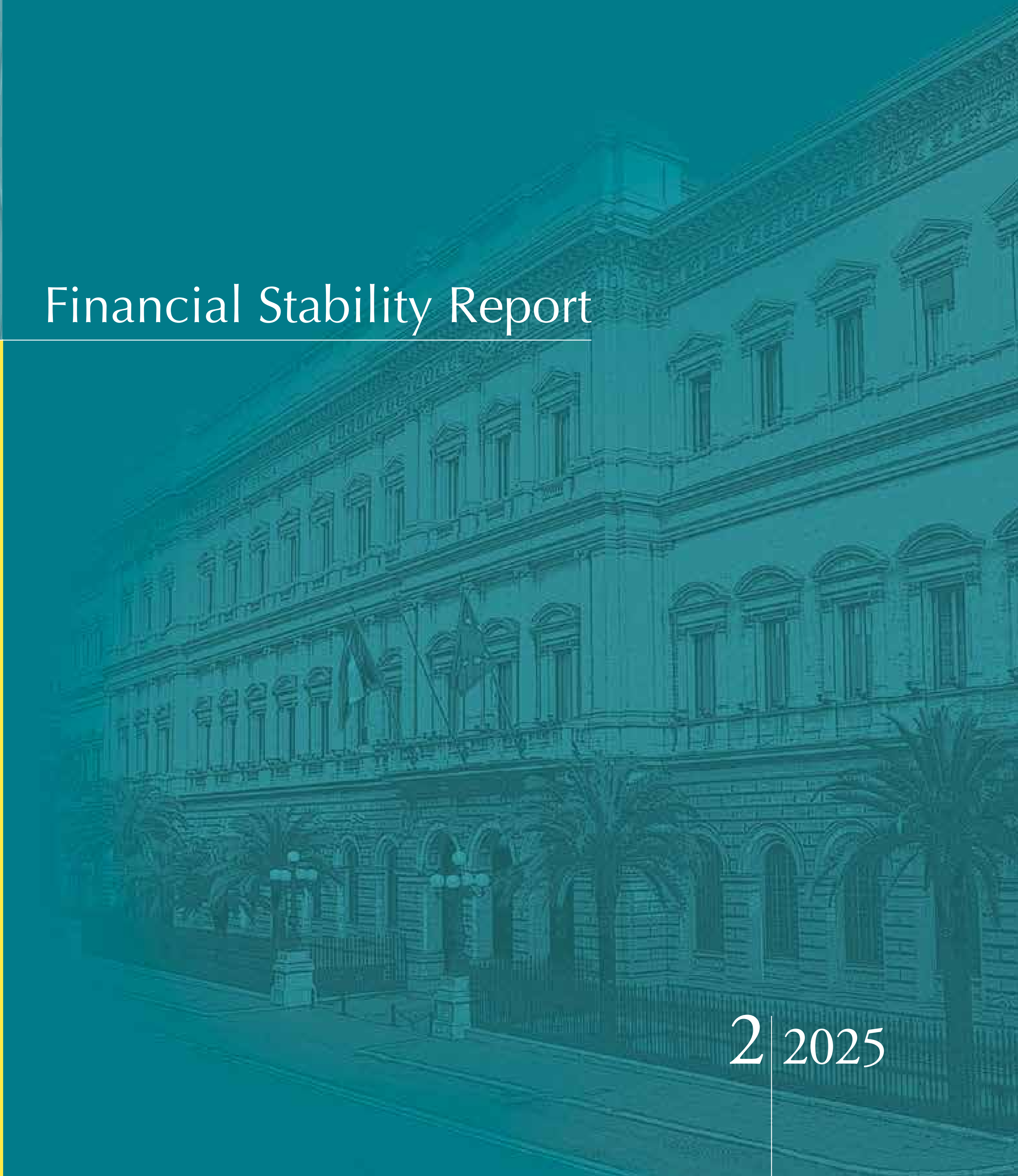
BANCA D'ITALIA
EUROSISTEMA

Financial Stability Report



2 | 2025

November 2025

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For the hard copy version: registration with the Court of Rome No. 209, 13 May 2010
For the electronic version: registration with the Court of Rome No. 212, 13 May 2010

The English edition is translated from the Italian by the Language Services Division of the Secretariat to the Governing Board.

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http://www.bancaditalia.it

ISSN 2280-7616 (print)
ISSN 2280-7624 (online)

Based on data available on 14 November 2025, unless otherwise indicated.

Printed on EU-Ecolabel certified paper (registration number FI/011/001)
Designed and printed by the Printing and Publishing Division of Banca d'Italia

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BOXES

The Appendix is available online at: www.bancaditalia.it

SYMBOLS AND CONVENTIONS

Unless otherwise specified, Banca d'Italia calculations; for Banca d'Italia data, the source is omitted.

In the tables:

–	the phenomenon does not exist;
....	the phenomenon exists but its value is not known;
..	the value is nil or less than half of the final digit shown;
::	not statistically significant;
()	provisional.

In the figures with different right- and left-hand scales, the right-hand scale is identified in the notes.

For the country abbreviations in this publication, see the European Union's Interinstitutional Style Guide (https://style-guide.europa.eu/en/home)

OVERVIEW

Since last spring, the prices of riskier assets have risen sharply and volatility has returned to very low levels in the international financial markets, despite the ongoing uncertainty and geopolitical tensions. The risk of sudden corrections has increased, especially if valuations were to deviate from economic fundamentals.

In Italy, the risks to financial stability stemming from domestic factors remain limited, while those relating to international instability are not negligible.

The macrofinancial environment has not changed overall compared with last April. The yield spread between Italian and German ten-year government bonds has narrowed further, reaching levels in line with those observed before the sovereign debt crisis of the previous decade.

The stability of the macrofinancial environment is being supported by the moderate recovery in credit, resilient labour income, low unemployment, a prudent fiscal policy stance, low private debt and the positive net international investment position. However, growth prospects remain muted.

House prices rose in the second quarter, while commercial property prices remained broadly unchanged. Overall, there are no signs of overvaluation.

The risks relating to the financial situation of households remained low, thanks to the growth in income and in financial wealth in the first half of the year and to the further reduction in debt relative to disposable income. The high uncertainty is reflected in a propensity to save that is still above pre-pandemic levels.

Business conditions remain good on average, buoyed by profitability and low indebtedness. The consequences of the trade tensions have been limited so far, but firms remain vulnerable to uncertainty over the economic outlook and to the possible repercussions of the higher tariffs and of geopolitical conflicts.

The banking system remains sound overall. Profitability and capitalization remained high in the first half of the year; liquidity conditions are still balanced and credit quality has not deteriorated. Looking ahead, the sustainability of the current levels of profitability could be affected by the decline in the net interest margin; in an uncertain environment marked by muted growth prospects, there are also risks to asset quality. Exposure to cyber and operational threats continues to require a great deal of attention.

In the insurance sector, the liquidity position is benefiting from the good performance of premium income. Profitability has increased and capitalization remains high.

In the second and third quarters, the assets of Italian investment funds grew and net subscriptions were positive. Vulnerabilities in the asset management sector remain limited.

There are five special-focus boxes in this Report. The first describes the evolution of the regulatory framework for stablecoins in Europe and the United States and illustrates the risks stemming from an uncontrolled development. The second demonstrates that the effect of exposure to hydrogeological risks on the creditworthiness of firms is limited, and could be reduced by increasing insurance coverage. The third shows how Banca d'Italia's recent stress test of less significant banks highlighted an overall resilience for these banks in an adverse scenario. The fourth describes the recent developments in the European framework for managing banking crises, with particular reference to those of small and medium-sized banks. The last box analyses the crowdfunding market in Italy; Banca d'Italia's actions are geared towards overseeing compliance with the criteria for sound and prudent management for service providers and the potential risks to financial stability.

1 MACROECONOMIC, FINANCIAL AND SECTORAL RISKS

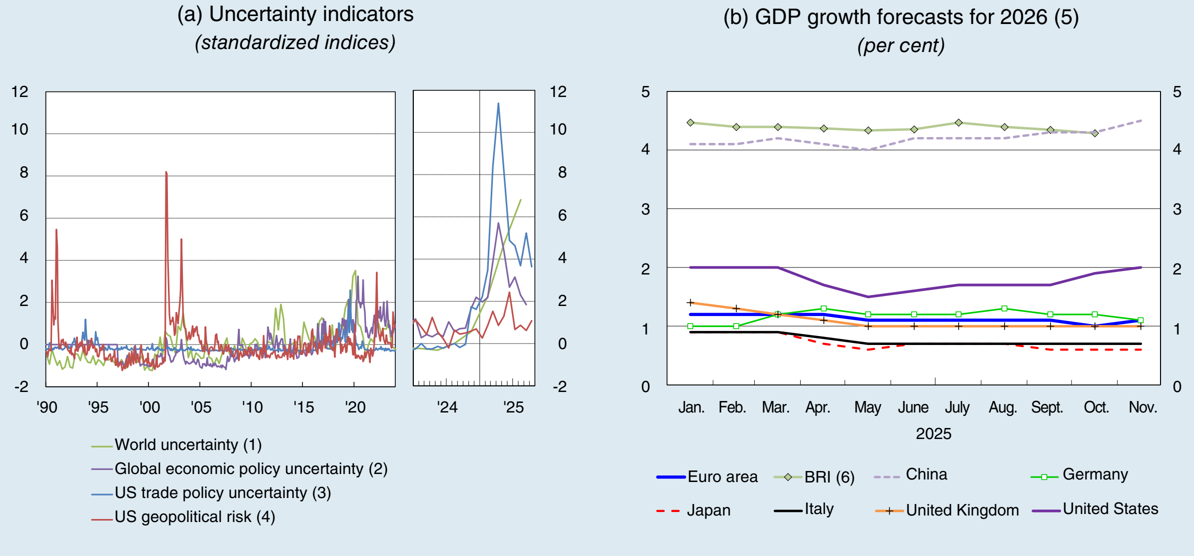
1.1 GLOBAL RISKS AND EURO-AREA RISKS

The performance of the global economy was uneven in the second quarter of 2025. Growth strengthened in the United States and in Japan, slowed in the United Kingdom and in the euro area, and remained unchanged in China.

In spite of still high geopolitical tensions and uncertainty about the outlook for global trade (Figure 1.1.a), the most recent Consensus Economics forecasts for 2026 point to a slight improvement compared with last spring, confirming GDP growth in the United States and moderate growth in the euro area, in the United Kingdom and, to a lesser extent, in Japan (November survey; Figure 1.1.b).

Figure 1.1

Uncertainty indicators and growth expectations
(monthly data)



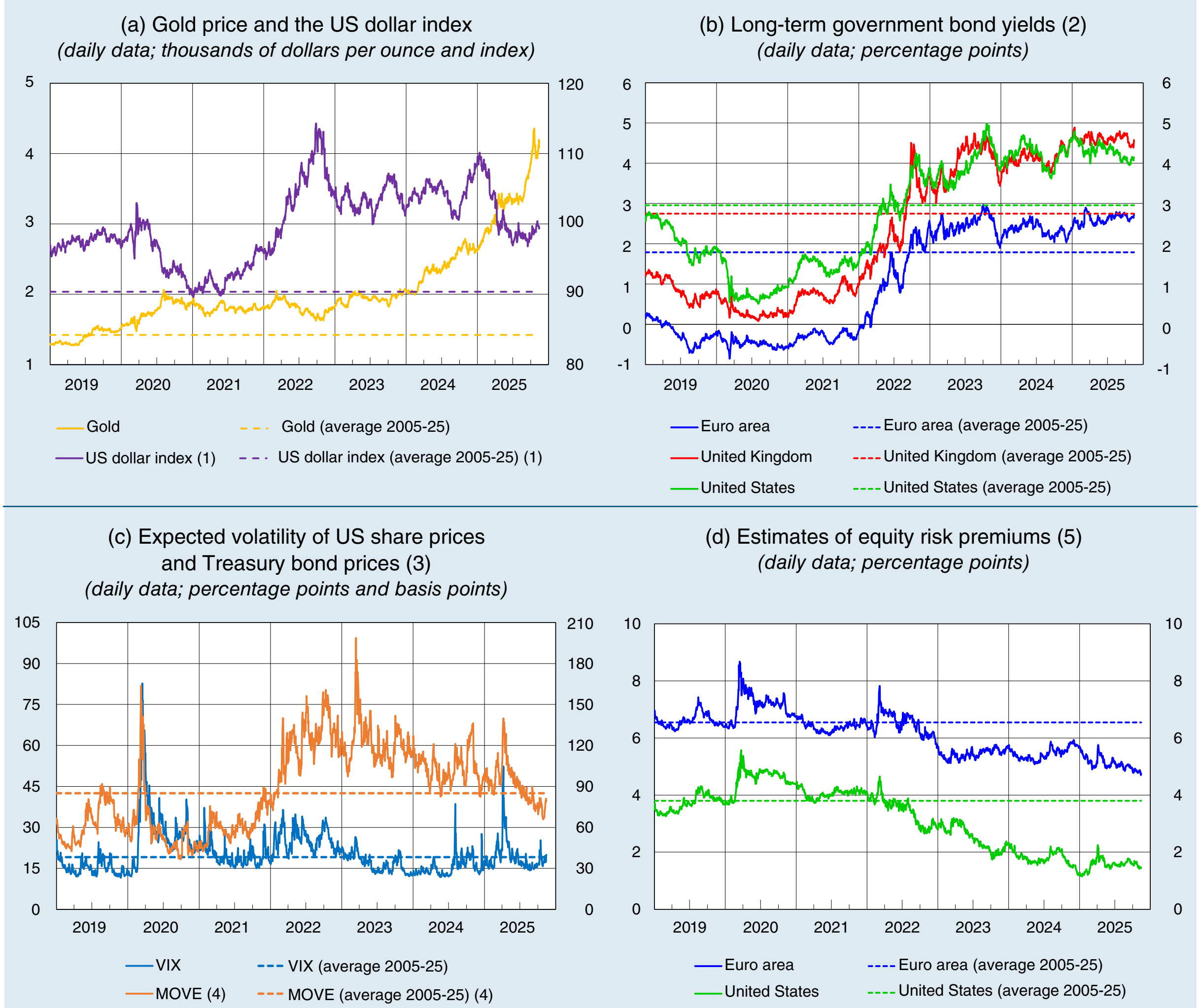
Sources: LSEG data for uncertainty indicators, and based on Consensus Economics data for GDP growth forecasts.
(1) H. Ahir, N. Bloom and D. Furceri, 'The world uncertainty index', NBER Working Paper Series, 29763, 2022. – (2) S.J. Davis, 'An index of global economic policy uncertainty', NBER Working Paper, 22740, 2016. – (3) S.R. Baker, N. Bloom and S.J. Davis, 'Measuring economic policy uncertainty', *The Quarterly Journal of Economics*, 131, 4, 2016, pp. 1593-1636. – (4) D. Caldara and M. Iacoviello, 'Measuring geopolitical risk', *American Economic Review*, 112, 4, 2022, pp. 1194-1225. – (5) The x-axis shows the month the forecast is published. – (6) Average of the forecasts for Brazil, Russia and India (BRI), weighted on the basis of each country's GDP (IMF, World Economic Outlook Database, October 2025).

The steep tariff rises decided by the US administration are leading to a reconfiguration of trade. The end results of these shifts remain uncertain, while the risk of trade tensions escalating again continues to be high. Tariffs increase the risk of a slowdown in the global economy, although the monetary policy of the main central banks remains moderately accommodative.

After last April's tensions abated, the prices of riskier financial assets rose markedly and volatility returned to very low levels in global financial markets. However, macrofinancial uncertainty remains significant. Amid still relatively high inflation in the United States and rising government budget deficits in some advanced economies, gold prices reached record highs (Figure 1.2.a).

Figure 1.2

Gold price and the US dollar index, government bond yields, volatility and risk premiums



Sources: Bloomberg, ICE Bank of America Merrill Lynch (BofAML) and LSEG.
(1) The index is calculated as a weighted average of the US dollar's exchange rates against the euro, yen, pound sterling, Canadian dollar, Swedish krona and Swiss franc. Index: 23 April 2025=100. Right-hand scale. – (2) Yields on the German 10-year Bund for the euro area; yields on the US 10-year Treasury bond for the United States and yields on the UK 10-year Gilt for the United Kingdom. – (3) VIX: implied volatility in the prices of 1-month options on the S&P 500 index. MOVE: implied volatility in 1-month options on futures on US Treasury bonds with various maturities. – (4) Right-hand scale. – (5) For the S&P 500 (United States) and Datastream EMU Total Market (euro area) indices, we calculate the ratio of the 10-year moving average of earnings to the value of the stock index (both at constant prices). From the resulting ratio, which is an estimate of the expected real return on the shares, we deduct the real rate obtained by subtracting the inflation swap rate from the 10-year overnight indexed swap (OIS) rate. The resulting figure is an estimate of the equity risk premium.

Extensive use of foreign exchange risk hedging strategies[1] contributed to a persistently weak dollar, although there was no broad divestment of US financial assets by foreign investors.

[1] 'Markets shrug off trade conflicts', *BIS Quarterly Review*, September 2025.

Long-term government bond yields rose in Japan and Germany, while they declined in the United Kingdom and, more sharply, in the United States, thanks to expectations of the Federal Reserve easing its monetary policy that were fuelled by signs of the labour market weakening (Figure 1.2.b). Thirty-year government bond yields reached their highest levels in the last ten years in a number of economies, giving rise to a generalized steepening of yield curves; these effects can be attributed to, among other things, concerns about the sustainability of debt and to weakening demand for long-term bonds, while net issues were substantial.

Stock market prices rose, especially in the United States, partly driven by the increase in current and expected earnings, particularly in the technology sector. Many US stock valuation ratios are at all-time highs, while volatility and risk premiums have declined, remaining well below their long-term averages (Figures 1.2.c and 1.2.d). These developments are in contrast with the significant macro-financial uncertainty and may set the stage for abrupt price corrections, especially if valuations should turn out to be unwarranted by the underlying economic fundamentals.

In the main advanced economies, the spreads on the bonds of non-financial corporations narrowed further, especially in the high-yield segment, and also remained well below their long-term averages. Net bond issuance resumed quickly after stalling in April. There are signs of vulnerability in the high yield sector, however, as default rates are rising. According to the major rating agencies, defaults could increase further if the effects of US trade policies turn out to be more severe than expected.

After recording a significant increase starting in April 2025, the market value of crypto-assets reached a record high of $4.2 trillion at the start of October. It then dropped significantly in mid-November, to around $3.2 trillion, reflecting trends in the sector of unbacked assets. Conversely, the value of stablecoins has remained at its early-October levels, stabilizing at $320 billion. The stablecoins sector continues to be strongly concentrated, with the two most significant instruments (Tether and USDC), both pegged to the dollar, accounting for 82 per cent of the sector's total market value (see the box 'The rules on stablecoins and the potential risks to financial stability').

By and large, investors appear especially confident, in spite of a highly uncertain global macroeconomic environment and the sweeping changes at geopolitical level.

THE RULES ON STABLECOINS AND THE POTENTIAL RISKS TO FINANCIAL STABILITY[1]

In the crypto-asset markets, stablecoins have specific risk profiles for financial stability, linked to the soundness of issuers and to the variability of the value of the underlying asset. Of particular concern is the possibility that the confidence of users in the ability of these instruments to maintain their value will fade, resulting in a redemption run and the liquidation of large volumes of the underlying reserves. These dynamics can generate contagion, fuelled by interconnections both within the crypto-asset ecosystem and with the financial system.[2]

Despite the adoption of international recommendations and standards designed to harmonize the regulations on stablecoins,[3] and although several countries have rolled out or are updating

[1] By Mattia Suardi.

[2] For an analysis of the risks relating to stablecoins, see 'Digital Euro, crypto-assets and digital finance', hearing of Chiara Scotti, Deputy Governor of Banca d'Italia, before the Parliamentary Committee of Inquiry on Banking, Financial and Insurance, Rome, 24 July 2025. For more details on interconnection risks, see 'Special Feature A: Just another crypto boom? Mind the blind spots', ECB, *Financial Stability Review*, May 2025 and the box 'Developments in the crypto-assets market and the risks to financial stability', *Financial Stability Report*, 1, 2025.

[3] Specifically, see FSB, 'High-level Recommendations for the Regulation, Supervision and Oversight of Global Stablecoin Arrangements', 17 July 2023.

their regulatory frameworks,[4] the fragmented regulatory environment is still a major issue. There are differences in approach, for example, if we compare the European regulation on crypto-assets markets (Markets in Crypto-Assets Regulation, MiCAR) and the Genius Act enacted in the United States on 18 July.[5] Despite some convergence on important issues, such as recognition of the right to redemption and the imposition of rules on assets that can be held as reserves to guarantee the value of tokens, there are significant divergences in other aspects.

