Comitato per le politiche macroprudenziali

Committee for Macroprudential Policies: Annual Report

March 2025

2024

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Unless otherwise specified, calculations by the authorities on the Committee.

In the figures with different right- and left-hand scales, the data reported in the figures refer to the left-hand scale. They only refer to the right-hand scale if this is explicitly indicated in the notes.

INTRODUCTION

The Committee for Macroprudential Policies was established by Legislative Decree 207/2023 (‘decree establishing the Committee’) as an independent authority designated for conducting macroprudential policies in Italy, according to Recommendation ESRB/2011/3 of the European Systemic Risk Board (ESRB). The national authorities that help safeguard financial stability in various ways are represented at the highest level. The Committee consists of the Governor of Banca d’Italia, who chairs it, and the presidents of the Companies and Stock Exchange Commission (Commissione nazionale per le società e la borsa, CONSOB), the Pension Fund Supervisory Authority (Commissione di vigilanza sui fondi pensione, COVIP) and the Institute for the Supervision of Insurance (Istituto per la vigilanza sulle assicurazioni, IVASS). The Director General of the Treasury attends the meetings but has no voting rights.

In this report, the Committee gives an account of its actions in 2024, fulfilling the transparency and legal obligations laid down in Article 1(9) of the decree establishing the Committee.

The report sets out the role and objectives of the Committee, and provides an overview of the activities carried out over the year and the macroprudential decisions taken by its constituent authorities. It also describes the situation of the Italian financial system and the Committee’s assessment of the main risks to the system’s stability.

1. THE COMMITTEE'S FUNCTIONS

The Committee for Macroprudential Policies pursues the stability of the Italian financial system. Its action helps to counter the accumulation and propagation of risks by boosting the system's capacity to absorb the consequences of events that could threaten its proper functioning.

Based on what is provided for by law, the Committee:

- analyses the risks to the stability of the Italian financial system and draws up intermediate strategies and objectives to achieve it;
- has the power to report to the Government on systemic risk, either publicly or confidentially;
- can make recommendations to its constituent authorities;
- can prepare reports for Parliament, the Government, other authorities, public bodies and State organizations on adopting measures, including legislative ones, to safeguard the stability of the Italian financial system;
- can express opinions on any draft legislation relevant to its objectives;
- produces and implements methodologies and procedures for identifying systemically important financial institutions and structures, without prejudice to the powers granted by the respective sectoral regulations to individual authorities on the Committee;
- assesses, pursuant to Regulation (EU) 2016/1011 (Benchmark Regulation), whether a fallback provision in a specific funding contract or financial instrument as originally agreed no longer reflects, either wholly or in part, the market or the economic reality that the benchmark in cessation was supposed to measure; it also assesses whether applying this clause could pose a threat to financial stability.

The Committee may request data and any other information necessary for performing its tasks from public and private entities that carry out activities relevant to financial stability. In the event of requests made to supervised entities, the information is acquired via the authorities for the areas within their respective remits; in other cases, the Committee submits a request to Banca d'Italia, which collects the data.

The role of the Committee does not affect the competences and responsibilities of its member authorities; each of them continues to draw up and implement supervisory measures for their own sector.

The Committee for Macroprudential Policies cooperates in Europe – including by exchanging information – with the ESRB, the European Central Bank and the macroprudential authorities of other EU Member States, in order to facilitate their respective functions (see the box 'An overview of international macroprudential oversight').

AN OVERVIEW OF INTERNATIONAL MACROPRUDENTIAL OVERSIGHT

The global financial crisis of 2007-08 showed how a build-up of imbalances in the financial system can cause considerable damage to society and to the real economy. As part of the reforms introduced following this crisis, which were intended to prevent the recurrence of such adverse events, a comprehensive system of international institutions and bodies was created, tasked with both analysis and the formulation and implementation of financial stability policies.

At global level, the Financial Stability Board (FSB) brings together representatives of the main financial stability authorities from many advanced and emerging market economies (mostly the same as those in the G20) and from the international institutions that lay down financial standards.[1] The FSB coordinates the work of national financial authorities and international bodies to promote the implementation of effective regulatory and supervisory policies, thereby contributing to the global stability of the financial system.

In Europe, the European Systemic Risk Board (ESRB) analyses systemic risks within the EU and has the power to issue warnings and recommendations to the EU, the Member States and European and national supervisory authorities in order to promote the adoption of corrective measures.[2] It is part of the European System of Financial Supervision (ESFS), which also includes the three European sectoral supervisory authorities: the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA). In the macroprudential field, the ECB cooperates with the national authorities and plays a key role in coordinating and topping up the measures they have adopted for the banking sector.

The other national authorities established in Europe as a result of Recommendation ESRB/2011/3 generally include the respective central banks, financial market and intermediary supervisors, and the ministry dedicated to managing the economy or finance;[3] how they act reflects the structure of the national financial system and macroprudential priorities.

1 The Board was established in April 2009, and its members signed the Financial Stability Board Charter on 25 September 2009.

2 Regulation (EU) 2010/1092 of the European Parliament and of the Council.

3 For more details, see ESRB, 'List of national macroprudential authorities and national designated authorities in EEA Member States'.

