

Italy – 1Q22

Macroeconomic Outlook Report



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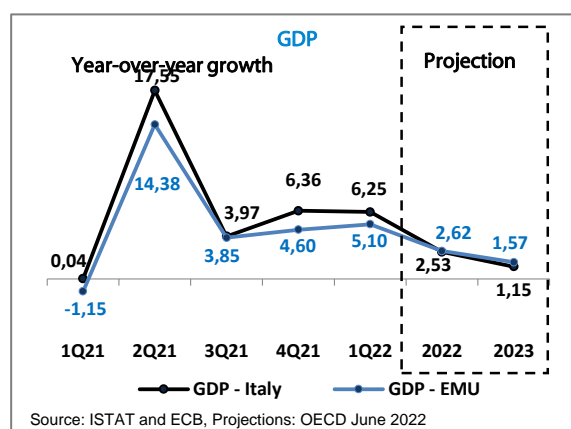
1. General outlook

Italy's macroeconomic overview

During the first quarter of 2022, the Italian economy continued its recovery, recording a GDP annual growth rate of 6.25%. The growth of domestic demand was higher than in previous quarters. The labour market evolved in a positive trend, with a deceleration in the unemployment rate alongside a positive employment growth rate. The Italian CPI incremented up to a 5.67% annual growth rate driven by elevated energy prices. In addition, the euro depreciated against the dollar relative to 4Q21 while FTSE-MIB decreased its average points.

Italy's macroeconomic overview

- ▶ In the first quarter of 2022, the Italian economy recorded a GDP annual growth rate of 6.25%, decelerating 0.11 p.p. compared to the previous quarter. Growth in the Italian economy was higher than that of the EMU, which reached 5.10% in 1Q22.
- ▶ Moreover, the OECD has predicted an annual growth of 2.53% for 2022 and 1.15% for 2023.
- ▶ According to the OECD, consumption will recover as mobility restrictions are lifted and employment growth resumes. High current levels of saving will come down gradually driving economic growth alongside an enhanced competitive export sector. Moreover, the Next Generation EU funds should also support the recovery although on a lesser extent owing to budget debt deficit-limits.

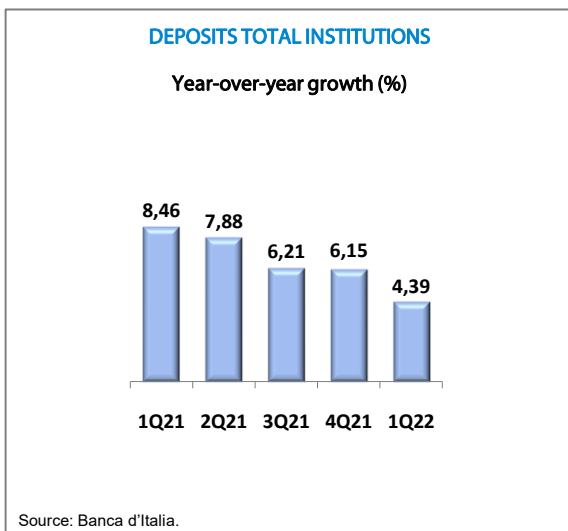
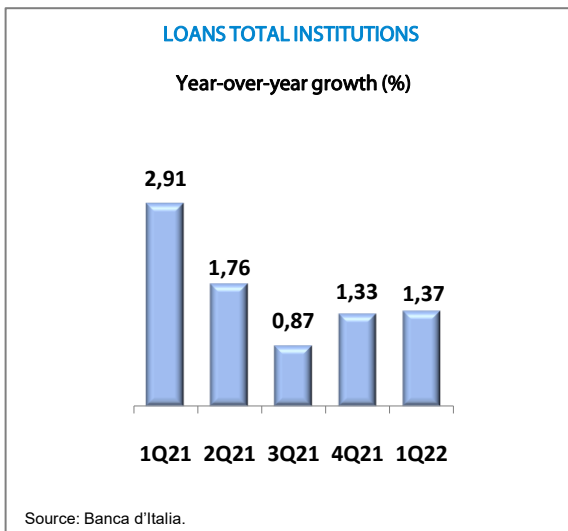


- ▶ During the first quarter of the year, the unemployment rate experienced a 0.50 p.p. fall when compared to the previous quarter, down to an 8.60% rate. Regarding the year over year growth rate of employment, it accelerated by 2.06 p.p. during this period relative to the fourth quarter, although standing at a positive 3.07% rate.
- ▶ Moreover, in 1Q22, the Italian Consumer Price Index accelerated by 2.30 p.p. compared with the previous quarter, reaching a 5.67% year-over-year growth rate. The OECD expects the Italian CPI to increase to 6.34% by the end of 2022 and to drop back down to 3.79% in 2023 following an easing of global supply chain disruptions.
- ▶ In the first quarter of 2022, the euro depreciated against the US dollar both relative to the previous quarter (-0.02 \$/€) and compared to the same quarter of 2021 (-0.09 \$/€), recording a quarterly average exchange rate of 1.12\$/€.
- ▶ The FTSE-MIB Index decreased by 929 points compared to the fourth quarter of 2021, to an average of 25,570 points during the first quarter of the year, recording a quarterly drop of 3.61%.

Banking sector

During the first quarter of 2022, the total amount of loans granted in the financial system recorded a positive year-over-year growth rate of 1.37%, accelerating by 0.04 p.p. compared to the fourth quarter of 2021. The annual growth rate of deposits stood at 4.39%, after a decline of 1.76 p.p. compared with the previous quarter. Regarding the NPL ratio, it decreased by 0.09 p.p. with respect to previous quarter, down to 3.00%. As for the coverage ratio, it recorded a 55.13% ratio, after raising by 0.07 p.p. when compared to 4Q21. In terms of efficiency, the ratio of the Italian financial system experienced a decline relative to 4Q21, and an increase when compared to 1Q21, reaching a 63.35% ratio.

Banking sector



- ▶ During the first quarter of 2022, the total volume of loans granted in the Italian financial system recorded positive year-over-year growth rate of 1.37%, accelerating by 0.04 p.p. when compared to the fourth quarter 2021.
- ▶ Regarding the distribution of loans, loans granted to productive activities were the most numerous, accounting for 49.87% of total loans. They were followed by housing loans, which represented 31.05% of total loans. Other types of loans and loans to consumption had a share of 10.71% and 8.38%, respectively.
- ▶ The y/y growth rate of deposits stood at 4.39%, after decelerating 1.76 p.p. relative to 4Q21.
- ▶ In the first quarter of 2022, the loans-to-deposit ratio of the Italian financial system as a whole stood at 85.01%.
- ▶ In 1Q22, the NPL stood at 3.00%, after a 0.09 p.p. decrease when compared to the fourth quarter of 2021. Moreover, with respect to the same quarter of the previous year, the NPL ratio decreased by 1.02 p.p..
- ▶ The coverage ratio of the Italian financial system increased by 0.07 p.p. relative to 4Q21, up to a 55.13% ratio.
- ▶ In terms of efficiency, the efficiency ratio of the Italian financial system decreased by 3.51 p.p. when compared to the fourth quarter of 2021, standing at a cost-to-income ratio of 63.35%.



2. International Overview

LatAm

During the first quarter of 2022, the economic recovery in all the countries analysed registered a moderation compared to the previous quarter. This was explained by the outbreak of the war in Ukraine and the resulting increase in inflation and worsening bottlenecks. On the other hand, the mixed recovery in the labour market continued to consolidate, albeit at a slower pace than that of economic activity.

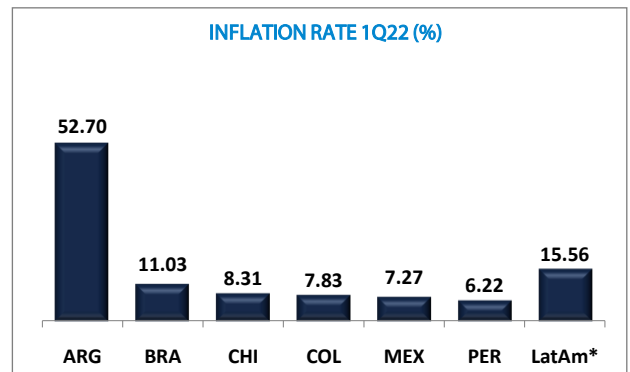
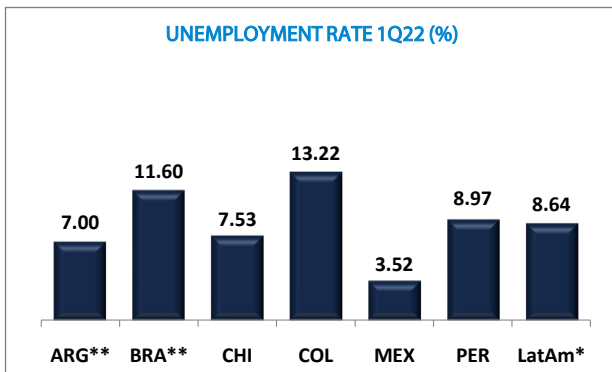
Macroeconomic Overview