One initial and clear difference concerns the scope of application. The US rules are more circumscribed, as they refer solely to 'payment' stablecoins and focus on issuers alone.[6] MiCAR's scope of application is instead broader, both because it encompasses all crypto-assets not yet regulated by EU financial law[7] and because it is aimed not only at issuers, but also at crypto-asset service providers (CASPs), covering custodial and exchange services, for example. In addition, the Genius Act does not specify the capital and liquidity requirements for issuers, which will be defined by individual federal or state supervisors.

To alleviate the risk that stablecoins might establish themselves at systemic level as a store of value, MiCAR also provides for a prohibition on charging interest, for both issuers and CASPs; the Genius Act instead applies this prohibition exclusively to issuers, thereby making it possible to circumvent the prohibition.

Another important difference concerns the fees applied when issuers redeem stablecoins. Fees are actually prohibited by MiCAR but allowed by the Genius Act; the European rules thus provide more protection for stablecoin holders.

Finally, there are also differences in relation to crisis management: MiCAR requires issuers to draw up specific recovery and redemption plans, while the Genius Act merely prioritizes repayments to stablecoin holders vis-à-vis other creditors as part of insolvency proceedings.

Alongside the regulatory fragmentation, one question recently examined by the European institutions[8] relates to multi-issuer schemes, in which fungible stablecoins are issued by multiple entities that have

4 Outside of the European Union, only a few other legal systems, including those of Japan and Hong Kong, have adopted specific regulations for stablecoins. The United States has adopted the Genius Act but its implementing rules are yet to be defined, while the regulatory approach in the United Kingdom is still being drawn up. See FSB, *Thematic Review on FSB Global Regulatory Framework for Crypto-asset Activities*, 16 October 2025.

5 The application of the Genius Act is expected within 18 months of its enactment or within 120 days of the entry into force of the definitive implementing rules, whichever comes sooner. In addition, a transitional period of three years has been set, after the promulgation of the Genius Act and before the application of the ban on digital asset service providers offering or selling a payment stablecoin not issued by an authorized issuer.

6 The Genius Act defines payment stablecoins as the digital assets used, or designed to be used as a means of payment or settlement to maintain a stable value, enabling compliance with the obligation to redeem a fixed monetary amount. The United States Congress is currently examining a draft law (the Clarity Act) to introduce more general rules for digital assets.

7 Crypto-assets already regulated by other EU legislative acts relating to financial services, such as tokenized financial instruments, are therefore not subject to MiCAR.

8 For more details, see Council of the European Union, 'ECB non-paper on EU and third country stablecoin multi-issuance', working document, 10 April 2025; 'Cutting through the noise: exercising good judgment in a world of change', speech by C. Lagarde, President of the ECB, at the 9th Annual Conference of the European Systemic Risk Board (ESRB), Frankfurt am Main, 3 September 2025. It should also be pointed out that Article 140 of MiCAR requires the European Commission, after consulting the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA), to submit a report to the European Parliament and the Council on the application of the Regulation, accompanied, where appropriate, by a legislative proposal, which must include an assessment of whether an equivalence regime should be established for stablecoin issuers or for CASPs from third countries.

their headquarters in different jurisdictions and that use the same trade name.[9] Due to their particular features, these schemes amplify the risks associated with regulatory asymmetries, leading to potential repercussions for financial stability. In the event of the coexistence of EU and non-EU issuers (e.g. US issuers), the increased level of protection for holders granted by MiCAR could incentivize non-EU residents to ask European issuers to redeem their tokens. Moreover, given that European users can also hold tokens issued by non-EU issuers, the overall volume of tokens in circulation in the EU could be significantly larger than that of just the tokens issued by EU issuers. In both cases, the reserves available in the EU might not be sufficient to meet all redemption requests, necessitating a transfer of assets from non-EU issuers. However, these cross-border rebalancing mechanisms, based on contractual arrangements among issuers, may generate vulnerabilities as, especially in crisis situations, third-country authorities could limit this transfer, exposing EU issuers to redemption run risks. Further complications may stem from insufficient data on stablecoin transfers and on the distribution of reserves between jurisdictions, which could hinder not only the monitoring of risks to financial stability, but also payment systems oversight.

With the aim of eliminating or mitigating the risks to financial stability inherent in multi-issuer stablecoin schemes, the ESRB General Board adopted Recommendation ESRB/2025/9 on 25 September, outlining a two-level strategy. First, the ESRB urges the European Commission not to consider these schemes to be permitted under MiCAR. Second, if the Commission does not consider doing so, the ESRB calls on the Commission, together with the European and national supervisory authorities, to take appropriate measures to mitigate the potential risks to financial stability, including strengthening supervisory measures, closer international cooperation, enhanced information exchange and introducing the necessary regulatory interventions.

[9] 'Stablecoins in the payments ecosystem: reflections on responsible innovation', speech by C. Scotti, Deputy Governor of Banca d'Italia, at the 14th edition of the Economics of Payments conference, Rome, 18 September 2025.

1.2 MACROFINANCIAL CONDITIONS IN ITALY

Financial market conditions are relaxed on the whole. They are benefiting from the favourable performance of the Italian government securities market (see Section 1.3) and of the banking system (see Section 2.1), and from a progressively improving credit dynamic thanks to the normalization of monetary policy (Figure 1.3.b). The composite indicator of financial stress for Italy (Figure 1.3.a) has gone down after a limited and short-lived increase last April, and is currently close to its historical lows, as it was before the escalation of trade tensions.

According to the latest forecasts, Italy is set to grow by 0.6 per cent in both 2025 and 2026.[2] The strengthening of investment, chiefly driven by the National Recovery and Resilience Plan (NRRP), runs in parallel with weak exports, which are negatively influenced by protectionist policies and the appreciation of the euro. Consumer price inflation is expected to rise from 1.1 per cent to just above 1.5 per cent over 2025 and 2026.

Based on the Public Finance Planning Document 2025 (PFPD 2025), general government net borrowing will decline to 3 per cent of GDP this year, while the primary surplus will increase to 0.9 per cent. Net borrowing will decline gradually over 2026-28 and the primary surplus will improve further.

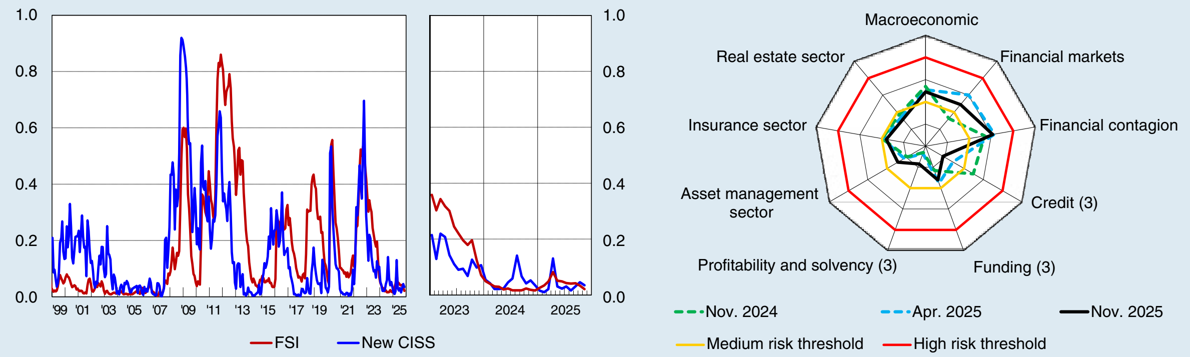
[2] Banca d'Italia, 'Macroeconomic projections for the Italian economy', 17 October 2025.

Figure 1.3

Synthetic indicators of risks to financial stability

(a) Financial stress indicators for Italy (FSIs) and the euro area (new CISS) (1)
(monthly averages; index numbers)

(b) Aggregate indicators of risk (2)



Sources: Based on Banca d'Italia, ECB, IVASS and LSEG data.
(1) The index ranges from 0 (minimum risk) to 1 (maximum risk). For further details on the Italian financial stress index (FSI), 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. Compared with the version used in the 2019 paper, the indicator used in this chart includes the corporate bond, repo and short-term government bond market segments, which were not previously considered. For further details on the euro-area new composite indicator of systemic stress (new CISS), see S. Chavleishvili and M. Kremer, 'Measuring systemic financial stress and its risks for growth', European Central Bank, Working Paper Series, 2842, 2023. For the FSI, monthly averages of weekly data; for the new CISS, monthly averages of daily data. – (2) 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. – (3) Risk indicators referring to the banking sector.

The debt-to-GDP ratio will go from 134.9 per cent in 2024 to 137.4 per cent at the end of 2026, partly due to the cash impact of the 'Superbonus' tax credit, and will start to shrink from 2027 onwards. In addition, its dynamics will be affected by the spread between the average cost of debt and nominal GDP growth.

The growth outlook for the Italian economy remains subdued and subject to risks mainly relating to external factors. On the one hand, resilient labour income, low unemployment, the largely positive net international investment position and low private debt contribute to the overall robustness of the system, but on the other hand, high government debt remains a source of vulnerability. For debt to reduce significantly in relation to GDP, it will be necessary to take concrete steps to support growth[3] while continuing the prudent management of public finances, which has been one of the factors behind the recent upward revisions to Italy's credit rating.

1.3 THE FINANCIAL MARKETS

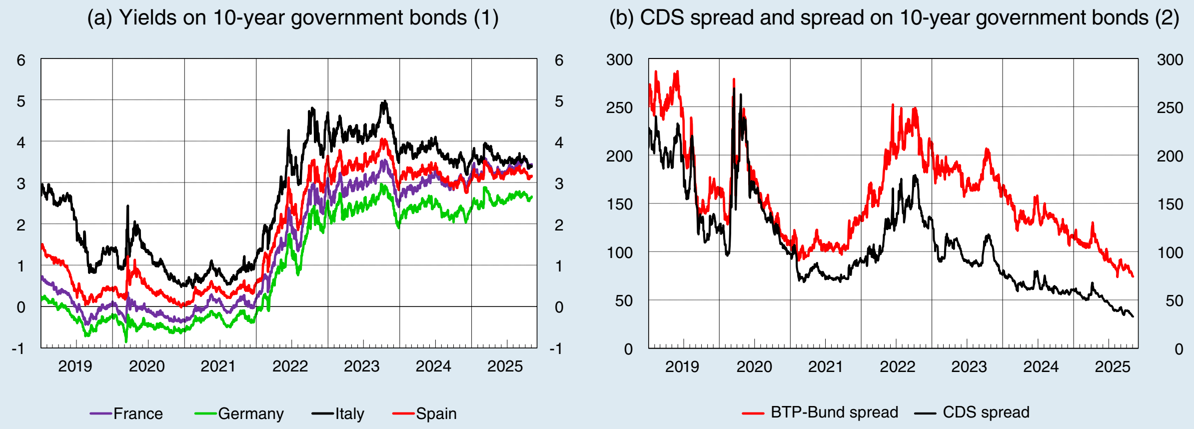
The yield spread between Italian and German government bonds has been narrowing since last spring (Figure 1.4.b), owing to the decline in the yields on ten-year Italian government bonds and to the increase in the yields on the corresponding German bonds (Figure 1.4.a). The spread is therefore now back to pre-sovereign debt crisis levels. The default risk premium on the Italian sovereign issuer has decreased further in the credit default swap (CDS) market as well and is now at the lowest levels of the past 16 years.

[3] 'Savings: protection, inclusion, development', speech by F. Panetta, Governor of Banca d'Italia, at World Savings Day, Rome, 28 October 2025.

Figure 1.4

Yields and risk premiums on government bonds

(daily data; per cent and basis points)

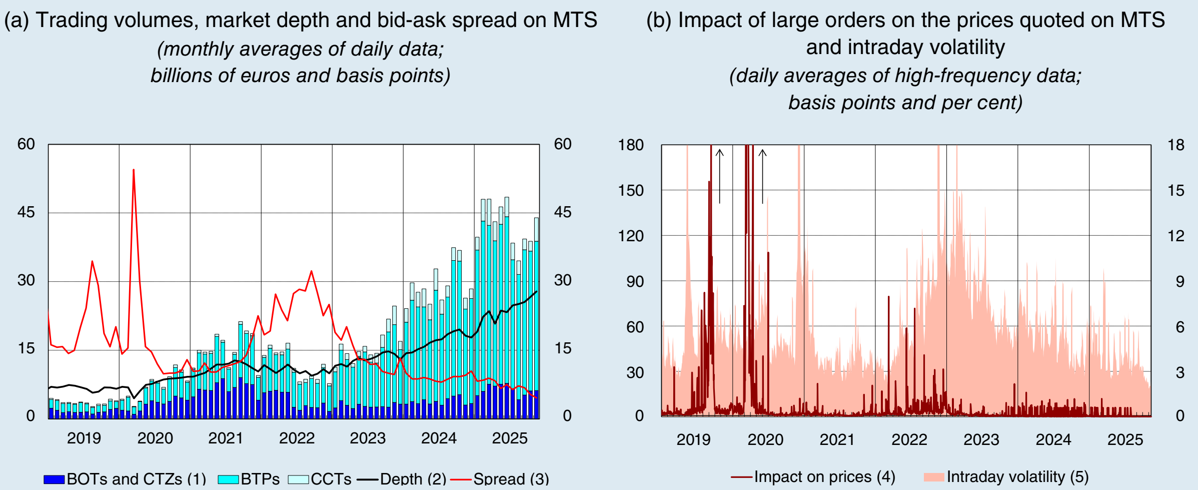


Sources: Based on data from LSEG and ICE Data Derivatives UK Limited.
(1) Yields to maturity on the benchmark 10-year government bonds of the countries in the key. – (2) 5-year CDS spread on the Italian sovereign issuer and yield spread between Italy's benchmark government bond with a 10-year maturity and the corresponding German Bund.

Liquidity conditions on the secondary market in Italian government bonds continue to be relaxed, with trading volumes reaching new peaks in June and remaining at high levels throughout the summer months, despite the usual seasonal decline (Figure 1.5.a). The bid-ask spread on BTPs continued to be modest, with the quantities quoted by market makers steadily increasing.

Figure 1.5

Liquidity indicators for Italian government securities



Source: Based on MTS data.
(1) Since October 2022, the series has only included data on BOTs because the stocks of CTZs were reduced to zero when the placement of this kind of bond was discontinued and the last CTZs to mature were redeemed. – (2) Average of the bid and ask quantities recorded during the entire trading day for the BTPs quoted on MTS. – (3) Simple average of the bid-ask spreads recorded during the entire trading day for the BTPs quoted on MTS. Right-hand scale. – (4) The indicator refers to the 10-year benchmark BTP and is based on data recorded at 5-minute intervals. Average daily impact on bid-ask prices quoted on MTS of a potential sale or purchase order of €50 million. – (5) A measure of volatility based on the 10-year BTP intraday returns calculated at 5-minute intervals; 5-day moving average of annualized values. Right-hand scale.

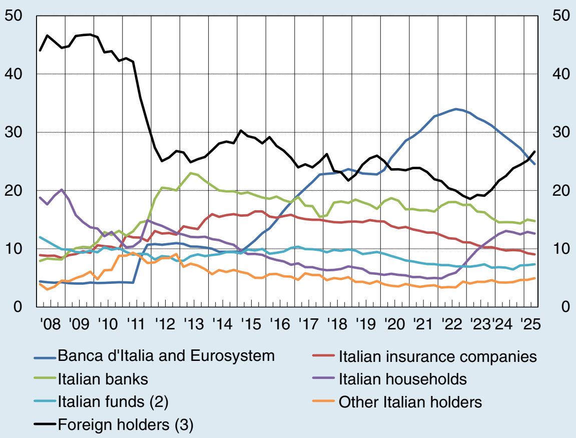
The intraday price volatility of government bonds continues to be moderate, also reflecting lower temporary liquidity deteriorations in the sector compared with those that occurred in 2024 and early 2025 in response to significant macroeconomic data releases (Figure 1.5.b). Large orders continued to be absorbed with no significant impact on prices.

On the MTS market, the repo rates on Italian government bonds remained slightly above the Eurosystem's deposit facility rate, and the premium linked to the scarcity of securities (specialness) reached new historical lows.

In the first half of 2025, the share of Italian government bonds held by foreign investors continued to increase, in line with the trend observed since 2023 (Figure 1.6), although it remains below the levels recorded in the main euro-area countries. The share held by households remained broadly in line with the 2024 levels (see Section 1.4), as did the share held by banks, whereas the shares held by insurance companies and by Banca d'Italia and the Eurosystem as a whole declined. Placement continued at a steady pace on the primary market for government bonds, with quantities on the increase for medium- and long-term bonds; the issuance of the BTP Italia in June and of the BTP Valore in October, both targeting retail investors, contributed to this increase. The average yields on BOTs at issuance are down compared with April, as are those on other securities (which did, however, temporarily increase in September); the average cost of securities outstanding reached 2.84 per cent (Figure 1.7), while the average residual maturity has been stable at roughly seven years since 2021.

Figure 1.6

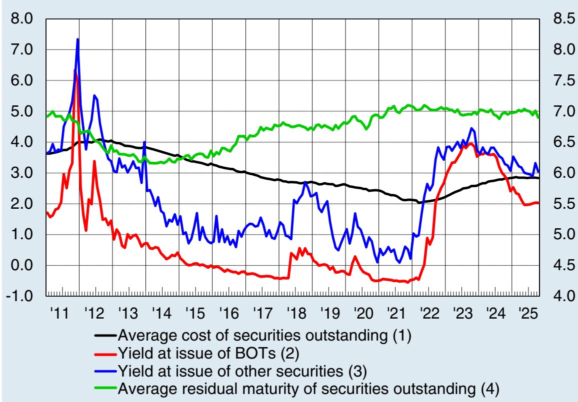
Italian government securities by holder category (1)
(quarterly data; per cent)



Sources: Banca d'Italia (Financial Accounts), and estimates based on Assogestioni and ECB data.
(1) Shares calculated on data at market prices and net of securities held by Italian general government. The data refer to a subset of holders. – (2) Includes foreign individually managed portfolios and investment funds attributable to Italian investors (round trip). – (3) Securities held by foreign investors net of those held by the Eurosystem and by round-trip managed portfolios and investment funds.

Figure 1.7

Average cost, yield at issue and average residual maturity of government securities
(monthly data; per cent and years)



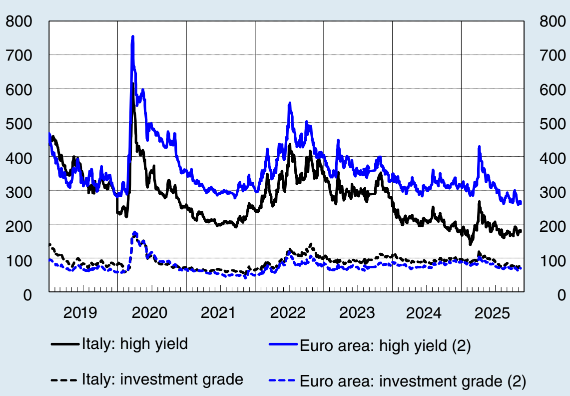
Sources: Based on Banca d'Italia and Ministry of Economy and Finance (MEF) data, updated to 31 October 2025.
(1) Weighted average of the yields at issue of government securities outstanding at the end of the month. – (2) Weighted average of the yields at issue of all the BOTs placed during the month. – (3) Weighted average of the yields at issue of securities other than BOTs and indexed BTPs placed during the month. – (4) End-of-period values weighted by the outstanding amounts. Loans from the European Commission and foreign loans are excluded. Right-hand scale.

After the peak that followed the US tariff announcements in April, the yield spread between securities issued by Italian firms and risk-free rates (asset swap spreads) narrowed: spreads on high yield securities are broadly in line with the level prior to the announcement, whereas those on investment grade securities have fallen below their pre-announcement level (Figure 1.8).

The Italian stock market has also completely reabsorbed the temporary decline that came after the April US tariff announcements and has recovered better than the euro-area stock market (Figure 1.9.a). This positive performance is mainly driven by the banking sector, with financial results that were especially well received by investors. Implied stock market volatility returned to modest levels, as in the rest of the euro area (Figure 1.9.b), and the term structure of volatility suggests a reduced perception of short-term risk compared with the first half of the year. However, the risk reversal indicator[4] has shown a moderate increase in downside risks to stock prices since the beginning of October.

