoin sector is still small and is highly concentrated in two specific instruments (Tether and USD Coin), which are pegged to the US dollar, as their issuers hold reserves denominated in that currency.[5] A scenario in which dollar-pegged stablecoins became systemic could lead to exceptional demand for US government bonds, which are used as reserve assets by issuers. In the event of the failure of one of the latter, there could be a run on redemptions, with a sudden increase in liquidation demands from holders and the forced sale of reserve assets; this would create tensions on US government bond markets and repercussions for other parts of the global financial system.

In the euro area, the possible large-scale spread of payment instruments and services based on euro-denominated stablecoins offered by US firms or banks, which could replace the current pan-European retail instruments, might also have implications for the smooth functioning of payment systems and for monetary sovereignty itself.

[4] For more details, see 'Journey to the future of the financial system', speech by Chiara Scotti, Deputy Governor, at the 31st Congress of Assion Forex, Turin, 14 February 2025.

[5] Data on the composition of reserves, based on reports validated by auditing firms, show that the main issuers hold around $160 billion in US debt securities, or 65 per cent of total reserve assets.

Developments in and risks to the crypto-asset market will also be influenced by changes in the regulatory framework, which is still highly uneven across economic areas. In the United States, several draft laws on stablecoins are being examined by Congress.[6]

In the European Union, Regulation (EU)/2023/1114, the Markets in Crypto Assets Regulation (MiCAR), has already set out a regulatory framework intended to foster innovation and at the same time to protect financial stability and investors. Crypto-asset service providers (CASPs) must monitor some of the risks they face, meeting requirements in terms of capital, governance and the separate reporting of client funds. Nevertheless, given the complexity of the business models adopted by CASPs, these requirements will have to be strengthened, providing safeguards against technological, market and strategic risks, as well as against money laundering and terrorist financing risks.

MiCAR has introduced a specific authorization process for issuing stablecoins in the European Union, as well as organizational and prudential requirements relating to reserves management, to monitoring transactions and to possible restrictions on the quantity offered. In-depth studies are currently under way on the business models of operators, including large ones, which can issue the same crypto-assets in Europe and in jurisdictions with investor protection regulations that are different from the European ones. Specifically, compliance and liquidity risks for issuers and the possible repercussions for European investors and, more generally, any implications for financial stability are being assessed.

[6] The initiatives aim to introduce disclosure and transparency obligations for issuers on their reserves and business models in order to protect consumers ('Stable Act') as well as supervisory criteria and reserve requirements ('Genius Act').

## 1.2 MACROFINANCIAL CONDITIONS IN ITALY

The macrofinancial environment in Italy is being affected by the considerable global uncertainty (see Section 1.1) that has arisen as a result of the new US administration's trade policies, of geopolitical tensions and of the possible shift to expansionary fiscal policies in Europe. In this context, Italy's high public debt and slow-growing economy continue to be factors of vulnerability.

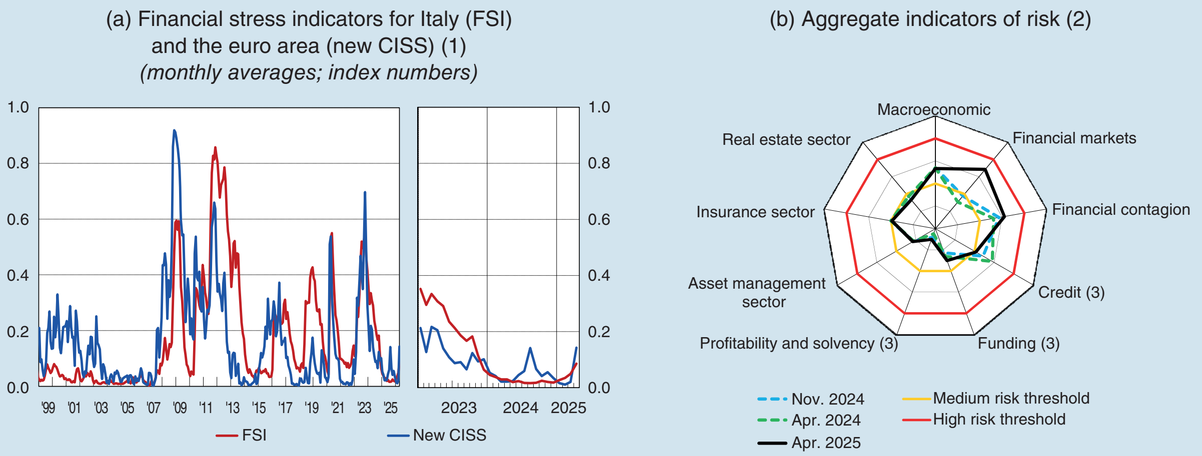
The risks to the Italian financial system remain moderate, however. The soundness of the banking sector – both in terms of profitability and of capitalization – is an element of resilience (see Section 2.1). On the financial markets, the conditions for Italian government securities continue to be favourable overall, despite the spell of volatility affecting sovereign yields in the euro area (see Sections 1.1 and 1.3). The composite indicator of financial stress for Italy remains below its post-2008 average level. At the same time, it did rise compared with its lows last November, with an acceleration in April (Figure 1.3.a), owing to the increase in volatility on the stock market (see Section 1.3).

The risk outlook reflects tensions on the financial markets and weakness in the macroeconomic environment (Figure 1.3.b), although it is tempered by a strong labour market, low inflation and the improvement in Italy's net international investment position. Some of these factors contributed to the recent upward revision of Italy's creditworthiness by one rating agency.

In 2024, GDP grew by 0.7 per cent. According to Banca d'Italia's latest projections, growth will continue to be moderate over the period 2025-27 (see *Economic Bulletin*, 2, 2025); the outlook is marked by a high degree of uncertainty and risks are mainly tilted to the downside, given the deteriorating global context. Inflation stood at 1.1 per cent in 2024 and is set to rise in the coming years, though without exceeding 2 per cent.

Figure 1.3

**Synthetic indicators of risks for financial stability**




Sources: Based on Banca d'Italia, ECB, IVASS and LSEG data.
(1) The index ranges from 0 (minimum risk) to 1 (maximum risk). For further details on the Italian financial stress index (FSI), see A. Miglietta and F. Venditti, 'An indicator of macro-financial stress for Italy', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 497, 2019. Compared with the version used in the 2019 paper, the indicator used in this chart includes the corporate bond, repo and short-term government bond market segments, which were not previously considered. For further details on the euro-area new composite indicator of systemic stress (new CISS), see S. Chavleishvili and M. Kremer, 'Measuring systemic financial stress and its risks for growth', European Central Bank, Working Paper Series, 2842, 2023. For the FSI, monthly averages of weekly data; for the new CISS, monthly averages of daily data. (2) The aggregate indicators are based on the analytical framework for assessing risks described in F. Venditti, F. Columba and A.M. Sorrentino, 'A risk dashboard for the Italian economy', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 425, 2018. – (3) Risk indicators referring to the banking sector.

Last year, general government net borrowing as a percentage of GDP fell considerably, from 7.2 to 3.4 per cent. The primary balance turned positive (at 0.4 per cent of GDP) for the first time since the pandemic crisis. After going down over the previous three years, the debt-to-GDP ratio rose from 134.6 to 135.3 per cent, mainly owing to the cash impact of the building renovation tax credits from previous years. According to the most recent official estimates,[1] the debt-to-GDP ratio is expected to continue to rise in 2025 and 2026, up to 137.6 per cent, and then to start declining gradually over the following years.

## 1.3 THE FINANCIAL MARKETS

In Italy, as in the rest of the euro area, equity prices fell sharply (Figure 1.4.a) and volatility increased (Figure 1.4.b) in early April. At the same time, the cost of hedging against sharp declines in equity prices (risk reversal) rose and the term structure of implied volatility signals a stronger perceived likelihood of short-term risks. The sectors most exposed to the US market and to global supply chains, such as the automotive and technology sectors, recorded falls that were above average.

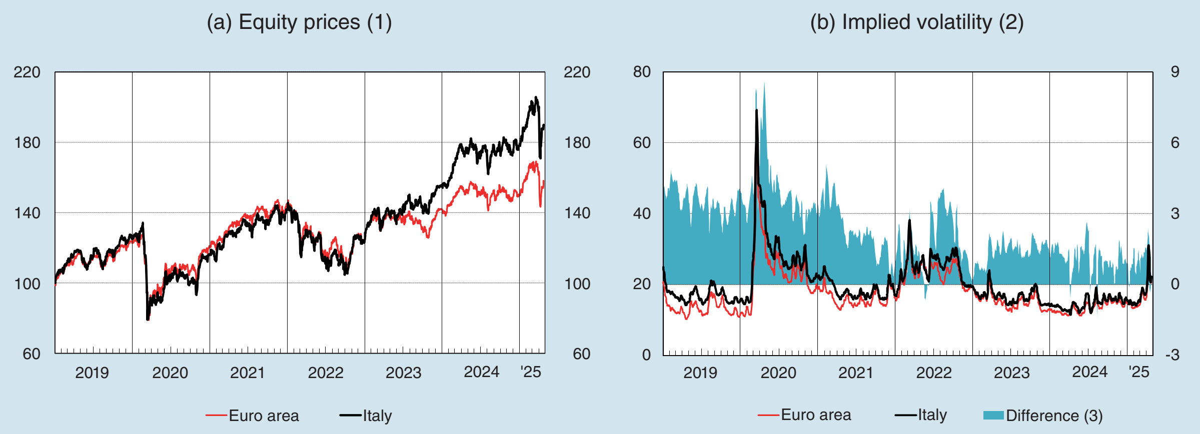
The increase in volatility of the stock markets was echoed by an increase in margin calls on derivatives by the Italian central counterparty (Euronext Clearing). The most affected positions were those in futures on the FTSE MIB index, though there were no instances of insolvencies.

[1] 'Preliminary hearing on the public finance document for 2025', testimony by A. Brandolini, Deputy Director General for Economics, Statistics and Research at Banca d'Italia before the 5th Committee of the Chamber of deputies (Budget, Treasury and Planning) and the 5th Committee of the Senate of the Republic (Economic Planning and Budget), sitting jointly, Senate of the Republic, Rome, 17 April 2025 (only in Italian).

Figure 1.4

**Equity market indicators**

*(daily data; indices, per cent and percentage points)*




Source: Based on Bloomberg data.
(1) Indices: 1 January 2019=100. For Italy, MSCI Italy IMI; for the euro area, MSCI EMU IMI (see the disclaimer under 'Symbols and Conventions'). – (2) Implied volatility in the prices of 2-month options on the FTSE MIB index for Italy and on the Euro STOXX 50 index for the euro area. 5-day moving average. – (3) Difference between implied volatility in Italy and in the euro area. Right-hand scale.

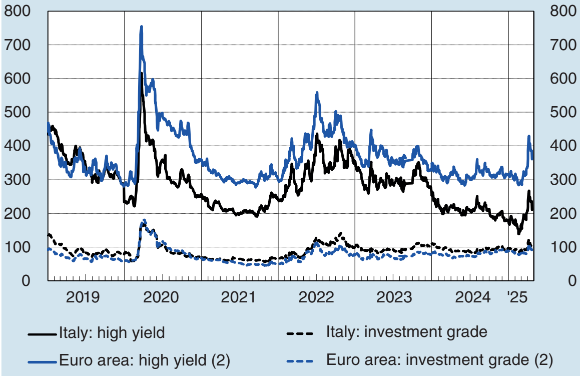
The yield spread between bonds issued by Italian non-financial corporations and the risk-free rates (asset swap spread) widened for investment grade securities as well as for those with a low credit rating (Figure 1.5).

The effects of trade tensions on the Italian government bond market were instead limited. Long-term Italian government bond yields have risen since November, as in the rest of the euro area (Figure 1.6.a). Despite an increase in volatility, the spread between Italian and German government bonds has narrowed compared with last autumn's levels, partly as an effect of Italy's credit rating being recently upgraded by one rating agency (see Section 1.2 and Figure 1.6.b). The default risk premium on the Italian sovereign issuer in the credit default swap (CDS) market has remained stable.

Figure 1.5

**Asset swap spreads** (1)

*(daily data; basis points)*




Source: Based on ICE BofAML data.
(1) Asset swap spreads weighted by the market value of individual securities issued by non-financial corporations. – (2) The ICE BofAML indices for the euro area have been recalculated to exclude Italy.

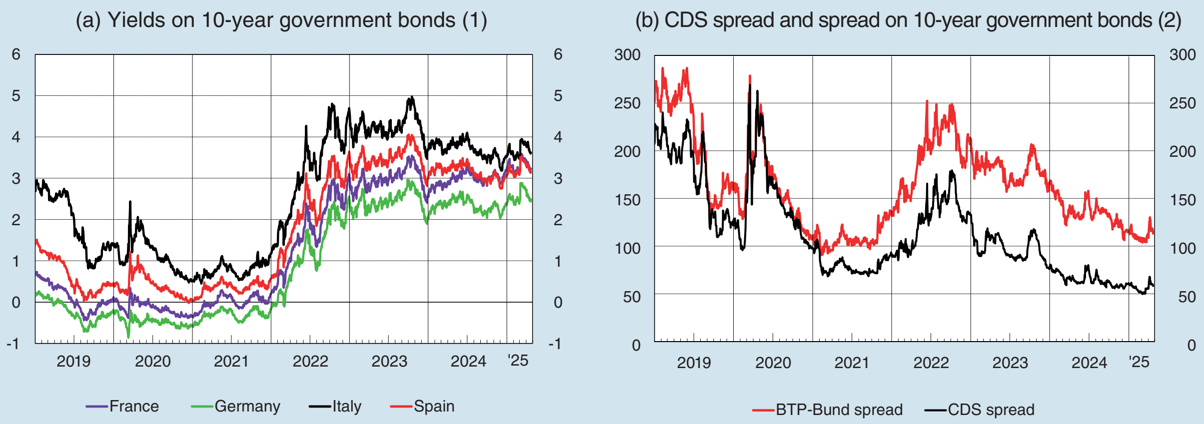
At a time of gradual contraction in the Eurosystem's monetary policy portfolios, substantial placements and favourable liquidity conditions, secondary market trading in Italian government bonds reached a new all-time high in March (Figure 1.7.a). In April, however, as uncertainty in the financial markets heightened, there were slight and temporary deteriorations in the bid-ask spread, as well as a reduction in the market makers' quoted quantities and in trading.

Price volatility remained low overall (Figure 1.7.b) and the market maintained a more than adequate ability to absorb large orders with no significant price impact.

Figure 1.6

## Yields and risk premiums on government bonds

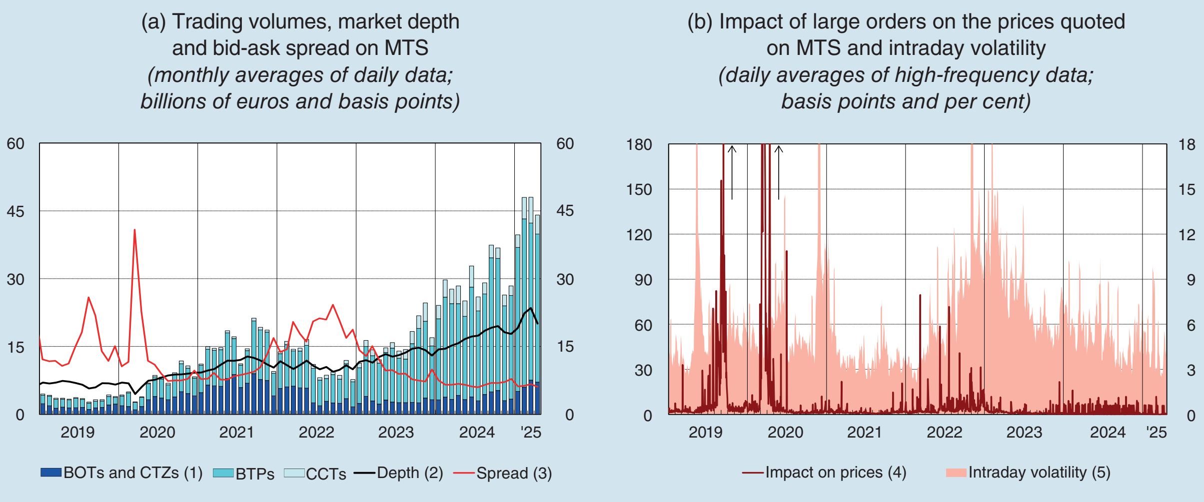
*(daily data; per cent and basis points)*




Sources: Based on data from LSEG and ICE Data Derivatives UK Limited.
(1) Yields to maturity of the benchmark 10-year government bond of the countries in the key. – (2) 5-year CDS spread on the Italian sovereign issuer and yield spread between Italy's benchmark government bond with a 10-year maturity and the corresponding German Bund.

Figure 1.7

## Liquidity indicators for Italian government securities



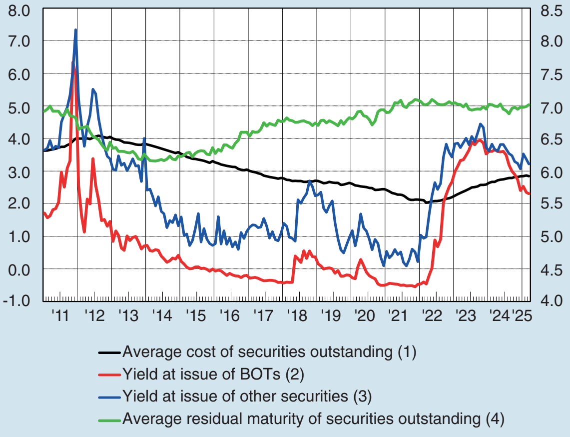

Source: Based on MTS data.
(1) Since October 2022, the series has only included data on BOTs because the stocks of CTZs were reduced to zero following the suspension of the placement of this kind of bond and the redemption of the last CTZs to mature. – (2) Average of the bid and ask quantities recorded during the entire trading day for the BTPs quoted on MTS. – (3) Simple average of the bid-ask spreads recorded during the entire trading day for the BTPs quoted on MTS. Right-hand scale. – (4) The indicator refers to the 10-year benchmark BTP and is based on data recorded at 5-minute intervals. Average daily impact on bid-ask prices quoted on MTS of a potential sale or purchase order of €50 million. – (5) A measure of volatility based on the 10-year BTP intraday returns calculated at 5-minute intervals; 5-day moving average of annualized values. Right-hand scale.

On the MTS market, the repo rates on Italian government bonds remained slightly above the Eurosystem's deposit facility rate, and the premium linked to the scarcity of securities (specialness) reached historical lows.

