BANCA D'ITALIA

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Financial Stability Report

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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)

OVERWIEW

The conflict in the Middle East has increased the vulnerabilities of the global economy and financial system in an environment already characterized by strong geopolitical and trade tensions and by heightened uncertainty. *Global growth forecasts have been revised downwards, inflation expectations have risen and financial conditions have tightened. At the same time, the existing risks stemming from excessive financial market valuations, especially in the technology sector, still linger. Any further increases in investors' risk aversion could affect the riskiest segments of the international financial system.*

In Italy, the main risks to financial stability stem from international factors. *Until last February, Italy's macrofinancial conditions and the risks associated with cyclical developments were stable. Following the outbreak of the conflict, Italian government bond yields rose and, to a smaller extent, so did their spread vis-à-vis the German Bund; share prices dropped sharply and, although they have since recovered, they remain exposed to significant fluctuations. The markets have continued to function in an orderly fashion.*

The financial condition of households and firms is balanced, but a deterioration in the macroeconomic scenario could affect their confidence. *The risks to households remain limited given their sound financial position and low debt. The picture for firms also appears to be stable on the whole, supported by a low level of debt and moderate credit growth. At a time of widespread uncertainty, higher energy and transport costs, more persistent inflationary pressures and less accommodative financial conditions could have an impact on households' purchasing power and on firms' costs, as well as on their confidence.*

Despite starting from a sound position, financial intermediaries are exposed to risks that could materialize should the conflict drag on. *The deterioration in the geopolitical environment and increased uncertainty may expose banks to a number of risks: funding and liquidity conditions could worsen if market yields were to rise sharply; asset quality could be affected by a deterioration in the ability of firms to repay their loans. However, Italy's banking system continues to exhibit high levels of capitalization and profitability. The Italian insurance sector also remains sound, thanks to high capitalization levels, rising premium income, and improving profitability and liquidity conditions; higher yields on fixed-income securities could, however, lead to unrealized losses.*

Banca d'Italia is continuing to monitor the risks to the macrofinancial environment stemming from the war in the Middle East. It has confirmed the macroprudential measures in place in 2025 and has updated the capital requirements for the other systemically important institutions involved in mergers.

There are four special-focus boxes in this Report. The first one analyses Italian investors' holdings in securities issued by the US technology sector and concludes that the exposure is limited overall. The second presents a new composite indicator of systemic risk for the financial cycle for Italy. The third box shows that the higher default rate for loans granted by less significant institutions can largely be explained by the characteristics of borrowers. The fourth box analyses the characteristics and risks of less significant institutions' use of online deposit platforms to collect deposits from abroad.

1 MACROECONOMIC, FINANCIAL AND SECTORAL RISKS

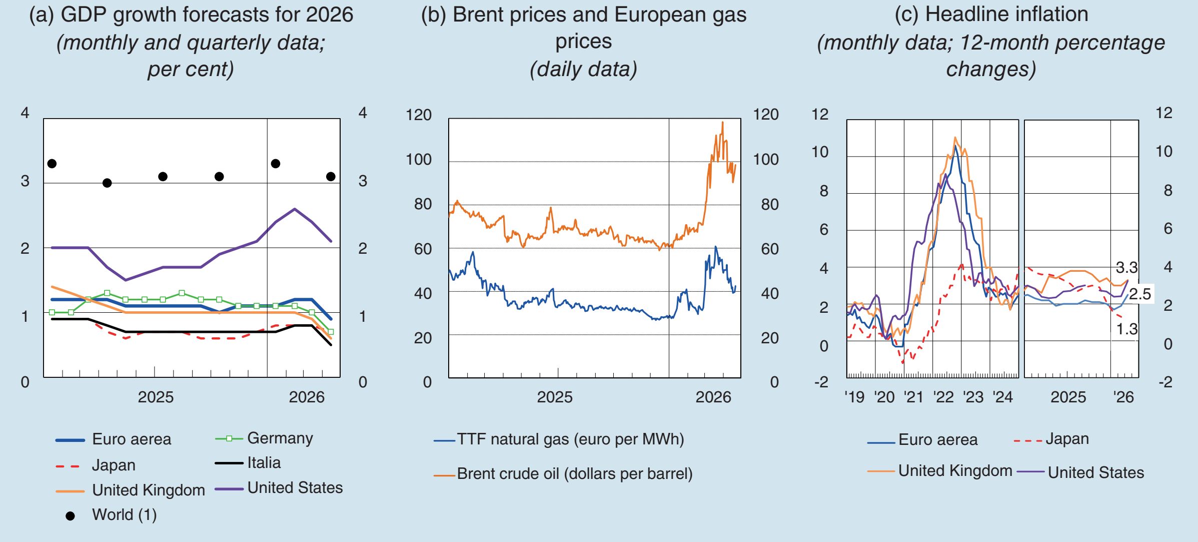
1.1 GLOBAL RISKS AND EURO-AREA RISKS

The conflict in the Middle East has markedly increased macroeconomic and financial vulnerabilities in an environment already characterized by strong geopolitical and trade tensions and high uncertainty. World growth forecasts have been revised downwards, inflation expectations have risen and international financial conditions have tightened rapidly. Any further increases in investors' risk aversion could affect the most vulnerable segments of the financial system.

Energy price rises have worsened the global outlook for growth and inflation. In 2025, global growth remained stable, at higher levels than expected after the escalation of trade tensions, but the conflict in the Middle East has led to a downward revision of the forecasts for 2026 (Figure 1.1.a). The severe disruptions to the transport of energy products and some essential commodities through the Strait of Hormuz – which accounts for roughly 20 per cent of global oil and natural gas trade – and the reduction in energy infrastructure operations in the Persian Gulf are putting a strain on the markets. Compared with last November, Brent crude oil prices have jumped by 57 per cent, with peaks above $118 per barrel, while European natural gas prices on the Title Transfer Facility (TTF) have spiked by 40 per cent, to €44 per megawatt-hour in late April (Figure 1.1.b).

Figure 1.1

Growth expectations, energy prices and inflation



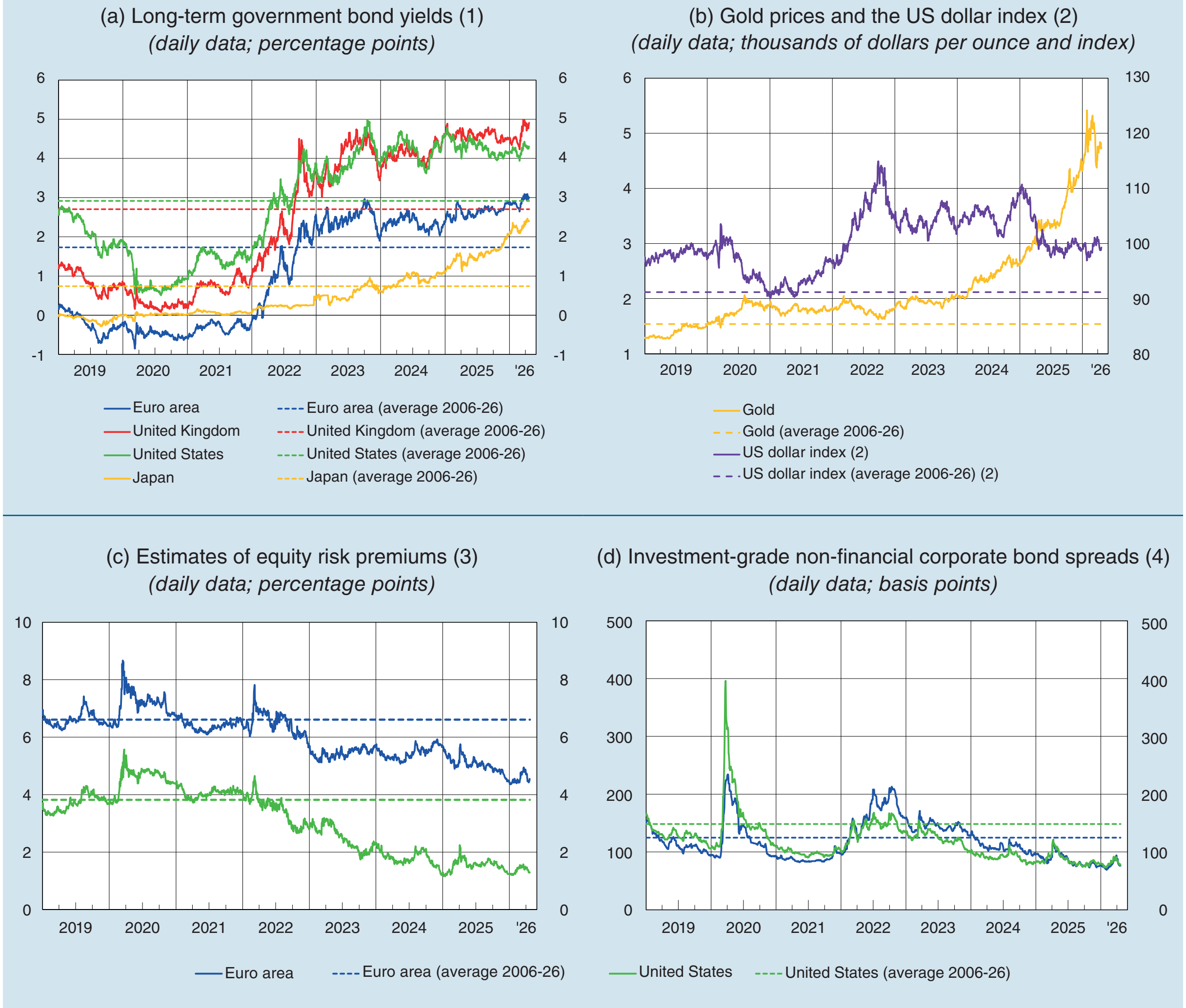
Sources: Consensus Economics (for monthly data) and IMF, World Economic Outlook (for quarterly data) for GDP growth forecasts, LSEG Datastream for oil and gas prices, and national statistics for inflation.
(1) IMF GDP growth forecasts.

The energy price hikes have buoyed inflation, with effects already visible in March (Figure 1.1.c). The major central banks remain cautious and are monitoring developments closely, while market expectations regarding 2026 policy rates have moved towards a less expansionary stance.

Global financial conditions have deteriorated. Government bond yields have risen in the main advanced economies (Figure 1.2.a), especially for shorter maturities. Unlike what happened during the periods of tension in 2025, the US dollar appreciated following the outbreak of the conflict (Figure 1.2.b), partly as a result of the US's lower exposure to the energy market shock.

Figure 1.2

Government bond yields, gold prices and the US dollar index, equity risk premiums and corporate bond spreads



Sources: Bloomberg, ICE Bank of America Merrill Lynch (BofAML) and LSEG.
(1) The index is calculated as a weighted average of the US dollar's exchange rates against the euro, yen, pound sterling, Canadian dollar, Swedish krona and Swiss franc. Right-hand scale. – (2) Yields on the German 10-year Bund for the euro area; yields on the US 10-year Treasury bond for the United States, yields on the UK 10-year Gilt for the United Kingdom and yields on the 10-year JGBs for Japan. – (3) For the S&P 500 (United States) and Datastream EMU Total Market (euro area) indices, we calculate the ratio of the 10-year moving average of earnings to the value of the stock index (both at constant prices). 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. – (4) 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.

After reaching new all-time highs in January, also driven by speculative moves, the price of gold has decreased. Despite a surge in volatility and a decline in equity prices in the wake of the conflict, markets have recovered losses rapidly after the start of initial diplomatic negotiations but remain susceptible to potential adjustments.

Investors' risk appetite is still high, despite the deterioration in macrofinancial conditions. Equity risk premiums remain compressed (Figure 1.2.c); investment portfolios have shifted towards more defensive sectors, primarily energy. Despite this decline, valuations continue to be high, especially in the United States and in the technology sector. Corporate bond spreads have widened slightly, though they remain modest overall (Figure 1.2.d), and could widen further in the event of a more prolonged and intensified Middle East conflict.

There is still uncertainty surrounding the adoption and effects of artificial intelligence (AI). In addition to the existing risks stemming from the rapid growth in the technology sector, there are also the risks to stability generated by the war. Uncertainty around the adoption of AI and concerns about the rising indebtedness of big tech companies have already been reflected in the credit market, especially in the credit default swap (CDS) premiums of some firms that are more exposed to indebtedness, and in the private credit sector.[1] In the latter sector, investors' redemption requests are draining liquidity from the funds, while recent loan write-downs have heightened concerns regarding credit quality, partly owing to the sector's opaqueness. However, the exposure of Italian and euro-area residents to US technology sector securities is low (see the box 'The exposure of Italian and euro-area residents to the US technology sector's securities').

THE EXPOSURE OF ITALIAN AND EURO-AREA RESIDENTS TO THE US TECHNOLOGY SECTOR'S SECURITIES[1]

The capitalization of the 'magnificent seven' firms[2] and of other firms in the US technology sector has increased significantly since 2022, reaching around €20 trillion. Doubts have emerged recently about the actual growth and profitability possibilities for firms in the sector and thus about the correspondence between the current assessments and the prospects for profitability.

At the end of the third quarter of 2025, less than 1 per cent of Italian investors' financial assets (households, firms and financial intermediaries) consisted, directly or indirectly,[3] of securities issued by the US technology sector (see panel (a) of the figure), a share that was not unlike that of the euro area as a whole. About three quarters of the exposure was acquired by investing in investment fund shares. If only direct investment is taken into account, the weight of the US technology sector was slightly more significant in Italy than in the euro area (13 and 12 per cent respectively of the equity portfolio).

In the non-financial sector, the investments of Italian and euro-area firms in the US technological sector were negligible, while the exposure was relatively greater for households (1.1 per cent in

1 By Federico Apicella and Luigi Infante.

2 These are the seven largest technology companies listed in the S&P 500: Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla.

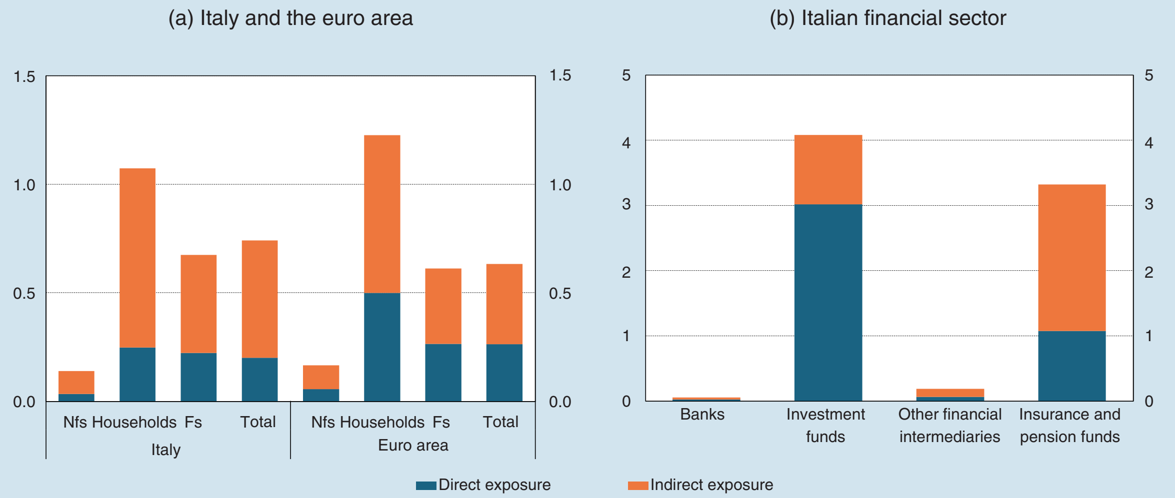
3 These include financial instruments held both directly and indirectly by investment in mutual fund shares (look-through approach).

1 Private credit is a form of non-bank lending, whereby specialized investment funds provide capital through loans or unlisted debt instruments, typically to small or medium-sized firms.

Italy and 1.2 per cent in the euro area). Within the Italian financial sector, the share was higher for investment funds (4.1 per cent of financial assets) and for insurance and pension funds (3.3 per cent), while it was marginal for banks and other financial intermediaries (see panel (b) of the figure).

Figure

Exposure to US technology sector securities in relation to the financial assets of holding sectors (1)
(per cent)



Source: Based on Securities Holdings Statistics by Sector data.
(1) In order to assess the overall exposures of institutional sectors, in addition to the financial instruments held directly, indirect holdings via investment in mutual fund shares are also considered (look-through approach). The figure refers to both direct and indirect exposures. The financial sector (fs) includes banks, investment funds, insurance companies and pension funds and other financial intermediaries (which include, among other things, special purpose vehicles, securities and derivative dealers and financial corporations that grant loans). The non-financial sector (nfs) includes non-financial corporations. The household sector includes households and non-profit institutions serving households. The total is calculated by adding together the non-financial sector, households and the financial sector.

1.2 MACROFINANCIAL CONDITIONS IN ITALY

Italy's macrofinancial conditions and vulnerabilities relating to the financial cycle remained unchanged through February 2026. The situation changed with the outbreak of the Middle East conflict: the sharp rise in energy prices, the uncertainty about their development and the unpredictability of the global geopolitical situation are increasing the risks to financial stability.

Financial market conditions have been affected by the outbreak of the conflict. Aggregate indicators did not point to significant changes in risks to financial stability up until last February. However, financial and government bond market conditions have since then been affected by the deterioration in the geopolitical situation and by the increase in volatility observed since the start of the hostilities in the Middle East (see Section 1.3). While cyclical vulnerabilities were still limited overall in the first quarter of 2026 (see the box 'A composite indicator of systemic risk related to the Italian financial cycle'), the financial stress indicator (Figure 1.3.a) has risen markedly, above its level one year ago but still below its median for the last two decades.

