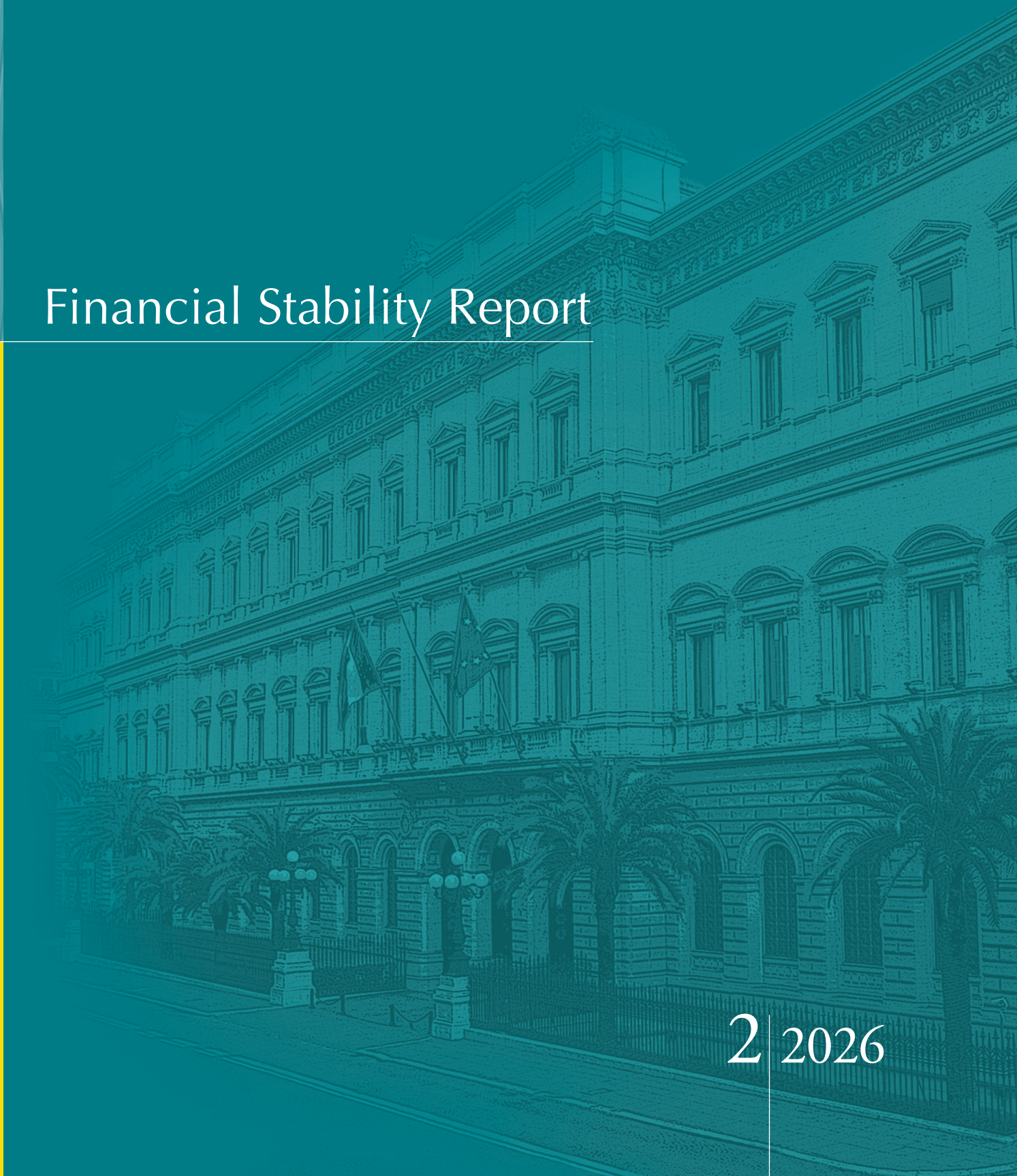
BANCA D'ITALIA
EUROSISTEMA

Financial Stability Report



November 2026

2 | 2026

BANCA D'ITALIA
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Number 2 / 2026
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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)

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OVERVIEW

The ongoing geopolitical tensions, soaring long-term interest rates and high financial asset valuations are the main sources of global macrofinancial vulnerabilities. *Despite the recent corrections in the technology sector, which is characterized by considerable uncertainty about the profitability outlook, financial market prices continue to be exposed to the risk of further declines. The current environment is marked by compressed risk premiums, especially in AI-related sectors, as well as by high long-term yields, particularly in some countries. A large-scale adjustment in US equity prices would have global repercussions.*

In Italy, domestic macrofinancial vulnerabilities are moderate and broadly unchanged since last spring. *Financial market conditions are still relatively relaxed, despite the high yields observed in the main advanced economies. The spread between the yield on Italian and German ten-year government bonds has widened, but remains below the average for the last 20 years. After experiencing very high volumes in the summer months, the trading volumes of Italian government bonds have returned in line with those recorded in the spring.*

Lending is expanding moderately and the financial situation of the private sector remains balanced. *Inflation has eroded the purchasing power of households. Firms continue to report low levels of debt and ample liquidity. Overall, risks for financial stability are low, but the ongoing tensions in the Middle East could affect the financial situation of households and firms as a result of further energy price hikes and a tightening of monetary and financing conditions.*

Intermediaries continue to be in a sound position overall, which helps to mitigate the risks stemming from a possible worsening of the macrofinancial situation. *The capitalization and profitability of the banking system remain strong, and credit quality is good. The insurance sector's solvency is also high and its profitability is improving.*

The supervisory authorities are monitoring the implications for financial stability of the rapid spread of frontier artificial intelligence models. *Exposure to cyber and operational risks requires all intermediaries to step up their security measures. The European Systemic Risk Board has issued a formal warning on the risks, while the ECB, Banca d'Italia and IVASS have taken ad hoc measures to raise the awareness of supervised entities.*

There are six boxes in this Report on the following topics: *artificial intelligence as a potential amplifier of systemic risks; hedge fund activity in the Italian government bond repo market; supervisory expectations on provisioning for the non-performing exposures of less significant institutions; Banca d'Italia's initiatives to enhance the digital operational resilience of the Italian financial system.; the impact of the Solvency II review on Italian insurance companies; the global growth of private credit.*

1 MACROECONOMIC, FINANCIAL AND SECTORAL RISKS

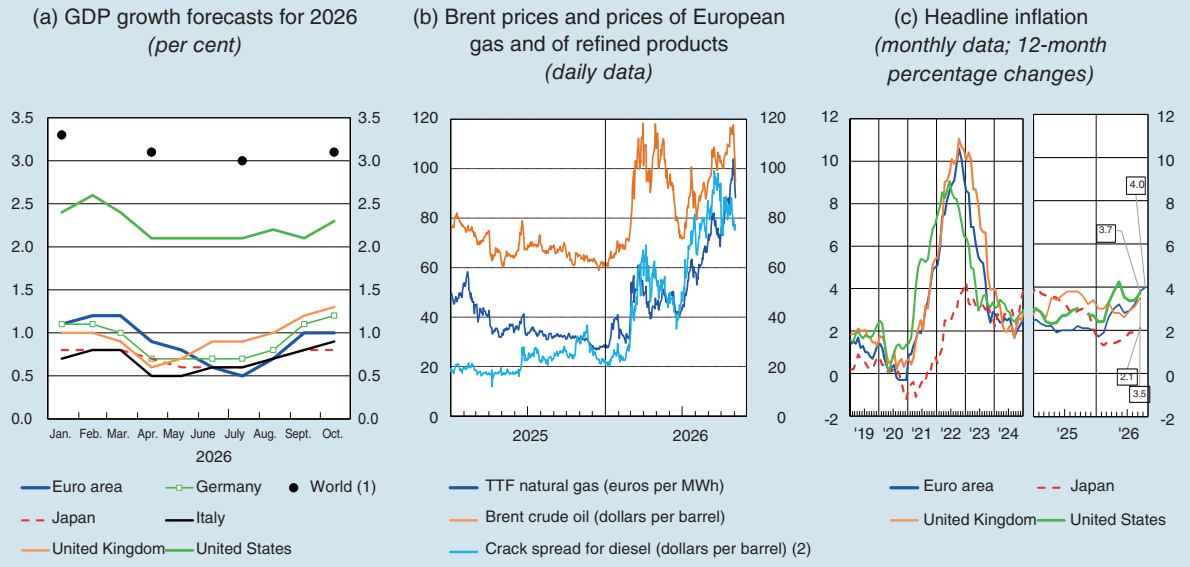
1.1 GLOBAL RISKS AND EURO-AREA RISKS

Despite the conflict in the Persian Gulf, economic activity has continued to expand in the last few months, driven by the growth in investment linked to artificial intelligence. However, the pressures on the energy markets and on inflation stemming from the ongoing tensions in the Middle East remain a source of vulnerability for the global macrofinancial situation. Financial asset valuations continue to be exposed to significant downward revisions, despite the recent adjustments, amid high long-term yields, compressed risk premiums in several markets and the outlook for profitability in the technology sector being subject to considerable uncertainty.

In the first half of 2026, global growth was more resilient than expected; however, the outlook remains exposed to geopolitical risks and price pressures. The negative effects of the conflict in the Middle East were countered by the expansion of investment in AI-related infrastructure. Growth in the third quarter is estimated to have continued at a robust pace in China and the United States and at a moderate pace in the euro area. The forecasts for 2026 and 2027 have improved slightly compared with the assessments made straight after the outbreak of hostilities (Figure 1.1.a). The risks for 2027 remain tilted to the downside owing to the further deterioration in Iran-US relations and to uncertainty over trade and trade policies.

Figure 1.1

Growth expectations, energy prices and inflation



Sources: Consensus Economics (for monthly data) and IMF (for quarterly data) for GDP growth forecasts, LSEG Datastream for oil, gas and diesel crack spreads and national statistics for inflation.
(1) IMF GDP growth forecasts. – (2) The crack spread for diesel is equal to the difference between the prices of diesel and of crude oil and is used as an indicator of the trend for the main refined products.

The geopolitical situation is fluctuating but overall continues to fuel risks of supply disruption and energy price pressures overall; monetary conditions have tightened. Although lower than in April, crude oil prices remain high, despite the improvement after the peaks reached at the end of October (Figure 1.1.b). The prices of the main refined products also increased and the spreads vis-à-vis crude oil widened, reflecting the constraints on global refining capacity. The benchmark prices for natural gas on the Title Transfer Facility (TTF) rose amid low stockpiles at European level, a strain on the supply of liquefied natural gas and strong demand over the summer. In the main advanced economies, inflation remained above target, mainly driven by higher energy prices (Figure 1.1.c). The main central banks have raised their key interest rates, and market expectations point to further increases in the coming months.

Global government bond yields have gone up, especially for longer-term maturities in some countries (Figure 1.2.a). The increase was mainly due to expectations of further increases in monetary policy rates. These expectations are linked to the prospect of more persistent inflation, in a context of considerable bond issuances by both governments, amid growing deficits, and by the big tech companies, owing to the financing needs of large AI infrastructure investments (see *Economic Bulletin*, 4, 2026). Heightened concerns about the sustainability of public debt and the growing political risks in some advanced economies have contributed to the rise in yields and, in the euro area, to a widening in sovereign spreads. Risks to the global government bond markets also stem from a possible appreciation of the yen that, amid high volatility in the foreign exchange market, could lead investors to suddenly reduce their carry trade positions.[1]

Equity prices have risen slightly since April, benefiting from expectations of improved profitability for firms, with uneven trends across countries. A decline in investors' risk appetite since October has fuelled a fall in prices and an increase in volatility, which nevertheless continues to stand at around the average for the last 20 years (Figure 1.2.b). Implied volatility has increased in the government bond market, pointing to greater uncertainty among investors over interest rate developments.

Investors' risk appetite remains high overall, driven by the prevalence of strong optimism regarding developments in AI. Risk premiums on the equity market have continued to decline, to levels well below long-term averages in both the United States and the euro area (Figure 1.2.c). In the United States, market valuations and AI-related investment are supported by high expectations for profit and productivity growth. The recent downward adjustments of technology stocks highlight the responsiveness of markets to revisions to these expectations. Any further worsening in expectations, particularly regarding the speed of adoption of AI and the ability of firms to capitalize on their substantial investments, could lead to further significant decreases in the valuations of the most exposed financial assets. These reductions could be amplified by the considerable concentration in the equity markets and the increasing use of external financing, with repercussions on global financial markets. The ever-growing use of AI in the financial system could also increase the speed and intensity with which a shock propagates (see the box 'Artificial intelligence as a possible systemic risk amplifier').

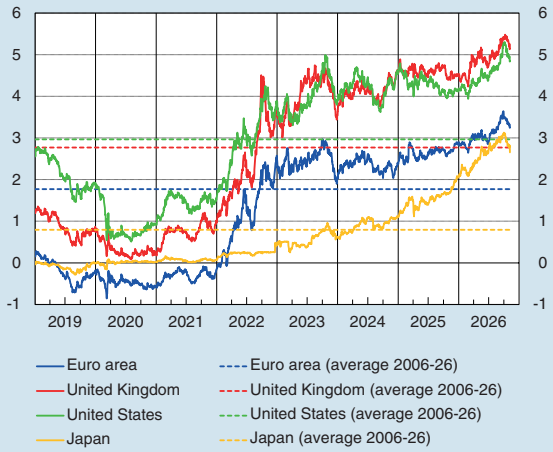
While remaining at historically low levels, corporate bond yield spreads have increased, showing signs of vulnerability (Figure 1.2.d)**.** In the United States, the number of issuers whose yield spreads are wider than those consistent with their credit ratings has risen, especially among firms investing in AI, which have increasingly resorted to bond issuance since the second half of 2025. The leverage of these firms, albeit limited, could underestimate their actual indebtedness resulting from off-balance-sheet multi-year contractual commitments to purchase services and computing capacity. Funding needs were also reflected in the euro-denominated market, where net issuance by US firms exceeded those of euro-area firms in the first half of 2026, especially at longer maturities.

[1] An investment strategy that exploits yield spreads between financial assets by borrowing at a low interest rate to invest in higher-yielding assets. The Japanese yen is traditionally one of the main financing currencies in global markets; increases in exchange rate volatility and upward pressure on interest rates can trigger the closure of carry trade positions; see M. Aquilina, M. Lombardi, A. Schrimpf and V. Sushko, 'The market turbulence and carry trade unwind of August 2024', in *BIS Bulletin*, 90, 2024.

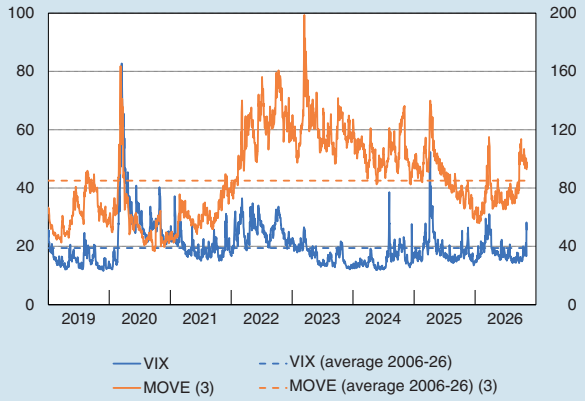
Figure 1.2

Government bond yields, volatility, equity risk premiums and corporate bond yield spreads

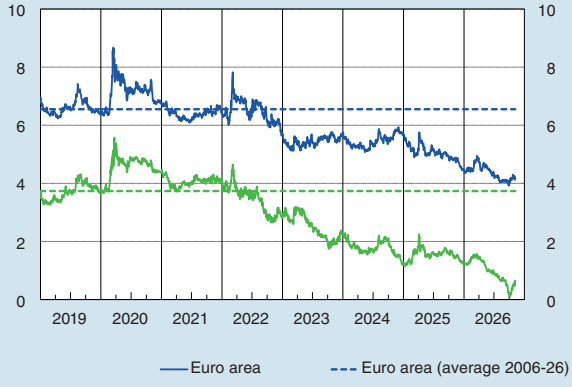
(a) Long-term government bond yields (1)
(daily data; percentage points)



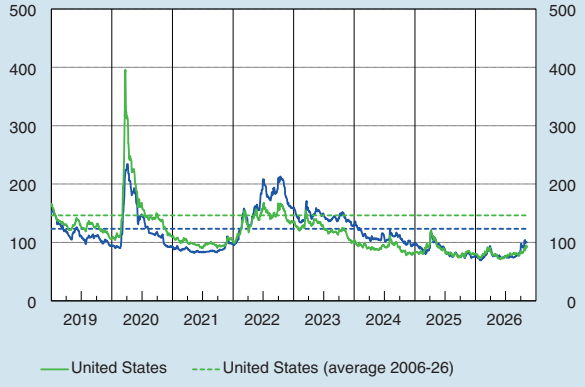
(b) Expected volatility in US equity and Treasury bond prices (2)
(daily data; percentage points and basis points)



(c) Estimates of equity risk premiums (4)
(daily data; percentage points)



(d) Yield spreads on BBB-rated bonds of non-financial corporations (5)
(daily data; basis points)



Sources: Bloomberg, ICE Bank of America Merrill Lynch (BofAML) and LSEG.
(1) Yields on the German 10-year Bund for the euro area; yields on the US 10-year Treasury bond for the United States, yields on the 10-year Gilt for the United Kingdom and yields on the 10-year JGBs for Japan. – (2) VIX: implied volatility in the prices of 1-month options on Standard & Poor's 500 stock index (S&P 500); MOVE: implied volatility in the prices of 1-month options on futures contracts on US Treasury bonds with different maturities. – (3) Right-hand scale. – (4) 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. – (5) Yield spreads between corporate bonds issued by non-financial corporations and the corresponding risk-free bonds (obtained from the yield curve of German government bonds for euro-denominated bonds 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.

ARTIFICIAL INTELLIGENCE AS A POSSIBLE SYSTEMIC RISK AMPLIFIER[1]

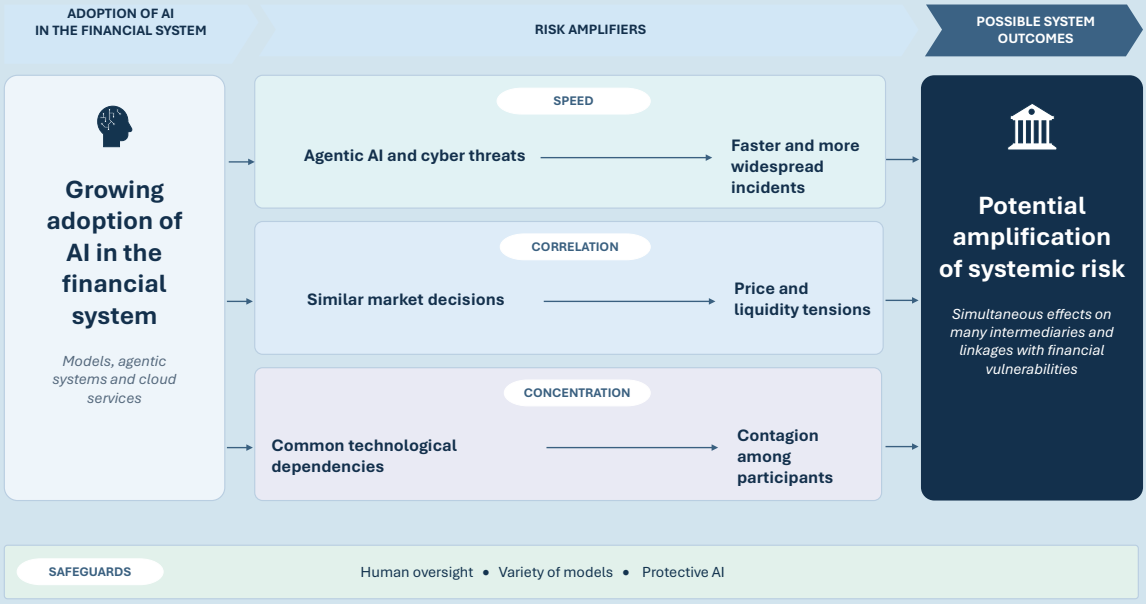
In the future, the expanding use of artificial intelligence (AI) will generate productivity gains, significantly boosting the potential for economic development. Despite this, the possibile implications for the financial markets and, especially, the ways in which shocks are transmitted and amplified should not be

[1] By Luigi Bellomarini and Stelvio Troncone.

underestimated. The ever-faster adoption of autonomous systems, the use of similar AI models and reliance on common technological infrastructures could interlink behaviour even more and, most importantly, increase the speed at which tensions spread across markets and intermediaries (see the figure).