On the primary market for government securities, placement continued at a steady pace, with average yields at issue decreasing and quantities on the increase for medium- and long-term securities, still

Figure 1.8

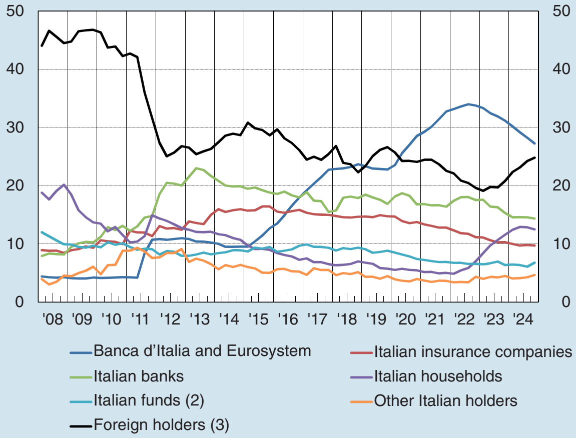
**Average cost, yield at issue and average residual maturity of government securities**
*(monthly data; per cent and years)*



Sources: Based on Banca d'Italia and Ministry of Economy and Finance (MEF) data, updated to 31 March 2025.
(1) Weighted average of the yields at issue of government securities outstanding at the end of the month. – (2) Weighted average of the yields at issue of all the BOTs placed during the month, by settlement date. – (3) Weighted average of the yields at issue of securities other than BOTs and indexed BTPs placed during the month, by settlement date. – (4) End-of-period values weighted by the outstanding amounts. The figure does not include loans from the European Commission nor foreign loans. Right-hand scale.

Figure 1.9

**Italian government securities by holder category** (1)
*(quarterly data; per cent)*



Sources: Banca d'Italia (Financial Accounts), and estimates based on Assogestioni and ECB data.
(1) Shares calculated on data at market prices and net of securities held by Italian general government. The data refer to a subset of holders. – (2) Includes foreign individually managed portfolios and investment funds attributable to Italian investors (round trip). – (3) Securities held by foreign investors net of those held by the Eurosystem and by round-trip managed portfolios and investment funds.

benefiting from direct placements with retail investors. The average cost of securities outstanding has reached 2.85 per cent (Figure 1.8), while the average residual maturity has been stable at roughly seven years since 2021.

In the second half of 2024, the share of Italian government securities held by foreign investors continued to increase, with the share held by Banca d'Italia and the Eurosystem declining (Figure 1.9); the share held by Italian households, banks and insurance companies, instead, remained broadly stable.

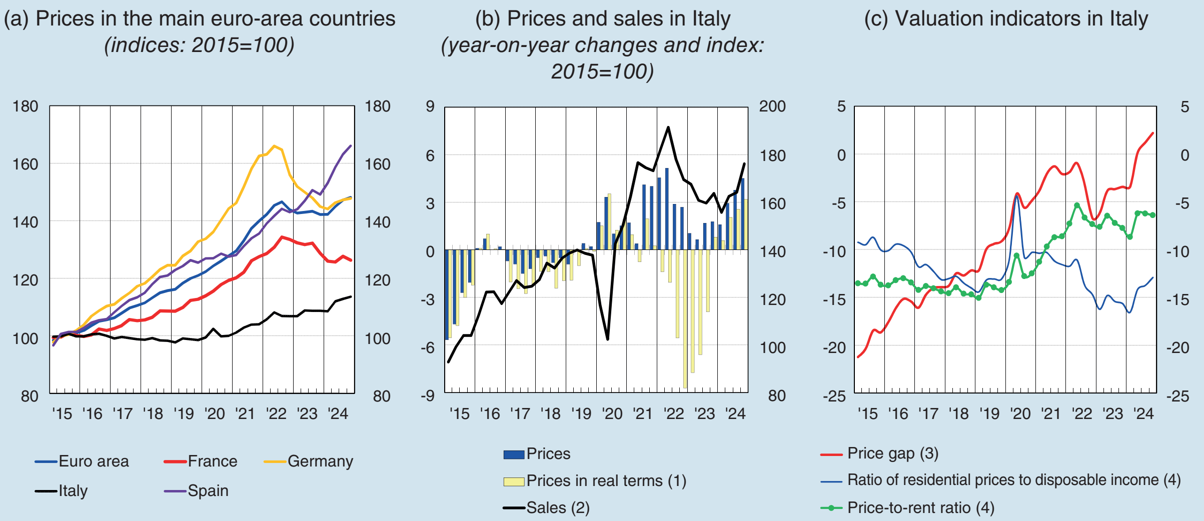
## 1.4 REAL ESTATE MARKETS

In the fourth quarter of 2024, residential property prices in the euro area continued to rise year on year, by 4.2 per cent (Figure 1.10.a). The growth was especially strong in Spain, thanks to high demand, tight supply and an increase in tourist rentals; prices picked up again in Germany, while their contraction slowed in France. In the third quarter of last year, commercial property prices declined in the euro area as a whole.

Residential property prices in Italy continued to increase in the fourth quarter of 2024 (4.5 per cent year on year), also in real terms (Figure 1.10.b). The year-on-year price change was positive for all areas of the country and for the largest cities. Volumes of sales went further up. The indicators based on data sourced from the listings published on the Immobiliare.it online platform and the assessments of the real estate agents interviewed between January and February as part of our surveys also show an improvement in the outlook for market conditions in the first months of 2025 (see *Economic Bulletin*, 2, 2025).

Figure 1.10

**Residential property market in the euro area and in Italy**
*(quarterly data)*



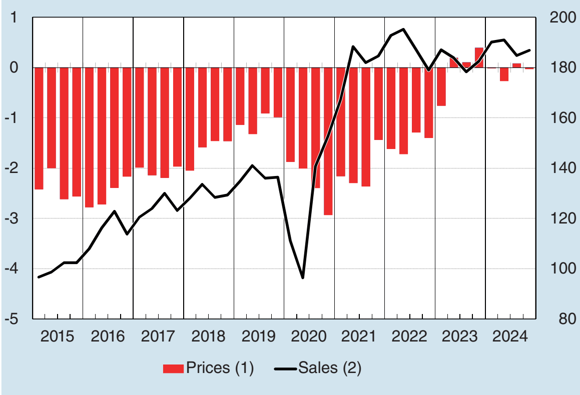

Sources: Based on data from Banca d'Italia, Eurostat, Istat and the Italian Revenue Agency's Osservatorio del Mercato Immobiliare (OMI).
(1) Data deflated using the change in consumer prices. – (2) Data adjusted for seasonal and calendar effects. Right-hand scale. – (3) The price gap is defined as the percentage deviation of the house price index in real terms from its long-term trend. – (4) The data are expressed as a percentage deviation compared with the long-term average.

According to our estimates, house price growth is set to remain strong in 2025 and then ease gradually in the following two years.[2] Looking at long-term trends, the indicators, while trending upwards, continue to show no risks of overvaluation (Figure 1.10.c).

Sales in the non-residential sector returned to growth in the second half of 2024, while prices held broadly stable (Figure 1.11).

Figure 1.11

**Non-residential property market in Italy**
*(quarterly data)*




Sources: Based on data from Osservatorio del Mercato Immobiliare (OMI) and Scenari Immobiliari.
(1) Percentage changes on year-earlier period; the indicator, which is still being tested, uses data drawn from transactions actually concluded on the market. – (2) Index: 2015=100; data adjusted for seasonal and calendar effects. Right-hand scale.

## 1.5 HOUSEHOLDS AND FIRMS

### *Households*

The financial situation of households remains sound, with limited risks to financial stability. Looking ahead, the weakness of the business cycle and the high uncertainty about the economic outlook stemming from international tensions could both contribute negatively to financial stability (see Section 1.2).

Real disposable income remained stagnant in the second half of 2024. The latest issues of the ECB's Consumer Expectations Survey indicate that more than three fourths of Italian households plan to save

[2] The estimates are based on the models described in S. Emiliozzi, E. Guglielminetti and M. Loberto, 'Forecasting house prices in Italy', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 463, 2018.

over the next 12 months. However, there is still a large share of households (about one fourth) that expect their financial situation to worsen.

According to preliminary financial accounts data, financial wealth strengthened overall in the six months ending in December 2024, both as a result of positive financial market developments – which then deteriorated in 2025 (see Section 1.3) – and of increased savings. Households shifted away from shares and participating interests but invested more in asset management products, especially investment funds (see Section 2.3). Deposits picked up again, while debt securities slowed, with uneven developments across the various components: new investments in securities issued by the Italian private sector and foreign issuers rose, whereas a slight disinvestment in Italian government securities was recorded for the first time since 2022.[3] The growth in certificates came to a halt (see the box 'Certificates and their uptake in Italy and in the main euro-area countries').

## CERTIFICATES AND THEIR UPTAKE IN ITALY AND IN THE MAIN EURO-AREA COUNTRIES[1]

Certificates are debt securities that replicate the performance of one or more underlying assets, such as interest rates, equities, stock market indices or commodities. They often provide full or partial capital protection. The contractual structure of certificates can be complex: for example, their return may depend on the occurrence of events relating to the price of the underlyings, e.g. on whether certain price thresholds are exceeded. These instruments may also incorporate a leverage mechanism, i.e. they can amplify the gains and losses of the underlying assets.

Table

**Certificates in circulation in the euro-area countries**
*(billions of euros and per cent)*

| | Volumes | *of which:* held by households | Shares held by households |
|---|---|---|---|
| Italy | 84.9 | 55.6 | 65.5 |
| Germany | 64.5 | 53.0 | 82.1 |
| France | 45.6 | 2.3 | 5.1 |
| Austria | 9.1 | 7.1 | 78.2 |
| Belgium | 4.0 | 2.9 | 72.9 |
| Spain | 1.3 | 0.7 | 54.4 |

Sources: For Italy, based on Banca d'Italia data; for the other countries, based on Securities Holdings Statistics by Sector. Data updated to 31 December 2024.

At the end of 2024, certificates in Italy amounted to around €85 billion, almost two thirds of which were owned by households (see the table). The domestic market consists mainly of instruments with capital return guarantees, which are only applicable if the contract is held to maturity (57 per cent of the total). The second largest share (32 per cent) is made up of yield enhancement certificates, whose risk profile is comparable to that of the underlying assets.[2] Leverage certificates are the riskiest but only account for 5 per cent of the volumes in circulation.

[1] By Michele Leonardo Bianchi and Leonardo Del Vecchio.

[2] These products can yield higher returns than the underlyings in stable market conditions, but lower ones if prices exceed certain thresholds. In bearish market scenarios, their performance instead tends to mirror that of the underlying assets.

[3] During the period considered there were no direct placement windows dedicated to retail investors.

Growth in the volume of certificates in retail investors' portfolios came to a halt in the second half of 2024, but these products remain the second most common debt securities among households' investments, after domestic government bonds. Overall, their share in households' financial wealth is still small. Furthermore, according to Banca d'Italia's short-term outlook survey of Italian households (ICF, only in Italian) conducted in August 2024, investment in these instruments comes almost exclusively from the most financially sound households and those in the highest income brackets.

According to the ECB's Securities Holdings Statistics by Sector, certificates are also particularly popular among German households, which hold over 80 per cent of the €64.5 billion worth of these products in circulation in Germany. In France, instead, certificates are mainly held by financial intermediaries, and their volumes are smaller in Austria, Belgium and Spain.

Certificates can improve the risk-return profile of diversified portfolios, partly thanks to favourable tax treatment.[3] These are, however, complex instruments that are difficult to evaluate, and are best suited for investors with adequate financial knowledge. As their uptake is on the rise among retail investors, Banca d'Italia – also working with the Italian Companies and Stock Exchange Commission (CONSOB) – has long included them among the financial instruments that may warrant the use of its product intervention power in order to safeguard financial stability, and continues to monitor their development (see Chapter 3).[4]

[3] From a tax standpoint, unlike bond coupons, the coupons paid by certificates are treated as miscellaneous financial income and can therefore be offset by any capital losses incurred by the investor. For more details, see 'The Global Economy: Navigating Uncertainty and Change', speech by F. Panetta, Governor of Banca d'Italia, at the 31st Congress of ASSIOM FOREX, Turin, 15 February 2025.

[4] For more information on the product intervention power, see Banca d'Italia's website, 'Banca d'Italia's 'intervention power' concerning financial instruments, structured deposits and related financial activities/practices'.

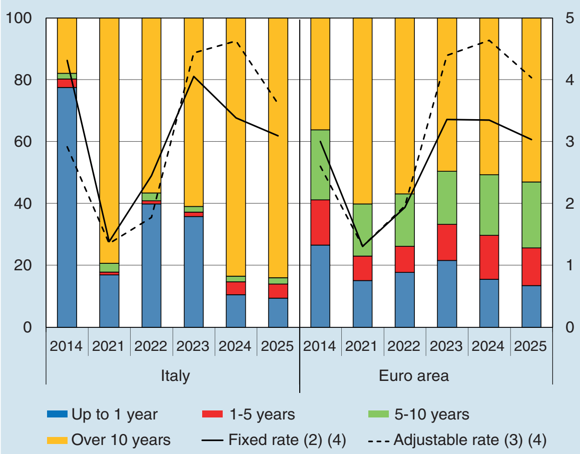
In the fourth quarter of 2024, the ratio of total household debt to disposable income reached its lowest level since 2008, at 56.1 per cent, which is about 30 percentage points below the euro-area average. Lending from banks and financial corporations accelerated (1.6 per cent year on year in December, from 0.6 per cent in June). This reflected the faster pace of growth in mortgage loans, which increased by 1.3 per cent in the same period (from 0.3 per cent in June), benefiting from monetary easing; the trend continued in 2025, with the growth rate reaching 1.9 per cent last February. Consumer credit continued to expand at a sustained pace in the last quarter of 2024 (5.6 per cent), approaching its historical highs as a share of disposable income and exceeding the euro-area average by 4 percentage points.

Interest rates on new mortgage loans fell both for adjustable-rate loans (from 4.7 per cent in August to 3.8 per cent in February) and fixed-rate loans (from 3.4 to 3.1 per cent), reflecting the decline in key interest rates; the total cost of new consumer loans remained stable at 10.5 per cent. The higher

**Figure 1.12**

**Composition of new loans by rate term and developments in fixed and adjustable rate loans** (1)

*(percentage shares and points)*




Source: ECB.
(1) The data refer to consumer and producer households and non-profit institutions serving households. Reference period averages. For 2025, the latest available figure refers to February. – (2) The fixed rate is that applied to mortgage loans for which the interest rate is set for a period of more than 10 years. – (3) The adjustable rate is that applied to mortgage loans for which the interest rate is set for a period of less than 1 year. – (4) Right-hand scale.

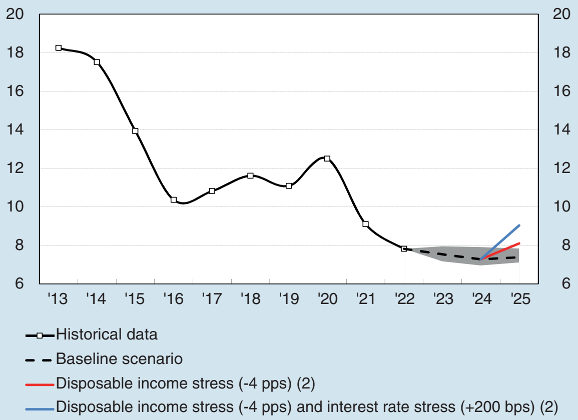
cost of adjustable-rate mortgage loans helped to keep their share in total loans below 10 per cent (Figure 1.12). The share of fixed-rate mortgage loans in total outstanding loans hit a new historical high in December 2024, at 72.3 per cent.

The quality of household credit improved. In the fourth quarter of 2024, the loan default rate dropped to 0.7 per cent (from 0.8 per cent in the second quarter), close to historical lows. The default rate of consumer loans decreased too (from 2.4 to 2.2 per cent).

The projections of Banca d'Italia's microsimulation model[4] (Figure 1.13) suggest that the financial vulnerability of households will worsen by around 0.1 percentage points in 2025 (accounting for 7.7 per cent of household debt, from 7.6 per cent). In a particularly adverse scenario, the share of debt held by financially fragile households would only marginally increase (to 9.0 per cent).

Figure 1.13

**Share of debt held by vulnerable households** (1)
*(yearly data; per cent)*




Source: Based on the Survey on Household Income and Wealth (SHIW).
(1) Households are considered vulnerable when their debt service-to-income ratio is above 30 per cent and their equivalent disposable income is below the median. The latest available SHIW data refer to 2022. The shaded area represents the interval between the 10th and the 90th percentiles of the probability distribution in the simulations. – (2) Compared with the baseline scenario, the assumptions for 2025 are that: (a) the growth rate of nominal income is 4 percentage points lower; (b) the growth rate of nominal income is 4 percentage points lower and the 3-month Euribor, the 10-year interest rate swap (IRS) and the interest rate on consumer credit are 200 basis points higher.

### *Firms*

The weakness of the economic situation was reflected in the decline in the profitability of firms. Although the cost of credit is benefiting from monetary policy easing, lending remained weak overall. Looking ahead, the sector is exposed to vulnerabilities arising from the high uncertainty about the growth outlook and the repercussions of the geopolitical and trade tensions on commodity prices and exports.

In 2024, gross operating income decreased by 5.1 per cent (it had increased by 8.3 per cent in 2023); the reduction was mainly due to the slowdown in value added (Figure 1.14.a). The contraction in profitability was greater in the industrial sector, owing to the weakness of the euro-area manufacturing cycle (see *Economic Bulletin*, 2, 2025).

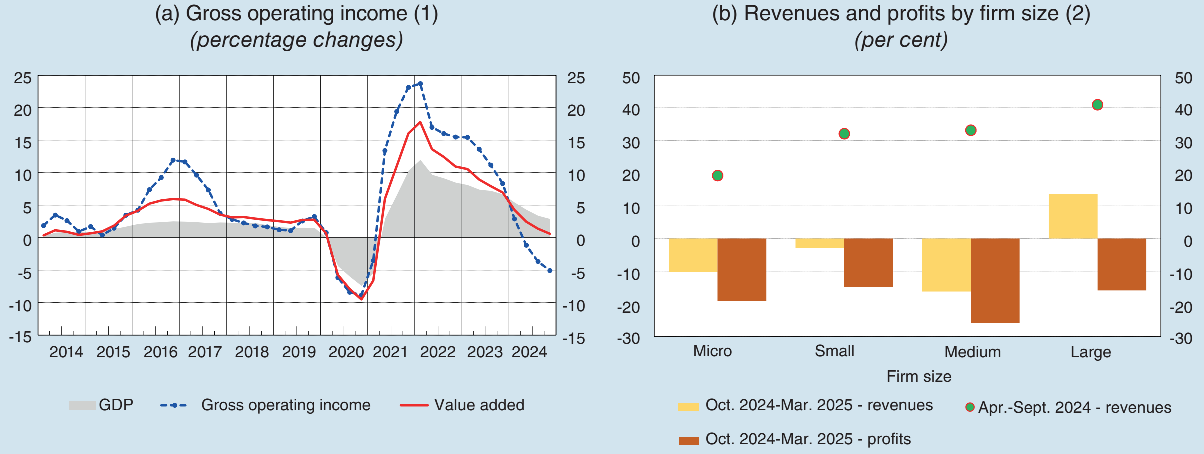
The firms included in the ECB's survey on the access to finance of enterprises reported a deterioration in revenues – with the exception of large companies – and profits in the six months ending in March 2025 (Figure 1.14.b). Profits are being negatively affected by cost pressures, including materials, energy and labour costs. The analysts' most recent forecasts for the profits of listed companies for 2025 also point to a downturn compared with 2024.

The decline in fixed investments and inventories that started in mid-2023 led to a corresponding decrease in financing needs. As of the third quarter of 2024, this trend has reversed: the decline in internal financing has exceeded that in investments, thereby increasing firms' financing needs. In the year as whole, leverage (calculated as the ratio of financial debt to the sum of financial debt and net equity valued at market prices) decreased by around 0.7 percentage points to 32.6 per cent, reaching

[4] For details on the microsimulation model, see C.A. Attinà, F. Franceschi and V. Michelangeli, 'Modelling households' financial vulnerability with consumer credit and mortgage renegotiations', *International Journal of Microsimulation*, 13, 2020, pp. 67-91, also published in Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 531, 2019.

