BANCA D'ITALIA

EUROSISTEMA

Annual Report at a Glance

Rome, 31 May 2022

2021

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THE 2021 ANNUAL REPORT AT A GLANCE

The international economy

[1] In 2021, the global pandemic situation improved considerably, thanks above all to the progress in the vaccination campaigns, which was more rapid in the advanced countries. The subsequent easing of the restrictions on mobility and the fact that economic policies remained expansionary on the whole fostered a faster and more robust recovery than expected in global demand, especially for goods. This benefited both world economic growth, which staged a strong recovery at 6.1 per cent, and international trade dynamics. In this context, inflation was driven up by the growth in commodity prices, especially those of energy and food products, and by the re-emergence of supply-side bottlenecks at global level.

Economic policies remained generally accommodative in the main advanced countries. On the fiscal front, governments continued to support demand, especially in the United States. In response to more intense and more persistent than expected inflationary pressures, the Federal Reserve and the Bank of England began to normalize their monetary policy stance in the autumn.

The tone of fiscal policies continued to be expansionary in the main emerging economies as well; that of monetary policies was instead varied, given the differing inflation dynamics across countries. While the central banks of China and India confirmed a moderately accommodative line, those of Brazil and Russia had gradually increased their reference rates from the start of the year.

Financial conditions, which had remained relaxed in early 2021, recorded a deterioration from autumn onwards, above all in the emerging countries, in part owing to the prospects of less accommodative monetary policy in the US and to the continuing appreciation of the dollar.

The Russian invasion of Ukraine in February 2022 led to a sudden worsening in global financial conditions and in the growth prospects for GDP and world trade, due to the heightened uncertainty, the further rise in commodity prices and the exacerbation of supply-side bottlenecks. In addition, the recent large-scale lockdowns in China and the more restrictive tone of economic policies, especially in the United States, will likely also contribute to curbing economic activity.

Italy's G20 Presidency provided a strong boost to the fight against the pandemic, put climate change back at the centre of the debate and finalized the agreement on tax rules for multinational companies.

BOXES:

The rise in global inflation: underlying factors and prospects

Italy's G20 Presidency

Economic developments and fiscal policy in the euro-area

[2] Euro-area GDP rose considerably last year, after experiencing in 2020 the biggest contraction since the founding of the Economic and Monetary Union. This growth benefited from the progress made in the vaccination campaigns and the associated easing of the measures to contain the pandemic, the fiscal measures introduced to support the economy and the expansionary stance of monetary policy.

Nevertheless, the ongoing difficulties in the global supply chains and the sharp rises in energy prices weakened economic activity in the latter part of the year. The effects were exacerbated following the onset of the conflict in Ukraine in February, and looking ahead, they could worsen further, above all in the countries most dependent on energy supplies from Russia.

Consumer price inflation rose steadily, affected above all by the marked acceleration in the prices of energy products; it stood at 2.6 per cent on average in 2021, compared with a barely positive figure in 2020. In the early months of 2022, the higher commodity prices continued to push up price growth, which reached 7.4 per cent in March and April, the highest figure since the launch of the EMU. Inflation is likely to remain high for the rest of the year as well. Nevertheless, the surge in inflation has so far had a limited impact on wage growth; though strengthening slightly, the latter also remained moderate in the early months of 2022.

In part thanks to the economic recovery, the deficit and the public debt declined in almost all euro-area countries compared with the extremely high levels observed in 2020. In the euro area as a whole, the deficit stood on average at 5.1 per cent of GDP and the public debt was equal to 97.4 per cent of GDP. According to the European Commission's latest forecasts, they will decrease further in 2022.

The 'Next Generation EU' programme was started; under the Recovery and Resilience Facility, €100 billion have been disbursed to European Union countries so far. In 2022, the European institutions have undertaken initiatives to improve energy security and to support households and firms hit by the price hikes.

Last autumn, the Commission resumed the consultation on the review of European economic governance.

BOX:

The reform of European economic governance

Monetary policy in the euro area

[3] The ECB Governing Council maintained a highly expansionary monetary policy stance in 2021; at the end of the year, it judged that the progress on economic recovery and towards its medium-term inflation target allowed for a gradual normalization of monetary policy.

Under the pandemic emergency purchase programme (PEPP), which covers public and private sector securities, net asset purchases were regulated in a flexible way: following the sharp increases in the early months of 2021, they were gradually reduced starting from the last quarter of the year and were ended at the end of March 2022. Those made under the asset purchase programme (APP) continued, however, and their time frame has been set so as to make the decline in the total net purchases of the two programmes a gradual one.