Figure

AI as a risk amplifier: speed, correlation, concentration



Agentic AI[2] could prove to be a source of risk due to its ability to quickly plan and execute actions autonomously, including by interacting with other digital tools and making decisions with limited human involvement.[3] In financial markets, this could speed up reaction times to shocks and reduce the timeline available to market participants to assess their effects and take action.

The widespread use of AI models having the same characteristics and using the same data may lead to similar investment and risk management decisions, thereby increasing the correlation of behaviour, amplifying price fluctuations and liquidity tensions. In addition, AI agents could be capable of anticipating the reactions of market participants, who, in turn, could find it difficult to understand and predict the AI agents' decisions, leading to asymmetric understanding.[4] This asymmetry could reduce market participants' ability to control risks and intervene promptly.

Significant risks may also stem from malicious use of AI, which, due to its ability to very quickly detect and exploit IT system vulnerabilities, could lead to more insidious fraud and cyber attacks. The speed with which such vulnerabilities can be exploited could reduce the time available to take corrective action and make it more difficult to counter attacks. However, those same AI systems could be used to strengthen cyber defences, hastening threat identification and incident response.

[2] Includes AI models or systems designed to act as autonomous agents, capable of reasoning, as well as planning and executing actions to achieve complex goals.

[3] Some 18 per cent of Italian financial institutions say they use agentic AI models. OECD, *Artificial Intelligence in Italian Financial Markets*, 2026.

[4] M.K. Brunnermeier, 'Artificial Intelligence and the Brave New World in Finance', paper presented at the Jackson Hole Economic Policy Symposium 2026, Federal Reserve Bank of Kansas City, 27-29 August 2026.

The financial stability implications of AI are attracting growing attention from Italian and international authorities. The Financial Stability Board (FSB) has examined the primary problems associated with its adoption and, last June, it published a consultation report on sound practices for its responsible use.[5] That same month, the European Systemic Risk Board (ESRB) issued a formal warning on the risks stemming from frontier AI models,[6] while ECB Banking Supervision asked the significant institutions to prepare comprehensive action plans. Banca d'Italia has also requested further information from supervised intermediaries on their cyber resilience safeguards (see the box 'Enhancing the digital operational resilience of the Italian finance system', Chapter 2).

[5] FSB, *The Financial Stability Implications of Artificial Intelligence*, 14 November 2024; FSB, *Monitoring Adoption of Artificial Intelligence and Related Vulnerabilities in the Financial Sector*, 10 October 2025; FSB, *Sound practices for Responsible Adoption of Artificial Intelligence (AI). Consultation report*, 10 June 2026.

[6] ESRB, 'Frontier AI models could strain cyber resilience in the financial system, ESRB warns', press release, 7 July 2026.

1.2 MACROFINANCIAL CONDITIONS IN ITALY

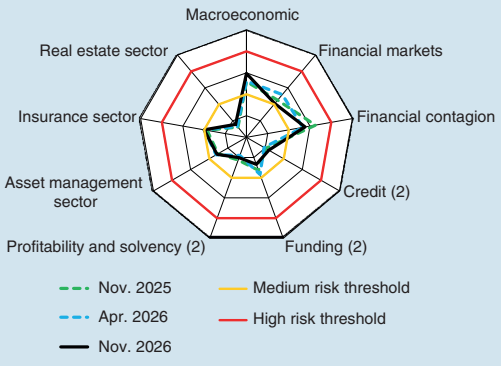
Italy's macrofinancial conditions remain relatively favourable. The risks generated by the pressures on price and financing conditions stemming from the ongoing international geopolitical tensions continue to be significant.

Macrofinancial vulnerabilities in Italy remain moderate and broadly unchanged since last April (Figure 1.3.a). The situation is benefiting from the soundness of the banking sector and the non-financial private sector, as well as from the improvement in credit growth (see Section 1.5). Financial market conditions remain relatively relaxed, despite a deterioration since early September (see Figure 1.3.b), especially in the government bond segment. High public debt and low growth potential remain the main sources of vulnerability; looking ahead, both factors could be affected by the sharp rise in long-term interest rates and by the uncertainties of the international geopolitical situation.

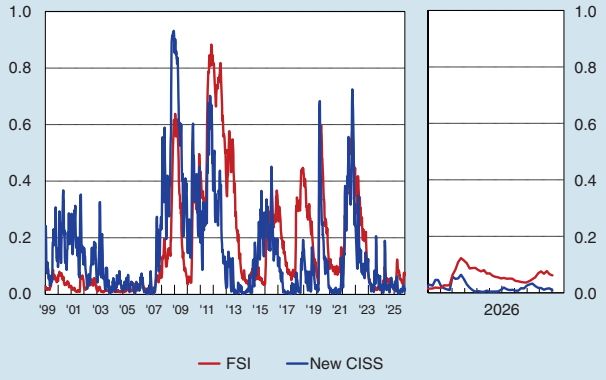
Figure 1.3

Synthetic indicators of risks to financial stability

(a) Aggregate indicators by risk class (1)



(b) Financial stress indicators for Italy (FSIs) and for the euro area (new CISS) (3)
(*weekly averages of daily data; index numbers*)

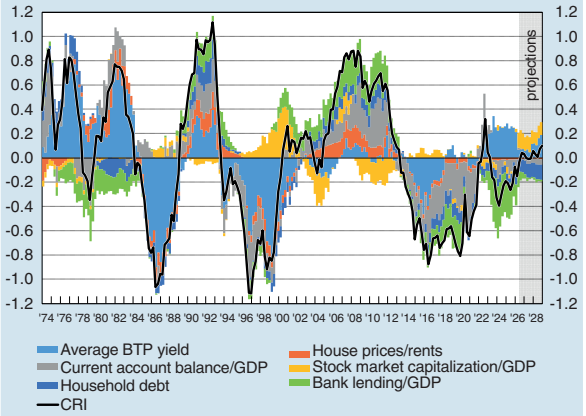


Sources: Based on Banca d'Italia, ECB, IVASS and LSEG data.
(1) The aggregate indicators are based on the analytical framework for assessing risks described in F. Venditti, F. Columba and A.M. Sorrentino, 'A risk dashboard for the Italian economy', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 425, 2018. – (2) Risk indicators referring to the banking sector. – (3) The index ranges from 0 (minimum risk) to 1 (maximum risk). For more 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 new euro-area 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.

The domestic financial cycle is currently in a neutral phase. The composite cyclical risk indicator (CRI) for Italy was still slightly negative in the second quarter (Figure 1.4). The medium-term change in the ratio of stock market capitalization to GDP made a positive contribution to the CRI,[2] mainly reflecting the strong performance of bank share prices. According to our estimates, the indicator will turn positive over the next two years, albeit remaining at low levels, in connection with expectations of a further increase in interest rates and a reduction in the trade balance.

Figure 1.4

Composite cyclical risk indicator (CRI) for Italy (1)



Sources: Based on Banca d'Italia, BIS, Istat, LSEG and OECD data.
(1) The CRI is obtained as a weighted average of the following standardized indicators: the 12-quarter change in the ratio of bank lending to the non-financial private sector to GDP (weighted at 17 per cent); the inflation-adjusted 16-quarter growth rate of bank lending to households (lagged by 14 quarters, weighted at 10 per cent); the 16-quarter change in the ratio of stock market capitalization to GDP (weighted at 10 per cent); the ratio of the current account balance to GDP (inverted sign, weighted at 20 per cent); the house price-to-rent ratio (weighted at 10 per cent); the 16-quarter change in the average nominal yield on BTPs (weighted at 33 per cent). The projections for the CRI components (light grey background) are based on the macroeconomic projections published by Banca d'Italia in October, with the exception of the ratio of stock market capitalization to GDP, which is assumed to remain constant over the entire forecast period. For further details, see 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.

Economic activity continues to expand, though held back by higher energy prices. GDP growth slowed to 0.8 per cent year on year in the third quarter, reflecting the deceleration in the industrial sector and the negative contribution from net foreign demand. The unemployment rate remained close to historical lows, despite increasing because of higher labour market participation.

The growth and inflation projections for this year and for the next two years have been revised upwards overall. According to Banca d'Italia's latest macroeconomic projections, calendar-adjusted GDP is expected to grow by 0.9 per cent in 2026, by 0.7 per cent in 2027 and by 0.8 per cent in 2028, at rates broadly similar to those projected before the war in the Persian Gulf. Consumer price inflation is expected to reach 3.2 per cent in 2026, owing above all to the energy component, and to then gradually decline to 1.7 per cent in 2028 (see *Economic Bulletin*, 4, 2026).

The Public Finance Planning Document 2026 (PFPD 2026) outlines a more gradual fiscal consolidation path than was previously envisaged, mainly as a result of the activation of the national escape clause for energy and defence spending. According to the Government's scenario, net borrowing is expected to fall to 2.9 per cent of GDP this year, raising the prospect of an exit from the excessive deficit procedure. However, the deficit is expected to rise in 2027 and 2028, to 3.4 and 3.2 per cent of GDP respectively, owing to the budgetary deviation envisaged for the implementation of the escape clause; it is then expected to return to below 3.0 per cent in 2029, to 2.3 per cent. The debt-to-GDP ratio is set to rise to 138.5 per cent in 2027, before falling to 136.6 per cent in 2029, a level broadly similar to that recorded last year.

Persistent geopolitical tensions continue to be the main source of risk. Their repercussions, particularly on the energy markets, heighten uncertainty over the macroeconomic outlook, reduce

[2] The capitalization of the Italian stock market reached 47.5 per cent of nominal GDP in the second quarter of 2026, up by 18 percentage points compared with June 2022. The ratio was thus close to the high of 50 per cent recorded in mid-2007, but it remained well below the historical peak of 65 per cent reached in 2000. See note (1) to Figure 1.4 for more information on the CRI.

fiscal policy space and increase the risk of corrections in global financial markets (see Section 1.1). In this context, a prudent fiscal policy, in compliance with the EU economic governance rules, and a strengthening of growth capacity can mitigate vulnerability factors and ensure a reduction in the debt-to-GDP ratio over the medium term.[3]

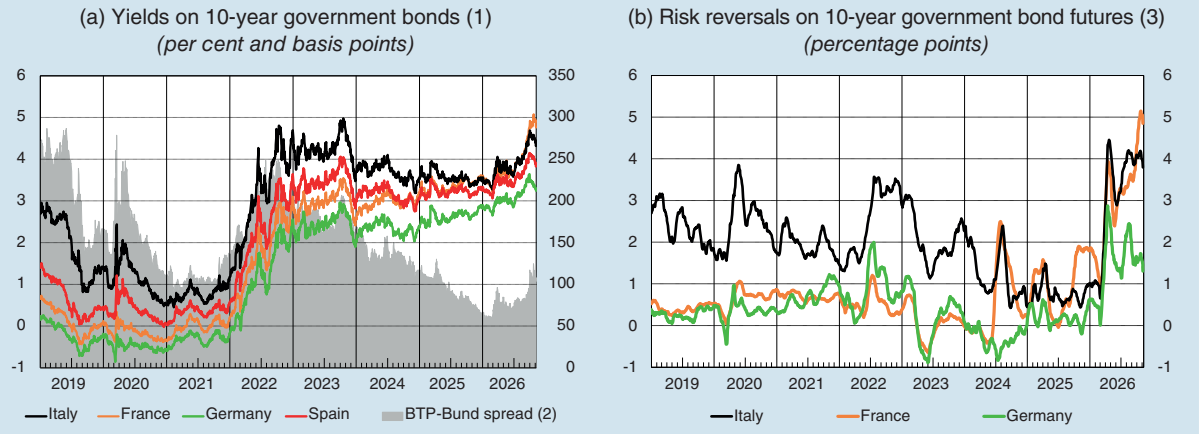
1.3 THE FINANCIAL MARKETS

Conditions on the Italian financial markets remain relaxed overall, despite the uncertain global environment. Italian government bond yields and their spread against the German Bund have risen, but the functioning of the market remains orderly. Stock market prices have increased since April, but remain exposed to fluctuations.

Italian government bond yields have risen significantly since the end of June, in line with those of the other main euro-area economies (Figure 1.5.a). The rise reflects the inflationary pressures linked to the Middle East crisis and the expectations of a more restrictive monetary policy stance in the main advanced economies (see Section 1.1). The spread between the yield on Italian ten-year government bonds and that on the corresponding German Bund has risen by about 50 basis points compared with the lows recorded in January; however, it is still below the average for the last 20 years, in part benefiting from the improvement in Italy's credit rating assessments made by several credit rating agencies last year.[4] The credit default swaps (CDS) relative to the Italian sovereign issuer have followed a similar trend.

Figure 1.5

Yields and risk reversals on government bonds
(daily data)



Sources: Based on Bloomberg and LSEG data.
(1) Yields on benchmark 10-year government bonds issued by the countries indicated in the key and the yield spread between the benchmark 10-year government bond issued by Italy and the corresponding German bond. – (2) Right-hand scale. – (3) Difference between the implied volatility of put and call option prices on active 10-year government bond futures for the countries in the key, which have the same relative change in the strike price in relation to the underlying price (moneyness) and the same residual maturity (1 month). 30-day moving averages. Options on French, Italian and German 10-year government bond futures are listed on the European derivatives exchange.

[3] 'Preliminary hearing of the Public Finance Planning Document 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, 12 October 2026 (only in Italian).

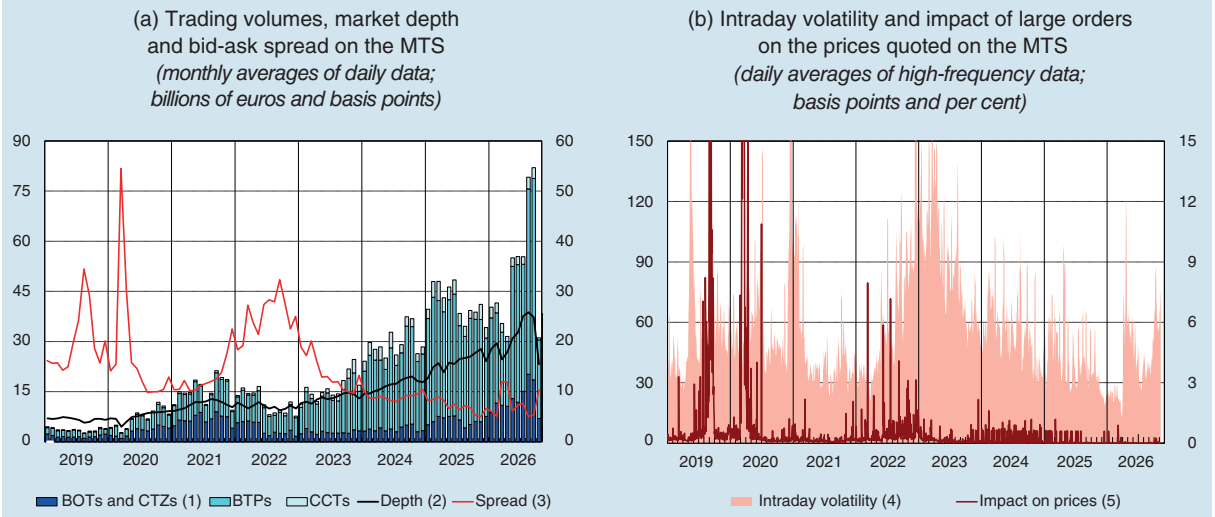
[4] 'Savings in a changing society', speech by F. Panetta, Governor of Banca d'Italia, World Savings Day, Rome, 30 October 2026.

Demand for protection against a fall in government bond prices has risen sharply on the derivatives market since the start of the conflict in the Middle East (Figure 1.5.b). As in the other main euro-area economies, the risk reversal, measured as the difference between the price of options that hedge against a decrease in government bond futures and the price of those that profit from an increase in those futures, has reached high levels in Italy.[5]

Liquidity conditions in the secondary market have remained favourable overall, although they have deteriorated compared with the summer months (Figure 1.6). The bid-ask spread remained low by historical standards and the market's ability to absorb large orders with no significant effect on prices continued to be high, against a rise in intraday volatility between September and October. Following the significant increase between May and September, especially at the short end of the yield curve,[6] trading volumes were essentially in line with those recorded in April. This decline occurred at a time of high uncertainty and greater caution in global bond markets.

Figure 1.6

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 the MTS. – (3) Simple average of the bid-ask spreads recorded during the entire trading day for the BTPs quoted on the MTS. Right-hand scale. – (4) A measure of realized volatility based on the intraday yields of the 10-year BTP calculated every five minutes; 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 the MTS of a potential sale or purchase order of €50 million.

Robust activity on the government bond cash market has been accompanied by high levels of activity in futures and repos as well. In the repo market, the volume of non-monetary funds, including hedge funds, has increased; their net repo borrowing backed by Italian government bonds reached historically high levels, greater than those of other non-banks (see the box 'Hedge fund

[5] A positive (negative) value indicates a greater demand for instruments to hedge against price decreases (increases) in government bonds, i.e. increases (decreases) in interest rates at maturity.

[6] High-speed trading strategies also contributed to the increase in the number and frequency of transactions in the summer months: the time interval between consecutive transactions narrowed significantly and hedging activity in the spot market increased further. For more information on the implementation of these strategies in the Italian government bond market, see O. Panzarino and A. Perrella, 'Hedging at speed in sovereign bond markets', Banca d'Italia, Mercati, infrastrutture, sistemi di pagamento (Markets, Infrastructures, Payment Systems), 90, 2026.

activity in the Italian government bond repo market'). The repo rates on the MTS market have remained at levels just above the Eurosystem deposit facility rate.

HEDGE FUND ACTIVITY IN THE ITALIAN GOVERNMENT BOND REPO MARKET[1]

Hedge funds have become increasingly important in government bond markets globally,[2] including Italy. While they contribute to supporting market liquidity and efficiency,[3] they also pose a potential risk to financial stability, especially during periods of tension. Hedge funds typically hold leveraged positions and rapidly unwinding them could create market fluctuations.[4] Repurchase agreements (repos) are an important tool used by hedge funds to finance their positions, including to implement arbitrage strategies involving sovereign bonds.[5]

In recent years, hedge fund activity in the repo market backed by Italian government securities has grown in an environment characterized by favourable funding conditions in the segment and an improved risk-return profile for Italian government securities (as measured by the ratio of return to volatility). Since mid-2024, hedge funds have increased their borrowing through repos backed by Italian government bonds, moving from a net cash lending position to a net cash borrowing position (which last October amounted to around €37 billion; see panel (a) of the figure).

The growing use of repo financing leads to hedge funds' cash positions in government bonds being more exposed to changes in market conditions. During periods of tension – when there is increased volatility, higher margin calls or a deterioration in borrowing conditions, for example – hedge funds could be prompted to abruptly unwind their positions, thereby further amplifying price movements and volatility.[6] The effects could be accentuated by relatively short-term funding, which requires hedge funds to frequently roll over repos, and by low or no haircuts. The latter facilitate the use of leverage, reducing the portion of the position funded with own capital, and limit the margin of protection for lenders in the event of a hedge fund default. In April 2025 and March 2026, for example, when there was a deterioration in the risk-return profile for Italian government bonds, hedge funds were observed to have reduced their borrowing positions in the repo market, more so than other intermediaries active in that segment. The reaction was short-lived and was quickly reabsorbed.

[1] By Paola Antilici and Annalisa De Nicola.

[2] IMF, *Global Financial Stability Report. Resilience, Risk, and Transformation*, October 2026.

[3] F.M. Ferrara, T. Linzert, B. Nguyen, I. Rahmouni-Rousseau, M. Skrzypińska and L. Vaz Cruz, 'Hedge funds: good or bad for market functioning', The ECB Blog, 23 September 2024.

[4] C. Bassi, F. Hermes, S. Kördel, F. Lenoci, R. Pizzeghello and A. Sowiński, 'Financial stability risks from basis trades in the US Treasury and euro area government bond markets', in ECB, *Financial Stability Review*, May 2024.