Figure 1.14

**Macroeconomic context and profitability trend**




Sources: Based on Istat and ECB (SAFE) data.
(1) Annualized nominal rate of growth in gross operating income and value added of non-financial corporations. – (2) Opinions of firms concerning actual revenues and profits (October 2024-March 2025) and expected revenues (April-September 2025). The values refer to the balance between firms reporting an increase in revenue and those reporting a decrease. The data refer to a sample of about 1,500 Italian firms that took part in the ECB's Survey on the access to finance of enterprises (SAFE), stratified by firm size (based on the number of employees: 1-9 = micro; 10-49 = small; 50-249 = medium-sized; +249 = large) and by economic sector.

its lowest level in 20 years and standing slightly below the euro-area average. Its improvement was due both to lower debt (0.3 per cent) and higher net equity value (0.5 per cent).

Liquidity buffers (measured as the ratio of liquid assets to total liabilities) remained virtually unchanged, at 11 per cent at the end of 2024, in line with pre-pandemic levels (Figure 1.15.a). As of 2020, part of the liquid assets were earmarked to repay loans – including those that have not reached maturity yet – and to meet current financial needs.

Bank lending to firms continued to contract (-2.4 per cent in the twelve months ending in February 2025), still reflecting weak credit demand. At the same time, according to the euro-area Bank Lending Survey, banks' lending standards remained cautious, notwithstanding the moderate easing observed in the last quarter of 2024.[5]

The decline in loans continues to be greater among the riskiest firms and, in particular, micro and small firms (Figure 1.15.b),[6] which, based on the business surveys, continue to have more difficulties in accessing credit. For sound large firms, the change in loans turned positive in 2024.

Lending to firms operating in sectors that are potentially more exposed to the repercussions of US tariff increases[7] accounts for a limited share of total loans to Italian firms; however, its share is larger than that of other euro-area countries (see the box 'The exposure of the euro-area banking system to the sectors most vulnerable to US tariffs', Chapter 2).

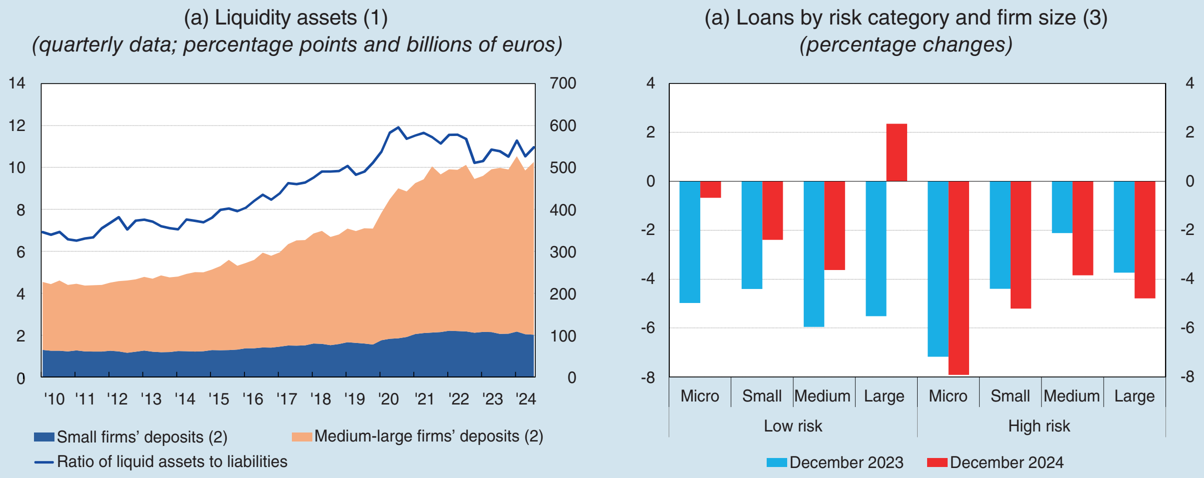
[5] For more information, see 'The Euro Area Bank Lending Survey. Main results for Italian banks', 15 April 2025.

[6] These are respectively defined as firms with fewer than 10 (50) employees and a turnover or total assets of up to €2 million (€10 million) (see note (3) to Figure 1.15.b).

[7] As per Ateco classification, these sectors are: 19 (oil, gas and coal), 10-12 (food, beverages and tobacco), 28 (machinery), 30 (motor vehicles), 32 (other manufactured products), 21 (pharmaceuticals), 29 (other transport equipment). For more information, see the box 'The uncertainty about trade policies and the exposure of Italian firms to the US market', *Economic Bulletin*, 1, 2025).

Figure 1.15

**Liquidity and lending to firms**




Source: Banca d'Italia, based on data from the Central Credit Register and Cerved.
(1) Share of liquid assets in total liabilities and stock of firms' deposits with the banking system. Firm size is defined by the number of employees; medium-large firms are those with more than 20 employees. – (2) Right-hand scale. – (3) The data refer to the annual change in financing for a sample of about 450,000 limited companies. Loans include those granted by financial corporations, take account of securitizations, and also include bad loans. Allocation into the risk groups is based on Cerved's CeBi-Score4 indicator. Low- (medium- and high-) risk firms have a score ranging from 1 to 4 (5 to 10). The breakdown by firm size is based on Commission Recommendation 2003/361/EC, which defines micro firms as those employing fewer than 10 workers and whose turnover or total assets do not exceed €2 million; small firms as those employing fewer than 50 workers and whose turnover or total assets do not exceed €10 million, not including micro firms; medium-sized firms as those employing fewer than 250 workers and whose turnover or total assets do not exceed €50 million and €43 million respectively, not including micro and small firms; and large firms as all the remaining ones.

Since the start of the monetary easing cycle in June 2024, the interest rate applied to new loans – excluding current account overdrafts – has decreased by 1.3 percentage points, to 4 per cent. The decrease was more pronounced than in the euro-area countries on average (1 percentage point), especially for larger loans.

In the fourth quarter of 2024, the loan default rate stood at 2.4 per cent (in line with the level observed in the second quarter); it increased by about 0.6 percentage points year on year, driven by the construction sector and, to a lesser extent, the industrial sector.

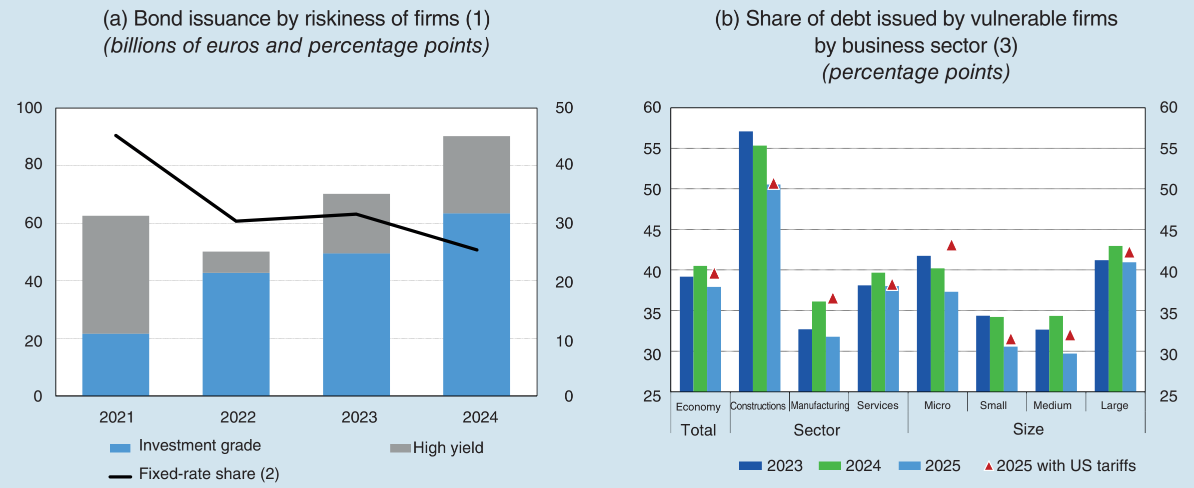
Last year, 21 firms were admitted to trading on the stock exchange, of which 19 were on the segment for small and medium-sized enterprises (SMEs). In the same period, 29 firms listed on the main market, mainly large firms, exited the market ('delisting'). Delistings have been occurring both in Europe and in the United States for several years now. In Italy, market capitalization as a share of GDP dropped to 19 per cent, from 21 per cent in 2023, far below the levels recorded in other advanced economies.

Recourse to bond financing intensified as a result of placements by large firms (Figure 1.16.a). Gross issuance exceeded the historically high level of €92 billion and mainly involved variable-rate securities issued by investment grade firms.

The rating of both Italian and euro-area listed corporate issuers worsened, albeit slightly. At the beginning of April 2025, the share of outstanding BBB-rated bonds – those most exposed to the risk of a downgrading to high yield – rose to 85.4 per cent of total investment grade issues in Italy (from 84.0 per cent in November 2024), against a lower percentage for the euro-area average (62.3 per cent, up from 60 per cent in November).

**Figure 1.16**

**Bond financing and financial vulnerability**




Sources: Securities registry database, Cerved and Dealogic.
(1) Gross bond issuance and commercial paper by Italian non-financial corporations and groups. The investment grade risk category applies to issuers with Cerved CeBi-Score rating of 1-4 whereas issuers with ratings higher than 4 are in the high-yield category. – (2) Right-hand scale. – (3) Vulnerable firms are those whose gross operating income is negative or whose ratio of net interest expense to gross operating income exceeds 50 per cent. The definition excludes firms with bad loans. The latest available annual financial statements for the whole sample of firms refer to 2023.

The projections of Banca d'Italia's microsimulation model[8] indicate that, in a baseline scenario consistent with the slowdown in economic activity incorporated in the latest macroeconomic forecasts, the share of vulnerable firms will remain essentially stable, at 27 per cent, while the debt issued by this category of firms will decrease by nearly 3 percentage points, to about 38 per cent at the end of 2025 (Figure 1.16.b), which is still high by historical standards. The reduction, attributable to small and medium-sized firms, will be greater in the manufacturing and construction sectors. In a more adverse scenario that assumes a drop in revenues consistent with our estimates of the direct effect of the tariffs imposed by the United States (see the box 'The exposure of the euro-area banking system to the sectors most vulnerable to US tariffs', Chapter 2), the percentage of vulnerable firms and of the debt attributable to them will increase moderately, by 2.3 and 1.5 percentage points respectively.

[8] For details on the microsimulation model, see A. De Socio and V. Michelangeli, 'A model to assess the financial vulnerability of Italian firms', *Journal of Policy Modeling*, 39, 2017, pp. 147-168, also published in Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 293, 2015.

# 2 RISKS TO FINANCIAL INTERMEDIARIES

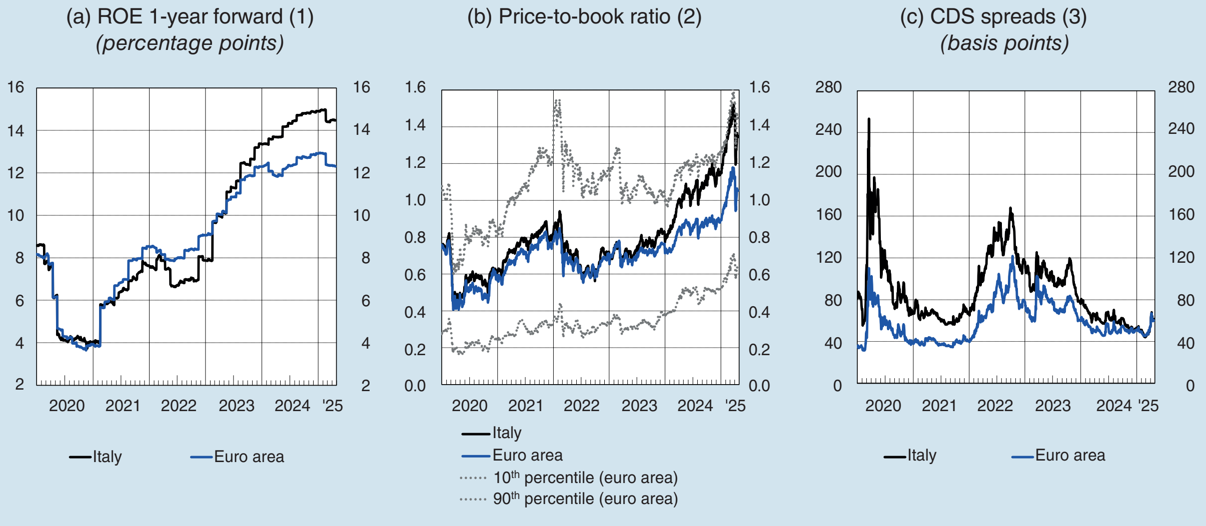
## 2.1 BANKS

The financial situation of the Italian banking system continues to be sound, although there are still signs of worsening in the quality of loans to firms. Profitability and capitalization remain at very high levels and the liquidity situation is still balanced, even after the expiry of targeted longer-term refinancing operations (TLTRO III). However, macroeconomic uncertainty heightens the risk of a more pronounced deterioration in loan quality. Looking ahead, the gradual reduction in net interest income associated with the easing of monetary policy is expected to have a negative impact on profitability, although the effect could be partly offset by the recovery in fee income.

In April, following the financial turmoil caused by the announcement of US tariffs, the average price-to-book ratio for the largest Italian listed banks fell, though it was still higher than that of the main euro-area banks (Figure 2.1). The credit default swap (CDS) spreads of the leading Italian banking groups worsened too, widening in line with those of the main European banks. Profitability expectations, while declining, remain high.

**Figure 2.1**

**Italian listed banks: an international comparison**
*(daily data)*




Source: Based on LSEG data.
(1) Return on equity (ROE) is estimated by market operators. Average weighted according to market value. The data refer to the banks included in the Euro STOXX Banks index; for Italy, UniCredit, Intesa Sanpaolo, Banco BPM, Banca Monte dei Paschi di Siena, Banca Popolare di Sondrio, BPER Banca and Banca Generali. – (2) Average weighted according to market value. For the banks included in the sample, see note (1). – (3) The data refer to the following sample of banks: for Italy, UniCredit and Intesa Sanpaolo; for the euro area, BNP Paribas, Société Générale, Crédit Agricole, Deutsche Bank, Commerzbank, Banco Santander, Banco Bilbao Vizcaya Argentaria. Simple average of 5-year CDS spreads.

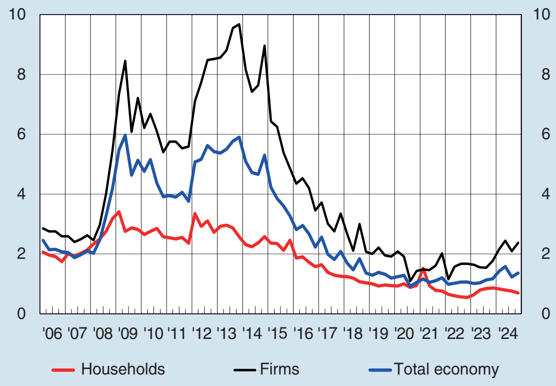
*Asset risks*

The overall quality of bank assets remained broadly stable in the second half of 2024. Specifically, the loan default rate stood at 1.4 per cent in the fourth quarter (from 1.6 per cent in the second quarter; Figure 2.2). Over the four quarters of 2024, the rate grew by 0.3 percentage points on average compared with 2023, owing to the upturn in the firms component (see Section 1.5). The deterioration in credit quality was more marked for less significant banks.

The non-performing loan (NPL) ratio was stable in the second half of 2024 compared with the previous six months (1.5 per cent, net of loan loss provisions; Figure 2.3.a; see Table A2 in the Appendix). The NPL ratio for Italian significant banking groups (1.1 per cent) is still in line with the average ratio for all the financial intermediaries directly supervised by the ECB (Figure 2.3.b).

Figure 2.2

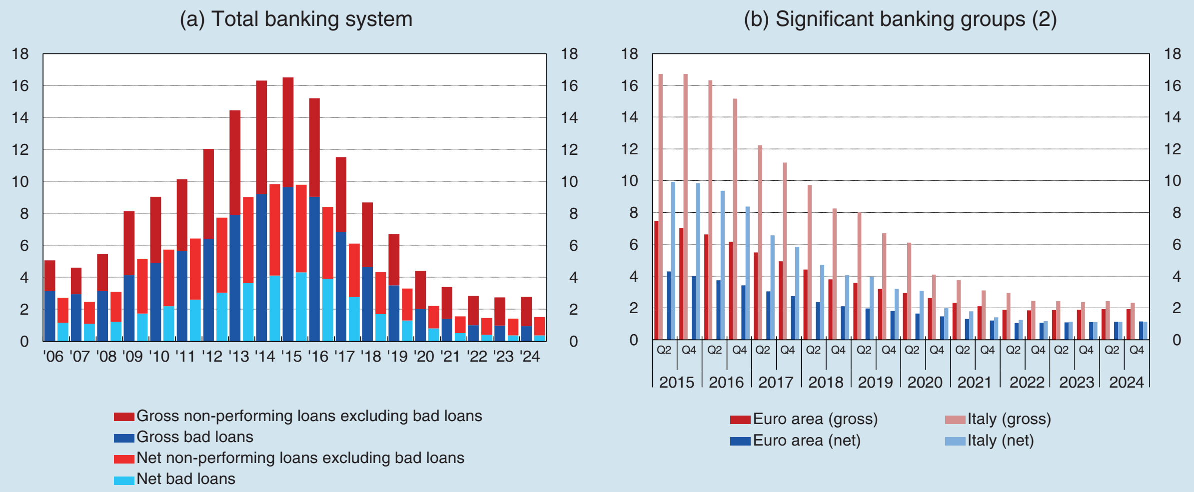
**Loan default rates** (1)
*(quarterly data; per cent)*




Source: Central Credit Register.
(1) The loan default rate is calculated as the annualized ratio of the quarterly flow of adjusted NPLs to the stock of performing loans at the end of the previous quarter. Data seasonally adjusted where necessary.

Figure 2.3

**Non-performing loans: share of total loans** (1)
*(per cent)*




Sources: Consolidated supervisory reports for Italian banking groups and individual supervisory reports for the rest of the system; ECB, 'Supervisory Banking Statistics' for the euro area.
(1) Includes loans to customers, credit intermediaries and central banks. Includes banking groups and subsidiaries of foreign banks; excludes branches of foreign banks. Also includes banks specializing in NPL management, whose share of the banking system as a whole in terms of NPLs is around 5 per cent. Shares are calculated net and gross of loan loss provisions. The data for December 2024 are provisional. – (2) The perimeter of significant banks and less significant banks differs between the dates shown in the figure: in June 2019, with the reform of the cooperative banking sector, Cassa Centrale Banca became a banking group classified as significant for supervisory purposes; 143 cooperative credit banks (BCCs) joined the ICCREA group, which was already classified as significant before the reform. Mediolanum and FinecoBank have been included among the significant banks since June 2022.