A COMPOSITE INDICATOR OF SYSTEMIC RISK RELATED TO THE ITALIAN FINANCIAL CYCLE[1]

Cyclical macrofinancial risks remain subdued in Italy according to the latest evidence provided by a new composite indicator of systemic risk relating to the domestic financial cycle.

In recent years, several European authorities have expanded the information set used to assess cyclical macrofinancial risks by introducing new composite risk measures that go beyond the traditional emphasis on credit dynamics and provide a more thorough reading of emerging vulnerabilities.

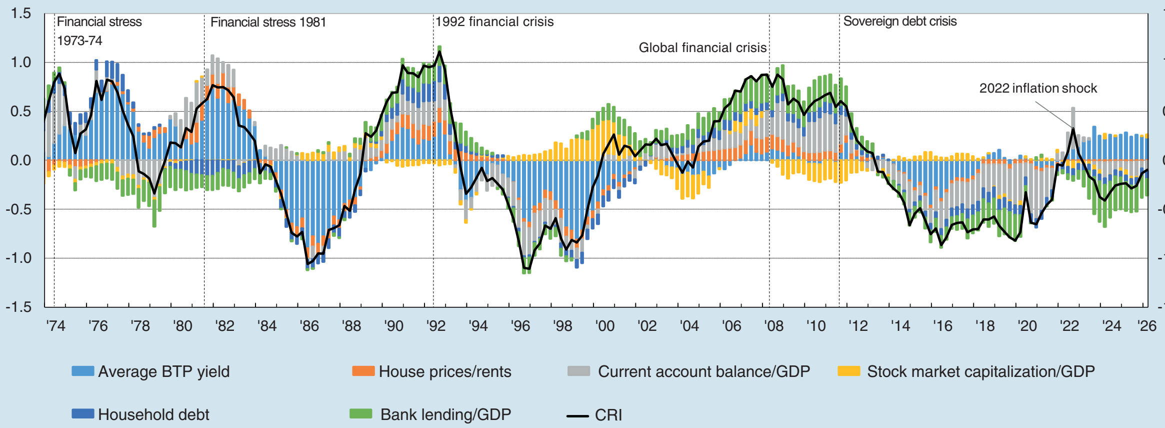
Against this background, a recent study proposes a composite indicator of systemic risk relating to the financial cycle (cyclical risk indicator, CRI) for Italy.[2]

The CRI was constructed from a set of variables commonly used in the literature for their ability to predict financial crises. The variables that have shown the strongest predictive power for the episodes of macrofinancial stress that have occurred in Italy over the past 50 years were selected.

The CRI has six components:[3] (a) the yield on treasury bonds (BTPs); (b) the house price-to-rent ratio; (c) the current account balance-to-GDP ratio (with an inverted sign); (d) the stock market capitalization-to-GDP ratio; (e) household debt in real terms; and (f) the ratio of bank lending to the non-financial private sector to GDP.

Figure

The CRI and its components (1)
(quarterly data; weighted average of standardized variables)



Sources: Based on Banca d'Italia, Istat, OECD, LSEG and BIS data.
(1) The figure shows the quarterly series of the CRI for the period from the fourth quarter of 1973 to the first quarter of 2026, together with the contributions of its components (normalized and weighted) reported in the key, i.e.: the 16-quarter change in the average yield on BTPs (weighted at 33 per cent); the house price-to-rent ratio (weighted at 10 per cent); the current account balance-to-GDP ratio (inverted sign, weighted at 20 per cent); the 16-quarter change in the stock market capitalization-to-GDP ratio (weighted at 10 per cent); the inflation-adjusted 16-quarter growth rate of bank lending to households (lagged by 14 quarters, weighted at 10 per cent); the 12-quarter change in the ratio of bank lending to the non-financial private sector to GDP (weighted at 17 per cent). The data for the first quarter of 2026 are provisional.

1 By Luca Moller.
2 L. Moller, 'A composite indicator of systemic risk related to the Italian financial cycle', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 1007, 2026.
3 For a more detailed description of the variables in the CRI, see note (1) to the figure.

The analyses show that the CRI provides additional information on both its individual components and on the deviation of the credit-to-GDP ratio from its long-term trend (credit-to-GDP gap).[4]

The indicator would have provided a useful signal for anticipating the most significant episodes of financial stress recorded in Italy during the period under review, including the 1991-92 and 2011-12 crises.

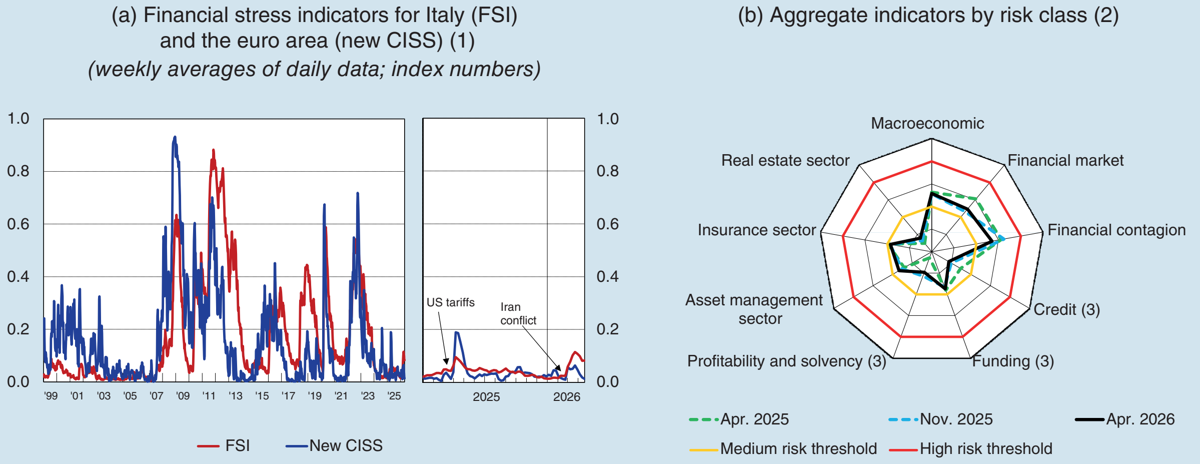
The latest data available are for the first quarter of 2026 and suggest that the cyclical risk profile remains consistent with a phase of limited accumulation of vulnerability (see the figure). The main sources of risk appear to be linked to the potential repercussions of the sizeable increase in interest rates observed in recent years.

[4] EU legislation has the credit-to-GDP gap as the main benchmark for setting the countercyclical capital buffer (CCyB) rate.

Italy's macrofinancial conditions remain stable overall, despite the external risks. A sound banking system (Figure 1.3.b and Section 2.1), a positive net international investment position, good investment performance, low unemployment, and resilient private consumption are among Italy's strengths. However, the outlook for growth remains weak and uncertain. GDP grew by 0.5 per cent in 2025 and is estimated to increase at roughly the same pace in 2026. The adverse scenarios, which are characterized by more severe repercussions of the Middle East conflict, point to high risks of lower growth and higher inflation than in the baseline scenario.[2]

Figure 1.3

Synthetic indicators of risks to financial stability



Sources: Based on ECB and Banca d'Italia data.
(1) The index ranges from 0 (minimum risk) to 1 (maximum risk). For further details on the Italian financial stress indicator (FSI), see A. Miglietta and L. Moller, 'The composite financial stress indicator for Italy: a methodological update', Banca d'Italia, Notes on Financial Stability and Supervision, 49, 2026. 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. – (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.

[2] Banca d'Italia, 'Macroeconomic projections for the Italian economy', 3 April 2026. For a comparison with the euro area, see ECB, 'ECB staff macroeconomic projections for the euro area', 19 March 2026.

Public finance balances continue to improve: net borrowing decreased to 3.1 per cent of GDP last year, thanks to a 0.3 percentage point increase in the primary surplus (to 0.8 per cent of GDP).

High public debt remains a source of vulnerability, especially amid international financial market tensions. This is evidenced by the wider spread between Italian and German government bonds observed immediately after the outbreak of the war in the Middle East (see Section 1.3). The debt-to-GDP ratio rose by 2.4 percentage points at the end of 2025, to 137.1 per cent, exceeding expectations. According to the latest official estimates in the Public Finance Document 2026, it will rise in 2026 as well, before gradually declining in the following years.[3]

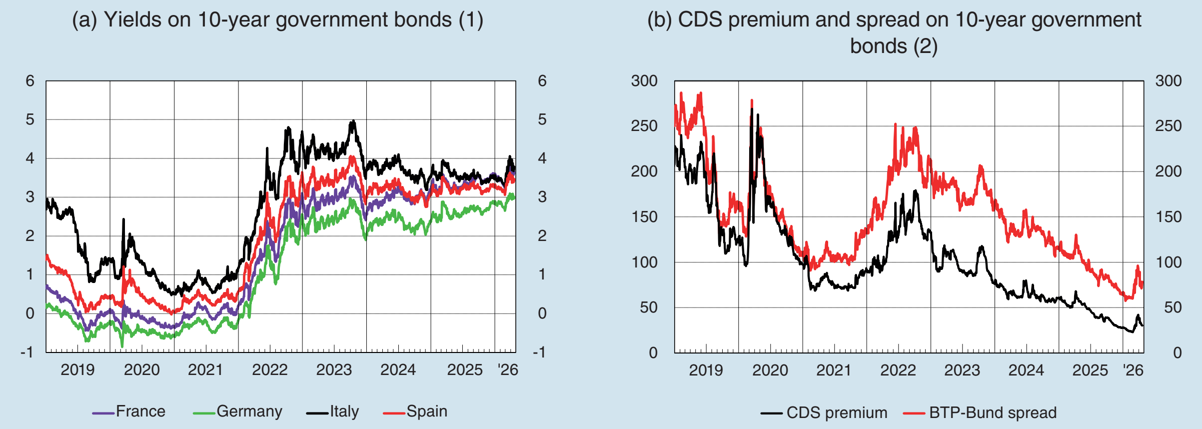
1.3 THE FINANCIAL MARKETS

The conflict in the Middle East and the energy shock have affected Italy's financial markets: Italian government bond yields have risen and, to a lesser extent, so has their spread over the German Bund; share prices recouped the losses accumulated since the outbreak of the war, but remain exposed to significant fluctuations. Market functioning remains orderly.

Government bond yields have risen since the outbreak of the conflict (Figure 1.4.a). The yield spread between Italian and German bonds, after reaching a peak of around 100 basis points, returned to levels that are historically low and only slightly above those recorded at the end of February (Figure 1.4.b).

Figure 1.4

Yields and risk premiums on government bonds
(daily data; per cent and basis points)



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

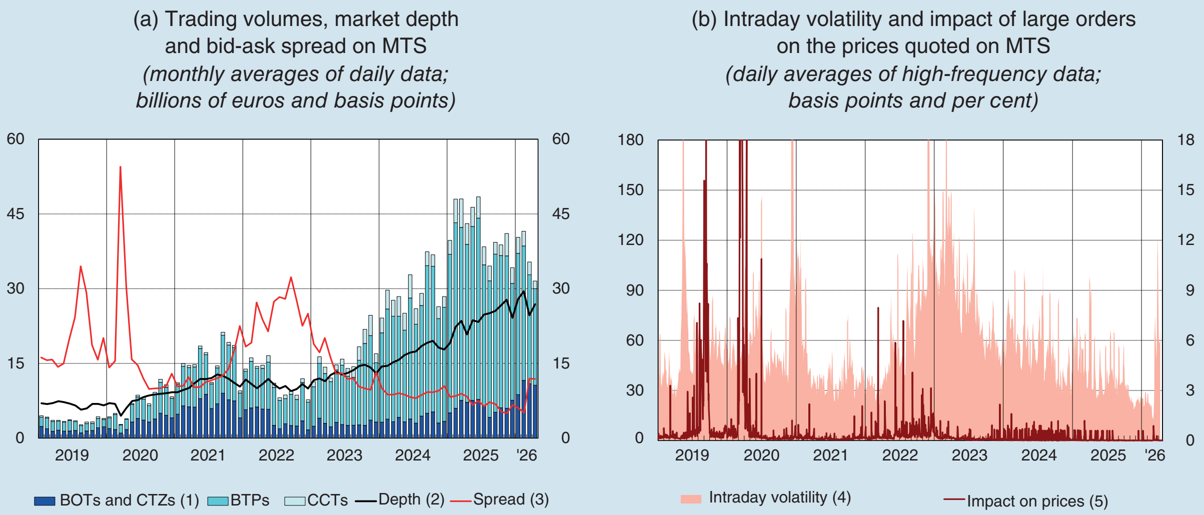
Liquidity conditions on the secondary market in Italian government bonds have weakened somewhat since early March. While still sizeable, volumes declined amid uncertainty around the effects and duration of the conflict (Figure 1.5.a). Intraday price volatility increased, the bid-ask

[3] For further information, see 'Preliminary hearing on the Public Finance Document (PFD) 2026', testimony by A. Brandolini, 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, Chamber of Deputies, Rome, 28 April 2026 (only in Italian).

spread on BTPs widened and the quantities quoted by market makers decreased. At the same time, the market's ability to absorb large orders with no significant impact on prices remained sound (Figure 1.5.b). The premium linked to the scarcity of securities (specialness) displayed no significant tensions.

Figure 1.5

Liquidity indicators for Italian government securities



Source: Based on MTS data.
(1) As of October 2022, the series only includes data on BOTs because the stocks of CTZs were reduced to zero when the placement of this kind of bond was discontinued and the last CTZs to mature were redeemed. – (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. – (4) A measure of realized volatility based on the benchmark 10-year BTP intraday returns calculated at 5-minute intervals; 5-day moving average of annualized values. Right-hand scale. – (5) The indicator refers to the benchmark 10-year 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.

In the second half of 2025, the share of Italian government bonds held by foreign investors increased further. However, that share is still below the levels recorded in the other main euro-area countries. The shares held by Italian households and banks rose slightly (see Section 1.5), while those in the hands of the Eurosystem and Italian investment funds declined (Figure 1.6).

In recent years, the activity of non-money market funds, including hedge funds, in Italian government bonds has increased in both the spot and repo markets. Since mid-2024, the net debtor position of these funds in repos that use Italian government securities as collateral has turned positive, indicating that these instruments are used for funding purposes. Similar developments are also observed at the euro-area level.[4] These intermediaries generally contribute to market liquidity; however, under tighter financing conditions and depending on their investment strategy, they could be prompted to rapidly unwind their positions, with possible repercussions on yield volatility.

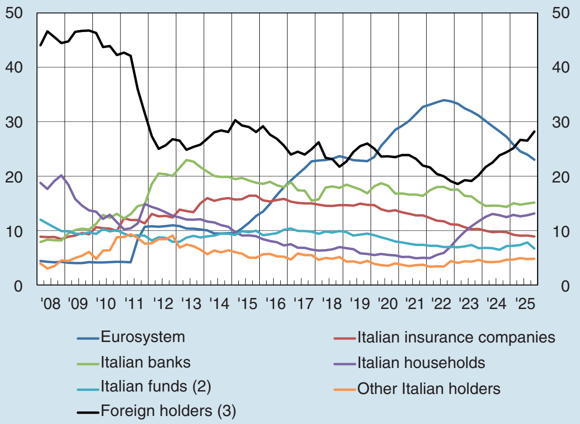
Placement continued at a steady pace on the primary market for government bonds. Volumes increased in the medium- and long-term segment, partly as a result of the issuance of BTP Valore bonds last March. Yields at issuance have risen slightly compared with October; the average cost of securities outstanding has reached 2.86 per cent (Figure 1.7), and the average residual maturity remains close to seven years.

[4] ECB, *Financial Stability Review*, November 2025.

Figure 1.6

Italian government securities by holder category (1)

(quarterly data; per cent)

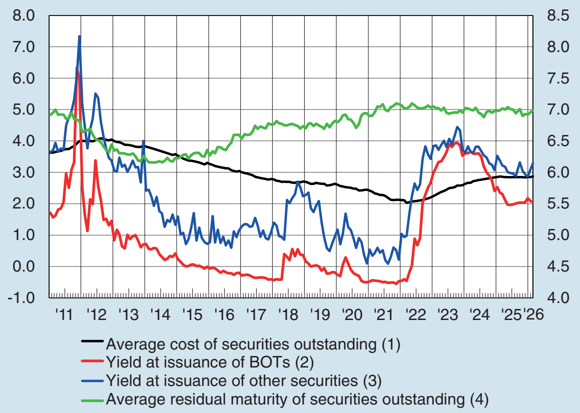


Sources: Banca d'Italia (Financial Accounts), and estimates based on Assogestioni and ECB data.
(1) Shares calculated on data at market prices and net of securities held by Italian general government. The data refer to a subset of holders. – (2) Includes foreign individually managed portfolios and investment funds attributable to Italian investors (round trip). Provisional data for the fourth quarter of 2025. – (3) Securities held by foreign investors net of those held by the Eurosystem (not including Banca d'Italia) and by round-trip managed portfolios and investment funds. Provisional data for the fourth quarter of 2025.

Figure 1.7

Average cost, yield at issuance 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 data.
(1) Weighted average of the yields at issuance of government securities outstanding at the end of the month. – (2) Weighted average of the yields at issuance of all the BOTs placed during the month, by settlement date. – (3) Weighted average of the yields at issuance of securities other than BOTs and of the indexed BTPs placed during the month, by settlement date. – (4) End-of-period values weighted by the outstanding amounts. Loans from the European Commission and foreign loans are excluded. Right-hand scale.