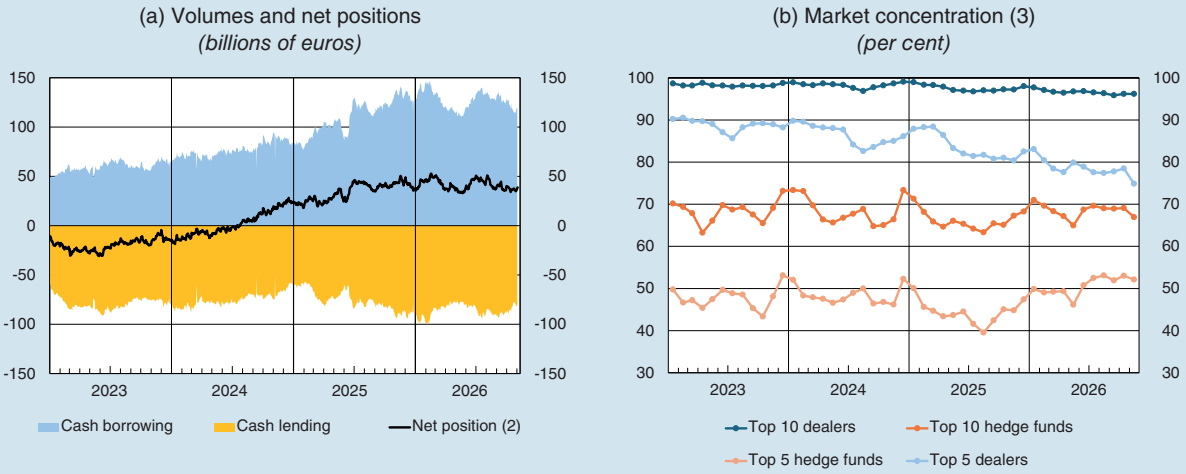
[5] The main strategies employed are: (a) cash-futures basis trade, which exploits dislocations between securities' spot and futures prices; (b) swap spread arbitrage trade, based on differences between the yield on government bonds and swap rates; (c) other relative value strategies, which seek to exploit valuation differences between government bonds or across different segments of the yield curve. Data available for the United States link the rise in hedge fund transactions in the repo market to the increased use of strategies leveraging US sovereign securities, including cash-futures basis trades and swap spread arbitrage; see P.J. Monin, 'Decomposing Hedge Funds' U.S. Treasury Exposures', FEDS Notes, 22 June 2026.

[6] In March 2020, tensions in the US Treasury market were accompanied by a rapid unwinding of leveraged positions by hedge funds; see M.S. Kruttli, P.J. Monin, L. Petrasek and S.W. Watugala, 'Hedge Fund Treasury Trading and Funding Fragility: Evidence from the COVID-19 crisis', Board of Governors of the Federal Reserve System, Finance and Economics Discussion Series, 038, 2021.

Hedge funds' borrowing in the Italian government securities repo market is concentrated in the non-centrally cleared segment and is intermediated by a small number of dealers.[7] A significant share of borrowing by hedge funds is provided by the top ten dealers (see panel (b) of the figure), all of which are large European or international banking groups. Concentration is also high on the hedge fund side. This situation could contribute to the further propagation of potential tensions as a result of hedge funds simultaneously adjusting their positions and dealers cutting lending on a wide scale.

Figure

Hedge fund activity in the Italian government bond repo market (1)
(daily data)



Source: Based on data processed according to Regulation (EU) 2015/2365 (Securities Financing Transactions Regulation, SFTR).
(1) The figure shows hedge fund activity in the repo market backed by Italian government bonds. For hedge funds residing outside the European Union, the scope is limited to transactions with EU counterparties. Intermediaries belonging to the non-MMF investment funds sector (economic sector S.124 of the European System of National and Regional Accounts, ESA 2010) are considered to be hedge funds. – (2) Net position is the difference between cash borrowing and lending. – (3) Concentration is calculated on the monthly volumes of hedge fund borrowing transactions. 'Top 5' and 'Top 10' refer to dealers and hedge funds, respectively, showing the highest volume of activity for each month.

At international level, the cross-border nature of repo markets[8] and hedge fund operations could be a channel for transmitting potential tensions. A deterioration in funding conditions in one country could also affect the various positions held by hedge funds elsewhere, with possible contagion effects.

[7] Likewise in the euro-area repo market; L. Caverni, A. De Nicola and M. Persico, 'The euro area repo market: structure, participants and interlinkages', Banca d'Italia, Markets, Infrastructures, Payment Systems, 81, 2026. Dealers are financial intermediaries that underwrite and trade sovereign debt securities on primary and secondary markets. They are those included in the list of authorized dealers published by the European Securities and Markets Authority (ESMA; see ESMA'S website, List of market makers and primary dealers).

[8] FSB, *Vulnerabilities in Government Bond-based Repo Markets*, 4 February 2026.

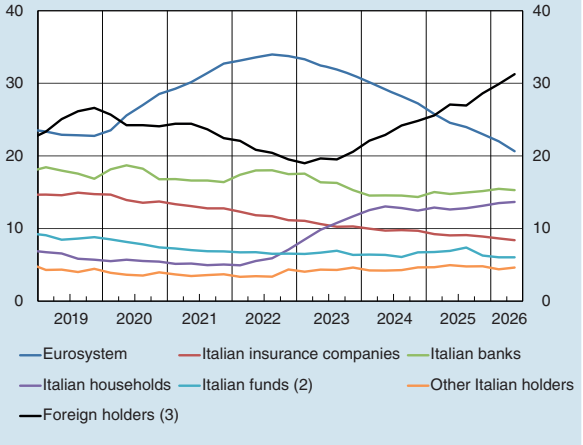
The share of government bonds in foreign investors' portfolios rose again in the first half of the year (Figure 1.7). The percentage held by Italian households, which is higher than in the other euro-area countries, increased slightly, while that held by domestic banks remained broadly stable. The share of the Eurosystem and, to a lesser extent, that of Italian insurance companies decreased further.

Placement continues in a regular way on the primary market. Volumes grew in the medium- and long-term segments, in part supported by issues targeted at retail investors and especially by the June placement of BTP Italia Sì and a double issuance of BTP Valore in October. The average

yields at issue are up compared with April, as is the average cost of securities outstanding, which has reached 3 per cent (Figure 1.8). The average residual maturity remains close to seven years.

Figure 1.7

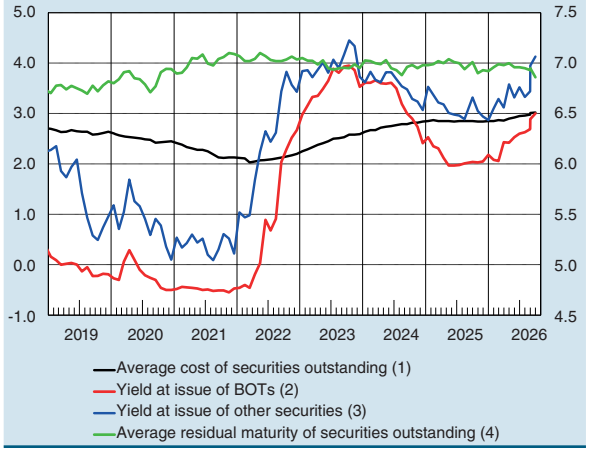
Italian government securities by holder category (1)
(quarterly data; per cent)



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

Figure 1.8

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



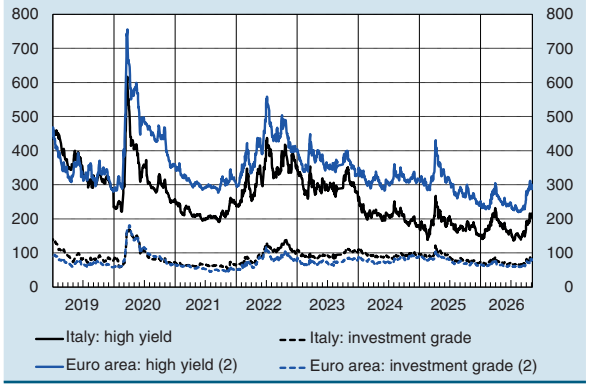
Sources: Based on Banca d'Italia and Ministry of Economy and Finance data.
(1) Weighted average of the yields at issue of government securities outstanding at the end of the month. – (2) Weighted average of the yields at issue of all the BOTs placed during the month, by settlement date. – (3) Weighted average of the yields at issue of securities other than BOTs and of the indexed BTPs placed during the month, by settlement date. – (4) End-of-period values weighted by outstanding amounts. Right-hand scale.

Risks in the corporate bond market remain limited overall. The yield spread between bonds issued by Italian non-financial corporations and risk-free rates (asset swap spread) has widened for both investment grade and high-yield securities since last April, although it remains at low levels (Figure 1.9).

Stock market prices have risen compared with April, despite the fall recorded in the autumn months. Growth in the Italian stock market was higher than in that of the euro area (Figure 1.10.a), at a time when risk premiums are still low in both markets. Implied volatility remains at modest levels (Figure 1.10.b); the risk reversal indicator[7] does not currently point to any particular concerns over a fall in equity prices (see Table A6 in the Appendix).

Figure 1.9

Asset swap spreads (1)
(daily data; basis points)

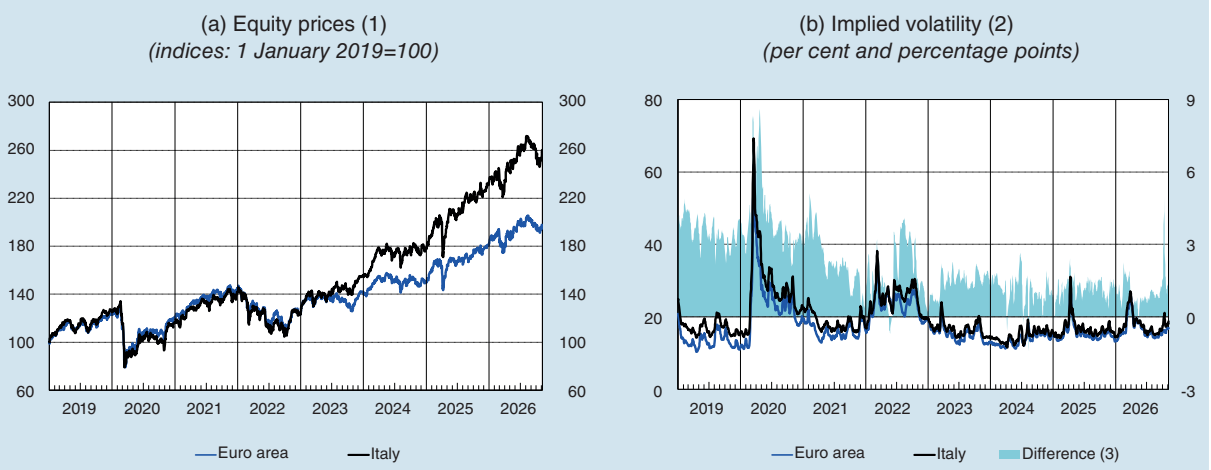


Source: Based on ICE BofAML data.
(1) Asset swap spreads weighted by the market capitalization of individual securities issued by non-financial corporations. – (2) The ICE BofAML indices for the euro area have been recalculated to exclude Italy.

[7] 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 in it.

Figure 1.10

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 continue to rise, but there are no signs of overvaluation.

In the euro area, house prices continued to rise in the second quarter, with developments varying across the main economies. On average, prices increased by 3.8 per cent compared with the same period of 2025 (Figure 1.11.a): they edged down in France, while they rose modestly in Germany and continued to increase particularly strongly in Spain (12.1 per cent).

In Italy, prices continued to grow for both new and existing housing; the increase was 4.0 per cent overall (Figure 1.11.b), while sales remained broadly stable. In terms of the real estate valuation indicators, the deviation of prices from the long-term average (price gap) is still positive,[8] while the indicator for prices relative to disposable income and rents remains negative (Figure 1.11.c).

The assessments collected in the June-July round of the Italian Housing Market Survey indicate that housing demand remained subdued in the second quarter, while supply continued to decline. Credit access conditions remained relaxed.

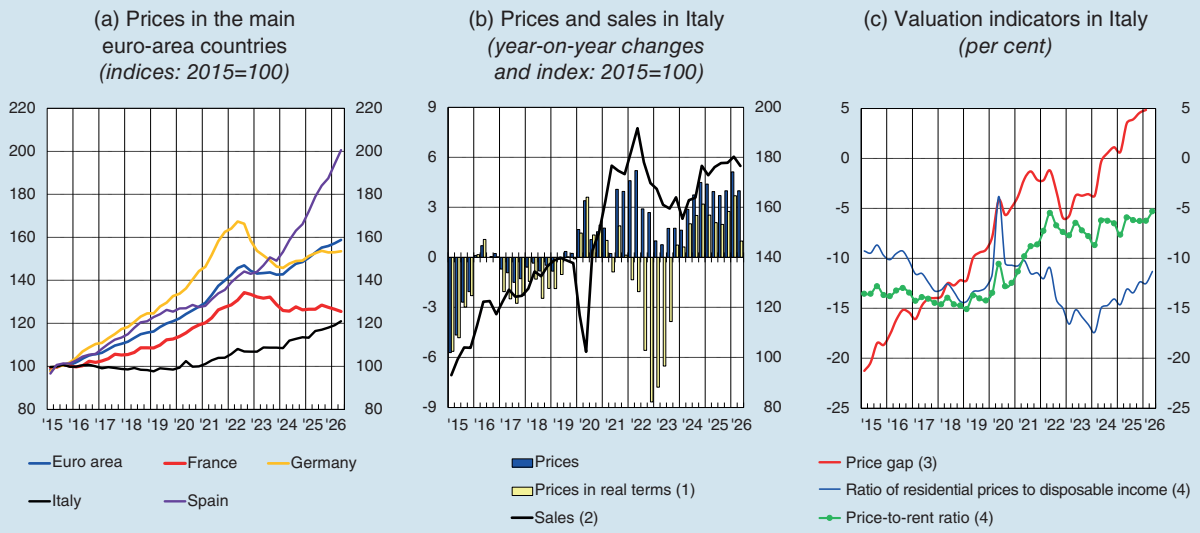
Based on our estimates, growth in nominal house prices is expected to become moderate in the second half of 2026 and in the following two years.[9]

[8] A positive deviation is not in itself a sign of overvaluation.

[9] 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 1.11

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



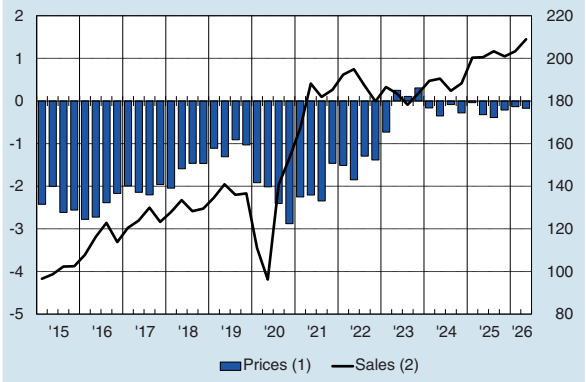
Sources: Based on data from Banca d'Italia, Eurostat, Istat and the Italian Revenue Agency's Osservatorio del mercato immobiliare (OMI).
(1) Data deflated using the change in consumer prices. – (2) Adjusted for seasonal and calendar effects. Right-hand scale. – (3) The price gap is defined as the percentage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

In the euro area, non-residential property prices went up in the fourth quarter of 2025. Prices rose by 1.9 per cent, with the strongest increases recorded in Spain and Germany; they fell sharply in France in the second quarter of 2026.

In Italy, prices remained broadly stable in the second quarter of 2026, while the number of property sales increased over the same period (4.2 per cent; Figure 1.12).

Figure 1.12

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 actually 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 remain limited. However, the tensions triggered by the conflict in the Middle East and the ensuing energy price hikes have heightened risks to disposable income and weakened consumption, leading to a deterioration in confidence. Further interest rate increases are set to have a modest impact on the financial situation of the sector as a whole.

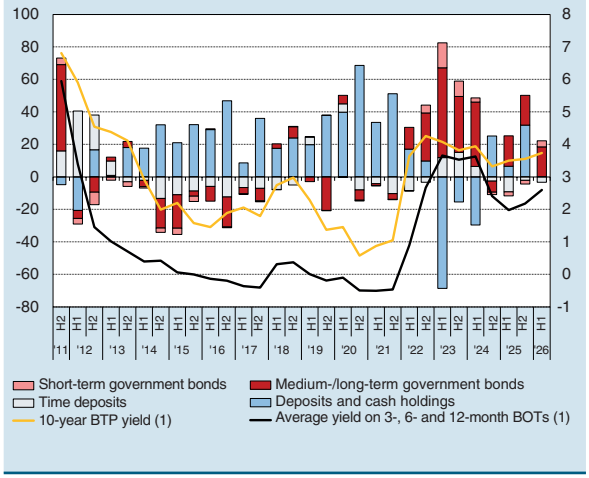
Households' financial wealth grew in the first half of the year, mainly driven by the positive performance of the financial markets. Investments were highly concentrated in asset management

products, especially investment funds (see Section 2.3), and in Italian government bonds, which were mainly purchased during higher-yield phases (Figure 1.13).[10] Italian households remain marginally exposed to securities issued by the US technology sector (see the box 'The exposure of Italian and euro-area residents to the US technology sector's securities', *Financial Stability Report*, 1, 2026).

Figure 1.13

Investments in deposits and Italian government bonds and yield levels

(half-yearly data; billions of euros and per cent)



Sources: Banca d'Italia (Financial Accounts) and ECB.
(1) Yields refer to the average yield in the last month of the half-year period: June and December. Right-hand scale.

Higher inflation has affected purchasing power, eroding saving capacity and confidence. At the end of the second quarter of 2026, households' real income and propensity to save fell compared with the last three months of 2025. Preliminary data from the Household Outlook Survey, conducted by Banca d'Italia between August and October, also indicate a deterioration in the outlook as reported by households. Compared with last year, the share of respondents expecting inflation to erode their purchasing power increased, as did the share of those anticipating being unable to set aside any savings by year-end. There was also a more widespread perception among households of struggling to make ends meet.

The risks to debt sustainability remain limited, due to the low level of debt and to modest exposure to interest rate risk. Italian households have a lower level of debt than the euro-area average and the lowest share of adjustable-rate loans by historical standards (Figure 1.14.a). In the first three quarters of 2026, adjustable-rate mortgage loans for house purchase (ARMs) grew at a relatively modest pace, despite interest rates being persistently lower than those on fixed-rate mortgage loans (FRMs) (Figure 1.14.b; see the box 'Household exposure to the interest rate risk inherent in mortgage loans', *Financial Stability Report*, 2, 2022). Newly issued ARMs increased more moderately among borrowers whose income is below the median.[11]

Credit growth was robust and broadly stable in September compared with March, both for loans for house purchase (standing at 3.3 per cent) and for consumer credit (5.2 per cent). The overall cost of consumer credit recorded in September rose further to 10.8 per cent, reaching its highest level since January 2024.

Credit quality remains good. Last June, the default rate for mortgage loans was 0.6 per cent; that for consumer credit is at low levels (2.5 per cent),[12] despite the slight increase recorded in the first half of the year.

[10] The latest issuance of BTP Valore and BTP Valore Insieme, which took place between 19 and 23 October 2026, raised €16.7 billion, one of the largest amounts by historical standards. In 2026, issuance auctions targeted at retail investors attracted orders totalling €41.7 billion.

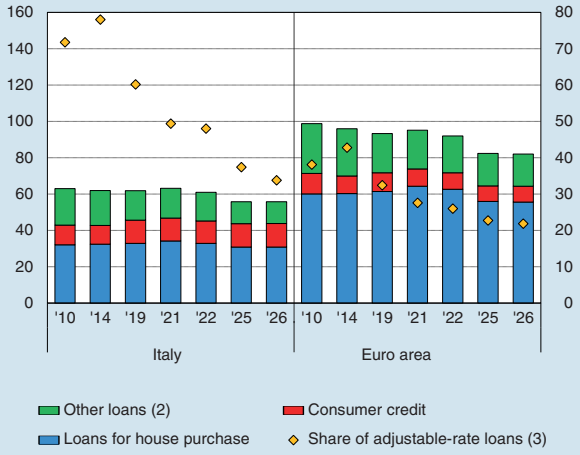
[11] The data on median income, which are measured at household level, are sourced from Eurostat's European Union statistics on income and living conditions (EU-SILC); for Italy, the survey is conducted by Istat and refers to the two-year period 2024-25.

