

# Italy – 2Q21

## Macroeconomic Outlook Report



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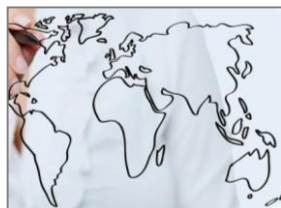
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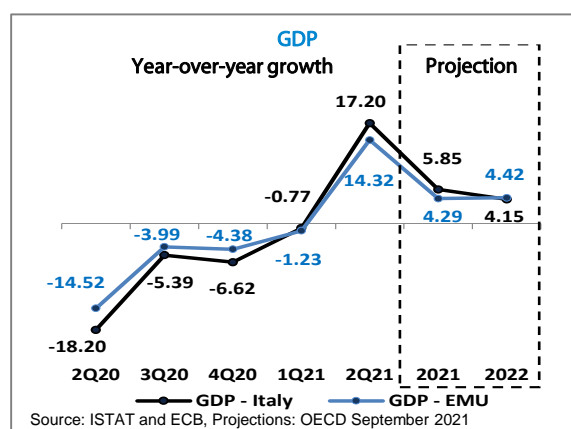
# 1. General outlook

## Italy's macroeconomic overview

**During the second quarter of 2021, the Italian economy substantially recovered from the first quarter of 2021, recording a GDP annual growth rate of 17.20%, after the gradual easing of restrictions and the end of the second lockdown in early April. Thus, the OECD predicts a significant growth for the years 2021 and 2022. The labour market evolved in a positive manner, with a deceleration in the unemployment rate alongside a growth in employment. In turn, the Italian CPI experienced an increment, up to a 1.20% annual growth rate. In addition, the euro held constant against the dollar relative to 1Q21 and the FTSE-MIB rose by 7.74%.**

### Italy's macroeconomic overview

- ▶ In the second quarter of 2021, the Italian economy recorded a GDP annual growth rate of 17.20%, accelerating 17.97 p.p. compared with the previous quarter. Growth in the Italian economy was higher than that of the EMU, which reached 14.32% in 2Q21.
- ▶ Moreover, the OECD has predicted an annual growth of 5.85% for 2021 and 4.15% for 2022.
- ▶ 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.

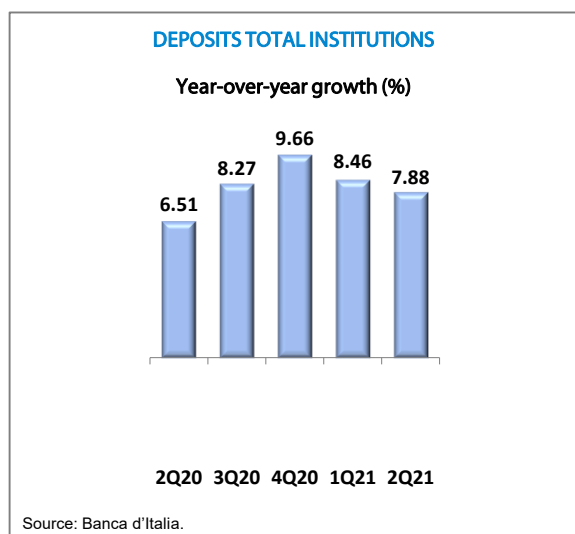
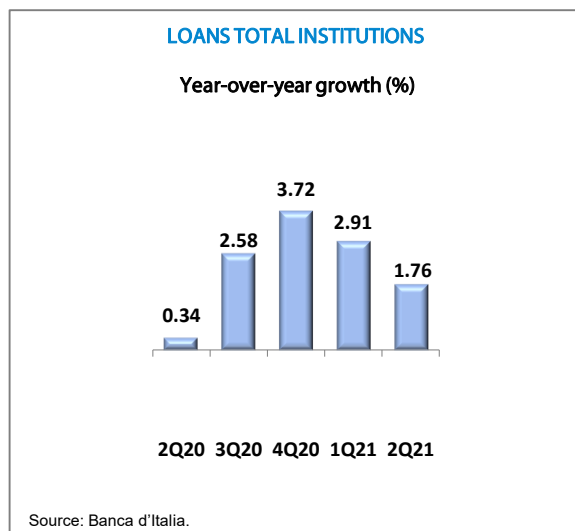