The Eurosystem continued to support bank lending to households and firms via the third series of targeted longer-term refinancing operations (TLTRO III), the last auction of which was settled last December.

In July, the Governing Council approved the ECB's new monetary policy strategy, which adopts a symmetric inflation target of 2 per cent in the medium term. This formulation provides a clear anchoring to inflation expectations and implies that positive and negative deviations compared with the target are equally undesirable.

In the early months of 2022, because of the growth in inflation, the Council continued to reduce monetary accommodation, setting out the possible milestones for the coming months. Against a backdrop of heightened uncertainty caused by the conflict in Ukraine, it also reiterated the need for this to be a gradual process, characterized by flexibility and open to different options based on new data and on its assessment of developments in the macroeconomic situation; it also stated that it will take all the action necessary to guarantee price stability and preserve financial stability.

BOX:

The review of the ECB's monetary policy strategy

The Italian economy: an overview

[4] Last year Italy's GDP rose by 6.6 per cent, making up for two thirds of the exceptional contraction that occurred in 2020 due to the health crisis. The recovery spanned all the geographical macro-areas: growth was 7.2 per cent in the North-East, 6.8 percent in the North-West, 6.1 per cent in the Centre and 5.7 per cent in the South and Islands. Economic activity was particularly vigorous in the two middle quarters of the year, driven by the easing of restrictions as a result of roll-out of the vaccination campaigns; however, it slowed in the fourth quarter, reflecting difficulties in procuring intermediate goods, the resurgence of the pandemic and the sharp increase in commodity prices, especially energy commodities. The number of people employed and that of hours worked rose, although they both remained below pre-pandemic levels.

The economic recovery and the associated sharp increase in tax revenue led to a significant improvement in the public accounts. The ratio of general government net borrowing to GDP decreased compared to the very high 2020 level (from 9.6 per cent to 7.2 per cent) thanks to a lower primary deficit. After rising by more than 20 percentage points in 2020, last year the debt-to-GDP ratio fell by 4.4 percentage points, to 150.8 per cent.

Inflation, as measured by the twelve-month change in the harmonized index of consumer prices (HICP), rose to 1.9 per cent on average for the year, after being virtually nil in 2020. The rise in prices was driven, mainly in the second half of the year, by higher energy prices. Core inflation instead remained low, in part thanks to moderate wage growth.

At the start of 2022, economic activity was affected by the rapid rise in new cases of the Omicron variant of COVID-19, the difficulties encountered in procuring intermediate goods and the rise in energy prices. Since the end of February, the effects of the Russian invasion of Ukraine have caused further spikes in the prices of the goods for which the two countries are major exporters. Higher energy and commodity prices, dependency on Russia for a significant share of our energy needs, the slowdown in trade, and more generally the increase in uncertainty regarding the global macroeconomic scenario are some of the elements of the conflict that could have significant repercussions for the Italian economy.

GDP fell by 0.2 per cent in the first quarter of this year, almost standing still in industry and declining in services. High-frequency data indicate that a modest recovery in economic activity is under way in the second quarter of 2022, although there are wide margins of uncertainty owing to the extreme volatility of the macroeconomic situation. In April, inflation rose to 6.3 per cent (core inflation to 2.2 per cent). The inflation expectations of firms, households and analysts are also rising significantly.

The Government expects a further improvement in the public budget balances for this year. The achievement of the public finance objectives will hinge upon developments in the war in Ukraine and in the pandemic, as well as the capacity to proceed with the implementation of the National Recovery and Resilience Plan (NRRP). Given that Italy met the 51 milestones and targets set for 2021, in April of this year the European Commission made the first disbursement of funds under the NRRP: €21 billion, divided between €10 billion in grants and €11 billion in loans. There are 100 targets set for 2022 and they mainly regard the missions involving digitalization and the green transition.

BOXES:

Energy sources and uses in Italy and the European Union

The impact of the war in Ukraine on Italy's growth and inflation outlook

The implementation of the NRRP: results achieved and deadlines in 2022

Households

[5] In 2021, household disposable income increased significantly, thanks primarily to the rise in employment, while in real terms its dynamic was weaker. It was still

supported by measures adopted to combat the pandemic, which cushioned the effects of the crisis on inequality and poverty, whose levels continue to be historically high.

