BNL Economic Research

focus

ECONOMIA E BANCHE

NUMERO 13

21 aprile 2023

Overview of the Italian Banking Market

BNL BNP PARIBAS

La banca per un mondo che cambia

BNL Economic Research
focus
ECONOMIA E BANCHE

Numero 13 | 21 aprile 2023

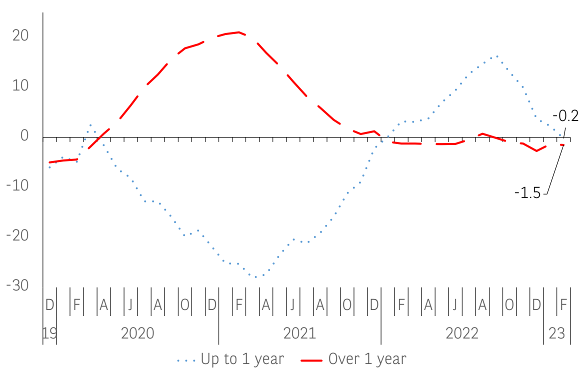
SUMMARY

In Q4 2022, the Italian economy recorded a mild contraction. Real GDP fell by 0.1% q/q (+0.4% in Q3), with the annual growth rate falling below 1.5%. Domestic demand subtracted 0.4 percentage points, as consumption declined by more than 1.5%. In the first three months of 2023 inflation slowed down, although becoming more widespread among the components: in March general Hicp inflation was +8.1% a/a (from 9.8% in February).

In 2022 bank lending to the private sector continued to grow but it slowed after summer months, reflecting weaker demand from firms and from households for house purchase. In the first two months of 2023 loans increased on average +1.6% decelerating with respect to 2022 (+3.3%). The growth of loans to non-financial corporations slowed in the segment of loans with maturities up to one year and remained negative in those beyond this term.

Italy: loans to Non-financial corporations

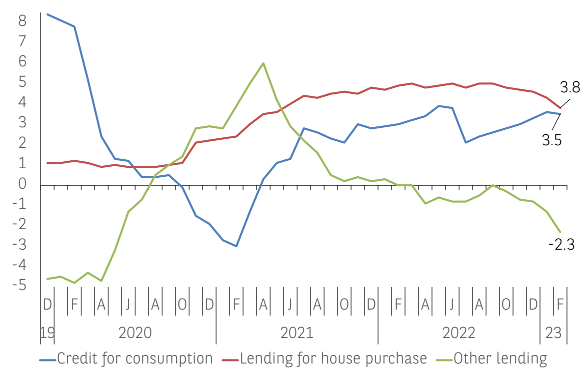
(y/y % changes)



Source: BNL Economic Research calculations on Ecb data

Italy: loans to Households

(y/y % changes)



Source: BNL Economic Research calculations on Ecb data

Lending to households continued to grow in 2022 with a deceleration in lending for house purchase and a slight increase in the dynamic of consumer credit. Taking into account the adjusted data, in the first two months of 2023 outstanding loans to households increased by 2.9% y/y, a value lower than the 2022 average (3.9%). The stock of non-performing loans continued to fall: in Q4 2022, NPLs outstanding was equal to €58bn, €20bn less than in the corresponding period of the previous year. In the first two months of the year the growth of households deposits was almost nil (0.1% on average) while deposits of non-financial corporations declined by 4.8% y/y (on average). Net issuance of securities by banks turned negative in the first two months of 2023, after a net positive amount recorded in the previous two quarters (2.1 bn in Q3, 3.7 bn in Q4).

Overview of the Italian Banking Market

Economic Research

*BNL BNP Paribas**

Italy: economic outlook

In Q4 2022, the Italian economy recorded a mild contraction. Real GDP fell by 0.1% q/q (+0.4% in Q3), with the annual growth rate falling below 1.5%. Domestic demand subtracted 0.4 percentage points, as consumption declined by more than 1.5%; households suffered from the increasing inflation, which more than offset the recovery of nominal income, with the employment rate reaching the highest value in the last twenty years. In the first three months of 2023 inflation slowed down, although becoming more widespread among the components: in March general Hicp inflation was +8.1% y/y (from 9.8% in February) while in the service sector it was 4.8% for the second month in a row, from 4.4% in January.