- ▶ During the second quarter of the year, the unemployment rate experienced 0.40 p.p. fall when compared to the previous quarter, down to a 10.00% rate. Regarding the year over year growth rate of employment, it accelerated by 3.25 p.p. during this period relative to the first quarter, standing at a -0.88% rate.
- ▶ Moreover, in the second quarter of 2021, the Italian Consumer Price Index accelerated by 0.62 p.p. compared with the previous quarter, reaching a 1.20% year-over-year growth rate. The OECD expects the Italian CPI to be 1.55% in 2021.
- ▶ In the second quarter of 2021, the euro held constant against the US dollar relative to the previous quarter while raising by 0.11\$/€ compared to the same quarter of 2020, recording a quarterly average exchange rate of 1.21\$/€.
- ▶ The FTSE-MIB Index increased by 1,781 points compared to the first quarter of 2021, to an average of 24,805 points during the second quarter of the year, recording a quarterly rise of 7.74%.

## Banking sector

**During the second quarter of 2021, the total amount of loans granted in the financial system recorded a positive year-over-year growth rate of 1.76%, decelerating by 1.15 p.p. compared to the first quarter of 2021. The annual growth rate of deposits stood at 7.88%, after a decline of 0.58 p.p. compared with the previous quarter. Regarding the NPL ratio, it continued its downward trend, falling by 0.95 p.p. with respect to previous quarter, down to 3.07%. As for the coverage ratio, it recorded a 53.50% ratio, after raising by 0.22 p.p. when compared to the previous quarter. In terms of efficiency, the ratio of the Italian financial system experienced an increment relative to 1Q21 and a decline when compared to 2Q20, reaching a 63.70% ratio.**

### Banking sector



- ▶ During the second quarter of 2021, the total volume of loans granted in the Italian financial system recorded positive year-over-year growth rate of 1.76%, decelerating by 1.15 p.p. when compared to the first quarter 2021.
- ▶ Regarding the distribution of loans, loans granted to productive activities were the most numerous, accounting for 50.59% of total loans. They were followed by housing loans, which represented 30.47% of total loans. Other types of loans and loans to consumption had a share of 10.67% and 8.27%, respectively. Loans to households were the ones which recorded the highest annual growth (+3.89%).
- ▶ The y/y growth rate of deposits stood at 7.88%, after decelerating 0.58 p.p. relative to 1Q21.
- ▶ In the second quarter of 2021, the loans-to-deposit ratio of the Italian financial system as a whole stood at 87.16%.
- ▶ In 2Q21, the NPL stood at 3.07%, after a 0.95 p.p. fall when compared to the first quarter. Moreover, with respect to the same quarter of the previous year, the NPL ratio decreased by 3.00 p.p..
- ▶ The coverage ratio of the Italian financial system increased by 0.22 p.p. relative to 1Q21, up to a 53.50% ratio.
- ▶ In terms of efficiency, the efficiency ratio of the Italian financial system increased by 0.58 p.p. when compared to the first quarter of 2021, standing at a cost-to-income ratio of 63.70%.



