

Italy

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. Italy's GDP grew by 6.7%, making up for two-thirds of the exceptional contraction that occurred in 2020 due to the health crisis. However, at the start of 2022, the rapid rise in new cases of COVID-19 together with the Russian invasion of Ukraine had significant repercussions for the Italian economy. GDP fell by 0.1% in the first quarter, but then rose to 1.1% in the second quarter and eventually settle at +0.5% in the third. According to the latest consensus forecast, GDP is expected to grow by 3.5% in 2022.

Regarding the banking sector, in 2021 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.

Bank lending slowed as business demand for loans reduced, mainly for the slowdown of loans to non-financial corporations 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. In December 2021, loans to non-financial corporations and households posted a 2.6% year-on-year increase. In the first nine months of 2022, lending increased at a faster pace. The most recent data, updated to September 2022, show that loans to non-financial corporations and households grew at a rate of 4.3% on an annual basis. In detail, loans to non-financial corporations grew by 4.4% and loans to households by 4.2%.

In 2021 the Italian banks' asset quality remains high, thanks to the economic recovery and the support measures for households and firms. The flow of new non-performing loans (NPLs) in proportion to total performing loans remained low and the disposal of NPLs was still high. At the end of 2021, the ratio of new NPLs to performing was 1.3% slightly higher than in 2020 (1.1%) and the disposal was €23 billion in 2021 overall. This led to a reduction in the stocks of net NPLs that amounted to €40 billion, down by about €11 billion on the previous year (€84 billion gross, down by €20 billion). The ratio of net non-performing loans to total loans fell to 1.7% (2.2% in 2020), below the level observed before the onset of the global financial crisis and broadly in line with the average for the main euro-area countries.

Total funding continued to rise, although at a slower pace than in 2020 due to the slowdown in deposit growth. In 2021 total funding (resident customers deposits and bonds) grew about 5.6% year-on-year (+8.0% in 2020), driven by deposits (+6.9% in 2020 vs +10.5% in 2019), while bonds continue to decline although at a slower pace (-4.4% in 2020 vs -8.3% in 2019). The latest figures (updated to September 2021) indicate a further slowdown of total funding from customers (+1.7% year-on-year) of which deposits were about €1.870 billion while bonds were €204 billion respectively up by 2.3% and down by -3.9% year-on-year.

In 2021, the capital adequacy of Italian banks remained at levels similar to those recorded in the previous year. In December, the common equity tier 1 (CET1) ratio of the entire banking sector stood at 15.3% about 20 basis points lower than end-2020 (15.3% for Significant Banks and 17.9% for Less Significant Banks).

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. The return on equity (ROE), net of extraordinary components, increased from 2.0 to 6.0% (5.4% for Significant Banks and 8.8% for Less Significant Banks).

Looking ahead, the phasing out of public support measures, the increasing inflation, the expected slowdown of economic activity and, above all, the developments in the war in Ukraine, are meaningful sources of uncertainty for banks' profitability and asset quality. However, regarding the Russian-Ukrainian

conflict, it should be noted that at the end of 2021, the Italian banking sector'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.

The restructuring plans and the consolidation of the Italian banking sector, started in past years, continued in 2021. At the end of the year, Italy's banking industry (comprising bank holding groups and independent banks) consisted of 100 active players. Banks have also continued to reorganize the distribution network by cutting the number of branches. In 2021 the number of branches fell by 7.8% (to 21,650) and the number of employees by 2.0% (to 272,291), continuing the trend since 2008. Following the streamlining of the branch network, the average number of bank branches per 100,000 inhabitants decreased by about 37% compared with 2008.

Due to the acceleration of the digitalisation of banking customers, banks continued to invest in the development of projects connected to financial innovations applied to the provision of financial services. So, there has been robust growth in digital applications and platforms for customer interactions in all segments of the financial sector. In 2021, the share of customers who could access their current accounts through digital channels was 79%, about 29 percentage points higher compared to ten years earlier. In 2021, the share of banks offering loans to households and businesses through digital channels was 44 and 25% respectively.