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Overview of the Italian Banking Market



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La banca
per un mondo
che cambia



At the beginning of 2024, the Italian economy slightly accelerated. In Q1 24, real GDP rose by 0.3% q/q. Net exports contribution was positive, as imports declined while exports rose. The recovery of the Italian economy continued in Q2 24, although at a slower pace. Real GDP rose by 0.2% q/q (+0.9% y/y). Households benefit from the recovery of income, although still suffering from consumer prices that are about 20 percentage points higher than at the beginning of 2021, even though inflation has been increasing by less than 2% from October 2023. In July, inflation rose by 0.5% m/m and by 1.3% y/y.

Credit growth has weakened considerably in Italy as a result of monetary tightening. The still high cost of lending and the abundant liquidity are dampening the demand for loans by firms and households. In June 2024, total adjusted outstanding loans to non-financial firms declined for the seventeenth month in a row. In the first six months of 2024 they declined on average by -3.9% recording a further worsening with respect to 2023 (when the average rate of growth was equal to -3.2%). In the first six months of 2024 outstanding loans to households (calculated using adjusted data) decreased by 1.2% y/y, after an average growth rate of 0.5% y/y in 2023.

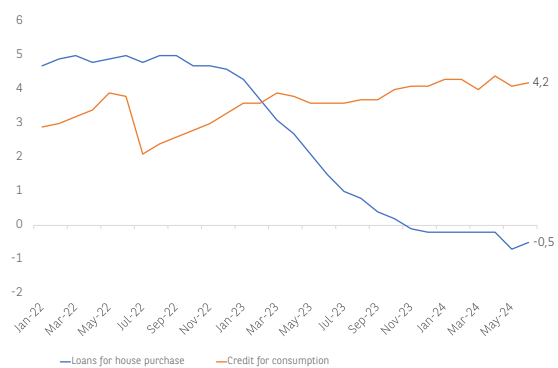
Italy: loans to Non-financial corporations

(y/y % changes)



Italy: loans to Households

(y/y % changes)



In the first six months of the year, households deposits declined on average by 2.0% while deposits of non financial companies grew on average in the first six months of the year by 5.3%. The liquidity held by firms on deposits and current accounts remains high. At the end of June 2024 firms' deposits reached a peak of €450 billion. The stock of non-performing loans continues to fall: in Q4 2023, NPLs outstanding was €51bn.



OVERVIEW OF THE ITALIAN BANKING MARKET

Economic Research

*BNL BNP Paribas**

Italy: economic outlook

At the beginning of the year, the Italian economy slightly accelerated. In Q1 24, real GDP rose by 0.3% q/q. Net exports contribution was positive (+0.7%), as imports declined while exports rose. Change in inventories subtracted 0.7 percentage points from the overall growth.

In Q1 24, the economic recovery was mixed by sector. Value added of construction rose by almost 3%, also reflecting the effect of public incentives to improve the energy efficiency of buildings. Services moderately grew (+0.3%), benefiting from the further recovery of tourism, with expenditures of foreign travellers well above the 2019 level. Value added of manufacturing slightly declined, suffering from the slower evolution of exports and the contraction of production mainly in sectors with still high productive costs.

Consumption rose by 0.3%, partly recovering the 1.4% decline in Q4 23. Households benefit from the recovery of income, although still suffering from consumer prices that are about 20 percentage points higher than at the beginning of 2021, even though inflation is below 2%. Labour market conditions further improved. The employment rate rose above 62%, the highest value in the last twenty years, and the number of employed persons is more than 700000 higher than in the pre-Covid-19 crisis period.

In Q1 24, investment in construction rose further, both for dwellings and other buildings and structures, while those in machinery and equipment declined, although remaining 17% higher than in Q4 19. Economic and financial conditions of firms have further improved. In spite of higher productive costs, firms' profitability has slightly recovered. Leverage of non-financial corporations fell to 34%, 15 percentage points below the 2011 value, with a more balanced composition of debts. Besides, deposits of firms amount to more than EUR 500 billion, about 40% of financial debts.

The recovery of the Italian economy continued in Q2 24, although at a slower pace. Real GDP rose by 0.2% q/q (+0.9% y/y), more than in Germany (-0.1% q/q), but less than in France (+0.3%) and in Spain (+0.8%). In Italy, real GDP is 4.7% higher than in Q4 19. The carry over for 2024, assuming no further growth in the coming quarters, is +0.7%.

In Italy, the consumer price index for the whole nation (NIC) has been increasing by less than 2% from October 2023. In July, inflation rose by 0.5% m/m and by 1.3% y/y, accelerating from +0.8% in June. In July, core inflation was +2%, slightly more than in June (+1.9%). Prices of food goods further decelerated (+0.9% y/y in July from +1.3% in June), while those of services slightly accelerated (from +2.8% to +3%) and those of energy declined at a slower pace (-4.1% from -8.6%). In July, the harmonized index of prices rose by 1.7%, from +0.9% in June, less than in the Euro area (+2.6%).