In 2022, households' purchasing power stagnated; the volume of retail sales declined, while the value of expenditure increased. The composition of private consumption has changed, with the share of services gradually increasing. During the year households' propensity to save fell to around 7% on average with a minimum 5.3% recorded in the last three months of the year (2 p.p. lower than in Q3). In Q4 households' gross disposable income increased by 0.8% with respect to Q3 2022, while final consumption expenditure grew by 3%. In the same quarter, net exports added almost 1.5 percentage points to GDP, as exports rose and imports declined, reflecting the weakening of domestic demand, while change in inventories subtracted 1.1 p.p.

Despite the Q4 contraction, the recovery of the Italian economy remains solid both from an historical perspective and in comparison with the other euro area countries. With respect to Q4 2019, real GDP rose by almost 2%, more than in France, Germany and Spain while at the end of 2019 Italy was the only country that had not recovered the 2008 level yet.

The Italian recovery mainly reflects the huge rebound of investment (+20% compared to Q4 2019), with a 4 p.p. contribution. Investment on construction strongly increased, with those on dwelling rising by more than 40%, benefiting from significant fiscal incentives to improve the energy efficiency. Besides, capital spending in machinery and ICT equipment rose by 20%. Despite the persisting uncertainty of the global scenario and the less accommodative monetary conditions, the propensity to invest of Italian non-financial corporations remained at historical high levels. Business confidence has improved above the long-term average.

In Q4, the GDP decline mainly reflected the moderate weakening of activity in the services sectors, which had experienced a strong rebound in the previous six quarters. Despite the Q4 contraction, services value added is 1.7% higher than in Q4 2019, explaining about half of the total recovery of the economy. Value added strongly rose in construction and professional activities, while the financial and insurance sector is still almost 6% below Q4 2019. Trade, hotels and restaurants benefited from the recovery of tourism. In 2022, the value of expenditure of non-residents has almost totally recovered the 2019 level, also reflecting higher prices in the services sector, while the number of foreign travellers is still more than 20 million lower.

In the last two years and a half, the recovery of the Italian economy also reflected the improvement in the manufacturing sector. In Q4, despite the quarterly contraction, manufacturing production was almost 1.5% higher than in Q4 2019. In Q1 2023 manufacturing production is estimated to have improved. The evolution of industrial production in 2022 also

* Views and opinions expressed are those of the authors and do not necessarily reflect the view of the bank.

reflected the increase of exports (+20% in 2022, €625 billions). In January 2023 Italy's exports kept rising, recording a +15.3% y/y (+11.3% to EU countries and +20.3% to non-EU countries).

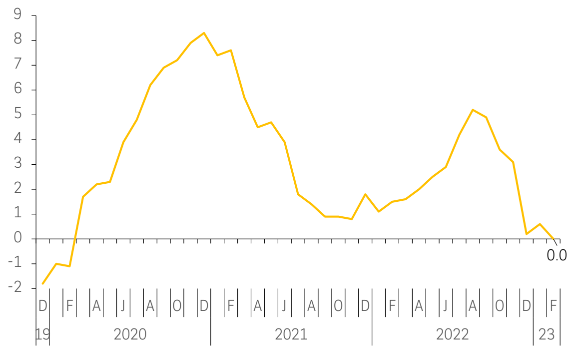
Even after the Q4 contraction, the carry over for 2023 is +0.4%. Households' consumption should resume, benefiting from both the further recovery of income and the gradual slowdown of inflation. Lower energy prices and costs of production are expected to ease pressures on firms' economic margins, with positive effects on the propensity to invest. Despite the persisting uncertainty surrounding the global scenario, exports should further increase. Overall, GDP is expected to growth by almost 1% in 2023.

Loans to Non-financial firms

In the first two months of 2023 bank lending to the private sector continued to grow (1.6% y/y) with a rate halved compared to 2022 (3.3% y/y), reflecting weaker demand from firms for investment purposes and from households for house purchase. Slowdown mainly reflected the dynamic of lending to non-financial corporations conditioned by the abundant liquidity accumulated over the last two years, the rise on interest rates and uncertainties regarding the evolution of the economic scenario.