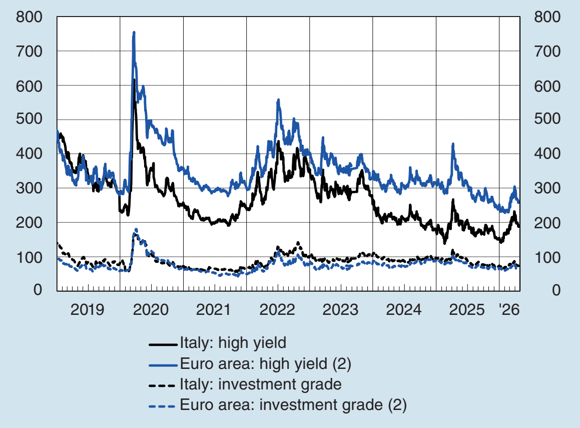
Conditions in the corporate bond market have remained relaxed. Since last February, the yield spread between securities issued by Italian non-financial corporations and risk-free rates (asset swap spread) has remained essentially stable both in the investment grade sector and in the high yield sector (Figure 1.8).

The stock market continues to be exposed to significant fluctuations reflecting the course of the war in the Middle East. Following the ceasefire announcement in early April, the Italian equity index recouped the losses that had built up since the outbreak of the conflict, with a gain of 7 per cent since November (Figure 1.9.a). Furthermore, despite the persistence of heightened uncertainty conditions, the risk indicators do not point to any significant fragility: implied volatility has returned to levels that are not far removed from where they were at the end of February (Figure 1.9.b) and the risk reversal indicator[5] does not signal any expectations of declines in equity prices.

Figure 1.8

Asset swap spreads (1)

(daily data; basis points)

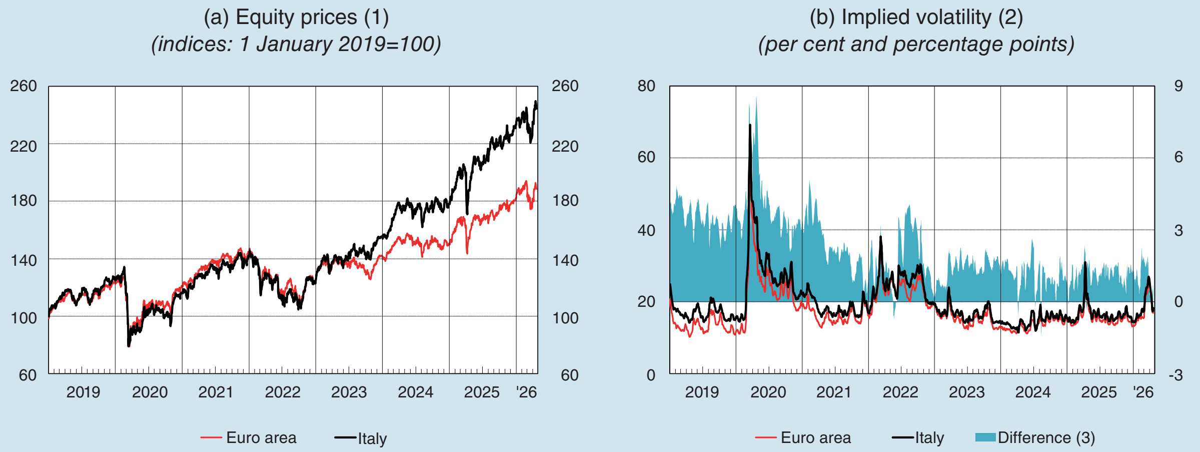


Source: Based on ICE BofAML data.
(1) Asset swap spreads weighted by the market capitalization of individual securities issued by non-financial corporations. – (2) The ICE BofAM indices for the euro area have been recalculated to exclude Italy.

[5] The indicator, calculated as the difference between the implied volatility of put and call options, measures the relative price of options that protect against a drop in the equity index against those that profit from an increase.

Figure 1.9

Equity market indicators
(daily data)



Source: Based on Bloomberg data.
(1) Indices: 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 the Euro STOXX 50 index for the euro area. 5-day moving averages. – (3) Difference between implied volatility in the Italian and euro-area equity market indices. Right-hand scale.

1.4 REAL ESTATE MARKETS

House prices have continued to rise in Italy and in the main euro-area countries. There are no signs of overvaluation in the Italian market.

House prices increased further in the fourth quarter of 2025. In the euro area, they rose by 5.1 per cent on the same period in 2024 (Figure 1.10.a): with prices steadily rising in Germany and France, and going up more markedly in Spain (by 12.9 per cent). Prices also continued to increase in Italy (4.1 per cent; Figure 1.10.b), and rose in real terms, too; the volume of sales held basically stable.

In terms of the valuation indicators, the deviation of the price index from its long-term average (price gap) remains positive, while prices relative to disposable income and rents remain below their long-term averages (Figure 1.10.c).

Prior to the outbreak of the conflict in the Middle East, the real estate agents interviewed for the Italian Housing Market Survey expected an increase in the demand for houses and rising prices in the first quarter of 2026.[6]

Based on our estimates, consistent with the macroeconomic scenario published in April by Banca d'Italia, the increase in nominal house prices is expected to moderate over the course of 2026 and the subsequent two years.[7]

6 The assessments were gathered in January and February.

7 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.

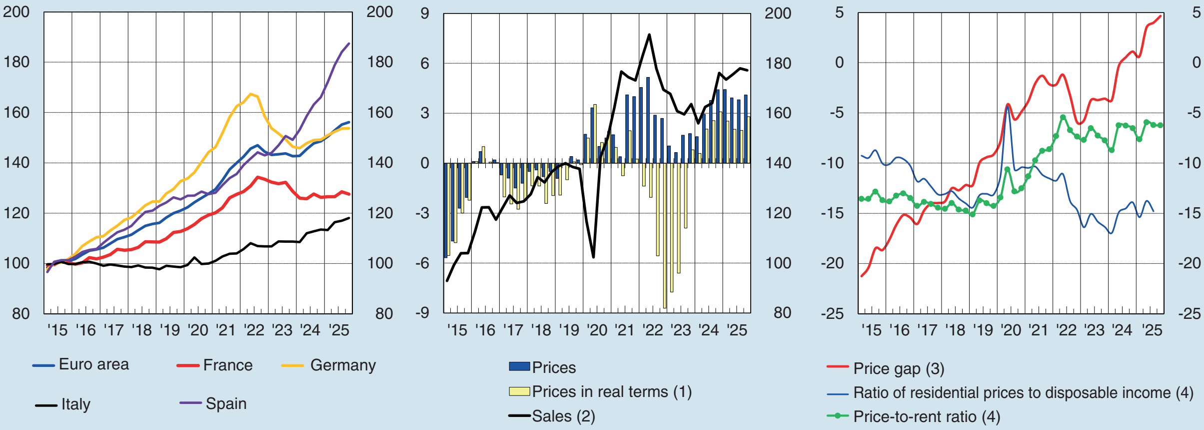
Figure 1.10

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

(a) Prices in the main euro-area countries
(indices: 2015=100)

(b) Prices and sales in Italy
(year-on-year changes and index: 2015=100)

(c) Valuation indicators in Italy
(per cent)

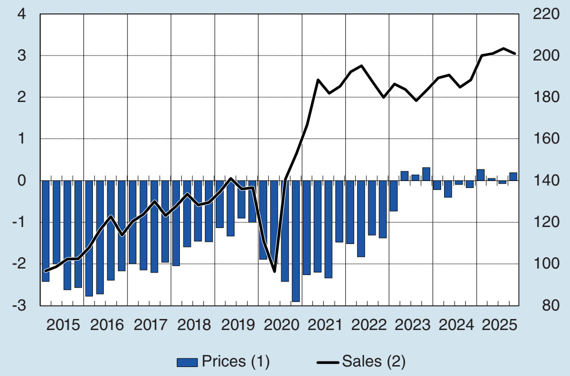


Sources: Based on data from Banca d'Italia, Eurostat, Istat and the Italian Revenue Agency's Osservatorio del mercato immobiliare (OMI).
(1) Data deflated using the change in consumer prices. – (2) Adjusted for seasonal and calendar effects. Right-hand scale. – (3) The price gap is defined as the percentage deviation of the house price index in real terms from its long-term trend (about 30 years). – (4) The data are expressed as a percentage deviation compared with the long-term average.

Non-residential property prices in Italy remained stable in the fourth quarter of 2025. Property sales went up (Figure 1.11). Prices have continued to rise in Germany and France (by 3.5 and 1.9 per cent respectively compared with the previous 12 months).

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) Year-on-year percentage changes; the indicator, which is still being tested, uses data drawn from transactions that have effectively occurred on the market. – (2) Index: 2015=100; data adjusted for seasonal and calendar effects. Right-hand scale.

1.5 HOUSEHOLDS AND FIRMS

Households

The risks stemming from the financial situation of households continue to be limited given their sound capital position and low level of debt. However, the outlook has become more uncertain due to the conflict in the Middle East. Persistent inflationary pressures and less accommodative financial conditions could have a significant impact on households' purchasing power, the cost of credit and consumer confidence.

Households' expectations worsened following the outbreak of the conflict. The latest data from Istat's consumer and business confidence surveys indicate that, since the outbreak of hostilities, expectations regarding the respondents' own financial situation and the general economic context deteriorated considerably and their propensity to make significant purchases also declined. In the second half of 2025, however, households' purchasing power continued to improve, albeit more slowly. The propensity to save declined, but is still around pre-pandemic levels (see *Economic Bulletin*, 2, 2026).

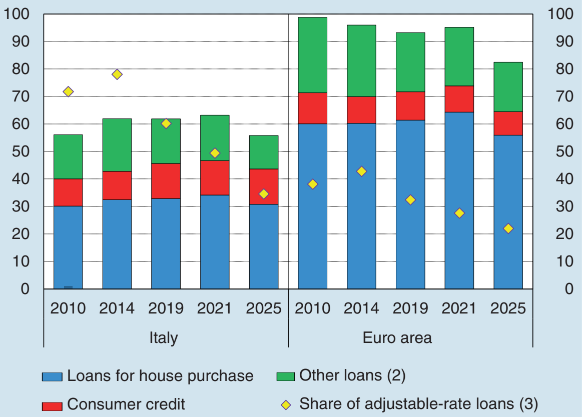
Preliminary financial accounts data point to growth in financial wealth in 2025. In the latter half of the year, households disposed of shares and participating interests, and to a more modest extent, time deposits and bonds of non-financial corporations. Sight deposits increased. Households mainly invested in medium- and long-term government debt securities and in asset management products, with the former driven largely by issuances by the Treasury targeted at retail investors and the latter by the investment fund (mainly bond funds; see Section 2.3) and life insurance (see Section 2.2) components.

Debt remains low, especially the adjustable-rate component. Following the rebound in lending, the debt-to-disposable income ratio turned upwards in the second half of 2025, but is still at its lowest levels since the global financial crisis (55.8 per cent, more than 25 percentage points below the euro area average; Figure 1.12).

In the second half of last year, lending picked up pace (3.3 per cent in December; Figure 1.13). Lending continues to be driven largely by the acceleration in loans for house purchase, which rose by 3.5 per cent in February. Adjustable-rate mortgage loans made up 26.1 per cent of total mortgage loans outstanding at the end of 2025, a new historical low; adjustable-rate loans for house purchase accounted for 10 per cent of new loans for most of the year. In the first two months of 2026, new adjustable-rate mortgages loans made up almost 20 per cent of all mortgage loans for the first time since January 2024. In February, interest rates stood at 3.1 and 3.5 per cent, respectively, for new adjustable-rate and fixed-rate mortgages.

Figure 1.12

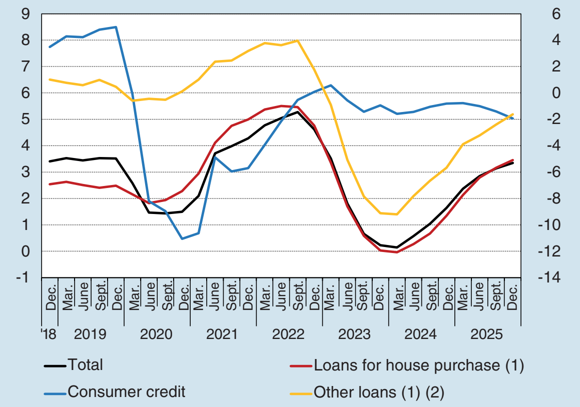
Debt and share of adjustable-rate loans (1)
(as a percentage of disposable income; per cent)



Sources: Banca d'Italia and Istat for Italy, ECB for the euro area.
(1) The period-end data refer to consumer and producer households and non-profit institutions serving households. For 2025, the latest available data for the euro-area debt-to-disposable income ratio refer to September. – (2) Other loans: the most significant are current account overdrafts and mortgage loans other than those for the purchase, construction and renovation of properties for residential purposes. – (3) It includes loans for which the interest rate is set for a period of less than 1 year. It excludes consumer loans granted by financial corporations. Right-hand scale.

Figure 1.13

Loans from banks and financial corporations to consumer households
(12-month percentage changes)



Source: Supervisory reports.
(1) Data on bank loans only. – (2) Other loans: the most significant are current account overdrafts and mortgage loans other than those for the purchase, construction and renovation of properties for residential purposes. Right-hand scale.

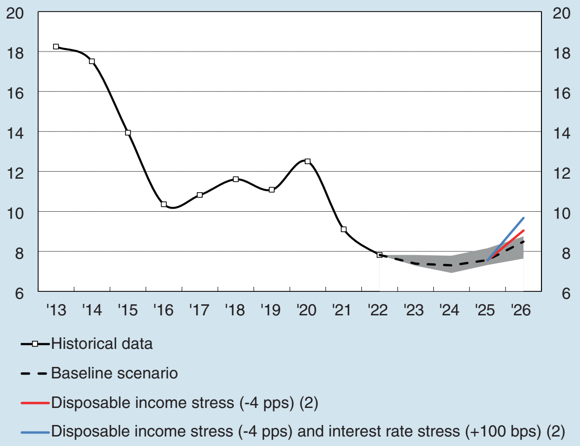
Consumer credit growth slowed, especially in the special-purpose loan component, likely in connection with the drop in demand for vehicles. The total cost of consumer credit remained high, at 10.3 per cent in February, but declined by around 20 basis points from its 2025 peak, observed 12 months prior.

In the fourth quarter of last year, credit quality remained high, with a default rate of 0.6 per cent, close to historical trough (see Section 2.1). The default rate for consumer credit[8] remained at the levels recorded in June (2.3 per cent), while that for salary-backed loans rose (from 1.4 to 1.9 per cent).

Households' financial vulnerability is expected to increase in 2026, but to remain modest overall. Actual developments will depend heavily on what happens with the conflict in the Middle East. The projections based on Banca d'Italia's micro-simulation model (Figure 1.14),[9] which are consistent with the Bank's most recent macroeconomic forecasts, suggest that the share of debt held by financial vulnerable households will increase in 2026 to 8.5 per cent of total household debt, up from 7.6 per cent in 2025, owing to higher debt-servicing costs and a slowdown in the growth of disposable income. In a particularly adverse scenario in terms of disposable income and tighter financial conditions, the debt attributable to financially fragile households would be expected to rise to 9.7 per cent.

Figure 1.14

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



Source: Based on data from 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 equivalized disposable income is below the median. The latest SHIW data available 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, which already reflects the possible impact of the conflict in the Middle East, the assumptions for 2026 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 100 basis points higher.

Firms

In a highly uncertain environment, the financial situation of firms remains balanced overall, with low levels of debt and moderate credit growth. However, higher energy and transport costs and less accommodative financial conditions could have an effect on costs and business confidence.

In the course of 2025, firms' profitability improved, but the outlook is uncertain. In the final quarter of the year, growth in value added in nominal terms was 2.7 per cent year on year (from 1 per cent at the end of 2024). Some of the surveys conducted by Banca d'Italia following the outbreak of the conflict in the Middle East point to signs of a deteriorating short-term outlook and heightened uncertainty (see the box 'The repercussions of the conflict in the Middle East on Italian firms' expectations', *Economic Bulletin*, 2, 2026).

[8] The rate is calculated on the basis of data provided by the Consorzio per la Tutela del Credito (CTC), a credit information company. They include quarterly information on individual contracts and borrowers for a representative sample of consumer loans.

[9] For more 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.

After three years of significant expansion, there has been a contraction in gross operating income since mid-2024, tied to modest growth in value added and higher labour costs. This trend slowed in 2025; in the last quarter of the year, gross operating income returned to growth (Figure 1.15). Investment continued to improve, albeit at a slower pace than in the first half of the year. Financing needs remained positive: at the end of 2025, the ratio of internal financing to investment was just under 85 per cent.

Firms are benefiting from high liquidity and low debt. In 2025, Italian firms' ratio of liquidity to liabilities remained above 10 per cent, which is higher than the euro-area average (around 7 per cent). In addition, bank deposits by firms rose, driven by those made by large companies.

Financial debt levels were very low by historical standards, standing at around 58 per cent of GDP at the end of 2025, significantly below the euro-area average. Banks loans as a share of total financing reached a new low of 46 per cent, although it is still above the euro-area average. Leverage, which has been shrinking for more than a decade, declined further, to below 30 per cent.

