



Analisi del Servizio Studi BNL BNP Paribas

FOCUS

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Overview of the Italian Banking Market



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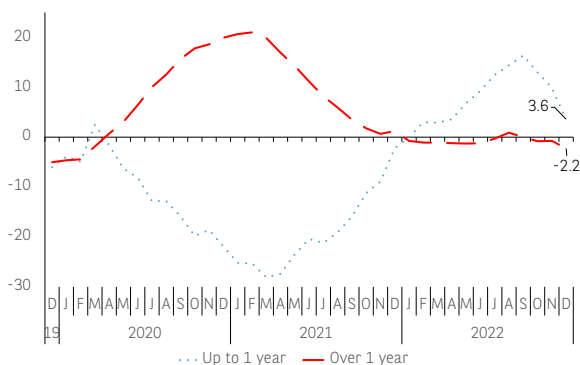
La banca
per un mondo
che cambia

In Italy, after the strong resilience showed during the summer months, in Q4 2022 real GDP decreased slightly (-0.1% q/q), with the annual growth rate around 1.7%. Overall, in 2022 GDP increased by 3,9%. In 2022 inflation severely affected household purchasing power: the average annual rate of change of consumer prices was +8.1% (+1.9% in 2021). In January 2023 inflation rose by 10.1% y/y (11.6% y/y in December 2022).

In 2022 bank lending to the private sector continued to grow; it slowed after the summer months, reflecting weaker demand by firms for investment purposes and by households for house purchase. In 2022 loans to non financial corporations increased on average +2,8% decelerating with respect to 2021 (when the average rate of growth was 3.5%). The increase of loans to non-financial corporations was concentrated in the segment of loans with maturities of up to one year, while those beyond this term showed a negative trend for most months of the year.

Italy: loans to Non-financial corporations

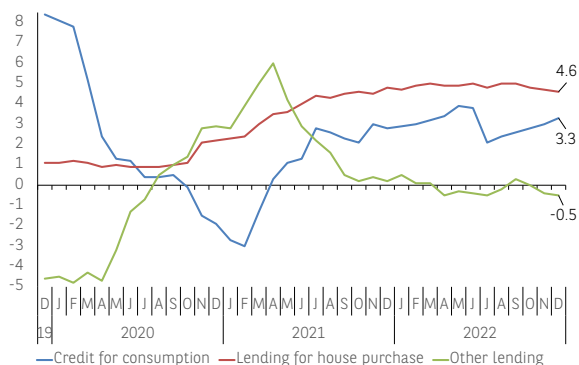
(yoy % changes)



Source: BNL Research Department calculations on Ecb data

Italy: loans to Households

(yoy % changes)



Source: BNL Research Department calculations on Ecb data

Lending to households continued to grow in 2022 with a stabilization in lending for house purchase and a slight acceleration in the dynamic of consumer credit. In 2022 outstanding loans to households (adjusted data) increased on average by 4% y/y, a value slightly higher than the 2021 average (3.5%). The stock of non-performing loans remained contained: in Q3 2022, outstanding NPLs were €67bn, €25bn less than in the same period of the previous year. In 2022 the increase in deposits continued but at a slower rate: households accounts grew by 3.5% y/y (on average) and those of companies by 3.2% y/y (on average). Bank bond net issues continued to decline (-13.3 bn in the first three quarters of 2022).



OVERVIEW OF THE ITALIAN BANKING MARKET

Servizio Studi BNL BNP Paribas*

Italy: economic outlook

During the summer months, the Italian economy showed a strong resilience against the increasing uncertainty. In Q3 2022, real GDP rose by 0.5% q/q, with the annual growth rate around 2.5%. Domestic demand added 1.6 percentage points to the overall GDP increase. Private consumption rose by 2.5%, as households benefited from the further easing of social restrictions. Despite less favorable financing conditions, investment increased by 0.8%. The contribution of net exports was negative (-1.3 percentage point), as imports rose more than exports (respectively, +4.2% and +0.1%). The sector composition of economic growth in the July-September quarter strongly changed. Construction, which was the main driver of the GDP increase in the previous two years, significantly decelerated, also reflecting a shortage of workers, with value added declining by 2.0%. Rising costs of production and the worsening of the global scenario negatively impacted the manufacturing sector, which has recorded a 0.2% decline. In Q3, the recovery of the Italian economy reflected the favorable evolution of services. Value added increased by 0.9%, more than offsetting the decline in the other sectors, benefiting from both the rebound of tourism and the change in the composition of household consumption.