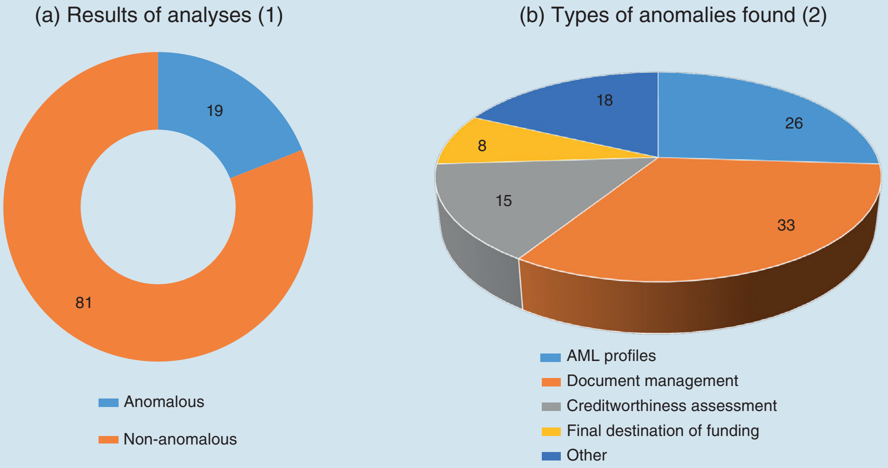
The share of loans to firms backed by government guarantees continued to decline (to 24.2 per cent at the end of 2024, down from the peak of 32.8 per cent recorded in 2021). The default rate for these loans rose to 3.2 per cent in the second half of the year (from 2.7 per cent in the first half), 1.4 percentage points higher than that for loans to firms not backed by government guarantees (see the box 'The use of government guarantees by less significant banks to support lending to firms, the related risks, and supervisory measures').

## THE USE OF GOVERNMENT GUARANTEES BY LESS SIGNIFICANT BANKS TO SUPPORT LENDING TO FIRMS, THE RELATED RISKS, AND SUPERVISORY MEASURES[1]

Despite the gradual decrease from the peak observed during the pandemic, the take-up of government guarantees (paid by the Central Guarantee Fund and by SACE) for corporate financing remains considerably higher than in the pre-pandemic period.[2] Banca d'Italia conducted a survey on less significant institutions (LSIs) in the second half of last year. The checks carried out by banks involved a representative sample of exposures amounting to about 10 per cent (€1.9 billion) of the stock of loans with government guarantees (PGS) reported by LSIs in Anacredit in June 2024. According to what the banks themselves reported, 19 per cent of these loans had some anomalies (see panel (a) of the figure), but they were deemed insufficient to generate significant residual risks for them (ineffective guarantee) or to require increases in loan loss provisions. Specifically, the anomalies concerned (see panel (b) of the figure): (a) the lack of complete supporting documentation, which can be remedied by supplementing the documentation file; (b) how the fulfilment of anti-money laundering

Figure

**Results of the analysis carried out by less significant banks on transactions involving government-backed loans**
*(per cent)*




Source: Data sent by LSIs to Banca d'Italia.
(1) The analyses were carried out by LSIs as a result of a survey conducted by Banca d'Italia in 2024. The review involved a sample of government-backed loans (Central Guarantee Fund and SACE), corresponding to around €1,880 million in credit used. – (2) Share of the various types of anomalies found in the total of anomalous loans detected.

[1] By Gianmaria Marano.

[2] 'The Global Economy: Navigating Uncertainty and Change', speech by Fabio Panetta, Governor of Banca d'Italia, at the 31st Assiom Forex Congress, Turin, 15 February 2025 (see specifically Figure A.12.a).

obligations is not fully compliant with the regulatory framework;[3] (c) an inadequate credit rating assessment; and (d) the use of funds for purposes other than that declared by the beneficiary firm.

The presence of the guarantee is an effective system for facilitating firms' access to credit because it reduces the risk for intermediaries; however, it must be supported by suitable assessment and monitoring criteria, without which banks may encounter credit risks on the unsecured share, as well as operational and reputational risks, which could be considerable. The risk of money laundering and of involvement in the financing of illicit activities is especially significant.[4]

The LSIs were sent a report on the results of the survey and were encouraged to strengthen their management and control systems for overseeing activities linked to PGSs.

There was a specific focus on the following aspects: (a) the presence of a guarantee cannot in itself be a reason for departing from the general standards for customer selection and creditworthiness analysis,[5] all the more so after the end of the public health emergency period; (b) strong anti-money laundering safeguards must be ensured, both in the award phase, especially to new customers, and during monitoring; (c) control measures for the entire commercial loan supply chain must be strengthened (e.g. the network of agents or brokers); (d) compliance with the regulatory constraints must be guaranteed (e.g. PGSs cannot be used to terminate other exposures); and (e) the recommendations of Italy's Financial Intelligence Unit on active cooperation (reporting suspicious transactions) and on anomaly indicators should be carefully considered. LSIs were therefore required to incorporate all risks into the internal process for determining capital adequacy for 2025 and to carry out controls to monitor activity in the sector over time. In addition, intermediaries whose business has a strong focus on PGSs must check the sustainability of their business model, including in a scenario where recourse to government guarantee support is reduced.

In some cases, Banca d'Italia had already imposed a call for additional capital under Pillar 2 in 2024 to take account of the residual risk not covered by intermediaries.

The 2025 Budget Law lowered the percentage that can benefit from guarantees for some types of loans[6] and introduced the obligation for intermediaries to pay a premium to the Central Guarantee Fund, the application procedures for which will be defined by ministerial decree.

[3] Banca d'Italia, 'Provisions on customer due diligence to combat money laundering and terrorist financing', 30 July 2019.

[4] 'Cases of money laundering and terrorist financing', Italy's FIU, Working papers. Analyses and studies, 25, 2024, (only in Italian).

[5] EBA, 'Guidelines on loan origination and monitoring', August 2022 and Banca d'Italia Circular 285/2013 ('Supervisory provisions for banks', only in Italian).

[6] The maximum percentage for guarantees on loans granted to medium-sized, small and micro-firms for liquidity needs was reduced to 50 per cent. At the same time, the range of medium-sized firms that can access the guarantee was extended by removing the condition of having a minimum number of employees and confirming the maximum number (499). This change is subject to the approval of the European Commission.

The amount of Stage 2 loans has decreased since June 2024.[1] Their share of total performing loans inched down to 8.3 per cent last December. The decline was almost entirely attributable to less significant banks, for which the share of these loans fell from 9.2 to 8.0 per cent, while it remained virtually stable for significant banks (8.6 per cent).

The arrears rate has edged down for both loans to households and loans to firms.[2]

According to our projections, which are in line with the macroeconomic scenario published by Banca d'Italia in April,[3] the loan default rate for firms is expected to be 2.4 per cent on average in 2025 and 2.5 per cent in 2026, driven by a decline in firms' profitability and a worsening macroeconomic outlook compared with the recent past. The loan default rate for households is expected to remain essentially unchanged at 0.9 per cent. However, uncertainty around these projections remains high in the current environment (see the box 'The exposure of the euro-area banking system to the sectors most vulnerable to US tariffs').

## THE EXPOSURE OF THE EURO-AREA BANKING SYSTEM TO THE SECTORS MOST VULNERABLE TO US TARIFFS[1]

Following recent trade tensions, we analyse the exposure of the euro-area banking system to a uniform 25-percentage-point increase in tariffs on all imports from the EU to the United States. In particular, the exercise estimates the potential decline in revenues at the country-sector level,[2] considering both the direct effect of lower exports to the United States and the indirect effects arising from inter-sectoral dependencies.[3] These estimates of the revenue decline are then matched with the AnaCredit data on the sector and country distribution of loans by banks whose parent company is in the euro area.

Overall, euro-area banks display limited exposure to the sectors most affected by the US tariffs. More than 70 per cent of credit to firms is allocated to sectors with an estimated revenue decline of less than 1 per cent. Conversely, the share of lending to sectors with an

1 By Andrea Fabiani and Matteo Mancini.

2 The exercise does not consider possible countermeasures by the European Union and does not take into account the effects of higher tariffs by the United States on non-EU countries. In addition, to quantify the potential revenue drop, the product-level estimates of tariff elasticity that we used do not take into account the heterogeneity in the quality of exports of a given product across countries (see the box 'The exposure of Italian exports to US tariffs', *Economic Bulletin*, 2, 2025). Assuming a tariff rate increase of 20 percentage points, the potential revenue drop would be slightly smaller than the estimate presented in this box.

3 The direct effects of tariffs on exports to the United States are computed by multiplying the assumed unilateral increase in tariffs by the sector-level and country-level elasticities of export values in relation to tariffs, obtained from granular product-level estimates (see L. Fontagné, H. Guimbard and G. Orefice, 'Tariff-based product-level trade elasticities', *Journal of International Economics*, 137, 103593, 2022). These estimates are rescaled assuming a medium-term aggregate elasticity of around -2 per cent (see C.E. Boehm, A.A. Levchenko and N. Pandalai-Nayar, 'The long and short (run) of trade elasticities', *American Economic Review*, 113, 4, 2023, pp. 861-905). The analysis also considers inter-sectoral dependencies, both at national and international level, which have negative repercussions on the rest of the economy, by applying the Leontieff inverse matrix to European input-output tables (Full International and Global Accounts for Research in Input-Output Analysis, FIGARO). The sum of the direct and indirect effects is then divided by total revenue to obtain an estimate of the percentage decline in revenue at sector and country level.

1 Under the IFRS 9 accounting standard, these are exposures that have experienced a significant increase in credit risk (SICR) since their origination, but are not yet non-performing.

2 The arrears rate is the annualized ratio of the quarterly flow of new arrears to performing loans (that are not in arrears) at the end of the previous quarter. Arrears are exposures past due for at least 30 days but not yet non-performing.

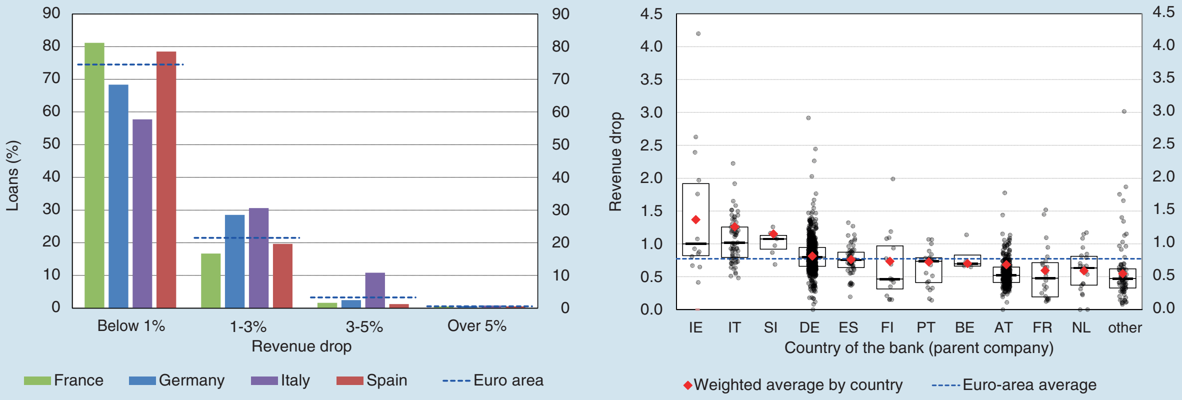
3 Banca d'Italia, 'Macroeconomic projections for the Italian economy', 4 April 2025.

Figure

**Credit exposure of euro-area banks to the sectors affected by the US tariffs**
*(per cent)*

(a) Share of credit to firms by estimated total revenue drop and country of the parent company (1)

(b) Average revenue drop across borrowing firms: distribution by bank and country (2)




Sources: Based on AnaCredit and FIGARO data.
(1) Percentage share of credit to sectors (based on the Ateco 2007 2-digit classification), grouped according to the estimated percentage decline in revenues for each sector and country. All loans to non-financial corporations from banks for which the parent company is in the euro area are considered. Banks are grouped by nationality of the parent company. Credit exposures as at the end of Q3 2024, at the highest level of consolidation. The estimated effects for each sector and country are calculated using data on exports, total output value and inter-sectoral dependencies between EU countries sourced from the European Commission's FIGARO input-output tables as of 2022 (the last year for which data are available). The figure for the euro area considers outstanding loans from all banks for which the parent company is in the euro area. — (2) Y-axis: average of the estimated percentage drop in revenues for each EU sector and country; weighted average based on the ratio of sector- and country-level loans to each bank's total loans to firms. X-axis: country of residence of the parent company of the lending banks. The red diamonds represent the country-level weighted averages of the underlying bank-level distribution; the weights are given by the ratio of a banking group's loans to non-financial corporations to total country-level loans to non-financial corporations; for the sample of banks considered and the methodology used to estimate the revenue drops at sector and country level, see note (1) to the figure.

estimated drop in revenues greater than 3 per cent is limited (see panel (a) of the figure). On average, Italian banks are relatively more exposed than euro-area banks. This reflects the fact that the Italian economy is more export-oriented – particularly towards the US – and that the loan portfolio of Italian banks is more tilted towards the most impacted manufacturing sectors (e.g. food, machinery and metal products). The banking systems of other countries with a strong focus on goods exports – whose companies are similarly affected by tariffs – are relatively less vulnerable, mainly because the real estate sector accounts for a larger share of their corporate loan portfolios. In Germany, for example, about one third of business loans are directed towards this sector, whereas in Italy the share is just over one tenth.

The distribution of the exposure across banks to the sectors most affected by the US tariffs[4] shows that, at the aggregate level, the most exposed banking systems are those of Ireland, Italy, Slovenia and Germany (see panel (b) of the figure). In several banking systems, including Italy's, the weighted average exposure[5] is higher than the median, suggesting that larger banking groups

[4] Banks' exposure to the tariffs is calculated as the average of the percentage decline in revenue for each sector and country, weighted by its share of borrowing in the total amount of lending a banking group allocates to firms.

[5] To calculate the weighted average, each banking group is weighted by its share of lending in the total amount of loans to non-financial corporations at national level.

account for a greater share of lending to the sectors hardest hit by the US tariffs (and to exporting firms in general).

However, the sectoral aggregation may hide specific risks linked to individual firms that are highly vulnerable to the US tariffs. Based on more granular firm-level data on exports and revenues (available only for Italy), the share of loans to firms with a revenue drop of more than 5 per cent – a threshold that has historically[6] been associated with firms' solvency problems – is estimated to be small (around 3 per cent).[7]

[6] S. Federico, G. Marinelli and F. Palazzo. 'The 2014 Russia shock and its effects on Italian firms and banks', NBER, Working Papers Series, 31171, 2023.

[7] The firm-level analysis only captures the direct effects on exports, in the absence of data on the interdependencies between individual non-financial corporations. The limited credit exposure also reflects the fact that small firms are the most exposed among exporting companies. This is consistent with the fact that large exporting companies are more diversified in terms of destination markets for their products and rely less on exports to one specific market, e.g. the US (see the box 'The exposure of Italian exports to US tariffs', *Economic Bulletin*, 2, 2025).

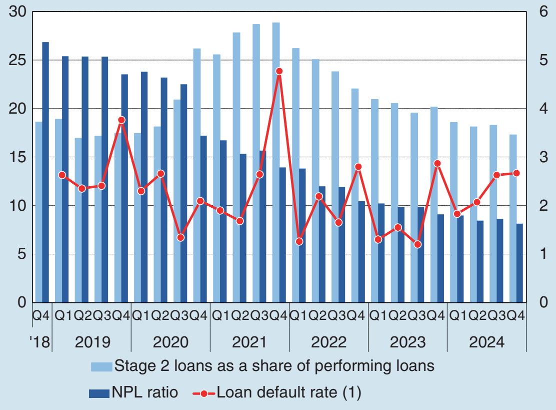
The vulnerability of Italian banks stemming from exposures to the residential real estate sector and, with a higher level of risk, to the commercial real estate (CRE) segment remains moderate (Figure 2.4).

The ESCB's analytical indicators of physical climate risk suggest that Italy's financial system[4] is more vulnerable to water stress[5] and wildfires, compared with other euro-area countries. Water stress risk is set to mount considerably in the medium term, while that linked to wildfires is expected to remain largely stable (Figure 2.5). Exposure to drought risk is broadly in line with the European average.[6] River flood risk, which is currently low, is projected to remain moderate going forward.[7]

Figure 2.4

**CRE loan deterioration**

*(per cent)*




Source: AnaCredit.
(1) Calculated as the annualized ratio of the quarterly flow of non-performing loans to the stock of performing loans at the end of the previous quarter. Right-hand scale.

[4] For more details on the indicators relating to Italy, see F. Cusano, D. Liberati, V. Michelangeli and F. Rinaldi, 'Euro area physical risk indicators for climate related financial stability analyses', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), forthcoming.

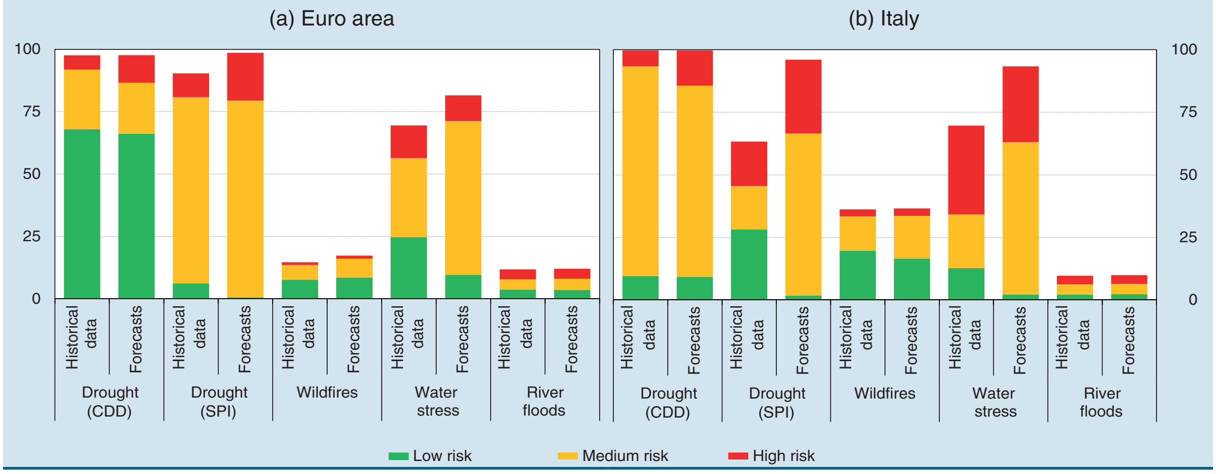
[5] Water stress is defined as the ratio of water used to available water resources.

[6] Drought risk is measured using two different indicators: the number of consecutive days without rainfall (dry days) and the level of precipitation.

[7] Flash floods, which are an increasingly significant problem in Italy, are not included due to the lack of climate models that are able to estimate the probability of such events.