2. COMMITTEE ACTIVITIES IN 2024

The Committee was constituted by legislative decree with effect as of 11 January 2024. In the subsequent months, the Committee carried out the activities required for the analysis and prevention of systemic risks in Italy and equipped itself to perform its functions as mandated in the legislation.

The Committee met twice in 2024, on 5 July and 13 December, at Banca d'Italia's headquarters in Rome.[1] Both meetings were attended by Fabio Panetta, Governor of Banca d'Italia, Paolo Savona, President of CONSOB, Francesca Balzani, Acting President of COVIP, Luigi Federico Signorini, President of IVASS, and Riccardo Barbieri Hermitte, Director General of the Treasury.

2.1 Analysis

At its two meetings in 2024, the Committee examined the risks to the Italian economic and financial system, concluding that Italy's main short-term vulnerabilities lie in the potential for an escalation of geopolitical tensions, for an introduction of more protectionist trade policies than in the past, and in political and economic developments in some major European economies. Italy's exposure to these risks, all of which are attributable to external factors, is amplified by its weak economic growth, partly due to lacklustre productivity growth, as well as by its high public debt.

Overall conditions in the Italian financial system remained favourable in 2024, both for banks and for other intermediaries.

The risks stemming from developments in the real estate market have been assessed as moderate overall for Italy, whereas they caused significant instability for other countries in the past. However, although they are currently decreasing, the imbalances accumulated in this sector by some foreign economies could lead to contagion, with possible repercussions for Italy as well.

The financial conditions of households, which have very low levels of indebtedness by international standards, are sound overall. At both its meetings in 2024, the Committee examined the increasing trend among households to invest in certificates.[2] These are complex financial instruments that can expose holders to high losses, should adverse market scenarios materialize. Recent surveys have also revealed that a growing share of households is investing in crypto-assets, the price of which is often highly volatile.[3]

At the meeting on 5 July, the banking sector capital buffers for use in the event of severe financial stress were also discussed. Emphasis was placed on the importance of maintaining adequate safeguards, and Banca d'Italia's decision to activate the systemic risk buffer (SyRB) for banks and banking groups authorized to operate in Italy, with effect as of last April, was praised (see Chapter 3).

At its meeting on 13 December, the Committee focused on the liquidity risk for life insurance companies posed by increasing redemptions and declining premiums in the years 2022-23.

1 For further details on the content and outcome of the meetings, see the Committee for Macroprudential Policies' website: 'Minutes of the meetings' and 'Press releases'.

2 For further information, see Banca d'Italia's website: 'The Bank of Italy's 'intervention power' concerning financial instruments, structured deposits and related financial activities/practices'.

3 For further details, see the CONSOB report on Financial investments of Italian households. Focus on investors, 2024, and OAM (Organismo per la gestione degli elenchi degli agenti in attività finanziaria e mediatori), 'Seventh information flow sent to OAM by virtual currency and digital wallet service providers. Q3 2024', 2024 (only in Italian).

The pension fund sector was found to be financially sound, particularly on account of structural characteristics that are in some cases specific to Italy (see Section 4.5). The medium- to long-term horizon of investment and the balancing of portfolios can mitigate the effects of any market tensions. The Committee also examined social security funds (Casse di previdenza), another important category of institutional investors, whose investment policies are also oriented to the medium and long term and to stability.

A further topic was the risks deriving from developments in non-banking financial intermediation (NBFI), which is highly heterogeneous and growing constantly. The Committee acknowledged the ongoing initiatives at global level to draw up a shared system of rules to improve the soundness of the sector, as well as the replies from European supervisory authorities to the consultation on NBFI carried out by the European Commission, which was concluded in November 2024.[4] Given the NBFI sector's high degree of interconnectedness, the Committee emphasized that assessing the risks stemming from non-bank finance requires close international coordination, including through data sharing.

2.2 Organization

The Committee adopted its rules of operation, voting unanimously for its internal rules on 12 July 2024.[5] These rules specifically govern the convening and preparation of meetings and establish that the Committee may reach a decision by majority vote of its members, including by written procedure. They also regulate the procedures for reporting on the Committee's activities, with specific reference to press releases and the publication of the minutes of its meetings. They define the framework for sharing data and information acquired by the Committee as part of its mandate, whilst ensuring professional confidentiality, and the terms for interacting with third parties, through public consultations and meetings with stakeholders. Finally, the rules define the functions of the Secretariat, which are assigned to Banca d'Italia by the decree establishing the Committee. The Secretariat facilitates cooperation between the authorities on the Committee, as well as between the Committee and supranational authorities, and the authorities of other States; it prepares analyses and discussion notes, provides assistance in drafting reports and recommendations, and checks their outcome. In addition, the Secretariat provides organizational support for all the Committee's activities.

Last November, the Committee's website became operational;[6] it is separate from the websites of the individual authorities on the Committee. It is available in Italian and English, and provides a public record of the Committee's activities and initiatives, thus ensuring transparency.