The preliminary data released by Istat about Q4, however, show a mild slowdown, as GDP growth declined by -0.1% q/q, with the annual growth rate around 1.7%. Although detailed data are not available yet, however estimates suggest that between October and December net exports contributed positively to GDP, while the domestic component contribution to GDP growth was negative. Overall, in 2022 GDP increased by 3,9% and the carry-over effect on average annual real GDP growth rate for 2023 is +0.4%.

In the first nine month of 2022, the Italian real estate market continued to grow, even though at a declining rate. Between July and September 2022, house prices increased by 3.0% compared with the same quarter of the previous year (it was +5.2% in the second quarter), although they declined on a quarterly basis (-1%, it was +2.3% in Q2). Despite the rise recorded in the last three years, in September 2022 house prices in Italy were about 8% lower than in 2010 (the first year since these data were collected). The good performance of the Italian real estate market is mirrored by the trend of house transactions that however started to slowdown in the third quarter of 2022. In the first and second quarter of 2022, transactions grew by 14.1% and 7.4% y/y, respectively while in the third one by just 1.2%. In Italy, the residential market is still dominated by private individuals, who cover approximately 96% of the demand.

The actual scenario is characterized by mixed data. According to preliminary estimates, in January 2023 the Italian consumer price index for the whole nation increased by 0,2% q/q and by 10,1% y/y (from +11.6% in the December 2022). In 2022, the average annual rate of change of consumer prices was +8.1% (+1.9% in 2021). Core inflation, excluding energy and unprocessed food, was +3.8% (from +0.8% in 2021) and inflation excluding energy was +4.1% (+0.8% in 2021). In 2022 inflation has severely affected household purchasing power. As a matter of fact, in the three months to November 2022 while the value of sales was up by 0.8%, the volume of sales dropped by 1.4% when compared with the previous three-month period. In November 2022 retail trade in value continued to grow (+4.4% y/y, 21st month in a row), while sales in volume fell by 3.6%. The propensity to save also kept declining: in Q3 2022 it approached 7%, a level never seen since the pandemic burst in Q1 2020. On the supply side, in November manufacturing production increased by 0.1% m/m, partly recovering the decline recorded in October. Despite the persistent

* Le opinioni espresse impegnano unicamente gli autori



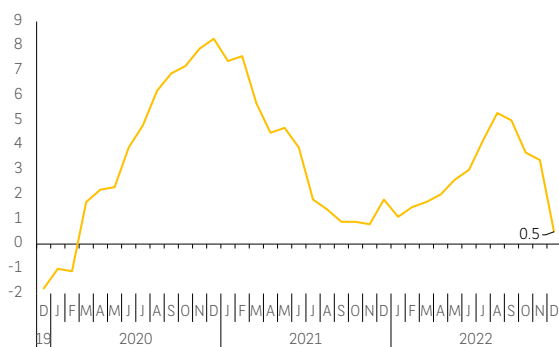
uncertainty, Bank of Italy revised up the outlook for Italy with an expected economic growth for 2023 to 0.6% y/y (from 0.4% expected in December). Moreover confidence data released on late December show that both consumer and business sentiment unexpectedly improved, not just for current economic conditions, but also for the future climate component.

Loans to Non-financial firms

In 2022 bank lending to the private sector continued to grow; it slowed after the summer months, reflecting weaker demand from firms for investment purposes and from households for house purchase. Slowdown mainly reflected that of loans to non-financial corporations. Lending to non-financial corporations was conditioned by the abundant liquidity accumulated over the last two years and by the uncertainty about the evolution of the economic scenario. Persistent price pressures on energy and raw material costs sustained corporate demand for loans.