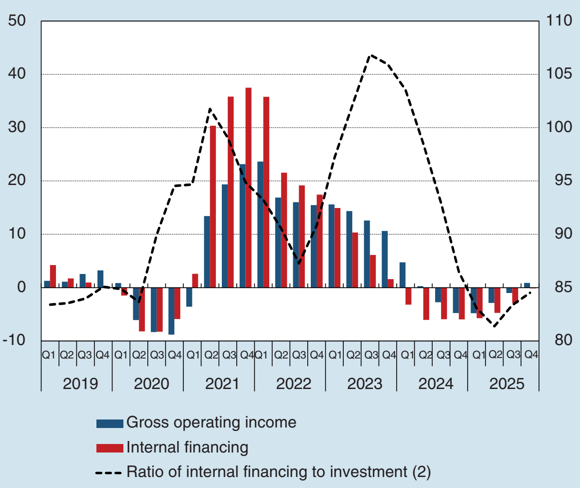
Lending once again began to expand and at favourable terms and conditions. Starting in the second half of 2025, the contraction in credit, under way since 2023, began to reverse: year-on-year growth stood at 1.3 per cent in February 2026. The increase in lending was mainly driven by the largest firms, with a contribution from the most financially sound smaller firms (Figure 1.16). Growth was concentrated largely in the service sector and continued to be more sluggish in the manufacturing sector.

According to the euro-area Bank Lending Survey, there was a slight increase in demand for loans in the final quarter of 2025, especially by larger firms and for long-term loans; credit standards remained broadly unchanged. Istat's business confidence surveys for the first quarter of 2026 nevertheless revealed that firms, especially small and medium-sized ones, reported increasing difficulties in obtaining bank loans.

Figure 1.15

Profitability and financing needs (1)

(per cent)

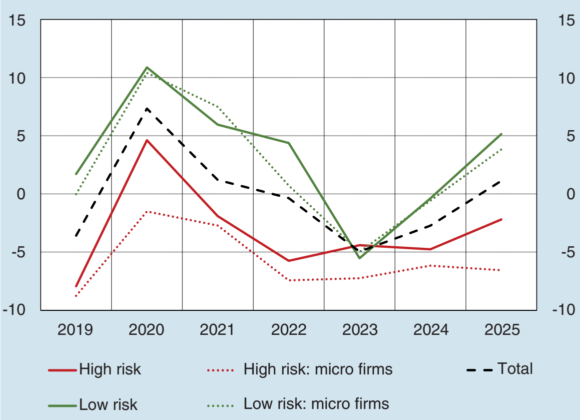


Sources: Based on Banca d'Italia and Istat data.
(1) Annualized growth rates of non-financial corporations' gross operating income and internal financing. – (2) Right-hand scale.

Figure 1.16

Lending to firms (1)

(percentage changes)



Sources: Based on Central Credit Register and Cerved data.
(1) The data refer to the annual change in financing for a sample of about 500,000 limited companies. Loans include those granted by financial corporations, taking account of securitizations, and also include bad loans. Allocation into the risk groups is based on Cerved's CeBi-Score4 indicator. 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.

In 2025, the ratio of interest expense to income declined, but remained higher than before monetary tightening. In February 2026, the cost of new loans – excluding current account overdrafts – decreased to 3.3 per cent (see *Economic Bulletin*, 2, 2026). Credit quality remained stable: the loan default rate was around 2.2 per cent in the fourth quarter (see Section 2.1).

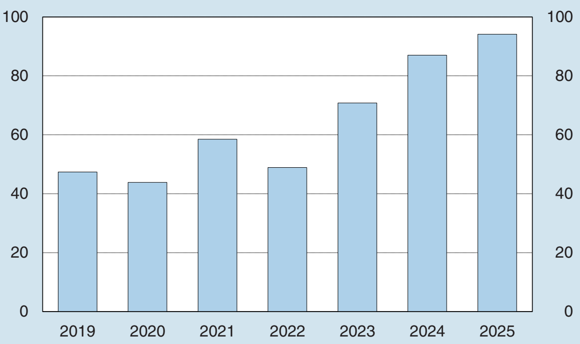
Bond issuance continued to expand. Last year, bond issuances rose by 8.2 per cent (more than 20 per cent in 2024; Figure 1.17). Bonds are an increasingly important source of financing for Italian firms: in 2025, they made up almost 17 per cent of total debt. Larger firms continue to account for the bulk of issuance volumes.

The rating of Italian corporate issuers benefited from the improvement in the sovereign rating. Between November and April, 6.1 per cent of outstanding bonds, in terms of nominal value, were upgraded (1.6 per cent in the rest of the euro area), against 0.3 per cent of downgrades. However, the share of bonds in the BBB category remains higher in Italy than the euro-area average (around 88 per cent of investment-grade issues against 62 per cent), leading to a greater risk of a downgrade to the high-yield category should an adverse event occur.

Firms' financial vulnerability is expected to decrease in 2026, but uncertainty remains high. Banca d'Italia's microsimulation model[10] indicates that, in the baseline scenario consistent with the Bank's latest macroeconomic forecasts, the share of debt issued by vulnerable firms will continue to shrink, to around 35 per cent in 2026 (Figure 1.18). A slight increase is expected in the service sector. In an adverse scenario that assumes a reduction in gross operating income and a tightening of financial conditions, the share of debt attributable to vulnerable firms would increase to around 40 per cent; small and medium-sized enterprises would be particularly affected.

Figure 1.17

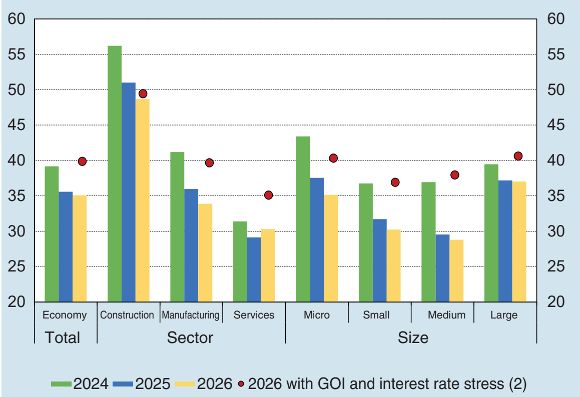
Bond financing (1)
(billions of euros)



Sources: Based on data from the Securities registry database and Dealogic.
(1) Gross bond issuance by Italian non-financial corporations and groups, including foreign subsidiaries.

Figure 1.18

Financial vulnerability (1)
(per cent)



Source: Based on Cerved data.
(1) Share of debt issued by vulnerable firms, which are defined as 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 2024. – (2) Compared with the baseline scenario, which already reflects the possible impact of the conflict in the Middle East, the assumptions for 2026 are: a 10-percentage point lower change in gross operating income (GOI) and a 100 basis point higher nominal interest rate.

[10] 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

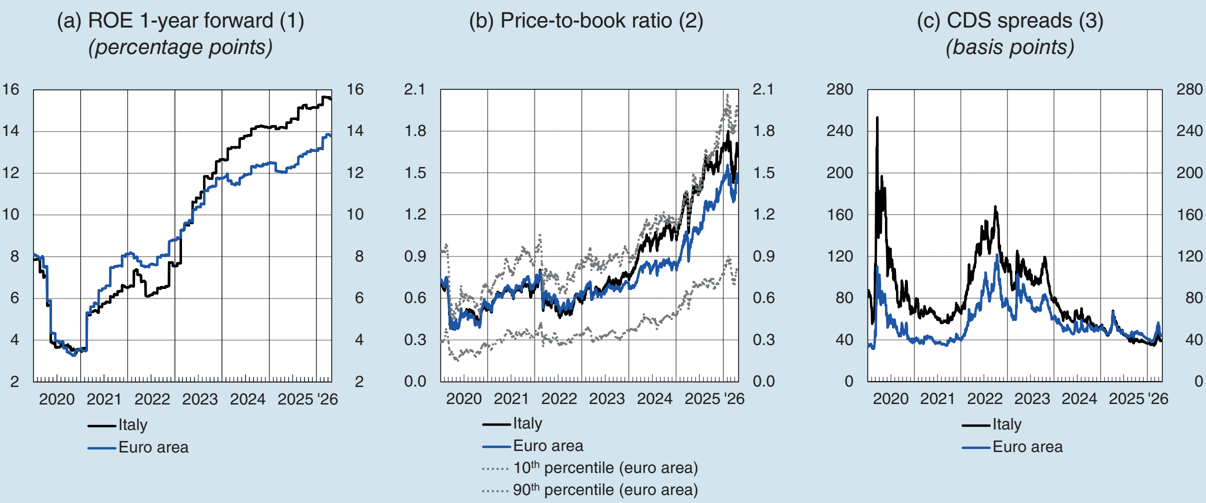
2.1 BANKS

The worsening of the geopolitical situation and the increase in uncertainty may expose banks to a number of risks. Specifically, funding and liquidity conditions could deteriorate if market yields were to rise significantly and asset quality could be affected by a deterioration in the ability of firms – especially those most exposed to energy price increases – to repay their loans. The Italian banking system continues to exhibit high levels of capitalization and profitability.

The banking system is facing the tensions that followed the outbreak of the conflict from an overall sound position (Figure 2.1). The profitability of the Italian banking system remains high compared with previous years and with the euro area; the average ratio between the market value and the book value (price-to-book ratio) of listed Italian banks remains high and significantly above that of the main euro-area financial intermediaries.

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, Banco BPM, BPER Banca, Intesa Sanpaolo, Mediobanca and UniCredit. – (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, Intesa Sanpaolo and UniCredit; for the euro area, Banco Bilbao Vizcaya Argentaria, Banco Santander, BNP Paribas, Commerzbank, Crédit Agricole, Deutsche Bank and Société Générale. Simple average of 5-year CDS spreads.

Asset risks

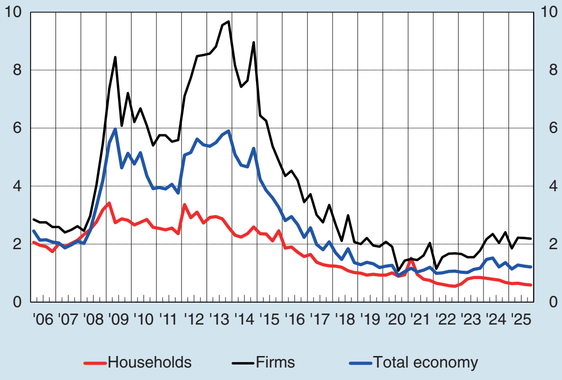
The loan default rate fell slightly. It stood at 1.2 per cent in the fourth quarter of 2025 (Figure 2.2); it remains higher for less significant banks (see the box 'The default rate for loans granted to firms by less significant banks').

The ratio of non-performing loans to total loans (NPL ratio), net of loan loss provisions, declined slightly, to 1.3 per cent at the end of last year (Figure 2.3.a; see Table A2 in the Appendix). The NPL ratio for significant banking groups fell to 1.0 per cent, 10 basis points lower than the average for the financial intermediaries of the countries participating in the Single Supervisory Mechanism (SSM; Figure 2.3.b).

In December, the share of loans backed by public guarantees granted by the Central Guarantee Fund or by SACE fell slightly (to 22 per cent for performing loans to the firms listed in AnaCredit). For these loans, the annualized six-month loan default rate was equal to 3.6 per cent, in line with the first half of the year, but significantly higher than in 2024. Looking ahead, recourse to public guarantees is likely to be reduced: under the 2026 Budget Law (Law 199/2025), the maximum amount of guarantees that may be issued to support access to credit for small and medium-sized enterprises was reduced by a further €20 billion, to €140 billion.

Figure 2.2

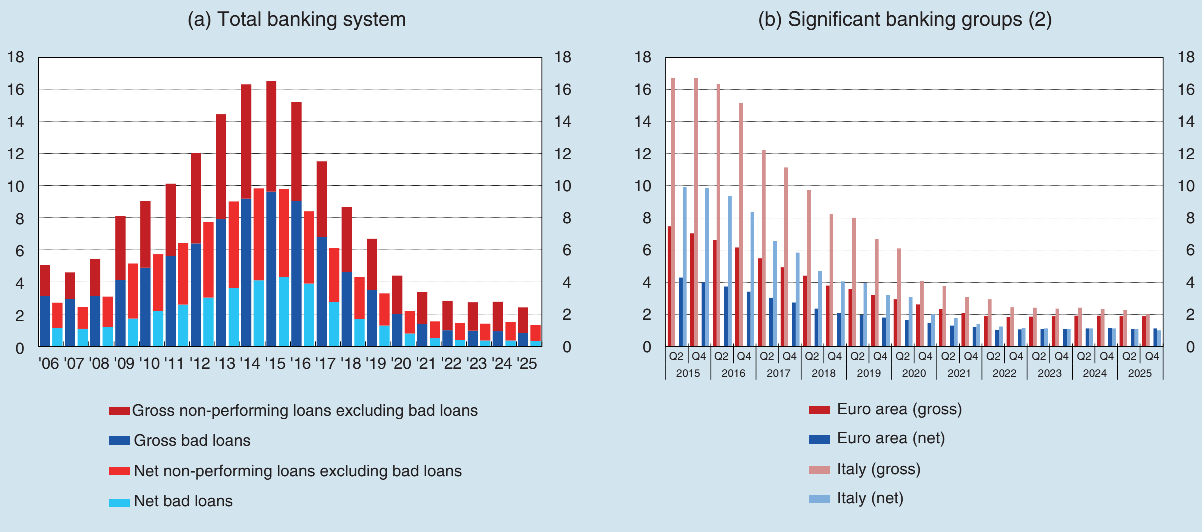
Loan default rates (1)
(quarterly data; per cent)



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 2025 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; furthermore, 143 cooperative credit banks (BCCs) joined the ICCREA group, which was already classified as significant before the reform. FinecoBank and Mediolanum have been included among the significant banks since June 2022.

THE DEFAULT RATE FOR LOANS GRANTED TO FIRMS BY LESS SIGNIFICANT BANKS[1]

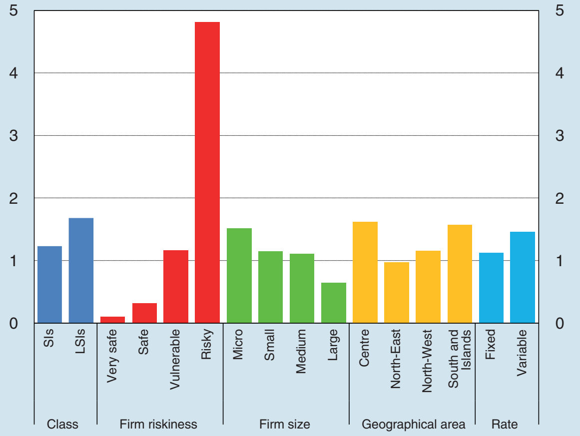
In the last few years, the default rate for loans granted to non-financial corporations by less significant institutions (LSIs) has been systematically higher in Italy than that for loans from significant institutions (SIs).[2]

The results of a recent study[3] show that the difference in default rates[4] in the years 2021-24 is largely attributable to the greater weight in LSI portfolios of loans to small firms that have a higher risk profile. Specifically, it is estimated that 70 per cent of the difference in the default rates between the two types of intermediaries can be explained by the characteristics of the firms (such as *ex ante* estimated riskiness, size, liquidity and profitability) and of the loans (such as the fixed or variable interest rate applied).

Taking all the observable factors into account, the cost of financing[5] applied by LSIs is in line with that required by SIs. This finding suggests that the different interest rates applied by LSIs and SIs, which stand at 2.2 and 2.0 per cent respectively on average, reflect the different composition of their portfolios.

Figure

Default rate for loans granted by LSIs and SIs, based on the characteristics of firms and loans (1)
(per cent)



Sources: Based on AnaCredit and Cerved data.
(1) Average for the years 2021-24. Size classes are defined according to the European Commission's classification. The risk classes are taken from Cerved's CeBi classification.

[1] By Giorgio Meucci.

[2] The share of LSI loans in the total was around 10 per cent in December 2025.

[3] G. Meucci, 'Corporate lending by Italian less significant institutions: an empirical analysis', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 1004, 2026.

[4] In this context, the default rate is defined as the ratio of the number of non-performing loans at the of the observation year to the total number of performing loans at the end of the previous year.

[5] For fixed-rate loans, the cost of financing is calculated as the spread between the interest rate applied when the loan is granted and the 10-year IRS rate on that date; for variable-rate loans, it is measured as the spread between the interest rate in force at the end of the reference year and the three-month Euribor rate on the same date.

Direct exposure to the sectors most affected by higher energy prices remains low overall, but there are still potential risks linked to the indirect effects of the war. The conflict in the Middle East poses risks of deteriorating asset quality, not so much because of the possible impairment of exposures to the countries involved[1] – which are very limited – but rather because of the direct and indirect consequences that higher prices for energy products and other essential commodities may have for the profit margins and loan repayment capacity of the most affected domestic firms (see the box 'The effects of rising energy costs on credit risk in the main euro-area countries', in *Financial Stability Report*, 1, 2023). Italian banks' lending is not overly concentrated in the sectors most affected by the increases in energy prices: around 20 per cent of loans to non-financial corporations are in sectors for which these increases

[1] At the end of 2025, the original exposures of Italian banking groups to the countries hitherto affected by the conflict were less than 1 per cent of total exposures (and corresponded, in absolute terms, to around €29 billion).

are estimated to have led to a non-marginal rise (2 percentage points or more) in the cost-to-value ratio between December and March. Compared with banks in the other three main euro-area countries,[2] this share is slightly higher than that of France and Germany (around 15 per cent), but lower than that of Spain (around 40 per cent).