4 For more information, see the European Commission's website: 'Targeted consultation assessing the adequacy of macroprudential policies for non-bank financial intermediation (NBFI)'. The Commission focused on: (a) liquidity mismatches between assets and liabilities, especially those not mitigated by the use of risk management tools; (b) excessive recourse to leverage; (c) increasing interconnectedness within the NBFI sector and between NBFI and the banking sector; and (d) poor coordination among the national authorities of Member States in supervision, regulation and in using prudential tools, as well as between national and European authorities.

5 For more details, see the Committee for Macroprudential Policies' website: 'Legal framework'. The approval of the Internal rules and their publication on the websites of the authorities on the Committee were made public in the Gazzetta Ufficiale della Repubblica Italiana, General Series No. 175 of 27 July 2024.

6 Available at www.comitatomacroprudenziale.it.

3. MACROPRUDENTIAL POLICY DECISIONS AND OTHER FINANCIAL STABILITY TOOLS

The Committee did not adopt any macroprudential measures of its own in 2024, as the ones taken by the individual authorities within their remits were considered sufficient for the time being.

In the banking sector, Banca d'Italia can adopt macroprudential measures to strengthen the stability of the financial system, thus mitigating the potential effects of emerging systemic risks. It has the power to impose the capital buffers required by EU law: the countercyclical capital buffer (CCyB), the capital buffers for other systemically important institutions (O-SIIs) and for global systemically important institutions (G-SIIs), and the systemic risk buffer (SyRB). Banca d'Italia can also use macroprudential tools that are not harmonized by EU legislation, such as borrower-based measures, and prohibit or restrict the marketing, distribution or sale of financial instruments with the aim of preserving the stability of the national financial system.[7]

In 2024, Banca d'Italia applied a SyRB to all banks and banking groups licensed in Italy. The buffer is set at 1 per cent of credit and counterparty risk-weighted exposures to Italian residents, with half already achieved last year and the remainder to be completed by 30 June 2025.[8]

The countercyclical capital buffer rate was kept at zero per cent in 2024, as no financial stability risks arose from excessive credit growth.[9] The legislation allows the CCyB to be applied to exposures to counterparties residing in non-European Economic Area countries. To this end, national authorities are required to identify on an annual basis the third countries to which the banking system has material exposures, and Banca d'Italia has identified Russia, Switzerland, Türkiye, the United Kingdom and the United States.[10]

The UniCredit, Intesa Sanpaolo, Banco BPM, BPER Banca, Banca Nazionale del Lavoro, Mediobanca and Gruppo Bancario Cooperativo ICCREA banking groups have been confirmed as other systemically important institutions (O-SIIs) licensed in Italy and the capital buffers they had already set for the previous year were kept unchanged for 2025.[11] No credit institution licensed in Italy has been identified as a G-SII.[12]

7 For further information, see Banca d'Italia's website: 'The Bank of Italy's 'intervention power' concerning financial instruments, structured deposits and related financial activities/practices'.

8 Banca d'Italia, 'Activation of the systemic risk buffer', press release, 26 April 2024.

9 Banca d'Italia, 'The Countercyclical Capital Buffer (CCyB) rate for the fourth quarter of 2023 remains unchanged at zero per cent', press release, 20 December 2024.

10 Banca d'Italia, 'Identification by Italy of material third countries pursuant to Recommendation ESRB/2015/1 of the European Systemic Risk Board (ESRB)', press release, 30 June 2024.

11 Banca d'Italia, 'Identification for 2025 of other systemically important institutions authorized to operate in Italy', press release, 22 November 2024.

12 Banca d'Italia, 'Annual identification of Italian global systemically important institutions', press release, 1 December 2023.

Banca d'Italia also assessed requests to reciprocate the macroprudential measures adopted by Belgium,[13] Denmark[14] and Portugal.[15] It decided not to apply them domestically, as the exposure of Italian banks to the risks addressed by these measures in the countries that adopted them is negligible.

In the insurance sector, IVASS did not consider it necessary to take any macroprudential measures in 2024 (see the box 'Insurance sector tools for safeguarding financial stability').

INSURANCE SECTOR TOOLS FOR SAFEGUARDING FINANCIAL STABILITY

The European regulatory framework for the insurance sector does not currently provide national supervisory authorities with explicit macroprudential tools, but allows some microprudential measures to be used to safeguard the stability of the financial system. However, European insurance legislation is moving towards greater recognition of the specific objectives of macroprudential supervision.

The recently updated Solvency II Directive and its delegated acts (currently under review) grant insurance supervisory authorities certain powers with a macroprudential function.[1] These include the power to temporarily suspend policyholders' redemptions on life insurance, as well as to restrict both the distribution of insurers' profits and the variable remuneration component. Furthermore, the recent Insurance Recovery and Resolution Directive (IRRD) empowers national supervisors to require companies considered significant within their markets to enhance their risk management systems by drawing up pre-emptive recovery plans.[2]

Italian legislation already grants IVASS macroprudential powers broadly equivalent to those recently introduced by the revised Solvency II framework and the IRRD.[3] IVASS also has the power to suspend or ban the marketing of insurance products that could pose risks to financial stability.