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

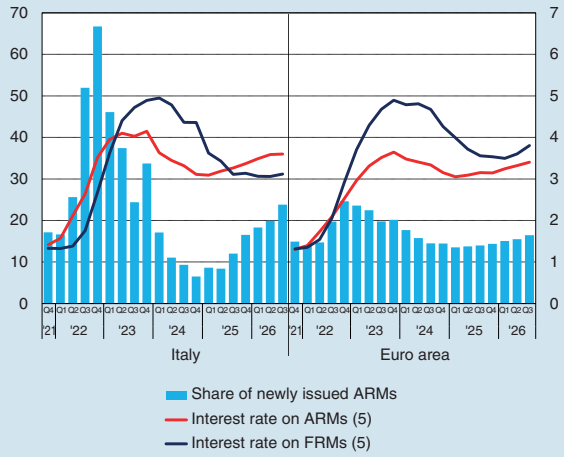
Figure 1.14

Debt and new mortgage loans for house purchase

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



(b) Mortgage loans:
interest rates and share of new adjustable-rate loans (4)
(per cent)



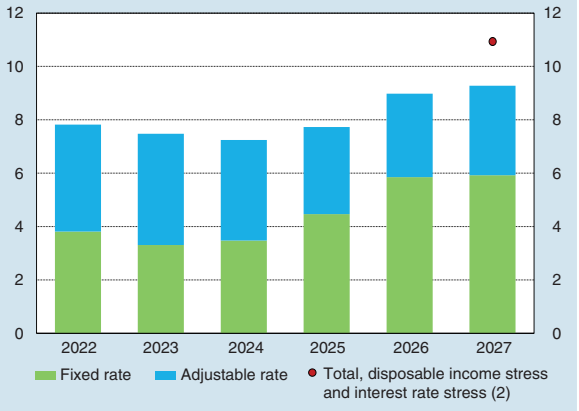
Sources: Banca d'Italia and Istat for Italy; ECB for the euro area.
(1) The period-end data refer to consumer and producer households and non-profit institutions serving households. For 2026, the latest available data refer to June. – (2) Other loans: the most significant are current account overdrafts 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. – (4) The fixed rate is that applied to mortgage loans for which the interest rate is set for a period of more than 10 years; the adjustable rate is that applied to mortgage loans for which the interest rate is set for a period of less than 1 year. Quarterly average values weighted by the amount disbursed for each category. – (5) Right-hand scale.

Even in a particularly adverse scenario, financial vulnerability is expected to stay below pre-pandemic levels. The projections based on Banca d'Italia's microsimulation model,[13] which are consistent with the Bank's most recent macroeconomic forecasts, suggest that higher market rates in 2027 will lead to a small increase in the share of vulnerable households (the debt they hold will reach 9.3 per cent; Figure 1.15). There would only be a significant expansion in a particularly adverse scenario characterized by a marked reduction in disposable income and very tight financial conditions; even so, the increase would still be moderate compared with the pre-pandemic period.

[13] 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.

Figure 1.15

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. – (2) Compared with the baseline scenario, the stress assumptions for 2027 are that: (a) the growth rate of nominal income is 4 percentage points lower; and (b) the 3-month Euribor, the 10 -year interest rate swap (IRS) and the interest rate on consumer credit are 200 basis points higher.

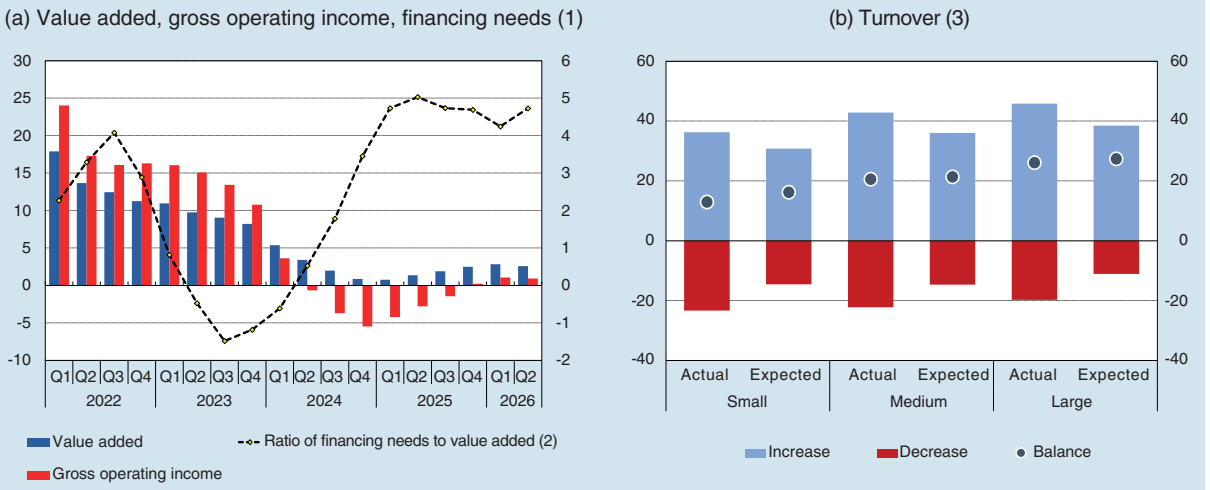
Firms

The financial situation of firms remains balanced overall, with low levels of debt and adequate liquidity. Lending has continued to expand, driven by loans granted to large firms. Ongoing geopolitical tensions and rising rates on new loans could have an effect on firms' financing needs, access to credit and ability to repay debt.

Italian firms are operating under broadly favourable profitability conditions, though these could be affected by higher energy prices. In the first half of the year, value added and gross operating income showed moderate growth, with a slight weakening in the second quarter (Figure 1.16.a). The firms that took part in Banca d'Italia's Business Outlook Survey of Industrial and Service Firms reported an improvement in turnover in the first nine months of the year and favourable expectations six months ahead, with a smaller share of positive assessments among small firms (Figure 1.16.b). However, more than 40 per cent of respondents indicated that higher energy prices have had a very negative impact on profit margins for the current year.

Figure 1.16

Firms' profitability and financing needs
(per cent)



Sources: Based on Banca d'Italia and Istat data.
(1) Year-on-year growth rates of non-financial corporations' annualized value added and gross operating income. – (2) Right-hand scale. – (3) Business Outlook Survey of Industrial and Service Firms, conducted between September and October 2026. Share of firms reporting an increase or decrease in turnover in the first 9 months of 2026 compared with the first 9 months of 2025 (actual turnover) and over the 6 months following the reporting date (expected turnover). Small firms are those with at least 20 but fewer than 50 employees; medium-sized firms are those with at least 50 but fewer than 250 employees; and large firms are those with 250 or more employees.

Financing needs have started to increase again. Partly owing to weaker income growth, the deceleration in internal financing intensified in the second quarter of 2026 (-3.2 per cent on an annual basis), a trend under way since 2024. Despite a slowdown in investment, financing needs started to increase again, to 4.7 per cent of value added in June from 4.2 per cent in March, after declining since the second half of 2025.

Liquidity remains adequate. Italian firms' ratio of liquidity to liabilities was 10 per cent in the second quarter, compared with an average of just above 7 per cent in the euro area. Around 70 per cent of the firms interviewed for the Business Outlook Survey of Industrial and Service Firms said that their liquidity was more than sufficient to cover operational needs until year-end. The average

amount of bank deposits rose by 4.4 per cent year on year in the first nine months of 2026; growth was stronger among large firms.

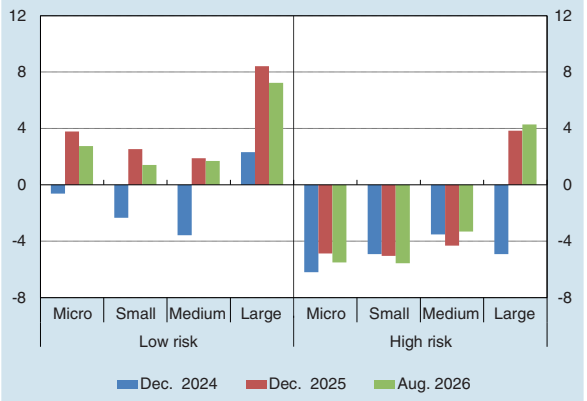
Debt remains at low levels. The main debt indicators were broadly unchanged in the second quarter. The ratio of financial debt to GDP stood at 59 per cent, significantly below the euro-area average. Leverage stayed at the historical low reached at the end of 2025 (just under 30 per cent, more than 4 percentage points below the euro-area average). Bank loans as a share of total financing have stabilized at around 46 per cent since late 2024, a historically low level, albeit still higher than in the euro area (around 32 per cent).

Lending continues to expand, albeit unevenly. Growth in bank lending, ongoing since the second half of 2025, has strengthened. The stock of loans had increased by over 3.7 per cent on an annual basis in September 2026, the highest value since September 2022. The positive trend was especially strong for large firms, while lending to smaller firms continued to contract, though less sharply than in previous quarters. However, lending to more financially sound small and medium-sized enterprises is picking up (Figure 1.17), especially for short-term loans.

Bond financing is increasing too, though it is still concentrated among just a few large issuers. In the second quarter, the share of bonds in total financial debt expanded slightly, reaching a new historical high (over 17 per cent, against an average of just under 12 per cent in the euro area). Gross bond issuance reached nearly €90 billion in the first nine months of 2026, only slightly below the total recorded for the whole of 2025; the five largest issuers accounted for about 70 per cent of the amount placed.

Figure 1.17

Lending to firms by size and risk category (1)
(year-on-year percentage changes)



Sources: Based on Central Credit Register and Cerved data.
(1) The data refer to a sample of about 500,000 limited companies. Loans include those granted by financial corporations, taking account of securitizations, and also comprise bad loans. Allocation into the risk groups is based on Cerved's CeBi-Score4 indicator: low (high) risk firms have a score ranging from 1 to 4 (5 to 10). The breakdown by firm size is based on Commission Recommendation 2003/361/EC, which defines: (a) micro firms as those employing fewer than 10 workers and whose turnover or total assets do not exceed €2 million; (b) small firms as those employing fewer than 50 workers and whose turnover or total assets do not exceed €10 million, not including micro firms; (c) medium-sized firms as those employing fewer than 250 workers and whose turnover or total assets do not exceed €50 million and €43 million respectively, not including micro and small firms; and (d) large firms as all the remaining ones.

The decline in interest expense has come to a halt. Interest rates on new loans, excluding current account overdrafts, rose from 3.4 per cent in March to 3.8 per cent in September. Against a backdrop of moderate income growth, the gradual contraction in the ratio of interest expense to gross operating income, under way since 2024, has come to a halt (the ratio stood at 8 per cent in June).

The quality of bank loans has improved again. The loan default rate, which has been declining since the second half of 2025, fell to 1.5 per cent at the end of the second quarter of 2026, from 2.1 per cent last December. However, a further tightening of financing conditions and increased liquidity needs could put pressure on some firms' ability to service debt.

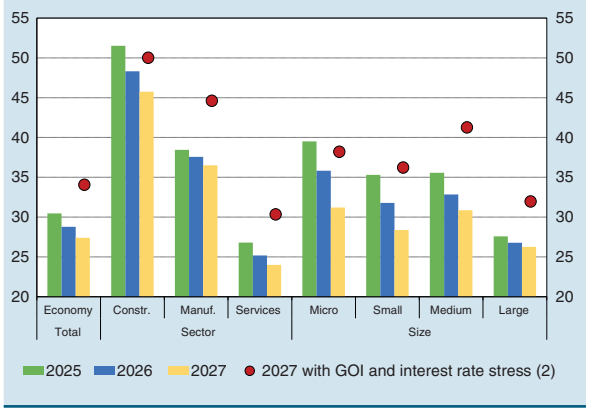
The average rating of Italian corporate issuers continues to strengthen. Between April and November 2026, 3.8 per cent of outstanding bonds, in terms of nominal value, were upgraded, while 0.2 per cent were downgraded. In the rest of the euro area, 5.8 per cent were upgraded and 2.6 per

cent downgraded. However, the share of BBB-rated bonds – which are more exposed to the risk of a downgrade to the high-yield category – remains higher in Italy than the euro-area average (86.2 per cent of total investment-grade issues against 61.7 per cent).

Looking ahead, financial vulnerability could decline further, although risks stemming from the international environment remain high. Based on Banca d'Italia's microsimulation model,[14] under a baseline scenario consistent with the Bank's latest macroeconomic projections, the share of financial debt held by financially vulnerable firms will shrink by 1.4 percentage points, to just above 27 per cent in 2027; the contraction is expected to be sharper for small firms (Figure 1.18). The estimates are subject to a high degree of uncertainty owing to the geopolitical situation. In an adverse scenario that assumes a significant reduction in gross operating income and a tightening of financing conditions, the share of debt attributable to vulnerable firms would increase to 34 per cent, and to more than 36 per cent for small and medium-sized enterprises.

Figure 1.18

Firms' 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 annual financial statements available for a sizable share of the sample of firms refer to 2025. – (2) Compared with the baseline scenario, the stress assumptions for 2027 are that the growth rate of nominal gross operating income (GOI) is 10 percentage points lower and the nominal interest rate is 200 basis points higher.

[14] 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. For details on the macroeconomic projections, see Banca d'Italia, 'Macroeconomic projections for the Italian economy', 16 October 2026.

2 RISKS TO FINANCIAL INTERMEDIARIES

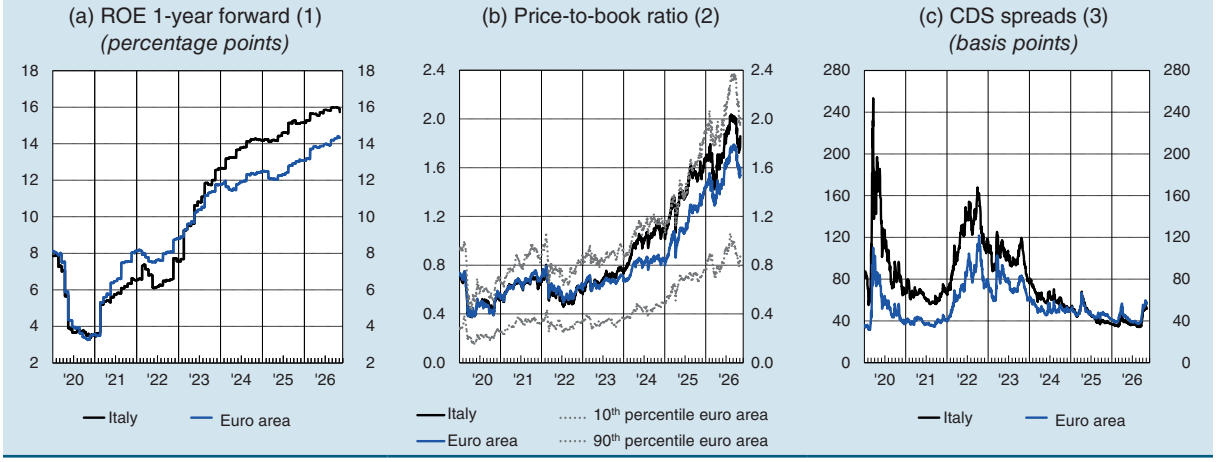
2.1 BANKS

Italy's banking system remains solid, with high levels of capitalization and profitability. Looking ahead, rising energy prices and higher interest rates could, however, reduce firms' ability to repay loans, leading to a deterioration in credit quality. Furthermore, the spread of new technologies such as artificial intelligence can bring significant benefits, but at the same time it amplifies cyber and operational risks.

The expected profitability of Italian listed banks remains high and greater than that of the main euro-area banks (Figure 2.1.a)**.** However, the price-to-book ratio has declined slightly since mid-August, reflecting the recent market tensions (Figure 2.1.b). Credit default swap (CDS) spreads increased in early October, though they remain low (Figure 2.1.c).

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, 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, Crédit Agricole, Commerzbank, Deutsche Bank and Société Générale. Simple average of 5-year CDS spreads.

Capital and profitability

The capital position of banks remains sound. The CET1 ratio for the entire banking system, calculated as the ratio of common equity tier 1 (CET1) to risk-weighted assets (RWAs), was 15.5 per cent in June (from 15.7 per cent in December 2025). Since the end of last year, the indicator for Italian significant banks has fallen by 20 basis points, to 15.7 per cent. The decrease reflects

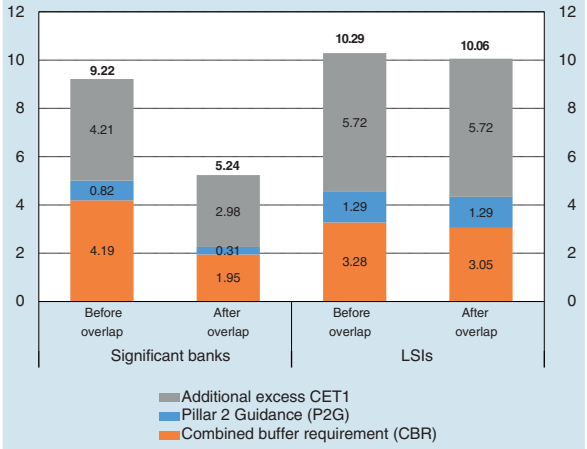
the marked growth in risk-weighted assets (RWAs), mainly attributable to the increase in credit volumes. The capitalization of Italian significant banks was about 35 basis points lower than the overall capitalization of the intermediaries of the countries participating in Single Supervisory Mechanism (SSM). The CET1 ratio of less significant banks rose by about 20 basis points, to 18.6 per cent.[1]

In the first half of the year, the issuance of eligible securities meeting the minimum requirement for own funds and eligible liabilities (MREL), especially by significant banks, reached high volumes, marking a sharp increase compared with the first half of 2025. The ratio of MREL liabilities to the RWAs of significant and less significant banks subject to resolution, equal to 31.3 per cent, continues to be well above the requirements set by the resolution authorities.

Taking account of capital overlaps,[2] between December 2025 and June 2026, the overall capacity to absorb losses without breaching a minimum requirement[3] on the part of Italian banks remained essentially stable, at 5.2 per cent of RWAs for significant banks and at 10.1 per cent for less significant banks (Figure 2.2).

Figure 2.2

Loss-absorbing capacity by category of bank as at June 2026 (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, if the same unit of capital is also used to meet a minimum requirement at the same time. 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.

Profitability remains high. Net of extraordinary components, return on equity (ROE) stood at 14.4 per cent in the first half of the year (compared with 14.8 per cent in the first half of 2025; Figure 2.3). The result benefited from the increase in fee income and, to a lesser extent, in net interest income. These positive effects were partly offset by slightly higher operating costs, driven by higher information and communication technology (ICT) costs, and by the increase in loan loss provisions, which nevertheless remained at low levels. The increase in equity[4] made a negative contribution to ROE.

[1] The Italian banking system also includes subsidiaries of significant European banking groups, for which the CET1 ratio fell by 30 basis points, to 12.0 per cent last June.

[2] Overlaps result from the simultaneous use of CET1 for the risk-weighted requirements, for leverage and for the MREL; see note (1) to Figure 2.2 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.

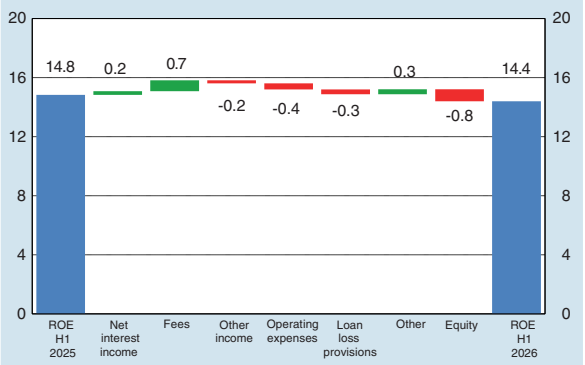
[3] The amount of capital resources that can be used consists of the combined buffer requirement, the Pillar 2 Guidance (P2G), and the additional surplus of CET1 capital available.

[4] This was due, on the one hand, to the items that supported CET1 (mainly internal financing) and, on the other hand, to the recording of the goodwill generated by mergers carried out in 2025, which are instead deducted from capital for prudential purposes.

Estimates consistent with the macroeconomic scenario published by Banca d'Italia last October[5] indicate that banks' overall profitability will remain high in the final part of this year and in the following two years. Loan loss provisions are expected to remain at historically low levels, similar to those observed in the two years 2024-25.

Figure 2.3

Breakdown of changes in ROE from H1 2025 to H1 2026 (1)
(per cent and percentage points)



Sources: Consolidated supervisory and resolution reports for banking groups and individual reports for stand-alone banks.
(1) Contributions to changes in ROE (in percentage points) are expressed as a ratio to equity. A green/red bar indicates a positive/negative contribution to the ROE for H1 2025, giving the final ROE value for H1 2026. Any discrepancies in the last decimal place are due to rounding.