According to our projections, which are consistent with the macroeconomic baseline scenario published by Banca d'Italia in April, the default rate for loans to firms will rise slightly to 2.3 per cent on average in 2026 and to 2.5 per cent in 2027. Should the conflict have greater and more lasting effects on commodity supply, the default rate for the two years would grow at a faster pace, reaching 2.4 and 2.7 per cent, respectively. The rate for households is projected to increase slightly, to 0.7 per cent over this time horizon.

The interlinkages between the banking sector and other financial intermediaries, which could amplify the negative impacts in periods of strong market tension, are limited overall. In December 2025, direct exposures of banks operating in Italy to domestic and foreign non-bank intermediaries, through loans and securities held, were small.[3]

Market risk and interest rate risk

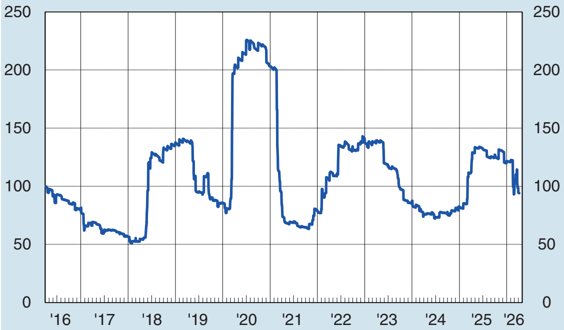
After falling in the first two months of 2026, the Value at Risk (VaR) of banks' securities portfolio was affected by the increase in volatility on the financial markets (Figure 2.4).

The impact of higher government bond yields is mitigated by the large share of these bonds that are recorded at amortized cost. In February, the amount of Italian government securities held by resident banks rose compared with last September, mainly owing to net purchases and, to a lesser extent, to a rise in the market value of portfolio securities. However, the ratio of total government securities to total assets remained unchanged at 8.7 per cent (Figure 2.5.a). Average duration remained stable at 4.8 years (Figure 2.5.b). Around 74 per cent of Italian government securities are valued at amortized cost. If intermediaries were forced to sell these securities before maturity, the average impact of the resulting losses, based on the prices recorded at the end of March, is estimated at 69 basis points of the CET1 ratio.[4]

Figure 2.4

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 over 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 and taking account of the changes in risk factors over the last 250 business days.

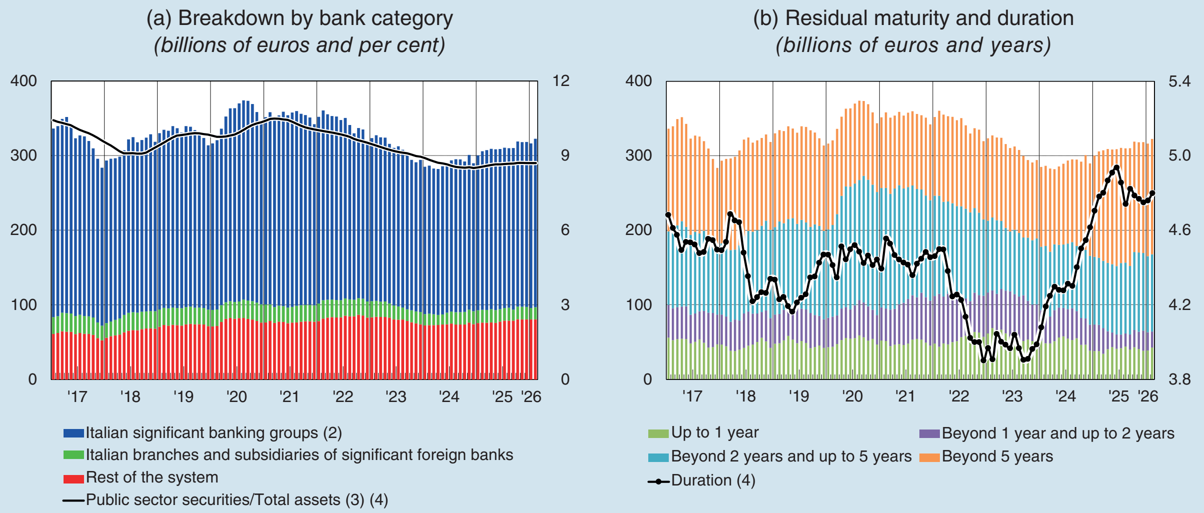
[2] According to the information contained in the European AnaCredit dataset in December 2025, non-performing loans granted by banks (including any foreign subsidiaries) operating in France, Germany, Italy and Spain to borrowers located in the four countries were analysed.

[3] The share of exposures to non-banks in banks' total assets was 3.2 per cent for loans and 2.7 per cent for securities, excluding exposures to entities belonging to the same financial conglomerate (compared with 5.4 and 3.6 per cent, respectively, when including intra-group exposures). Non-bank intermediaries – belonging to sector S.12 of the European system of national and regional accounts ESA 2010 – comprise: insurance corporations, investment funds, pension funds and other financial intermediaries (including financial leasing, factoring and consumer credit companies, and securitization vehicles). Central counterparties (CCPs) are excluded from the interconnection measures.

[4] The CET1 ratio is calculated as the ratio of common equity tier 1 (CET1) to risk-weighted assets (RWAs).

Figure 2.5

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



Source: Supervisory reports.
(1) Comprises all public sector securities, including those issued by local authorities. The data only include those reported by credit intermediaries listed in Banca d'Italia's Supervisory Register. – (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.

Assuming interest rate developments in line with the one-year market-implied expectations – which point to increases across all maturities – the economic value of the assets and liabilities included in the banking book as at December 2025 would decline on average, by the end of this year, for both significant and less significant banks (-34 and -5 basis points in terms of the CET1 ratio, respectively).[5]

Refinancing risk and liquidity risk

In February, bank funding increased by 4.4 per cent (Table 2.1), mainly reflecting the contribution of deposits by residents.

Net bond issues on the international markets were practically nil in the first quarter of 2026 (Figure 2.6.a). The yield spread between unsecured and secured bonds remained low (Figure 2.6.b).

Following the outbreak of the conflict, the cost of bonds increased in line with market rates. In February, the marginal cost of funding remained close to the level recorded last September (1.1 per cent; Figure 2.7). From the end of February to late April, the cost of bank bonds (which account for a small share of total funding) rose by around 40 basis points, in line with the increase in market rates. Over the same period, interest rates in the interbank sector remained broadly stable.

[5] 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 response to the recent escalation of geopolitical tensions, from December 2025 onwards, the scenario used (updated as of 10 April) points to an increase of 65 basis points for maturities of up to one year and an average increase of 30 basis points for longer-term maturities.

Looking ahead, risks to the cost of funding are tilted to the upside, as the yields demanded by investors could rise if financial market conditions tighten (see Sections 1.1 and 1.3).

The development of new technologies facilitates funding strategies based on digital channels. This is an opportunity for intermediaries, but it must be accompanied by appropriate risks management (see the box 'The recourse of less significant banks to online deposit-taking abroad: main features, risks and supervision').

Recourse to central bank refinancing remains limited, against a background of large but declining reserves. Since November 2025, recourse to main refinancing operations (MROs) and to longer-term refinancing operations (LTROs) with a quarterly maturity has increased marginally (to €14 billion). The amount of excess reserves held with Banca d'Italia continues to decrease: in the current maintenance period, it averaged €76 billion (from €88 billion in November), or 3.3 per cent of the euro-area total (Figure 2.8).

Table 2.1

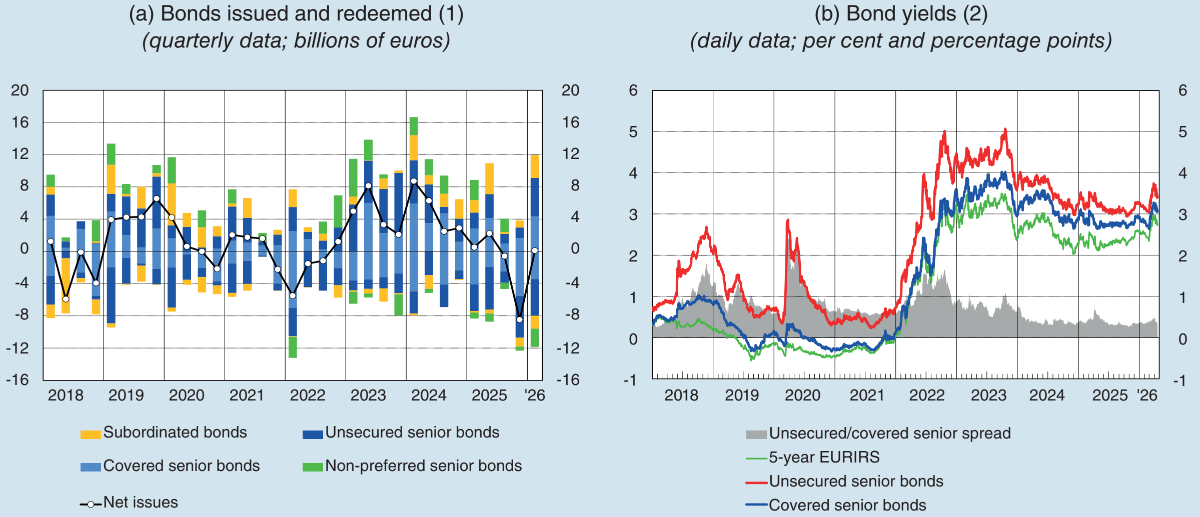
Italian banks' funding (1)
(percentage shares and changes)

	Stocks (shares of total)	12-month percentage changes (2)	
	February 2026	September 2025	February 2026
Deposits of Italian residents (3)	68.1	3.2	4.9
Deposits of non-residents (4) (5)	18.7	25.2	8.3
Bonds	10.6	2.7	0.5
of which: held by households	2.9	-1.7	-0.5
Net liabilities vis-à-vis central counterparties (6)	1.9	-47.1	-11.8
Liabilities vis-à-vis the Eurosystem (7)	0.6	-50.3	-30.2
Total funding	100.0	5.2	4.4

Source: Individual supervisory reports. The data only include those reported by credit intermediaries listed in Banca d'Italia's Supervisory Register.
(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 mainly interbank transactions in the period considered. – (5) The slowdown in deposits by non-residents is mainly attributable to the decrease observed for an individual bank belonging to an international group, which might reflect the reabsorption of intra-group transactions of opposite sign carried out throughout 2025. See also *Financial Stability Report*, 2, 2025. – (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 2.6

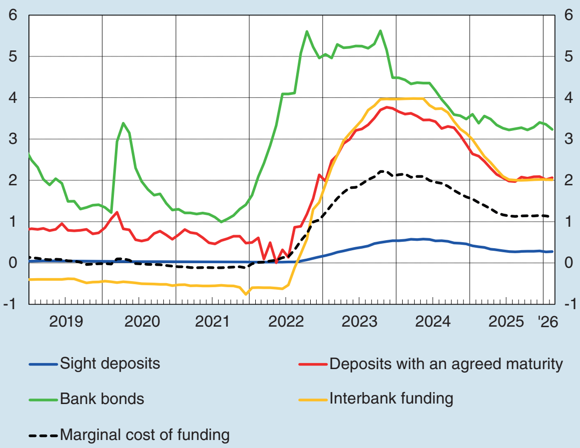
Bank bonds placed on international markets



Sources: Bloomberg and Dealogic.
(1) Italian banks' issues on the international markets. Excludes issues retained on issuers' balance sheets and those earmarked for the retail market. Also excludes 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.

Figure 2.7

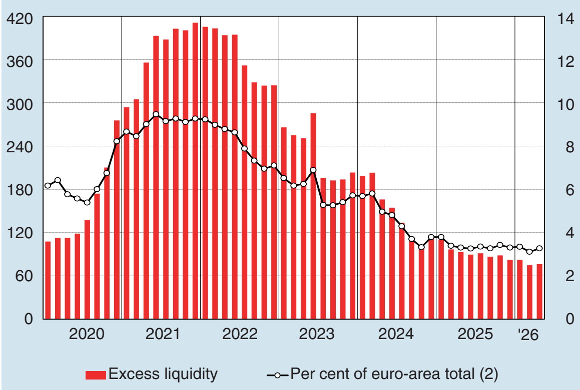
Marginal cost of bank funding (1)
(monthly data; percentage points)



Sources: Based on Banca d'Italia, Bloomberg 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 2.8

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 2026, for which the data are available up to 22 April. – (2) Right-hand scale.

THE RECOURSE OF LESS SIGNIFICANT BANKS TO ONLINE DEPOSIT-TAKING ABROAD: MAIN FEATURES, RISKS AND SUPERVISION[1]

The recourse of Italian less significant institutions (LSIs) to online deposit platforms (ODPs), which operate under the freedom to provide services and make it possible to raise deposits in other European countries,[2] has increased considerably in recent years. As at December 2025, 30 LSIs had raised €11.5 billion via this channel, corresponding to around 10 per cent of their funding and to 5 per cent of all LSI funding.[3] According to a dedicated survey conducted in 2025 by Banca d'Italia to examine its characteristics, this category of deposits is quite concentrated (see panel (a) of the figure): the top five LSIs hold around three quarters of the total amount; they are mainly banks without their own branch network. For the majority of banks most exposed to this channel (i.e. with at least €100 million in funding obtained via ODPs; see panel (b) of the figure), deposits obtained via platforms account for less than 20 per cent of total funding.

The use of ODPs allows banks to diversify their funding sources by accessing the European retail deposit market; however, it exposes them to risks. The most significant are:

1 By Gianmaria Marano and Salvatore Ferrara.

2 ODPs are virtual markets managed by third parties via which customers can activate time or sight deposits with banks located in other European countries. Italian LSIs use the direct model, in which a foreign depositor sets up a direct contractual relationship with an Italian bank, thereby becoming the owner and holder of a dedicated deposit account.

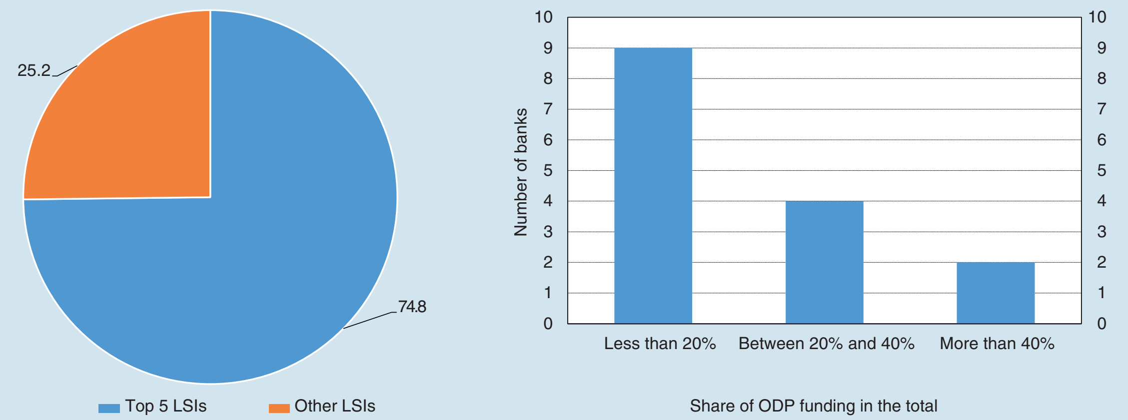
3 Italian banks' ODP funding is essentially attributable to the LSI sector (accounting for around 90 per cent of the stock); the share attributable to significant institutions (SIs) is residual.

Figure

ODP funding by Italian less significant banks as at December 2025

(a) Composition of stocks of ODP deposits (1)
(per cent)

(b) Banks with significant ODP deposits, broken down by share of total funding (2)
(units and per cent)



Sources: For panel (a), based on prudential reporting on the liquidity position of LSIs and for panel (b), based on supervisory reports.
(1) Comparison of the 5 LSIs with the highest ODP funding stock and the other LSIs that use this channel. – (2) Number of LSIs based on the share of ODP funding in total funding for each bank. LSIs with an ODP funding of at least €100 million are included.

a) strategic risks, especially for banks whose funding is more concentrated on ODP platforms (particularly if it supports a sharp increase in assets or relatively risky exposures);

b) operational and technological risks, linked to the use of the platforms, as well as money laundering and terrorist financing risks, if the collection of the information required to 'know your customer', assess their risk profile and monitor transactions is incomplete;

c) potential instability, as this type of funding is disconnected from business relationships with customers and driven purely by profit-seeking. Moreover, this risk can be mitigated by the fact that the funding is predominantly term funding, which is normally non-repayable in advance and in any case covered by the Deposit Guarantee Scheme.

Over the years, Banca d'Italia has drawn up supervisory practices to strengthen the safeguarding of the risks connected with using these platforms, specifically by requiring banks to: (a) prepare multi-year liquidity plans, also for managing the maturity mismatch between assets and liabilities; (b) provide specific analyses of the risk management and compliance functions, focusing on the risks associated with ODP funding and on the corresponding organizational safeguards; (c) conduct a self-assessment exercise on money laundering risks; and (d) transmit information, as part of Banca d'Italia's regular monitoring of the liquidity situation of LSIs.