The 2024 Budget Law strengthened the primary rules protecting the stability of the insurance sector by establishing a Guarantee Fund for Life Insurance, financed through contributions from insurance companies and distributors. This measure aims to prevent potential losses

1 For more information, see the IVASS website: 'Solvency II'.

2 Companies are classified as significant based on a number of criteria: size, business model, risk profile, interconnectedness with the broader financial system, substitutability, importance for the economy of the Member State in which they operate, and scale of their cross-border operations.

3 Article 188 of the Code of Private Insurance and IVASS Regulation 38/2018.

13 Banca d'Italia, 'Decision not to reciprocate a Belgian macroprudential measure pursuant to Recommendation ESRB/2023/9', press release, 22 March 2024.

14 Banca d'Italia, 'Decision not to reciprocate a macroprudential measure adopted by Denmark pursuant to Recommendation ESRB/2024/3', press release, 8 November 2024.

15 Banca d'Italia, 'Decision not to reciprocate a Portuguese macroprudential measure pursuant to Recommendation ESRB/2023/13', press release, 26 July 2024.

of trust in the sector by protecting beneficiaries entitled to life insurance payments if the issuing insurer is subject to insolvency proceedings.[4]

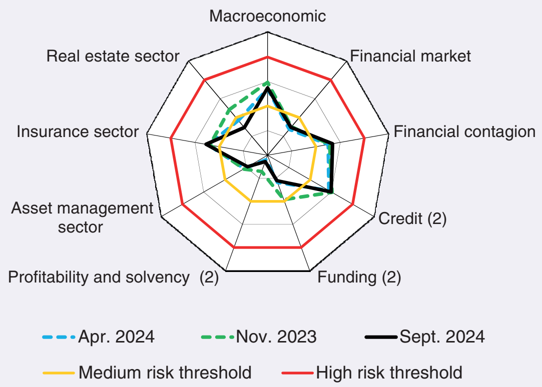
4 This fund is governed by private law, with contributions calculated proportionally according to the liabilities assumed by insurance companies and the premiums collected by distributors. Contributions are mandatory; failure to comply may result in the revocation of the life insurance licence or in removal from the Single Register of Intermediaries. The Guarantee Fund, like the Interbank Deposit Protection Fund, reimburses protected claims up to a maximum of €100,000 per beneficiary. This limit does not apply to pension products and life insurance contracts, whose benefits are only payable upon death or because of incapacity due to injury, illness or disability.

4. OVERVIEW OF THE ITALIAN FINANCIAL SYSTEM

Macrofinancial conditions in Italy remained stable in 2024 (Figure 1). Weak economic growth and high public debt, amid strong international tensions and high political uncertainty in a number of advanced economies, are the key risks for the Italian financial system. Data from Istat point to 0.7 per cent GDP growth in 2024. Harmonized consumer price inflation was 1.4 per cent in December, with its core component standing at 1.8 per cent.[16] Looking ahead, the reduction in interest rates and the recovery in household purchasing power, fostered by moderate inflation and a gradual pickup in wages, could act as a boost to the economy.

Figure 1

Aggregate indicators of risk for financial stability (1)
(score on a scale of 0 to 3)



Sources: Banca d'Italia, *Financial Stability Report*, 2, 2024 (based on Banca d'Italia, ECB and LSEG data).
(1) The aggregate indicators are based on the analytical framework for assessing risks described in F. Venditti, F. Columba and A.M. Sorrentino, 'A risk dashboard for the Italian economy', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 425, 2018. The aggregation methodology is explained in L. Bonato, G. Cascarino and F. Franceschi, 'The Bank of Italy's systemic risk dashboard for the Italian financial system: a technical note on the aggregation of risk indicators', Notes on Financial Stability and Supervision, 21, 2020. – (2) Risk indicators referring to the banking sector.

The high level of public debt is still a significant source of vulnerability for the Italian economy. Net borrowing declined in 2024 and, according to the policy framework outlined in Italy's medium-term fiscal-structural plan for the years 2025-29, will continue to gradually decrease over the coming years. However, the debt-to-GDP ratio rose in 2024 and is expected to continue expanding until 2026, partly owing to the impact of building renovation tax credits accrued in previous years.

The risks to financial stability from the real estate market are low. Residential property prices grew by 3.9 per cent year on year in the third quarter of 2024, though with no signs of overvaluation. Sales remain below their 2022 peak, partly as a result of weaker demand for housing. In the non-residential sector, sales continued to rise in the first half of 2024, while prices remained unchanged.

16 Banca d'Italia, *Economic Bulletin*, 1, 2025.

The risks stemming from the non-financial private sector are moderate. The debt-to-income ratio of Italian households is much lower than the euro-area average and the share of debt held by financially vulnerable households is low.[17] In 2024, home mortgage loans picked up slightly on 2023, while consumer credit increased more strongly. Incomes are supported by a high employment rate.

Last year, firms' ability to repay debts benefited from sound balance sheets, particularly in terms of leverage, which was much lower than at its peak in 2011, and of large cash holdings. However, the solvency of the most leveraged firms could be affected by weak economic growth and persistently high borrowing costs.