Figure 1.8

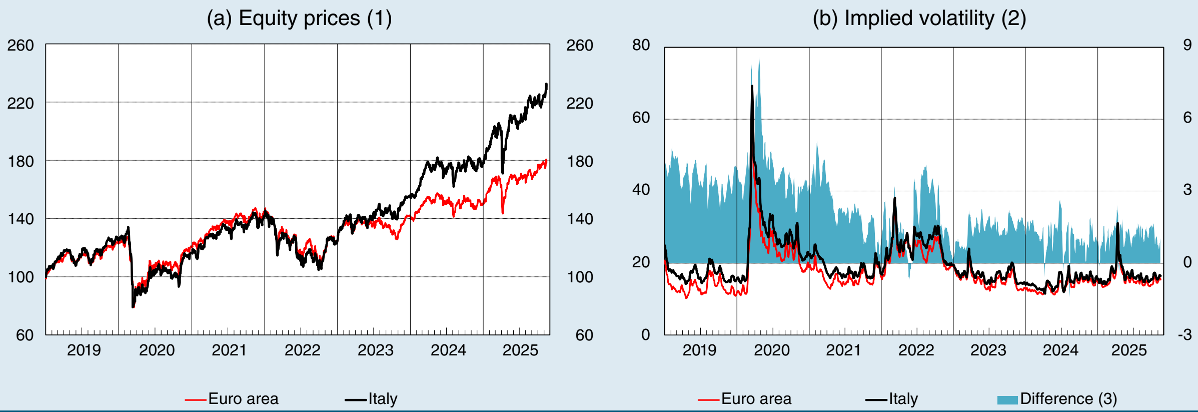
Asset swap spreads (1)
(daily data; basis points)



Source: Based on ICE BofAML data.
(1) Asset swap spreads weighted by the market value of individual securities issued by non-financial corporations. – (2) The ICE BofAML indices for the euro area have been recalculated to exclude Italy.

Figure 1.9

Equity market indicators
(daily data; indices, per cent and percentage points)



Source: Based on Bloomberg data.
(1) Indices: 1 January 2019=100. For Italy, MSCI Italy IMI; for the euro area, MSCI EMU IMI (see the disclaimer under 'Symbols and Conventions'). – (2) Implied volatility in the prices of 2-month options on the FTSE MIB index for Italy and on the Euro STOXX 50 index for the euro area. 5-day moving averages. – (3) Difference between implied volatility in Italy and in the euro area. Right-hand scale.

1.4 REAL ESTATE MARKETS

In the second quarter of 2025, residential property prices in the euro area continued to rise, by 5.1 per cent year on year (Figure 1.10.a). Prices rose sharply in Spain (12.8 per cent),[5] accelerated in Germany and returned to slight growth in France.

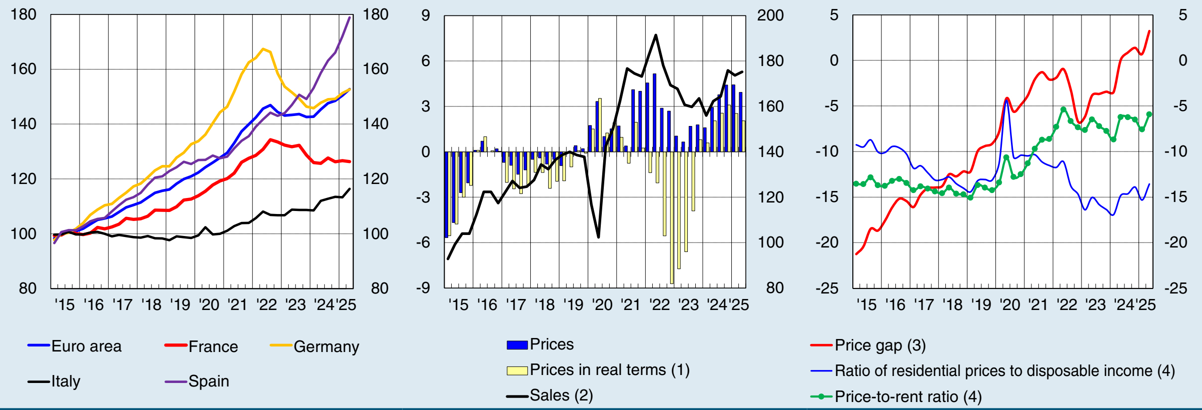
[4] The indicator, calculated as the difference between the implied volatility of put and call options, measures the relative price of options that protect against a drop in the equity index against those that profit from an increase.

[5] The price surge in Spain in 2025 is attributable to high demand, tight supply and an increase in tourist rentals (see *Financial Stability Report*, 1, 2025).

Figure 1.10

Residential property market in the euro area and in Italy
(quarterly data)

(a) Prices in the main euro-area countries *(indices: 2015=100)* | (b) Prices and sales in Italy *(year-on-year changes and index: 2015=100)* | (c) Valuation indicators in Italy



Sources: Based on data from Banca d'Italia, Eurostat, Istat and the Italian Revenue Agency's Osservatorio del Mercato Immobiliare (OMI).
(1) Data deflated using the change in consumer prices. – (2) Adjusted for seasonal and calendar effects. Right-hand scale. – (3) The price gap is defined as the percentage deviation of the house price index in real terms from its long-term trend. – (4) The data are expressed as a percentage deviation compared with the long-term average.

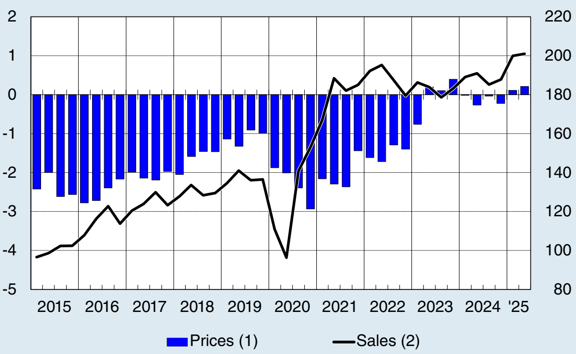
Prices in Italy continued to increase (3.9 per cent; Figure 1.10.b), also in real terms, for all areas of the country and for the main cities. Volumes of sales increased, though at a slower pace than in the previous quarter.

The assessments recorded between September and October for the Italian Housing Market Survey indicate that the three-month-ahead expectations were more favourable than those made three months earlier, and better than those for the same period in 2024. The demand for housing firmed up.

According to our estimates, house price growth is set to remain strong in 2025 and then ease gradually in the following two years.[6] Looking at valuation indicators, the price gap returned to positive values, while house prices remain below their long-term average relative to disposable income and rents (Figure 1.10.c). Overall, there are no signs of overvaluation in the market.

Figure 1.11

Non-residential property market in Italy
(quarterly data)



Sources: Based on data from Osservatorio del Mercato Immobiliare (OMI) and Scenari Immobiliari.
(1) Year-on-year percentage changes; the indicator, which is still being tested, uses data drawn from transactions actually concluded on the market. – (2) Index: 2015=100; data adjusted for seasonal and calendar effects. Right-hand scale.

The decline in non-residential property prices eased in the euro area in the last quarter of 2024 (-1.2 per cent compared with the same period in 2023). However, price dynamics remain heterogeneous: prices in Germany continued to rise in the second quarter of 2025, while they started to increase again year on year in France, after almost three years of marked reduction.

[6] The estimates are based on the models described in S. Emiliozzi, E. Guglielminetti and M. Loberto, 'Forecasting house prices in Italy', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 463, 2018.

In Italy, non-residential property sales went up in the first half of 2025, while prices remained stable (Figure 1.11).

1.5 HOUSEHOLDS AND FIRMS

Households

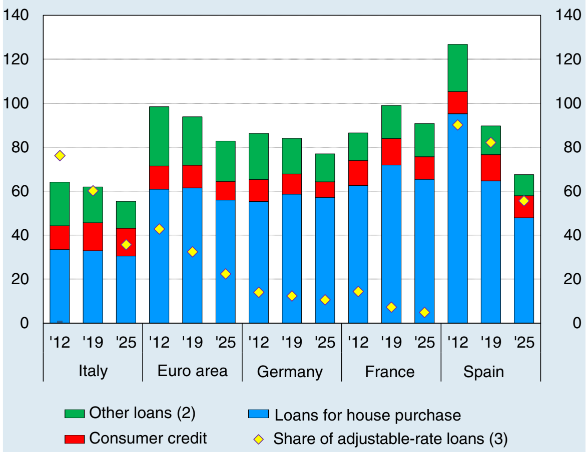
The risks associated with the financial situation of households remain low. In the first half of this year, households' income continued to grow, supported by the rise in wages and favourable developments in employment (see *Economic Bulletin*, 4, 2025). According to the Household Outlook Survey (only in Italian) conducted by Banca d'Italia between August and early October, the share of households reporting that they struggle to make ends meet is still limited. Nevertheless, the perception of uncertainty about the economic outlook remains at high levels, resulting in a propensity to save still above pre-pandemic values.

Financial wealth strengthened significantly in the first six months of the year, driven above all by the good performance of equity prices (see Section 1.3). In an environment of lower key interest rates, households decumulated their deposits and sold short-term government bonds and private sector debt securities, but invested more in medium- and long-term Italian government bonds, partly due to two BTP placement windows dedicated to retail investors.[7] They also shifted their investments towards holdings of mutual fund shares, equity and participating interests.

Although lending to households picked up pace (3.1 per cent in September), their debt exposure as a share of disposable income continued to decrease, reaching historical lows (55.4 per cent in June; Figure 1.12).

Figure 1.12

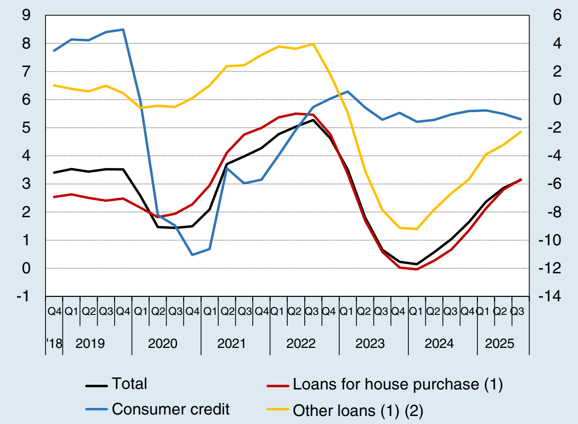
Debt and share of adjustable-rate loans (1)
(as a percentage of disposable income; per cent)



Sources: Banca d'Italia and Istat for Italy, ECB for euro-area countries.
(1) The data refer to loans issued by banks and financial corporations to consumer and producer households and non-profit institutions serving households. For 2025, the latest available data refers to June 2025. – (2) Other loans: the most significant are current account overdrafts and mortgage loans other than those for the purchase, construction and renovation of properties for residential purposes. – (3) It includes loans for which the interest rate is set for a period of less than 1 year. It excludes consumer loans granted by financial corporations. Right-hand scale.

Figure 1.13

Loans from banks and financial corporations to consumer households
(12-month percentage changes)



Source: Supervisory reports.
(1) Data on bank loans only. – (2) Other loans: the most significant are current account overdrafts and mortgage loans other than those for the purchase, construction and renovation of properties for residential purposes. Right-hand scale.

[7] The direct placement windows are those for BTP Più and BTP Italia bonds issued in February and June 2025, respectively.

Developments in lending mainly reflect those in mortgage loans, which grew more robustly in the summer months as well (3.2 per cent in September, from 2.1 per cent in March; Figure 1.13). New adjustable-rate mortgage loans accounted for around 11 per cent of new mortgages, though their cost decreased gradually to a level marginally lower than that of fixed-rate mortgages throughout the third quarter (3.1 per cent and 3.3 per cent respectively at the end of the reference period). The share of adjustable-rate mortgage loans reached the historical low of 26.7 per cent of outstanding mortgages.

Consumer credit, while continuing to grow at a sustained pace, slowed in the six months ending in September, with an annual increase of 5.3 per cent against 5.6 per cent in March. The growth rate of consumer loans granted by banks, which account for almost two thirds of the total, remained broadly stable (4.5 per cent at the end of the third quarter), while those granted by financial corporations slowed (7.3 per cent in September, from 8.2 per cent in March). The overall cost of consumer credit, equal to 10.2 per cent in September, fell slightly from March.

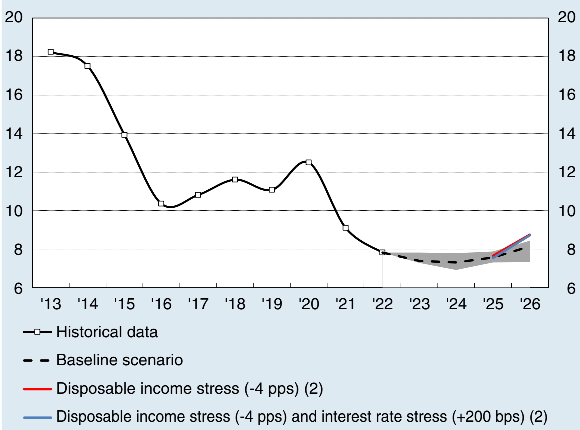
In the first nine months of the year, the mortgage loan default rate remained unchanged at historically low levels, standing at 0.6 per cent (see Section 2.1). Over the same period, the quality of consumer loans deteriorated slightly,[8] with 2.4 per cent of loans entering into default, up from 2.3 per cent at the end of 2024.

The projections of Banca d'Italia's microsimulation model[9] suggest that the financial vulnerability of households will increase in 2026, due to higher debt associated with growth in residential mortgage lending. Financially fragile households are projected to account for 1.7 per cent of the total and hold 8.1 per cent of household debt (Figure 1.14). The situation of households, as a whole, is expected to remain sound even in a particularly adverse scenario: if interest rates were 2 percentage points higher, and disposable income growth 4 percentage points lower than in the baseline scenario, the share of vulnerable households would reach 2 per cent and their debt would expand to 8.7 per cent of the total, which is low by historical standards.

Figure 1.14

Share of debt held by vulnerable households (1)

(yearly data; per cent)



Source: Based on the Survey on Household Income and Wealth (SHIW).
(1) Households are considered vulnerable when their debt service-to-income ratio is above 30 per cent and their equivalized disposable income is below the median. The latest available SHIW data refer to 2022. The shaded area represents the interval between the 10th and the 90th percentiles of the probability distribution in the simulations. – (2) Compared with the baseline scenario, the assumptions for 2026 are that: (a) the growth rate of nominal income is 4 percentage points lower; (b) the growth rate of nominal income is 4 percentage points lower and the 3-month Euribor, the 10-year interest rate swap (IRS) and the interest rate on consumer credit are 200 basis points higher.

Firms

Firms' financial conditions continue to be good on average, supported by profitability and limited indebtedness. Trade tensions have had limited consequences so far, but firms are still vulnerable to uncertainty regarding economic growth and the possible repercussions of higher tariffs and geopolitical conflicts.

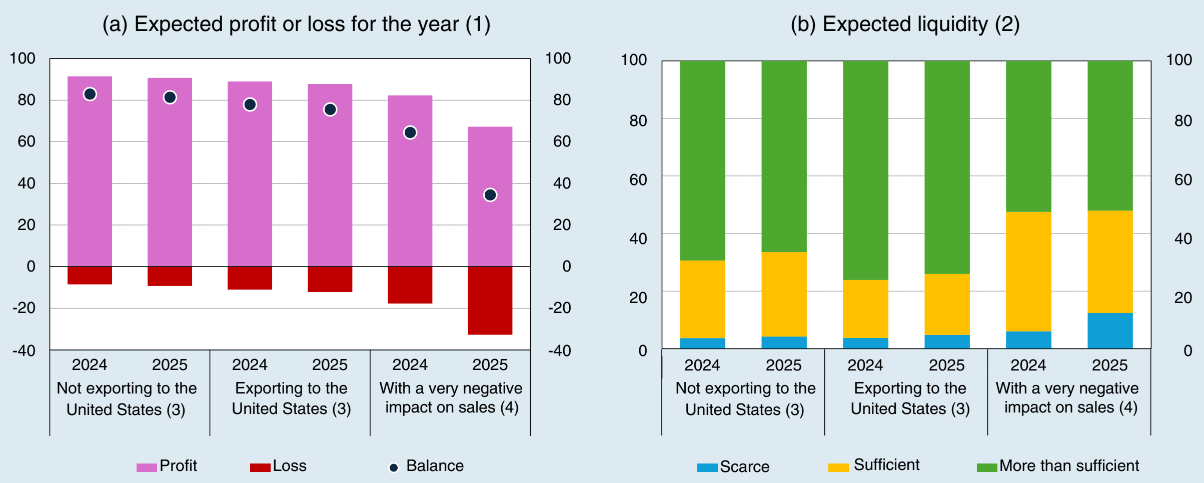
[8] The rate is calculated on the basis of data provided by Consorzio di tutela del credito, a credit information company, which includes quarterly data on the characteristics of individual contracts and borrowers for a representative sample of consumer loans.

[9] For details on the microsimulation model, see C.A. Attinà, F. Franceschi and V. Michelangeli, 'Modelling households' financial vulnerability with consumer credit and mortgage renegotiations', *International Journal of Microsimulation*, 13, 2020, pp. 67-91, also published in Banca d'Italia, Questioni di economia e finanza (Occasional Papers), 531, 2019.

Profitability remains high, though gross operating income contracted in the 12 months ending in June (-4.3 per cent). This decline reflected persistent weakness in value added and more robust growth in labour costs. According to the latest Business Outlook Survey of Industrial and Service Firms, conducted in September on firms with at least 20 employees, the share of firms expecting to close the year with a profit is slightly smaller than in 2024, though it is still large. The contraction is more pronounced among firms that reported the impact of tighter tariffs on sales to have been very negative (Figure 1.15.a); their weight, however, is limited, both in terms of number of firms and of employees.

Figure 1.15

Developments in profitability and liquidity
(per cent)



Source: Business Outlook Survey of Industrial and Service Firms.
(1) Share of firms expecting to close the financial year with a profit or loss. – (2) Share of firms assessing their level of cash holdings in relation to their operational needs until the end of the year. – (3) Firms that reported/did not report having exported to the US in the two years 2024-25. – (4) Firms that, following the increase in US tariffs, said that the impact on their sales was/will be 'very negative' in the first 9 months/last 3 months of 2025.

The lower gross operating income and favourable developments in investment resulted in higher financing needs. The ratio of internal financing to investment dropped to 89.6 per cent in June, from 96.8 per cent in December. Liquidity, while declining mainly among large firms, remained at high levels. According to the Survey, the share of firms reporting a liquidity shortfall when looking at their operational needs up to the end of the year continues to be limited overall, though it has risen among the firms hardest hit by the tariffs (Figure 1.15.b).

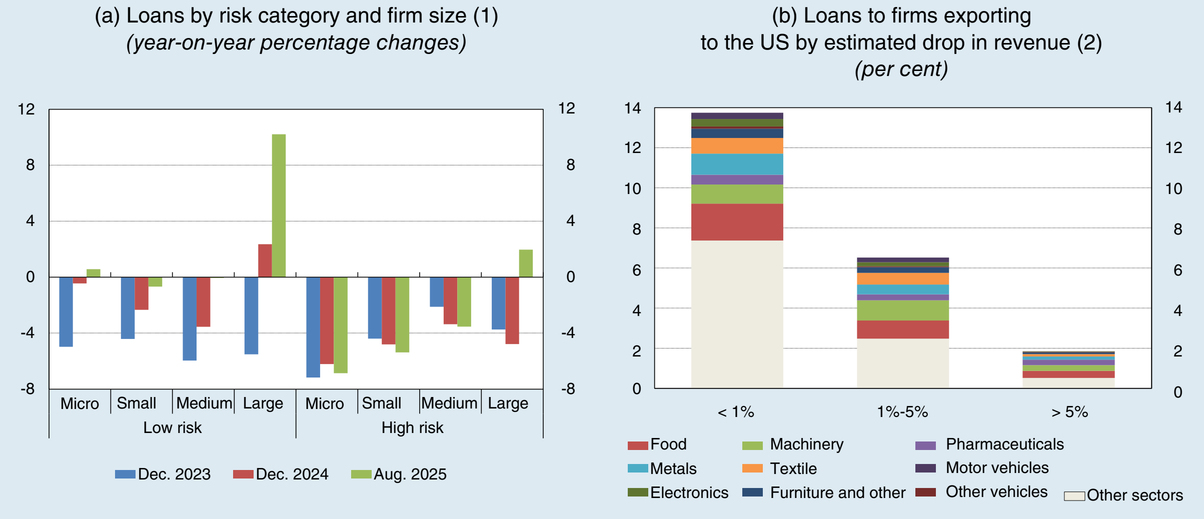
Financial debt grew by 1.4 per cent in the first half of the year, although its ratio to GDP remained broadly unchanged (59.1 per cent, far below the other main European countries). Leverage continued to fall, down to 30.7 per cent; the decline was almost entirely due to the increase in equity prices.