Italy: loans to Non-financial corporations

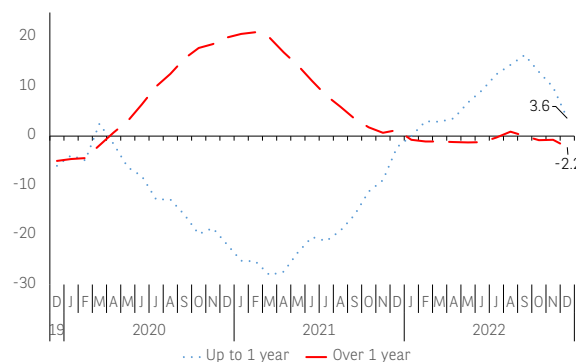
(yoy % adjusted changes)



Source: BNL Research Department calculations on ECB data

Italy: loans to Non-financial corporations

(yoy % changes)



Source: BNL Research Department calculations on ECB data

In December 2022 total adjusted outstanding loans to non-financial firms increased by 0.5%, showing a marked slowdown from +3.4% recorded in November. In 2022 loans increased on average by 2.8% decelerating with respect to 2021 (when the average rate of growth was 3.5%). Credit growth weakened in manufacturing and services, while it increased slightly in construction.

In 2022, outstanding loans to public sector decreased by -0.4% on a year over year basis (+0.6% in the whole 2021) while lending to private non-financial sector rose by 3.4% (slightly less than the 3.3% recorded in 2021), after adjusting for notional cash pooling and securitization. In the same period, the increase of loans to non-financial corporations was concentrated in the segment of loans with maturities of up to one year (8% on average, 3.6% y/y in December), while those beyond this term declined for most months of the year (-0.8% y/y on average and -2.2% in December).

The liquidity held by firms on deposits and current accounts remains high, even if below the peaks recorded during 2020. According to some estimates carried out by the Bank of Italy, a portion of loans to non-financial firms remained in current accounts as liquidity buffer. At the end of December 2022 firms' deposits amounted to €429 billion (-€6 billion over the last 12 months).