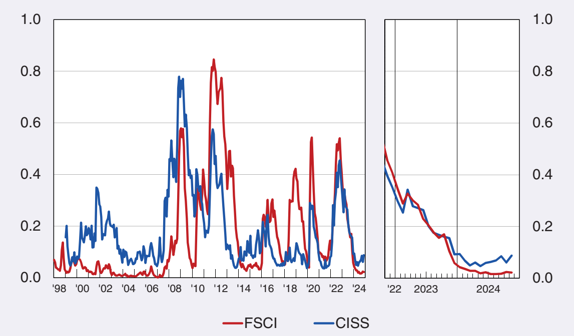
4.1 Financial markets

Overall, financial market conditions were relaxed in Italy in 2024, benefiting from the prospect of key interest rate cuts. The financial stress conditions index (FSCI) for Italy remained at low levels (Figure 2).

Figure 2

Financial stress indicators for Italy and the euro area (1)

(monthly averages of weekly data; index numbers)



Sources: Banca d'Italia, *Financial Stability Report*, 2, 2024 (based on Banca d'Italia, ECB and LSEG data).
(1) The index ranges from 0 (minimum risk) to 1 (maximum risk). The two indicators are comparable as they are based on the same estimation methodology. For further details on the Italian financial stress conditions index (FSCI), see A. Miglietta and F. Venditti, 'An indicator of macro-financial stress for Italy', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 497, 2019. For further details on the euro-area composite indicator of systemic stress (CISS), see D. Holló, M. Kremer and M. Lo Duca, 'CISS – A composite indicator of systemic stress in the financial system', European Central Bank, Working Paper Series, 1426, 2012.

The bout of political instability in a number of EU countries following the European elections in June and stock market tensions in August caused the yield spread between ten-year Italian government bonds and the corresponding German Bunds to widen slightly, only to retrace quickly. The price volatility of Italian government bonds remained low as well, though it surged temporarily during spells of turbulence. In 2024, the spread between Italian and German government bonds narrowed by about 50 basis points, to around 115 basis points at the end of the year (Figure 3); it remained virtually unchanged in January and in the first half of February 2025.

Last year, the supply of government bonds on the primary market remained high and liquidity conditions on the secondary market improved compared with 2023. The shares of government bonds held by Italian households and foreign investors rose, while those of the Eurosystem, Banca d'Italia, and Italian banks and insurance companies declined.

Italy's stock market had a positive performance overall. The general index rose by 10.3 per cent in 2024, driven by the banking sector (Figure 4.a). Stock price volatility remained broadly low, although there were some peaks due to tensions in international markets during the summer months and around the time of the US election (Figure 4.b).

Last year, the average yields of bonds issued by Italian firms fell, especially in the high-yield sector.

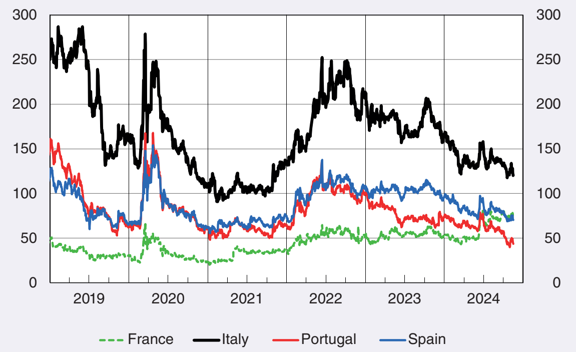
17 Banca d'Italia, *Financial Stability Report*, 2, 2024.

Debt securities issued by Italian financial corporations are mainly held by other domestic financial intermediaries, with a share of close to 50 per cent, and by foreign investors (36 per cent). Bonds issued by the non-financial private sector are mostly owned by residents of other countries (over 75 per cent).

Certificates play an increasingly important role in Italian banks' debt issuance, with a volume outstanding of €84 billion in June 2024, 25 per cent higher than a year earlier. These are complex instruments, about two thirds of which are held by households; they account for 1 per cent of households' gross financial wealth and for almost 12 per cent of their bond portfolios, the second-largest share behind Italian government bonds. Most certificates offer full or partial capital protection if held to maturity. According to data from the short-term outlook survey of Italian households ('Indagine congiunturale sulle famiglie italiane', ICF) conducted by Banca d'Italia in August 2024,[18] around 10 per cent of households invest in certificates, especially wealthier households and those in higher income groups.