Lending to firms showed signs of recovery, with a 0.7 per cent year-on-year increase in September, following a contractionary phase that began in 2023. The expansion was driven by large firms, especially those with sounder balance sheets (Figure 1.16.a); for small firms the reduction slowed (from -6.8 per cent in December 2024 to -4.6 per cent) and there was an increase in lending among the soundest firms. According to the euro-area Bank Lending Survey, the demand for loans increased, mainly among large firms, partly as a result of the cut in interest rates. Credit standards eased slightly. The firms interviewed for the Business Outlook Survey of Industrial and Service firms, including the smallest ones, expect borrowing conditions to improve in the second half of the year.

So far, the higher US tariffs have had a limited impact on lending: since end-2024, the demand for loans by firms operating in sectors that are more exposed to trade tensions with the United States has been only slightly lower than for the rest of the economy. In these sectors, firms' demand was higher for short-term loans than for long-term loans, presumably because of their decision to defer their investment plans in the face of high uncertainty (see the box 'Trade tensions and euro-area firms' credit demand', *Economic Bulletin*, 4, 2025). According to our estimates – which are consistent with the tariffs set out in the EU-US trade deal signed in July – the share of bank debt attributable to the most exposed firms is likely to remain low overall: around 9 per cent of firms exporting to the United States, which account for less than 2 per cent of bank loans to firms, are expected to record a drop in turnover of more than 5 per cent (Figure 1.16.b).[10] The firms that are most vulnerable to tariff increases are generally small in size and have less diversification in terms of sales markets. The impact of tariffs on the supply chains of firms exporting to the United States is expected to remain limited as well (see the box 'The impact of the US tariffs on the supply chains of Italian firms', *Economic Bulletin*, 4, 2025).

Figure 1.16

Lending to firms



Sources: Based on data from the Central Credit Register, Cerved, AnaCredit and Full International and Global Accounts for Research in Input-Output Analysis (FIGARO).
(1) The data refer to the annual change in financing for a sample of about 500,000 limited companies. Loans include those granted by financial corporations, take account of securitizations, and also include bad loans. Allocation into the risk groups is based on Cerved's CeBi-Score4 indicator. Low- (medium- and high-) risk firms have a score ranging from 1 to 4 (5 to 10). The breakdown by firm size is based on Commission Recommendation 2003/361/EC, which defines micro firms as those employing fewer than 10 workers and whose turnover or total assets do not exceed €2 million; small firms as those employing fewer than 50 workers and whose turnover or total assets do not exceed €10 million, not including micro firms; medium-sized firms as those employing fewer than 250 workers and whose turnover or total assets do not exceed €50 million and €43 million respectively, not including micro and small firms; and large firms as all the remaining ones. – (2) Loans are calculated as a share in total loans to firms; credit exposures are considered as at Q3 2024. The revenue drop is estimated at firm-level and only captures the direct effects on exports, in the absence of data on the interdependencies between individual non-financial corporations.

Following a gradual easing of monetary policy, the cost of new loans – excluding current account overdrafts – has continued to fall (3.4 per cent in September 2025, compared with 4.4 per cent in December 2024 and a 5.6 per cent peak in November 2023). This mainly benefited large firms. The ratio of net interest expenses to gross operating income, which fell to 8.5 per cent in June, is still 3.6 percentage points higher than in mid-2022, before the interest rate hike cycle. Over this period, however, the increase in the

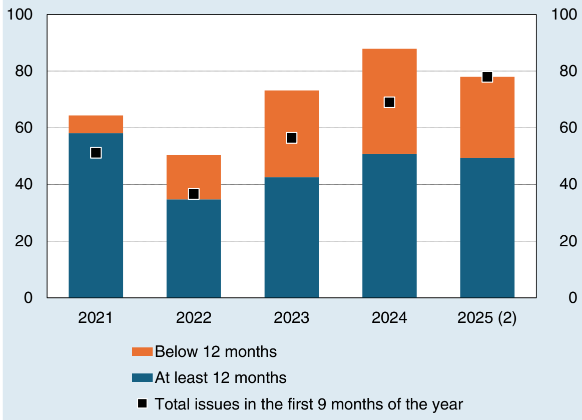
[10] These results are slightly lower than those contained in the box 'The exposure of the euro-area banking system to the sectors most vulnerable to US tariffs', *Financial Stability Report*, 1, 2025, which assumed a uniform 25-percentage-point increase in tariffs on all goods imports from the European Union to the United States.

indicator was mitigated by a combination of factors, including sound profitability and derivatives-based hedging strategies. Firms that used these strategies, which are typically large and highly indebted, cut their cost of debt by around 100 basis points in 2023 and by 70 basis points in 2024. The business loan default rate decreased slightly between January and September, to 2.2 per cent (see Section 2.1).

In the first nine months of the year, gross bond issuance continued to expand; Italian firms and foreign subsidiaries placed bonds for €78 billion (up by 13 per cent year on year). The positive trend observed since 2023 largely reflects the strong increase in issues with a maturity of less than one year, mainly commercial papers issued by a few large groups (Figure 1.17). The number of first-time bond issuers was broadly stable compared with the first nine months of last year (just over 80 units).

Figure 1.17

Bond financing by original maturity (1)
(billions of euros)



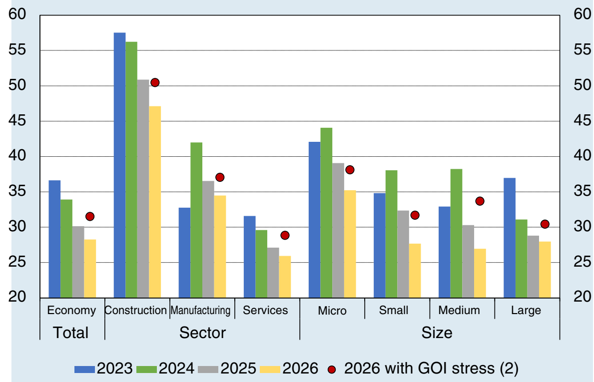
Sources: Based on data from the Securities registry database and Dealogic.
(1) Gross bond issuance by Italian non-financial corporations and groups. – (2) The figure for 2025 refers to the first 9 months of the year.

The average rating of Italian corporate issuers benefited from an improvement in the sovereign rating: between April and November, 21.8 per cent of outstanding bonds, in terms of nominal value, were upgraded, against 0.5 per cent of downgrades. By contrast, bond ratings deteriorated in the rest of the euro area overall: the downgraded securities accounted for 7.4 per cent of those outstanding, in terms of nominal value, compared with 2.8 per cent of upgrades. However, the share of bonds in the BBB category – those most exposed to the risk of a downgrading to high yield – remains higher in Italy than in the euro area on average (86.4 per cent of total investment grade issues against 61.9 per cent).

The projections of Banca d'Italia's microsimulation model[11] indicate that, in a baseline scenario consistent with the latest macroeconomic forecasts, the share of debt issued by vulnerable firms will decrease by about 2 percentage points, to 28 per cent, in 2026 (Figure 1.18). The reduction, attributable to higher growth in gross operating income than in debt, will be broad-based across sectors and firm size classes. Nevertheless, the estimates remain subject to a highly uncertain global environment. In an adverse scenario that assumes a marked reduction in profitability, the share of debt attributable to vulnerable firms is set to increase, in particular, among small and medium-sized firms.

Figure 1.18

Financial vulnerability (1)
(per cent)



Source: Based on Cerved data.
(1) Share of debt issued by vulnerable firms, which are defined as those whose gross operating income is negative or whose ratio of net interest expense to gross operating income exceeds 50 per cent. The definition excludes firms with bad loans. The latest available annual financial statements for the whole sample of firms refer to 2023. – (2) Compared with the baseline scenario, the stress condition applied for 2026 is a 10-percentage point lower change in gross operating income (GOI).

[11] For details on the microsimulation model, see A. De Socio and V. Michelangeli, 'A model to assess the financial vulnerability of Italian firms', *Journal of Policy Modeling*, 39, 2017, pp. 147-168, also published in Banca d'Italia, Questioni di economia e finanza (Occasional Papers), 293, 2015.

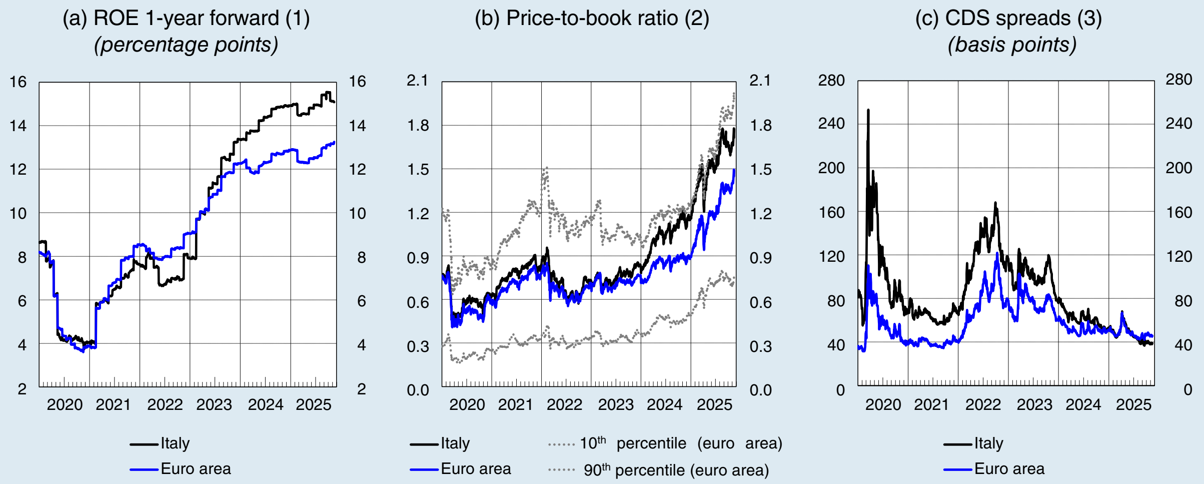
2 RISKS TO FINANCIAL INTERMEDIARIES

2.1 BANKS

The situation of the Italian banking system is sound overall: capitalization and profitability are at high levels and credit quality shows no signs of deterioration. Market indicators remain favourable and generally better than those of the main euro-area banks (Figure 2.1). However, profitability may decline, as the contraction in net interest income is already affecting its performance. Looking ahead, risks to asset quality persist in an environment of subdued growth and heightened geopolitical uncertainty.

Figure 2.1

Italian listed banks: an international comparison
(daily data)



Source: Based on LSEG data.
(1) Return on equity (ROE) is estimated by market operators. Average weighted according to market value. The data refer to the banks included in the Euro STOXX Banks index; for Italy, Banca Generali, Banca Monte dei Paschi di Siena, Banca Popolare di Sondrio, Banco BPM, BPER Banca, Intesa Sanpaolo and UniCredit. – (2) Average weighted according to market value. For the banks included in the sample, see note (1). – (3) The data refer to the following sample of banks: for Italy, Intesa Sanpaolo and UniCredit; for the euro area, Banco Bilbao Vizcaya Argentaria, Banco Santander, BNP Paribas, Commerzbank, Crédit Agricole, Deutsche Bank and Société Générale. Simple average of 5-year CDS spreads.

Asset risks

Despite the slowdown in economic activity, the overall quality of bank assets remained broadly stable in the first nine months of 2025. The loan default rate stood at 1.3 per cent in the third quarter, unchanged from the end of last year (Figure 2.2).

The non-performing loan (NPL) ratio fell slightly in June, from 1.5 per cent at the end of 2024, to 1.4 per cent in the first half of 2025, net of loan loss provisions (Figure 2.3.a and Table A2 in the Appendix).

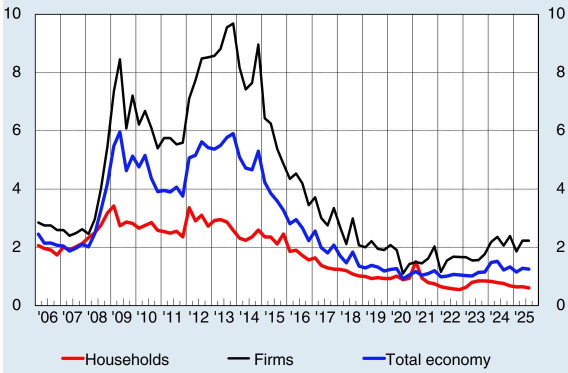
The NPL ratio for significant groups (1.1 per cent) remained in line with the average ratio for banks in the countries participating in the Single Supervisory Mechanism (SSM; Figure 2.3.b).

At the end of 2024, 46 securitization transactions were backed by the public guarantee for senior tranches under the state guarantee scheme for the securitization of bad loans (garanzia sulla cartolarizzazione delle sofferenze, GACS).[1] For these securitizations, securities worth just under €27 billion were issued, of which around €22 billion were senior tranches. The redemptions made so far on the latter have reduced the state's exposure to €7.6 billion. However, the projections for repayments expected by servicers show a widespread slowdown in loan recovery, especially for securitizations carried out before 2019.[2]

Figure 2.2

Loan default rates (1)

(quarterly data; per cent)

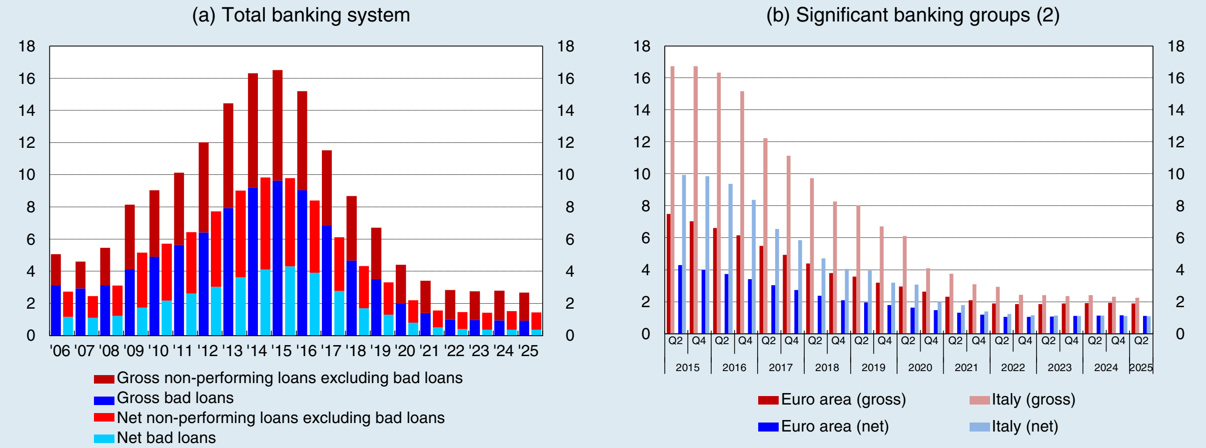


Source: Central Credit Register.
(1) The loan default rate is calculated as the annualized ratio of the quarterly flow of adjusted NPLs to the stock of performing loans at the end of the previous quarter. Data seasonally adjusted where necessary.

Figure 2.3

Non-performing loans: share of total loans (1)

(per cent)



Sources: Consolidated supervisory reports for Italian banking groups and individual supervisory reports for the rest of the system; ECB, 'Supervisory Banking Statistics' for the euro area.
(1) Includes loans to customers, credit intermediaries and central banks. Includes banking groups and subsidiaries of foreign banks; excludes branches of foreign banks. Also includes banks specializing in NPL management, whose share of the banking system as a whole in terms of NPLs is around 5 per cent. Shares are calculated net and gross of loan loss provisions. The data for June 2025 are provisional. – (2) The perimeter of significant banks and less significant banks differs between the dates shown in the figure: in June 2019, with the reform of the cooperative banking sector, Cassa Centrale Banca became a banking group classified as significant for supervisory purposes. Furthermore, 143 cooperative credit banks (BCCs) joined the ICCREA group, which was already classified as significant before the reform. Mediolanum and FinecoBank have been included among the significant banks since June 2022.

[1] This scheme was in force from 2017 to 2019 and later extended, with modifications, until 2022. The eligibility requirements for access to GACS were tightened for securitization transactions carried out after 6 March 2019, for which a highly rigorous monitoring system was introduced. Specifically, payments due to servicers are wholly or partially contingent on performance targets (recovery and collection objectives). Failure to meet these targets may trigger penalties, such as deferred compensation or replacement of the servicer.

[2] For a description of the methodology used in the analyses and for the trend of recoveries over time, see the box 'The performance of operations backed by guarantee schemes for the securitization of bad loans', in *Financial Stability Report*, 1, 2021; see also *Financial Stability Report*, 2, 2022 and *Financial Stability Report*, 1, 2024.

In June, the ratio of loans backed by a public guarantee from the Central Guarantee Fund or SACE to total performing loans to firms was 23 per cent. In the second quarter, their default rate had risen to 4.1 per cent (from 3.7 in the fourth quarter of 2024), owing to the reclassification of loans held by an intermediary placed under special administration. Excluding this intermediary from the sample, the default rate of loans backed by public guarantee would have declined by around 1 percentage point compared with last December, while remaining higher than that of loans without public guarantees.

In the first half of the year, the ratio of Stage 2 loans under the IFRS 9 accounting standard to total performing loans fell slightly (from 8.4 to 8.0 per cent), for both significant and less significant banks. This was due to the persistent decline in the stock of Stage 2 loans and, to a lesser extent, to the moderate recovery in lending (see Section 1.5).

The arrears rate – which measures the payment arrears of performing borrowers – edged down for loans to firms and remained stable for loans to households.[3]

According to our projections, which are consistent with the macroeconomic scenario published by Banca d'Italia in October, the default rate for loans to firms is expected to average 2.2 per cent this year and to rise to 2.4 per cent in 2026. The default rate for loans to households is expected to inch up to 0.7 per cent in 2025 and in 2026. Ongoing developments in the global economic and financial outlook continue to pose risks.

The vulnerability of Italian banks stemming from exposures to the commercial real estate sector – which is generally considered riskier than the residential real estate sector – remains low.

Overall, the credit risk linked to firms' exposure to extreme hydrogeological events is moderate. However, there are significant differences across geographical areas and sectors (see the box 'Hydrogeological risks and credit risks').

HYDROGEOLOGICAL RISKS AND CREDIT RISKS[1]

The floods that hit Italy and Spain between 2023 and 2024 showed that the greater frequency and intensity of extreme weather events makes it increasingly important to integrate forward-looking physical risk measures into the credit assessment models and capital allocation processes adopted by banks. Highly intensive hydrogeological events may affect, even significantly, the revenue and the probability of default for the borrowing firms.[2] Our analyses also show that information on corporate business locations is useful for assessing banks' exposure at local level to the physical risks to which their clients are subject.[3]

1 By Manuel Cugliari and Francesca Rinaldi.

2 For more details, see S. Clò, F. David and S. Segoni, 'The impact of hydrogeological events on firms: Evidence from Italy', Banca d'Italia, Temi di Discussione (Working Papers), 1451, 2024; F. Cusano, D. Liberati, V. Michelangeli and F. Rinaldi, 'Euro-area physical risk indicators for climate-related financial stability analyses', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 949, 2025 and Banca d'Italia, *Financial Stability Report*, 1, 2025.

3 For more details, see G. Meucci and F. Rinaldi, 'Bank exposure to climate-related physical risk in Italy: an assessment based on AnaCredit data on loans to non-financial corporations', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 706, 2022; M. Loberto and R. Russo, 'The exposure of Italian manufacturing firms to hydrogeological risk', Questioni di Economia e Finanza (Occasional Papers), 899, 2024; F. Cusano, D. Liberati and F. Rinaldi, 'The integration of business headquarters in physical risk indicators', Banca d'Italia, mimeo, 2025.

3 Arrears are exposures past due for at least 30 days but not yet non-performing. The arrears rate is the annualized ratio of the quarterly flow of new arrears to performing loans (that are not in arrears) at the end of the previous quarter.