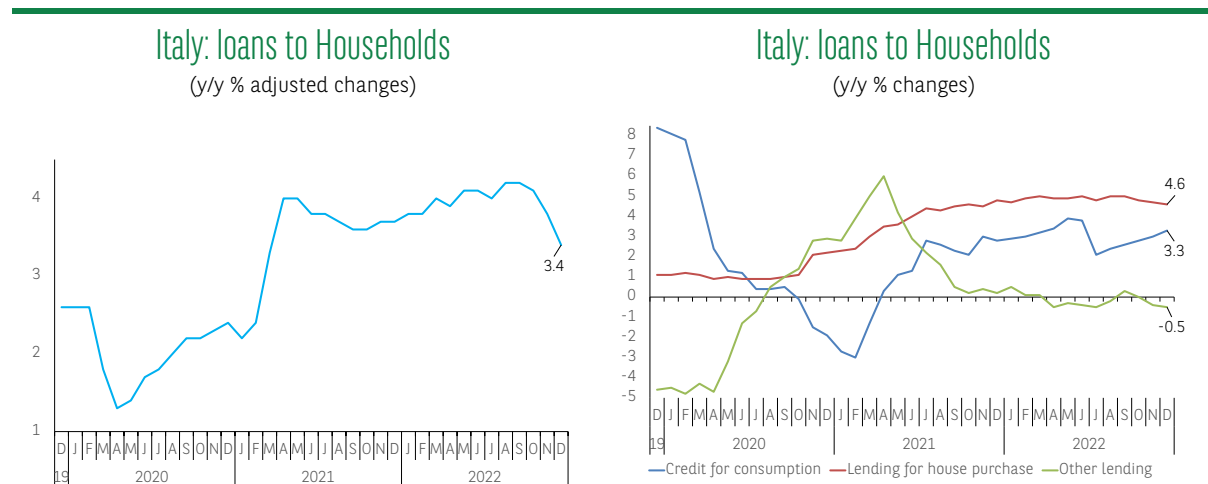


The increase in policy rates was only partly passed on to the cost of borrowing for firms and households, which remains low overall. In November, interest rates on new lending to non-financial corporations increased to 2.94% (against 1.09, the minimum value of the year recorded in February); those on new loans of up to €1 million were 3.37% (from a low of 1.74 in January), while the rates on new loans of above that amount were 2.67% (from a low of 0.76% in January). Based on provisional data, the debt of Italian non-financial corporations continued to decrease in the third quarter of 2022, to 69.6% of GDP (70.1% in Q2) compared to 108.6% in the Euro area.

Loans to Households

Lending to households continued to grow in 2022, with a stabilization in lending for house purchase and a slight acceleration in the dynamic of consumer credit, while the amount of “other loans” is decreasing. Taking into account the adjusted data, in 2022 outstanding loans to households increased on average by 4% y/y, a value slightly higher than the 2021 average (3.5%).

In 2022 consumer credit increased by 3% y/y (on average +0.9% in 2021) and the loans for house purchase rose by 4.9% (3.8% on average in 2021). On the contrary, the outstanding amount of the so-called “other loans” slightly decelerated: on average, the monthly rate of growth has been -0.2% (+2.5% in 2021). Loans to sole proprietor firms, which account for 39% of “other loans”, decreased by 3.1% (+6.1% y/y in 2021). In November, the average interest rate on new loans to households for house purchase markedly increased to 3.1% (from 1.4% in January - minimum of the year).



Source: BNL Research Department calculations on ECB data

Source: BNL Research Department calculations on ECB data

In the third quarter of 2022, household debt as a percentage of disposable income decreased at 63.5%, a bit lower than the previous period (63.8%), still well below the Euro-area average (95.8%). As a share of GDP, household debt declined slightly, from 42.8% to 42.6% (58.2% in the Euro area).

Asset quality

The stock of non-performing loans remained contained: in Q3 2022, outstanding NPLs were €67bn (-27% y/y), €25 billion less than in the corresponding period of the previous year, a result achieved thanks to the sale of non-performing loans and to securitisation transactions. The amount of non-performing loans sold on the secondary market in the whole 2022 is estimated

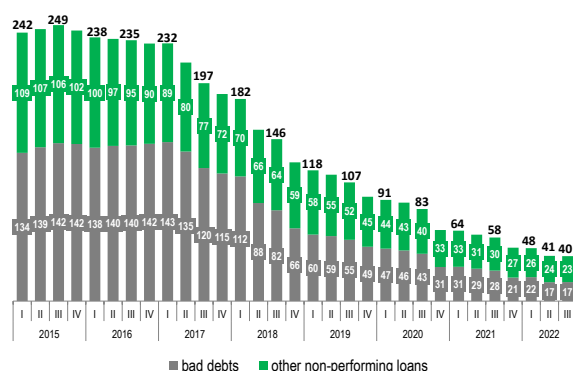


to total around €20 billion, in line with that observed in 2021. Developments in sales, together with the low flow of NPLs, have contributed to the fall in the stock of this type of asset.

In Q3 bad loans decreased at a faster rate (-37%, to 27 billion) than UTPs (-21% to 36 billion); instead, the decline in the past due loans came to an end: the growth recorded in Q3 was the second in a row (+5% y/y, to €4.3 billion). Although the weight of this latter form of NPLs accounts for only 6% of total non-performing loans, the reversing trend of the less severe form of credit distress could signal a possible future deterioration in asset quality. In Q3, NPLs ratio (gross value) decreased to 2.6%; for this indicator, the gap between Italian significant banks and all the intermediaries directly supervised by the ECB narrowed to 0.7 p.p.