Italy: loans to Non-financial corporations

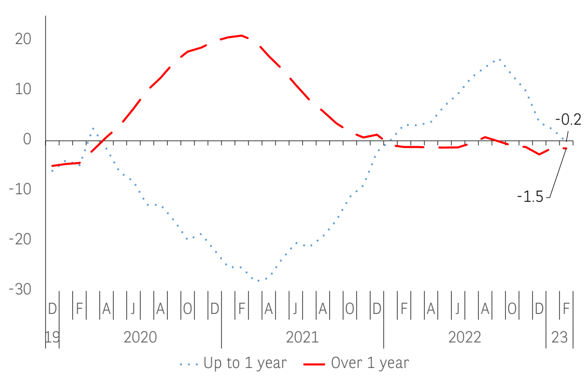
(y/y % adjusted changes)



Source: BNL Economic Research calculations on ECB data

Italy: loans to Non-financial corporations

(y/y % changes)



Source: BNL Economic Research calculations on ECB data

In February 2023, total adjusted outstanding loans to non-financial firms stagnated (0.0% y/y). In the first two months of 2023 loans increased on average +0.3% recording a significant deceleration with respect to 2022 (when the average rate of growth was 2.7%). Firms repaid large amounts of debt, drawing on the ample liquidity they held with banks. The downtrend reflected the widespread weakening across all sectors, and particularly the contraction in services.

In the first two months of the year, outstanding loans to public sector decreased by -3.6% on a y/y basis (-0.3% in the whole 2022) while lending to private non-financial sector rose by 1.6% (3.3% in 2022), after adjusting for notional cash pooling and securitization. The increase of loans to non-financial corporations was concentrated in the segment of loans with maturities up to one year, albeit at a progressive decreasing rate, while those beyond this term continued to decline since January 2022.

The liquidity held by firms on deposits and current accounts remains high, even if it began to reduce. 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 February 2023 firms' deposits amounted to €383 billion (-€56 billion from the peak recorded in July 2022).

The increase in ECB policy rates was reflected in an increase in the borrowing cost of firms and households. In February, interest rates on new lending to non-financial corporations amounted to 3.55% (against 1.09 recorded in February 2022); those on new loans of up to €1 million were 4.39% (from a low of 1.77 in February 2022), while the rates on new loans of above that amount were 3.04% (from 0.76% 12 months earlier). The debt of Italian non-financial corporations continued to decrease in the fourth quarter of 2022, to 67.8% of GDP (69.6% in Q3) compared with 105.5% in the Euro area.

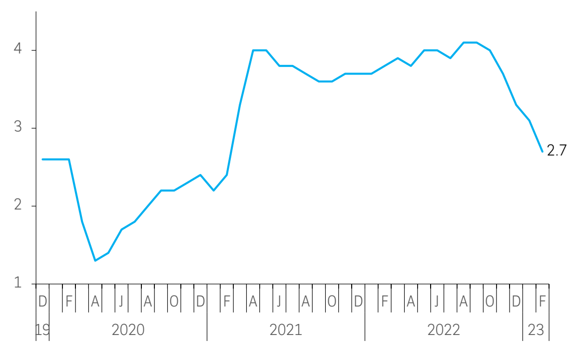
Loans to Households

After a stabilization of growth in 2022, lending to households gradually attenuated. Taking into account the adjusted data, in the first two months of 2023 outstanding loans to households increased by 2.9% y/y, a value significantly lower than the 2022 average (3.9%).

In the first two months of the year consumer credit increased by 3.6% y/y (on average +3.0% in 2022) and loans for house purchase rose by 4.1% (4.9% on average in 2022). On the contrary, the outstanding amount of the so-called "other loans" further decelerated: on average, the monthly rate of growth in the first two months has been -1.8% (-0.4% in 2022). Loans to sole proprietor firms, which account for 39% of "other loans", decreased by 6.4%, with respect to the -3.7% y/y of 2022.

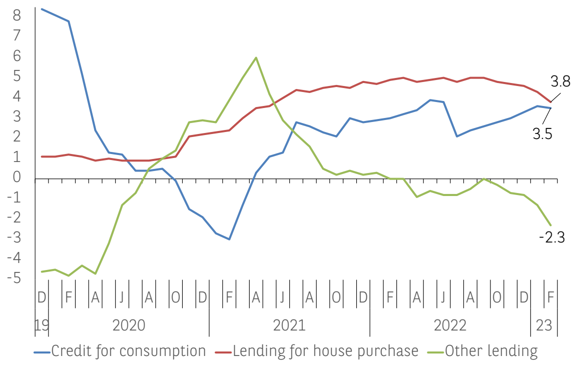
In February 2023, the average interest rate on new loans to households for house purchase markedly increased to 3.8% (from a value equal to 1.5% in February 2022).