Asset risks

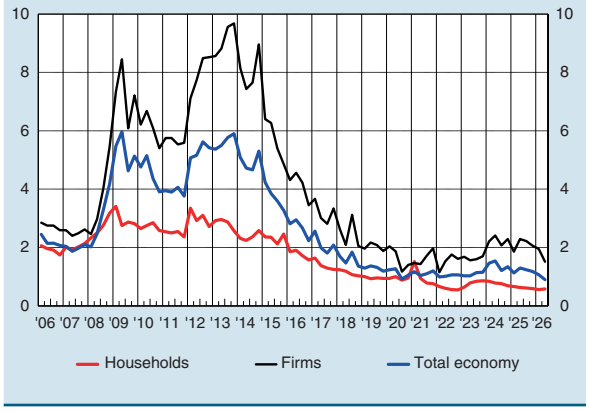
Asset quality remains high. In the second quarter, the default rate for loans to the private sector fell to 0.9 per cent (from 1.2 per cent in the fourth quarter of 2025; Figure 2.4), reflecting the improvement in the quality of credit to firms.

The ratio of non-performing loans to total loans (non-performing loan ratio, NPL ratio), net of loan loss provisions, fell slightly, to 1.4 per cent in June (from 1.5 per cent in December 2025; Figure 2.5.a; see Table A2 in the Appendix), also owing to the growth in lending by significant banking groups. For the latter, the indicator fell to 0.9 per cent, 20 basis points lower than the average value for the intermediaries of the countries participating in the SSM (Figure 2.5.b).

In an environment of good credit quality overall, recent supervisory initiatives aim to strengthen the convergence of provisioning practices for NPEs between significant and less significant banks (see the box 'The application of prudential provisioning for less significant institutions' non-performing exposures').

Figure 2.4

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



Source: Central Credit Register.
(1) Annualized quarterly flows of adjusted NPLs in relation to the stock of performing loans at the end of the previous quarter. Data seasonally adjusted where necessary.

In the first half of the year, Stage 2 loans under IFRS 9[6] declined slightly as a share of total performing loans (from 7.8 to 7.3 per cent), for both significant and less significant banks. The arrears rate for loans to firms, which measures the payment delays for performing loans,[7] fell to 0.7 per cent, with that for loans to households remaining

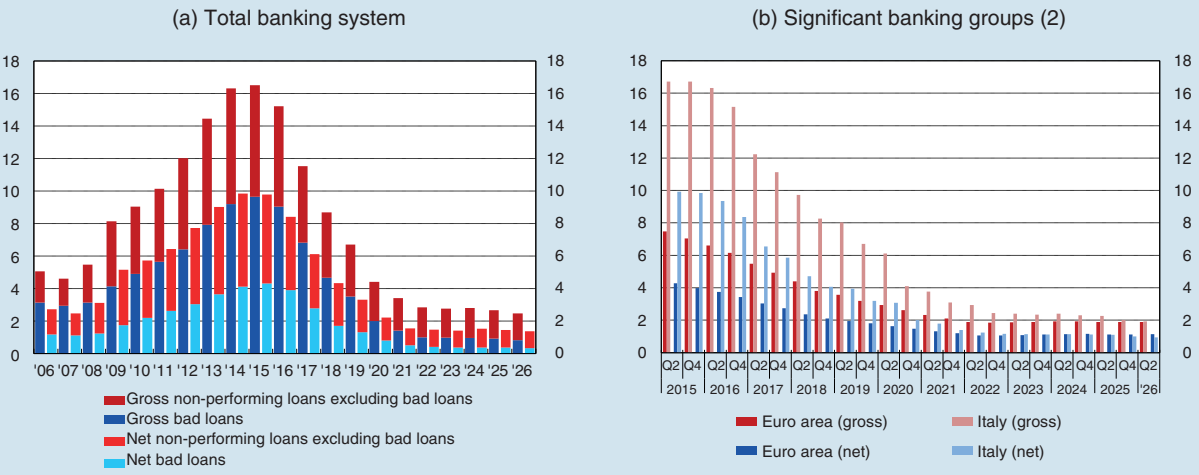
[5] Banca d'Italia, 'Macroeconomic projections for the Italian economy', 16 October 2026.

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

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

Figure 2.5

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



Sources Supervisory reports, on a consolidated basis for Italian banking groups and on an individual basis 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 June 2026 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.

broadly stable. In June 2026, the sectors most exposed to the energy price increases did not show any signs of deterioration compared with the rest of the economy. Looking ahead, however, the persistently high energy prices could reduce firms' ability to repay loans, leading to a deterioration in credit quality.

IMPLEMENTATION OF THE SUPERVISORY EXPECTATIONS ON PRUDENTIAL PROVISIONING FOR LESS SIGNIFICANT INSTITUTIONS' NON-PERFORMING EXPOSURES[1]

At the end of last year, following the publication of a similar document for significant institutions (SIs) in 2018, the ECB published a guideline[2] introducing a harmonized supervisory approach to prudential provisioning for non-performing exposures (NPEs) held by less significant institutions (LSIs) for exposures originated prior to 26 April 2019. This measure was made necessary by the persistent divergence in coverage ratios between SIs and LSIs. The expectations set out in the guideline supplement the existing binding requirements (Pillar 1 backstop) for all banks pursuant to Article 47c of Regulation (EU) No 575/2013 (Capital Requirements Regulation, CRR), which applies to exposures originated on or after 26 April 2019 (see the table).

[1] By Michele Adamini and Francesca De Vivo.

[2] Official Journal of the European Union, *Guideline (EU) 2025/2595 of the European Central Bank of 10 December 2025 on the supervisory approach by national competent authorities to coverage of non-performing exposures held by less significant supervised entities*, 19 December 2025.

Table

Rules on prudential provisioning for NPEs

	NPEs stemming from loans originated prior to 26 April 2019: guideline (Pillar 2)	NPEs stemming from loans originated on or after 26 April 2019: binding requirement (Pillar 1)
SIs	ECB Guideline March 2018 (1)	Backstop referred to in Article 47c of the CRR
LSIs	ECB Guideline December 2025	Backstop referred to in Article 47c of the CRR

(1) See ECB, *Addendum to the ECB Guidance to banks on non-performing loans: supervisory expectations for prudential provisioning of non-performing exposures*, March 2018. The expectations set out in the document apply to exposures held by SIs that are classified as non-performing as of 1 April 2018; for those existing prior to that date, the ECB had adopted a similar approach through letters sent to banks as part of the supervisory review and evaluation process.

The guideline adopted at the end of last year provides for periodically increasing the minimum coverage ratios for as long as loans remain non-performing; coverage varies based on the type of loan and whether or not it is secured. For banks whose coverage ratios fail to meet supervisory expectations, the national competent authorities (NCAs) may impose a Pillar 2 requirement for additional capital (capital add-on) as part of their capital decisions. These expectations are applicable as from 31 December 2025; the coverage factors will be lower at the beginning and are to be fully phased in at the end of 2028.[3] During the first year of application, NCAs may disregard any misalignments with expectations for the purpose of determining capital add-ons. The guidelines also provide that NCAs may define the scope of expectations on an annual basis, taking into account the situation of individual banks and the characteristics of their portfolios. Any exemption should be justified on the basis of risk or other circumstances deemed relevant by the NCA.[4]

Recently, Banca d'Italia gathered data on how well Italian LSIs already align with supervisory expectations. At the same time, banks were encouraged to take advantage of their available margins – thanks in part to favourable financial results – to consolidate the progress made in containing credit risk, thereby increasing the coverage levels for non-performing exposures as early as the closing of their 2025 balance sheets. The initial results were positive: specifically, there was widespread improvement in the credit quality indicators of LSIs operating with a traditional business model. The coverage ratio for these banks' NPEs stood at 50.8 per cent last June, compared with 52.1 per cent for the SIs. The gap between the two categories narrowed by more than 2 percentage points compared with June 2025, when the coverage ratios stood at 48.4 and 52.1 per cent respectively. Again for LSIs with traditional business models, non-performing portfolios falling within the scope of the measure generally show higher levels of coverage as the age of exposures increases (see the figure).[5] Consistent with this, the analysis of the data collected from these banks indicate that the capital impacts of the expectations are manageable: at the end of 2025, the gap in coverage as compared with the coverage expectations set out in the guideline averaged 0.07 per cent of RWAs during the transitional period and 0.20 per cent when fully phased in.[6]

As regards LSIs engaged in non-traditional business activities, the data confirm that there are cases in which the application of the expectations would not be consistent with the guideline's purpose and could have a negative impact on credit supply. In line with the discretion permitted by the guideline,

[3] Specifically, for exposures that have reached the vintage for full coverage (for example, 3 years for unsecured NPEs), the expectation starts with a minimum coverage ratio of 60 per cent and reaches 100 per cent as of the end of 2028.

[4] Possible reasons for exemption are set out in Articles 3 and 4 of the guideline and may be applied at institution or exposure level.

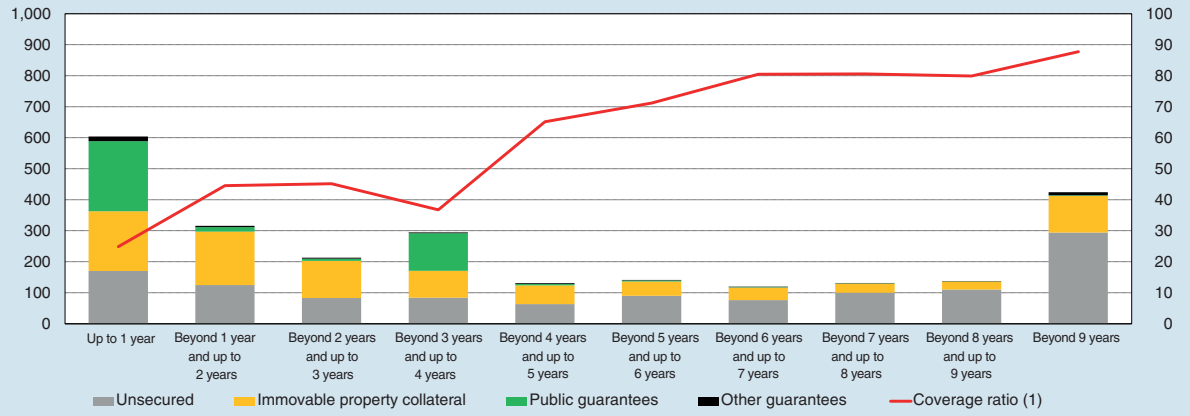
[5] Unsecured positions make up just under half (48 per cent) of these portfolios, followed by those with immovable property as collateral (36 per cent); the share of NPEs backed by public guarantees, equal to 15 per cent, as well as that of those secured by other guarantees, are lower.

[6] Capital impacts were calculated by comparing the coverage gap found by applying the calendar approach set out in the guideline to the total amount of RWAs under both the transitional and fully phased-in scenarios.

Figure

Non-performing exposures held by traditional LSIs: amounts, coverage ratios by vintage and characteristics of exposures subject to supervisory expectations

(millions of euros and per cent)



Source: Supervisory reports.
(1) Right-hand scale.

Banca d'Italia will therefore allow exemptions for certain business lines (in particular the acquisition and servicing of NPEs and the factoring of receivables from general government), based on an assessment of the operational specificities of each bank. However, these exemptions will not affect the application of the Pillar 1 backstop to loans originating on or after 26 April 2019, which is regulated by European law and for which the NCAs do not have discretion, unlike under the guideline.[7]

[7] The Pillar 1 framework provides for minimum coverage ratios similar to those provided for under the guideline, requiring any coverage gaps to be deducted from common equity tier 1 capital.

Business loans backed by public guarantees decline. In June, the share of loans backed by a public guarantee granted by the Central Guarantee Fund or by SACE fell by 2 percentage points, to 19 per cent of performing loans to the firms recorded in AnaCredit, owing to the increase in early repayments and the decline in new loans, especially by SACE. The stock of funding guaranteed by the Central Guarantee Fund, while decreasing, remains sizeable for less significant banks (€21 billion, or 28 per cent of the stock of loans).[8] Despite the general strengthening of safeguards and greater awareness of risks on the part of these banks, there is still room for improvement;[9] the latter is being assessed by Banca d'Italia for the purposes of considering the adoption of possible measures, especially with regard to intermediaries whose operations are highly focused on the public guarantee instrument.

Our projections, which are consistent with Banca d'Italia's macroeconomic projections published last October, indicate that the default rate for loans to firms will remain practically stable at 2.1 per cent on average this year, before increasing to 2.3 per cent in 2027, mainly owing to higher borrowing costs for firms. The increase would be more marked in the adverse scenario, reaching 2.5 per cent on average in 2027. The default rate for households is projected to remain at 0.7 per cent over the same period.

[8] Unlike the indicator for the system as a whole, which is based on the AnaCredit survey, the stock is derived from the supervisory reports of less significant banks.

[9] For some banks, there are shortcomings in organizational and control measures, or in the measurement of the risks connected with this type of loan in the internal capital adequacy assessment process (ICAAP). Other critical aspects are the progressive deterioration in the quality of this portfolio or the rapid growth in volumes granted. For further details, see the box 'The use of government guarantees by less significant banks to support lending to firms, the related risks, and supervisory measures', *Financial Stability Report*, 1, 2025.

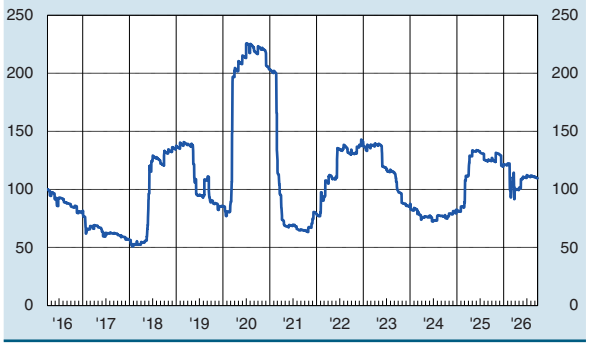
Market risk and interest rate risk

Market and interest rate risks have grown on the back of higher policy and market rates. However, the effects on banks' capital remain limited. Since the beginning of April, the Value at Risk (VaR) of banks' securities portfolio has risen owing to the recent episodes of volatility in financial markets (Figure 2.6).

The risks associated with higher government bond yields are still small. In September, the value of Italian government securities held by resident banks was higher than in February as a result of net purchases, despite a decline in market prices. Their share of banks' total assets remained broadly unchanged at 8.8 per cent (Figure 2.7.a). The average duration of the portfolio of these securities increased slightly, to 4.9 years (Figure 2.7.b). Most of these assets are still valued at amortized cost (73.6 per cent), thereby mitigating the impact of higher market rates.

Figure 2.6

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

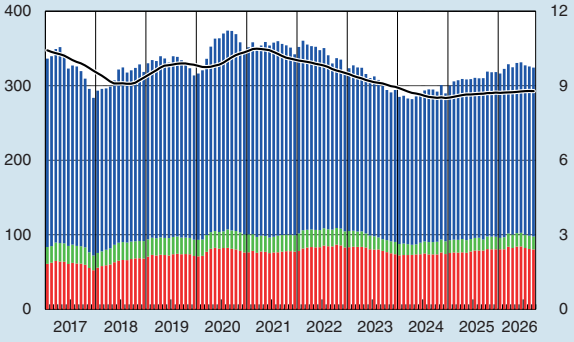


Sources: Based on data from the securities registry database, LSEG and supervisory reports.
(1) Weighted averages, with weights equal to the size of each bank's portfolio. VaR represents the loss in the portfolio value that, over one day, will not be exceeded in 99 per cent of the cases. The indicator 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.

Figure 2.7

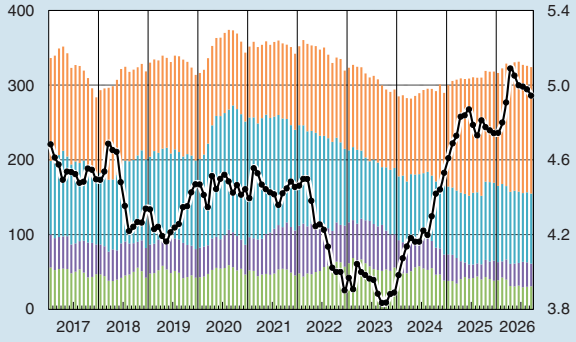
Banks' investment in Italian government securities (1)
(monthly data)

(a) Breakdown by bank category
(billions of euros and per cent)



Italian significant banking groups (2)
Italian branches and subsidiaries of significant foreign banks
Rest of the system
Public sector securities/Total assets (3) (4)

(b) Residual maturity and duration
(billions of euros and years)



Up to 1 year
Beyond 1 year and up to 2 years
Beyond 2 years and up to 5 years
Beyond 5 years
Duration (4)

Source: Supervisory reports.
(1) Comprises all public sector securities, including those issued by local government 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.

With reference to the overall portfolio of securities valued at amortized cost outstanding at end-June, and taking into account the prices recorded at end-October, the average impact of the potential losses that would arise if banks were forced to sell the securities before maturity is estimated at 107 basis points of the CET1 ratio (net of derivative hedges). Though sharply up from the estimate of 3 basis points in December, this is significantly lower than the amount of potential losses calculated during the

2022-23 key interest rate hiking cycle. Moreover, considering that liquidity levels are well above the regulatory minimum and there is ample collateral available in the current environment, sales of securities before maturity appear to be unlikely.

Refinancing risk and liquidity risk

Bank funding continues to grow. In September, the annual growth rate of bank funding stood at 2.3 per cent, from 4.4 per cent in February (Table 2.1). This decrease in the pace of expansion mainly reflects the dynamics in non-resident deposits.[10]

Italian banks' net bond issuance on international markets was virtually nil in the third quarter (Figure 2.8.a). Yields rose for both unsecured senior bonds and covered bonds, with their spread remaining narrow (Figure 2.8.b).

Banks' refinancing costs have increased, in line with market rates. The marginal cost of funding rose to 1.4 per cent in September, around 30 basis points higher than in February (Figure 2.9).

Table 2.1

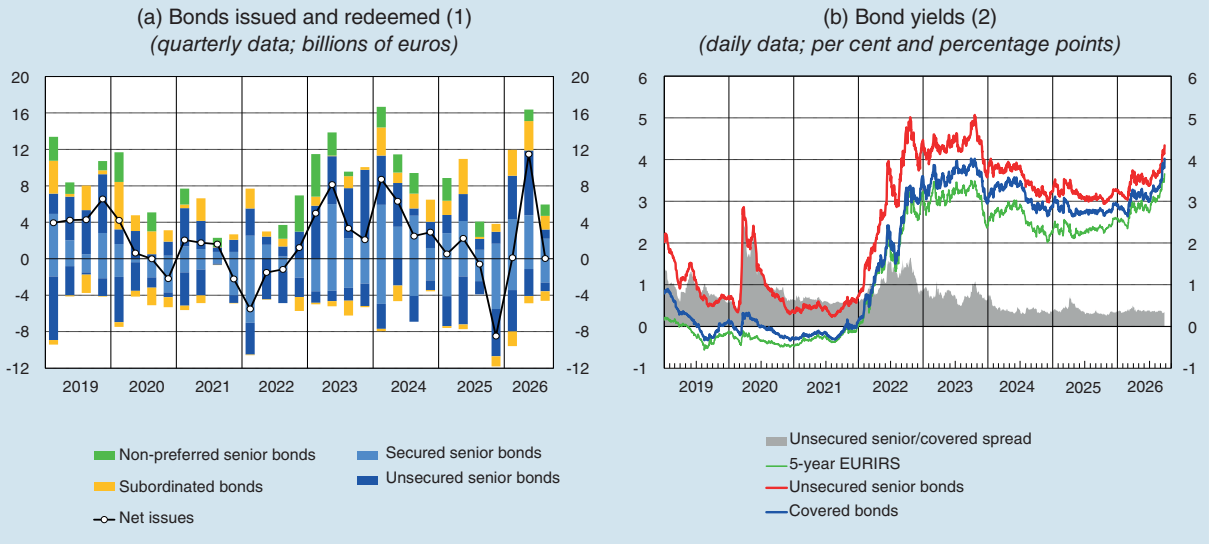
Italian banks' funding (1)
(percentage shares and changes)

	Stocks (shares of total)	12-month percentage changes (2)	
	September 2026	September 2026	February 2026
Deposits of Italian residents (3)	67.1	2.8	4.9
Deposits of non-residents (4)	19.4	-4.3	8.3
Bonds	11.1	5.3	0.5
of which: held by households	2.9	2.7	-0.3
Net liabilities vis-à-vis central counterparties (5)	1.6	51.9	-11.8
Liabilities vis-à-vis the Eurosystem (6)	0.8	21.5	-30.2
Total funding	100.0	2.3	4.4

Sources: 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) The contraction in deposits by non-residents mainly reflects the decline observed for an individual bank belonging to an international group; this bank had carried out opposite-sign intragroup transactions in 2025. For further details, see *Financial Stability Report*, 2, 2025. – (5) Includes repurchase agreements only; represents foreign funding via central counterparties. – (6) The aggregate includes the accounts with the Eurosystem for monetary policy operations. See Figure 3.3b in 'Banks and money: national series', on Banca d'Italia's statistics portal.