Figure 3

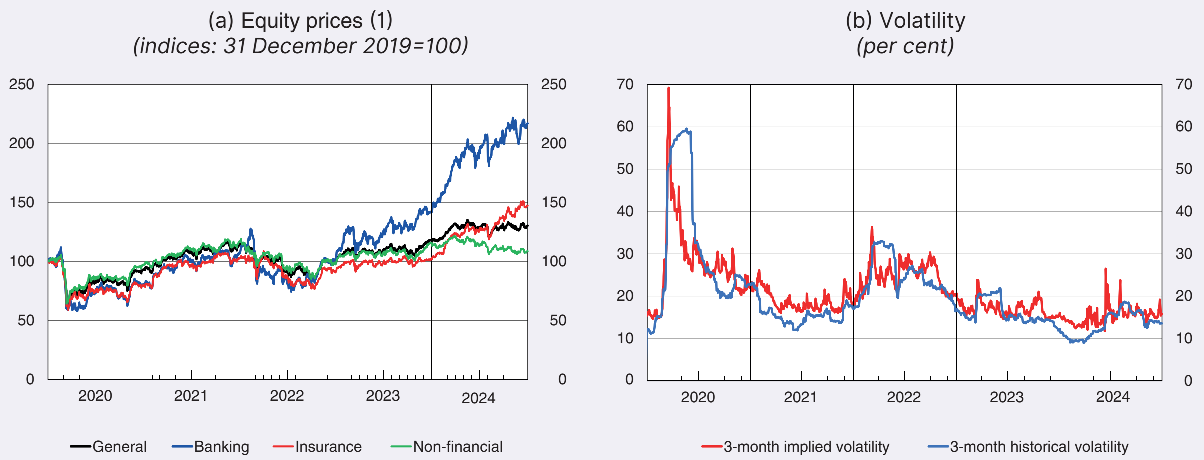
Spreads on 10-year government bonds (1)
(daily data; basis points)



Source: LSEG.
(1) Yield spreads between the benchmark 10-year government bonds of the countries in the key and the corresponding German Bund.

Figure 4

Italian equity market indicators
(daily data)



Sources: LSEG and Bloomberg.
(1) Datastream general and sectoral indices.

[18] For more details, see Banca d'Italia's website: 'Short-term outlook survey of Italian households - ICF' (only in Italian).

According to some surveys, crypto-assets are spreading to Italian households' portfolios, albeit for small amounts overall.[19] Based on data from the OAM (Organismo per la gestione degli elenchi degli agenti in attività finanziaria e mediatori), young people are more frequent users of these instruments, while the 40-60 age group has the largest holdings.[20] The most popular crypto-assets in the market are not anchored to the value of real or financial assets and their prices are often highly volatile.[21]

4.2 Banks

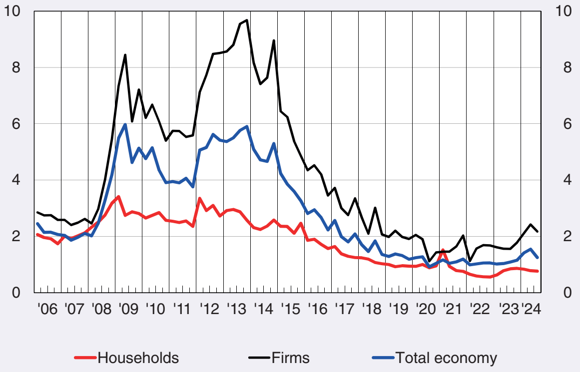
The conditions of Italy's banking system remain favourable, despite vulnerabilities stemming from persistently high international geopolitical uncertainty and low economic growth in Italy.

Asset quality remains good overall. In the first half of 2024, there were signs of worsening in lending to firms (Figure 5). The ratio of non-performing loans to total loans (NPL ratio), net of loan loss provisions, was 1.5 per cent in June.

Last year, Italian banks' profitability was driven by the increase in net interest income and, to a lesser extent, in fee income. Return on equity (ROE), net of non-recurring items, rose to 14.3 per cent in the first half of 2024, its highest level since 2008 (Figure 6).

Figure 5

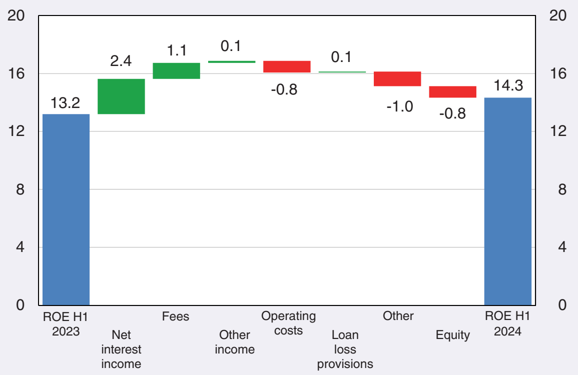
Loan default rates (1)
(quarterly data; per cent)



Source: Banca d'Italia, *Financial Stability Report*, 2, 2024 (Central Credit Register).
(1) The loan default rate is calculated as the annualized quarterly flow of adjusted NPLs on the stock of performing loans at the end of the previous quarter. Data seasonally adjusted where necessary.

Figure 6

Breakdown of changes in ROE from H1 2023 to H1 2024 (1)
(percentage points)



Sources: Banca d'Italia, *Financial Stability Report*, 2, 2024 (consolidated supervisory reports for banking groups and individual supervisory reports for stand-alone banks).
(1) Changes are expressed as a ratio to equity. A green/red bar indicates a positive/negative contribution to ROE in the first six months of 2023, giving the final ROE value for the first half of 2024.

19 For further details, see CONSOB, 'CONSOB member raises concerns at a conference on Italians' investment choices' (only in Italian), press release, 22 November 2024.

20 For more information, see OAM, 'Seventh information flow sent to OAM by virtual currency and digital wallet service providers. Q3 2024', 2024 (only in Italian).