- ▶ The recovery of economic activity in Latin America was dampened in the first quarter of the year. The outbreak of conflict in Ukraine has dampened global growth prospects for the coming quarters. The conflict itself and the response of the international community, with economic sanctions against Russia, have increased uncertainty, tightened financing conditions, aggravated bottlenecks and raised energy and food prices, which have also been affected in the second half of 2021 by geopolitical tensions. This has dampened households' purchasing power and increased firms' production costs. Colombia* recorded the highest year-on-year growth rate (8.15%) while Mexico registered the lowest rate at 2.23%.
- ▶ In this context, the Economic Commission for Latin America and the Caribbean (ECLAC) has revised downwards its forecast for the Latin American economy for 2022 to 1.80% growth in the region. Global trade dynamics are also expected to be negatively affected by the conflict, leading to a decline in Latin America's external demand. According to the IMF, global growth is expected to slow from an estimated 6.1% in 2021 to 3.6% in 2022 and 2023. This is 0.8 and 0.2 percentage points lower for 2022 and 2023 than in the last report. In its December update, the OECD placed its forecasts for Argentina and Colombia above the OECD average (2.70%) in 2022.
- ▶ Inflation has picked up markedly and across the board in the region. Although this pick-up appears to be predominantly transitory in nature, central banks in the region have embarked on a cycle of monetary policy tightening. Higher inflationary persistence is expected to restrict the room for manoeuvre of monetary policy. Argentina was once again the country with the highest inflation rate at 52.70% while Peru recorded the lowest price increase with 6.22% inflation in 1Q22.
- ▶ During the first quarter of 2022, the labour market continued to recover from the economic consequences of the pandemic, but the negative effects on the labour market are proving more persistent than on activity. Most countries recorded declines in their unemployment rate compared to 4Q21. Mexico ranked as the country with the lowest unemployment rate (3.52%) and Colombia with the highest rate (13.22%).

Financial Sector

- ▶ In response to rising inflation, the monetary policy of the region's central banks has become more restrictive and most of them have raised interest rates significantly, which in most cases have reached levels similar to those observed in 2017.
- ▶ The withdrawal of the fiscal impulse is projected to accelerate in 2022, in line with the evolution of macroeconomic conditions and higher financing costs. Public spending would contract, reinforcing the reduction observed in 2021, reducing the contribution of fiscal policy to economic growth.
- ▶ With regard to their ratings, all Latin American countries kept their ratings constant in the first quarter of the year, except Peru, which went from an S&P rating of BBB+ to BBB during this period. This rating considers that, while the country has good credit quality with adequate capacity to meet its financial obligations, this capacity could be affected by its exposure to adverse economic conditions.
- ▶ Finally, there was a notable slowdown in lending, partly linked to the general withdrawal of support programmes, with only Colombia increasing its lending. As regards deposits, all countries recorded positive year-on-year growth during the period, with the exception of Peru. Most of them, except Chile and Colombia, decreased their rate compared to the previous quarter. Colombia presented the largest increase in its rate, after an acceleration of 1.54 p.p. compared to 4Q21.

*Colombia recorded the highest growth rate in the absence of updated data from Argentina and Brazil.

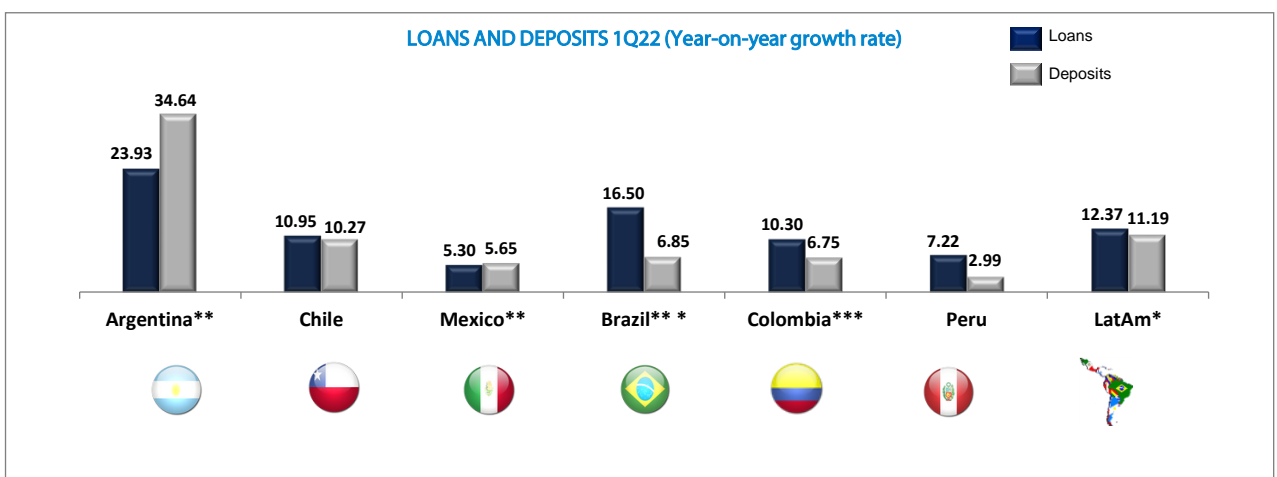


LONG TERM RATES 1Q22

	MOODY'S		S&P		FITCH	
Argentina	Ca	–	CCC+	–	CCC	–
Brazil	Ba2	–	BB-	–	BB-	–
Chile	A1	–	A	–	A-	–
Colombia	Baa2	–	BB+	–	BB+	–
Mexico	Baa1	–	BBB	–	BBB-	–
Peru	Baa1	–	BBB	▼	BBB	–

Legend for Long Term Rates:

- ▲ Increase since 4Q21
- Constant since 4Q21
- ▼ Decrease since 4Q21



*Latin America figures calculated as an average including Argentina, Brazil, Chile, Colombia, Mexico and Peru.

**Most updated figures available at the date of the release correspond to 1Q22, except for Argentina, Mexico and Brazil's deposits (4Q21)

*** Data corresponding to Colombia and Brazil's loans are the average of January and February 2022.

2. International Overview

OECD & China

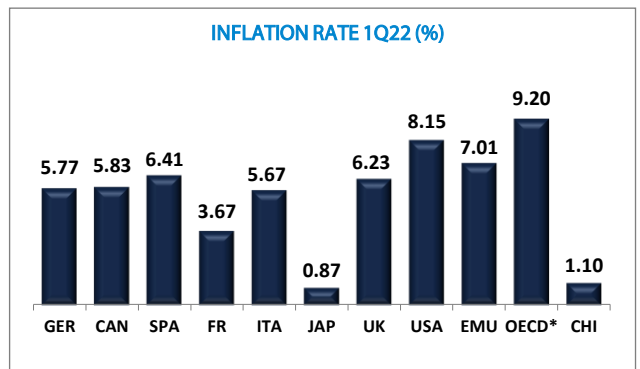
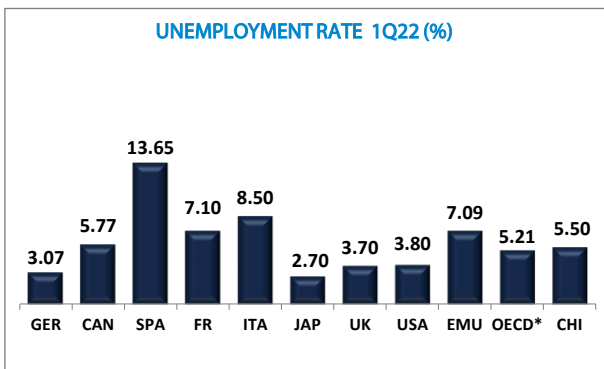
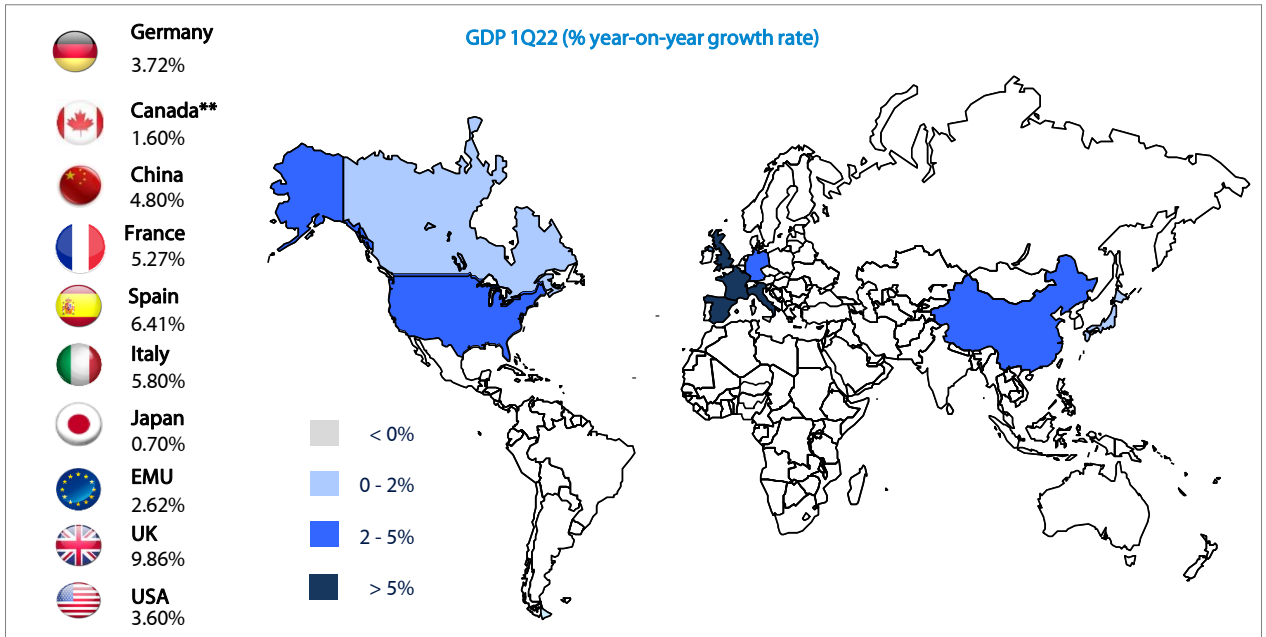
In the first quarter of 2022, the recovery in economic activity in OECD countries decelerated. This was explained by rising inflationary pressures as a result of higher energy prices. However, exports from most G20 and OECD countries increased. Labour markets generally contracted.