Consumption, while rising rapidly, only partly recovered from the sharp contraction in 2020; the gap in spending in the tourism and recreation sector remains large compared with pre-pandemic levels. The propensity to save decreased from the peaks hit in 2020, but remains high compared with the last two decades.

In early 2022, household spending, which is recovering thanks to the improvement in the COVID situation, was held back by inflation, which has been rising since the second half of 2021, and by the drop in confidence sparked by the war in Ukraine. The fallout of rising energy prices has been partly mitigated by Government measures in support of households, especially lower income ones.

Disbursement of the single and universal children's allowance, a measure that has strengthened and streamlined the system of support for households with children, began in March 2022.

Real-estate wealth rose in 2021, in line with the increase in housing prices. However, the market outlook worsened in the early months of 2022, in part due to the uncertainty generated by the invasion of Ukraine, which put a damper on households' purchasing intentions. Financial wealth rose at a faster pace.

BOXES:

Italian household income and wealth: a comparison between 2016 and 2020

The cost of rearing a child

Firms

[6] In 2021, production began to expand again, especially in manufacturing and in construction, while rising more moderately in services. Only the residential building sector was able to fully return to its pre-pandemic level, having benefited from sizeable tax incentives for renovating and improving existing homes.

On the one hand, the recovery was supported by the roll-out of the vaccination campaign, which made it possible to ease measure for containing the spread of the virus; on the other, it was held back by persistent difficulties in procuring intermediate goods in the global supply chains and, especially starting in the second half of 2021, by rising commodity prices, particularly for energy commodities. The outbreak of the conflict in Ukraine last February worsened these tendencies. The Bank of Italy's surveys indicate that most firms have experienced ongoing problems in obtaining inputs and have seen their costs rise significantly, situations they expect to persist for the rest of 2022. In a context that has become even more precarious, firms plan to slow investment for the year.

The firm birth rate returned to pre-pandemic levels in 2021, while the market exit rate fell further from the already low level of 2020, especially in the sectors that benefited the most from government support measures.

The digital and green transition of the economy are the main lines of actions laid out in the NRRP. The production system has made considerable progress in digitalizing corporate processes: basic digital technologies have become more widespread, including among small and medium-sized enterprises, and the use of remote working has continued, albeit to a lesser extent than in 2020. There continue to be, however, areas in which Italy lags behind, especially in the use of the most advanced digital technologies and among firms with managers with low educational attainment.

Whether it will be possible to meet the European Commission's targets for cutting greenhouse gas emissions by 2030 and to achieve net zero emissions by 2050 will also depend on firms' green transition plans, which were hindered by the pandemic. The recent increases in energy commodity prices, combined with the NRRP policies, guided by sustainability criteria, should provide additional momentum.

BOX:

The reallocation of resources during the pandemic

The financial situation of households and firms

[7] In 2021, households' financial situation was helped by the growth in disposable income and the increase in the value of portfolio assets. They continued to diversify risk by increasing the share of their wealth invested in assets under management. Lending by banks for house purchase picked up and the take-up of consumer credit grew, although at lower rates than in the period prior to the pandemic. Following the Russian invasion of Ukraine, consumer confidence dropped abruptly, including the outlook for credit access.

Last year firms' profitability improved – although it remained slightly lower than in 2019 – and the ample liquidity, which increased further, helped to limit the need for new loans. The growth in debt was also slow in the first few months of 2022, being almost zero for the smallest firms, which continue to encounter greater difficulty in obtaining financing. Following the outbreak of the conflict in Ukraine, banks' lending criteria have tightened, primarily due to the uneasiness about the economic outlook. In the coming months, credit access conditions are expected to be impacted by higher energy costs and difficulties in procuring commodities and intermediate inputs.

Total private debt (households and firms) is still considerably lower than the European average and that of other advanced economies.

BOX:

New firms' access to credit

The labour market

[8] The recovery of economic activity in 2021 led to a relatively limited increase in the number of people employed and a more marked rise in the number of hours

worked, which in 2020 had absorbed most of the decrease in labour demand. At the end of the year, however, hours worked per capita were still below pre-pandemic levels, also owing to the still intense use of wage supplementation schemes. In early 2022, employment grew at a slightly faster rate, but recourse to wage supplementation (*cassa integrazione guadagni*) remained high.