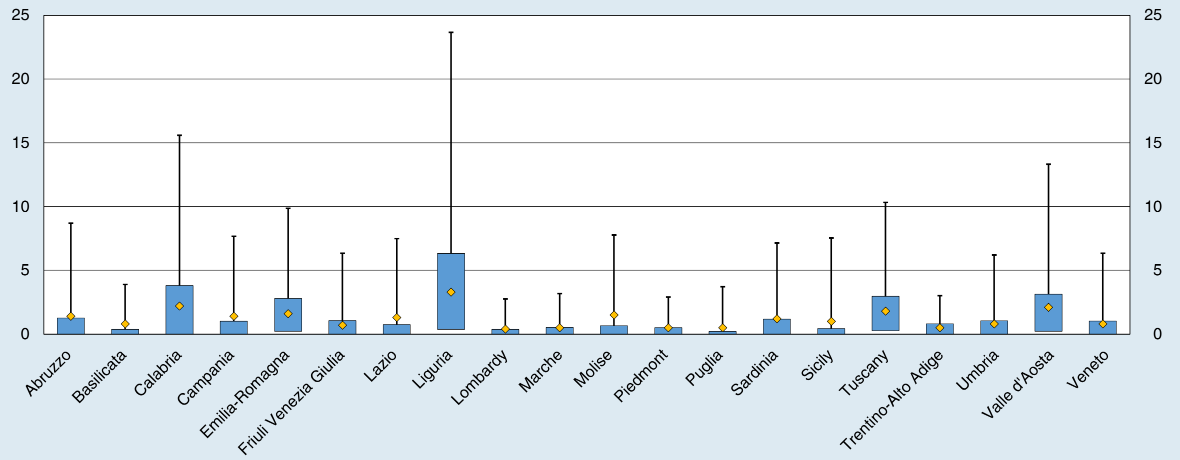
The integration of hydrogeological risks into Banca d'Italia's in-house credit assessment system (ICAS) for loans pledged as collateral for Eurosystem monetary policy operations, combining information on business locations, employment data and geolocalization,[4] makes it possible to estimate the increased probability of insolvency (PI) of Italian firms that is associated with floods or landslides.[5]

For the set of firms considered, the arithmetic mean of the PI (equal to 2.8 per cent) is only 1 basis point higher when physical risks are included. Among firms located in high-risk areas (6 per cent of the total),[6] however, the increase in the average PI is more marked, at 9 basis points, with significant differences throughout the country (see the figure).

Moreover, in a scenario that assumes an increase in the frequency and intensity of floods and landslides in line with ISPRA's most adverse climate scenarios, the average PI of firms in high-risk areas rises by 32 basis points.

Figure

Increase in the PI of firms due to physical risks: distribution by region (1)
(basis points)



Sources: Based on data from Banca d'Italia, the Environmental systems research institute (ESRI) Italia and ISPRA.
(1) For the different Italian regions, the graph shows the one-year increases in the PI associated with hydrogeological physical risks. The yellow diamond represents the average of the estimated PI increases, the rectangle shows the range between the 50th and the 90th percentile, while the upper black line extends from the 90th to the 97.5th percentile, highlighting the upper tail of the distribution of PI increases. As the median is close to 0, the figure makes it possible to show the upper tail of the distribution of increases in the probability of insolvency.

4 The analysis is based on the geolocation of the operational sites listed in the Companies Register of the Chamber of Commerce (processed using the mapping service of ESRI's ArcGIS platform). The hydrogeological hazard levels are taken from the risk maps created by the Italian Institute for Environmental Protection and Research (ISPRA), the national technical reference source. Integrating these components enables an accurate assessment of the physical exposure of firms, according to a methodology that can be replicated by any entity with access to the same databases.

5 M. Cugliari, S. Narizzano and F. Vassalli, 'Hydrogeological and credit risk: The Italian firms' physical risk-implied probability of default', Banca d'Italia, Mercati, infrastrutture, sistemi di pagamento (Markets, Infrastructures, Payment Systems), forthcoming.

6 ISPRA prepares hydrogeological hazard maps that associate an expected frequency range of damage events with the different risk levels, based on historical data on flood and landslide events. The estimates in the text refer to an average of the ranges, while the adverse scenario corresponds to the upper end of the frequency range.

Insurance coverage mitigates credit risks when taken out by firms, but it is not widespread in Italy, and it does not appear to be related to actual exposure to physical risks.[7] The obligation to insure against damage caused by catastrophic events introduced for Italian firms by the 2024 Budget Law aims to strengthen protection of the production system.[8]

Even when such coverage is in place, banks only consider it marginally in their creditworthiness assessment of the borrowing firms because of the difficulty in incorporating this information into their internal models[9] (which is linked, at least in part, to the lack of uniformity in the policies offered) and the scarcity of the data available.[10] These shortcomings highlight the need for financial intermediaries to begin collecting this information in a systematic way.

[7] For further details, see R. Gallo, G. Guazzarotti, V. Nigro and M. Cosconati, 'Insurance coverage against operational risks of Italian companies: some evidence from the results of Banca d'Italia's Survey of Industrial and Service Firms', Banca d'Italia, Notes on Financial Stability and Supervision, 31, 2022; A. Frigo and A. Venturini, 'The insurance coverage against natural risks: A preliminary analysis', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 830, 2024. See also EIOPA's website: 'Dashboard on insurance protection gap for natural catastrophes'.

[8] For further details, see the box 'Mitigation of risks stemming from natural catastrophes', *Financial Stability Report*, 1, 2025.

[9] R. Gallo, G. Guazzarotti and V. Nigro, 'Firms' operational risks and insurance coverage - evidence from the Bank of Italy's regional bank lending survey', Banca d'Italia, Notes on Financial Stability and Supervision, 37, 2024.

[10] I. Faiella and L. Lavecchia, 'Here comes the flood, the climate risk of residential mortgages in Rimini', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 925, 2025.

Market risk and interest rate risk

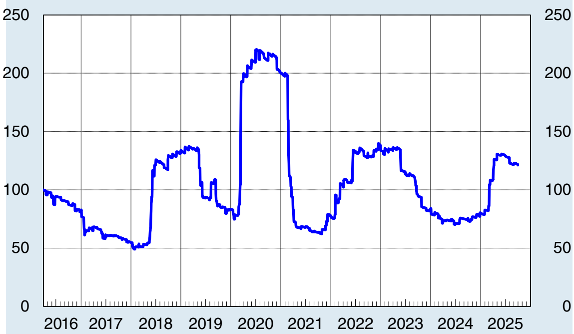
The value at risk (VaR) of the banks' securities portfolio declined between April and September (Figure 2.4). This reduction was mainly due to equity securities, although the indicator is primarily affected by changes in interest rates and, to a lesser extent, by credit spreads; the impact of exchange rate risk remains limited.

In September, the amount of Italian government securities held by resident banks rose slightly compared with April, as a result of an increase in the market value of portfolio securities, which more than offset the very limited net disposals. The ratio of government bonds to total assets is 8.7 per cent (up from 8.6 per cent in April; Figure 2.5.a).

The average duration of the government securities portfolio held by banks went down to 4.8 years (Figure 2.5.b). The share of securities valued at amortized cost held broadly stable at 74.4 per cent (from 74.2 per cent in April).

Figure 2.4

The VaR trend of Italian banks (1)
(daily data; index: March 2016=100)



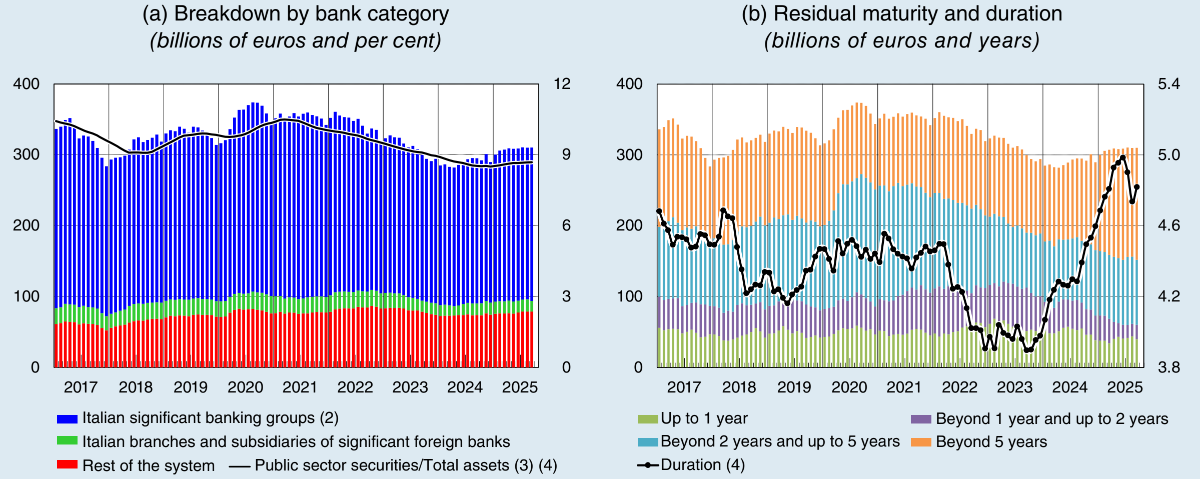
Sources: Based on data from the securities registry database, LSEG and supervisory reports.
(1) Averages, weighted according to the size of each bank's portfolio. VaR is the loss on a portfolio that over one day will not exceed a given tail level (99 per cent). The indicator for the banking system as a whole is calculated, for each trading day, using granular data on the stocks and the characteristics of the assets in the portfolio of each Italian bank and taking account of the changes in risk factors over the last 250 business days.

With reference to the portfolio of government securities valued at amortized cost and taking into account the prices recorded at the end of September 2025, the average impact of the potential losses that would arise if banks were forced to sell the securities before maturity is estimated at 21 basis points of the CET1 ratio (it was 59 basis points in late March 2025).[4]

[4] Potential losses are calculated taking into account banks' hedging through derivatives.

Figure 2.5

Banks' investment in Italian government securities (1)
(monthly data)



Source: Supervisory reports.
(1) Comprises all public sector securities, including those issued by local authorities. Excludes Cassa Depositi e Prestiti. – (2) Includes the cooperative credit banks merged into cooperative credit banking groups. – (3) Twelve-month moving average ending in the month indicated. The 'total assets' series does not include bond buybacks. – (4) Right-hand scale.

If interest rates were to move in line with the expectations implied by market interest rate curves over a one-year horizon – which point to stability in short-term rates and a rise in longer-term ones[5] – the economic value of assets and liabilities included in the banking book at the end of last June would decline on average for both significant and less significant banks (-42 and -12 basis points in terms of CET1 ratio, respectively).[6]

Refinancing risk and liquidity risk

In September, bank funding returned to moderate year-on-year growth.[7] This reflected an increase in deposits by both residents and non-residents (predominantly on the foreign interbank market) and, to a lesser extent, growth in bond issues. Conversely, liabilities to the Eurosystem continued to decrease (Table 2.1).

Table 2.1

Italian banks' funding (1)
(percentage shares and changes)

	Stocks (share of the total)	12-month percentage changes (2)	
	September 2025	April 2025	September 2025
Deposits of Italian residents (3)	66.8	2.1	3.3
Deposits of non-residents (4)	20.7	0.7	25.2
Bonds	10.7	0.2	2.7
of which: held by households	2.9	-1.0	-1.7
Net liabilities vis-à-vis central counterparties (5)	1.1	42.2	47.1
Liabilities vis-à-vis the Eurosystem (6)	0.7	-68.5	-50.3
Total funding	100.0	0.3	5.2

Source: Individual supervisory reports. Excludes Cassa Depositi e Prestiti.
(1) Excludes liabilities to other banks resident in Italy. – (2) Adjusted for reclassifications, value adjustments and exchange rate movements. – (3) Excludes transactions with central counterparties. – (4) Includes mainly interbank transactions in the period considered. – (5) Includes repurchase agreements only; represents foreign funding via central counterparties. – (6) The aggregate includes the accounts with the Eurosystem for monetary policy operations.

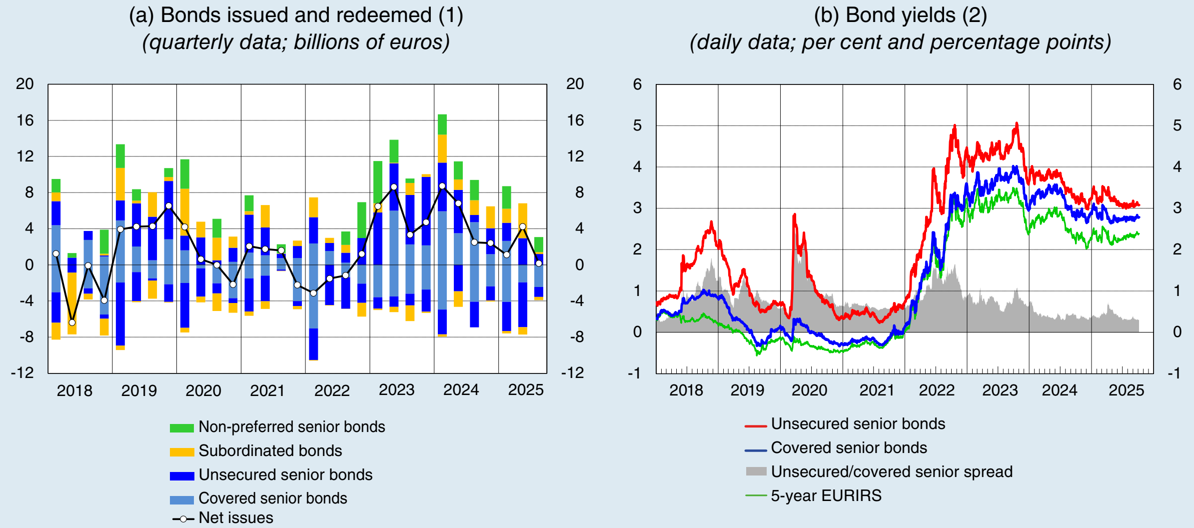
5 Considering the period from June 2025 onwards, this scenario suggests that interest rates will remain broadly unchanged for maturities up to one year, with an average increase of 20 basis points expected for longer-term maturities.

6 These estimates are based on the simplified methodology for determining exposure to interest rate risk as defined by Banca d'Italia Circular 285/2013 (only in Italian) containing supervisory provisions for banks.

7 Total funding increased by 5.2 per cent due to a treasury operation carried out by the branch of a foreign intermediary – with its parent company – which led to a significant rise in deposits from non-residents. However, this transaction is of no economic significance. Excluding this component, funding growth is therefore much lower.

Figure 2.6

Bank bonds placed on international markets



Sources: Bloomberg and Dealogic.
(1) Italian banks' issues on the international markets. Does not include issues retained on issuers' balance sheets and those earmarked for the retail market. Includes securitized bonds. Positive values indicate bond issues, negative values indicate bond redemptions. – (2) Yields to maturity of Italian bank bonds with residual maturity of 5 years.

Net bond issues on international markets were practically nil in the third quarter (Figure 2.6.a). The yield spread between unsecured and secured bonds remained low (Figure 2.6.b).

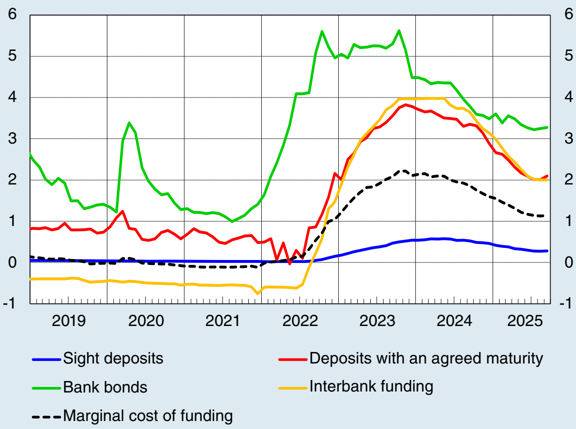
The marginal cost of bank funding declined to 1.1 per cent in September, around 32 basis points less than in February (Figure 2.7), responding to the contraction in official rates. This decline was mainly affected by the fall in interbank market rates. The interest rate on current account deposits, which account for more than half of bank funding, edged down by 11 basis points, to 0.3 per cent.

Recourse to main refinancing operations (MRO) and longer-term refinancing operations (LTROs) shrank slightly over the course of the year. The amount of excess reserves deposited with Banca d'Italia declined in line with the normalization of the Eurosystem's balance sheet: in the maintenance period to November 2025, liquidity was €88 billion on average, equal to 3.4 per cent of the euro area's total (Figure 2.8).

With the amounts requested through refinancing operations trending lower, the value of the

Figure 2.7

Marginal cost of bank funding and its components (1)
(monthly data; percentage points)



Sources: Based on Banca d'Italia, Bloomberg and ICE BofAML data.
(1) The marginal cost of funding is calculated as a weighted average of the costs of banks' various funding sources, using their respective outstanding amounts as weights. This is the cost that a given bank would incur to increase its balance sheet by one unit, drawing on funding sources in proportion to the composition of its liabilities at that time.

collateral pool fell to €177 billion between February and September (Figure 2.9.a). This contraction mainly reflects a decline in loans, which still account for 63 per cent of pledged assets (Figure 2.9.b). Asset-backed securities (ABS) and covered bank bonds instead increased.

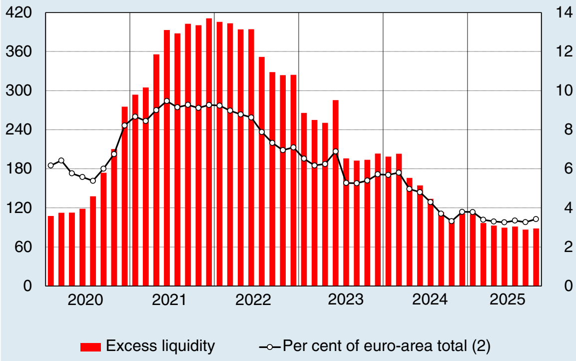
Despite the reduction, overcollateralization remains substantial (€161 billion, or 91 per cent of the pool; Figure 2.9.a). Furthermore, banks have €472 billion in eligible securities available (Figure 2.9.c), of which 66 per cent are government bonds.

Banks' liquidity profile remains balanced across all maturities: in June, the one-month liquidity coverage ratio (LCR) averaged 179 per cent and the net stable funding ratio (NSFR) stood at 134 per cent. Both ratios were above the 100 per cent regulatory minimum for all banks, and well above it for over 90 per cent of banks (Figure 2.10).

Figure 2.8

Excess liquidity of counterparties operating in Italy (1)

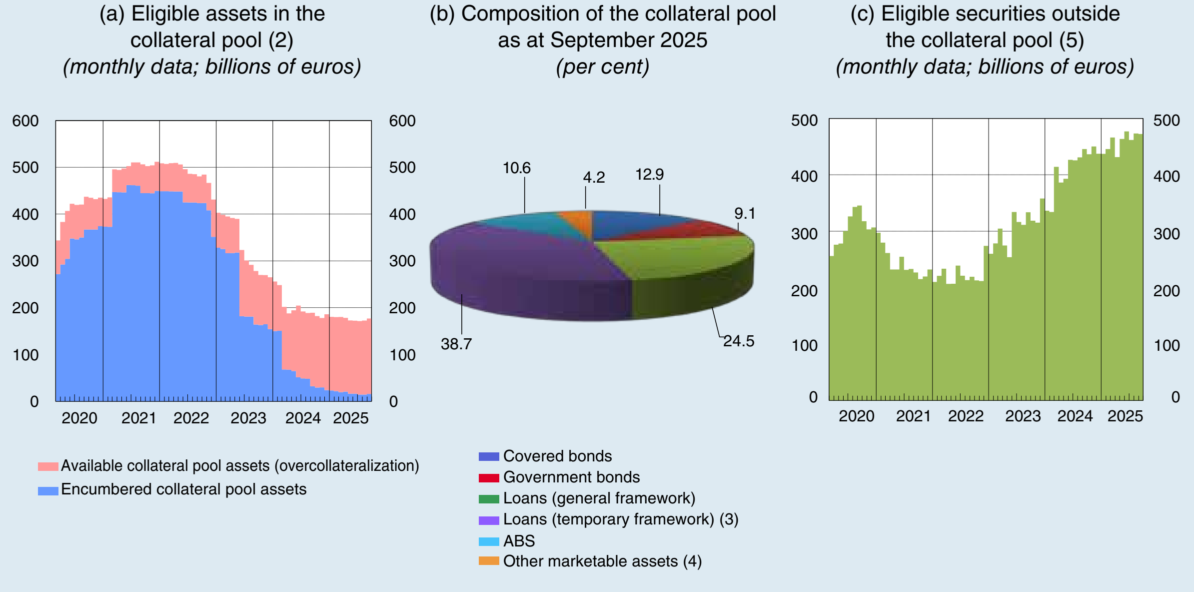
(billions of euros and per cent)



Sources: Based on Banca d'Italia and ECB data.
(1) Each red bar shows average excess liquidity for each maintenance period, calculated as the sum of banks' average reserve balances, net of the reserve requirement, plus the average recourse to the deposit facility. The latest figure refers to the 6th maintenance period of 2025, which ended on 4 November. – (2) Right-hand scale.