21 C. Scotti, 'Digital euro: one for all and all for one', speech by the Deputy Governor of Banca d'Italia at the Commemoration Day for Gaetano Colicigno, Florence, 20 November 2024.

The loans received by Italian banks from the Eurosystem under targeted longer-term refinancing operations were repaid smoothly. Banks' ability to raise new funding from other sources reduced the need to resort to the central bank's standard refinancing operations. The marginal cost of funding fell in 2024, though it remains higher than before the interest rate hiking cycle that began in 2022.

In June 2024, the liquidity conditions and capital position of the banking system remained sound. The liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) were still high (on average, 177 and 134 per cent, respectively) and above the regulatory minimums for all banks. The ratio of common equity tier 1 to risk-weighted assets (CET1 ratio) reached 15.9 per cent for the sector as a whole; the average level of capitalization of Italian significant banks is higher than that of all the significant banks in the countries participating in the Single Supervisory Mechanism.

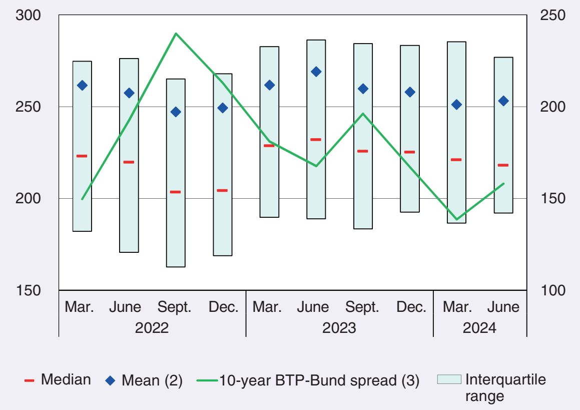
4.3 Insurance companies

The risks to financial stability arising from the Italian insurance sector continue to be moderate. The capital position of insurance companies is sound and the recovery in premium income has led to improved profitability and lower liquidity risks, which nevertheless remain significant due to still high surrenders. Investment risks are greater than those associated with insurance activity, such as underwriting and reserve risks.[22]

The solvency ratio decreased slightly in the first six months of 2024 (to 253 per cent in June on average, from 258 per cent in December 2023), though it remains high (Figure 7). The results of the insurance stress test conducted last year at European level confirm that the Italian insurance system would be solvent even in the event of a large adverse shock.[23]

Figure 7

Solvency ratio and BTP-Bund spread (1)
(per cent and basis points)



Sources: IVASS and calculations based on LSEG data.
(1) The solvency ratio is calculated as the ratio of eligible own funds held for coverage to the solvency capital requirement established under Solvency II. The data are taken from the quarterly Solvency II supervisory reports based on the quantitative reporting templates. – (2) Weighted average with weights equal to the solvency capital requirement. – (3) The BTP-Bund spread refers to the end of each period. Right-hand scale.

22 Underwriting risk refers to the potential loss to an insurer arising from underpriced policies or underestimated technical provisions; reserve risk refers to the risk, assessed over a 12-month horizon, that the reserves are insufficient to cover the liabilities under the insurance contract.

23 More specifically, the aggregate solvency ratio of the 11 participants in the stress test would fall to 135 per cent if the insurers failed to take corrective actions to address the exogenous shocks covered by the exercise. Conversely, if such corrective actions were taken, the average solvency ratio would decrease to 149 per cent. For more details, see IVASS, 'Stress test EIOPA 2024', press release, 17 December 2024 (only in Italian).

Profitability was negative in the life sector, though it improved year on year thanks in part to the recovery in premium income, which rose by 16 per cent. Profitability was greater in the non-life business, mainly due to higher premium income in the non-motor classes (7 per cent), where the ratio of operating costs to premium income was stable.

Liquidity risk is decreasing but still significant: premium income rose and the ratio of surrenders to premium income improved, from 96 per cent in November 2023 to 79 per cent in November 2024.

The portfolio of investments for which insurers bear the risk continues to be mainly made up of public sector securities (45 per cent, more than two thirds of which are Italian government bonds) and corporate bonds (21 per cent), mostly in the investment grade sector.

The share in the total corporate bond portfolio of securities earmarked to fund projects with a positive environmental impact has increased over the last two years; however, claims paid for damages caused by extreme climate events have also risen and could increase further going forward. Overall, there is medium exposure to risks associated with environmental sustainability.

4.4 The asset management industry

The risks in the asset management sector remain limited. The assets of open-end investment funds managed by Italian companies and groups totalled €629 billion in the third quarter of 2024, about half of the total assets of funds distributed in Italy, including those managed by foreign groups.

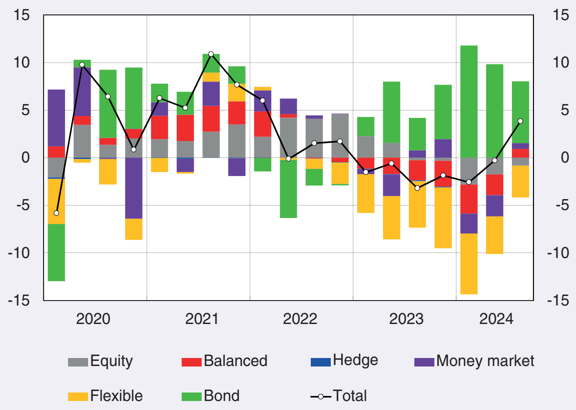
Net subscriptions to Italian open-end investment funds turned positive (Figure 8), driven by higher inflows into bond funds which, having benefited from higher interest rates, more than offset the net redemptions recorded in the other segments.