Figure 2.8

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. Includes securitized bonds. Positive values indicate bond issues, negative values indicate bond redemptions. – (2) Yields to maturity of Italian bank bonds with residual maturity of 5 years. Spread between the yields to maturity of unsecured senior bonds and of covered bonds in percentage points.

[10] For the contraction in non-resident deposits, see note 4 to Table 2.1. For further details, see *Financial Stability Report,* 2, 2025.

The increase was mainly due to the rise in interbank rates and bond yields, in line with that in policy and market rates. The remuneration of non-financial private sector's deposits with an agreed maturity, which account for a small share of total bank funding, rose to 2.7 per cent (from 2.1 per cent in February). The interest rate on current accounts, which are the main component of bank funding, went up by 10 basis points, to 0.4 per cent.

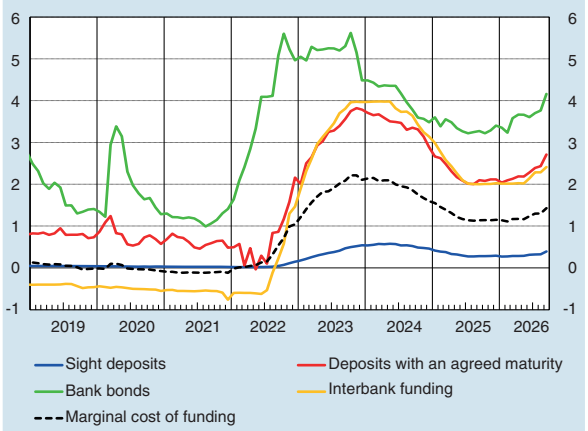
Recourse to the Eurosystem's refinancing operations remains limited, against a background of large but declining reserves. Recourse to main refinancing operations (MROs) and to longer-term refinancing operations (LTROs) with a three-month maturity has increased since April (to €19 billion). The amount of excess reserves held with Banca d'Italia continues to decline, averaging €72 billion in the maintenance period to November (from €77 billion in April), or 3.4 per cent of the euro-area total (Figure 2.10).

Despite the recent changes to the collateral framework, the value of overcollateralization of the collateral pool and of unencumbered assets eligible to be pledged as collateral at the central bank remains high. Between February and September, the total value of the collateral pool went from €177 billion to €161 billion (Figure 2.11.a). The decline occurred mainly as certain types of assets, which could be pledged under Banca d'Italia's temporary framework for additional bank loans, became ineligible following the changes to the Eurosystem collateral framework that were announced in 2024 and came into force on 30 March 2026.[11]

Notwithstanding the reduction in eligible types of assets, loans continue to be the main asset class in the pool, with their weight holding stable at 60 per cent (Figure 2.11.b). In addition, counterparties have a further €524 billion in eligible securities (Figure 2.11.c), of which 68 per cent are government bonds. The collateral framework was amended further in June. The ECB Governing Council set the rules for the integration of portfolios of non-financial corporate credit claims into the general collateral framework, to be implemented in November 2027 at the earliest. Moreover, the measure that requires applying a climate factor to securities issued by non-financial corporations, based on their exposure to transition risks, became effective.[12]

Figure 2.9

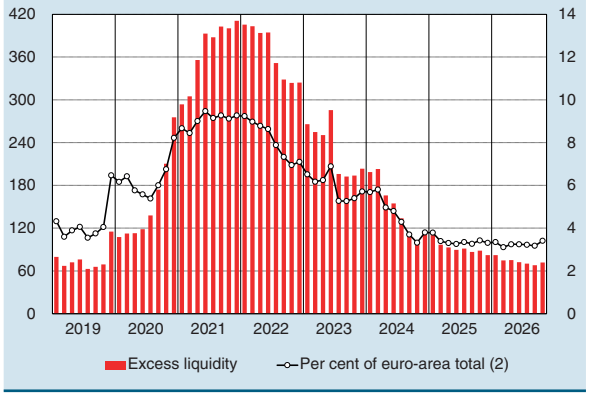
Marginal cost of bank funding (1)
(monthly data; percentage points)



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 2.10

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



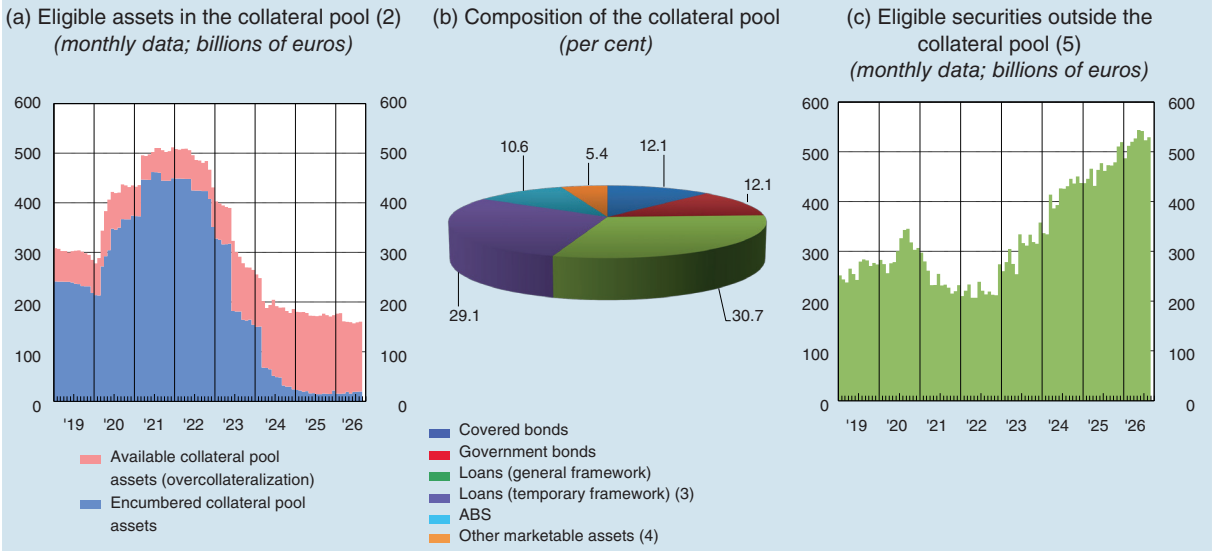
Sources: Based on Banca d'Italia and ECB data.
(1) Each red bar shows average excess liquidity for each maintenance period, calculated as the sum of banks' average reserve balances, net of the reserve requirement, plus the average recourse to the deposit facility. The latest figure refers to the 6th maintenance period of 2026. – (2) Right-hand scale.

[11] For further details, see ECB, 'ECB announces changes to the Eurosystem collateral framework to foster greater harmonisation', press release, 29 November 2024.

[12] For more details, see ECB, 'ECB to integrate non-financial credit claim portfolios into general collateral framework, phasing out temporary measures', press release, 25 June 2026.

Figure 2.11

Eligible assets of the Italian banking system (1)

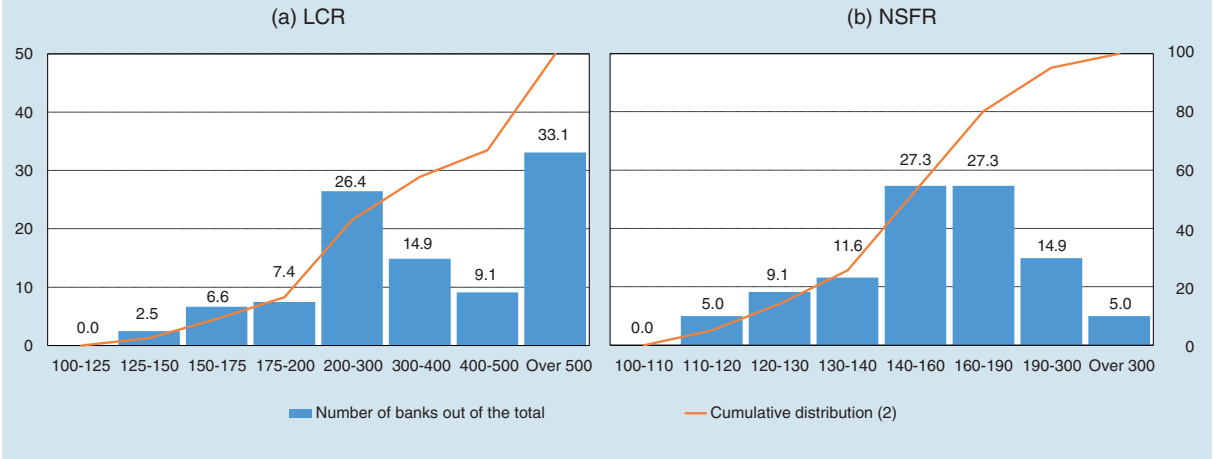


Sources: Based on Eurosystem data and supervisory reports.
(1) The data refer to monetary policy counterparties of Banca d'Italia and are as at the end of September 2026. – (2) The volume of encumbered Eurosystem collateral pool assets includes the part covering accrued interest and refinancing in dollars. 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 standards 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.

Banks' liquidity profile remains balanced across all maturities. In June, the average liquidity coverage ratio (LCR) over a one-month horizon was 175 per cent and the net stable funding ratio (NSFR) stood at 132 per cent. Both ratios were above the 100 per cent regulatory minimum for all banks, and well above it for around 80 per cent of banks (Figure 2.12).

Figure 2.12

Distribution of Italian banks by LCR and NSFR as at June 2026 (1)
(per cent)



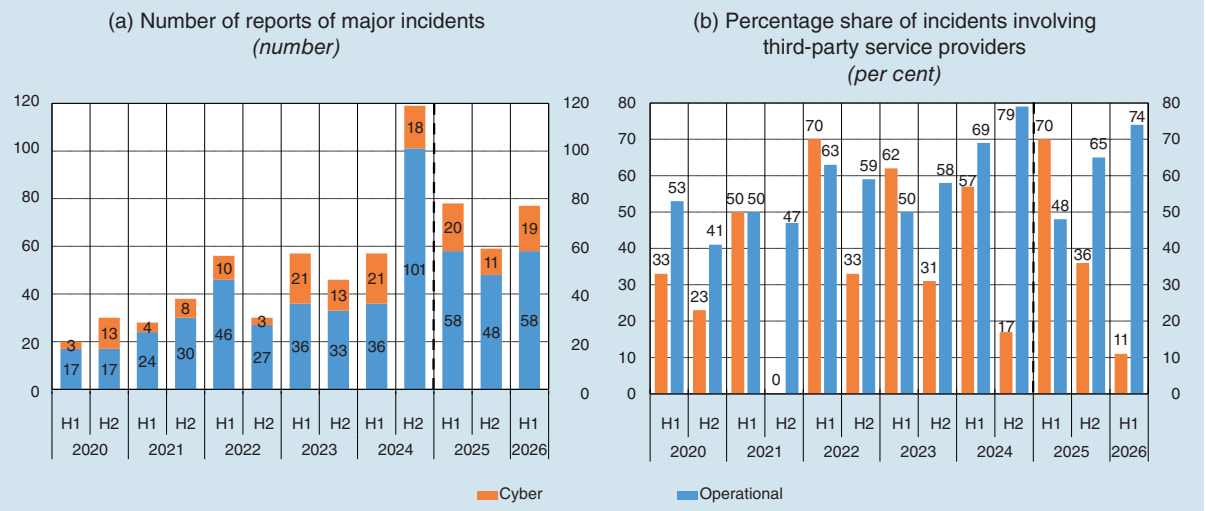
Source: Based on supervisory reports.
(1) Any discrepancy in the last decimal place is due to rounding. – (2) Right-hand scale.

Operational and cyber risks

The number of major incidents is broadly stable. In the first half of the year, the number of major incidents[13] reported by Italian supervised financial intermediaries remained virtually unchanged compared with the corresponding period of 2025, at significant levels relative to the average for recent years. More specifically, 77 incidents were reported, of which 19 are cybersecurity-related (Figure 2.13.a). Around 60 per cent of the incidents involved, directly or indirectly, a third-party ICT service provider, confirming the critical role of these suppliers for the operational resilience of financial intermediaries (Figure 2.13.b). In addition, with reference to payment systems and market infrastructure, three incidents were reported (all of an operational nature), broadly in line with the first half of 2025. These events did not have any financial impact and had limited effects on service continuity.

Figure 2.13

Cyber and operational incidents (1)



Source: Based on supervisory reports.
(1) Up to and including 2024, reports had to be submitted by the parent institutions of banking groups on behalf of their members, by stand-alone banks, by payment institutions and by e-money institutions. As of 2025, reports must be submitted by significant and less significant 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 ongoing geopolitical tensions increase operational risks, with potential repercussions for the continuity of financial services. Geopolitical tensions raise the risks of disruption to energy supply chains. The dependence of several financial operators on the same critical infrastructure and supplies can exacerbate and spread the effects of any disruptions.[14] In this context, Banca d'Italia's unit for the business continuity of the Italian financial market (CODISE) launched a review to assess the degree of preparedness of systemic operators and the measures taken to ensure the continuity of essential financial services, including in the event

[13] Article 3 of Regulation (EU) 2022/2554 (Digital Operational Resilience Act, DORA) defines a major ICT-related incident as one that has 'a high adverse impact on the network and information systems that support critical or important functions of the financial entity'. See Section 2.2. for the number of incidents reported to IVASS by insurance companies.

[14] The operational resilience of individual financial intermediaries and of market infrastructure may not be sufficient to ensure the resilience of the entire system amid systemic vulnerabilities such as interconnections, concentration and common dependencies. For more details, see Bank of England, *Financial Stability in Focus: the FPC's macroprudential approach to operational resilience*, Financial Policy Committee, March 2024. On the importance of crisis preparedness and coordination among authorities and sectors to preserve key financial functions, see European Commission, *Report from the Commission to the Council and the European Parliament on the preparedness in the EU financial sector*, COM (2026) 119 final, 10 March 2026.

of prolonged disruptions to critical infrastructure and services. Furthermore, discussions are underway with the competent authorities to identify possible coordinated actions and measures to strengthen the financial sector's crisis preparedness, resilience and responsiveness in emergency scenarios.[15]

In recent months, the G7 Cyber Expert Group conducted an international exercise to test coordination among financial authorities in managing large-scale cyber incidents with cross-border effects.[16] The findings of this assessment, in which Banca d'Italia participated together with the Ministry of Economy and Finance (MEF) and the Italian Companies and Stock Exchange Commission (CONSOB), confirmed the importance of carrying out regular tests (based on realistic scenarios) to ascertain the G7's actual capacity to implement coordinated plans to respond to events that can have systemic impacts and to launch possible joint communication initiatives across member countries.

Strengthening digital operational resilience is a strategic priority for ensuring the continuity of critical services and containing the risks stemming from technological dependencies and evolving cyber threats (see the box 'Enhancing the digital operational resilience of the Italian financial system').

ENHANCING THE DIGITAL OPERATIONAL RESILIENCE OF THE ITALIAN FINANCIAL SYSTEM[1]

In recent years, ICT risk has become more and more critical to financial stability, owing to the digitalization of the financial sector and to how the links between intermediaries and technology providers are growing ever closer. The complexity of ICT supply chains increases the potential systemic impact that operational and cybersecurity incidents might produce, making it crucial to strengthen digital operational resilience to ensure the continuity of financial services. To address these risks, Banca d'Italia has adopted an integrated supervisory approach based on three complementary lines of action: (a) horizontal analyses of supervised intermediaries and risk monitoring; (b) supervision of individual intermediaries; (c) and targeted actions on ICT service providers.

The findings of supervisory activities and preliminary analysis of the data from the registers of information established under the DORA regulation[2] show technological dependencies within the financial sector to be significant. At the end of 2025, the intermediaries directly supervised by Banca d'Italia[3] relied on more than 3,600 ICT service providers and subcontractors, for a total of around 9,600 contracts. Around 95 per cent of contracts involved third-party service providers; they are chiefly located within the euro area, and around half support critical or important functions. With regard to these functions, analysis of the data has found significant concentration effects: the top four direct service providers account for around 50 per cent of total expenditure on ICT third-party services. Furthermore, supply chains often involve a multi-level subcontracting process and are characterized by limited substitutability of providers, highlighting significant operational dependencies and the need to strengthen the exit strategies and business continuity plans set out in the DORA regulation.

1 By Fulvio Di Stefano.

2 Data as at 31 December 2025.

3 This includes less significant banks, 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.

15 Measures under assessment include, but are not limited to, the possibility of ensuring power continuity for critical financial operators even in situations of prolonged energy emergency.

16 The 2026 Cross-Border Coordination Exercise (CBCE) consisted of several sessions held between March and May and ended on 18 May, at the meeting of G7 finance ministers and central bank governors. The exercise involved 24 financial authorities of G7 countries and simulated a large-scale cyber incident, testing the mechanisms for cross-border communication and coordination among authorities. For more details, see Banca d'Italia's website, 'G7 Cyber Expert Group: 2026 international cyber exercise successfully concluded', 3 August 2026.

Supervisory action was complemented by focused dialogue with intermediaries and service providers to raise their awareness of new risks, in line with supervisory expectations.[4] This intent is reflected in Banca d'Italia's communication of 17 July 2026 on digital operational resilience and advanced AI models, which called intermediaries' attention to both the opportunities afforded by the adoption of AI and the risks to cybersecurity and operational resilience it involves.[5] While AI models can enhance the capacity to monitor cyber incidents, as well as to detect and respond in the event of a cyber incident, they also have the potential to make cyberattacks more successful. The communication therefore stressed the need for improving governance and 'cyber hygiene' procedures, ICT vulnerabilities and resources management, monitoring systems, and ICT and third-party risk testing and assessment, in line with the framework introduced by the DORA regulation. Banca d'Italia invited intermediaries to carry out an in-depth assessment of their safeguards and to submit a report with an action plan for improvements that is consistent with their risk profile by 31 December 2026.

[4] Banca d'Italia's main forums for discussion with the sector include the 'Workshop on Digital Operational Resilience with financial sector trade associations', Rome, 4 February 2026 and the 'Workshop on digital operational resilience and advanced artificial intelligence models. Banca d'Italia's Communication of 17 July 2026', Rome, 9 October 2026.

[5] Banca d'Italia, 'Communication to the market on digital operational resilience and advanced artificial intelligence models', 17 July 2026. The communication is in line with that sent to euro-area significant banks by the Chair of the Supervisory Board of the European Central Bank: 'Addressing AI-enabled cybersecurity threats', 7 July 2026.

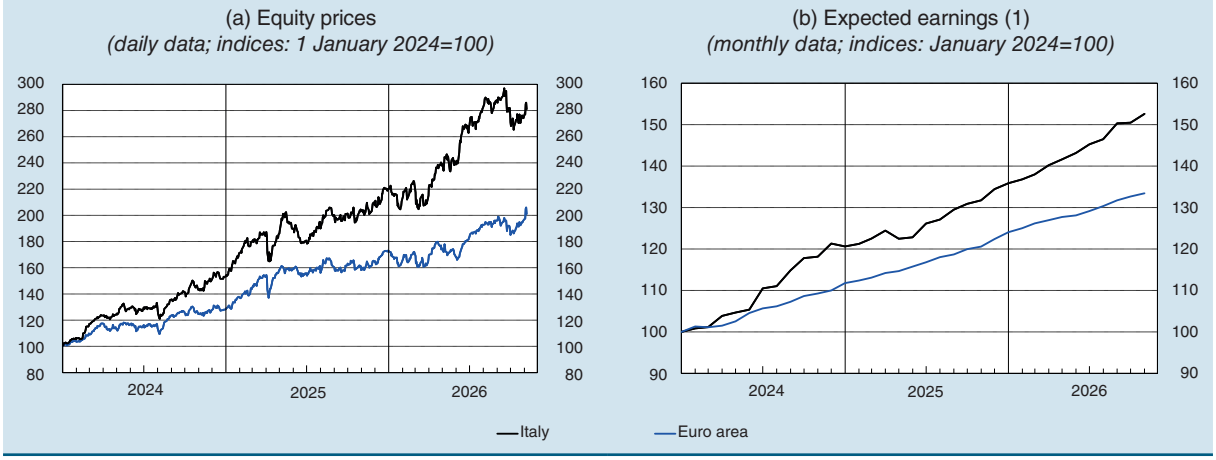
2.2 INSURANCE COMPANIES

Risks to the insurance sector remain broadly stable. Capitalization was high in June; profitability rose slightly in the first half of the year and could be adversely affected going forward by the increase in unrealized losses observed in the second half of the year as a result of higher interest rates. Liquidity conditions remained sound.