Macroeconomic Overview

- ▶ In the first quarter of 2022, the Eurozone continued to recover with a year-on-year GDP growth rate (2.62%), decelerating from the previous quarter. Consequently, the OECD in its June forecast expects year-on-year GDP growth for 2022 and 2023 to be 2.60% and 1.60%, respectively, down slightly, however, from its December forecast. The European Commission acknowledges a slower than expected economic recovery, affected by the outbreak of the war in Ukraine. The labour market worsened compared to the last quarter, but is expected to improve slightly later on. However, the Commission warns about inflation and its higher persistence over the time horizon, thus slowing the pace of recovery in the short term. Among the countries analysed in the region, the UK, Spain and Italy recorded the highest year-on-year GDP growth rates (9.86%, 6.41% and 5.80%, respectively).
- ▶ The United States continued the recovery of its economic activity in this period with another positive year-on-year GDP growth rate of 3.60%, decelerating from 4Q21. The Fed modified its previous projections, predicting a smaller 2.8% increase in GDP in 2022, followed by a 2.2% increase in 2023, and a 2% increase in 2024. Meanwhile, the UK recorded higher GDP growth during this period compared to the previous quarter, with a rate of 9.86%. The conflict in Ukraine and rising inflation have led to a significant deterioration in the UK's growth outlook. These events have greatly exacerbated the combination of adverse supply shocks that the UK continues to face.
- ▶ China recorded a lower GDP growth rate during the first quarter compared to 4Q21, with a rate of 4.80%. Despite the challenges posed by the new outbreaks of COVID-19 and geopolitical uncertainties, the Chinese economy continues to recover. Similarly, Japan recorded in 1Q22 a slight acceleration in the GDP rate compared to 4Q21, rising from 0.69 p.p. to 0.70%. In 2022, the OECD estimates Chinese and Japanese GDP growth of 4.40% and 1.70% respectively.
- ▶ Foreign trade in the G20 countries continued to grow between January and March in monetary terms due to higher commodity prices and inflation, exacerbated by the conflict in Ukraine and covid restrictions in China and East Asia. The OECD said in a statement on Tuesday that exports from the group of the world's 20 largest economies rose by 3.6 % between January and March from the previous quarter, while exports grew by 5.8 %. In the first three months of this year, exports from the European Union as a whole rose by 3 %. Within the G20 countries as a whole, exports increased by 20.2 % in Brazil and 11.5 % in Argentina. On the other hand, exports from the United Kingdom fell by 1.6% and from Germany by 0.1%.
- ▶ In 1Q22 inflation rose in all the economies analysed with respect to 1Q21, with the most pronounced increases in the United States and Spain. For its part, the EMU registered an acceleration of 5.71 p.p. compared to 1Q21. China registered the smallest increase compared to 1Q21, with inflation of 1.10%. Inflation grew at a frenetic pace due to the energy component. On the other hand, all economies contracted their labour markets, except Spain and China, which recorded slight increases.

Financial Sector

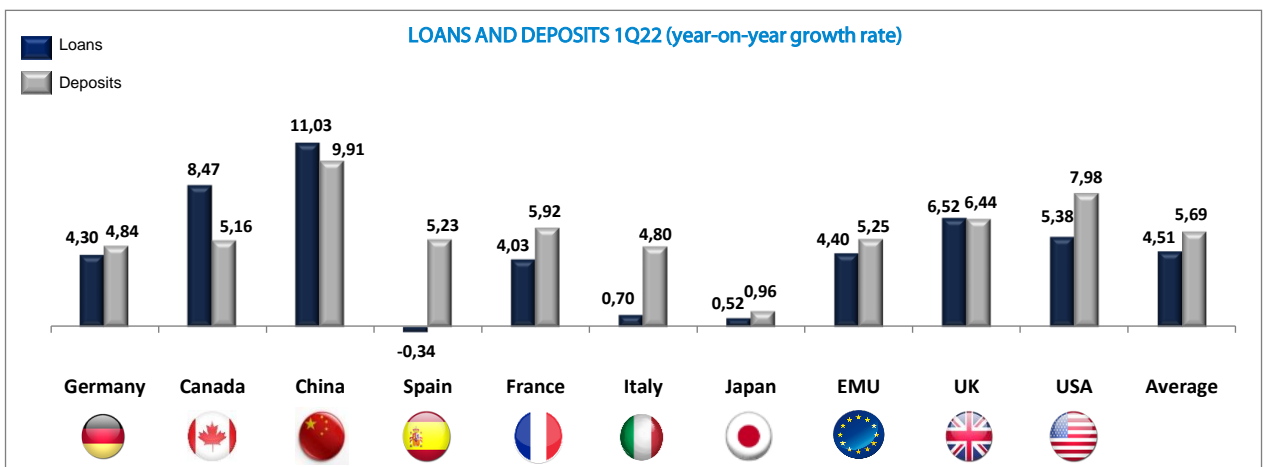
- ▶ Spain upgraded its S&P rating, raising its grade from A- to A.
- ▶ Regarding the monetary policies of the different countries, the Fed raised interest rates by 25 basis points to curb inflation during the first quarter of 2022 while the ECB has decided to end net asset purchases under its asset purchase programme (APP) as of 1 July 2022.
- ▶ During the period, year-on-year growth in lending slowed down in all countries except Germany, Canada and the UK compared to 1Q21, Japan being the country with the highest rate of decline (-4.75%). Deposit growth declined for all countries compared to 1Q21, except for the UK. The US recorded the second largest year-on-year rate of decline (-9.01%) after Japan (-9.24%).



LONGTERM RATINGS 1Q22

	MOODY'S	S&P	Fitch
Germany	Aaa -	AAA -	AAA -
Canada	Aaa -	AAA -	AA+ -
China	A1 -	A+ -	A+ -
Spain	Baa1 -	A ▲	A- -
France	Aa2 -	AA -	AA -
Italy	Baa3 -	BBB -	BBB -
Japan	A1 -	A+ -	A -
UK	Aa3 -	AA -	AA- -
USA	Aaa -	AA+ -	AAA -

▲ Increase since 4Q21
- Constant since 4Q21
▼ Decrease since 4Q21



*OECD aggregate data, latest available data at publication date corresponds to 4Q21

**Data corresponds to 4Q21

3. Italian macroeconomic view

Italy

Italy's economic growth slightly decreased during 1Q22. However, GDP's year over year growth remained in positive figures, limited by uncertainty around Omicron and the conflict in Ukraine. Inflation stood at high levels due to elevated energy prices, while export levels and the labour market continued to show signs of progression.