Italy: non-performing loans to NFCs

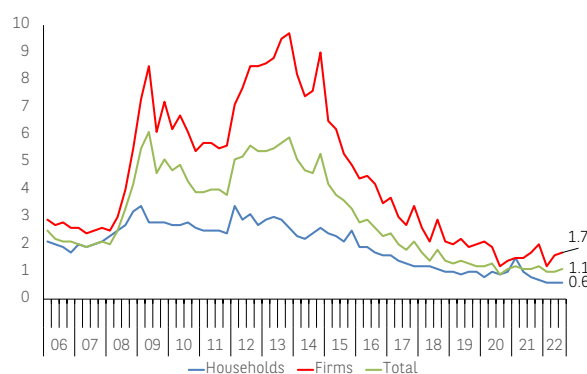
(billion of euros)



Source: BNL Research Department calculations on Bank of Italy data

Italy: new non-performing loan rates

(%)



Source: BNL Research Department calculations on Bank of Italy data

In Q3 the volume of performing loans to the non-financial private sector classified as Stage 2 declined by 7.5 bn (to 211 billion for the significant institutions); also thanks to the improvement in the pandemic situation, the stock of these loans significantly decreased for those which benefited from moratoria. The ratio of Stage 2 loans to total performing loans declined slightly to 13.1% (significant institutions), a level that is still higher than that recorded prior to the pandemic (10.4% in December 2019).

The economic slowdown, the macroeconomic consequences of the geo-political tensions, the rise in interest rates and the significant tensions in energy markets might all have effects on future developments in bank asset quality. The debt burden will affect the ability of households and firms to repay their loans, with potential consequences for credit quality.

In Q3, non-performing loans of firms amounted to about 40 billion (17 bn bad loans, 23 bn UTP, 1 bn past due loans), 17 billion less than a year earlier. Against a decrease in non-performing loans and UTPs (-38% and -23% y/y respectively), the past due loans increased by 46% (to about 1 billion). In the first eleven months of the year, loans to firms derecognised from the balance sheets amounted to 7.3 billion (7.8 bn in the corresponding period of 2021).

With regard to new NPLs rate, those of non-financial firms slightly increased in Q3, remaining anyway at historically low levels (1.7% vs 1.6% in Q2 2022); in the last four quarters, the ratio increased for almost 60% of the sectors. Compared to Q3 2021, riskiness increased for construction (to 3.4% of performing loans), that concentrates over 10% of the banking system's exposures (second only to the manufacturing and trade sectors). A deterioration is recorded for the "Accommodation and food service activities" sector, a segment that has made extensive use

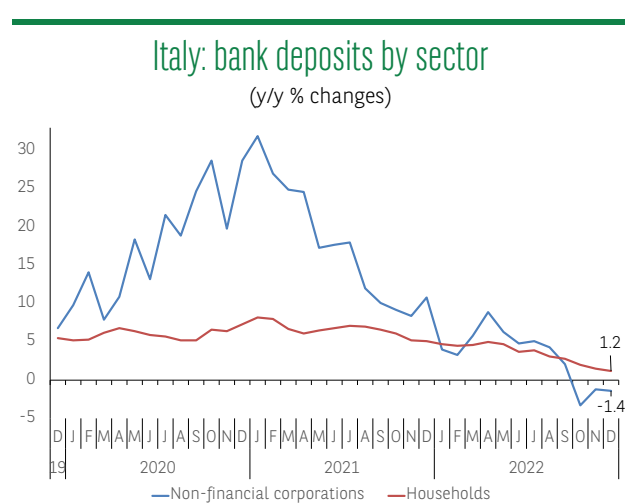


of funding from the Guarantee Fund and which now records the highest new NPLs rate (3.5%). A sharp increase of the indicator was detected for companies operating in the gas and electricity supply sector (1.8%, almost 1.4 percentage points more than September 2021) already from the second half of last year due to the increase in energy costs. Fixed-price contracts limited the ability of these companies to pass the higher costs to final consumers. Expectations are oriented towards an increase in riskiness even for those sectors most exposed to the direct and indirect effects of the current geopolitical tensions, such as the energy, agriculture and metals, which concentrate about one third of corporate loans of the banking system.