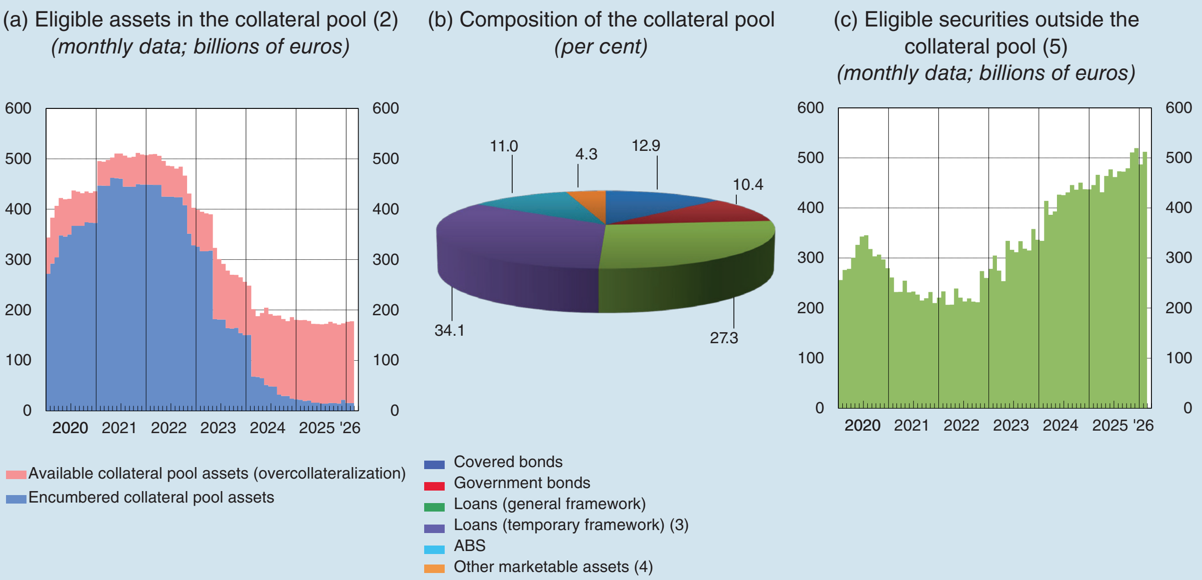
The evidence that emerged was used in the Supervisory Review and Evaluation Process (SREP) carried out in 2025, which led, among other things, to targeted measures for the most exposed banks, including setting internal limits on use of the ODP channel and a greater diversification of funding sources.

The discussion on ODPs is part of a broader ongoing debate in international forums on the effects of the growing development of digital funding channels, as well as on the adequacy of supervisory practices and on how prudential requirements for liquidity risk are currently calculated.

The total value of the collateral pool was broadly unchanged between September 2025 and February 2026 (at €177 billion) and the available margin remains substantial (at €162 billion; Figure 2.9.a). Furthermore, counterparties have €512 billion in eligible securities (Figure 2.9.c), of which 66 per cent are government bonds.

Figure 2.9

Eligible assets of the Italian banking system (1)



Sources: Based on Eurosystem data and supervisory reports.
(1) The data refer to monetary policy counterparties of Banca d'Italia and are as at the end of February 2026. – (2) 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. – (3) 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). – (4) Comprises bank bonds, including those backed by the government guarantee scheme, and securities issued by non-financial corporations and supranational organizations. – (5) Amounts at market values as reported by banks, net of the haircuts applied by the Eurosystem.

Despite the reduction in the eligible loan categories introduced by the revised collateral framework in force since 30 March 2026,[6] loans continue to be the main asset class pledged as collateral (accounting for a 61 per cent share; Figure 2.9.b). The improvement in the rating assigned to Italy by Morningstar DBRS on 17 October 2025 led to an increase in the value of part of the securities and loans to the public sector, as a result of the application of lower haircuts.

Banks' liquidity profile remains balanced across all maturities. At the end of last year, the average liquidity coverage ratio (LCR) over a one-month horizon was 180 per cent and the net stable funding ratio (NSFR) stood at 133 per cent. Both ratios were above the 100 per cent regulatory minimum for all banks, and well above it for over 90 per cent of banks (Figure 2.10).

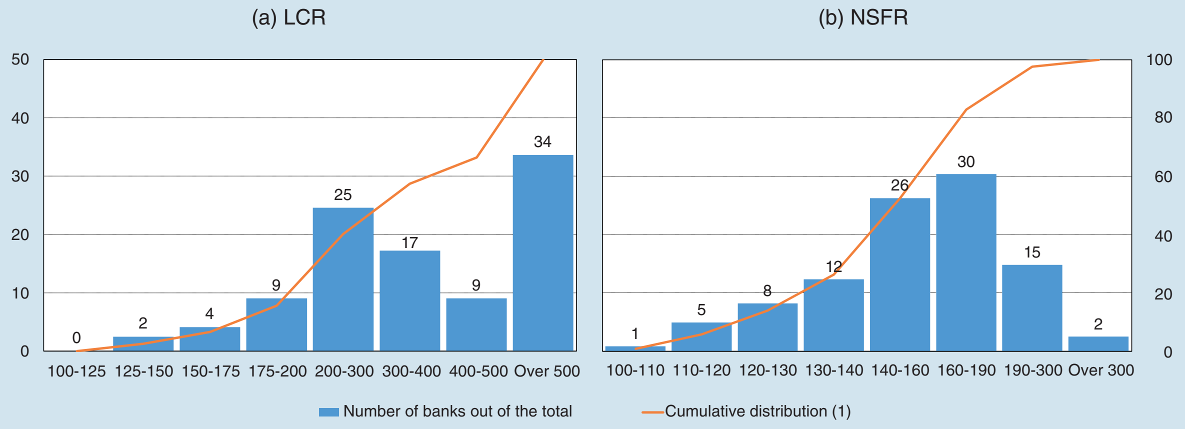
Banks expect an increase in funding. In the first quarter of the year, Banca d'Italia assessed the main Italian banks' funding plans as part of its supervisory activities.[7] For the current two years (2026-27),

6 For more details, see ECB, 'ECB amends monetary policy implementation guidelines', press release, 27 January 2026.

7 At the time of publication of this Report, the assessment covered the funding plans of the ten Italian significant banks, which account for 90 per cent of the system's total assets. The latest geopolitical developments and their potential impact on the macroeconomic scenario may not have been fully incorporated into banks' forecasts.

Figure 2.10

Distribution of Italian banks by LCR and NSFR as at December 2025
(per cent)



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

banks expect a further increase in overall funding. This trend, in line with that of 2025, would mainly affect customer deposits and repurchase agreements; bond funding is also expected to increase, while Eurosystem funding will decline marginally.

Operational and cyber risks

In the second half of 2025, Italian supervised financial entities reported 59 major incidents, of which 11 relating to cyber events (Figure 2.11.a). The role of service providers remains significant, as they were involved in around 60 per cent of the incidents (Figure 2.11.b).

Heavy reliance on IT service providers requires appropriate risk oversight. Based on the data available in the register of information introduced by Regulation (EU) 2022/2554 on digital operational resilience (the Digital Operational Resilience Act, DORA),[8] the intermediaries directly supervised by Banca d'Italia rely extensively on IT service providers. The contracts recorded in the register number around 10,000, just over half of which relate to critical or important functions, with total annual expenditure of approximately €2.4 billion. The top five providers account for about 40 per cent of the total value of the contracts.[9] Given the significant complexity of the IT service supply chains, intermediaries are required to adopt robust risk control and risk management arrangements.[10]

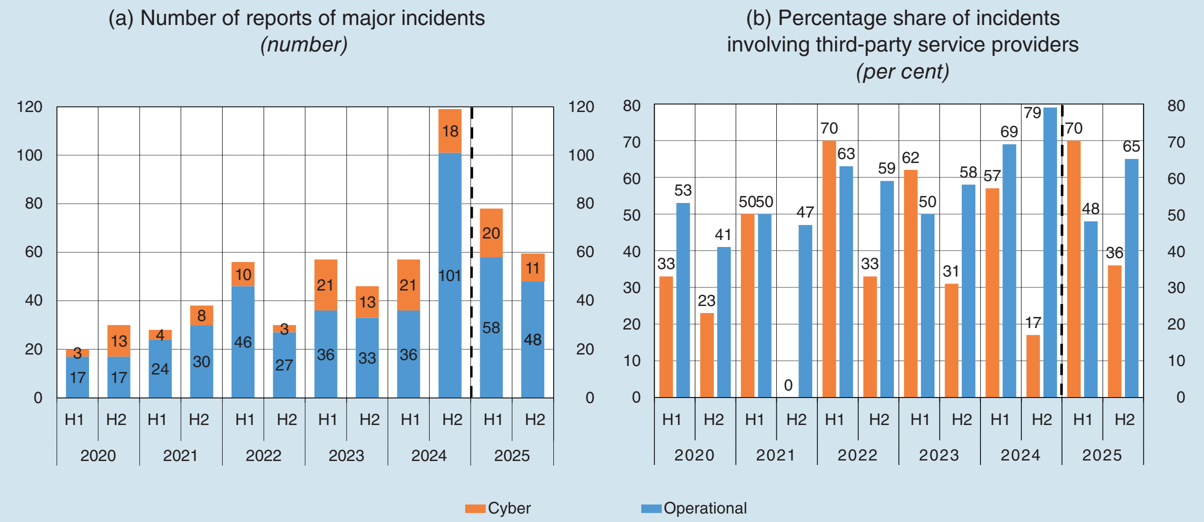
[8] Data drawn from the first data collection round (reference date: 31 March 2025). At the time of publication of this Report, more recent information was not yet available.

[9] The top ten providers account for 52 per cent of the total.

[10] On 4 February 2026, Banca d'Italia convened a meeting with the main trade associations in the financial sector, devoted to digital operational resilience and aimed at discussing third-party ICT risk, a core issue in the framework set out by the DORA Regulation. The meeting provided an opportunity to raise financial intermediaries' awareness of the importance of risk management across the entire supply chain. For more information, see Banca d'Italia's website, 'Workshop on Digital Operational Resilience with financial sector associations'.

Figure 2.11

Cyber and operational incidents (1)



Source: Based on supervisory reports.
(1) Up to and including 2024, reports had to be submitted by banking groups for all their members, stand-alone banks, payment institutions and e-money institutions. As of 2025, reports must be submitted by banks, on both an individual and consolidated basis, payment institutions, e-money institutions, investment firms, managers and issuers of asset-referenced tokens, crypto-asset service providers, crowdfunding service providers, Cassa Depositi e Prestiti, and Poste Italiane, limited to its banking activities. For the definition of 'major incident' for data up to and including 2024, see Banca d'Italia Circular 285/2013 (only in Italian); for data as of 2025, see Article 3 of DORA. The data for the first half of 2025 were revised compared with those published in the previous *Financial Stability Report*, 2, 2025.

With reference to payment systems and market infrastructures, no major operational or cyber incidents were reported in the second half of 2025.

The use of new technologies amplifies exposure to operational and cyber risks, amid persistent geopolitical tensions and uncertainty. The analyses of vulnerabilities and systemic operational incidents carried out by Banca d'Italia focused on two interconnected critical areas: (a) the security and resilience of technological supply chains, which are exposed to cross-border events involving global providers of IT and cloud services;[11] and (b) the rise in cyber threats linked to geopolitical tensions.[12] Strengthening digital operational resilience, including in response to the development of new technologies, remains a core focus of the initiatives undertaken by European financial authorities and international cooperation bodies. Among emerging technologies, artificial intelligence stands out for its high innovative potential,[13] its possible large-scale applications in the financial sector, and its ability to identify critical vulnerabilities in a timely manner, including previously unknown weaknesses, within the existing digital architecture. Investment by financial intermediaries in this area must be accompanied by careful and responsible risk management, with particular emphasis on cybersecurity. In early 2026, the G7 Cyber Expert Group

[11] Specifically, in October 2025 reports emerged of a cyber attack on the internal systems of the US company F5, a global provider of IT and cloud solutions that are widely used within the financial sector. Although no evidence of direct impacts on Italian financial intermediaries was identified, the incident was examined in depth by the Computer Emergency Response Team for the financial sector (CERTFin) and monitored by the working group for operational crisis management coordination and business continuity in the Italian financial marketplace (CODISE).

[12] In Europe, there has been an increase in attacks by activist groups from countries involved in the war between Russia and Ukraine and in the war in the Middle East. The level of alert was therefore raised, although no meaningful impacts have been recorded for the Italian financial sector.

[13] For more information, see 'Technological innovation in the Italian financial system: growth, sustainability and human capital' (only in Italian), speech by S. Siviero, Director General for Payments and Market Infrastructures at Banca d'Italia, at Università Cattolica del Sacro Cuore, Milan, 13 November 2025.

published a roadmap for the financial sector's transition to post-quantum cryptography,[14] aimed at addressing operational and cyber risks and ensuring a coordinated, system-wide approach.

Capital and profitability

The capital position of banks is sound. In December 2025, the CET1 ratio of Italian banks, while inching down from June, remained high by historical standards: the ratio for the entire system was 15.7 per cent (from 16.1 per cent in June). The CET1 ratio of significant banks fell from 16.2 to 15.9 per cent, about 30 basis points lower than the average for SSM banks. This reflects both the increase in RWAs, driven by growth in loan volumes and securities holdings, and a capital reduction; the latter is mainly attributable to the prudential effects of merger and acquisition transactions completed in the second half of 2025, which led to higher deductions for goodwill and equity holdings. The average CET1 ratio of less significant banks declined by about 35 basis points, to 18.6 per cent.[15]

In the second half of the year, issuance of securities meeting the minimum requirement for own funds and eligible liabilities (MREL) – mainly by significant banks – went down slightly compared with the corresponding period of 2024, while remaining at still sizeable levels. The ratio of MREL liabilities to the RWAs of significant and less significant banks subject to resolution, equal to 31.7 per cent, continues to be well above the requirements set by the resolution authorities.

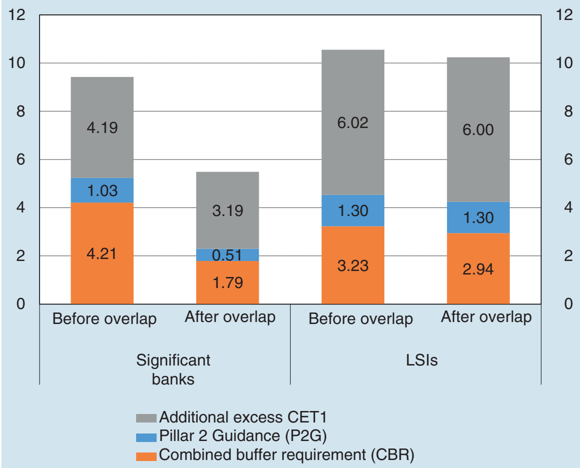
Taking capital overlaps into account,[16] the overall loss-absorbing capacity of Italian banks declined in December compared with the end of 2024,[17] to 5.5 per cent and 10.2 per cent of RWAs for significant and less significant institutions, respectively (Figure 2.12).

Profitability remains high. Return on equity (ROE) rose to 13.8 per cent in 2025 (from 12.7 per cent; Figure 2.13),[18] also benefiting from one-off factors. The decline in net interest

Figure 2.12

Loss-absorbing capacity by category of bank as at December 2025 (1)

(per cent of RWAs)



Sources: Consolidated supervisory and resolution reports for banking groups and individual 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 (which measures the adequacy of capital relative to non-risk-weighted assets) and the MREL. Overlaps reduce the availability of buffers to absorb losses, when the same unit of capital is also used to meet 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.

14 For further details, see Banca d'Italia's website, 'The G7 Cyber Expert Group publishes the roadmap for the transition of the financial sector to post-quantum cryptography'.

15 The Italian banking system also includes subsidiaries of significant European banking groups; the CET1 ratio for these institutions – markedly below the average for the system as a whole – fell by 50 basis points, reaching 12.3 per cent in December 2025.

16 Overlaps result from the simultaneous use of CET1 for the risk-weighted requirements, for the leverage ratio and for the MREL; see note (1) to Figure 2.12 for more details. For an explanation of the overlaps and of the methodology used, 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.

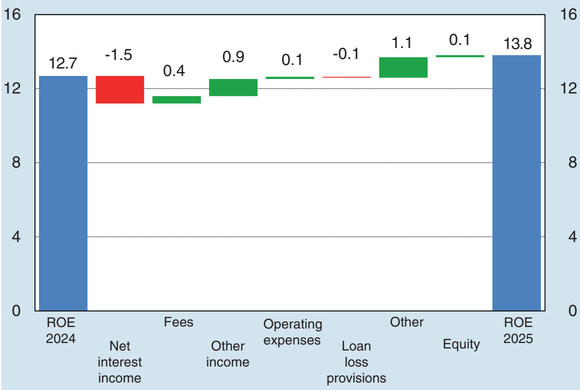
17 The amount of capital resources that can be used without breaching a minimum requirement, which corresponds to the loss-absorbing capacity, consists of the combined buffer requirement (CBR), the Pillar 2 Guidance (P2G), and the additional surplus of CET1 capital available.

18 ROE figures are expressed net of extraordinary income components – defined as items that affect the profit and loss account but not the capital requirements – as they are already excluded from regulatory capital.

income was broadly offset by higher fee income and trading profits, as well as by the contribution of some non-recurring components. Operating expenses fell slightly, reflecting the phasing-out of ordinary contributions to deposit guarantee schemes.[19] The improvement in profitability benefited greatly from lower tax expenses, mostly owing to the recognition of deferred tax assets, partly in connection with the merger and acquisition transactions carried out in the second half of last year. Loan loss provisions remained at low levels, and the cost of credit risk has stayed at historical lows since 2008.

Figure 2.13

Breakdown of changes in ROE from 2024 to 2025 (1)
(per cent and 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 equity. A green/red bar indicates a positive/negative contribution to the ROE for 2024, giving the final ROE value for 2025.