Italy: loans to Households
(y/y % adjusted changes)



Source: BNL Economic Research calculations on ECB data

Italy: loans to Households
(y/y % changes)



Source: BNL Economic Research calculations on ECB data

In the third quarter of 2022, household debt as a percentage of disposable income decreased to 62.5%, a bit lower than the previous period (63.5%), still well below the Euro-area average (94.1%), mainly as a result of the growth in disposable income. As a share of GDP, household debt declined slightly, from 42.6% to 41.7% (57.2% in the euro area).

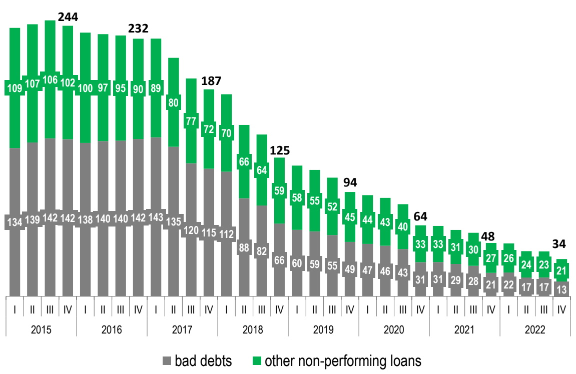
Asset quality

The stock of non-performing loans continued to fall: in Q4 2022, NPLs outstanding was equal to €58bn (-25% y/y), €20 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 be around €20 billion, in line with that observed in 2021. Developments in sales, together with a reduced flow of new NPLs, have contributed to the fall in the stock of this type of asset.

In Q4 bad loans decreased at a faster rate (-36%, to 21 billion) than UTPs (-20% to 33 billion); instead, the decline in the past due loans came to an end. In Q4 the growth of past due recorded a positive value for the third quarter in a row (+11% y/y, to €4.1 billion). In Q4, NPLs ratio (gross value) decreased to 2.4%; narrowing the gap with European banks to 0.6 p.p.

Italy: non-performing loans to NFCs

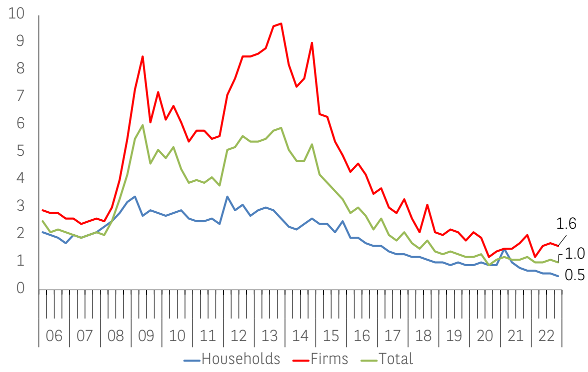
(billion of euros)



Source: BNL Economic Research calculations on Bank of Italy data

Italy: new non-performing loan rates

(% of performing loans)



Source: BNL Economic Research calculations on Bank of Italy data

In Q4 the volume of performing loans to the non-financial private sector classified as Stage 2 has declined by 21.3 bn (to 190 billion for the significant institutions). After the recovery of the economic situation following the pandemic, the stock of these loans significantly reduced for those which benefited from moratoria (to 22.5% from the peak value of 33.6% in December 2021). The ratio of Stage 2 loans to total performing loans has declined to 12.2% (significant institutions), a level slighty higher than that recorded prior to the pandemic (10.4% in December 2019).

In Q4, non-performing loans of firms amounted to about 34 billion (13 bn bad loans, 21 bn UTP, 1 bn past due loans), 15 billion less than a year earlier. In the first two months of the year, loans to firms derecognised from the balance sheets amounted to 8 billion (12.8 bn in the corresponding period of 2022).

With regard to new NPLs rate, those of non-financial firms slightly decreased in Q4, remaining at historically low levels (1.6% vs 1.7% in Q3 2022). Compared to Q4 2021, riskiness bettered or remained almost stable for the most of sectors. A severe deterioration is recorded only for the "Manufacture of computer, electronic and optical products" sector (peaked to 6,7% from 0.7% in December 2021) and "Manufacture of fabricated metal products" sector (peaked to 1.7% from 0.8% in December 2021).