Employment expanded at a very different pace across different categories of workers and sectors. It only increased for payroll employment (especially fixed-term contracts, which had dropped sharply in the early months of the pandemic) and was more intense for the male component. It accelerated considerably in construction and turned upward in manufacturing and trade, returning to the pre-pandemic growth trajectory. Employment dynamics in the tourism sector were instead much weaker than in the two years before the crisis.

Labour market participation increased significantly, especially among young people and women, which more than other population segments had stopped looking for a job owing to the poor chances of success and the constraints introduced to contain infection. The task of facilitating the transition toward new jobs falls first and foremost upon active labour market policies, which have historically played a limited role in Italy. Demographic trends continue to curb the expansion of the economically active population, owing above all to the reduction in the working age population.

The growth in wages provided for by national collective bargaining agreements remained moderate in 2021 and in the first quarter of 2022. Those currently in force were, for the most part, renewed before the unexpected rise in inflation; the weakness in demand slowed the pace of the negotiations to renew the agreements in the service sectors hardest hit by the pandemic. At present, the risk of a wage-price spiral is reduced by the still ample margins of spare labour capacity as well as by some structural characteristics of the Italian collective bargaining model (i.e. the long duration of these agreements, the use of inflation net of imported energy goods as a base for negotiating renewals, and the limited use of clauses that entail a renegotiation of wage increase should inflation be higher than forecast).

BOX:

Active labour market policies: best practices in the major European countries and the case of Italy

Prices and costs

[9] In 2021, consumer prices in Italy returned to growth, driven – especially in the second half of the year – by the rise in energy prices. Core inflation remained at more moderate levels; only part of the higher production costs stemming from rising commodity prices passed through to selling prices.

Inflation grew further in the early months of this year: in March, it reached its highest level since the early 1990s, mainly owing to the sharp rises in oil and gas prices, whose effects were only in part mitigated by the measures adopted by the

Government. Production prices accelerated and are expected to continue to rise at a faster pace in the coming months, especially in the industrial sector, which is more exposed than services to increases in the costs of energy products and of production inputs and to supply chain disruptions.

The rise in inflation has so far passed through to wages to a limited extent; wage growth remains moderate even when compared with other European countries. This is taking place against a backdrop in which the structural characteristics of collective bargaining agreements tend to dampen the short-term impact of increases in inflation on wages and in which there are still ample margins of spare labour capacity, mainly owing to the still partial recovery in the number of hours worked per capita.

BOX:

The impact of rising energy prices and supply chain difficulties on firms' costs and prices

Foreign trade, competitiveness and the balance of payments

[10] As world trade staged a strong recovery, Italy's exports of goods rose sharply in 2021, despite the emergence of bottlenecks in global supply chains. Exports of services, while expanding significantly thanks to the recovery in tourism receipts, are instead still below pre-pandemic levels. Imports rose too, both for goods and services, driven by the improvements in domestic demand and in foreign sales.

The current account surplus narrowed to 2.4 per cent of GDP, mainly owing to the larger energy balance deficit. The latter widened further in the first quarter of 2022, owing to the higher prices connected with the tensions generated by the war in Ukraine.

Foreign portfolio investments were high, reflecting both the need for risk diversification and the favourable developments in the international financial markets. Foreign investors showed an appetite for Italian non-bank private sector bonds. The public sector received inflows of funds from the European institutions under the Recovery and Resilience Facility and other EU support programmes. The Bank of Italy's negative balance on the TARGET2 payment system widened.

Italy's net international investment position – which became positive again in 2020 – strengthened further, reaching 7.4 per cent of GDP, benefiting from price adjustments and exchange rate variations, in addition to the current account surplus.

BOXES:

Supply bottlenecks and global value chains

The energy trade balance of Italy

The public finances

[11] The strong recovery of the Italian economy in 2021 paved the way for a significant improvement in the public accounts. General government net borrowing fell to 7.2 per cent of GDP, reflecting the narrowing in the primary deficit. The debt-to-GDP ratio fell to 150.8 per cent, owing above all to the wide spread between nominal GDP growth and the average cost of the debt.

According to the plans presented in the 2022 Economic and Financial Document (DEF 2022) approved in April, net borrowing and the debt as percentages of GDP will both decrease further, to 5.6 and 147.0 per cent respectively. These estimates incorporate the impact of the changes to personal income tax (IRPEF) and of the measures to support households and firms that were adopted during the first five months of 2022 to address the rising energy prices.