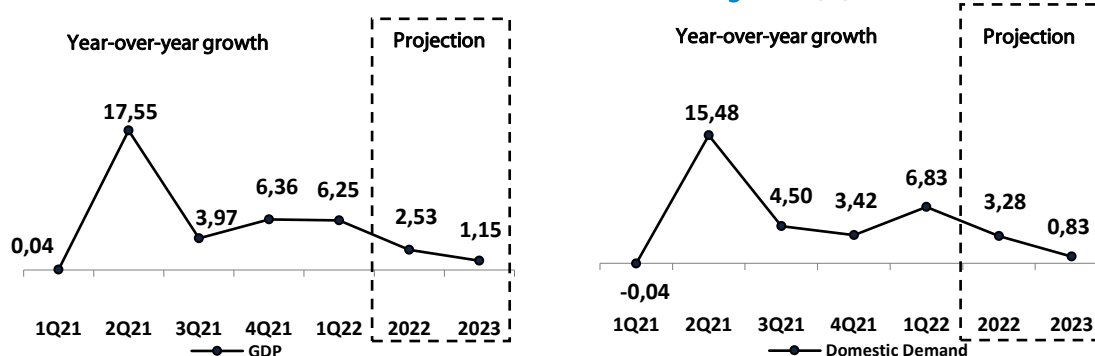
MAIN MACROECONOMICS INDICATORS (Interannual growth %)

INDICATOR	1Q21	2Q21	3Q21	4Q21	1Q22	2022	2023
GDP	0.04	17.55	3.97	6.36	6.25	2.53	1.15
DOMESTIC DEMAND	-0.04	15.48	4.50	3.42	6.83	3.28	0.83
PRIVATE CONSUMPTION	-3.64	14.70	4.37	7.28	7.12	1.60	0.70
PUBLIC CONSUMPTION	-0.20	0.57	-2.84	-2.70	-0.05	0.56	0.70
GROSS FIXED CAPITAL FORMATION	12.58	38.91	10.35	13.80	12.87	17.01	8.59
EXTERNAL DEMAND							
EXPORTS	1.17	40.92	11.41	10.00	13.03	7.91	3.22
IMPORTS	2.66	30.72	16.49	14.35	15.34	10.50	2.28
INFLATION							
CPI*	0.58	1.20	2.18	3.37	5.67	6.34	3.79
LABOR MARKET							
UNEMPLOYMENT	10.11	9.80	9.25	9.10	8.60	9.02	9.34
EMPLOYMENT	-4.13	0.18	1.62	1.01	3.07	1.91	0.84

Source: ISTAT, OECD June 2022 forecast.
*ECB inflation objective pinned at 2%

- ▶ During 1Q22, y/y GDP growth decelerated by 0.09 p.p. compared to the fourth quarter, and it faced limitations. Growth fell owing to the resurgence in new Covid cases at the turn of the year and to the dynamics in energy prices, against a cyclical backdrop of heightened uncertainty stemming from the conflict in Ukraine. Surveys of the Bank of Italy show concerns expressed by firms that investment conditions have worsened during the quarter, but the impact on the growth in investment planned for 2022 should be limited.
- ▶ When it comes to the labour market, the decreasing trend in unemployment continued with a reduction in inactive people aged 15-64 years. worked and permanent employment despite reduced usage of salary integration tools. The employment growth rate remained in positive levels, and it stood at a higher rate than the one recorded in 4Q21.
- ▶ Concerning inflation, elevated energy and food prices have pushed Italy's CPI in the beginning of 2022 to almost double of the average prices recorded last quarter, further away from the BCE's inflation objective of 2%. Italy's prices, similar to those of other advanced economies, are expected to keep increasing towards the end of 2022.
- ▶ The export sector continued to show robust activity, in part due to the recovery of international tourism, and the current account surplus remained at high levels despite rising energy prices. Import y/y growth remained high driven by purchases of capital goods and warehouse stocks in a context of rising domestic demand.

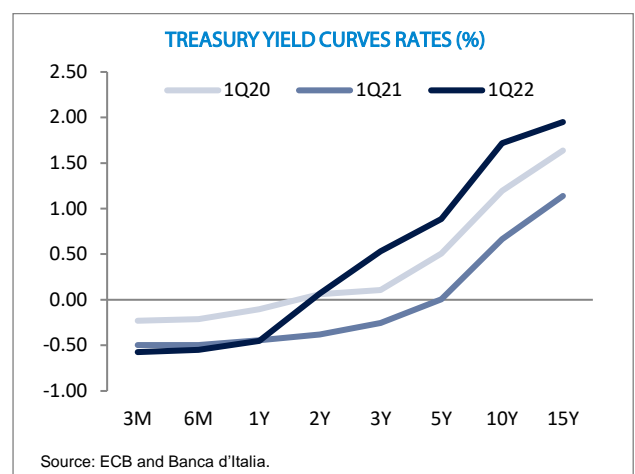
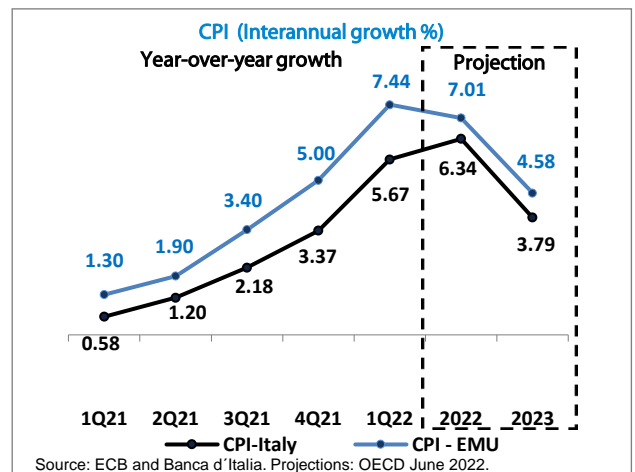
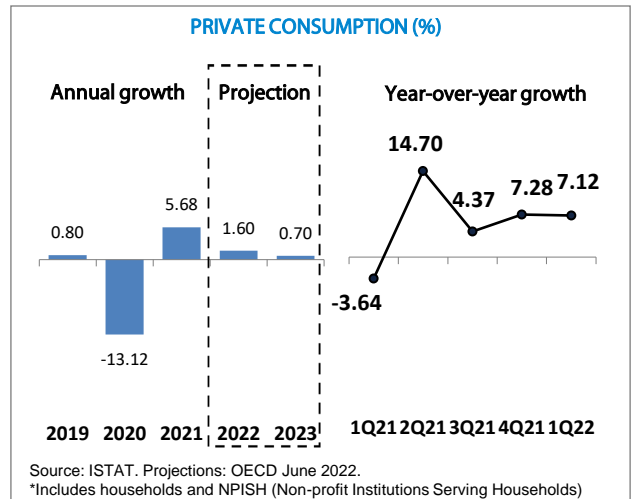
GDP and domestic demand interannual growth (%)



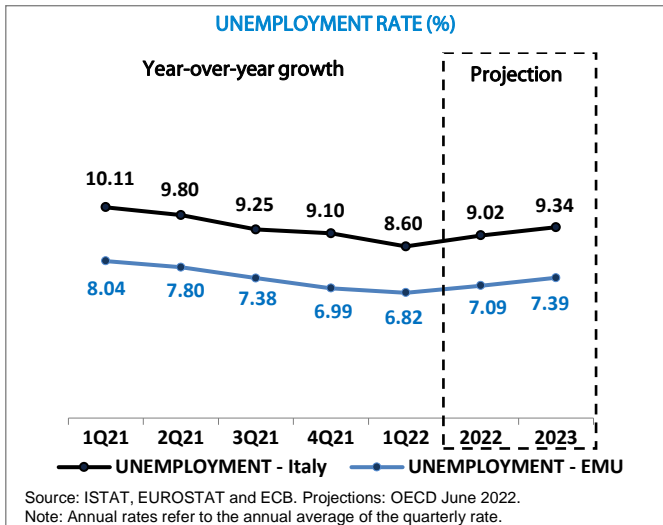
Source: ISTAT. Projections from the OECD June 2022

In the first quarter of 2022, private consumption recorded a decrease in its y/y growth rate compared to the previous quarter, standing at a 7.12% rate. In the same line, the inflation rate continued to rise, up to a 5.67% rate in 1Q22 owing to worldwide inflationary pressure. All short run yields stood at negative levels while medium and long term yields remained positive.

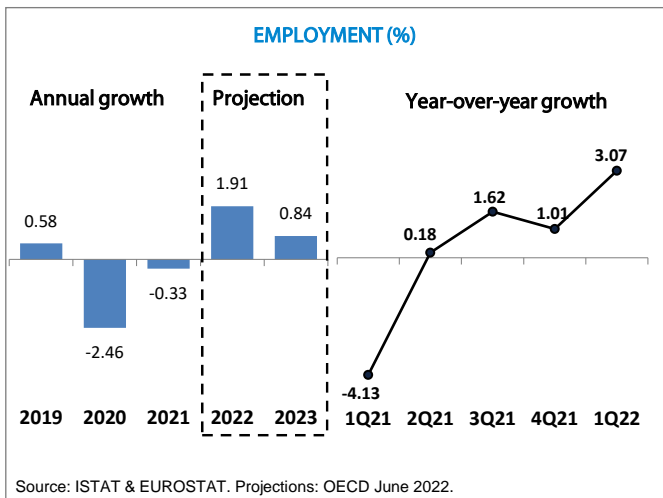
- ▶ During the first quarter of the year, private consumption stood at a 7.12% rate after decreasing 0.16 p.p. when compared to the previous quarter. According to the Bank of Italy, consumer spending has been limited at the beginning of the year, due to the rise in infections and the loss in purchasing power due to the overall rise in prices.
- ▶ The OECD forecast for private consumption predicts a year-over-year growth rate of 1.60% for 2022. Moreover, it expects the private consumption growth rate to decrease further in 2023, growing at a 0.70% rate.
- ▶ In the first quarter of 2021, Italy registered an inflation rate of 5.67%, which was 2.30 p.p. above the rate recorded in the previous quarter. Despite this increase, the CPI in Italy remained 1.77 p.p. below the EU average inflation, a wider gap than in the third quarter.
- ▶ According to OECD forecasts, inflation is likely to adopt an increasing trend during 2022 due to lasting effects from energy and trade supply disruptions, standing at a 6.34%. It is expected to decrease in 2023, reaching a rate of 3.79%, due to energy price moderation.
- ▶ In the first quarter of 2022, short bond yields of the Italian sovereign debt stood at negative levels, whereas medium- and long-run bond yields remained positive.
- ▶ Compared to the first quarter of 2020, bond yields experienced decreases for short-term maturities, and increases for medium- and long-term maturities. The sharpest increase corresponded to the 10Y, with an increase of 0.52 p.p..
- ▶ When compared to the first quarter of 2021, bond yields followed a similar pattern for maturities of one year and below, although recording higher rates for longer term maturities. In general, gaps between quarterly rates widened for long-term maturities, as during 1Q22 the 10Y rate stood 1.06 p.p. above that of 1Q21.