Market indicators point to a favourable outlook. The recent decline in equity prices, which began in the second half of September following the record highs reached during the summer months, reflects

Figure 2.14

Market indicators for insurance companies



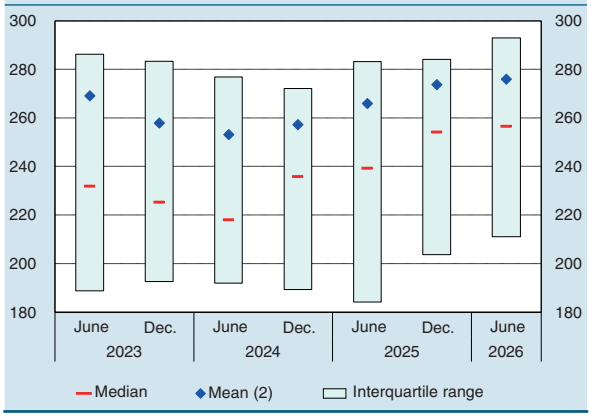
Source: Based on LSEG data.
(1) Average of expected earnings per share in the 12 months following the reference date for a sample of the leading Italian and euro-area insurance companies, weighted by the number of outstanding shares. For Italy, the data refer to Assicurazioni Generali, Revo Insurance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

the broader market development and does not affect the overall positive outlook for the sector. Expected earnings growth for Italian insurance companies remains stronger than the euro-area average (Figure 2.14).

The capital position of insurers remains sound. The average solvency ratio stood at 276 per cent in June, up slightly from 274 per cent in December 2025 (Figure 2.15) and above the European average (252 per cent). From 2027 onwards, the ratio is expected to increase further as a result of the review of the Solvency II framework (see the box 'Impact assessment of the Solvency II Review'). In the breakdown of the solvency requirement, the contribution of investment risks remains greater than that of insurance risks (see Table A8 in the Appendix). Among the former, the share accounted for by interest rate risk has increased; among the latter, surrender risk remains the predominant component.

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.

IMPACT ASSESSMENT OF THE SOLVENCY II REVIEW[1]

The revised Solvency II framework will become fully operative on 30 January 2027.

The aim of the European legislator is to enable insurance companies to contribute more to the European economy, by incentivizing long-term investment, technological innovation and sustainability. A recalibration of capital requirements that makes equity investment, including private equity and venture capital, more attractive will also help attain this objective. However, the reform does not envisage any specific constraints on the use of the capital that will be released thanks to the changes introduced. The European Commission has therefore entrusted the European Insurance and Occupational Pensions Authority (EIOPA) with the task of monitoring the actual allocation of this freed-up capital; IVASS will also contribute to this work.

To estimate the impact of the review on the Italian insurance sector, IVASS carried out an impact assessment based on data as at 31 December 2025. As expected, the results point to a strengthening of capital ratios and a significant release of capital, mainly due to the lowering of the technical provisions.

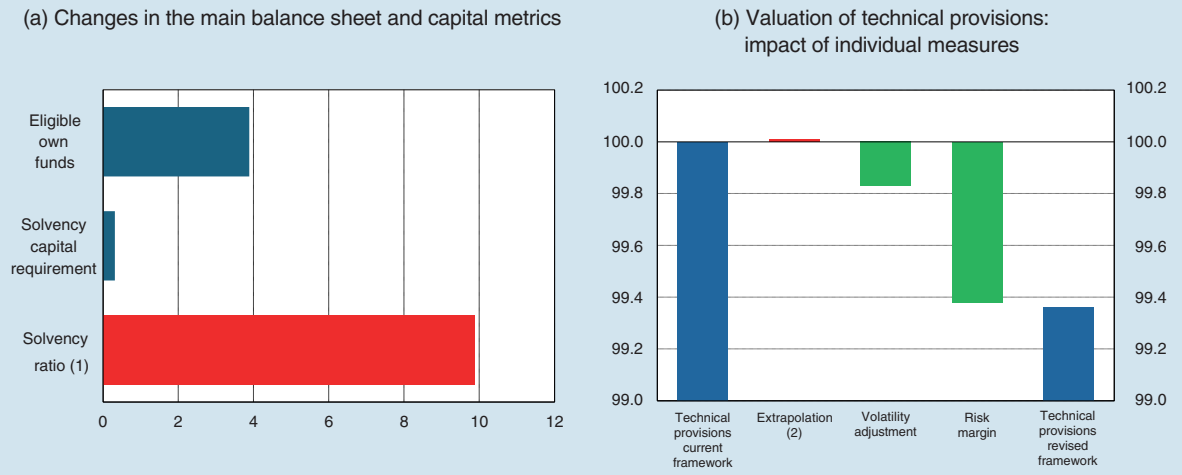
The survey involved 49 insurance undertakings, which account for 83 per cent of assets on the Italian market. The entry into force of the new rules would free up about €5 billion in capital and raise the solvency ratio by 10 percentage points. The improvement would mainly stem from the increase in own funds, corresponding to about 4 per cent (see panel (a) of the figure), due to a decrease in technical provisions of just under €6 billion, equivalent to 0.64 per cent of their total amount at the end of 2025. This reduction is mainly due to changes in the calculation of the risk margin and volatility adjustment. By contrast, the increase in technical provisions resulting from the revised method for extrapolating long-term risk-free interest rates is very small under current market conditions, which are characterized by relatively high interest rates (see panel (b) of the figure).[2]

[1] By Marco Ligios.
[2] The new extrapolation method generates lower long-term rates than the current method and therefore results in higher technical provisions. The impact is greater in low interest rate environments and tends to cancel out when interest rates are high.

Figure

Estimated impact of the Solvency II Review on Italian insurance companies

(data as at 31 December 2025; per cent, unless otherwise specified)



Source: IVASS.
(1) Percentage points; for the definition of the solvency ratio, see note 1 to Figure 2.15. – (2) Extrapolation of long-term risk-free interest rates.

While the Solvency Capital Requirement (SCR) is expected to remain broadly stable overall, the impact of the review on individual insurance companies will change depending on the method of calculation used. In particular, insurance companies that adopt the standard formula are likely to be penalized, seeing an average increase in the requirement of 4.5 per cent; for companies using the internal model, instead, the requirement could fall by about 3 per cent.[3]

[3] While the capital requirement for all insurance companies was reduced as a result of changes to the volatility adjustment, the increase for those that adopt the standard formula is attributable to changes in the method for calculating the interest rate risk requirement introduced to correct some prior shortcomings. The current method is based on interest rate curve stress scenarios whose calibration proved inadequate to capture financial market conditions, especially during low for long interest rate periods. Companies using an internal model are not affected by these changes because they had already revised their methodologies in previous years; in their case, therefore, the capital requirement decreases.

The Italian Insurance Supervisory Authority (IVASS) estimates that the impact of higher yields on own funds resulting from changes in the assets and liabilities outstanding as at 30 June will be limited:[17] the effect of the decline in the value of investments might be mitigated by a reduction in technical provisions.

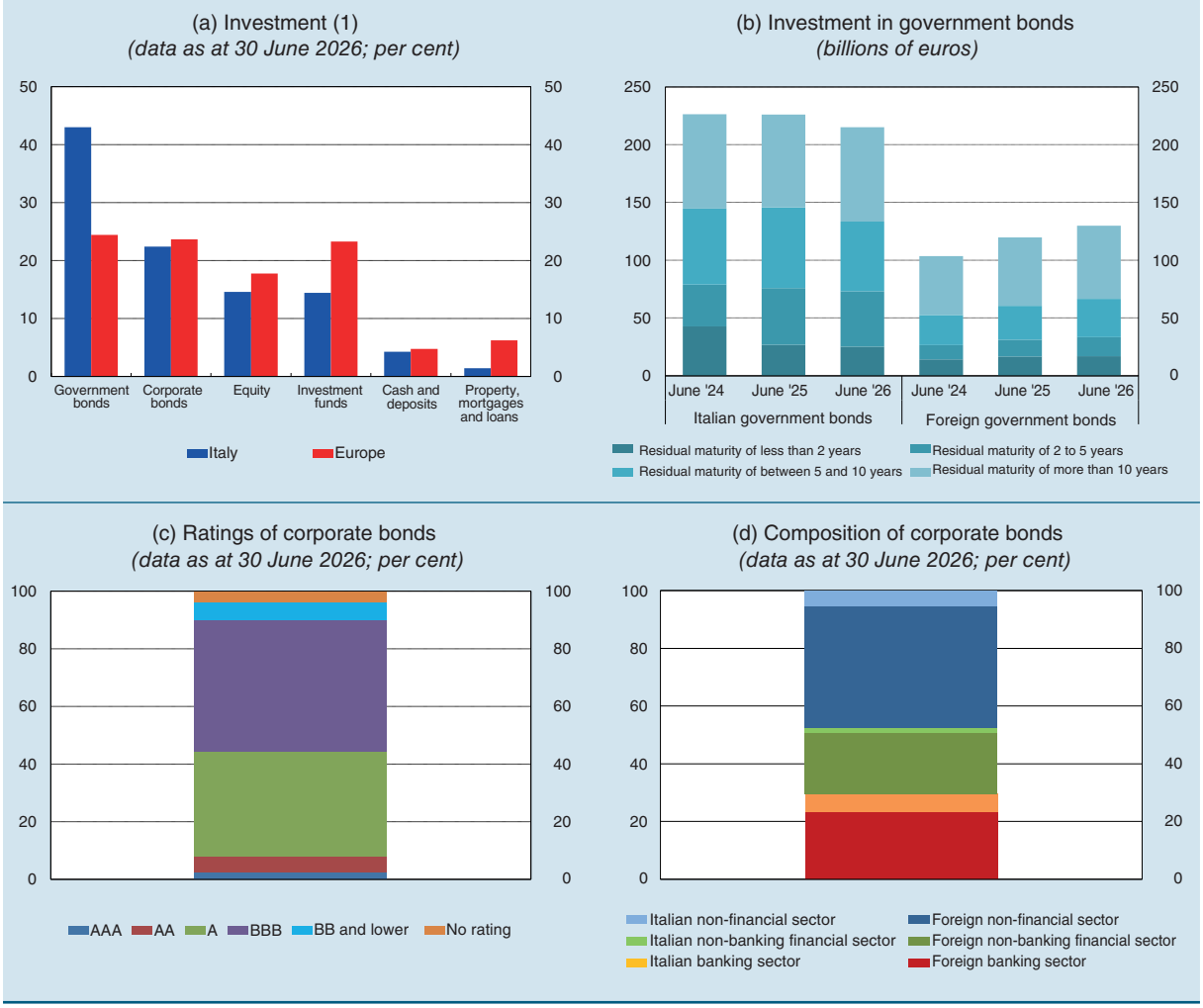
The quality of investments remains high. The value of insurers' investments reached €1,125 billion in June, up by 3 per cent compared with the end of 2025. Government securities, mainly Italian government bonds, still account for 43 per cent of the investment portfolio for which insurers bear the risk (€802 billion). Despite declining gradually, this share remains well above the average for European insurers (25 per cent; Figure 2.16.a). Among government bonds, the share of Italian securities went down to 62 per cent (from 64 per cent in December; Figure 2.16.b), contributing to a gradual diversification of the portfolio. For both Italian and foreign government bonds, securities with a residual maturity of more than ten years still account for the largest share (38 and 49 per cent, respectively), in line with

[17] This assessment is based on the interest rates observed at the end of September, to which a further increase of 100 basis points is applied.

the long-term nature of insurance liabilities. Corporate bonds, mostly issued by foreign companies and with more than half attributable to the financial sector, remained stable at 22 per cent of the total (Figure 2.16.d). The breakdown by rating also remained unchanged compared with the end of 2025, with BBB and A-rated securities accounting for the largest shares (45 and 37 per cent, respectively; Figure 2.16.c). Equity and investment funds were stable at 15 and 14 per cent respectively.

Figure 2.16

Insurance company investments



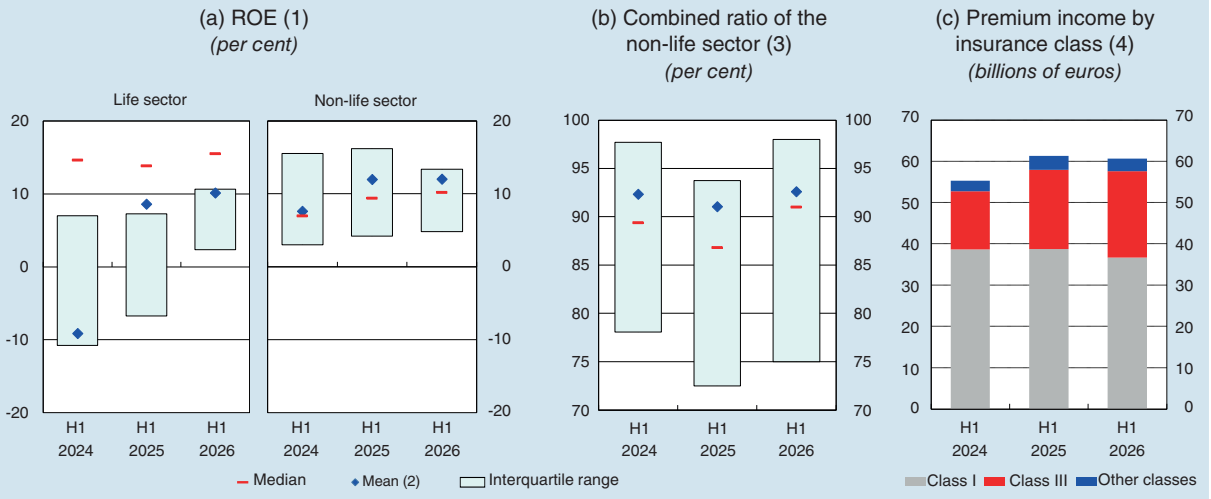
Sources: IVASS and EIOPA.
(1) The data for Europe refer to the European Economic Area.

The profitability of the sector improved slightly in the first half of 2026. Total ROE stood at 11 per cent. In the life segment, it rose to 10 per cent (Figure 2.17.a); against a backdrop of broadly stable premium income (Figure 2.17.c), profitability benefited from a reduction in net unrealized losses, which fell to €2 billion in June (from €6 billion at the end of 2025; Figure 2.18).[18] In the non-life sector, ROE remained unchanged at 12 per cent; the positive trend in premium income (up by 5 per

[18] A limited number of Italian insurers, which account for around 3 per cent of the sector's assets, opted to temporarily freeze the effect of unrealized investment losses on the profitability for the first half of 2026, as permitted by IVASS Regulation 57/2026.

Figure 2.17

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



Source: IVASS.
(1) Ratio of earnings to shareholders' equity. The half-yearly data are not annualized and are based on a representative sample of the main Italian companies. – (2) Weighted average with weights equal to the denominator of each ratio. – (3) Ratio of claims plus operating expenses to premium income. The data for the first six months of 2026 are taken from the quarterly Solvency II supervisory reports based on the quantitative reporting templates. – (4) '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.

cent compared with June 2025) was accompanied by a mild increase in the combined ratio (to 93 per cent; Figure 2.17.b).

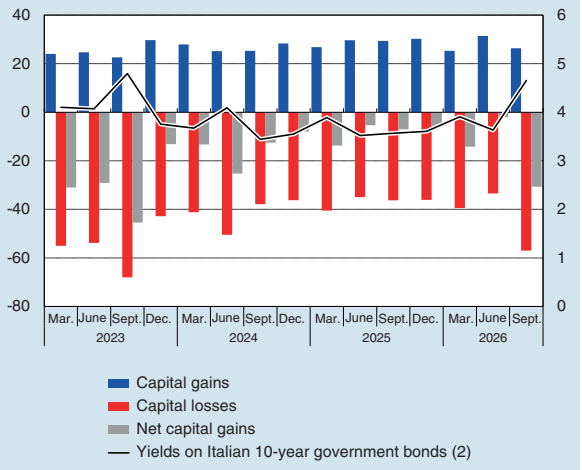
The recent increase in unrealized losses could have a negative impact on profitability. Following the rise in interest rates, net unrealized losses increased again in the second half of the year, to €31 billion at the end of September (Figure 2.18).

Liquidity conditions remained broadly stable. In June, the median value of the liquid asset ratio[19] remained unchanged at 58 per cent, higher than the European level (45 per cent in March 2026). In the life segment, the ratio of surrenders to premium income inched down in September year on year (from 70 to 67 per cent).

Operational and cyber risks are becoming more significant. The number of major incidents reported to IVASS in accordance with the DORA Regulation increased (24 in the first

Figure 2.18

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.

[19] 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 risk monitoring methodology of the European Insurance and Occupational Pensions Authority (EIOPA).

half of 2026,[20] up from 8 in the same period of 2025). In line with the initiatives undertaken by Banca d'Italia and various international bodies (see the box 'Enhancing the digital operational resilience of the Italian financial system'), on 17 July IVASS published a Communication to the market on digital operational resilience and advanced artificial intelligence models, calling on firms to strengthen their safeguards in these areas, in accordance with the requirements of the DORA Regulation.

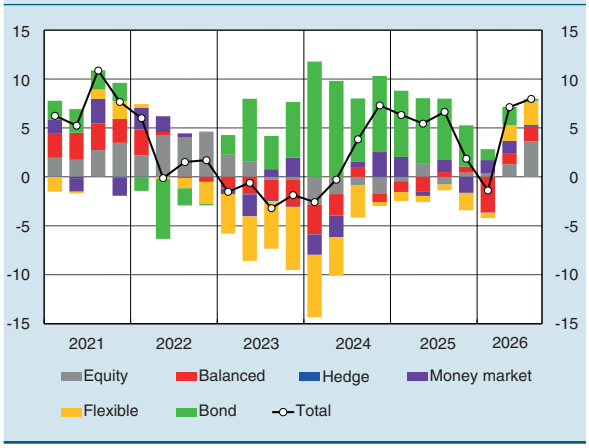
2.3 THE ASSET MANAGEMENT INDUSTRY

In the second and third quarters of 2026, net inflows into the Italian asset management industry turned positive again, following the outflows recorded after the outbreak of the conflict in the Middle East. Risks remain moderate.

Open-end investment funds managed by companies that are part of Italian groups have recorded significant net inflows since April, in line with developments in the euro area. Net inflows amounted to €15.1 billion, following outflows in February and March (Figure 2.19). Assets in this sector, which accounts for about half of the funds distributed in Italy, grew by 7.1 per cent, to €724 billion. Net subscriptions were recorded for all the main categories, especially for equity and flexible funds. A significant contribution to inflows came from 'target-maturity funds',[21] which accounted for almost all of the net flows into Italian funds over the period. By contrast, funds that comply with environmental, social and governance (ESG) criteria experienced net outflows. Italian open-end funds' exposure to US securities, most of which are equities, remains lower than in the rest of Europe.

Figure 2.19

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 Q3 2026.

The liquidity of open-end funds does not point to any material vulnerabilities. The liquidity risk of Italian non-equity funds did not change (Figure 2.20.a);[22] the share of funds that are vulnerable to especially high redemption requests remained small, at around 2.6 per cent of the total.[23] According to a supervisory analysis by Banca d'Italia, the policies adopted by managers of open-end funds most exposed to liquidity risk are broadly compliant with the current regulatory framework; however, there is scope for improvement in the design and implementation of stress tests.[24] A more stringent European regulatory framework, along the lines of that already applicable to money market funds, could help in this regard.

[20] Of which 17 were operational incidents and 7 were cyber incidents (based on preliminary data).

[21] These are mainly bond and mixed funds with a predefined subscription period (a placement window typically lasting between six and twelve weeks), a medium-term investment horizon (between five and seven years), and a strategy aimed at optimizing returns over the investment period. These funds usually charge placement fees, a large share of which is rebated to distribution networks, as well as redemption fees that decline over time. On the one hand, this arrangement tends to discourage early redemptions by investors, thereby reducing liquidity risk; on the other hand, it is associated with higher average costs for investors. Assets in this category of funds account for just under one third of total assets managed by Italian open-end funds.

[22] 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 2.20).

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

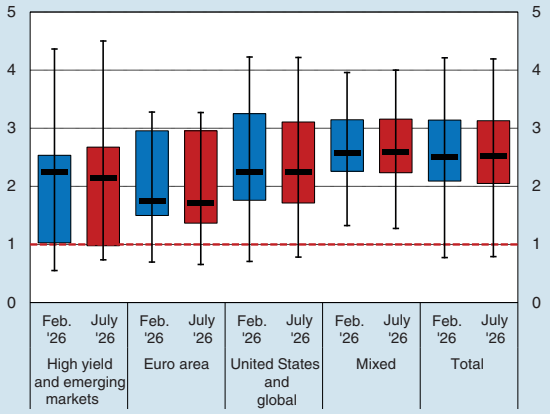
[24] This analysis builds on an initial assessment conducted in 2024, the findings of which are described in the box 'Analysing the liquidity stress tests carried out by the managers of vulnerable open-end funds', *Financial Stability Report*, 2, 2024.