For the next three years, the 2022 DEF envisages a further improvement in the accounts: in 2025, net borrowing is projected to stand below 3 per cent of GDP and the primary balance is expected to move back into positive territory; the debt-to-GDP ratio is projected to be equal to 141.4 per cent. This scenario is subject to the risk that growth may fall short of expectations in connection with developments in the conflict in Ukraine.

Over the longer term, the Government confirmed its objective of achieving a significant and lasting reduction in the debt burden. To reach this goal, in addition to a higher growth potential for the economy, a suitable primary surplus will be needed. A crucial role will be played by the full implementation of the reforms and investments laid out in the NRRP.

BOX:

The distributional effects and the impact of labour supply incentives of the single and universal children's allowance and of changes to personal income tax

Business activity regulation and the institutional environment

[12] The support measures introduced to address the pandemic emergency limited the number of insolvency proceedings that were opened, which in 2021 continued to stand below pre-pandemic levels, despite an increase in the number of financially vulnerable firms. The legislative framework for company restructuring was further expanded, in keeping with the objectives of the NRRP, with the introduction of the negotiated composition procedure for the solution of business crises and of new reporting requirements for public sector creditors, which now must notify firms of any delays in the latter's payments of taxes or social security contributions (a concept known as 'external alert').

The reforms laid out in the NRRP concern numerous elements of the institutional environment. In 2021, an enabling law for civil justice reform was approved; the drafting of a new version of the Public Procurement Code is at an advanced stage; the legislative process for the annual law on the market and on competition is currently underway. To facilitate the achievement of the objectives set out in the NRRP, numerous administrative simplification measures have been introduced and, with regard to the judiciary system, a massive drive to hire new personnel has been launched to contribute to a reduction in the duration of judiciary proceedings and in the backlog of existing cases. The completion of the reforms and measures laid out in the NRRP will require significant work on a legislative and administrative level.

The further rise in commodity prices caused by Russia's aggression toward Ukraine will influence the execution of public procurement contracts. The Government introduced compensation measures in favour of firms in charge of the execution of those contracts and earmarked resources to cover the increased costs of those public sector projects. The rise in energy prices and the risks to supply are driving an acceleration in the green transition; measures have been introduced to simplify the authorization process for building renewable energy power plants.

BOX:

Regulation in the electricity sector and the price setting mechanism

Banks and institutional investors

[13] The improvement in the macroeconomic situation, together with the support measures introduced by the Government in response to the pandemic, had a positive impact on Italian banks' balance sheets in 2021. Looking ahead, the gradual phasing out of public support measures and, above all, the developments in the war in Ukraine, are a significant source of uncertainty for banks' profitability and asset quality.

Bank lending slowed sharply as business demand for loans reduced, as a result of the high levels of accumulated liquidity and of an increase in cash flows associated with the economic recovery. Lending to households instead accelerated, driven by the growth in loans for house purchase, while consumer credit growth remained weak. Banks confirmed their overall relaxed credit supply policies, although there was a slight tightening in the early months of this year. In the second quarter, they indicate expectations of a further tightening, in part due to the impact of the conflict on customers' creditworthiness.

The flow of new non-performing loans in proportion to total performing loans remained low and the volume sales was still high. The ratio of non-performing loans to total loans fell to a lower level than that observed prior to the start of the global financial crisis and was broadly in line with the average for the main euro-area countries.

The value of Italian public sector securities in banks' portfolios fell. In the early months of 2022, with the increase in risk premiums, the banks again made net purchases of government securities.

Total funding continued to rise, albeit at a slower pace than in 2020. The growth in deposits declined by more than a third. Growth in liabilities towards the Eurosystem also slowed following the redemption of funds previously obtained via refinancing operations.

Banks' profitability rose, returning to pre-pandemic levels, mainly thanks to a reduction in the flow of loan loss provisions that had been very high in 2020. Earnings increased as a result of the positive trend in fees, while net interest income fell slightly. The level of capitalization declined a little, above all as a result of the extraordinary dividend distribution and equity buy-backs made by the two major banking groups following the supervisory authorities' recommendation to limit dividend payments had been removed.

Italian institutional investors recorded positive net funding, with inflows of resources into all the main segments. Closed-end funds specialized in securities continued to expand.

At the end of the year, the Italian financial system's direct exposure towards issuers resident in countries involved in the conflict or affected by the related economic sanctions (Russia, Belarus and Ukraine) was limited, concentrated in the two main banking groups.