In Q3 2022, households' non-performing loans amounted to €16 billion (6 bn bad loans, 8 bn UTP, 2 bn past due loans), €5 billion less than a year earlier. The decrease affected all types of non-performing loans. The new non-performing loans rate stands at 0.6%, an historical low level.

Borrowing from customers

According to the Bank of Italy, Italian bank funding slowed down between August and November, reflecting the reduction in liabilities to the Eurosystem as a result of the repayments of TLTRO III funds in November and also for the almost nil growth of residents' deposits. In December the growth pace of households' deposits decelerated (1.2% y/y) and those of firms declined (-1.4% yoy).



Source: BNL Research Department calculations on ECB data

The economic situation from the beginning of 2022 increased companies' need to finance working capital. The geopolitical tensions, with the drastic increase in costs and pressures in the supply of raw materials and in trade, accentuated the need for liquidity of companies, which began to reduce the growth rate of deposits. In 2022 the increase in deposits continued but at a slower rate: households accounts grew by 3.5% y/y (on average) and those of companies by 3.2% y/y (on average). Bank bond net issues continued to decline (-13.3 billion in the first three quarters of 2022).

In December 2022, funding from private non-financial sector decreased by 0.1%, the third negative data in a row. In 2022, funding from domestic customers increased on average by 2% y/y and current accounts continued to grow (on average 4.0% y/y vs 12.3% in the same period of 2021) reaching a share of 62% of total funding. The cost of funding increased, mainly as a result of the rise in money market interest rates.

In December 2022, funding from private non-financial sector decreased by 0.1%, the third negative data in a row. In 2022,

Italy: 2019-2022 banking trends

1 Loans: adjusted changes (*)

| annual averages and y/y % | 2019 | | | | | 2020 | | | | | 2021 | | | | | 2022 | | | | | | |
|-------------------------------------|-------------|------|-----|-----|-----|------------|-----|-----|-----|-----|------------|-----|-----|-----|-----|------------|---|----|-----|----|------|--|
| | a.a. | I | II | III | IV | a.a. | I | II | III | IV | a.a. | I | II | III | IV | a.a. | I | II | III | IV | a.a. | |
| Total | 0.8 | 1.0 | 2.2 | 4.1 | 5.3 | 3.2 | 4.9 | 4.2 | 2.5 | 2.3 | 3.5 | 2.6 | 3.3 | 4.5 | 3.1 | 3.4 | | | | | | |
| Loans to non financial corporations | -0.8 | -0.1 | 2.8 | 6.0 | 7.8 | 4.1 | 6.9 | 4.4 | 1.4 | 1.2 | 3.5 | 1.4 | 2.5 | 4.8 | 2.5 | 2.8 | | | | | | |
| Loans to households | 2.6 | 2.3 | 1.5 | 2.0 | 2.3 | 2.0 | 2.6 | 3.9 | 3.7 | 3.7 | 3.5 | 3.9 | 4.0 | 4.1 | 3.8 | 4.0 | | | | | | |

(*) changes adjusted for reclassifications, value adjustments, exchange rate movements and securitizations