Regarding the labour market, during the first quarter of 2022, the unemployment rate continued its downward trend, standing at an average 6.82% rate. Moreover, in year-over-year terms, unemployment decreased by 1.22 p.p.. Concerning the y/y growth rate of employment it recorded another positive rate, and higher than in the previous quarter.



- ▶ In the first quarter of the year, the unemployment rate decreased compared to the previous quarter, standing at an 8.60% rate. It also decreased by 1.51 p.p. with respect to the same period last year.
- ▶ According to the Bank of Italy, there has been a recovery in demand for labour since the summer, leading to increases in hours worked, higher permanent recruitment and a reduction in use of wage integration tools. However, the recent price increases have not passed through to contractual wages, for which growth remains moderate.
- ▶ As the long-term effects of the pandemic continue to have an impact on the labour market, the OECD raised its unemployment rate predictions in June for 2022 and 2023 up to 9.02% and 9.34%, respectively.

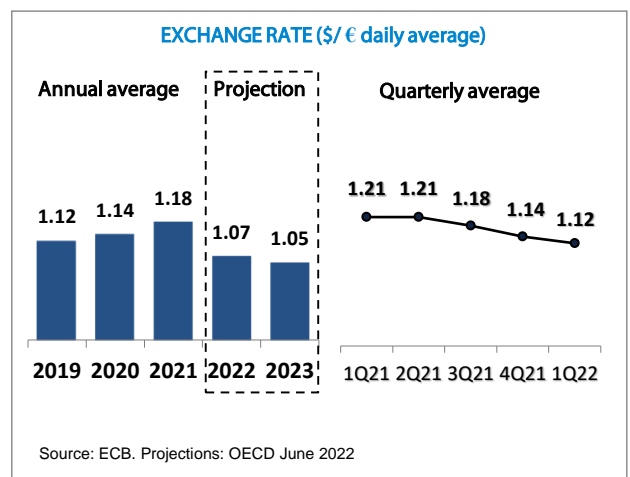


- ▶ During the first quarter of the year, the employment y/y growth rate continued in positive levels reaching a 3.07% year on year rate, more than three times of that of the previous quarter.
- ▶ According to ISTAT, the growth involves mainly temporary employees and, less intensively, permanent employees and self-employed. The highest growth was recorded in industry and service enterprises with greater signs of recovery compared to the previous quarter.
- ▶ In its June projections, the OECD has improved its forecast for the Italian employment growth rate in 2022 and worsened for 2023. The predicted growth levels are 1.91% and 0.84%, respectively, which should help consolidating the labour market recovery.

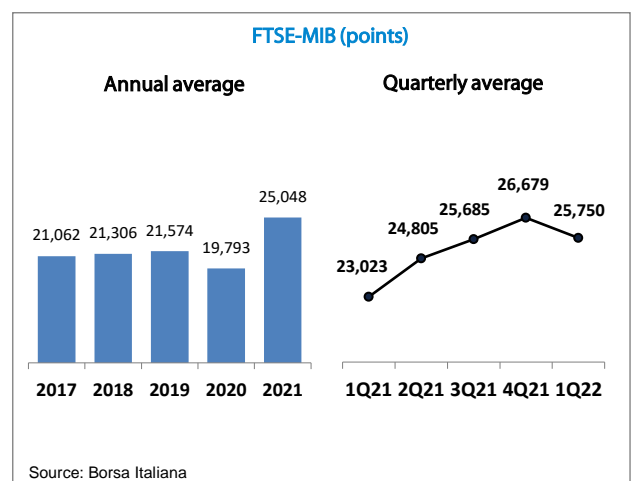
- ▶ In accordance with the Bank of Italy, the Covid crisis has specially harmed service sector activities, although it is now recovering. Besides, during this quarter, when dissecting the labour market, women and 50-64 years old employment have distinctively faced difficulties and grew substantially slower compared to other labour segments.
- ▶ In a year-over-year perspective, about 905,000 new jobs were created, which involves both permanent employees and self-employed, but mainly temporary employees. This year-over-year growth in the employment rate is associated with the decrease in unemployment and inactivity rates.



- ▶ During the first quarter of 2022, the euro depreciated against the US dollar when compared to the previous quarter. Therefore, the average quarterly exchange rate stood at 1.12 \$/€.
- ▶ The OECD expects the annual average dollar/euro exchange rate to stand at 1.07 \$/€ for 2022 and at 1.06 \$/€ 2023, with the US dollar appreciating against the euro with respect to 2021.



- ▶ The Italian stock index (FTSE-MIB) recorded a quarterly average of 25,750 points during the first quarter of 2022, following a 929 point decrease when compared to the average level registered in the previous quarter.
- ▶ In accordance to the Italian Central Bank, implied volatility in equity markets has risen since the beginning of the year. This trend, initially linked to expectations of a rise in interest rates and to the steady reduction in the ECB's purchase programme, has been exacerbated by the conflict in Ukraine. Clear signs of tension have also emerged with reference to the costs of hedging against sharp falls in equity prices and to the term structure of volatility.

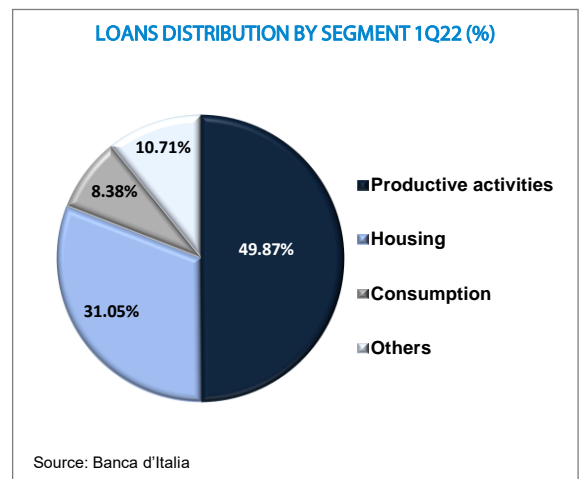


4. Banking sector: general overview

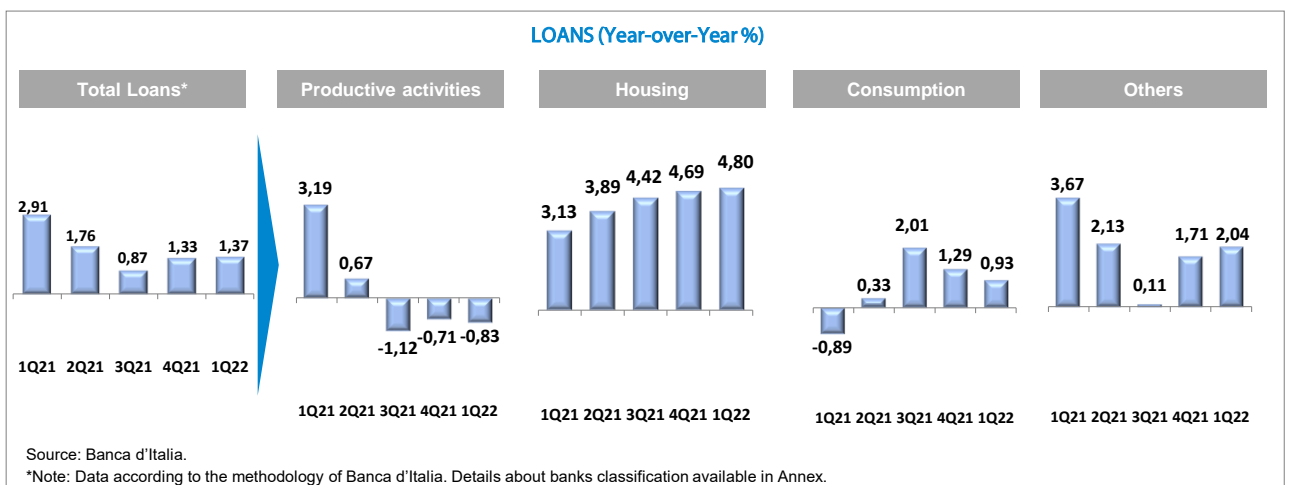
Loans

During the first quarter of 2022, the total value of loans granted in the financial system registered a positive year-over-year growth rate of 1.37%, decelerating by 1.54 p.p. when compared to the first quarter of 2021. This decrease was mainly driven by the decline in the y/y growth rate of loans to productive activities, while loans to housing increased relative to 1Q21.