BOX:

The growth of closed-end alternative investment funds specialized in securities

The money and financial markets

[14] In 2021, the economic recovery and the accommodative monetary policy of the European Central Bank favoured maintaining conditions on the Italian financial markets relaxed overall. The spread of COVID-19 variants and the consequent resurgence of infections only had transitory effects on the markets. Nevertheless, last autumn, fears of a rise in inflation at global level led to a steady change in the monetary policy stance of some of the main central banks' and penalized the financial assets that are most exposed to a growth in prices and interest rates, such as fixed-rate bonds. Italian government bond yields and sovereign spreads rose, especially in the last part of the year. The increase was passed on to firms' and banks' bond funding. Equity prices increased by more than 20 per cent in 2021, in part buoyed by the expectations of company profit performance.

In the first five months of 2022, Italian financial market conditions worsened as a result of announcements by the Governing Council of the ECB of a more rapid normalization of monetary policy than previously expected, in response to growing inflationary pressures and, at the end of February, of the outbreak of the conflict in Ukraine and the worsening of global growth prospects. Investors' risk aversion increased against a backdrop of high uncertainty. Equity prices declined and spreads on private sector bonds increased. There was a significant increase in Italian government bond yields and in the spread with respect to the equivalent German Bund.

BOX:

Equity prices: analysis of the determinants and of sectoral performance

Special features:
The economy of southern Italy

[15] In the decade before the outbreak of the pandemic, the differences widened between the South of Italy and the Centre and North which, in turn, lost ground in relation to the more advanced areas of the other European countries. The production base in the South weakened further and the differences in employment rates and labour quality widened. This was influenced by the structural fragility of the southern economy's business environment, which is reflected in less favourable credit access conditions and in a greater dependency on domestic demand and public spending, both curbed by the consequences of the financial crisis and the sovereign debt crisis. Delays in the development of the South continue to be affected by wide-ranging and persistent shortfalls in the endowment of infrastructure and human capital, in the quality of services and in the performance of the public sector overall.

In 2020, the pandemic had similar economic effects in the Centre and North and in the South, but last year, the recovery was less robust in the southern regions. Growth prospects for this area, which suffers from particularly unfavourable population dynamics, will depend on the overall improvement of the local production system and the introduction of reforms and investments to improve the business environment. In this regard, to put implementing the NRRP will be crucial.

BOXES:

The geographic differences in human capital formation

The financial situation of southern Italian municipalities

The geographic gaps in the completion of public works

The digitalization of Italy's financial industry

[16] The spread of digital technologies leads to profound changes in demand and supply for financial products and services. There has been robust growth in digital applications and platforms for customer interactions in all segments of the financial sector. New technologies, such as artificial intelligence (AI), the cloud and robotics make the activities carried out by financial intermediaries more efficient. There are vast areas for application and these include deposit, payment, investment, consultancy, financing and insurance services, in addition to back office and risk analysis and management activities.

The changes resulting from digital innovations over the last decade have considerably enlarged the perimeter of entities involved in the provision of financial services in a sector that, until only a few years ago, was the exclusive preserve of traditional intermediaries. The spread of internet connections, the increased availability of information about users and the lower cost of automatic data processing all provide the opportunity of developing cutting-edge business models. These changes stimulate market entry of innovative firms and technology companies, including Big Tech ones, which in some cases offer services that compete with those of the traditional intermediaries and, in others, work collaboratively with them.

Alongside the important opportunities proposed, for example, in terms of improved efficiency in the provision of financial services, the digital transition poses considerable challenges for traditional intermediaries and for the regulatory and supervisory authorities. Operational and cyber risks – also linked to the broader field of players involved in the supply of financial products and their increased interconnections – and risks relating to money laundering and the financing of terrorism are accompanied by risks to the security and proper management and processing of users' personal data, to the correct functioning of payment infrastructures, to the soundness of individual operators and to the overall stability of the financial system. In addition, for both users and intermediaries, there are increased risks connected with the use of crypto-assets and decentralized finance (DeFi) as a result of the development of distributed ledger technologies (DLT).

The Bank of Italy and the other Italian and European supervisory authorities are updating both the relevant regulatory framework of reference and the monitoring instruments, pursuing a broad set of objectives, the most important of which include: (a) reconciling the promotion of innovation with the need to safeguard consumers and investors; (b) avoiding the exclusion or discrimination of less digitalized users; (c) ensuring the proper functioning of market infrastructures and payment systems; and (d) preserving the safety and stability of the financial system and the economy as a whole.