Figure 2.9

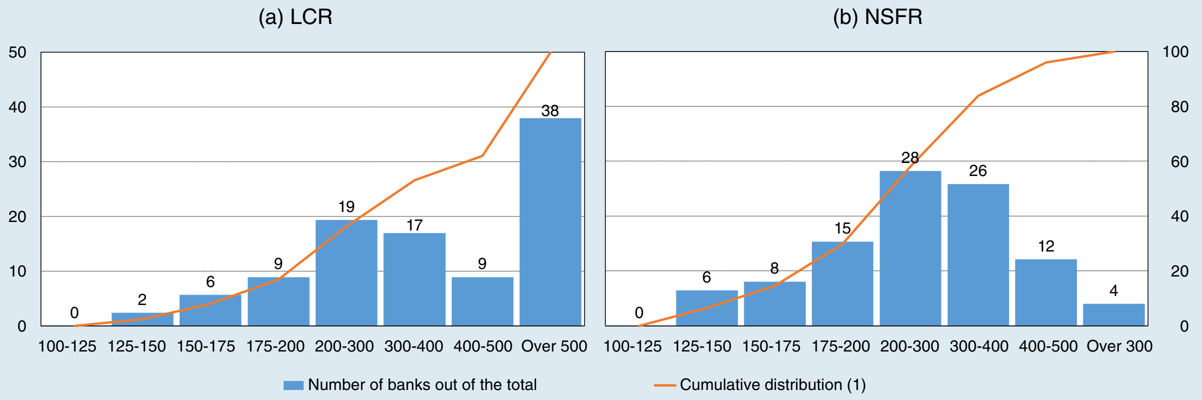
Eligible assets of the Italian banking system (1)



Sources: Based on Eurosystem data and supervisory reports.
(1) End-of-period data for the monetary policy counterparties of Banca d'Italia. – (2) The volume of encumbered Eurosystem collateral pool assets includes the part covering accrued interest and refinancing in dollars. The collateral pool is valued at the prices taken from the Common Eurosystem Pricing Hub, net of haircuts. – (3) Under the temporary framework, the eligibility criteria for assets that can be used as collateral are set by the individual national central banks pursuant to the rules provided by the ECB Governing Council (under the general framework, the criteria are set according to common rules that are applicable to the entire Eurosystem). – (4) Comprises bank bonds, including those backed by the government guarantee scheme, and securities issued by non-financial corporations and supranational organizations. – (5) Amounts at market values as reported by banks, net of the haircuts applied by the Eurosystem.

Figure 2.10

Distribution of Italian banks by LCR and NSFR as at June 2025
(per cent)



Source: Based on supervisory reports.
(1) Right-hand scale.

Operational and cyber risks

The Digital Operational Resilience Act (DORA), which took effect in January, imposes new requirements designed to strengthen the operational resilience of financial intermediaries' ICT systems.[8] Banca d'Italia's survey on directly supervised entities' preparedness for the new regulatory framework found that half of the respondents considered themselves to be compliant with most of the requirements at the end of April. Moreover, the respondents expected to make further progress in the following months. However, the self-assessments revealed that preparation status varied across different categories of financial intermediaries and that service providers reported differing degrees of compliance with the rules.[9]

DORA extends the obligation to report major incidents to a wider range of financial entities than previously.[10] In the first half of 2025, Italian supervised financial entities reported 95 major incidents,[11] of which 28 were cyber incidents[12] (Figure 2.11.a). The reports also highlight the significant role played by service providers, which are involved in about half of the reported incidents (Figure 2.11.b).

[8] For further information, see Banca d'Italia's website, 'Regolamento DORA: comunicazione al mercato', 30 December 2024 (only in Italian). The Regulation is based on five pillars, which include new processes for reporting major incidents involving information and communication technologies (ICT). For more information, see Banca d'Italia's website, 'Reporting of major ICT-related incidents and voluntary notification of significant cyber threats', 27 December 2024. For more information on the changes introduced by DORA, see also *Financial Stability Report*, 2, 2024 and *Financial Stability Report*, 1, 2025.

[9] For more details, see 'La resilienza digitale: attuazione di DORA e profili di vigilanza' (only in Italian), speech by Giuseppe Siani, Director General for Financial Supervision and Regulation of Banca d'Italia, at the CSE conference on technological and regulatory developments in the banking system, Turin, 26 September 2025.

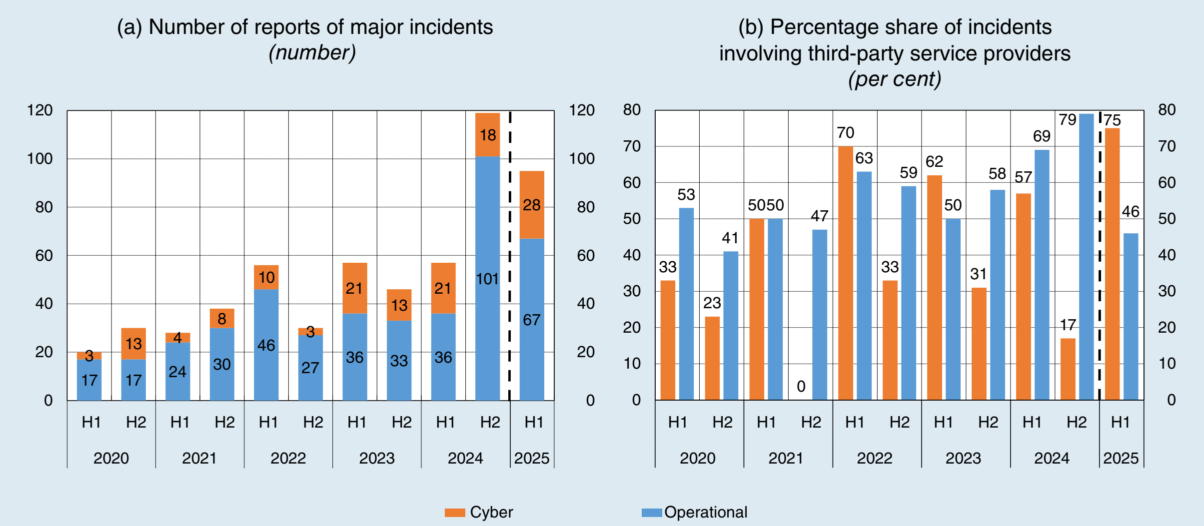
[10] For the list of entities included in the previous and the new reporting schemes, see note (1) to Figure 2.11. DORA provides for the national competent authorities to share information among themselves about incidents that occur within their borders that could have a significant impact on another Member State. An incident is 'major' if it has an adverse impact on information and network systems that support the financial entity's critical or important functions.

[11] Around 10 per cent of the reports received come from entities not subject to the previous reporting scheme.

[12] According to DORA, a cyber risk is defined as risk arising from a potential cyberattack, i.e. a malicious ICT-related incident caused by means of an attempt perpetrated by any threat actor to destroy, expose, alter, disable, steal or gain unauthorized access to, or make unauthorized use of, an asset.

Figure 2.11

Cyber and operational incidents (1)



Source: Based on supervisory reports.
(1) Up through 2024, reports had to be submitted by banking groups for all their members, stand-alone banks, payment institutions and e-money institutions. As of 2025, reports must be submitted by banks, on both an individual and consolidated basis, payment institutions, e-money institutions, investment firms, managers and issuers of asset-referenced tokens, crypto-asset service providers, crowdfunding service providers, Cassa Depositi e Prestiti, and Poste Italiane, limited to its banking activities. For the definition of 'major incident' for data up through 2024, see Banca d'Italia Circular 285/2013 (only in Italian); for data as of 2025, see Article 3 of DORA.

There have been seven major incidents (five operational and two ICT-related) reported to Banca d'Italia in connection with payment systems and market infrastructures, but they have not had a significant impact on service continuity. Our analysis of operational vulnerabilities and systemic cyber risks included a special look at cross-border events occurring abroad.[13]

Strengthening cyber-risk resilience continues to be a key issue for international cooperation bodies.[14]

Capital and profitability

In June, the capital position of Italian banks improved slightly compared with December and remained high. The average CET1 ratio – i.e. the ratio of common equity tier 1 (CET1) to risk-weighted assets (RWAs) – was 16.0 per cent.

The indicator remained stable for significant banks, at 16.2 per cent, broadly in line with the average for banks participating in the Single Supervisory Mechanism (SSM). The positive contribution from profitability for the period and the improvement in accumulated other comprehensive income[15] offset

[13] Recent examples are the outage at Barclays, the blackout that occurred in the Iberian Peninsula and the cyberattack on Colt Technology Services.

[14] The European Central Bank recently published a guide on outsourcing cloud services, which sets out good practices for effective risk management by supervised intermediaries (see ECB, 'ECB finalises Guide on outsourcing cloud services', press release, 16 July 2025). Along with encouraging and monitoring the adoption of the Format for Incident Reporting Exchange (FIRE), the Financial Stability Board (FSB) continues to focus on strengthening the financial system's operational resilience to third-party risks as well as cooperation between authorities and supervised entities (see Banca d'Italia's website, 'Banca d'Italia for cybersecurity').

[15] Accumulated other comprehensive income comprises the gains and losses on assets and liabilities that are not recognized through profit or loss for the year, but are attributed to a specific equity item and, through this, regulatory capital. In the first half of the year, the increase in the value of government bonds held by banks also played a part.

the negative effect of the increase in intangible assets and RWAs. The increase in RWAs was attributable, in particular, to the operational risk component following the introduction of the Capital Requirements Regulation (Regulation (EU) 2024/1623, CRR3), transposing the Basel III standards.[16] The average CET1 ratio for the less significant banks increased by 80 basis points to 18.9 per cent, mainly as a result of internal funding and a decrease in RWAs.[17] In this case, too, the change in RWAs was primarily attributable to the introduction of the CRR3.[18]

Recent stress tests conducted by Banca d'Italia of the less significant banks show an overall resilience to potential adverse macroeconomic events. However, these results should be interpreted cautiously given the current environment of elevated uncertainty (see the box 'Stress test of Italian less significant banks').

STRESS TEST OF ITALIAN LESS SIGNIFICANT BANKS[1]

In recent months, Banca d'Italia carried out its usual stress test exercise on Italian less significant institutions (LSIs). The analysis involved 110 financial intermediaries, with both traditional and specialized business models, accounting for around 10 per cent of the banking system's total assets.[2] The test assesses the ability of banks to cope with unfavourable macroeconomic events, similarly to the EU-wide stress test on the significant European banks coordinated by the EBA and the ECB.[3] The results were then used in the Supervisory Review and Evaluation Process (SREP), especially to quantify Pillar 2 Guidance (P2G) requirements.

The banks were not directly involved in the analysis (top-down approach), which was based on the static balance sheet assumption and referred to the same baseline and adverse macroeconomic scenarios adopted in the EU-wide stress test.[4] The analysis used end-2024 data and estimated the impact for the three-year period 2025-27.

Over the time horizon considered, the Italian LSIs as a whole demonstrate adequate resilience, including in the adverse scenario, with an average fully loaded CET1 ratio of 14.9 per cent at the end of the period (see the figure).[5] The reduction in this ratio (capital depletion) in the three years under review, equal to 3.2 percentage points, mainly reflects the increase in administrative costs

1 By Paolo Fiorenzuolo and Simone Alberto Valletta.

2 Specifically, 85 of them follow a traditional business model (38 of which are members of the Raiffeisenkassen cooperative banking group), 15 are asset managers, 5 are specialized lenders and 5 are specialized in managing NPLs. The exercise excluded four banks undergoing changes to their corporate structure and business model or under special administration, for which the static balance sheet assumption was deemed too restrictive.

3 For more details, see EBA, 'The EBA publishes the results of its 2025 EU-wide stress test', press release, 1 August 2025.

4 For a description of the macroeconomic and financial scenario, see the EBA website: 'Macro-financial scenario for the 2025 EU-wide banking sector stress test'.

5 The exercise was conducted using the fully loaded CET1 ratio for December 2024 reported by banks under the Capital Requirements Regulation 2 (CRR2).

16 The increase is concentrated among the large banks, which have ceased to use their internal models because this is no longer allowed under the new framework. It more than offset the decrease in RWAs as a result of the new credit risk rules. The entry into force of these rules as of 1 January 2025 resulted, as to the portion of the rules already in effect and as regards Italian significant banks, in low capital absorption of around 50 basis points of the CET1 ratio.

17 The Italian banking system also includes subsidiaries of European significant banking groups, for which the indicator – considerably below average – rose in the first half of the year, to 12.8 per cent.

18 With regard to the less significant banks, in addition to decreasing the RWA amounts for credit risk, the new regulatory framework also makes the calculation of the requirements for operational risk more proportionate by reducing the RWA amounts for small banks.

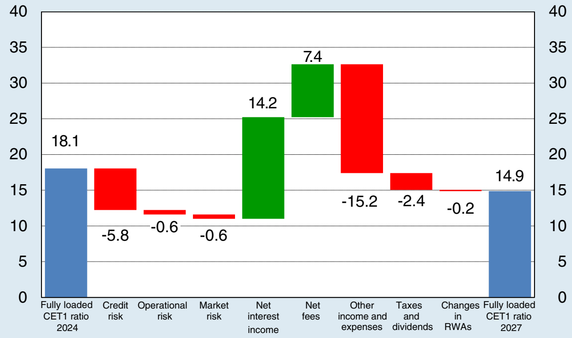
– following the inflationary trend projected in the macroeconomic scenario – and in credit risk. These impacts would be mitigated by net interest income and fee and commission income. Overall, the results appear to be better than those of the previous stress test conducted in 2023.[6] The improvement reflects both the increase in net interest income – boosted by the projection of the exceptionally strong results recorded in 2024, which are unlikely to be replicated in the current environment – and the lower impact of market risk losses.

The capital depletion for LSIs with a traditional business model, equal to 2.5 percentage points, was more than 1 percentage point higher than that observed for Italian significant banks in the EU-wide stress test. This was mainly due to a greater impact of credit risk, albeit mitigated by lower exposure to market risk.

Figure

Change in the fully loaded CET1 ratio in 2025-27 for Italian LSIs under the adverse scenario (1)

(per cent and percentage points)



Source: Supervisory reports.
(1) Aggregate results of the 2025 stress testing of LSIs under the adverse scenario. Any mismatches are due to rounding.

In the adverse scenario, a limited number of banks (around 13 per cent of the total assets in the sample) would fail to meet the minimum prudential requirements. These situations have long been monitored by Banca d'Italia, which has already taken corrective measures.

The results of the stress test should be interpreted bearing in mind that, in the current environment of high uncertainty, the scenario considered is only one of several possible developments.

[6] For more information, see the box 'Stress tests on Italian less significant banks', in *Financial Stability Report*, 2, 2023.

In the first half of the year, there were fewer new issues of securities meeting the minimum requirement for own funds and eligible liabilities (MREL) – mainly carried out by the significant banks – than in the first half of last year, although they remained substantial. The ratio of MREL liabilities to RWAs for significant banks and for less significant banks subject to resolution, equal to 33.5 per cent, continues to be well above the average values for the requirements set by the resolution authorities.

An agreement reached in recent months on reforming the European crisis management rules for banks, especially small ones, seeks to bolster the existing regulatory framework (see the box 'Reform of the European crisis management framework').

REFORM OF THE EUROPEAN CRISIS MANAGEMENT FRAMEWORK[1]

Almost two years after starting negotiations, the Presidency of the Council of the European Union and representatives of the European Parliament reached an agreement last June on reforming the

[1] By Gianluca Aloia and Carlo Lanfranchi.

crisis management and deposit insurance (CMDI) framework.[2] Work on incorporating the items in the agreement into the legal texts amending the current framework has recently been completed. The regulatory acts are in the process of being approved by the co-legislators.

The reform aims to strengthen the European crisis management system, with a special focus on small and medium-sized banks. The key aspects of the agreement are:

(a) an overhaul of the criteria for choosing between national insolvency proceedings (in Italy, compulsory administrative liquidation procedures) and resolution proceedings, when managing a crisis;

(b) confirmation that protected deposits receive preferential ranking (super-priority), and the introduction of general depositor preference (i.e. giving all deposits higher priority over other unsecured creditors, a protection that already exists in Italy);

(c) expansion of the option (exercised by the Member States on a voluntary basis) for deposit guarantee schemes to take actions beyond reimbursing covered deposits (to prevent bank failure or to finance strategies for transferring the assets and liabilities of the bank subject to winding-up or resolution to a third party); and

(d) confirmation of the minimum requirement for own funds and eligible liabilities (MREL) and, at the same time, introduction of a 'bridge-the-gap' function for deposit guarantee schemes. This new function will enable them to contribute to the MREL, under certain conditions, in order to finance crisis management costs and to supplement the minimum bail-in requirement of 8 per cent of the bank's total liabilities and own funds, which are needed to access Single Resolution Fund (SRF) resources.

Comprehensive assessments of the impact of the reform can only be conducted once the approved legal texts have been analysed, although it appears at this point that the changes introduced should strengthen the European crisis management framework. The deposit guarantee scheme will be able to intervene more easily both to prevent the failure of a bank and to finance the transfer of the bank to third parties, thereby avoiding 'piecemeal' liquidation[3] and minimizing the negative impact of the crisis on stakeholders and on system stability. Under the new framework, resolution can be financed using a variety of resources: the bank's own funds (MREL) and, under certain conditions, industry-funded safety nets at national (deposit guarantee schemes) and at European (SRF) level, thereby reducing the risk of exposing depositors that are not covered to loss, which could adversely affect financial stability.

Looking ahead, greater harmonization of the rules on using deposit guarantee schemes in ways other than just reimbursing depositors is also needed to spur the completion of the Banking Union through the creation of a European deposit insurance scheme.

[2] The CMDI review amends the following: Directive 2014/59/EU on the recovery and resolution of credit institutions and investment firms (Bank Recovery and Resolution Directive, BRRD); Directive 2014/49/EU (Deposit Guarantee Schemes Directive, DGSD) on deposit guarantee schemes; Regulation (EU) No 806/2014 (Single Resolution Mechanism Regulation, SRMR), establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010. The negotiations started in June 2022, when the Eurogroup called on the European Commission to present a legislative proposal to strengthen the current regulatory framework. The Commission's proposal was published in April 2023.

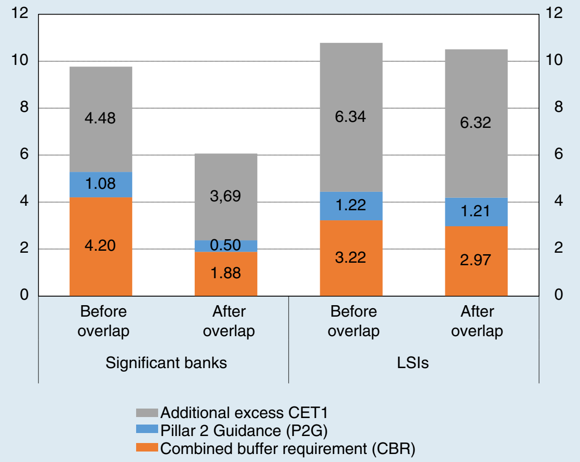
[3] This liquidation involves the fragmented sale of assets and the immediate transfer of the business, and can therefore lead to significant destruction of value.

Taking into account capital overlaps,[19] Italian banks' overall loss-absorbing capacity[20] increased in June, equalling 6.1 and 10.5 per cent of RWAs, respectively, for significant and less significant banks (Figure 2.12).

Profitability increased slightly in the first half of the year and return on equity (ROE), net of extraordinary components, rose from 14.3 to 14.8 per cent (Figure 2.13). However, revenues from core business activities declined.[21] The growth in fee income, especially in the asset management sector, did not fully offset the decline in net interest income. Gross income increased, driven heavily by trading performance and dividends, as well as by non-recurring components. Operating expenses fell due to the termination of the regular contributions to the deposit guarantee schemes,[22] while staff costs rose.

Figure 2.12

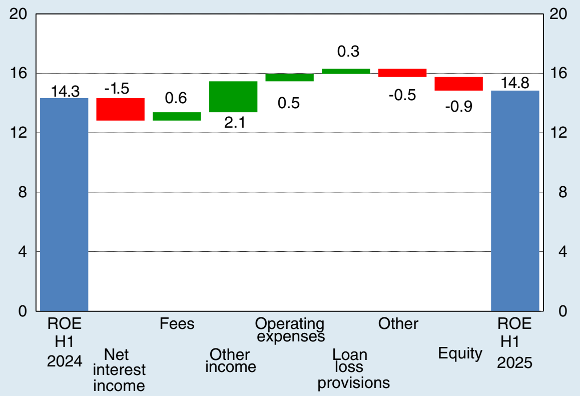
Loss-absorbing capacity by category of bank as at June 2025 (1)
(per cent of RWAs)



Sources: Consolidated supervisory and resolution reports for banking groups and individual reports for stand-alone banks.
(1) The regulation allows for the simultaneous use of CET1 for the different applicable requirements, such as risk-weighted requirements, the leverage ratio and the MREL. Overlaps reduce the availability of buffers to absorb losses, when the same unit of capital is also used to satisfy a minimum requirement. In such situations, recourse to those buffers would result in a breach of the minimum requirement, which could also lead to resolution or winding-up proceedings.

Figure 2.13

Breakdown of changes in ROE from H1 2024 to H1 2025 (1)
(per cent and percentage points)



Sources: 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 the initial ROE for the first half of 2024, giving the final ROE value for the first half of 2025.