Figure 2.5

**Exposure to droughts, wildfires, water stress and river floods by risk level** (1)
*(per cent)*



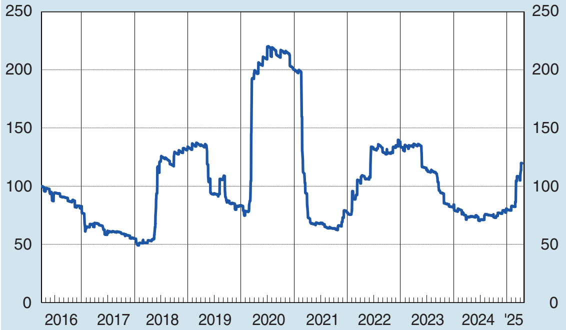

Sources: ESCB calculations based on data from AnaCredit, Joint Research Centre, Register of Institutions and Affiliates Database (RIAD), and the ECB's Securities Holdings Statistics by Sector. Additionally, for wildfire risk: Copernicus; for flood risk: Delft University of Technology; for drought risk: Intergovernamental Panel for Climate Change (IPCC), Interactive Atlas; for water stress risk: World Resource Institute, Aqueduct.
(1) Share of loans and securities exposed to risk in the portfolios. The difference between the maximum value (100 per cent) and the cumulative value of the bars corresponds to the share of zero-risk loans and securities. The projection reported here, based on the climate scenarios (representative concentration pathways, RCPs) developed by the IPCC, is RCP 8.5, defined as a scenario without any carbon mitigation initiative. Drought risk is measured using two different indicators: the consecutive dry days (CDD) indicator, based on consecutive days without rainfall, and the standardized precipitation index (SPI), which measures the level of precipitation. The drought and water stress risk forecasts are for 2040, the wildfire and flood risk forecasts are for 2050. The forecasts of the analytical indicators on physical climate risk are based on historical data from 1986 to 2005 for droughts, from 2001 to 2022 for wildfires, from 1960 to 2014 for water stress, and from 1971 to 2001 for river floods.

## *Market risk and interest rate risk*

The value at risk (VaR) of banks' portfolios of securities (including those valued at amortized cost) went up compared with the last half-year (Figure 2.6). In mid-April 2025, however, it stood below the peaks reached during previous financial stress episodes. Although this increase is mainly attributable to fluctuations in interest rates, both credit spreads and equity risk continue to play a significant role, while the impact of exchange rate risk remains more limited.

Figure 2.6

**The VaR trend of Italian banks** (1)
*(daily data; index: March 2016=100)*



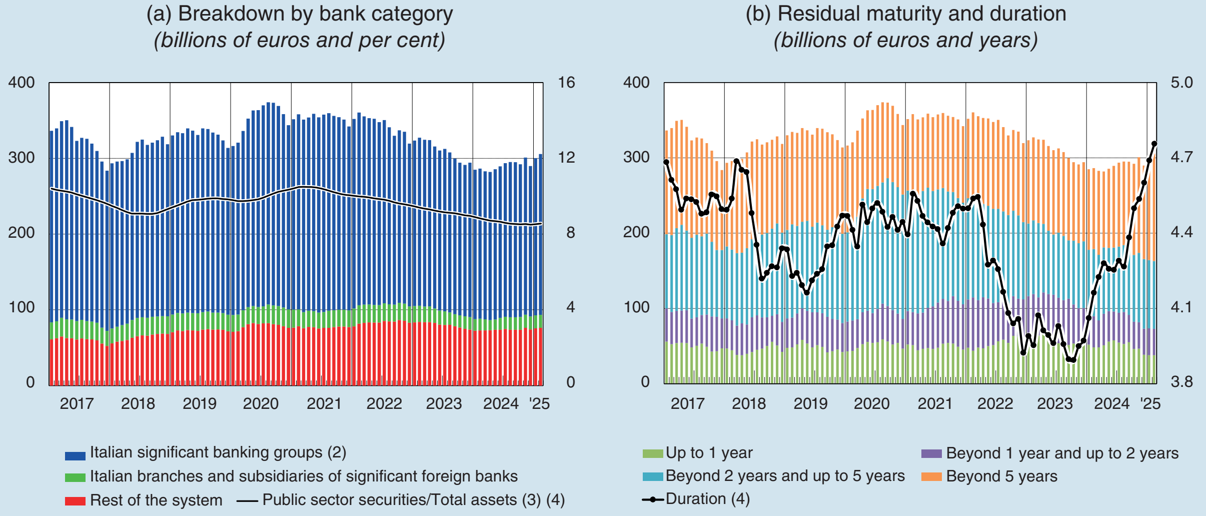

Sources: Based on data from the securities registry database, LSEG, and supervisory reports.
(1) Averages, weighted according to the size of each bank's portfolio. VaR is the loss on a portfolio that within one day will not exceed a given tail level (99 per cent). The indicator for the banking system as a whole is calculated, for each trading day, using granular data on the stocks and the characteristics of the assets in the portfolio of each Italian bank, taking account of the changes in risk factors over the last 250 business days.

In February, the amount of Italian government securities held by resident banks rose compared with last September as a result of net purchases, while the market value of portfolio securities decreased. The ratio of government securities to total assets remained practically unchanged at 8.6 per cent (Figure 2.7.a), in line with the previous six months.

The average duration of the government securities portfolio held by banks rose to 4.8 years (Figure 2.7.b). The share of securities valued at amortized cost fell slightly, to 74.1 per cent.

Figure 2.7

**Banks' investment in Italian government securities** (1)
*(monthly data)*




Source: Supervisory reports.
(1) Comprises all public sector securities, including those issued by local authorities. Excludes Cassa Depositi e Prestiti SpA. – (2) Includes the cooperative credit banks merged into cooperative credit banking groups. – (3) Twelve-month moving average ending in the month indicated. The 'total assets' series does not include bond buybacks. – (4) Right-hand scale.

With reference to the portfolio of government securities valued at amortized cost in December 2024, and taking into account the prices recorded at the end of March 2025, the average impact of the potential losses that would arise if banks were forced to sell the securities before maturity is estimated at 61 basis points of the CET1 ratio (it was 56 basis points in September 2024).[8]

If interest rates were to move in line with the expectations implied by market interest rate curves over a one-year horizon – which point to a contraction in short-term rates and a rise in longer-term ones[9] – the economic value of assets and liabilities included in the banking book as at last December would decline on average for both significant and less significant banks (-63 and -48 basis points in terms of CET1 ratio, respectively).[10]

## *Refinancing risk and liquidity risk*

In line with the previous months, bank funding continued to decline in February (-3.1 per cent year on year; Table 2.1). This reflected the marked drop in liabilities to the Eurosystem, which was only partly mitigated by bond funding and by moderate growth in deposits from residents. The overnight component of these deposits strengthened (1.9 per cent), while the growth rate of term deposits turned negative (-1.6 per cent).

8 Potential losses are calculated by taking into account banks' hedging through derivatives.

9 Considering the period from December 2024 onwards, this scenario (updated as at 22 April 2025) points to an average decline of 110 basis points for rates with maturities up to one year, a decline of 15 basis points for maturities beyond one year and up to five years, and an increase of 15 basis points for maturities beyond five years.

10 These estimates are based on the simplified methodology for determining exposure to interest rate risk as defined by Banca d'Italia Circular 285/2013 (only in Italian) containing supervisory provisions for banks.

In the first quarter of this year, Italian banks' net bond issues on the international markets fell to €1.1 billion compared with the levels observed in the last six months of 2024, following the decrease in the placement of senior secured and unsecured bonds (Figure 2.8.a). The yield spread between unsecured and secured bonds remained low, although it increased slightly (Figure 2.8.b).

The marginal cost of bank funding went down to 1.5 per cent in February, around 40 basis points less than in September 2024 (Figure 2.9), though it was still high by historical standards. The decline was affected by the pass-through of the official rate cut.

After the last TLTRO III operations (for the remaining €12.4 billion) matured on 18 December 2024, recourse to main refinancing operations (MROs) and to three-month longer-term refinancing operations (LTROs) increased slightly. For Italian banks, the daily amounts of these operations averaged €18 billion in early 2025, up from the €15 billion of last autumn.

The amount of excess reserves deposited with Banca d'Italia stabilized in the early months of this

Table 2.1

**Italian banks' funding** (1)
*(percentage shares and changes)*

| | Stocks (share of the total) | 12-month percentage changes (2) | |
|---|---|---|---|
| | February 2025 | September 2024 | February 2025 |
| Deposits of Italian residents (3) | 67.5 | 0.7 | 1.8 |
| *of which:* sight deposits | 58.2 | -1.7 | 1.9 |
| term deposits (4) | 12.9 | 3.7 | -1.6 |
| Deposits of non-residents (5) | 18.2 | 5.5 | 0.5 |
| Bonds | 11.1 | 10.7 | 5.7 |
| *of which:* held by households | 3.0 | 16.4 | 1.9 |
| Net liabilities vis-à-vis central counterparties (6) | 2.2 | -11.4 | 17.0 |
| Liabilities vis-à-vis the Eurosystem (7) | 1.0 | -80.7 | -85.1 |
| Total funding | 100.0 | -3.5 | -3.1 |

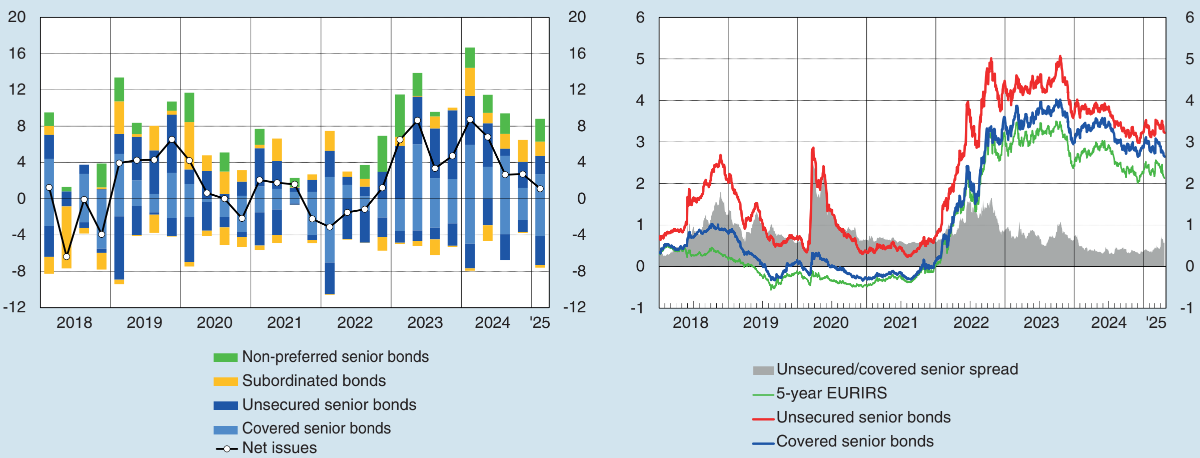
Source: Individual supervisory reports. Excludes Cassa Depositi e Prestiti SpA. (1) Excludes liabilities to other banks resident in Italy. – (2) Adjusted for reclassifications, value adjustments and exchange rate movements. – (3) Excludes transactions with central counterparties. – (4) Includes deposits with an agreed maturity and those redeemable at notice. – (5) Includes mainly interbank transactions. – (6) Includes repurchase agreements only; represents foreign funding via central counterparties. – (7) The aggregate includes the accounts with the Eurosystem for monetary policy operations.

Figure 2.8

**Bank bonds placed on international markets**

(a) Bonds issued and redeemed (1)
*(quarterly data; billions of euros)*

(b) Bond yields (2)
*(daily data; per cent and percentage points)*

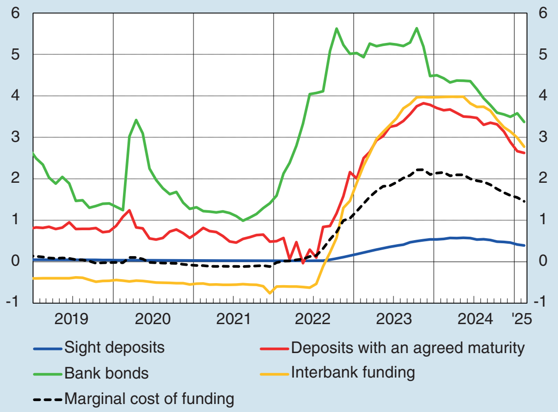



Sources: Bloomberg and Dealogic.
(1) Italian banks' issues on the international markets. Does not include issues retained on issuers' balance sheets and those earmarked for the retail market. Includes securitized bonds. Positive values indicate bond issues, negative values indicate bond redemptions. – (2) Yields to maturity of Italian bank bonds with residual maturity of 5 years.

year: in the maintenance period to April 2025, liquidity was €93 billion on average, equal to 3.3 per cent of the euro area's total (Figure 2.10).

**Figure 2.9**

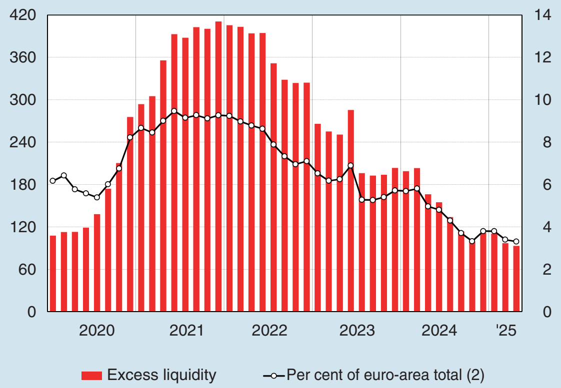
**Marginal cost of bank funding** (1)
*(monthly data; per cent)*




Sources: Based on Banca d'Italia, ECB and ICE BofAML data.
(1) The marginal cost of funding is calculated as a weighted average of the costs of banks' various funding sources, using their respective outstanding amounts as weights. This is the cost that a given bank would incur to increase its balance sheet by one unit, drawing on funding sources in proportion to the composition of its liabilities at that time.

**Figure 2.10**

**Excess liquidity of counterparties operating in Italy** (1)
*(billions of euros and per cent)*




Sources: Based on Banca d'Italia and ECB data.
(1) Each red bar shows average excess liquidity for each maintenance period, calculated as the sum of banks' average reserve balances, net of the reserve requirement, plus the average recourse to the deposit facility. The latest figure refers to the 2nd maintenance period of 2025, which ended on 22 April. – (2) Right-hand scale.

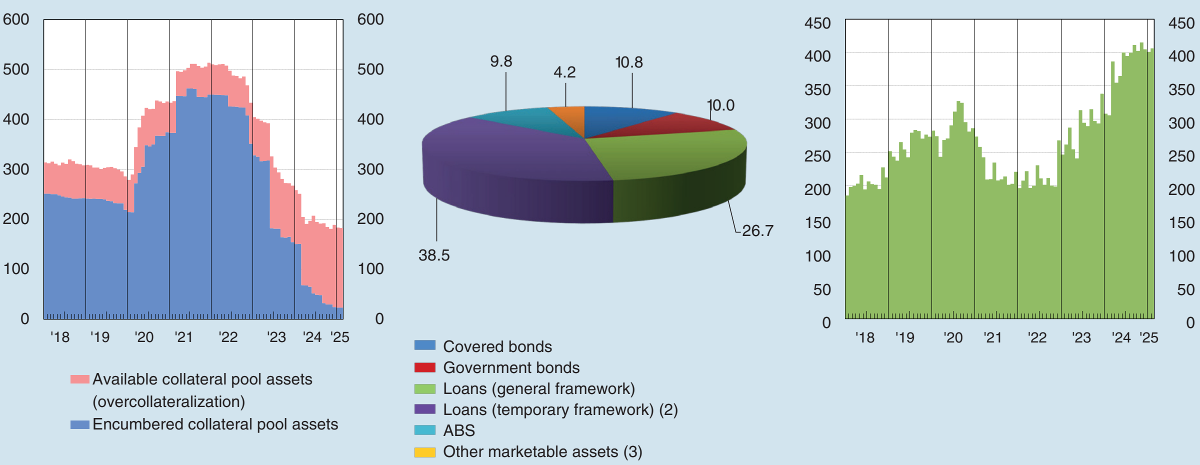
**Figure 2.11**

**Eligible assets of the Italian banking system**

(a) Eligible assets in the collateral pool (1)
*(monthly data; billions of euros)*

(b) Composition of the collateral pool as at February 2025
*(per cent)*

(c) Eligible securities outside the collateral pool (4)
*(monthly data; billions of euros)*




Sources: Based on Eurosystem data and supervisory reports.
(1) End-of-period data for the monetary policy counterparties of Banca d'Italia. The volume of encumbered Eurosystem collateral pool assets includes the part covering accrued interest and refinancing in dollars. The collateral pool is valued at the prices taken from the Common Eurosystem Pricing Hub, net of haircuts. – (2) Under the temporary framework, the eligibility criteria for assets that can be used as collateral are set by the individual national central banks pursuant to the rules provided by the ECB Governing Council (under the general framework, the criteria are set according to common rules that are applicable to the entire Eurosystem). – (3) Comprises bank bonds, including those backed by the government guarantee scheme, and securities issued by non-financial corporations and supranational organizations. – (4) End-of-period data for the entire banking system, excluding Cassa Depositi e Prestiti SpA and Poste Italiane SpA. Amounts at market values as reported by banks, net of the haircuts applied by the Eurosystem.

The value of the assets pledged as collateral in Eurosystem financing operations (collateral pool) fell by €9 billion between September and February, to €182.4 billion (Figure 2.11.a). Excluding securitizations, which grew by €8 billion, the reduction was broad-based across all other eligible asset classes and was more marked for government bonds and for loans. The latter are still the largest asset class in the collateral pool (65 per cent of the total; Figure 2.11.b). Despite this reduction, overcollateralization remains substantial (€159 billion, or 87 per cent of the pool). Furthermore, banks have €406 billion in eligible securities available (Figure 2.11.c), of which 62 per cent are government bonds.

At its November 2024 meeting, the ECB Governing Council decided on a number of changes to the collateral framework. These changes integrate some temporary measures, which were introduced in response to the periods of stress recorded since 2011, into the general collateral framework.[11] The amendments will enter into force at the earliest by end-2025 and confirm the eligibility of a broad range of assets as collateral in refinancing operations, in line with the March 2024 decision on the review of the operational monetary policy framework.

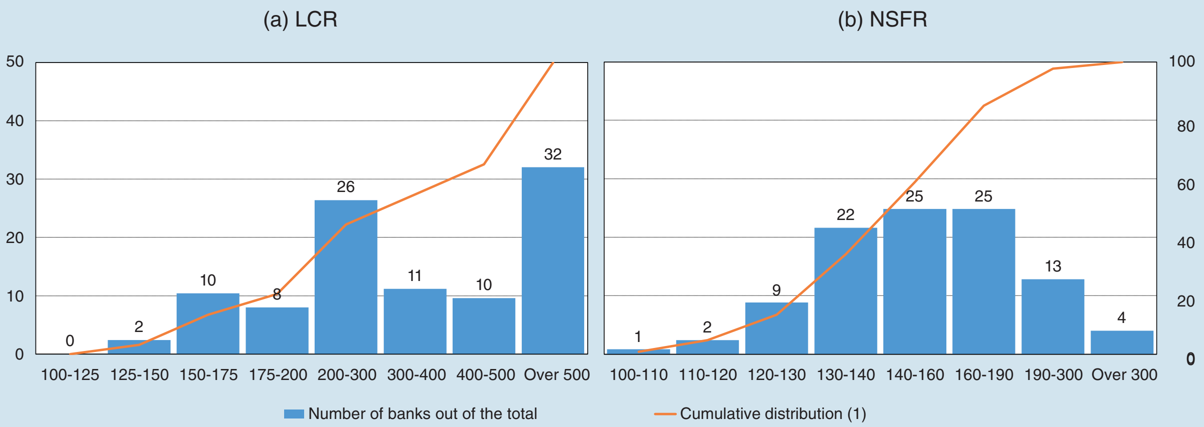
Banks' liquidity profile remains balanced and stable: in December, the one-month liquidity coverage ratio (LCR) averaged 178 per cent and the net stable funding ratio (NSFR) stood at 134 per cent. Both ratios were above the regulatory minimum for all banks (Figure 2.12).