- ▶ During the first quarter of 2022, the year over year growth rate of total loans decreased by 1.54 p.p. compared to 1Q21, recording a positive growth rate for the seventh consecutive quarter (1.37%).
- ▶ By types of loans, loans to productive activities registered a -0.83% y/y growth rate in 1Q22, after decreasing 0.12 p.p. relative to the previous quarter.
- ▶ Regarding the y/y growth rate of housing loans, it increased by 0.11 p.p. compared to the previous quarter, reaching a 4.80% rate.
- ▶ Moreover, consumption loans also rose by 1.81 p.p., when compared to the first quarter of the previous year recording a 0.93% y/y growth rate.



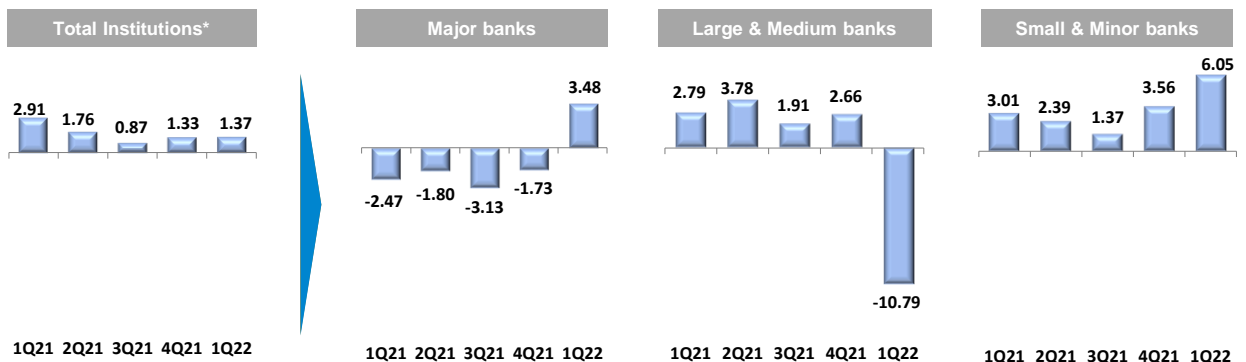
- ▶ In turn, the y/y growth rate of loans to other purposes accelerated by 1.60 p.p. with respect to 3Q21, up to a 1.71% rate, continuing in positive values for the sixth consecutive quarter.
- ▶ As far as the distribution of loans is concerned, loans granted to productive activities represented during this period 49.87% of total loans. Housing loans were the second most common ones, accounting for 31.05% of total loans. The share of other types of loans and loans to consumption over total loans was 10.71% and 8.38%, respectively.





- ▶ In the first quarter of 2022, all types of banks recorded positive year over year growth rates for their loans except for large and medium banks. As a matter of fact, major banks registered their first positive annual growth rate since the third quarter of 2020.
- ▶ Major banks, whose volume of granted loans represented 64.79% of the total loans of the system, experienced a 5.21 p.p. increase in their y/y growth rate, from -1.73% in 4Q21 to 3.48% in 1Q22, registering a positive rates.
- ▶ Large and Medium-sized banks, who concentrated in 1Q22 the 18.42% of total loans granted, experienced an increase in their y/y growth rate, declining 13.45 p.p. when compared to the fourth quarter, down to a -10.79% rate.
- ▶ Small and minor banks, who concentrated in 1Q22 the remaining 16.79% of total loans granted, registered an increase of 2.49 p.p. with respect to the previous quarter, reaching a y/y growth rate of 6.05% and remaining in positive values for another consecutive quarter.

LOANS (Year-over-Year %)*



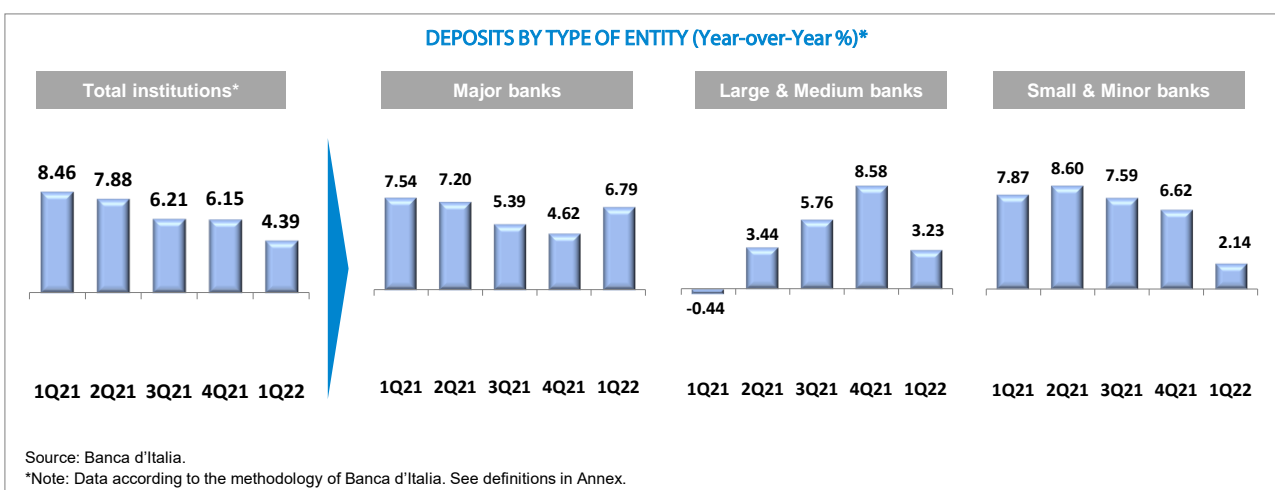
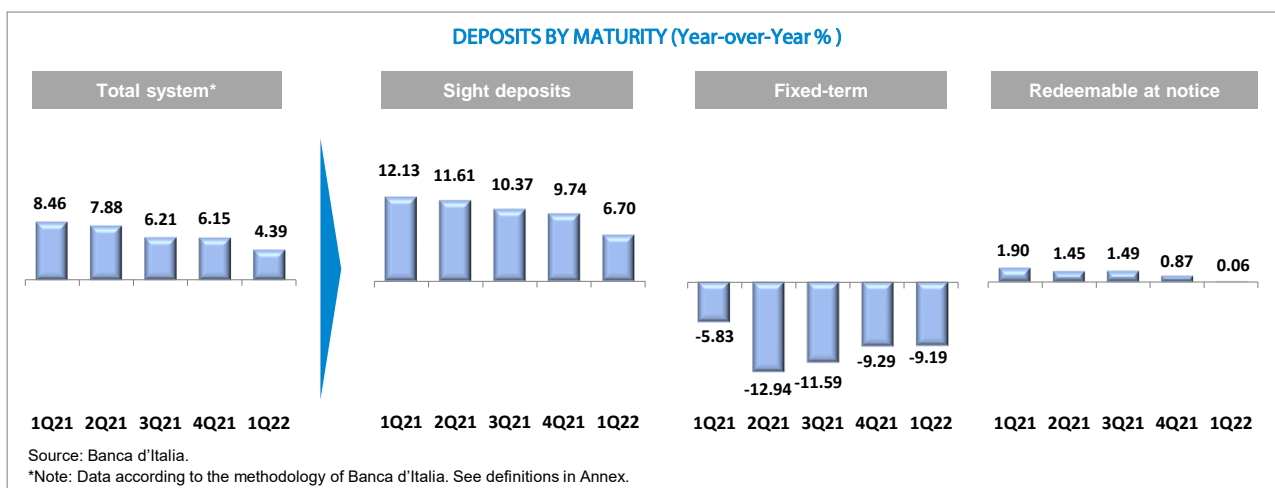
Source: Banca d'Italia.

*Note: Data according to the methodology of Banca d'Italia.

Deposits: by maturity and type of entity

During the first quarter of 2022, deposits recorded a year-over-year growth rate of 4.39%, after a decline of 1.76 p.p. compared to the previous quarter. Regarding deposits by maturities, all of them recorded decreases, except the fixed-term ones. In the case of deposits by entity, the annual growth rate decelerated for all types of entities except for major banks.