The use of discretionary adjustments to impairment estimates (overlays) based on IFRS 9 models has strengthened banks' ability to absorb potential adverse effects from heightened geopolitical tensions. In 2025, the overlays of Italian significant banks accounted for around 40 per cent of the coverage ratio of performing exposures (Stages 1 and 2).[20] To assess and strengthen banks' ability to identify and critically analyse geopolitical events, the European Central Bank, in cooperation with the national competent authorities, is conducting a reverse stress test across 110 significant institutions.[21]

Projections consistent with the macroeconomic baseline scenario published by Banca d'Italia in early April indicate that banks' overall profitability will decrease slightly in the current two-year period and return to modest growth in 2028. Projections based on the adverse scenario indicate that profitability will decline more markedly over the three-year horizon, reflecting both a sharper contraction in net interest income and an increase in loan loss provisions.

2.2 INSURANCE COMPANIES

The Italian insurance sector remains sound, with high capitalization levels, rising premium income and improving profitability and liquidity conditions. The increase in government bond yields following the outbreak of the conflict in the Middle East could, however, reflect negatively on profitability, through larger unrealized losses. Looking ahead, mounting inflationary pressures could have repercussions, especially for the non-life sector.

In April 2026, the equity prices of the leading Italian and European insurance companies were significantly above November 2025 levels, although their performance year to date has been affected by the conflict in the Middle East. The positive trend in expected earnings continues (Figure 2.14).

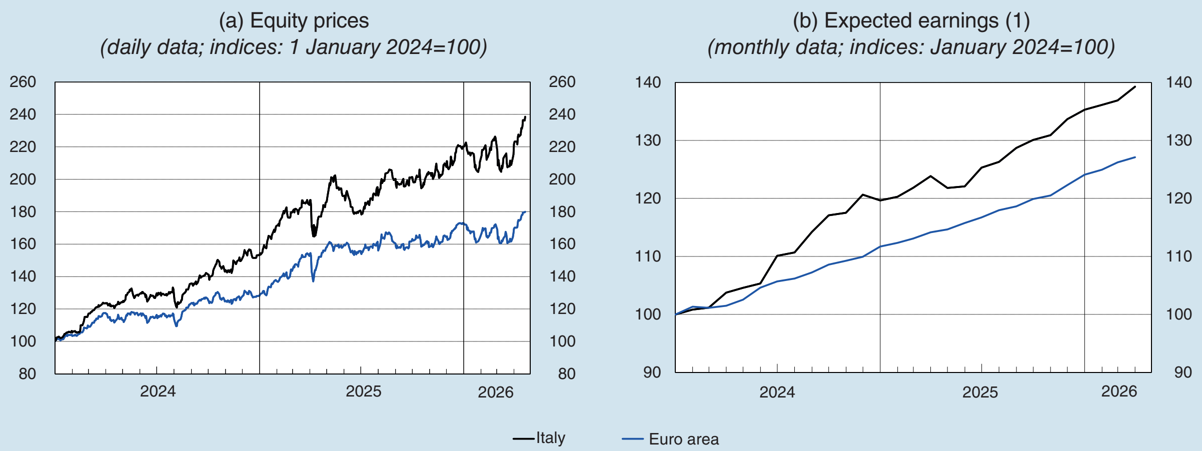
[19] Contributions to the Interbank Deposit Protection Fund were terminated because the fund had reached its target level of 0.8 per cent of total covered deposits.

[20] The coverage ratio is calculated as the ratio of cumulative value adjustments to the gross book value of credit exposures.

[21] The stress test requires each bank to develop a scenario that reflects the geopolitical events it considers most relevant to its business model and that could potentially lead to a 300-basis-point erosion in CET1. The analysis focuses on how banks would reach this outcome and on the mitigating actions they would take to counter its impact, in compliance with their governance and risk management arrangements.

Figure 2.14

Italian and euro-area insurance companies

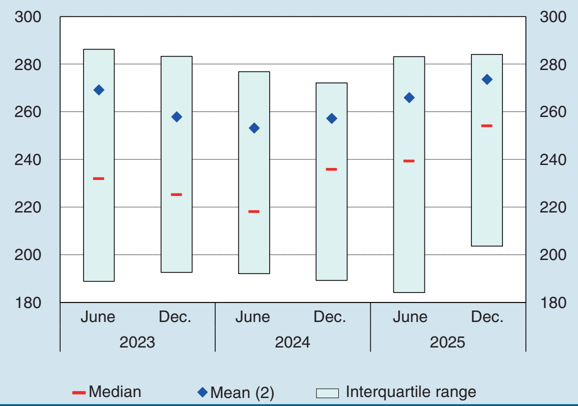


Source: Based on LSEG data.
(1) Average of expected earnings per share in the 12 months following the reference date for a sample of the leading Italian and euro-area insurance companies, weighted by the number of outstanding shares. For Italy, the data refer to Assicurazioni Generali, Unipol Assicurazioni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

Insurance companies remain well capitalized. The sector's average solvency ratio was 274 per cent in December, against 266 per cent in June (Figure 2.15). The European average was 249 per cent in September.

Figure 2.15

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.

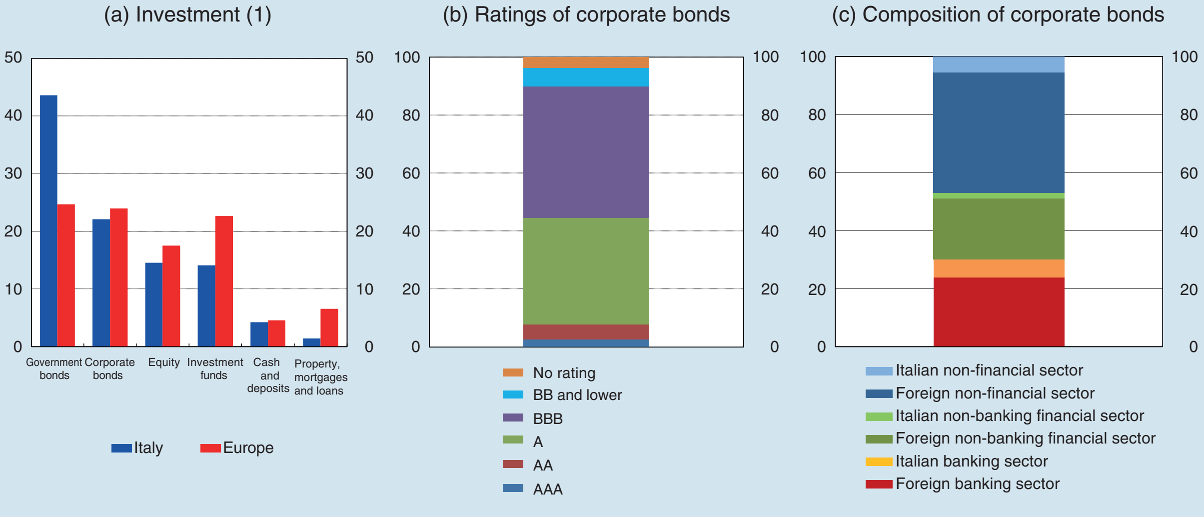
The quality of investments is high. At the end of 2025, Italian insurers' total investments amounted to €1,094 billion (up by 3 per cent from June). The investments for which Italian insurers bear the risk (€792 billion) were concentrated, to a much greater extent than was the case for their European counterparts, in public bonds (44 per cent of the total, more than two thirds of which were Italian government bonds; Figure 2.16.a). Private sector bonds, mostly issued by foreign companies, were stable at 22 per cent, with financial corporate bonds accounting for more than half of this share (Figure 2.16.c). The credit rating of corporate bonds in the portfolio improved following Italy's sovereign rating upgrade. At the end of 2025, A-rated bonds had reached 37 per cent (from 32 per cent in June), while BBB-rated bonds had fallen to 45 per cent (from 49 per cent in June; Figure 2.16.b). Equities accounted for 15 per cent of total investments, up slightly from June; the share of investment funds was stable at 14 per cent. Total exposures in the private credit sector[22] were marginal and unchanged from the previous year.

[22] It is not possible to provide accurate and internationally comparable estimates as there is no generally agreed definition for this asset class. Based on an ad-hoc survey conducted by the Italian Institute for the Supervision of Insurance (IVASS) on a representative sample of insurers, direct and indirect exposure is estimated to be around 0.3 per cent of assets. According to a broader classification proposed by the European Insurance and Occupational Pensions Authority (EIOPA), the exposure of Italian insurance companies amounts to 1.6 per cent of total assets, against a European average of 5 per cent at the end of 2024.

Figure 2.16

Insurance company investments

(data as at 31 December 2025; per cent)



Sources: IVASS and EIOPA.
(1) The data for Europe, as at 30 September 2025, refer to the European Economic Area.

The sector's profitability has benefited from lower net unrealized losses. These amounted to €6 billion in December 2025, from €8 billion at the end of 2024 (Figure 2.17).[23] In 2025, ROE stood at 14 per cent.[24] It rose to 15 per cent (Figure 2.18.a) for the life sector, driven by an 8 per cent increase in premium income (Figure 2.18.c). The non-life ROE went up to 13 per cent, helped by premium income growth (7 per cent) and a lower combined ratio, i.e. the ratio of claims plus operating expenses to premium income (93 per cent, from 94 per cent at the end of last year; Figure 2.18.b).

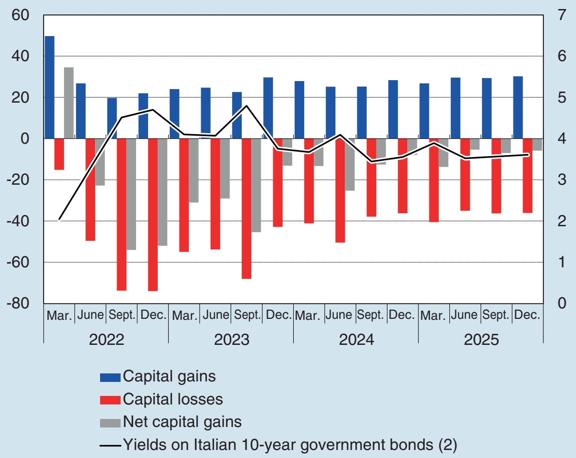
Looking ahead, profitability could be negatively affected by larger unrealized losses attributable to the rise in government bond yields following the outbreak of the conflict in the Middle East.

Liquidity conditions have improved. In the life sector, the ratio of surrenders to premium income

Figure 2.17

Unrealized capital gains and losses (1)

(billions of euros and per cent)



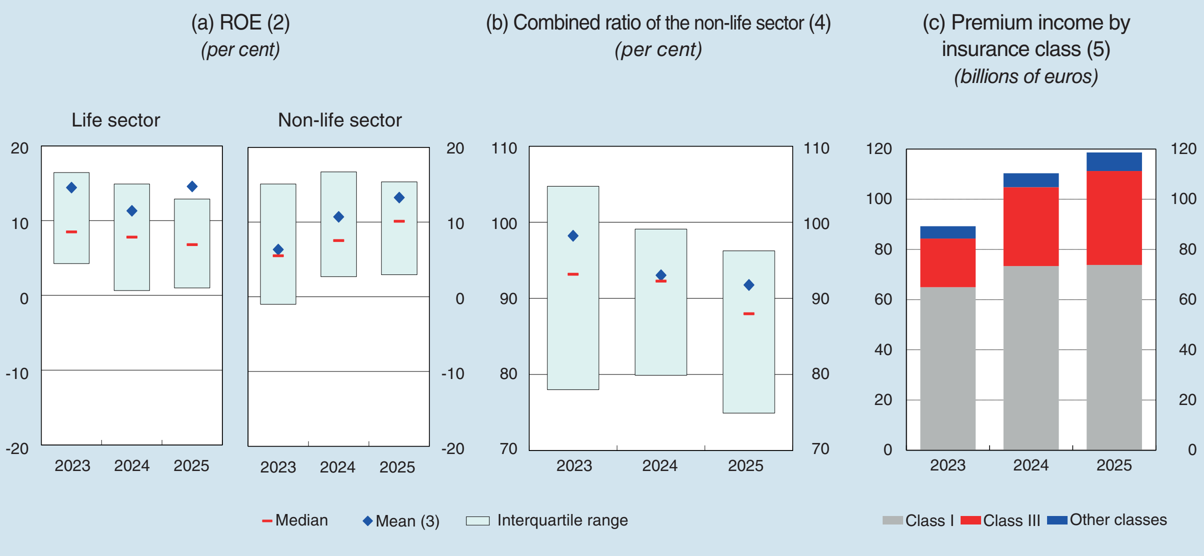
Sources: IVASS and based on LSEG data.
(1) Unrealized capital gains and losses are the difference between the market value and the book value of portfolio securities. – (2) Right-hand scale. End-of-period data.

23 IVASS Regulation 57/2026 implemented the provisions contained in the 2026 Budget Law (Law 199/2025), allowing insurance companies that do not adopt the international accounting standards to recognize, for the financial years 2025 and 2026, 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. The unrecognized amount shall be used to build up a 'non-distributable reserve'. Twelve companies, accounting for 24 per cent of the sector's assets, opted to temporarily freeze the effect of unrealized investment losses on the profitability for 2025.

24 The data for 2025 refer to a sample of firms that is not homogeneous with the previous years' samples.

Figure 2.18

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



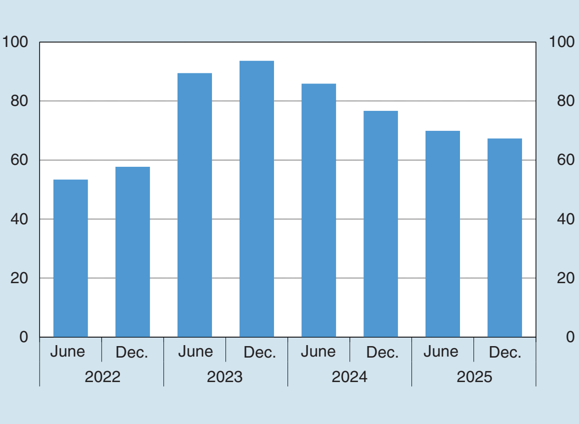
Source: IVASS.
(1) Preliminary data. In panels (a) and (b), the data for 2025 refer to a sample of firms that is not homogeneous with the previous years' samples. – (2) Ratio of earnings to shareholders' equity. – (3) Weighted average with weights equal to the denominator of each ratio. – (4) Ratio of 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.

continued to fall, to 67 per cent at the end of 2025 (from 77 per cent in December 2024; Figure 2.19), for both unit-linked and traditional products.

In 2025, the lower surrenders and higher premium income led to a sharp increase in insurance companies' cash flow. More specifically, the net balance turned positive after two years for unit-linked products (Figure 2.20). Meanwhile, the net investment cash flow balance turned negative, owing to the

Figure 2.19

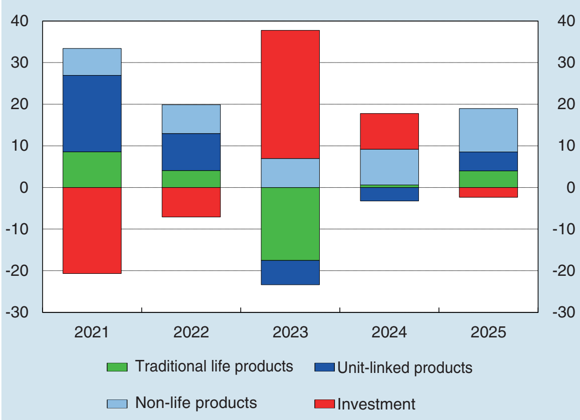
Surrenders to premium income ratio (1)
(per cent)



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

Figure 2.20

Net cash flow of Italian insurance companies
(yearly data; billions of euros)



Source: IVASS.

higher expenditure on asset purchases, which were boosted by the increase in liquidity generated by technical flows[25] in the life and non-life sectors.

The liquid asset ratio[26] for Italian insurers remained broadly stable in December 2025 (compared with June), at a median value of 58 per cent, higher than for their European counterparts (46 per cent in September 2025).

2.3 THE ASSET MANAGEMENT INDUSTRY

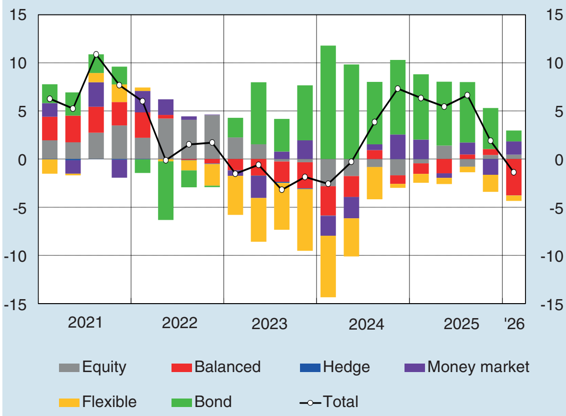
The Italian asset management industry continued to grow between the end of 2025 and the beginning of 2026, with positive flows. However, this trend has reversed since the start of the conflict in the Middle East, with net inflows turning negative. Risks still remain moderate.

As in the rest of the euro area, heightened uncertainty following the outbreak of the conflict in the Middle East halted growth in inflows into open-end investment funds managed by companies that are part of Italian groups.[27] In the first quarter of 2026, net inflows turned negative (Figure 2.21), with outflows being concentrated in February and March.