As far as house prices are concerned, in Q1 24, they declined by 0.1% q/q, while increasing by 1.7% y/y. Prices of new houses rose by 5.4% on annual basis while those of the existing ones by 0.8%. On the transaction side, Italy's housing market remains depressed however: following the decline recorded in 2023 (when volumes went down by about 10% on a national basis), in Q1 2024 house transactions fell by 7.6%. According to Bank of Italy estimates, houses in Italy account for 47.6% of households' net wealth, reaching 75.1% in the lowest percentile of wealth.

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



Bank loans

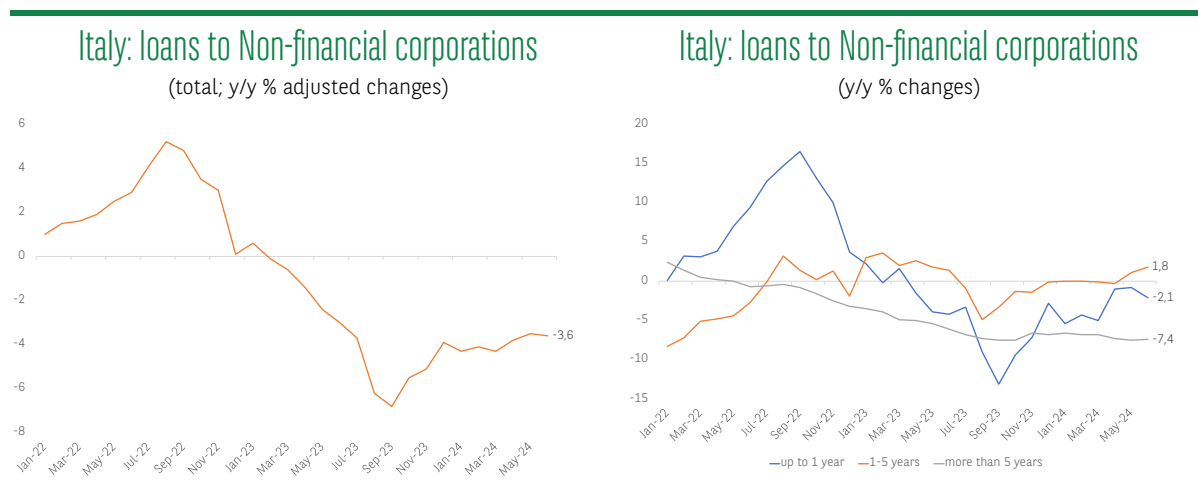
Credit growth has weakened considerably in Italy as a result of monetary tightening. There has been a significant contraction in the stock of business loans, which has only recently lessened. Lending to households has also slowed down sharply and has stagnated over the past year). Interest rates on new loans have risen considerably.

For firms, strong profitability has prevented higher interest expenses from undermining debt sustainability. Part of the liquidity buffer accumulated during the pandemic years was used to repay, sometimes in advance, loans that had become more costly. Despite these outlays, liquidity is still ample.

According to the ECB Bank Lending Survey, in Italy in the second quarter of 2024, credit standards for loans to firms were eased slightly, for the first time since December 2021, because of greater risk tolerance and lower funding costs. The overall terms and conditions for these loans became slightly more favourable, mainly in terms of lower lending rates. The credit standards for households were eased moderately for house purchase, owing to increased competitive pressure, and tightened slightly for consumer credit.

Loans to Non-financial firms

In June 2024, total adjusted outstanding loans to non-financial firms declined for the seventeenth month in a row. In the first six months of 2024 loans declined on average -3.9% recording a further worsening with respect to 2023 (when the average rate of growth was -3.2%).



The decrease of loans to non-financial corporations affected both the segment of loans with maturities up to one year (-3.1 % y/y on average between January and June 2024; -4.2% on average in 2023) and the segment with maturities beyond 5 years (-7.1 % y/y in the first semester 2024; -5.9% on average in 2023). More favourable remained the evolution of loans with maturities between 1 and 5 years. The growth rate of loans within this maturity bucket increased by 0,4% in the first six months of 2024 (+1,8% in June) and recorded a +0,2% y/y on average in 2023.