Borrowing from banks and other financial intermediaries by Italian investment funds is limited, as is their derivative exposure.

Figure 8

Italian open-end investment funds: net subscriptions (1)

(quarterly data; billions of euros)



Source: Banca d'Italia, *Financial Stability Report*, 2, 2024 (Assogestioni).
(1) The data refer to Italian and foreign funds run by asset management companies that are Italian or belong to Italian groups.

Liquidity risk is low for Italian open-end investment funds as a whole. Less than 2 per cent of the assets of non-equity funds are held by funds that are considered vulnerable because of their exposure to an exceptionally high potential demand for redemptions.[24]

[24] For more details, see Banca d'Italia, *Financial Stability Report*, 2, 2024.

In June 2024, the total assets of non-real estate alternative investment funds accounted for 12 per cent of overall assets of Italian funds; their leverage is low and below the euro-area average.

The risks stemming from the activity of real estate funds are limited, partly because of the legislation in force in Italy, which provides that these funds can only be set up as closed-end funds.

4.5 Pension funds

The risks to financial stability stemming from the activity of pension funds are low. The sector remains highly resilient even under adverse circumstances, such as the events caused by the pandemic.

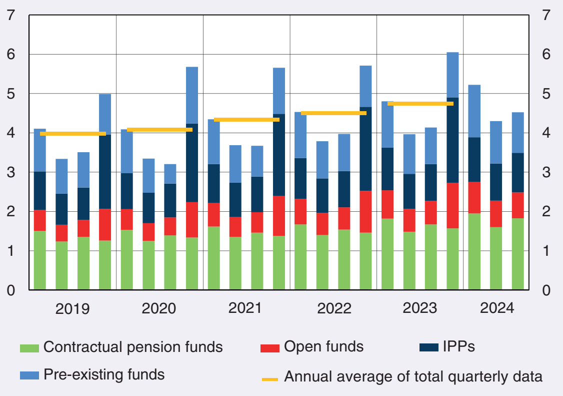
In the first nine months of 2024, the contributions to supplementary pension schemes grew by 7.9 per cent year on year; the increase amounted to 8.3 per cent for contractual pension funds, 9.7 per cent for open funds and 5.9 per cent for individual pension plans implemented through life insurance contracts (IPPs). The operating profits for the same period were positive, buoyed by the favourable performance of the financial markets, especially for funds with higher equity exposure; the returns are positive even over multi-year horizons, especially for equity funds.

At the end of the third quarter of 2024, total assets in the supplementary pensions sector amounted to €238 billion, over 6 per cent higher than at the end of 2023. Some 60 per cent of the increase is ascribable to the higher prices of portfolio securities and the remainder to social security contributions net of outflows.

The funds' exposure to liquidity risks is low because of the strict limits imposed on early withdrawals, despite the investments being medium- and long-term. Social security contributions – adjusted for mostly foreseeable seasonal effects – are regular (Figure 9), thanks to the enforcement of collective bargaining agreements and employees' severance pay contributions. Position transfers across investment lines are infrequent even in stressed market conditions.

Figure 9

Contributions to supplementary pension schemes
(quarterly flows; billions of euros)



Source: COVIP.

More generally, the soundness of the Italian pension fund system follows mostly from the regulator's decision in the 1990s to adopt the defined contribution scheme as the only pension regime, thereby avoiding potential mismatches between assets and liabilities. Moreover, Italian pension funds' portfolios are well diversified by geographical area and economic sector.

5. CONCLUDING ASSESSMENTS OF THE RISKS TO THE ITALIAN FINANCIAL SYSTEM

The situation of the Italian financial system is sound overall. The banking sector is benefiting from high profits and its capital position has continued to strengthen. The insurance sector has recorded an increase in premium income and a decline in liquidity risks, and is highly capitalized. Risks in the asset management and pension fund sectors are limited, partly because of their structural features.

The main short-term risks for Italy are linked to the external environment, particularly to the effects that could stem from heightened geopolitical tensions. High public debt and low potential growth are increasing Italy's vulnerability to international developments and to changes in investors' perception of and attitude to risk. Responsible fiscal policies reduce Italy's exposure to possible episodes of contagion associated with tensions abroad.

At a time when households' financial situation is generally sound, the Committee will continue to monitor developments relating to investments in instruments that are hard to evaluate, such as certificates and crypto-assets. In addition, the experience of the last two years has shown the importance of continuing to analyse insurance companies' exposure to liquidity risk, which could be affected – in terms of premium income – by the crises that have recently affected European companies operating in Italy.

Depending on the evolution of the risks linked to the stability of the Italian financial system, the Committee stands ready to take initiatives to limit them if necessary, within the remit assigned to it by law.