The liquidity and indebtedness of open-end funds do not point to vulnerabilities. The liquidity risk of Italian non-equity funds[28] held broadly stable between July 2025 and February 2026 (Figure 2.22.a). The share of funds that are vulnerable to particularly high redemption requests[29] remained small (around 2.6 per cent of the segment's total assets).

Figure 2.21

Italian open-end investment funds: net inflows (1)
(quarterly data; billions of euros)



Source: Assogestioni.
(1) The data refer to Italian and foreign funds run by asset management companies that are part of Italian groups. Provisional data for Q1 2026.

At the end of last year, borrowing from banks and other financial intermediaries was limited,[30] as was derivative exposure. Net margins paid in the second half of 2025 and the first quarter of 2026 were significantly lower than available liquidity (Figure 2.22.b), after being exceptionally negative (margins earned) in the second quarter of 2025.

[25] Includes premium, claim and surrender flows, as well reinsurance flows.

[26] 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).

[27] Open-end investment funds managed by companies that are part of Italian groups account for around 50 per cent of the total assets of funds distributed in Italy, including those managed by foreign groups.

[28] As measured by 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 2.22.a).

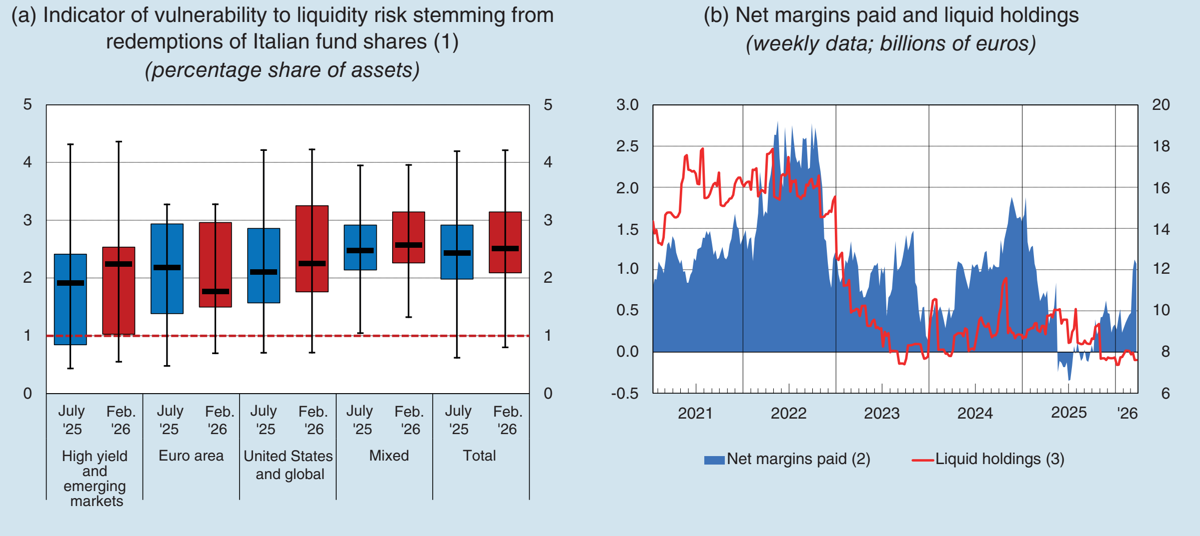
[29] Vulnerable funds are those for which the liquidity risk indicator is less than 1.

[30] 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.

The total assets under management of Italian non-real estate alternative investment funds (AIFs) continued to grow in 2025 (2.4 per cent). Less than one tenth of total assets pertain to sub-threshold managers, the rules for which were amended by the reform of the Consolidated Law on Finance (TUF).[31]

Figure 2.22

Liquidity risk indicators for Italian open-end investment funds



Sources: Based on Regulation (EU) 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 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 relative to total assets for each of the segments analysed between January 2008 and September 2023 (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. – (3) Aggregate liquid holdings from January 2021 to February 2026. Right-hand scale.

Private equity, private credit and venture capital funds have shown vulnerabilities globally, with a lower impact in Italy so far. These vulnerabilities are linked to the rise in market rates following the outbreak of the conflict, which has cooled institutional investors' appetite for investments with higher risk-return ratios and has made it more difficult to carry out highly leveraged transactions (such as leveraged buyouts).

Unlike their counterparts in the other main jurisdictions, Italian private credit funds mainly purchase loans originated by third parties, mostly non-performing loans, and are set up as closed-end funds. The sector is therefore less exposed to the risks that have emerged at the international level (see Section 1.1).

In line with what was recorded globally, the assets of Italian private equity funds also fell in 2025, with lower inflows than in the past.

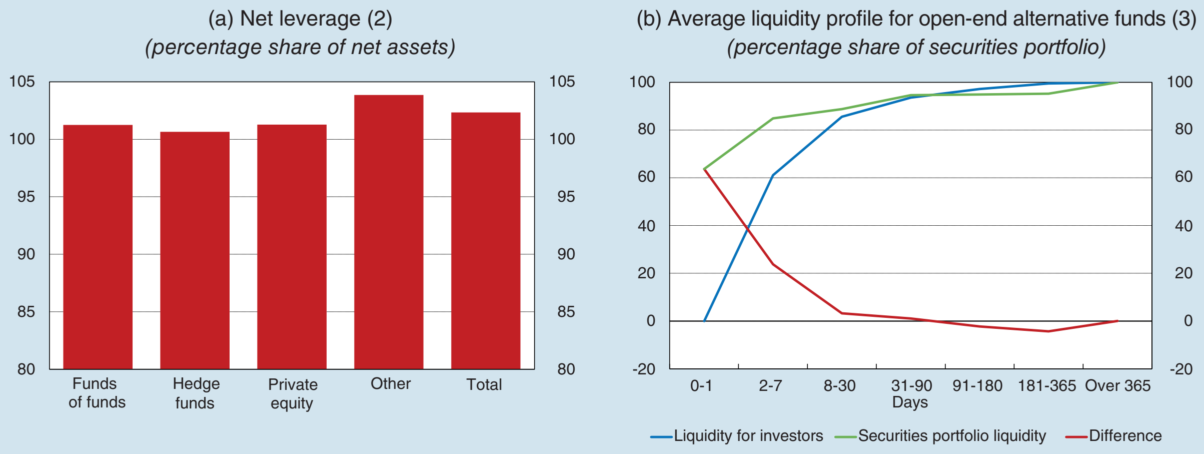
[31] Sub-threshold intermediaries are fund managers with assets under management of less than €500 million (if they do not use leverage and do not allow investors to exercise their right of redemption for five years after the initial investment) or less than €100 million (if the above conditions are not met). Under the new provisions, registered sub-threshold managers are no longer subject to microprudential supervision, nor to transparency or conduct-of-business requirements. However, they must comply with anti-money laundering regulations and undergo regular checks to confirm they still meet registration requirements and to contain systemic risk. For these purposes, supervisory authorities will continue to exercise check and control powers, including on-site inspections. Investment through sub-threshold managers remains reserved for professional investors or for investors with a high level of financial knowledge and expertise.

The venture capital fund sector continued to grow, mainly thanks to the initiatives sponsored by Cassa Depositi e Prestiti, aimed at creating and developing firms with high growth potential.

Leverage and liquidity risks remain limited for non-real estate AIFs. Non-real estate AIFs' overall direct leverage held essentially stable at 102 per cent (Figure 2.23.a); private equity funds' indirect leverage, attributable to borrowing by direct and indirect subsidiaries, dropped to 42 per cent in 2025. Liquidity risks remain limited, as around 90 per cent of Italian non-real estate AIFs are closed-end funds;[32] asset liquidity and the redemption profile of short-term liabilities for open-end funds are virtually aligned (Figure 2.23.b).

Figure 2.23

Indicators for Italian non-real estate AIFs as at December 2025 (1)



Sources: Supervisory reports and data submitted pursuant to Directive 2011/61/EU (Alternative Investment Fund Managers Directive, AIFMD).
(1) The figure is based on supervisory reports and data submitted pursuant to AIFMD; this requires AIF managers to regularly provide the competent authorities with information on their main assets and exposures. – (2) Overall exposure 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 within that period, 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.

The crowdfunding sector is struggling. In recent years, crowdfunding platforms have offered an alternative funding channel, mainly to smaller and more innovative firms (see the box 'The crowdfunding service providers sector in Italy', in *Financial Stability Report*, 2, 2025). Since microprudential supervision of crowdfunding service providers began in 2023, only 29 out of the 43 initially licensed providers have remained in business, with projects actually published on their respective platforms. The sector's contraction is confirmed by lower inflows (-39 per cent in 2025 alone) across all types of service (equity, debt and lending-based crowdfunding) and overall negative profitability, with more than 75 per cent of intermediaries closing last year with a loss. This trend, monitored by Banca d'Italia through intensive off-site reviews and on-site inspections, is explained by both macroeconomic and idiosyncratic factors,[33] which led the shareholders of some crowdfunding service providers to rethink their business plans, by either selling shares, directly exiting the market or seeking a critical mass of funding through other intermediaries.

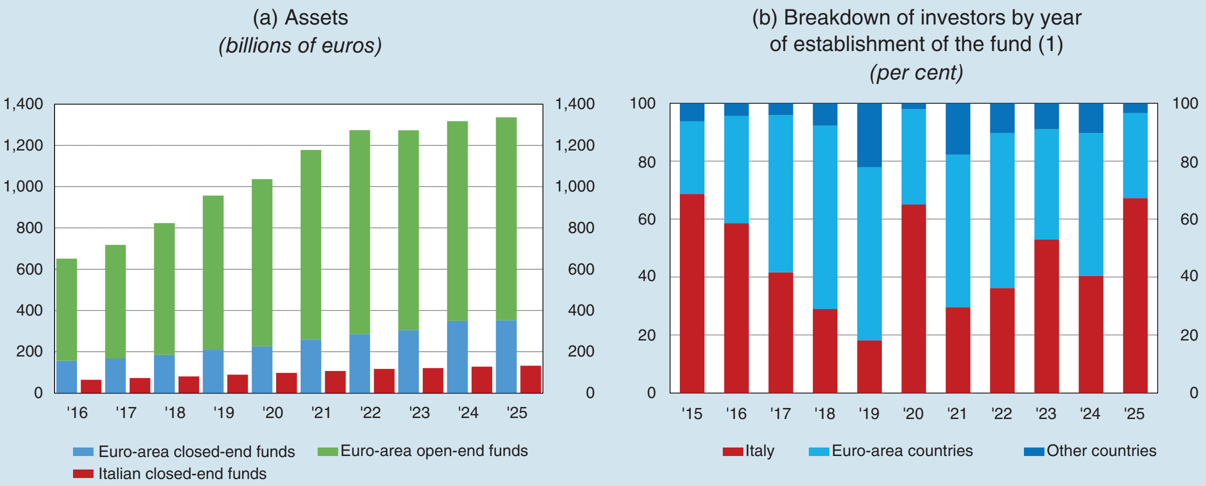
[32] Italian legislation provides that funds investing more than 20 per cent of their portfolio in illiquid assets be set up as closed-end funds.

[33] Macroeconomic factors relate to interest rates remaining above pre-pandemic levels, with higher risk premiums for more uncertain investments, such as crowdfunding projects. Idiosyncratic factors are connected with the costs of procedural and organizational adjustments required by European law.

Italian real estate investment funds saw an increase in assets under management in 2025. Almost two thirds of the investors in the funds set up during the period are Italian (Figures 2.24.a and 2.24.b). Real estate funds made net revaluations of assets under management amounting to 0.2 per cent of their portfolios, while 2024 ended with net write-downs (Figure 2.25.a).

Figure 2.24

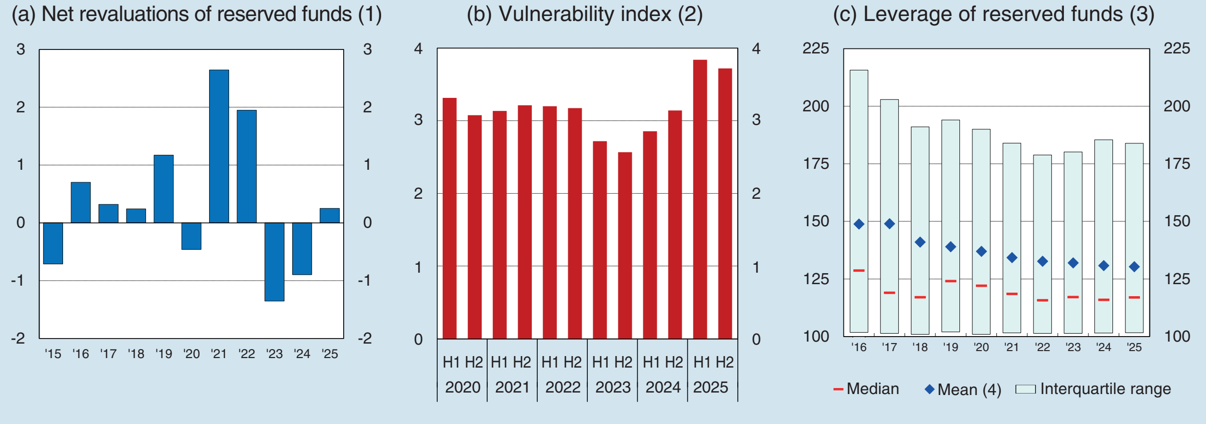
Real estate funds



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

Figure 2.25

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 of 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.

The risks to financial stability stemming from real estate funds remain moderate overall. Unlike most European funds, Italian real estate 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 valuation of the funds' real estate portfolios could diverge significantly from market values, albeit still low, edged up in 2025 (Figure 2.25.b).

Real estate funds' leverage remained stable (Figure 2.25.c). Direct exposures of banks and other intermediaries operating in Italy to the real estate fund sector remain limited.

3 FINANCIAL STABILITY POLICIES

Banca d'Italia has continued the macroprudential measures that were in force in 2025 into the early months of 2026. It is also monitoring the macrofinancial environment to promptly detect any signs of impact from the conflict in the Middle East. The risks to financial stability, as assessed by Banca d'Italia within the scope of its product intervention power, are modest on the whole.

Banca d'Italia is monitoring risks in the current macrofinancial environment in order to promptly detect any signs of repercussions of the conflict in the Middle East and thereby adjust its macroprudential policy stance if necessary.

The macroprudential measures in place in 2025 have been confirmed. The Bank left the systemic risk buffer (SyRB) unchanged at 1 per cent in April. The SyRB was activated in 2024 and has been fully in force since June 2025.[1] The Bank has also kept the countercyclical capital buffer (CCyB) rate at zero per cent for the first two quarters of 2026[2] (see Table A11 in the Appendix).

The requirements for national systemic banks have been updated to take account of the mergers completed last year. Banca d'Italia has identified the BPER Banca and Monte dei Paschi di Siena banking groups in their present configuration as other systemically important institutions (O-SIIs). As of 1 April, both are required to maintain a buffer equal to 0.50 per cent of their RWAs.[3] They had been added to the list published last November of O-SIIs identified for 2026.[4]

Banca d'Italia examined the request to recognize an Austrian macroprudential measure and has decided to reciprocate it.[5] The measure envisages a SyRB of 1 per cent of RWAs for non-financial corporations in the construction and real estate sectors located in Austria.[6]

The risks to financial stability stemming from the financial instruments in circulation in Italy are limited. 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.[7] To this end,

1 The buffer applies to credit and counterparty risk-weighted exposures to Italian residents. See Banca d'Italia, 'Review of the systemic risk buffer (SyRB)', press release, 24 April 2026.

2 Banca d'Italia, 'The Countercyclical Capital Buffer (CCyB) rate for the second quarter of 2026 remains unchanged at zero per cent', press release, 27 March 2026.

3 Banca d'Italia, 'Identification of other systemically important institutions authorized to operate in Italy', press release, 27 February 2026.

4 Banca d'Italia, 'Identification for 2026 of other systemically important institutions authorized to operate in Italy', press release, 14 November 2025.

5 Banca d'Italia, 'Decision to reciprocate a macroprudential measure adopted by Austria pursuant to Recommendation ESRB/2025/10 of the European Systemic Risk Board', press release, 30 January 2026.

6 Exposures to limited-profit housing associations are excluded from the measure.

7 The same power is also granted to the Italian Companies and Stock Exchange Commission (CONSOB) with the aim of safeguarding investors and promoting the orderly functioning and integrity of the financial and goods markets. 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'.

Banca d'Italia regularly conducts analyses of the risks that may stem from financial instruments traded, distributed or sold in or from Italy.[8] According to the most recent assessments of securities and derivatives,[9] the risks to financial stability associated with the instrument categories examined are limited, on the whole. Certificates grew moderately in the second half of 2025, and those held by households mostly provide total or partial protection of capital. In the derivatives market, the long and short positions held by the main market participants appear to be balanced overall.

The Committee for Macroprudential Policies ('Committee') held its second meeting of 2025 on 4 December,[10] in the course of which it discussed the risks to the stability of the Italian financial system, ongoing macroprudential initiatives and the content of the report on the Committee's activities, published in March.[11] The next Committee meeting is scheduled for June 2026.

[8] For further information on the criteria used by Banca d'Italia to exercise its product intervention power, see Banca d'Italia, '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 product 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.

[9] Banca d'Italia, 'Banca d'Italia's intervention power concerning financial instruments: regular assessment of risks to financial stability', press release, 27 April 2026.

[10] Committee for Macroprudential Policies, 'Minutes of the meeting of 4 December 2025', 9 January 2026. 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.

[11] Committee for Macroprudential Policies, *Annual Report on 2025*, March 2026.