In the first quarter of the year, Banca d'Italia assessed banks' funding plans for the current two-year period (2025-26) as part of its supervisory activities.[12] Banks expect overall funding to rise compared with 2024. Bonds, customer deposits and repos all appear set to record positive growth. Conversely, Eurosystem refinancing is expected to contract further. The increase in funding would mainly finance household lending and investment in securities.

Figure 2.12

**Distribution of Italian banks by LCR and NSFR as at December 2024**

*(per cent)*




Source: Based on supervisory reports.
(1) Right-hand scale.

[11] Specifically, lower-rated asset-backed securities (ABSs), marketable assets denominated in US dollars, pounds sterling and Japanese yen, and national central banks' statistical in-house credit risk assessment systems (ICASs) for loans pledged as collateral for Eurosystem monetary policy operations were integrated into the framework. Instead, the temporary additional credit claims framework was phased out, but non-financial corporate credit claim pools remained eligible as collateral. For further details, see ECB, 'ECB announces changes to the Eurosystem collateral framework to foster greater harmonisation', press release, 29 November 2024.

[12] At the time of publication of this Report, the assessment covered the funding plans of the 12 significant Italian banks, which account for 90 per cent of the system's total assets.

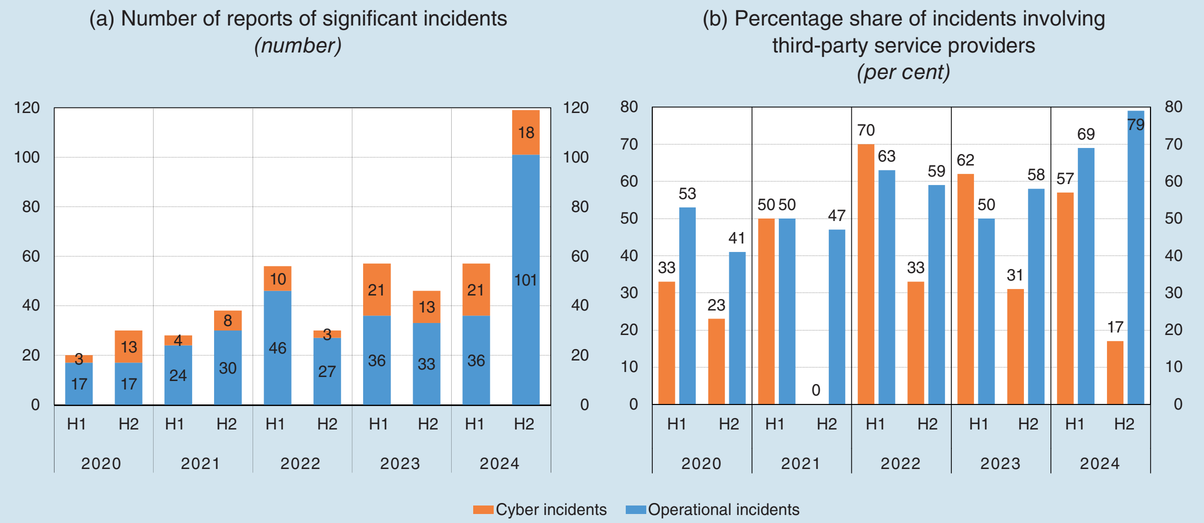
Total funding in 2024 fell less markedly than forecast. The additional funding – primarily stemming from deposits and repos – was used to meet the needs arising from stronger-than-expected growth in household lending and investment in securities, which more than offset the decline in lending to firms. While Eurosystem refinancing shrank markedly, bond funding picked up, though less than anticipated at the beginning of the year.

### *Operational and cyber risks*

In the second half of 2024, Italian financial intermediaries reported 119 significant incidents (Figure 2.13.a), of which 18 relating to cyber attacks.[13]

**Figure 2.13**

**Cyber and operational incidents** (1)




Source: Based on supervisory reports.
(1) The reports must be submitted by banking groups, stand-alone banks, payment institutions and e-money institutions. Cyber incidents include cyber attacks and any other incidents that have the effect, whether intended or not, of sharing and/or altering the confidential data of a bank and/or of its clients. Operational incidents arise due to inadequate or malfunctioning processes, human or system error, or force majeure. The latter also include natural events, software and hardware errors, accidents, process malfunctions, and sabotage (physical attacks).

The high number of operational incidents (101) is linked to events involving service providers, which accounted for 79 per cent of the reports (Figure 2.13.b). Specifically, large and persistent disruptions in electronic payments occurred in Italy and other European countries between 28 and 30 November 2024, following an incident concerning the connectivity systems of Worldline, a Franco-Belgian provider that is among the world's largest payment players.[14] When that happened, Banca d'Italia responded by promptly activating the working group for operational crisis management coordination and business continuity in the Italian financial marketplace (CODISE).[15]

[13] The Banca d'Italia reporting scheme covers significant operational or security incidents. For more information, see Banca d'Italia's website, 'Reporting significant operational or security incidents'. On 17 January 2025, the scheme was repealed and replaced by the harmonized scheme provided for under the DORA regulation.

[14] The incident was found to be due to damage (which occurred in Switzerland during road works) to the fibre-optic cables used by one of Worldline's providers to connect its processing centres in Italy and the Netherlands. The incident caused disruptions in credit and debit card payments, both at POS terminals and at the ATMs of several banks.

[15] CODISE was established in 2003 to handle operational crisis management coordination in the Italian financial marketplace. It is chaired by Banca d'Italia and includes representatives of CONSOB and of systemically important financial operators.

At the end of last year, Banca d'Italia issued two communications to the market to raise banks' awareness of cyber risk and of compliance with the provisions of the European Digital Operational Resilience Act (DORA).[16] The first communication requires banks to assess and verify the effectiveness of their IT risk management frameworks, taking into account the requirements introduced by DORA. The second communication provides guidance for the uniform application of DORA in the financial market.[17]

In terms of coordination between authorities, the development of the Systemic Cyber Incident Coordination Framework (EU-SCICF) was completed, with a view to responding to large-scale cyber incidents and managing cyber crises in the European financial system. Banca d'Italia acts as the single point of contact for Italy in the event of major incidents and crises. Moreover, the Financial Stability Board (FSB) published the Format for Incident Reporting Exchange (FIRE), a common reporting format intended to foster international convergence on operational and cyber incident reporting.

The Eurosystem updated its cyber resilience strategy for the infrastructure supporting financial markets, payment systems and payment services.[18] The methodology for conducting advanced cyber security tests (European threat intelligence-based ethical red-teaming, TIBER-EU)[19] was also revised to bring it into line with the technical standards on advanced cyber security testing (threat-led penetration testing) under DORA. So far, Banca d'Italia has overseen 12 voluntary tests conducted in accordance with the methodology described in the TIBER-IT national guidance.[20] These exercises have identified areas for improving the cyber resilience of individual institutions and of the financial sector as a whole.[21]

### *Capital and profitability*

In December 2024, the capital position of Italian banks remained stable at high levels compared with June. The CET1 ratio for the entire banking system – i.e. the ratio of common equity tier 1 (CET1) to risk-weighted assets (RWAs) – was 15.9 per cent. The indicator remained broadly unchanged for significant banks at 16.2 per cent, 30 basis points higher than the average figure for banks in the countries participating in the Single Supervisory Mechanism (SSM). Conversely, the CET1 ratio of the less significant banks rose by 40 basis points, to 18.2 per cent, mainly reflecting profits during the period.[22]

In the second half of 2024, new issues of securities meeting the minimum requirement for own funds and eligible liabilities (MREL) – mainly carried out by the significant banks – were less substantial than in the first half of the year, owing to the balanced liquidity profile and excess capital compared with the MREL. The ratio of MREL liabilities to RWAs for significant banks and for less significant

[16] DORA was transposed into national law by Legislative Decree 23/2025, published in the Gazzetta Ufficiale della Repubblica Italiana on 11 March 2025.

[17] For more details, see Banca d'Italia's website, 'Communication to the market on ICT security', 23 December 2024, and 'Regolamento DORA: comunicazione al mercato', 30 December 2024 (only in Italian).

[18] ECB, 'Revised Eurosystem cyber resilience strategy', press release, 18 October 2024.

[19] For further information, see the ECB's website, 'What is TIBER-EU?'.

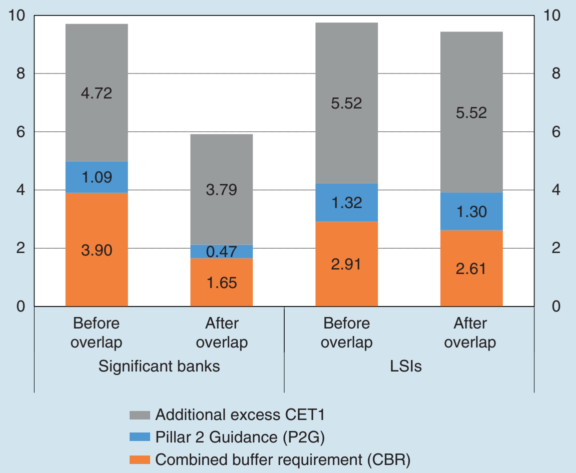
[20] For further information, see Banca d'Italia's website, 'TIBER-IT'.

[21] For more details, see 'Threat-led penetration testing: from TIBER-IT to the DORA rules', speech by Chiara Scotti, Deputy Governor of Banca d'Italia, at the conference on 'Threat-led penetration testing. From TIBER-IT to the DORA TLPT rules', Rome, 27 February 2025.

[22] The Italian banking system also includes subsidiaries of European significant groups, for which the indicator – despite remaining well below average – increased slightly in the second half of the year, to 12.3 per cent.

Figure 2.14

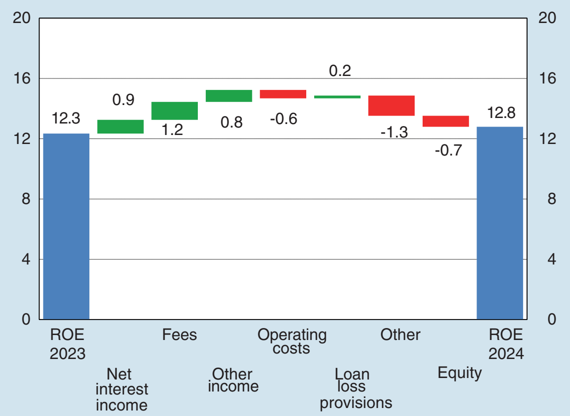
**Loss-absorption capacity by category of bank as at December 2024** (1)
*(per cent of RWAs)*




Sources: Consolidated supervisory reports for banking groups and individual supervisory reports for stand-alone banks.
(1) The regulation allows for the simultaneous use of CET1 for the different applicable requirements, such as risk-weighted requirements, the leverage ratio and the MREL. Overlaps reduce the availability of buffers to absorb losses, when the same unit of capital is also used to satisfy a minimum requirement. In such situations, recourse to those buffers would result in a breach of the minimum requirement, which could also lead to resolution or winding-up proceedings.

Figure 2.15

**Breakdown of changes in ROE between 2023 and 2024** (1)
*(percentage points)*




Sources: Consolidated supervisory reports for banking groups and individual supervisory reports for stand-alone banks.
(1) Changes are expressed as a ratio to own funds and reserves. A green/red bar indicates a positive/negative contribution to the initial ROE for 2023, giving the final ROE value for 2024.

banks subject to resolution, equal to 34.7 per cent, continues to be well above the average values for the requirements set by the resolution authorities.

Taking into account capital overlaps,[23] in December, Italian banks' overall loss-absorbing capacity[24] remained ample and equal to 5.9 and 9.4 per cent of risk-weighted assets, respectively, for significant and less significant banks (Figure 2.14).[25] The activation of the systemic risk buffer by Banca d'Italia (see Chapter 3) has helped to improve the usability[26] of the combined capital buffer.

The European stress test on significant banks – coordinated by the European Banking Authority (EBA) and the ECB – and Banca d'Italia's stress test on less significant national banks are currently under way. Their goal is to estimate the impact of adverse macroeconomic scenarios on banks' resilience.

The profitability of Italian banks improved further in 2024. Return on equity (ROE), net of extraordinary components, rose from 12.3 to 12.8 per cent (Figure 2.15). The increase in revenues was mainly due to the increase in fee income (especially from asset management) and, to a lesser extent, to further growth

[23] Overlaps result from the simultaneous use of CET1 for the risk-weighted requirements, for leverage and for the MREL; see note (1) to Figure 2.14 for more details. For an explanation of the overlaps and of the methodology used by Banca d'Italia to measure them, see W. Cornacchia and G. Guerra, 'Overlaps between minimum requirements and capital buffers: the case of Italian banks', Banca d'Italia, Notes on Financial Stability and Supervision, 30, 2022; see also *Financial Stability Report* 2, 2024.

[24] The amount of capital resources that can be used without breaching a minimum requirement consists of the combined buffer requirement (CBR), the Pillar 2 Guidance (P2G), and the additional surplus CET1 available.

[25] For significant banks, the difference between the indicator that takes into account overlaps and the one that does not, reported in the figure, is mainly due to material overlaps with the MREL.

[26] The concept of actual usability refers to the possibility of tapping into the capital allocated to comply with the combined capital buffer, without breaching other minimum requirements (leverage or MREL).

in net interest income. The contribution of customer transactions to this growth was negative, though it was offset by the positive contribution of net interest on operations with the Eurosystem.

Operating expenses increased; the higher staff costs, linked to the renewal of the national collective bargaining agreement for the banking sector, were partially offset by the absence of payments to the Single Resolution Fund (SRF).[27] However, the cost-to-income ratio continued to decline, reflecting the favourable performance of revenues. The contraction in net loan loss provisions also contributed, albeit very marginally, to the improvement in profitability.

Based on estimates consistent with the macroeconomic scenario published by Banca d'Italia in April,[28] the overall profitability of Italian banks will decline slightly in the two years 2025-26, owing to a contraction in net interest income that will not be fully offset by the increase in fee income. Loan loss provisions are expected to grow moderately. In the current environment, however, these estimates are subject to high uncertainty.

## 2.2 INSURANCE COMPANIES

Financial stability risks in the Italian insurance sector are virtually unchanged, at medium levels (see Figure 1.3.b). The significant recovery in life premium income in 2024 helped reduce liquidity risks to the industry. Capitalization remains high.

Equity price performance was affected by high financial market volatility following US tariff announcements (see Sections 1.1 and 1.3). Earnings expectations for the sector point to stronger growth than for euro-area insurance companies as a whole (Figure 2.16).

The average solvency ratio was 257 per cent in December 2024, slightly up from June (Figure 2.17). The results of the stress test conducted last year at European level confirm that the Italian insurance system would be solvent even in the event of large adverse shocks.[29] The results for Italian insurers are in line with those of the European sample (Figure 2.18).

According to a survey by the Italian Insurance Supervisory Authority (IVASS),[30] the revised prudential regulatory framework[31] that will enter into force on 30 January 2027 will raise the solvency ratio by 14 percentage points[32] on average, due to an increase in insurers' own funds as a result of lower technical provisions rather than risk reduction. In the intentions of the European institutions, the relaxation of requirements should foster the green and digital transitions and support the economy.

27 The absence of payments reflects the attainment of the target level of 1 per cent of the covered deposits held by banks in the Member States participating in the Single Resolution Mechanism (SRM).

28 Banca d'Italia, 'Macroeconomic projections for the Italian economy', 4 April 2025.

29 More specifically, the aggregate solvency ratio of the 11 participants in the stress test would fall to 135 per cent if insurers failed to take reactive management actions to address the exogenous shocks covered by the exercise. If reactive management actions were taken, the average solvency ratio would decrease to a lesser extent, to 149 per cent. The adverse liquidity scenario did not point to any critical issues. For more details, see IVASS, 'Stress test EIOPA 2024', press release, 17 December 2024 (only in Italian).

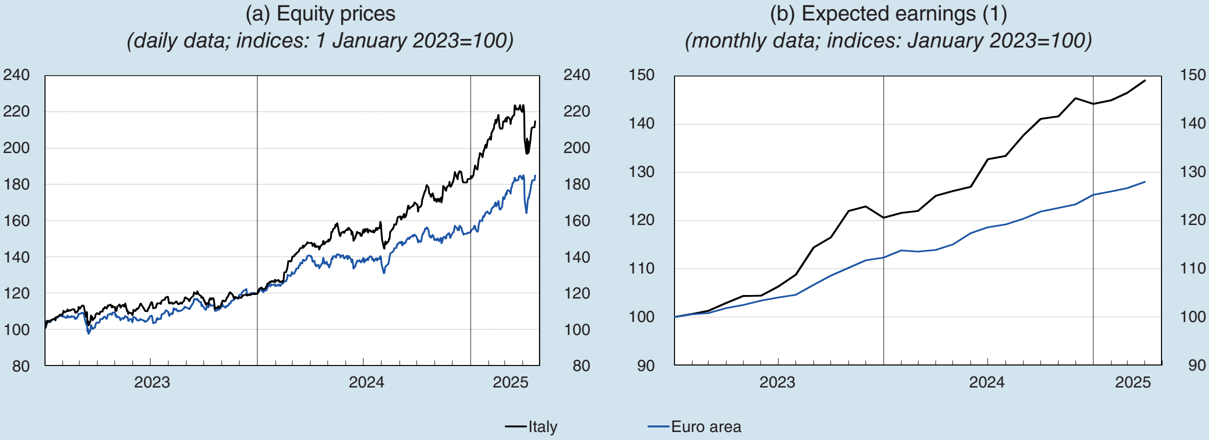
30 The survey was conducted on a sample of 15 individual undertakings (accounting for 78 per cent of the market in terms of technical provisions) and 7 large Italian groups (accounting for over 90 per cent of the total assets of Italian insurance groups) as at 31 December 2023. It assessed the impact of the changes to the main pillars of the prudential regulatory framework (risk margin, extrapolation of the risk-free interest rate term structure, capital requirement for interest rate risk, volatility adjustment), which have either already been laid down in Directive 2009/138/EC (Solvency II) or are currently being drawn up under its delegated acts.

31 On 8 January 2025, Directive EU/2025/2, amending Solvency II, was published in the Official Journal of the European Union. The new directive will have to be transposed into national law by 29 January 2027. Negotiations on its delegated acts are ongoing.

32 For the top 7 insurance groups, the solvency ratio is expected to increase by 12 percentage points on average.

Figure 2.16

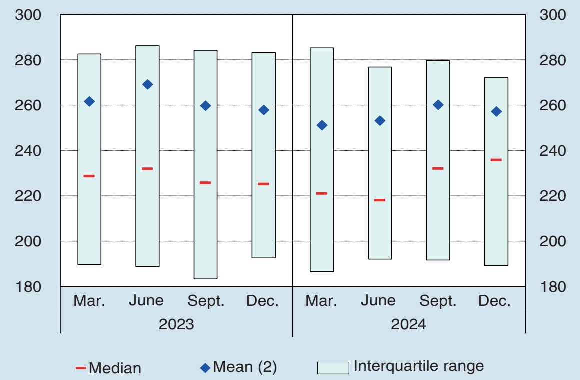
**Italian and euro-area insurance companies**




Source: Calculations based on LSEG data.
(1) Average of expected earnings per share in the 12 months following the reference date for a sample of the leading Italian and euro-area insurance companies, weighted by the number of outstanding shares. For Italy, the data refer to Assicurazioni Generali, Unipol Assicurazioni and Revo Insurance. For the euro area, the data refer to the leading companies included in the Datastream euro-area insurance sector index.