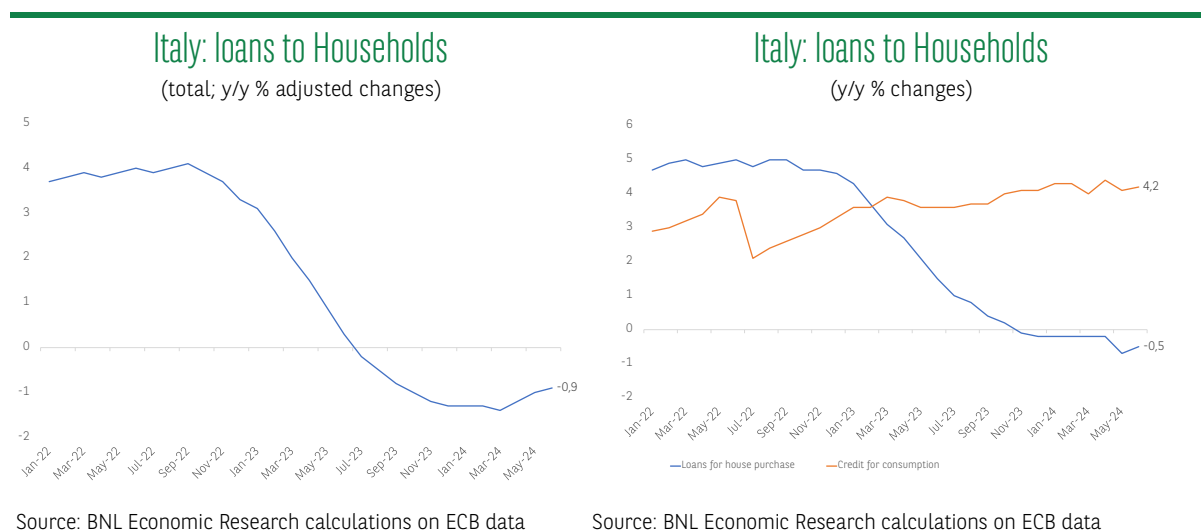
The liquidity held by firms on deposits and current accounts remains high. At the end of June 2024 firms' deposits reached a peak of €450 billion, €11 billion more than the previous peak



recorded in July 2022 and €143 billion more than 2019, before the start of the pandemic. Between November 2023 and May 2024, the interest rate on new bank loans to firms remained high, even showing signs of a slight reduction (from 5.6% to 5.4%).

Loans to Households

Lending to households gradually attenuated in 2023 and then turned into a contraction due to the decline in households consumption and signs of worsening of the real estate market associated with the rapid rise in interest rates. In the first six months of 2024 outstanding loans to households (calculated using adjusted data) decreased by 1.2% y/y, after an average growth rate of 0.5% y/y in 2023. In the first semester of the year consumer credit increased by 4.2% y/y (on average +3.8% in 2023) although a general slowdown in spending, and not favorable supply conditions. Loans for house purchase declined by 0.3% (1.6% on average in 2023).



The dynamic of loans for house purchase has been particularly affected by the tightening of monetary policy and the increase of interest rates. After reaching a peak of 4.5% in November, the cost of new loans to households for house purchase showed first signs of reduction falling to 3.6% in May 2024 anticipating the first Ecb rate cut of June 6 2024.

Deposits and asset quality

Since the start of the interest rate hike cycle, growth in residents' deposits has gradually weakened, reflecting developments in current account deposits. In 2024, households continued to reduce their current accounts in part shifting their savings towards longer-term deposits on which banks offer higher interest rates than those on demand deposits.

In the first six months of the year, households deposits declined by 2.0% (on average) recording in June (-0.2% y/y) the seventeenth negative growth in a row while deposits of non financial companies grew on average in the first six months of the year by 5.3% after decreasing on average -3,2% in 2023.

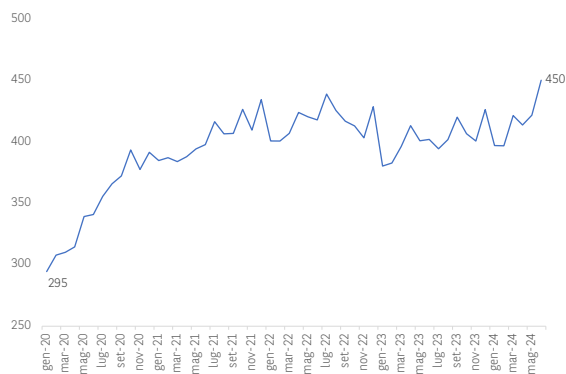
The stock of non-performing loans continues to fall thanks to the sale of non-performing loans and to securitisation transactions. More developed markets, together with a reduced flow of



new NPLs, have both contributed to the fall in the stock of this type of asset. In Q1 2024, NPLs outstanding was €51bn.

Italy: deposits of Non-financial corporations

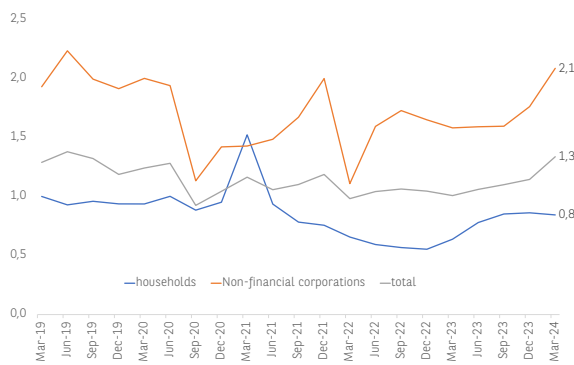
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Source: BNL Economic Research calculations on ECB data

Italy: New non-performing loan rates

(quarterly data; in % of the stock of the previous quarter)



Source: BNL Economic Research calculations on Bank of Italy data

In the first quarter of 2024, the new non-performing loans rate was 1.3 %, a level slightly higher than the one recorded in the previous quarter (1.1%). According to Bank of Italy's projections, the overall ratio between new non-performing loans on total loans for households and firms might increase driven by the higher cost of debt. However, this ratio is projected to remain well below the level seen in previous times of crisis for both households and firms.

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