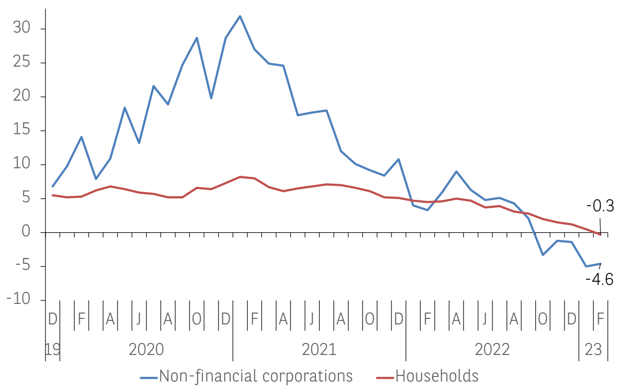
In Q4 2022, households' non-performing loans amounted to €15 billion (6 bn bad loans, 7 bn UTP, 2 bn past due loans), €3.7 billion less than a year earlier. The decrease affected all types of non-performing loans. The new non-performing loans rate stands at 0.5%, a historical low level.

Borrowing from customers

In February, bank funding contracted by 4.4% on an annual basis, as voluntary repayments and the end of the second TLTRO III operation last December resulted in a further decrease in liabilities to the Eurosystem. Bank funding was also affected by a decline in Italian residents' deposits, as households and firms shifted part of their funds from current accounts to higher-yielding financial assets. The cost of funding increased further, mostly as a result of the rise in money market interest rates.

In February 2023, funding from private non-financial sector decreased by 1.3%, the third negative value in a row. In the first two months of the year, funding from domestic customers declined on average by 1.1% y/y. In the first two months of 2023 current account, which represents a share of 60% of total funding, declined on average -3.9% y/y (vs +6.7% in the same period of 2022).

Italy: bank deposits by sector
(y/y % changes)



Source: BNL Economic Research calculations on ECB data

The reduction of purchasing power for the households, the increasing cost of loans and tighter credit standards also for the non-financial corporations are weighing on the evolution of deposits. In the first two months of the year, the growth rate of households deposits was almost nil (0.1% on average) recording in February the first negative growth (-0.3% y/y) since January 2012.

In the first two months of 2023 deposits of non financial companies declined by 4.8% y/y on average, showing in February the fifth monthly decline in a row. Net issuance of securities by banks turned negative in the first two months of 2023, after a net positive amount recorded in the previous two quarters (2.1 bn in Q3, 3.7 bn in Q4).

Italy: 2019-2023 banking trends

1 Loans: adjusted changes (*)

annual averages	2019	2020					2021					2022					2023
and y/y %	a.a.	I	II	III	IV	a.a.	I	II	III	IV	a.a.	I	II	III	IV	a.a.	Jan-Feb
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	3.2	4.4	3.0	**3.3**	1.6
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	2.3	**2.7**	0.3
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**	3.8	3.9	4.0	3.7	**3.9**	2.9

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

1.1 Loans: not adjusted changes

annual averages	2019	2020					2021					2022					2023
and y/y %	a.a.	I	II	III	IV	a.a.	I	II	III	IV	a.a.	I	II	III	IV	a.a.	Jan-Feb
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	1.9	3.2	1.9	**2.1**	-0.2
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	3.1	0.6	**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**	2.1	6.7	14.6	8.9	**8.1**	1.1
- 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**	-1.1	-1.3	0.1	-1.6	**-1.0**	-1.4
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	3.3	3.3	**3.4**	2.7
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**	3.6
- 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**	4.1
- other	**-7.1**	-4.5	-3.1	0.3	2.4	**-1.2**	3.9	4.4	1.4	0.3	**2.5**	0.1	-0.8	-0.4	-0.6	**-0.4**	-1.8

Sources: ECB, BNL Economic Research - BNP Paribas

2. Deposits & Securities

annual averages	2019	2020					2021					2022					2023
and y/y %	a.a.	I	II	III	IV	a.a.	I	II	III	IV	a.a.	I	II	III	IV	a.a.	Jan-Feb
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	3.6	1.8	-0.6	**2.0**	-1.1
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	**2.9**	-1.4
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**	-3.9
- 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**	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**	1.0

Sources: ECB, BNL Economic Research - BNP Paribas