Figure 2.17

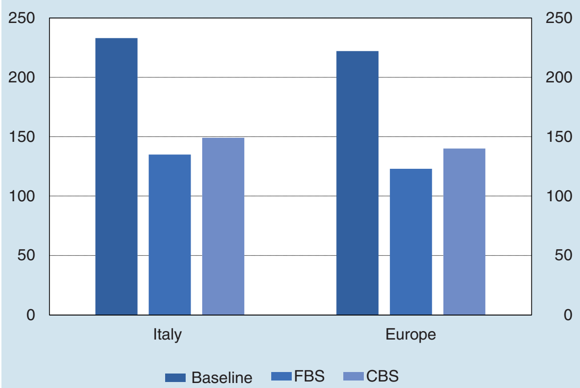
**Solvency ratio** (1)
*(per cent)*




Source: IVASS.
(1) The solvency ratio is calculated as the ratio of eligible own funds held for coverage to the solvency capital requirement established under Solvency II. The data are taken from the quarterly Solvency II supervisory reports based on the quantitative reporting templates. – (2) Weighted average with weights equal to the solvency capital requirement.

Figure 2.18

**2024 stress test results: pre- and post-stress solvency ratio** (1)
*(data as at 31 December 2023; per cent)*



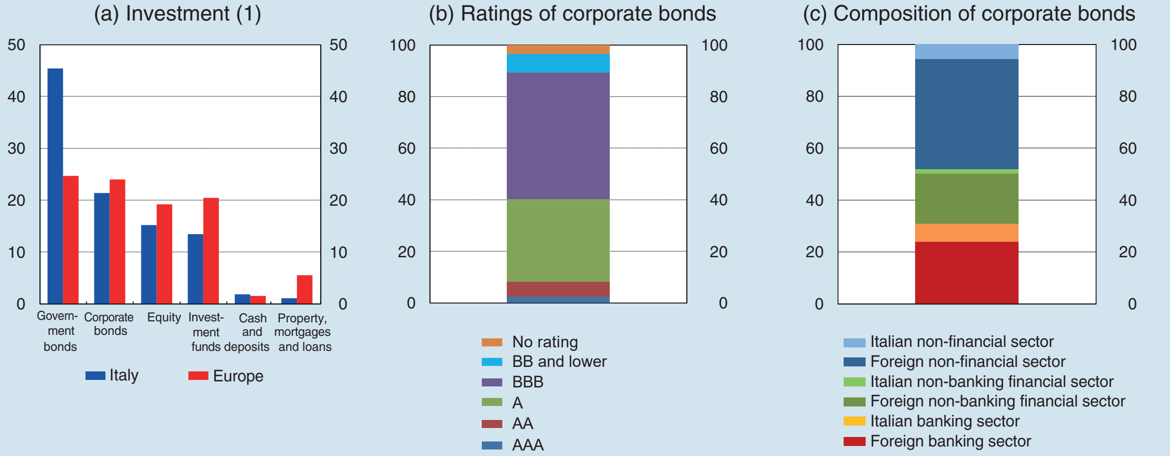

Sources: IVASS and EIOPA.
(1) The impact assessment followed two approaches: the constrained balance sheet (CBS) approach, whereby tested entities could take reactive management actions, and the fixed balance sheet (FBS) approach, whereby they were not allowed to take any reactive management actions.

The total value of Italian insurers' investments exceeded €1,040 billion at the end of 2024. The investments for which Italian insurers bear the risk (€760 billion) remained concentrated, to a much greater extent than is the case for their European counterparts, in public bonds (45 per cent of the total, more than two thirds of which are Italian government bonds; Figure 2.19.a). Corporate bonds, mostly rated A and BBB (Figure 2.19.b) and issued by foreign non-financial corporations (Figure 2.19.c), still account for 21 per cent of total investments. Shares in investment funds and equities were also unchanged, at 15 and 14 per cent respectively.

Net unrealized losses on investments edged down to €3 billion at the end of February, compared with €18 billion a year earlier (Figure 2.20). The overall profitability of Italian insurers held stable, with a

Figure 2.19

**Insurance company investments**
*(data as at 31 December 2024; per cent)*

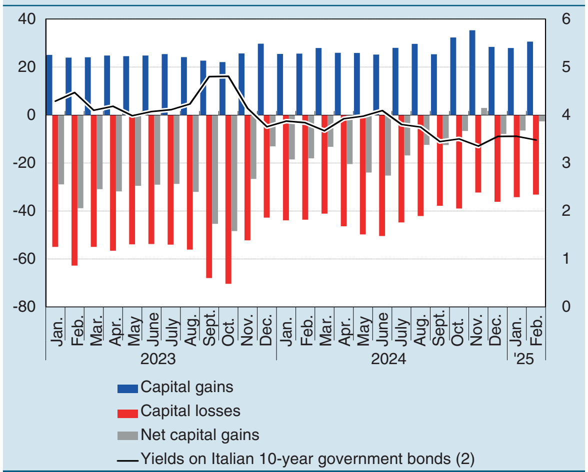



Sources: IVASS and EIOPA.
(1) The data for Europe, as at 30 September 2024, refer to the European Economic Area.

ROE of 11 per cent at end-2024. The ROE for the life sector (11 per cent) declined by 3 percentage points on 2023 (Figure 2.21.a), despite an increase of more than 20 per cent in premium income (Figure 2.21.c). Only a limited number of insurers decided to temporarily suspend the effects of unrealized investment losses on the profitability for the year.[33] The non-life ROE (11 per cent) rose by 5 percentage points, driven by premium income growth (8 per cent) and a lower combined ratio, i.e. the ratio of claims plus operating expenses to premium income (94 per cent, from 98 per cent at the end of the previous year; Figure 2.21.b).

Figure 2.20

**Unrealized capital gains and losses** (1)
*(billions of euros and per cent)*



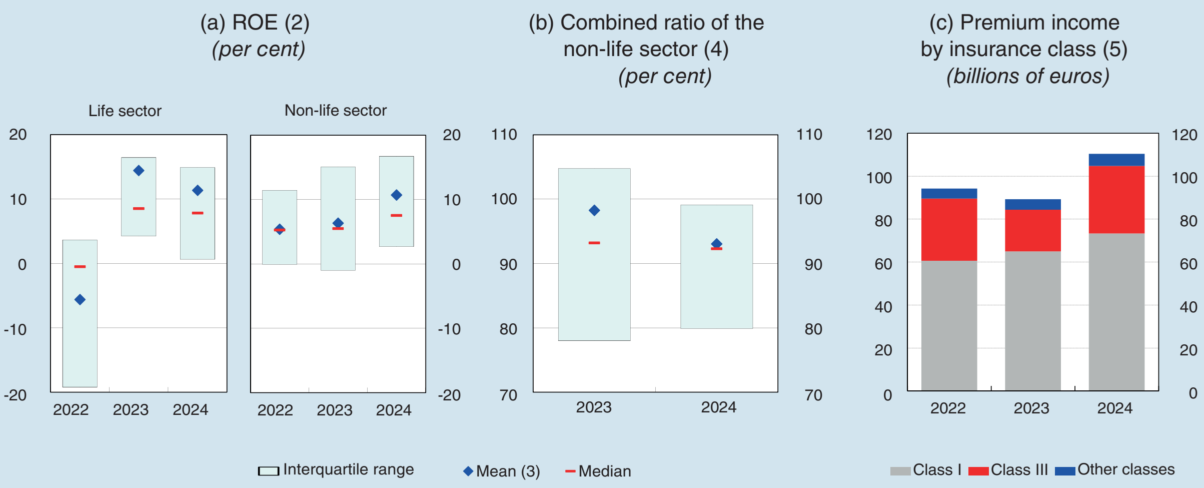

Sources: IVASS and calculations based on LSEG data.
(1) Unrealized capital gains and losses are the difference between the market value and the book value of portfolio securities. – (2) Right-hand scale. End-of-period data.

Premium income growth in 2024 resulted in a significant decline in the ratio of surrenders to premium income, from 90 per cent in February 2024 to 72 per cent in February 2025 (Figure 2.22). The ratio was down for both unit-linked and traditional life insurance products. The composition of insurers' cash flows also improved: more specifically, the net cash flow balance for traditional life insurance products turned positive as a result of higher inflows (premium income) and lower outflows (surrenders; Figure 2.23).

[33] In their financial statements for 2024, 12 Italian insurers decided to temporarily suspend the effects of unrealized investment losses on the profitability for the financial year, as permitted by law in the event of market turbulence, accounting for 38 per cent of the industry's assets (over 60 per cent in 2023). This exception allows insurance companies that do not adopt the international accounting standards to recognize available-for-sale securities based on the book value as reported in their most recent annual financial statements, except in the case of impairment losses, using the unrecognized amount to build up a 'non-distributable reserve'. For the annual financial statements for 2024, the share of losses pertaining to policyholders can no longer be deducted from the non-distributable reserve.

**Figure 2.21**

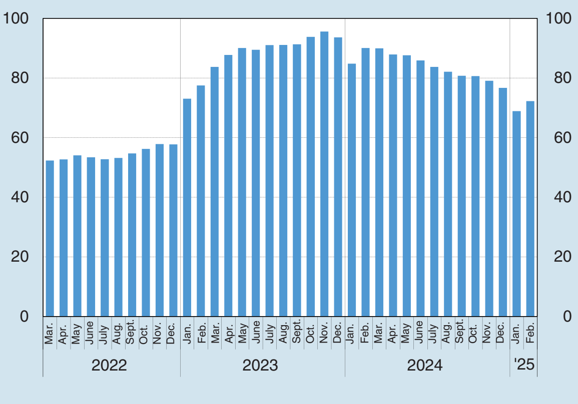
**Main balance sheet indicators for Italian insurance companies and life premium income** (1)




Source: IVASS.
(1) Preliminary data. – (2) Ratio of earnings to shareholders' equity. – (3) Weighted average with weights equal to the denominator of each ratio. – (4) Ratio of claims plus operating expenses to premium income. – (5) 'Class I' mainly includes with-profit policies (traditional life insurance policies with guaranteed returns); 'Class III' is mainly composed of unit- and index-linked policies (life insurance policies where policyholders bear the risk); 'Other classes' includes all the other kinds of life insurance policies.

**Figure 2.22**

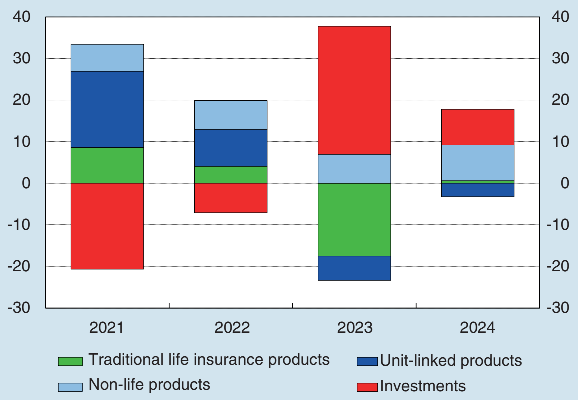
**Surrenders to premium income ratio** (1)
*(per cent)*




Source: IVASS.
(1) This indicator is calculated by dividing surrenders by premium income. Cumulative data since the beginning of the year.

**Figure 2.23**

**Net cash flows of Italian insurance companies**
*(annual data; billions of euros)*




Source: IVASS.

The liquid asset ratio[34] of Italian insurers was stable at a median value of 62 per cent in December 2024 (compared with June), higher than the European median (46 per cent in September 2024).

In recent years, insurance companies have become more exposed to the physical risks arising from natural catastrophes, which are significantly more frequent due to climate change. Both claims paid for

[34] The indicator is calculated as the ratio of liquid assets to total assets. Liquid assets are calculated by applying haircuts to the different asset classes using the liquidity monitoring methodology of the European Insurance and Occupational Pensions Authority (EIOPA) as applied in its 2024 stress test.

damages caused by extreme events and premium income for natural catastrophe insurance have risen, with the latter set to grow further going forward (see the box 'Mitigating risks stemming from natural catastrophes').

## MITIGATING RISKS STEMMING FROM NATURAL CATASTROPHES[1]

Insurance coverage against extreme climate risk, if appropriately spread among firms and households, can help to mitigate the impact of reconstruction costs following natural catastrophes and enable a faster recovery in production activities.[2]

Italy is among those European countries most vulnerable to physical risk associated with earthquakes or climate-related events. Despite the growing frequency and severity of natural catastrophes in recent years, insurance coverage to protect firms and households from losses is still very limited. Compared with other European countries, Italy has one of the lowest levels of natural catastrophe insurance coverage (insurance protection gap)[3], with around 3 per cent of losses insured compared with a European average of 20 per cent.

Given that particularly severe and geographically extensive natural disasters are capable of causing damage that the private insurance market could find difficult to cover alone, international and European institutions have pointed to mixed protection systems (joint public and private) as the most appropriate solution for mitigating such damage.[4]

The 2024 Budget Law (Law 213/2023) requires Italian firms[5] to take out insurance contracts to cover damage to tangible fixed assets[6] directly caused by natural disasters and catastrophes (earthquakes, flash floods, landslides, flooding and river overflows). To cover the commitments undertaken, insurance companies may apply for state-backed reinsurance coverage from SACE, at market terms and conditions and up to the limits and under the conditions set out in the Budget Law.[7] On 27 February, the implementing decree was published in the *Gazzetta Ufficiale della Repubblica Italiana*.[8]

1 By Sara Butera.

2 ECB and EIOPA, 'Policy options to reduce the climate insurance protection gap', Discussion Paper, April 2023; ECB and EIOPA, 'Towards a European system for natural catastrophe risk management', December 2024.

3 Defined as the difference between the values of the economic losses and the insured losses; see EIOPA, 'Dashboard on insurance protection gap for natural catastrophes', November 2024.

4 'High-level framework for public-private insurance programmes against natural hazards', prepared at the Meeting of the G7 Finance Ministers and Central Bank Governors, Stresa, 23-25 May 2024.

5 Excluding agricultural undertakings. The obligation also applies to foreign firms with a permanent establishment in Italy.

6 The types of property covered are: lands and buildings, plant and machinery, and industrial and commercial equipment.

7 SACE may grant coverage, subject to the insurance companies signing the relevant agreement, for up to 50 per cent of the claims they are required to pay upon occurrence of an event resulting in damage and for an amount 'that shall not exceed €5,000 million for 2024 and, for each of the years 2025 and 2026, shall not exceed the greater of €5,000 million or the resources available, at 31 December of the year immediately preceding, that were not used for the payment of compensation in the reference year and available on the accounts of the special section of the Fund referred to in paragraph 110' (Law 213/2023, Article 1(108)). The Budget Law has established a special section of the Fund for this purpose, with an initial allocation of €5 billion. The Fund, referred to in Article 1(14) of Decree Law 23/2020, is managed by the Ministry of Economy and Finance (MEF). This section of the Fund is also financed by the funds paid periodically by insurance companies to SACE, net of the management costs associated with insurance coverage.

8 Interministerial Decree 18/2025 of the Minister of Economy and Finance and the Minister of Enterprises and Made in Italy.

The deadline for large companies to sign up for the mandatory insurance coverage was 31 March 2025, while the deadline for medium-sized companies is 1 October 2025 and for small and micro companies it is 1 January 2026.[9] This legislation is in line with the measures already in place in other European countries.[10]

Specific provisions set out in the implementing decree seek to guarantee that insurers provide insurance coverage in line with their ability to assume the risks, in order to protect the stability of the financial position of the insurance companies and of the insurance market as a whole.

Clarifying how the law will be implemented, also in coordination with the provisions of the more recent Law 40/2025 (framework law on post-disaster reconstruction)[11] will further contribute to the establishment of an insurance coverage system that can begin to reduce Italy's significant natural catastrophe insurance protection gap, thereby benefitting the economy and firms.

[9] Decree Law 39/2025. The initial deadline was 31 December 2024, but was postponed to 31 March 2025 by Article 13(1) of Decree Law 202/2024 ('milleproroghe 2024'), converted as amended into Law 15/2025.

[10] For example, Belgium, France, Germany and Spain.

[11] This law empowers the Government to introduce rules on compensation for damage to the building stock (productive and residential) caused by natural disasters and catastrophic events.

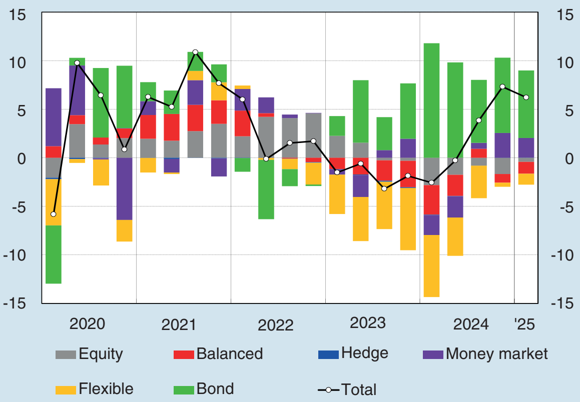
## 2.3 THE ASSET MANAGEMENT INDUSTRY

The total assets of open-end investment funds managed by Italian companies and groups rose in the fourth quarter of 2024, only to edge down to €643 billion[35] at the end of the first quarter of 2025, due to falling financial market prices (see Sections 1.1 and 1.3). However, net inflows remained positive in both periods (Figure 2.24), with investors buying mostly into bond and money market funds. There were small outflows in the first few days of April, just after the initial announcement of new US tariffs. Net subscriptions to ESG funds (i.e. complying with environmental, social and governance criteria) turned marginally positive overall. Equity and bond exchange-traded funds (ETFs) recorded net subscriptions, largely in the wake of new initiatives launched by Italian companies and groups.

Figure 2.24

**Italian open-end investment funds: net subscriptions** (1)

*(quarterly data; billions of euros)*



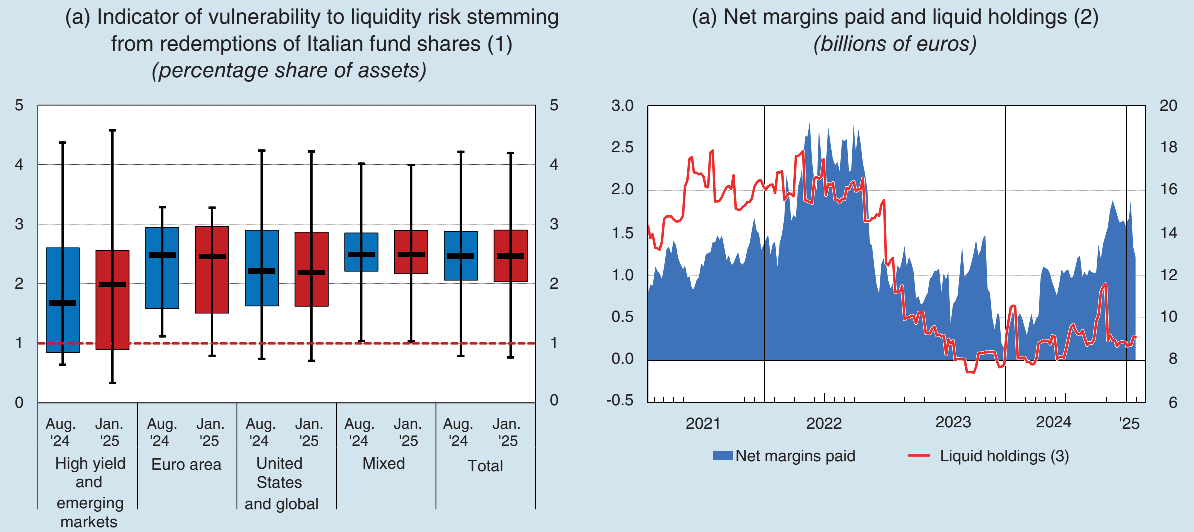

Source: Assogestioni.
(1) The data refer to Italian and foreign funds run by asset management companies that are Italian or belong to Italian groups. Provisional data for Q1 2025.