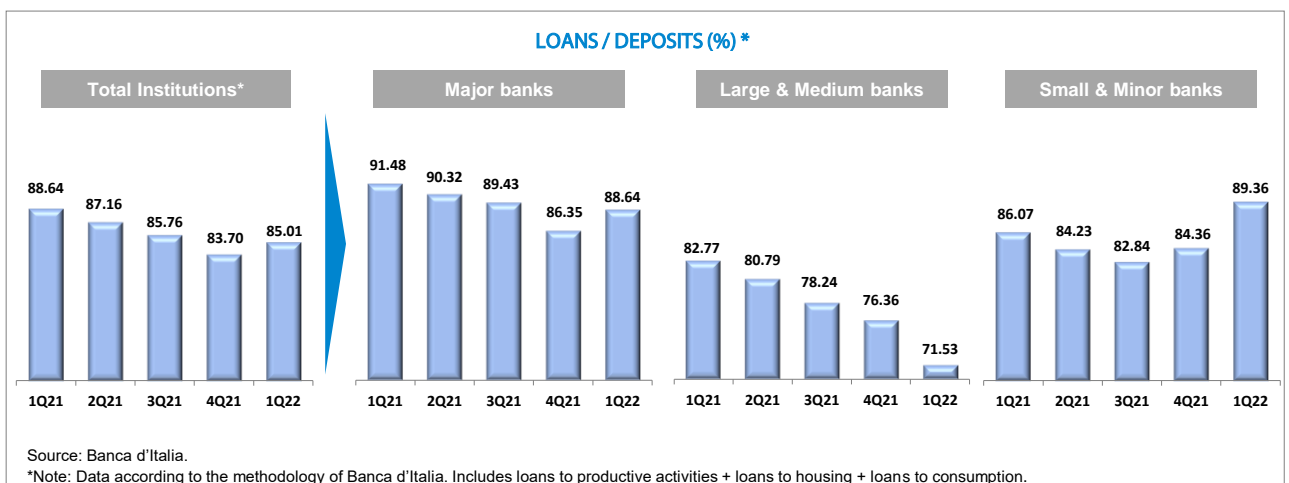
- ▶ In the first quarter of 2022, the y/y growth rate of total deposits dropped down to 4.39%, after decelerating 1.76 p.p. compared to 4Q21.
- ▶ Regarding the maturity of the deposits, sight deposits decreased their y/y growth rate by 3.04 p.p. relative to the previous quarter, reaching a 6.70% rate. On the other hand, fixed-term deposits suffered an incline in their y/y growth rate continuing its upward trend, increasing their rate by 0.10 p.p. relative to 4Q21, up to a negative rate of -9.19%. Finally, the year over year growth rate of deposits redeemable at notice experienced a slight decline with respect to the previous quarter, decreasing by 0.81 p.p. and reaching a 0.06% rate in the first quarter of 2022.
- ▶ The annual growth rate of deposits decelerated for all types of entities, with the exemption of major banks experiencing an increase of 2.17 p.p. up to a 6.79% rate. Large and medium banks decreased their y/y growth rate by 5.35 p.p. relative to 4Q21, reaching a 3.23% rate, while that of Small and Minor banks also decline by 4.48 p.p. down to 2.14%.



LTD ratio

In the first quarter of 2022, the loans-to-deposits ratio of the Italian financial system suffered a decline when compared to the same quarter of the previous year, standing at a ratio of 85.01%. This behaviour was motivated by the higher y/y increase recorded by deposits than the one registered by loans in the Italian financial system. Furthermore, all types of entities experienced declines in their loans-to-deposits ratio during this period compared to 1Q21, except for small and minor banks.

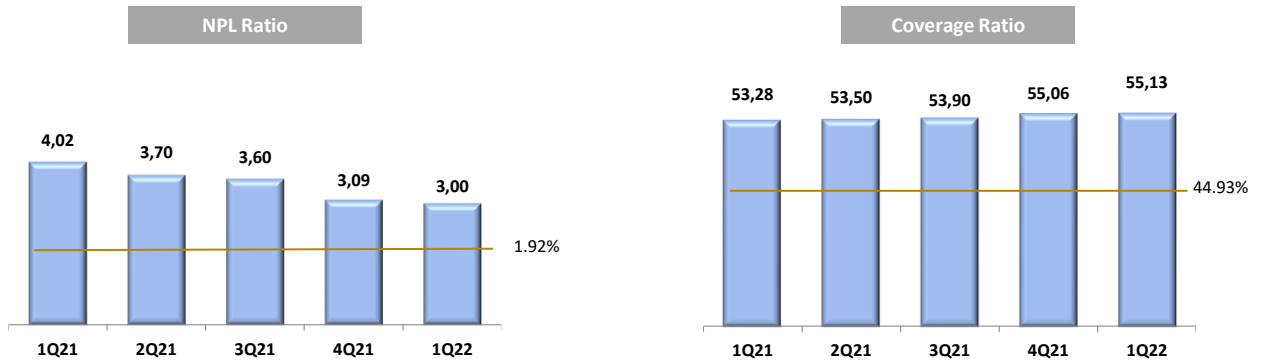
- ▶ In the first quarter of 2022, the loans-to-deposits ratio of the Italian financial system as a whole stood at 85.01%, continuing in a net borrower position. Compared to the previous quarter, the LTD ratio increased by 1.31 p.p.. Moreover, it declined from 88.64% in 1Q21 to 85.01% in 1Q22, after an annual fall of 3.63 p.p., motivated by the higher annual increase in the volume of deposits (4.39%) than in the amount of loans (1.37%).
- ▶ Regarding the LTD ratio by entities size, all types of entities recorded increases in their ratios during the first quarter of the year compared to the previous one, standing as net borrowers, except for large and medium banks.
- ▶ Major banks recorded an LTD ratio of 88.64% at the end of the first quarter, after an increase of 2.29 p.p. when compared to 4Q21 and a decline of 2.83 p.p. relative to the same quarter of the previous year. This behaviour was also driven by the higher annual growth rate of deposits for Major banks (6.79%) than of loans (3.48%).
- ▶ As far as Large and Medium banks are concerned, their LTD ratio decreased by 4.82 p.p. when compared to 4Q21, while decreasing by 11.24 p.p. compared with 1Q21. This behaviour was caused by the lower annual growth rate of loans (-10.79%) than of deposits (3.23%).
- ▶ With respect to Small and Minor banks, their loans to deposits ratio stood at 89.36%, after an increase of 4.00 p.p. relative to 4Q21 and an increase of 3.29 p.p. relative to 1Q21. This behaviour was explained by the lower annual growth of deposits (2.14%) than loans (6.05%).



Key ratios: NPL, coverage and efficiency

In the first quarter of the year, the NPL ratio decreased 1.02 p.p. relative to 1Q21, down to a 3.00% ratio. As for the coverage ratio, it stood at 55.13% during this period, after a 0.07 p.p. rise compared with the previous quarter. In terms of efficiency, the ratio of the Italian financial system decreased with respect to the previous quarter, reaching a 63.35% cost-to-income ratio.

NON-PERFORMING LOANS RATIO AND COVERAGE RATIO (%)



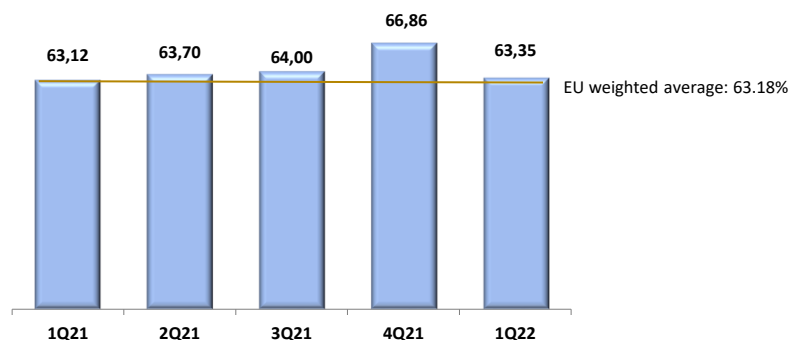
Source: European Banking Authority.

Note: Non-exhaustive analysis conducted by the EBA on the financial system of the country covering more than 80% of total assets. Entities considered in Appendix.

— Indicates EU weighted average for 1Q22 as calculated by the EBA.

- ▶ In the first quarter of 2022, the Non-Performing Loans ratio stood at 3.00%, after an decrease of 0.09 p.p. when compared to the fourth quarter of 2021. In addition, with respect to the same quarter of the previous year, the NPL ratio declined by 1.02 p.p.. The Italian NPL ratio was above the European Union average for this period (1.92%).
- ▶ The coverage ratio of the Italian financial system increased by 0.07 p.p. in the first quarter of 2022 with respect to the fourth quarter of 2021, up to a 55.13% ratio. Moreover, this ratio was 1.85 p.p. higher than the one registered in the same quarter of the previous year (53.28%). All in all, the coverage ratio of Italy for the first quarter of 2022 was higher than the EU average (44.93%).
- ▶ In terms of efficiency, the efficiency ratio of the Italian financial system decreased by 3.51 p.p. compared to the fourth quarter of 2021 and increased by 0.23 p.p. relative to the same quarter of the previous year, standing at a 63.35% cost-to-income ratio. The Italian financial system was slightly less efficient than the EU average during this period (63.18%).

EFFICIENCY RATIO (%)



Source: European Banking Authority.