The improvement in profitability was also attributable to the decline in net loan loss provisions, with the cost of risk hitting its lowest level since 2008 (26 basis points).

[19] Overlaps result from the simultaneous use of CET1 for risk-weighted requirements, for leverage and for the MREL; see note (1) to Figure 2.12 for more details. For an explanation of the overlaps and of the methodology used by Banca d'Italia to measure them, see W. Cornacchia and G. Guerra, 'Overlaps between minimum requirements and capital buffers: the case of Italian banks', Banca d' Italia, Notes on Financial Stability and Supervision, 30, 2022; see also *Financial Stability Report*, 2, 2024.

[20] The amount of capital resources that can be used without breaching a minimum requirement consists of the combined buffer requirement (CBR), the Pillar 2 Guidance (P2G), and the additional surplus CET1 available.

[21] The aggregate includes net interest income and fees.

[22] Contributions to the Interbank Deposit Protection Fund were terminated because the fund had reached its target level of 0.8 per cent of the total amount of covered deposits.

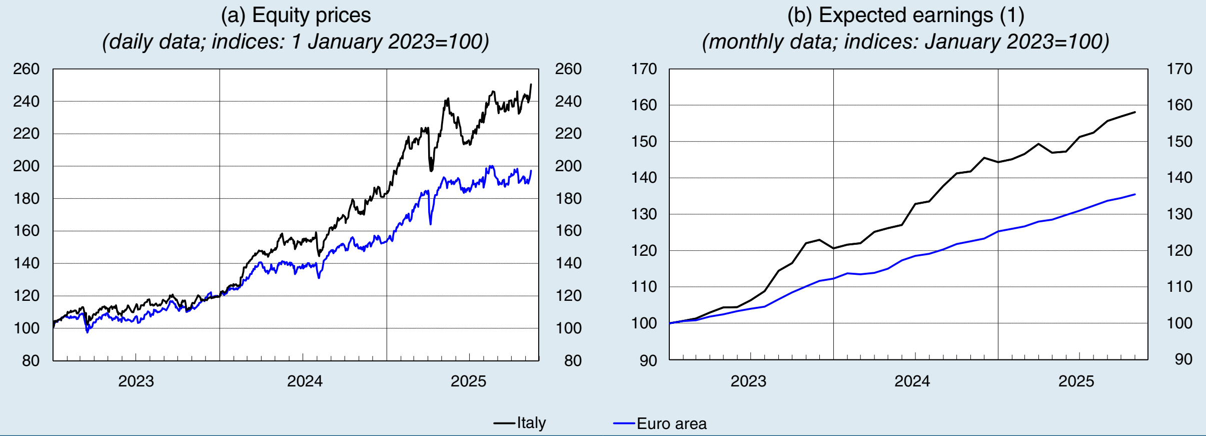
Based on estimates consistent with the macroeconomic scenario published by Banca d'Italia in October, the overall profitability of banks is expected to remain high this year and to then fall moderately over the next two years. Loan loss provisions, which have been declining this year, are expected to rise in 2026 and 2027.

2.2 INSURANCE COMPANIES

The risks to the Italian insurance sector remain stable and moderate (Figure 1.3.b). Capitalization strengthened in the first half of 2025, with profitability and liquidity conditions improving further, helped by significantly higher premium income and lower surrenders.

Figure 2.14

Italian and euro-area insurance companies



Source: Based on LSEG data.
(1) Average of expected earnings per share in the 12 months following the reference date for a sample of the leading Italian and euro-area insurance companies, weighted by the number of outstanding shares. For Italy, the data refer to Assicurazioni Generali, Unipol Assicurazioni and Revo Insurance. For the euro area, the data refer to the leading companies included in the Datastream euro-area insurance sector index.

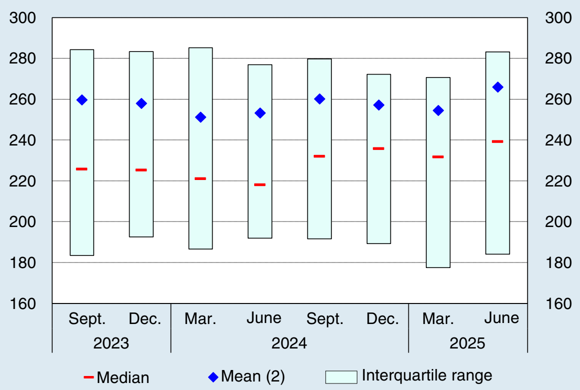
The equity prices of the leading Italian and European insurance companies returned to higher levels than prior to the US tariff announcement (Figure 2.14.a). The expected earnings of the Italian insurance sector rose as well, remaining at higher levels than for their euro-area counterparts (Figure 2.14.b).

In the half year under review, the average solvency ratio of Italian insurers rose to 266 per cent (Figure 2.15), one of the highest values since the introduction of the Solvency II regime in 2016, and higher than the average for European insurers (247 per cent). The narrower spread on Italian government bonds contributed to this improvement.

With regard to the solvency requirement breakdown, investment risks remain greater than insurance risks (see Figure A.7 in the Appendix).

Figure 2.15

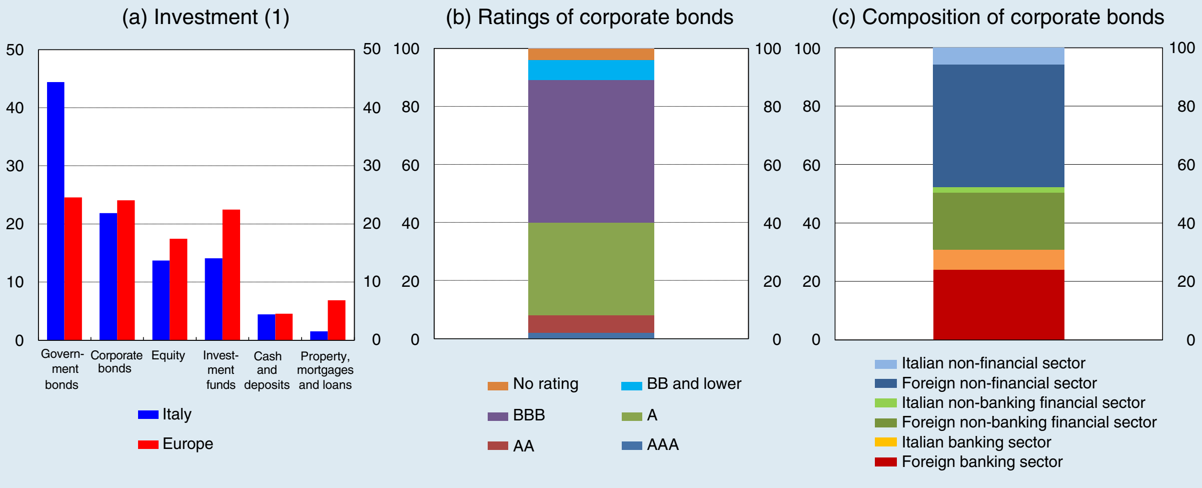
Solvency ratio (1)
(per cent)



Source: IVASS.
(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.

Figure 2.16

Insurance company investments
(data as at 30 June 2025; per cent)



Sources: IVASS and EIOPA.
(1) The data for Europe, as at 31 March 2025, refer to the European Economic Area.

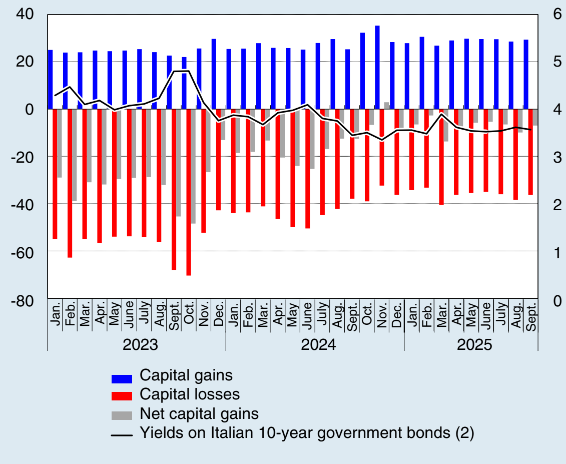
The total value of investment reached €1,062 billion, 2 per cent higher than in December 2024, and still accounting for 12 per cent of European insurers' total investment.

Most of the investments for which Italian insurers bear the risk (€779 billion) are government bonds (two thirds of which are domestic bonds), which continue to account for a much larger share than the European average (Figure 2.16.a), although they have been declining steadily over the last five years. Corporate bonds, mostly rated BBB and A (Figure 2.16.b) and issued by foreign companies (Figure 2.16.c), make up a slightly larger share than in December 2024. The equity portion held stable, while shares in investment funds edged down.

Green bonds (i.e. bonds used to finance projects that have a positive environmental impact) rose to 11 per cent of total corporate bonds (from 10 per cent in December), remaining above the European average of 7.2 per cent.

Figure 2.17

Unrealized capital gains and losses (1)
(billions of euros and per cent)



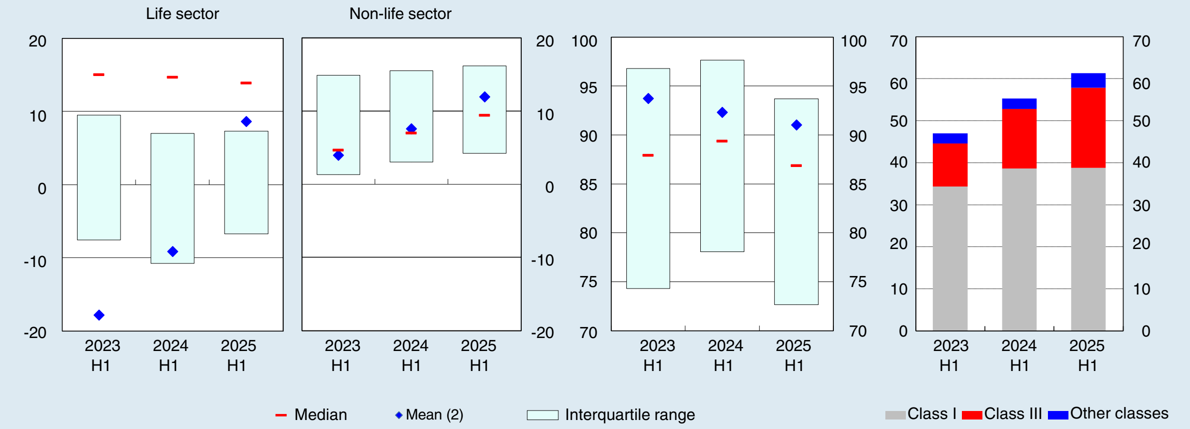
Sources: IVASS and based on LSEG data.
(1) Unrealized capital gains and losses are the difference between the market value and the book value of portfolio securities. – (2) Right-hand scale. End-of-period data.

Net unrealized losses on investments declined to €5.4 billion in June, from €8 billion in December (Figure 2.17), helping to improve the sector's profitability in the first half of the year. The ROE for the life sector reached 9 per cent (considerably higher than in the first half of 2024;[23] Figure 2.18.a).

[23] The data for the first half of 2025 refer to a sample of firms that is different from the one used for the corresponding period of 2024. Based on a comparable sample, the increase in ROE would be smaller.

Figure 2.18

Main balance sheet indicators for Italian insurance companies and life premium income



Source: IVASS.
(1) Ratio of earnings to shareholders' equity. Half-year data are not annualized and are based on a representative sample of the leading Italian companies. – (2) Weighted average with weights equal to the denominator of each ratio. – (3) Ratio of claims plus operating expenses to premium income. – (4) 'Class I' mainly includes with-profit policies (traditional life insurance policies with guaranteed returns); 'Class III' is mainly composed of unit- and index-linked policies (life insurance policies where policyholders bear the risk); 'Other classes' includes all the other kinds of life insurance policies.

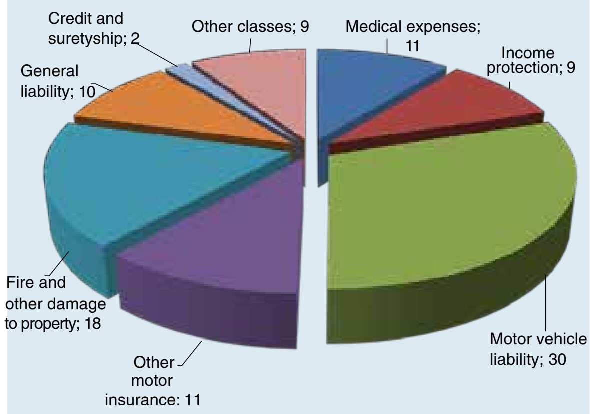
The significant growth in premium income (11 per cent; Figure 2.18.c) contributed to the improvement in profitability.

The non-life ROE rose as well, to 12 per cent (Figure 2.18.a), driven by a lower combined ratio, i.e. the ratio of claims plus operating expenses to premium income (91 per cent, from 92 per cent in June 2024; Figure 2.18.b) and by premium income growth (8 per cent).

There is a broader diversification in non-life risk coverage, with the share of motor vehicle liability insurance falling (to 30 per cent) and premium income rising for medical expense insurance, fire and other damage to property insurance, and other motor insurance (Figure 2.19). Premium income growth in the latter two will be driven further by the phasing in of the requirement for Italian firms to insure against natural catastrophes by the end of 2025 (see the box 'Mitigating risks stemming from natural catastrophes', in *Financial Stability Report*, 1, 2025).[24]

Figure 2.19

Non-life premium income by class
(data as at 30 June 2025; per cent)



Source: IVASS.

[24] Premium income for risks stemming from natural catastrophes is almost entirely concentrated in fire and other damage to property insurance and in other motor insurance.

In the life sector, the ratio of surrenders to premium income continues to improve (70 per cent in September 2025, significantly down from 81 per cent in September 2024; Figure 2.20).

The ratio was down for unit-linked as well as traditional products, and was due to both premium income growth and lower surrenders.

The liquid asset ratio[25] for Italian insurance companies is virtually unchanged (at a median of 60 per cent) and higher than for their European peers (median of 46 per cent).

2.3 THE ASSET MANAGEMENT INDUSTRY

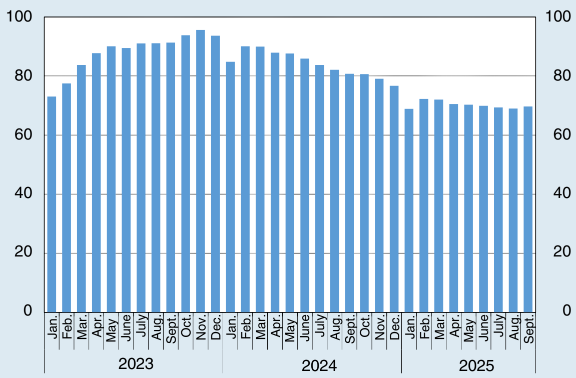
The total assets of open-end investment funds managed by Italian companies and groups rose by 5.7 per cent, to €680 billion, in the second and third quarters of 2025.[26] Net inflows remained positive (€12 billion; Figure 2.21), with investors buying mostly into bond funds. Net subscriptions to ESG funds (i.e. complying with environmental, social and governance criteria) were again marginally positive (€3.5 billion) overall. Following US tariff-related tensions and concerns over the US federal budget, bond funds specializing in the purchase of US government securities recorded net outflows of 10 per cent of total assets.

The liquidity risk of Italian non-equity funds[27] held broadly stable (Figure 2.22.a). The funds vulnerable to particularly high redemption requests[28] are a small fraction of the total, accounting for about 2 per cent of the segment's total assets.

Figure 2.20

Surrenders to premium income ratio (1)

(per cent)

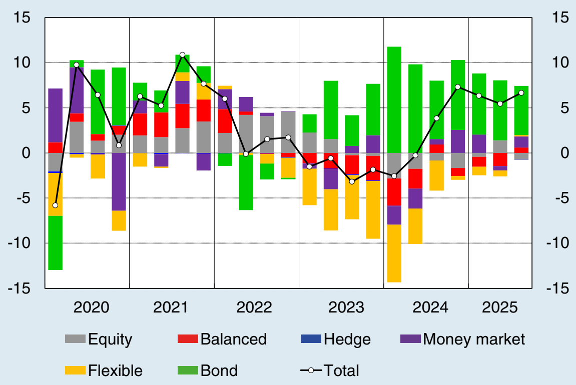


Source: IVASS.
(1) This indicator is calculated by dividing surrenders by premium income. Cumulative data since the beginning of the year.

Figure 2.21

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

(quarterly data; billions of euros)



Source: Assogestioni.
(1) The data refer to Italian and foreign funds run by asset management companies that are Italian or part of Italian groups. Provisional data for Q3 2025.

25 The indicator is calculated as the ratio of liquid assets to total assets. Liquid assets are calculated by applying haircuts to the different asset classes using the liquidity monitoring methodology of the European Insurance and Occupational Pensions Authority (EIOPA).

26 This sector accounts for around 50 per cent of the total assets of funds distributed in Italy, including those managed by foreign groups.

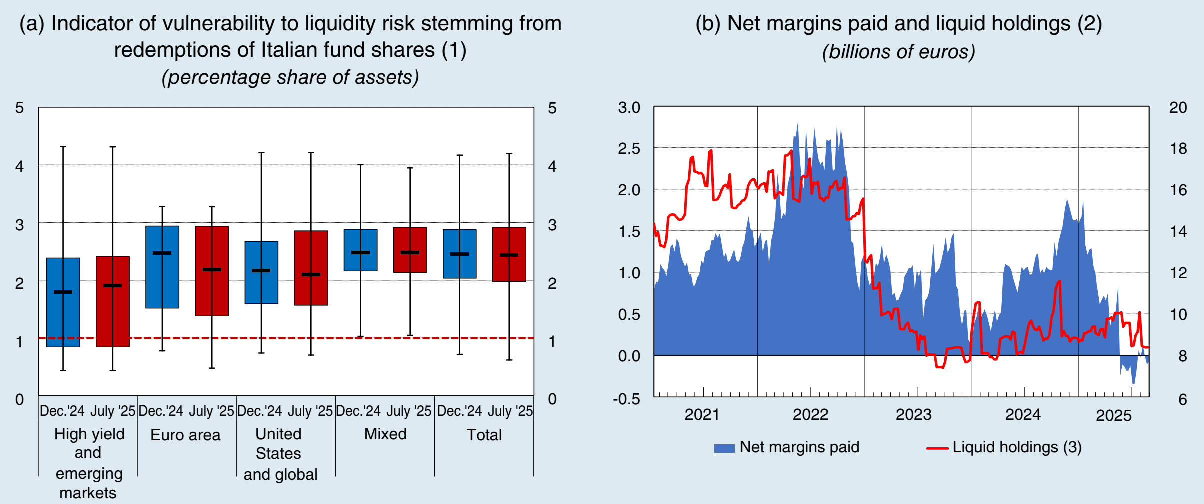
27 As measured by the ratio of a fund's assets weighted by the degree of liquidity of its components to net redemptions under a stress scenario (see note (1) to Figure 2.22.a).

28 Vulnerable funds are those for which the liquidity risk indicator is less than 1.

Borrowing from banks and other financial intermediaries remains limited,[29] as is derivative exposure. At the end of August, synthetic leverage, i.e. the ratio of gross notional exposure in derivatives[30] to net assets, was less than 1. Net margins paid in 2025 were significantly lower than available liquidity (Figure 2.22.b), with negative net values (margins earned) being recorded in the second quarter.[31]

Figure 2.22

Liquidity risk indicators for Italian open-end investment funds



Sources: Based on Regulation (EU) No 648/2012 (European Market Infrastructure Regulation, EMIR), supervisory reports and ECB data (Centralised Securities Database).
(1) Includes open-end investment funds in the mixed and bond segments. The liquidity risk indicator is equal to the ratio of a fund's assets weighted by the degree of liquidity of each exposure to net redemptions under a stress scenario. The stress scenarios are equal to the average of the values above the 99th percentile of the distribution of net monthly redemptions in relation to total assets for each of the segments analysed between January 2008 and November 2020 (high-yield and emerging market funds: 14 per cent; euro area: 30 per cent; United States and global: 24 per cent; mixed funds: 24 per cent). The coloured areas represent the interquartile difference; the lower and upper dashes of the vertical lines indicate the 1st and 99th percentiles of the distribution, respectively. Funds below the dashed red line are considered vulnerable. – (2) Aggregate values of margins paid net of those received for exposures in derivatives and aggregate liquid holdings from January 2021 to August 2025. Weekly data. – (3) Right-hand scale.