Borrowing from banks and other intermediaries[25] is still limited, as is derivative exposure. At the end of August, synthetic leverage, i.e. the ratio of gross notional exposure in derivatives[26] to net assets, was less than 1. In 2026, net margins paid remained well below available liquidity (Figure 2.20.b); after increasing in March and April, amid market tensions linked to the conflict in the Persian Gulf, they returned to moderate levels.

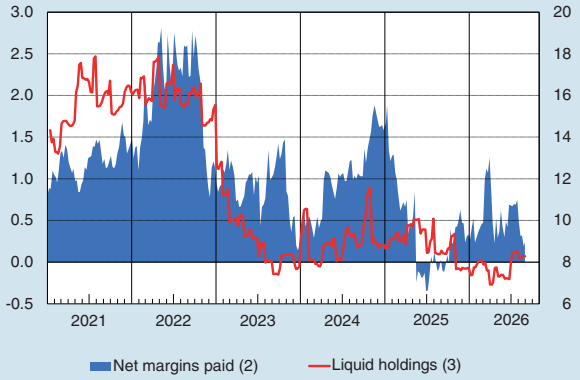
Figure 2.20

Liquidity risk indicators for Italian open-end investment funds

(a) Indicator of vulnerability to liquidity risk stemming from redemptions of Italian fund shares (1)
(percentage share of assets)



(b) Net margins paid and liquid holdings
(weekly data; billions of euros)



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 November 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 August 2026. Right-hand scale.

In the first half of the year, the total assets under management of Italian non-real estate alternative investment funds (AIFs) – mainly private equity, private debt and venture capital funds – continued to increase (4 per cent). Assets in this sector exceeded €60 billion; less than one tenth of total assets pertain to sub-threshold managers,[27] the rules for which were amended by the reform of the Consolidated Law on Finance (TUF).[28]

[25] 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.

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

[27] 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).

[28] The new provisions introduce a registration regime, replacing the authorization regime, for sub-threshold managers, who will no longer be subject to microprudential supervision. 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 monitoring and oversight powers, including on-site inspections. Primary legislation provides for a transitional period during which existing sub-threshold managers must notify Banca d'Italia whether they intend to opt into the regime applicable to authorized managers, by complying with its requirements, or instead be reclassified as registered managers, provided that they meet the relevant eligibility criteria.

The sector continued to show vulnerabilities at the global level, particularly in private credit. Concerns about loan quality and the adequacy of valuations led to a sharp increase in redemption requests from semi-liquid funds, especially in the United States.[29] The risks to financial stability associated with these episodes may be amplified by the growing interconnectedness between funds and other financial intermediaries, particularly banks, as well as by persistent data gaps (see the box 'Private credit growth and risks to financial stability: interconnection channels and data gaps').

PRIVATE CREDIT GROWTH AND RISKS TO FINANCIAL STABILITY: INTERCONNECTION CHANNELS AND DATA GAPS[1]

Global private credit growth has enabled the development of an alternative source of funding. However, it has also strengthened the links among funds, banks and other financial intermediaries, creating additional channels for shock transmission. Assessing and managing the resulting risks is complicated by poor transparency in the sector and persistent data gaps.

Private credit funds have expanded rapidly in recent years, into a roughly $2 trillion industry at the end of 2025 (see the figure). Although the sector has developed largely in the United States, lending to European firms has also increased considerably. The domestic industry remains small in Italy: over the last three years, more than 80 per cent of loans to resident firms (€15 billion) have been granted by foreign intermediaries.

Private credit funds tend to target market segments less served by traditional bank lending, particularly riskier and more innovative businesses. However, the sector's expansion goes together with potential vulnerabilities, highlighted in recent months by a number of US borrowers' bankruptcies and the funds' high exposure to IT firms, which may be adversely affected by the spread of AI.[2]

In the event of instability in the private credit sector, risks can spread to other financial intermediaries, particularly banks, given the growing interconnections. Banks typically take on direct exposures to private credit players by financing funds, asset managers or special purpose vehicles (SPVs);[3] in the latter case, the intermediary provides credit to an SPV managed by a fund or buys a tranche of collateralized loan obligations (CLOs) issued by an SPV. In addition, where a bank lends to a firm that also borrows from a private credit fund, its exposure to that firm can be both direct, through the bank loan, and indirect, if the bank also finances the fund.

1 By Raffaele Gallo and Gennaro Fusco.

2 FSB, *Report on vulnerabilities in private credit*, 6 May 2026.

3 These various approaches are associated with different prudential treatments. More specifically, SPV financing allows banks to take on exposure to a portfolio of firms with a significantly lower capital absorption than is the case for direct lending. For more details, see M.A. Aiello, R. Gallo and I. Quaglia, 'European banks and private markets: mapping the linkages', *VoxEU CEPR*, 2 September 2026.

29 Semi-liquid funds (liquidity-offering vehicles) mainly invest in illiquid assets, such as loans to unlisted companies, and provide investors with periodic redemption opportunities, typically on a quarterly basis. Redemptions are subject to a number of restrictions, such as caps on redemption amounts (usually 5 per cent of net asset value), notice periods, and early redemption fees. These concerns were fuelled by some insolvency cases and by exposures to software firms that are potentially penalized by the spread of artificial intelligence. Many of the funds affected by the increase in redemption requests applied the redemption limits set out in their regulations. The tensions were absorbed without the need for forced asset sales, and preliminary data for the third quarter point to a gradual easing of redemption requests, although these remain high for some special purpose vehicles.

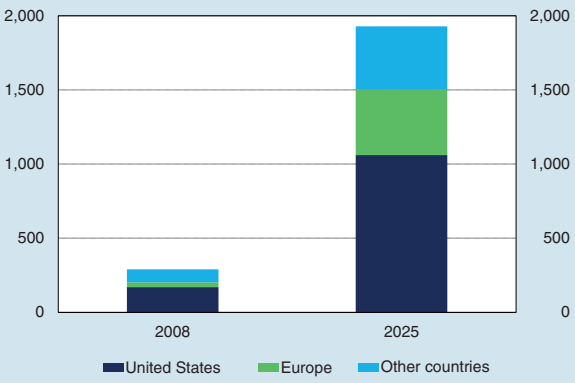
The relationship between banks and funds can also operate the other way round, as the former may transfer the credit risk of a loan portfolio to a non-bank investor, as in synthetic risk transfer (SRT).[4]

Available estimates suggest that euro-area banks' direct exposures to private credit funds are growing (they had reached €60-70 billion by the end of 2024),[5] concentrated in a limited number of large institutions and mostly in the form of SPV financing. Italian banks' exposures are small, overall, and largely arise from investments in CLOs.

Figure

Private credit funds' assets by geographical area of the fund's domicile

(billions of US dollars)



Source: PitchBook.

However, these estimates provide a partial picture of overall linkages. Despite growing international initiatives to map the sector, there are still significant data gaps on financial leverage and interconnections along the entire intermediation chain, including exposures to common borrowers and links with foreign asset managers. Regulatory fragmentation across jurisdictions further reduces transparency and may encourage regulatory arbitrage.

[4] In SRT, unlike in traditional securitization, the underlying exposures remain on the bank's balance sheet, while the credit risk associated with those exposures is transferred through credit protection instruments, such as credit derivatives or guarantees; see Article 2(10) of Regulation (EU) 2017/2402.

[5] K. Cera, D. Dieckelmann, K. Nikolov, G. Schepens and O. Schwartz Blicke, 'Stress in global private credit markets and its implications for euro area financial stability', in ECB, *Financial Stability Review*, May 2026, and FSB, 2026, op. cit.

In Italy, private credit risks are limited. Resident funds mainly purchase loans originated by third parties, most of which are non-performing loans (mainly unlikely-to-pay exposures), and are set up as closed-end funds.[30] Assets in this segment continued to increase, reaching €20 billion (one third of total non-real estate AIF assets), also benefiting from positive net subscriptions.

Italian private equity and venture capital funds grew modestly; their assets increased by 2.5 per cent in 2026. Thanks to the strong growth recorded over the past decade, these assets stood at around €31 billion, but remain small compared with those in the main European economies. The segment's development has helped diversify firms' sources of financing, but it is also subject to vulnerabilities: investments are concentrated in highly leveraged transactions (buyouts), and divestments are carried out mainly through sales to other private equity funds rather than through stock market listings.[31]

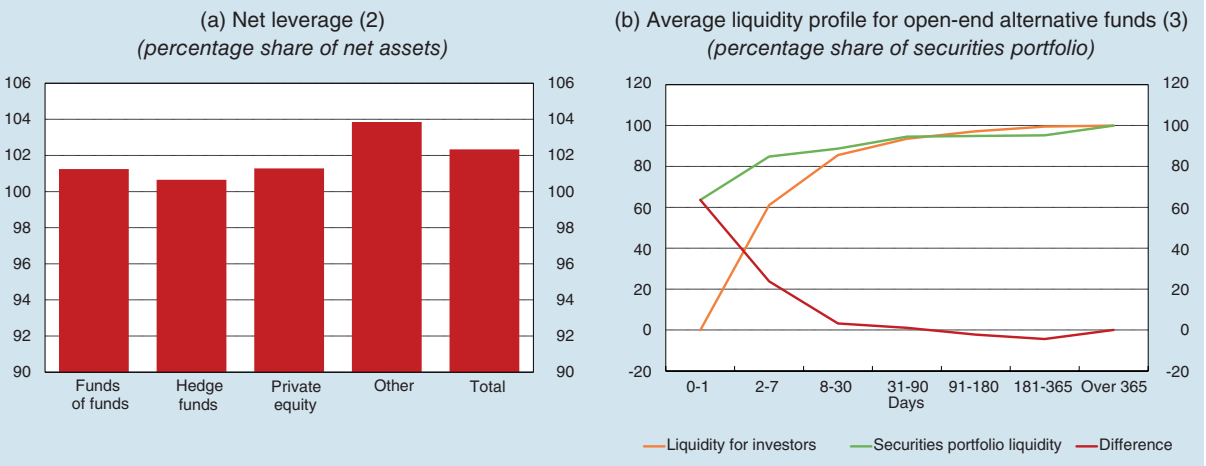
[30] In Italy, too, the transposition into the TUF of the amendments introduced by Directive (EU) 2024/927 (Alternative Investment Fund Managers Directive 2, AIFMD2) to the European asset management framework will allow open-end credit funds to be established under certain conditions. Specifically, the manager of an open-end credit fund must be able to demonstrate to the competent authorities that the fund's liquidity risk management system is compatible with its investment strategy and redemption policy. Banca d'Italia may prohibit such funds from operating in open-end form if these conditions are not met.

[31] Transactions aimed at financing firms' expansion accounted for just 10 per cent of the total (21 per cent on average in the EU). Sales to other private equity funds account for around half of total divestments by number of transactions (a higher share than in the major European countries), while stock market listings account for about 4 per cent, compared with 8 per cent on average in Europe; see D. Arnaudo, V. Cuciniello, G. Gobbi, F. Guerra, F. Labianca, V. Nigro, S. Pinoli, M. Rigon, P. Rossi, F.M. Signoretti and P. Tramontano, 'Capital for growth: the evolution, structure and role of private equity and venture capital in Italy', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 1061, 2026.

Leverage and liquidity risks for non-real estate AIFs remain limited. Direct leverage in non-real estate AIFs was broadly stable (102 per cent; Figure 2.21.a), while private equity funds' indirect leverage attributable to borrowing by direct and indirect subsidiaries fell further in 2026 (to 40 per cent). 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 2.21.b).

Figure 2.21

Indicators for Italian non-real estate AIFs as at June 2026 (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 by that date, and the liquidity profile for investors, equal to the average share of assets that investors in these funds can redeem in the same period. The estimate does not take account of cash holdings.

Fundraising in the crowdfunding sector continues to struggle. The decline in funds raised continued in 2026, with the exception of real estate projects financed through equity crowdfunding. The profitability of operators remains weak, with more than two thirds reporting losses.

In the first half of the year, assets managed by Italian real estate funds increased slightly, from €134 billion to €138 billion (Figure 2.22.a). Around two thirds of investors in the funds set up during this period are foreign investors (Figure 2.22.b). Fundraising for real estate development projects slowed. Real estate funds made net revaluations of assets under management amounting to 0.3 per cent of their portfolios, continuing the positive trend that began in the second half of 2024 (Figure 2.23.a).

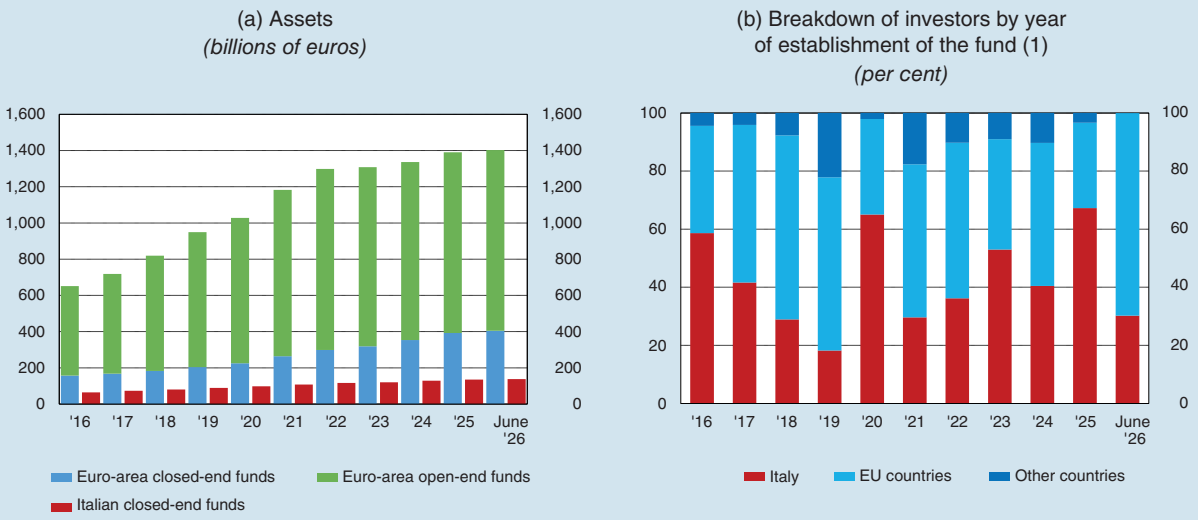
The risks to financial stability stemming from the activity of real estate funds remain limited. Unlike most European funds, Italian real estate funds are closed-end under current legislation and are therefore not subject to the liquidity risk arising from high redemption requests. Based on available real estate price data, the risk that, at maturity, the valuation of the funds' real estate portfolios could diverge significantly from market values also remains low (Figure 2.23.b).

[32] With the exception of the provisions introduced for credit funds through the transposition of AIFMD2 (see footnote 30), Italian legislation requires funds investing more than 20 per cent of their assets in illiquid assets to be set up as closed-end funds.

Leverage in real estate funds remains stable (130 per cent in June 2026; Figure 2.23.c). Banks and other intermediaries operating in Italy continue to have moderate direct exposures to the sector.

Figure 2.22

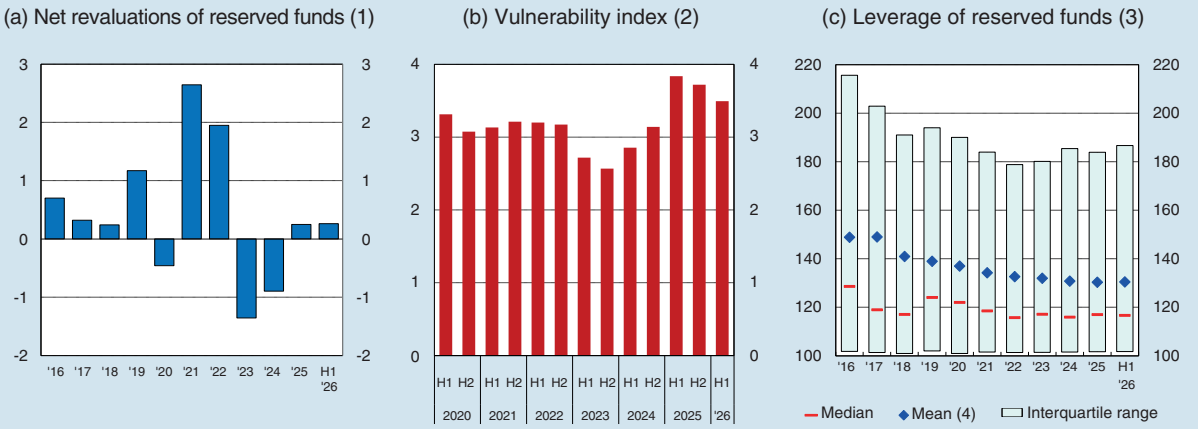
Real estate funds



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

Figure 2.23

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.

3 FINANCIAL STABILITY POLICIES

Banca d'Italia has confirmed the macroprudential measures currently in place. The risks to financial stability, as assessed within the scope of its product intervention power, are limited on the whole.

The standing macroprudential measures have been confirmed. As at 30 June 2026, the systemic risk buffer (SyRB) amounted to around €7.3 billion for the banking system as a whole, in terms of common equity tier 1 capital (CET1). The measure, which took full effect in June 2025 and was confirmed by Banca d'Italia last April, equals 1 per cent of credit and counterparty risk-weighted exposures to Italian residents.[1] The Bank kept the countercyclical capital buffer (CCyB) rate unchanged at zero per cent in the third and fourth[2] quarters of 2026 (see Table A11 in the Appendix).

The requirements for national systemic banks remain unchanged. Based on data as at 31 December 2025, Banca d'Italia confirmed the UniCredit, Intesa Sanpaolo, Monte dei Paschi di Siena, Banco BPM, BPER and ICCREA banking groups as other systemically important institutions (O-SIIs); the capital buffers set for 2027 remain unchanged for all groups.[3] This decision may be revised in light of the outcome of the mergers under way involving several intermediaries in the Italian banking system.

Banca d'Italia has identified the third countries that are material for the Italian banking system for the purposes of the application of the CCyB.[4] These include the United States, the United Kingdom, Switzerland and Russia. The risks of these four countries are monitored directly by the ESRB, which has recognized them as material for the entire European Economic Area.

The Bank has decided to reciprocate an Austrian macroprudential measure relating to the real estate sector.[5]

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.[6] To this end, Banca d'Italia

1 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 fourth quarter of 2026 remains unchanged at zero per cent', press release, 25 September 2026.

3 Banca d'Italia, 'Identification for 2027 of other systemically important institutions authorized to operate in Italy', press release, 23 October 2026.

4 Banca d'Italia, 'Identification by Italy of material third countries pursuant to Recommendation ESRB/2015/1 of the European Systemic Risk Board (ESRB)', press release, 3 July 2026.

5 Banca d'Italia, 'Decision to reciprocate a macroprudential measure adopted by Austria pursuant to Recommendation ESRB/2026/2 of the European Systemic Risk Board', press release, 31 July 2026. The decision concerns an increase to the SyRB for non-financial corporations in the construction and real estate sectors located in Austria, initially set at 1 per cent and recognized in Italy last January. The Austrian macroprudential authority increased the buffer to 2 per cent as of 1 July 2026 and will bring it to 3.5 per cent as of 1 July 2027. Exposures to limited-profit housing associations are exempt from the measure.

6 The same power is also granted to the Italian Companies and Stock Exchange Commission (CONSOB), with the aim of safeguarding investors and 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'.

regularly conducts analyses of the risks that may stem from financial instruments traded, distributed or sold in or from Italy.[7] According to the most recent assessments of securities and derivatives, the risks to financial stability associated with the instrument categories examined are limited, on the whole. Certificates grew in the first half of the year, 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 first meeting of 2026 on 18 June.[8] Among the points discussed in the course of the meeting were the risks to the stability of the Italian financial system, ongoing macroprudential initiatives and the preliminary recommendations set out by the IMF in its recently concluded Financial Sector Assessment Program (FSAP) on Italy. The Committee also examined the analytical and operational framework that supports its tasks on benchmarks used in financial contracts. The next meeting of the Committee is scheduled for December 2026.

[7] 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'.

[8] Committee for Macroprudential Policies, 'Minutes of the meeting of 18 June 2026', 17 July 2026.