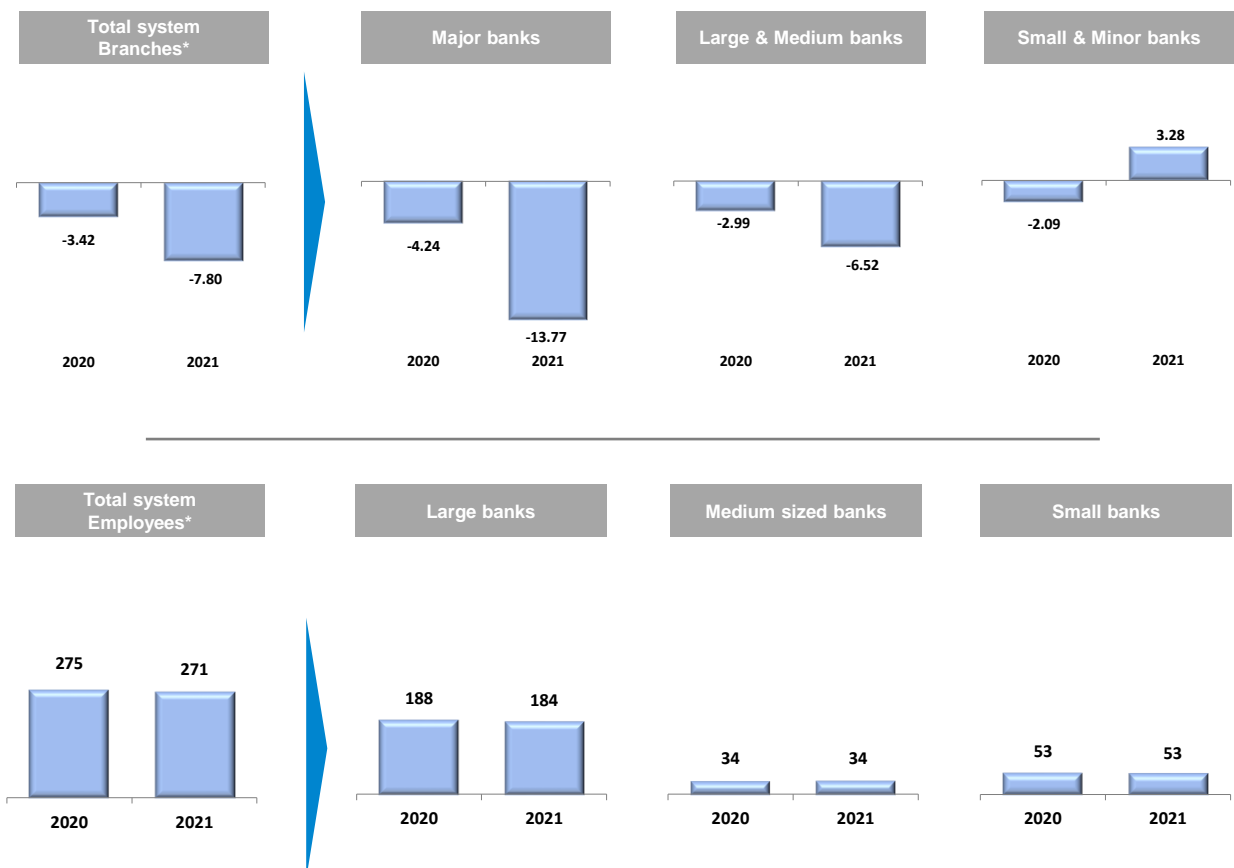
Note: Non-exhaustive analysis conducted by the EBA on the financial system of the country covering more than 80% of total assets. Entities considered in Appendix.

Branches and Employees⁽¹⁾

During 2021, the decrease in the number of branches of the Italian banking sector was more accentuated than in 2020, registering an annual growth rate of -7.80%, after a deceleration of 4.38 p.p.. Regarding the number of employees of the Italian financial system, it declined by 1.67% compared to 2020.

- ▶ During 2021, the downward trend in the number of branches of the Italian financial system accelerated with respect to the previous year. At the end of 2021, the y/y growth rate of branches stood at -7.80%, 4,38 p.p. less than at the end of 2020. In this context, a total of 21,650 branches were open at the end of 2021, meaning that 1,831 branches had been closed compared to the previous year.
- ▶ By size, all types of banks recorded negative y/y growth rates in 2020, except for Small and Minor banks, which were the only ones which annual growth rate of branches rose with respect to the previous year, increasing by 5.37 p.p., up to a 3.28% rate. This meant an increase of 195 branches for Small and Minor banks, recording a total of 6,146 branches at the end of 2021.
- ▶ Regarding Major banks and Large and Medium banks, their annual growth rates decreased by 9.53 p.p. (-13.77%) and 3.53 p.p. (-6.52%) , respectively. Therefore, their number of branches decreased by 1,677 and 349, respectively, with a total of 10,503 branches for Major banks and 5,001 for Large and Medium banks at the end of 2021.
- ▶ In turn, the number of employees decreased in 2021, down to 270,625 employees, 1.67% less than in 2020. This fall was mainly driven by the behaviour of Major Banks, which reduced their number of employees by 4,351, while the amount of employees of Medium sized banks and Small banks remained almost the same.

BRANCHES (Year-over-Year growth, %) and EMPLOYEES (Number of employees, in thousands)



Source: Banca d'Italia.

*Note: System = Total credit institutions (Large banks + Medium banks + Small banks).

(1) Annual frequency only.



6. Appendix

SOURCES

MACROECONOMIC OVERVIEW

- ▶ Banca d'Italia:
<http://www.bancaditalia.it>
- ▶ The National Institute for Statistics, Istat:
<http://www.istat.it/en/>
- ▶ Bloomberg: <http://www.bloomberg.com>
- ▶ Fundación de las Cajas de Ahorros, FUNCAS:
<http://www.funcas.teca.es/>
- ▶ International Monetary Fund, IMF:
<http://www.imf.org/>
- ▶ Organisation for Economic Co-operation and Development, OECD:
<http://www.oecd.org/>
- ▶ Standard & Poor's:
<http://www.standardandpoors.com/>
- ▶ Fitch Ratings:
<http://www.fitchratings.com/>
- ▶ Moody's:
<http://www.moody.com/>
- ▶ European Central Bank:
<https://www.ecb.europa.eu/>
- ▶ Banco Central de la República Argentina:
www.bcra.gov.ar/
- ▶ Banco Central de Chile:
www.bcentral.cl/
- ▶ Banco de México:
www.banxico.org.mx/
- ▶ Banco Central do Brasil:
www.bcb.gov.br/
- ▶ Departamento Administrativo Nacional de Estadística de Colombia (DANE):
<http://www.dane.gov.co/>
- ▶ Banco de la República de Colombia:
<http://www.banrep.gov.co/>
- ▶ World Bank: <https://www.worldbank.org/>
- ▶ Banco Central de Reserva del Perú:
www.bcrp.gob.pe/
- ▶ Banco de España:
<http://www.bde.es/>
- ▶ Bank of England:
<http://www.bankofengland.co.uk/>
- ▶ US Federal Reserve:
<http://www.federalreserve.gov/>
- ▶ BBVA Research:
<http://www.bbvarsearch.com/>

Appendix

SOURCES (CONTINUED)

FINANCIAL SECTOR

- ▶ Banca d'Italia:
<http://www.bancaditalia.it/>
- ▶ Unicredit:
<https://www.unicredit.it>
- ▶ Intesa Sanpaolo:
<http://www.intesasanpaolo.com>
- ▶ Monte dei Paschi di Siena:
<http://www.mps.it>
- ▶ Banco Popolare:
<http://www.bancopopolare.it>
- ▶ Ubi Banca:
<http://www.ubibanca.it>
- ▶ BNL:
<http://www.bnl.it>

GLOSSARY

- ▶ **Large banks:** Major Banks (according to Banca d'Italia).
- ▶ **Medium banks:** Large and Medium Banks (according to Banca d'Italia).
- ▶ **Small banks:** Small and Minor Banks (according to Banca d'Italia).
- ▶ **Efficiency ratio:** Administrative and depreciation expenses / Total net operating income
- ▶ **NPL ratio:** Outstanding balance/ Total loans.
- ▶ **ROE:** Net profit / Equity
- ▶ **ROA:** Net profit/ Total assets.
- ▶ **BCRA:** Central Bank of the Argentine Republic.
- ▶ **BCB:** Central Bank of Brazil.

List of entities considered for Efficiency, NPL and Coverage ratios:

Banca Carige SpA - Cassa di Risparmio di Genova e Imperia, Banca Monte dei Paschi di Siena SpA, Banca popolare dell'Emilia Romagna SC, Banca Popolare di Sondrio, Banco BPM Gruppo Bancario, Credito Emiliano Holding SpA, Iccrea Banca Spa Istituto Centrale del Credito Cooperativo, Intesa Sanpaolo SpA, Mediobanca - Banca di Credito Finanziario SpA, UniCredit SpA, Unione di Banche Italiane SCpA.



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