In the first half of the year, the total assets under management of Italian non-real-estate alternative investment funds (AIFs) rose by 2 per cent, to €57 billion, of which €4 billion pertaining to sub-threshold managers.[32] Private debt funds, which primarily purchase loans originated by third parties (mostly classified in the unlikely-to-pay category), saw their assets edge up to €12.4 billion. The assets of private equity funds remained stable at €29.4 billion. Crowdfunding platforms also operate in the AIF sector, and in recent years have offered an alternative funding channel mainly to small and medium-sized enterprises (see the box 'The crowdfunding service providers sector in Italy'). Investors in the AIFs set up in the first half of the year were for the most part Italian, mainly banks and non-financial corporations.

[29] Italian law provides that Italian open-end investment funds can only take out loans on a temporary basis, according to the need to invest in or disinvest from fund assets, and within the maximum limit of 10 per cent of the overall net value of the fund.

[30] Interest rate, foreign exchange and equity derivatives account for over 80 per cent of the gross notional value.

[31] These developments were mainly due to the depreciation of the dollar, which resulted in Italian funds making net profits on FX derivatives used to hedge investments in securities denominated in the corresponding foreign currency.

[32] This category, which is subject to a simplified regulatory regime, includes fund managers with assets of less than €100 million or up to €500 million, provided that the funds do not use leverage and that the rights of participants to redeem units or shares are not exercisable for a period of at least five years from the date of initial investment. For sub-threshold managers, the initial minimum share capital is set at €50,000 (instead of €1 million); furthermore, they are not subject to bans on investment, prudential rules on risk containment and fragmentation, or other administrative and information requirements.

THE CROWDFUNDING SERVICE PROVIDERS SECTOR IN ITALY[1]

Technological development and the growing digitalization of financial services have boosted the expansion in financing mechanisms, including crowdfunding,[2] that facilitate the raising of capital or access to credit to finance individual projects, including through the investment of small amounts by retail investors.

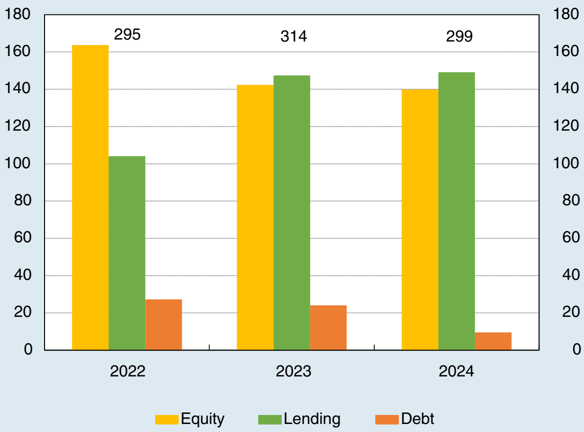
At European level, the crowdfunding sector is regulated by Regulation (EU) 2020/1503, transposed into national law by Legislative Decree 30/2023; this provision introduced Article 4-*sexies*.1 into Legislative Decree 58/1998 (Consolidated Law on Finance – TUF), which assigned the task of supervising crowdfunding service providers to Banca d'Italia and the Italian Companies and Stock Exchange Commission (CONSOB), according to their respective competences.[3]

There were 242 authorized crowdfunding operators in the European Union at the end of October,[4] of which 42 were Italian (only France has more, with 59 operators). In 2023, the latest year for which data are available at European level,[5] there was more than €1 billion in funding, mostly from retail investors and mainly for lending-based crowdfunding.

In Italy, the total cumulative funds raised by operators since they began their activities amounted to around €1.4 billion (around €0.3 billion per year in the three years 2022-24), 56 per cent of which was through the subscription of equity instruments (equity crowdfunding), 36 per cent through the granting of loans (lending-based crowdfunding) and 8 per cent through the purchase of debt securities (debt crowdfunding). After an initial growth phase, funding fell by 5 per cent in 2024, except in the real estate sector, which accounts for 94 per cent of total cumulative funding in the lending-based segment, where an increase was recorded (see the figure).

Figure

Evolution of the annual funding in Italy by crowdfunding operators, by type of service provided (1)
(millions of euros)



Sources: Based on data from Banca d'Italia, ESMA and Politecnico di Milano, *10th Annual Report on Italian Crowdinvesting*, July 2025
(1) Data are updated to 31 December of each year. The values shown above the bars represent the total amounts of funding for each year.

1 By Paolo Cantatore and Carlo Squarcia.

2 Crowdfunding services consist in facilitating the granting of loans (lending-based crowdfunding) and the placing without a firm commitment basis of transferable securities and other admitted instruments (investment-based crowdfunding). The latter service is divided into two further categories depending on the type of instrument placed: equity crowdfunding (equity securities) and debt crowdfunding (debt securities).

3 Specifically, Banca d'Italia is responsible regarding compliance with, among other things, corporate governance obligations and general organizational requirements, internal systems for reporting breaches, internal controls, outsourcing operational functions, and the requirements for shareholders and corporate representatives. European and national legislation also assigns secondary regulatory and intervention powers to Banca d'Italia. For more details, see the FAQ – Crowdfunding service providers for businesses section on Banca d'Italia's website.

4 For more details, see the Crowdfunding service providers register on the ESMA (European Securities and Markets Authority) website.

5 For more details, see ESMA, *Market Report. Crowdfunding in the EU 2024*, 8 January 2025.

The decline in overall funding continued in the first half of this year. The sector has a high degree of concentration: the top three operators account for 44 per cent of the total cumulative funding. Most of the operators that, though authorized, have not yet started their activities (more than 10 per cent of the total), have been inactive for more than one year.[6]

The reduction in funding was affected by both the challenges in complying with the requirements set by the European regulations (stricter than the previous national framework) and the phase of rising interest rates, which made it more expensive for project owners to gather financial resources (because of the higher return demanded by investors compared with investments less risky than crowdfunding).

According to the analysis of the information provided by crowdfunding platform websites, the average default rate is 8 per cent (with peaks of over 30 per cent for some operators).[7]

Most crowdfunding service providers closed their financial statements with losses or as underperforming in 2024; capitalization, albeit in line with the minimum requirements, remains limited.

Ordinary supervision found that some operators were deficient in their governance, internal controls, project selection, evaluation and monitoring processes, as well as in the classification and disclosure of important information on default rates. In cases of greater concern, Banca d'Italia and CONSOB have adopted restrictive measures for businesses.

Operational difficulties and the general performance of the sector suggest that further consolidation may take place in the future, in both the investment-based and the lending-based segments. Banca d'Italia's supervision will be geared towards monitoring the development of the sector, overseeing compliance by crowdfunding service providers with the criteria for sound and prudent management, and addressing the potential risks for financial stability.

6 Pursuant to Regulation (EU) 2020/1503, the competent authorities that granted the authorization have the power to revoke it if the crowdfunding service provider has not used the authorization within 18 months of it being granted.

7 The following cases, which may occur alternately or jointly, are considered as defaults: a) the crowdfunding service provider considers it unlikely that, without recourse actions on the part of investors, such as collateral enforcement, the project owner can fully repay or otherwise fulfil their obligations for the loan in question (e.g. because of a costly restructuring of the credit obligation relating to the loan or bankruptcy or a similar situation for the project owner); b) the project owner is more than 90 days past due on a significant credit obligation relating to the loan.

Direct leverage remained essentially stable at 102 per cent (Figure 2.23.a). Indirect leverage of private equity funds, attributable to borrowing by subsidiaries, continued to decline (from 48 to 34 per cent of the sector's net assets). Liquidity risks remain limited, as around 90 per cent of Italian AIFs are closed-end funds;[33] asset liquidity and the redemption profile of short-term liabilities for open-end AIFs are virtually aligned (Figure 2.23.b). The risks stemming from cross-holdings in the sector are also unchanged: AIFs' investments in other funds account for just over one fifth of their total assets, in line with the euro-area average.

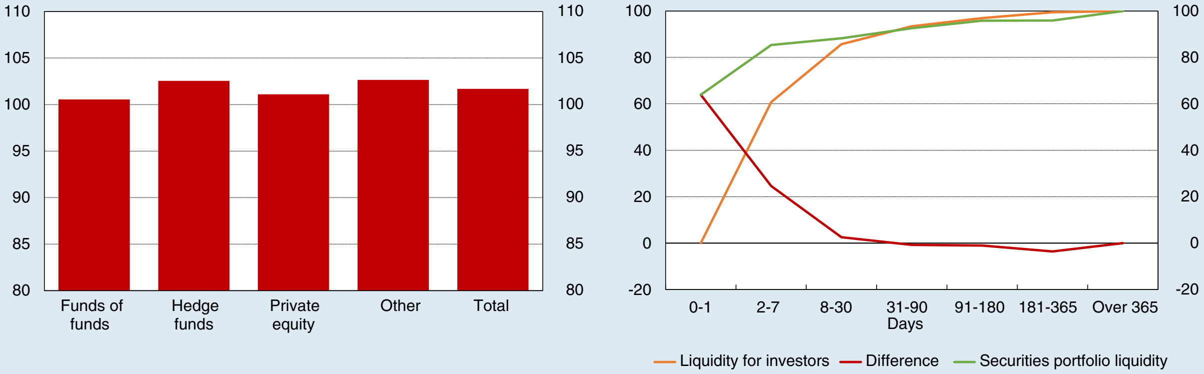
33 Italian legislation provides that funds investing more than 20 per cent of their portfolio in illiquid assets be set up as closed-end funds.

Figure 2.23

Indicators for Italian non-real estate AIFs as at June 2025 (1)

(a) Net leverage (2)
(percentage share of net assets)

(b) Average liquidity profile for open-end alternative funds (3)
(percentage share of securities portfolio)



Sources: Supervisory reports and data submitted pursuant to Directive 2011/61/EU (Alternative Investment Fund Managers Directive, AIFMD).
(1) The figure is based on supervisory reports and data submitted pursuant to AIFMD; this requires AIF managers to regularly provide the competent authorities with information on their main assets and exposures. – (2) Overall exposure calculated using the method based on the ratio of commitments to net assets of alternative funds managed by Italian asset management companies. 'Other' includes funds that provide direct financing or buy loans originated by other financial intermediaries and those not included in the other categories, according to the criteria adopted by the European Securities and Markets Authority (ESMA). – (3) For each period, the liquidity mismatch is the difference between the liquidity of the securities portfolio, equal to the average share of the securities portfolio that the open-end alternative funds can liquidate by that date, and the liquidity profile for investors, equal to the average share of assets that investors in these funds can redeem in the same period. The estimate does not take account of cash holdings.

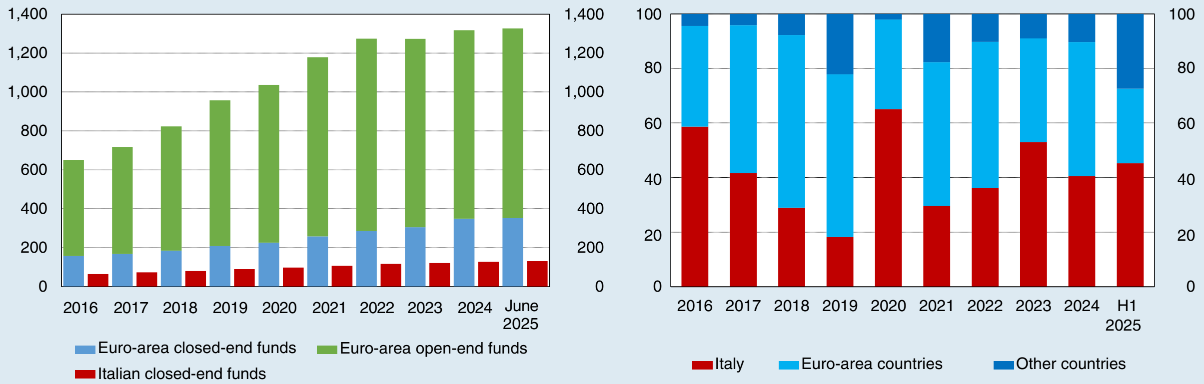
In the first half of 2025, Italian real-estate investment funds saw a slight increase in assets under management, from €128 billion to €131 billion (Figure 2.24.a). Over half of the investors in the funds set up during the period are foreign, with an even split between EU and non-EU residents (Figure 2.24.b). In an environment of stable non-residential property prices, real estate funds made net revaluations of assets under management amounting to 0.1 per cent of their portfolios, while 2024 ended with net write-downs (Figure 2.25.a).

Figure 2.24

Real estate funds

(a) Assets
(billions of euros)

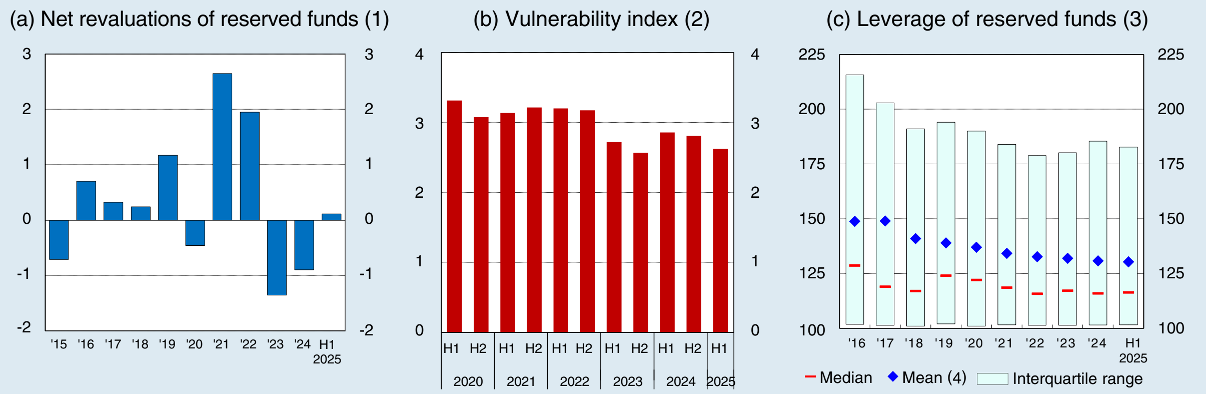
(b) Breakdown of investors by year of establishment of the fund (1)
(per cent)



Source: Supervisory reports.
(1) Share of net assets subscribed by the different categories of investors.

Figure 2.25

Main indicators for real estate funds
(per cent)



Sources: Supervisory reports and calculations based on data from Istat and OMI.
(1) Ratio of reserved fund balance sheet revaluations net of write-downs to the average of total assets at the end of the reference year and at the end of the previous year. – (2) Share of the sector's total assets held by real estate funds for which the estimated difference between the book value and the market value of properties is greater than net assets. For each fund, the difference is calculated between the fund's cumulative net write-downs as a ratio of its assets and the cumulative variations of a theoretical price index for the properties in the portfolio. The index is calculated as the weighted average of the price indices for properties (divided into residential and commercial) for each Italian region. The weights are equal to the shares of the assets of each fund that are invested in the markets included in the price indices under consideration. Write-downs and variations in the indices are calculated from the year that each fund was established or from 2009 (the year in which data became available) if the fund was set up prior to that year. Excludes funds in liquidation and those set up in the half year prior to the reference period. – (3) Ratio of total assets to net assets. – (4) Weighted average with weights equal to the denominator of each ratio.

New investments in the sector were almost entirely in commercial real estate; over a third were concentrated in the province of Milan, although the share of new investments in this area fell significantly compared with the first half of 2024, when it was 60 per cent of total investment.

The risks to financial stability stemming from real estate funds remain limited overall. Unlike most European funds, Italian funds are closed-end under current legislation and are therefore not subject to the liquidity risk arising from high redemption requests. In addition, the risk that, at maturity, the valuation of the funds' real estate portfolios could diverge significantly from market values continues to be low (Figure 2.25.b).

Leverage held stable (130 per cent in June 2025; Figure 2.25.c). Highly leveraged funds (i.e. with a leverage ratio above 300 per cent) continue to hold a small share of the sector's total assets (3 per cent). The funds with negative net assets, a condition that indicates particular financial stress, still account for slightly less than 1 per cent of assets. Liabilities to banks and other financial intermediaries operating in Italy account for about 1 per cent of their lending.

3 FINANCIAL STABILITY POLICIES

Banca d'Italia has kept the countercyclical capital buffer (CCyB) rate unchanged at zero per cent in the last two quarters of 2025, assessing it as being appropriate for the current macrofinancial situation (see Table A11 in the Appendix).[1]

As of 30 June 2025, the systemic risk buffer (SyRB) for Italy is fully phased-in and equal to 1 per cent of credit and counterparty risk-weighted exposures to Italian residents.[2] The buffer was activated to strengthen the capacity of the banking system to deal with unexpected events (including those unrelated to the economic-financial cycle) and amounts to €7.4 billion of CET1 for the entire banking system.

Based on data as at 31 December 2024, Banca d'Italia has identified the Banco BPM, Banca Nazionale del Lavoro, ICCREA, Intesa Sanpaolo and UniCredit banking groups as other systemically important institutions (O-SIIs). The capital buffers for 2026 remained unchanged for all the groups except for UniCredit, for which the buffer was reduced to 1.25 per cent.[3] For the banks recently involved in mergers (the BPER Banca and Banca Popolare di Sondrio banking groups and the Monte dei Paschi di Siena and Mediobanca banking groups), Banca d'Italia has launched a new assessment of their systemic importance that factors in the effects of these transactions.

Banca d'Italia has identified the United States, the United Kingdom, Switzerland and Russia as material third countries for the Italian banking system for the purposes of the application of the CCyB.[4] The risks of these four countries are monitored directly by the European Systemic Risk Board (ESRB), which has recognized them as material for the entire European Economic Area.

Banca d'Italia assessed the requests for renewal of the reciprocation of five macroprudential measures, one German, two Norwegian and two Swedish.[5] Banca d'Italia has extended the decision to reciprocate the German measure, which provides for keeping an SyRB of 1 per cent of risk-weighted assets secured by residential immovable property located in Germany. As for the other measures, Banca d'Italia has confirmed non-reciprocation on the grounds that the relevant exposures of the Italian banking system are immaterial.

1 Banca d'Italia, 'The Countercyclical Capital Buffer (CCyB) rate for the fourth quarter of 2025 remains unchanged at zero per cent', press release, 26 September 2025.

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

3 Banca d'Italia, 'Identification for 2026 of other systemically important institutions authorized to operate in Italy', press release, 14 November 2025.

4 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, 4 July 2025.

5 Banca d'Italia, 'Decision to reciprocate a macroprudential measure adopted by Germany pursuant to Recommendation ESRB/2025/4 of the European Systemic Risk Board', 18 November 2025, and Banca d'Italia, 'Decision not to reciprocate two macroprudential measures adopted by Sweden and two by Norway pursuant to Recommendations ESRB/2025/5 and ESRB/2025/6 of the European Systemic Risk Board', 18 November 2025.

The tools available to Banca d'Italia for preserving the stability of the national financial system include the product intervention power under Regulation (EU) No 600/2014.[6] To this end, Banca d'Italia regularly conducts analyses of the risks that may stem from financial instruments traded, distributed or sold in or from Italy.[7] Based on the latest analysis of securities and derivatives, the volume of certificates held by Italian households increased slightly in the first half of 2025. According to preliminary data relating to Banca d'Italia's Household Outlook Survey (only in Italian), these instruments are held mainly by high-income households in sound economic and financial conditions and with high levels of educational attainment. The volume of structured bonds and derivatives, mainly CDSs and swaptions, grew over the same period;[8] the long and short positions held by the main market operators are balanced and the risks to financial stability associated with these instrument categories appear limited overall.

The Committee for Macroprudential Policies ('Committee') held its first meeting of 2025 on 13 June.[9] The risks to the stability of the Italian financial system and the ongoing initiatives to simplify the regulation of the financial system in Europe were among the points discussed. The Committee has begun to work on establishing an analytical framework for carrying out the tasks entrusted to it under the legislation governing the assessment of the risks stemming from the application of the fallback provisions in index-linked contracts (under Regulation (EU) 2016/1011, known as the Benchmark Regulation). The next meeting of the Committee is scheduled for 4 December 2025.

[6] The same power is also granted to the Italian Companies and Stock Exchange Commission (CONSOB), with the aim of safeguarding investors and the orderly functioning and integrity of the financial and goods markets. For more information on the product intervention power, see Banca d'Italia's website: 'Banca d'Italia's "intervention power" concerning financial instruments, structured deposits and related financial activities/practices'.

[7] For further information on the criteria used by Banca d'Italia to exercise its product intervention power, see Banca d'Italia, 'The Bank of Italy's intervention power concerning financial instruments, structured deposits and related financial activities/practices: legal, analytical and methodological framework', April 2024. For the list and definitions of all the financial instruments analysed within the scope of its product intervention power, see Banca d'Italia's website: 'Glossary of the types of financial instruments analysed by Banca d'Italia within the scope of its intervention power'.

[8] Swaptions are options that give the holder the option to enter into an interest rate swap contract at a future date and under pre-set contractual conditions.

[9] Committee for Macroprudential Policies, 'Minutes of the meeting of 13 June 2025', 11 July 2025.