In the second half of 2024, the share of Italian bonds held by resident and euro-area funds continued to increase. These funds hold about one third of non-financial corporate bonds, almost one fifth of bank bonds and one tenth of government bonds.

[35] This sector accounts for around 50 per cent of the total assets of funds distributed in Italy, including those managed by foreign groups.

Figure 2.25

**Liquidity risk indicators for Italian open-end investment funds**




Sources: Based on Regulation (EU) No 648/2012 (European Market Infrastructure Regulation, EMIR), supervisory reports and ECB data (Centralised Securities Database).
(1) Includes open-end investment funds in the mixed and bond segments. The liquidity risk indicator is equal to the ratio of a fund's assets weighted by the degree of liquidity of each exposure to net redemptions under a stress scenario. The stress scenarios are equal to the average of the values above the 99th percentile of the distribution of net monthly redemptions in relation to total assets for each of the segments analysed between January 2008 and November 2020 (high-yield and emerging market funds: 14 per cent; euro area: 30 per cent; United States and global: 24 per cent; mixed funds: 24 per cent). The coloured areas represent the interquartile difference; the lower and upper dashes of the vertical lines indicate the 1st and 99th percentiles of the distribution, respectively. Funds below the dashed red line are considered vulnerable. – (2) Aggregate values of margins paid net of those received for exposures in derivatives and aggregate liquid holdings from January 2021 to January 2025. Weekly data. – (3) Right-hand scale.

Among Italian investment funds,[36] the liquidity risk stemming from particularly high redemption requests[37] was stable at low levels for non-equity segments between August 2024 and January 2025 (Figure 2.25.a). Vulnerable fund assets[38] remained low (around 2 per cent of the total). Nevertheless, as part of Banca d'Italia's monitoring activities and following the results of the liquidity stress tests on a sample of vulnerable funds, the respective asset management companies were asked to strengthen their stress test practices and models (see the box 'Analysing the liquidity stress tests carried out by the managers of vulnerable open-end funds', *Financial Stability Report*, 2, 2024).

Borrowing from banks and other financial intermediaries remains limited,[39] as is derivative exposure. In January, synthetic leverage, calculated as the ratio of gross notional exposure in derivatives[40] to net assets, was less than 1. The margins paid for the use of derivatives also remain low overall compared with the available liquidity (Figure 2.25.b).

[36] The total assets of Italian investment funds, supervised by Banca d'Italia, are around 40 per cent of those managed by asset management companies belonging to domestic groups. The remainder is attributable to foreign investment funds.

[37] The liquidity risk indicator is equal to the ratio of a fund's assets weighted by the degree of liquidity of its components to net redemptions under a stress scenario (see note (1) to Figure 2.25.a).

[38] Vulnerable funds are those for which the liquidity risk indicator is less than 1.

[39] Italian law provides that Italian open-end investment funds can only take out loans on a temporary basis, according to the need to invest in or disinvest from fund assets, and within the maximum limit of 10 per cent of the overall net value of the fund.

[40] Interest rate, foreign exchange and equity derivatives account for over 80 per cent of the gross notional value.

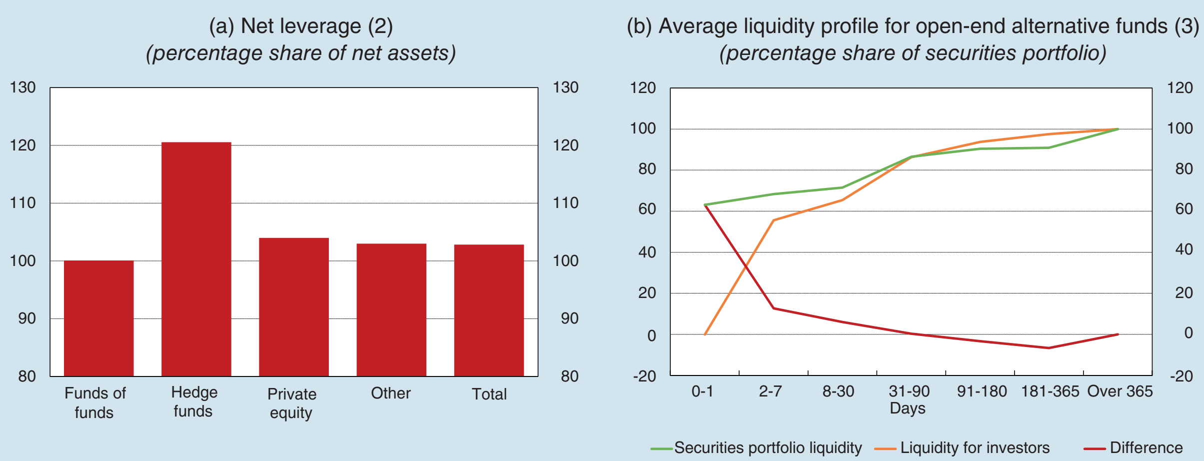
There are significant ownership ties with other financial intermediaries: in December 2024, around 60 per cent of the assets of Italian funds were managed by asset management companies controlled by banks or insurers, in line with the rest of the euro area.[41]

In 2024, the assets under management of Italian non-real-estate alternative investment funds (AIFs) rose from €50 billion to €57 billion, mainly reflecting growth in the private equity segment. Investors in the new AIFs set up in 2024 were for the most part Italian, and mainly banks[42] and pension funds. The total assets of AIFs attributable to sub-threshold managers,[43] which are subject to a simplified regulatory regime, also rose, from €3 billion to €4 billion.

Direct leverage remained essentially stable at 103 per cent (Figure 2.26.a) and below the euro-area average (122 per cent). Indirect leverage of private equity funds, attributable to borrowing by subsidiaries, continued to decline (from 53 to 48 per cent of the sector's net assets). Liquidity risks remain limited as around 90 per cent of Italian AIFs are closed-end funds;[44] asset liquidity and the redemption profile of short-term liabilities for open-end AIFs are virtually aligned (Figure 2.26.b). The risks stemming from cross-holdings in the sector are also unchanged: AIFs' investments in other funds account for just over one fifth of their total assets, in line with the euro-area average.

**Figure 2.26**

**Indicators for Italian non-real-estate AIFs as at December 2024** (1)




Sources: Supervisory reports and data submitted pursuant to the Alternative Investment Fund Managers Directive (AIFMD).
(1) The figure is based on supervisory reports and data submitted pursuant to Directive 2011/61/EU (AIFMD); this requires AIF managers to regularly provide the competent authorities with information on their main assets and exposures. – (2) Overall exposure in securities and derivatives calculated using the method based on the ratio of commitments to net assets of alternative funds managed by Italian asset management companies. 'Other' includes funds that provide direct financing or buy loans originated by other financial intermediaries and those not included in the other categories, according to the criteria adopted by the European Securities and Markets Authority (ESMA). – (3) For each period, the liquidity mismatch is the difference between the liquidity of the securities portfolio, equal to the average share of the securities portfolio that the open-end alternative funds can liquidate by that date, and the liquidity profile for investors, equal to the average share of assets that investors in these funds can redeem in the same period. The estimate does not take account of cash holdings.

41 ESRB, *NBFI Monitor*, 9, June 2024.

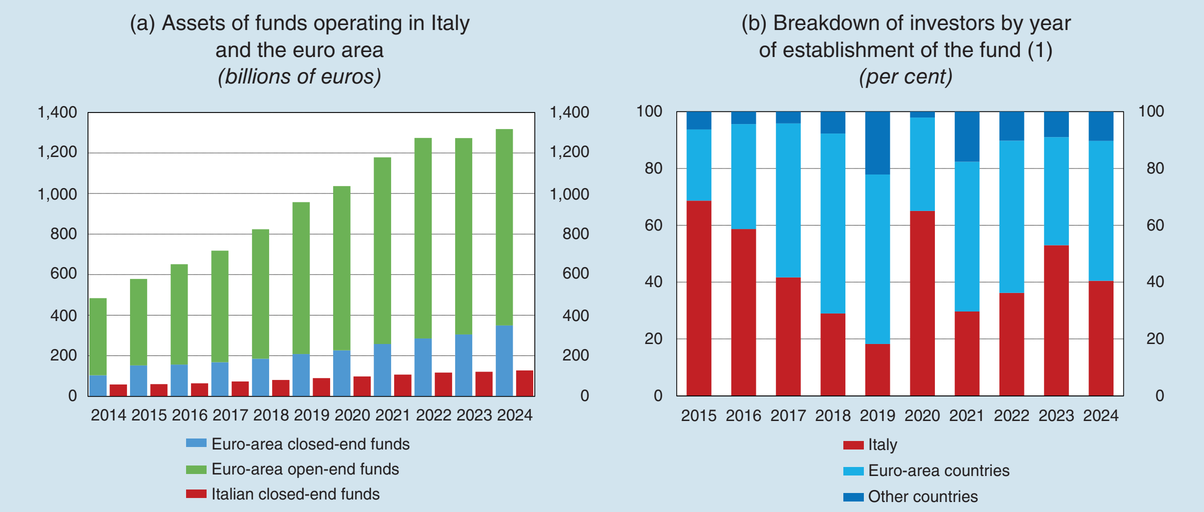
42 Banks' exposures are mainly concentrated in private debt funds, which in Italy primarily purchase loans originated by third parties; over two thirds of these are non-performing loans.

43 This category includes fund managers with assets of less than €100 million or up to €500 million, provided that the funds do not use leverage and that the rights of participants to redeem units or shares are not exercisable for a period of at least five years from the date of initial investment. For sub-threshold managers, the initial minimum share capital is set at €50,000 (instead of €1 million); furthermore, they are not subject to bans on investment, prudential rules on risk containment and fragmentation, or other administrative and information requirements.

44 Italian legislation provides that funds investing more than 20 per cent of their portfolio in illiquid assets be set up as closed-end funds.

Figure 2.27

**Real estate funds**

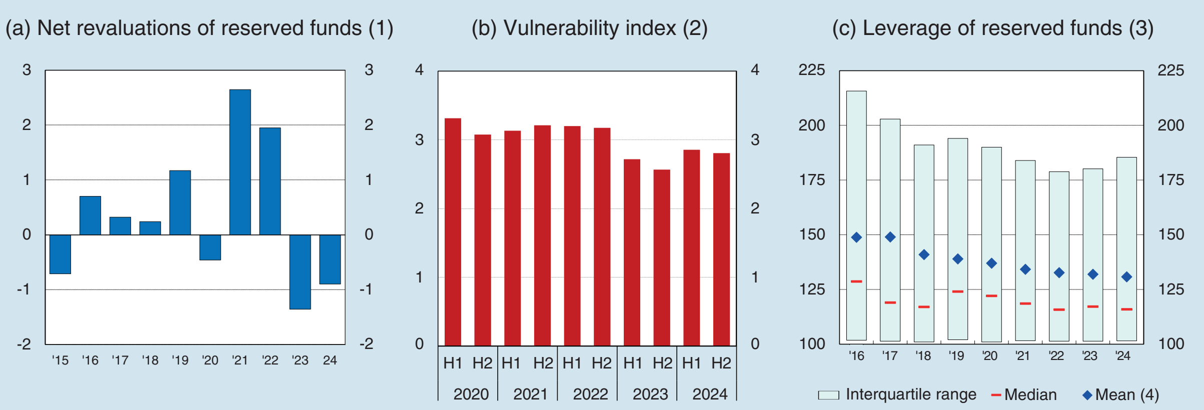



Source: Supervisory reports.
(1) Share of net assets subscribed by the different categories of investors.

Italian real-estate investment funds saw an increase in assets under management, from €121 billion to €128 billion (Figure 2.27.a). The funds established in 2024 were subscribed almost exclusively by Italian and euro-area investors (Figure 2.27.b), mostly non-financial corporations and other funds. During the period under review, real estate funds made net write-downs equal to 0.9 per cent of their portfolios overall, down from 2023 (Figure 2.28.a).

Figure 2.28

**Main indicators for real estate funds**
*(per cent)*




Sources: Supervisory reports and calculations based on data from Istat and OMI.
(1) Ratio of reserved fund balance sheet revaluations net of write-downs to the average of total assets at the end of the reference year and at the end of the previous year. – (2) Share of the sector's total assets held by real estate funds for which the estimated difference between the book value and the market value of properties is greater than net assets. For each fund, the difference is calculated between the fund's cumulative net write-downs as a ratio to its assets and the cumulative variations of a theoretical price index for the properties in the portfolio. The index is calculated as the weighted average of the price indices for properties (divided into residential and commercial) for each Italian region. The weights are equal to the shares of the assets of each fund that are invested in the markets included in the price indices under consideration. Write-downs and variations in the indices are calculated from the year that each fund was established or from 2009 (the year in which data became available) if the fund was set up prior to that year. Excludes funds in liquidation and those set up in the half year prior to the reference period. – (3) Ratio of total assets to net assets. – (4) Weighted average with weights equal to the denominator of each ratio.

Unlike most European funds, Italian funds are closed-end under current legislation and are therefore not subject to the liquidity risk arising from high redemption requests. The risk that, at maturity, the valuations of the funds' real estate portfolios could diverge significantly from market values continues to be low (Figure 2.28.b).

Leverage held stable (131 per cent in December 2024; Figure 2.28.c), in line with the European average. Highly leveraged funds (i.e. with a leverage ratio above 300 per cent) hold around 2 per cent of the sector's total assets. The funds with negative net assets, a condition that indicates particular financial stress, continue to account for slightly less than 1 per cent of assets.

Direct exposures of banks and other financial intermediaries operating in Italy to domestic real estate funds remain small but carry a high risk on average: last December, the loans granted to this sector accounted for around 1 per cent of total lending to customers of banks and financial corporations; however, NPLs were 11 per cent of total outstanding loans to the sector, gross of loan loss provisions.[45]

[45] The ratio of NPLs to bank loans alone, gross of loan loss provisions, fell to 2 per cent. The remainder of NPLs is mainly held by special purpose vehicles or asset management companies.

# 3 FINANCIAL STABILITY POLICIES

Banca d'Italia has kept the countercyclical capital buffer (CCyB) rate unchanged at zero per cent in the first two quarters of 2025,[1] assessing it as being appropriate for the current macrofinancial situation (see Table A11 in the Appendix).

The first part of the systemic risk buffer (SyRB) has been built;[2] Banca d'Italia activated it last year to increase the capacity of the banking system to deal with unexpected events, including those not caused by the economic or financial cycle. The SyRB, in force as of 31 December 2024 for licenced banks in Italy, stood at 0.5 per cent of credit and counterparty risk-weighted exposures to Italian residents; in terms of CET1, the buffer for the banking system as a whole amounted to €3.8 billion. According to the measure's gradual phase-in, banks will have to reach the target rate of 1.0 per cent by 30 June 2025.

Banca d'Italia assessed the requests for reciprocation of two macroprudential measures, one Belgian[3] and one Norwegian,[4] and decided to only recognize the Norwegian one, envisaging the introduction of an SyRB equal to 4.5 per cent of risk-weighted exposures to residents in Norway by 31 December 2025.[5]

The tools available to Banca d'Italia for preserving the stability of the national financial system include the product intervention power under Regulation (EU) 600/2014. To this end, the Bank regularly conducts analyses of the risks to financial stability that may stem from financial instruments traded, distributed or sold in or from Italy.[6] According to the latest analyses of securities and derivatives,[7] the volume of certificates held by Italian households stabilized in the second half of 2024 (see the box 'Certificates and their uptake in Italy and in the main euro-area countries', Chapter 1). At the same time, the volume of structured bonds and derivatives grew, mainly CDSs, swaptions and exotic options;[8] the long and short

1 Banca d'Italia, 'The Countercyclical Capital Buffer (CCyB) rate for the second quarter of 2025 remains unchanged at zero per cent', press release, 28 March 2025.

2 Banca d'Italia, 'Activation of the systemic risk buffer', press release, 26 April 2024.

3 Banca d'Italia, 'Decision not to reciprocate a Belgian macroprudential measure pursuant to Recommendation ESRB/2024/5', 21 February 2025.

4 Banca d'Italia, 'Decision to reciprocate a Norwegian macroprudential measure pursuant to Recommendation ESRB/2024/7', 14 March 2025.

5 In order to balance the costs and benefits associated with introducing the Norwegian measure in Italy, Banca d'Italia decided to reciprocate it according to the *de minimis* principle, exempting from the application of the buffer those Italian credit institutions for which exposures to Norway, calculated at consolidated level, are less than NOK 5 billion in terms of risk-weighted assets.

6 For further information on the criteria used by Banca d'Italia to exercise its product intervention power, see its website, 'The Bank of Italy's 'intervention power' concerning financial instruments, structured deposits and related financial activities/practices: legal, analytical and methodological framework', April 2024. For the list and definitions of all the financial instruments analysed within the scope of its intervention power, see Banca d'Italia's website: 'Glossary of the types of financial instruments analysed by Banca d'Italia within the scope of its intervention power'.

7 Banca d'Italia, 'Banca d'Italia's intervention power concerning financial instruments: regular assessment of risks to financial stability', press release, 24 April 2025.

8 Swaptions are options that give the holder the option to enter into an interest rate swap contract at a future date and under pre-set contractual conditions; exotic options are more complex derivatives than plain vanilla options, as they include unconventional contractual conditions.

positions held by the main market operators are balanced and the risks to financial stability associated with these instrument categories appear limited overall.

The second meeting of the Committee for Macroprudential Policies took place on 13 December 2024:[9] work started during the meeting on the activity report, which was published on 7 March.[10] The report sets out the Committee's role and objectives, and provides an overview of the activities carried out over the year and the macroprudential decisions taken by its constituent authorities.[11] The report also provides an assessment of the main risks to the stability of the Italian financial system, which are considered to be limited overall and mainly attributable to external developments. The next Committee meeting is scheduled for 13 June 2025.

[9] Committee for Macroprudential Policies, 'Minutes of the meeting of 13 December 2024', 24 January 2025.

[10] Committee for Macroprudential Policies, *Annual Report on 2024,* March (2025).

[11] The Committee consists of the Governor of Banca d'Italia, who chairs it, and the presidents of the Italian Companies and Stock Exchange Commission (CONSOB), the Pension Fund Supervisory Authority (COVIP) and the Institute for the Supervision of Insurance (IVASS). The Director General of the Treasury attends the meetings but has no voting rights.