1.1 Loans: not adjusted changes

| annual averages and y/y % | 2019 | | | | | 2020 | | | | | 2021 | | | | | 2022 | | | | | | |
|-------------------------------------|-------------|------|------|-------|-------|--------------|-------|-------|-------|------|--------------|------|------|------|------|-------------|---|----|-----|----|------|--|
| | a.a. | I | II | III | IV | a.a. | I | II | III | IV | a.a. | I | II | III | IV | a.a. | I | II | III | IV | a.a. | |
| Total | -3.0 | -1.2 | 0.4 | 2.6 | 4.1 | 1.5 | 3.7 | 2.7 | 1.2 | 1.1 | 2.2 | 1.5 | 2.0 | 3.3 | 2.1 | 2.2 | | | | | | |
| Loans to non financial corporations | -6.3 | -3.2 | 0.7 | 4.4 | 6.6 | 2.1 | 5.3 | 2.1 | -1.1 | -1.1 | 1.3 | -0.5 | 0.4 | 3.2 | 0.9 | 1.0 | | | | | | |
| of which: - up to 1 year | -9.1 | -2.1 | -5.3 | -13.8 | -20.1 | -10.3 | -26.2 | -23.8 | -18.7 | -7.4 | -19.0 | 2.0 | 6.6 | 14.4 | 8.8 | 8.0 | | | | | | |
| - more than 1 year | -4.9 | -3.6 | 3.4 | 12.8 | 18.8 | 7.8 | 20.5 | 14.1 | 5.9 | 1.2 | 10.4 | -1.0 | -1.2 | 0.2 | -1.3 | -0.8 | | | | | | |
| Loans to households | 0.6 | 0.8 | 0.1 | 0.7 | 1.4 | 0.8 | 2.0 | 3.4 | 3.4 | 3.3 | 3.0 | 3.5 | 3.5 | 3.4 | 3.3 | 3.4 | | | | | | |
| of which: - consumer credit | 8.6 | 7.0 | 1.6 | 0.4 | -1.2 | 2.0 | -2.3 | 0.9 | 2.6 | 2.6 | 0.9 | 3.0 | 3.7 | 2.4 | 3.0 | 3.0 | | | | | | |
| - loans for house purchase | 1.6 | 1.1 | 0.9 | 0.9 | 1.8 | 1.2 | 2.6 | 3.7 | 4.4 | 4.6 | 3.8 | 4.9 | 4.9 | 4.9 | 4.7 | 4.9 | | | | | | |
| - other | -7.1 | -4.5 | -3.1 | 0.3 | 2.4 | -1.2 | 3.9 | 4.4 | 1.4 | 0.3 | 2.5 | 0.2 | -0.4 | -0.1 | -0.3 | -0.2 | | | | | | |

Sources: ECB, BNL Economic Research - BNP Paribas

2. Deposits & Securities

| annual averages and y/y % | 2019 | | | | | 2020 | | | | | 2021 | | | | | 2022 | | | | | | |
|------------------------------|-------------|------|------|------|------|-------------|------|------|------|------|-------------|------|------|------|------|-------------|---|----|-----|----|------|--|
| | a.a. | I | II | III | IV | a.a. | I | II | III | IV | a.a. | I | II | III | IV | a.a. | I | II | III | IV | a.a. | |
| Total | 2.7 | 4.1 | 5.0 | 5.7 | 5.2 | 5.0 | 6.6 | 5.0 | 4.7 | 4.5 | 5.2 | 3.3 | 3.5 | 1.8 | -0.6 | 2.0 | | | | | | |
| Bank deposits | 3.7 | 5.0 | 6.3 | 7.0 | 6.7 | 6.3 | 8.4 | 6.4 | 6.0 | 5.5 | 6.6 | 4.3 | 4.6 | 2.8 | -0.3 | 2.8 | | | | | | |
| of which: - current accounts | 5.9 | 7.4 | 8.3 | 9.4 | 12.5 | 9.4 | 14.5 | 12.8 | 11.6 | 9.5 | 12.1 | 6.8 | 6.3 | 4.0 | -1.0 | 4.0 | | | | | | |
| - redeemable at notice | 1.5 | 1.9 | 2.9 | 2.6 | 3.0 | 2.6 | 2.7 | 1.7 | 1.1 | 0.6 | 1.5 | 0.1 | 0.0 | 0.9 | 0.6 | 0.4 | | | | | | |
| Bank securities | -3.3 | -1.5 | -3.4 | -3.7 | -6.1 | -3.7 | -6.3 | -5.6 | -5.2 | -3.6 | -5.2 | -4.5 | -5.6 | -6.4 | -2.9 | -4.8 | | | | | | |

Sources: ECB, BNL Economic Research - BNP Paribas

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