## 2. International Overview

### LatAm

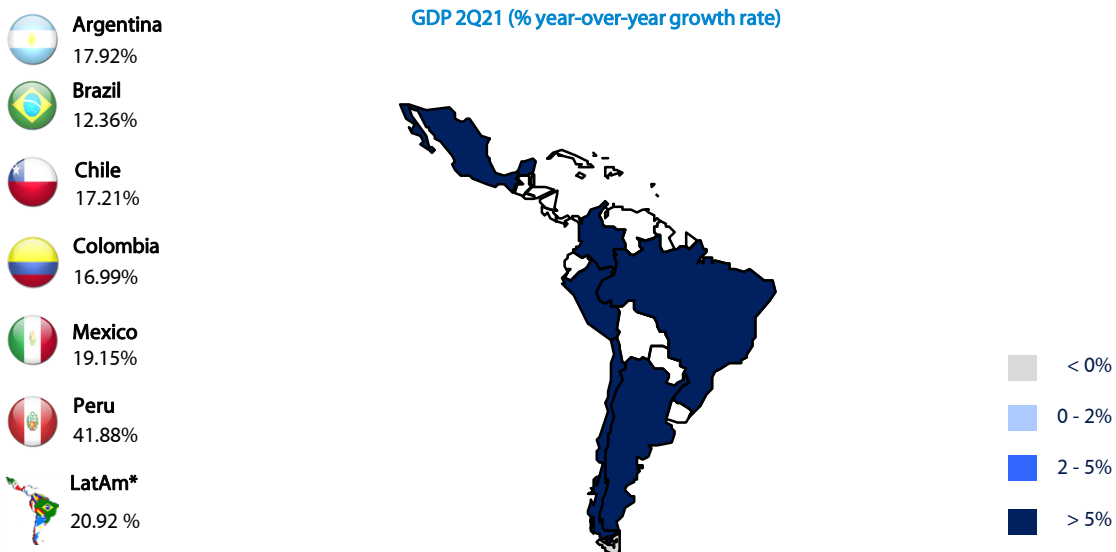
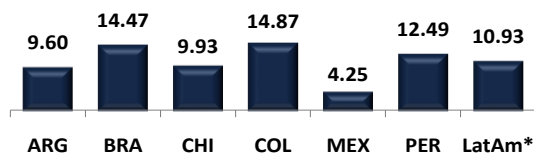
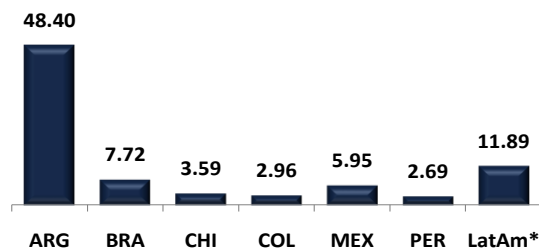
***During the second quarter of 2021, all the countries analysed consolidated the recovery that began in the second half of 2020, following the fall in GDP in Latin America during the first half of that year due to the pandemic. In fact, the recovery was more dynamic than in the previous quarter and the economic outlook for 2021 improved. On the other hand, the unemployment rate remained at higher levels than before the pandemic and the inflation rate increased in most countries.***

#### **Macroeconomic Overview**

- ▶ During the second quarter of 2021, the economic recovery was consolidated in the countries studied, which experienced increases in their GDP compared to the previous quarter. Thus, all these countries achieved a positive year-on-year GDP growth rate. Peru was the country whose year-on-year growth rate accelerated the most compared to the previous quarter, growing 38.07 p.p.. Thus, Peru recorded the highest year-on-year GDP growth rate, reaching a rate of 41.88%.
- ▶ In this context, the Economic Commission for Latin America and the Caribbean (ECLAC) has upgraded its forecast for Latin American economy for 2021 to 5.20% growth for the region. In addition, growth is expected to reach 2.90% by 2022. This is mainly due to the progress in the global immunisation process that has been developing during the second quarter of 2021. However, this expansion will not be enough to ensure sustained growth as the social impacts of the crisis and the region's structural problems have worsened and will be prolonged during the recovery phase. In the same vein, in its May update, the OECD upgraded its forecasts for Mexico and Argentina for 2021, and slightly for Brazil. However, it placed year-on-year GDP growth of Brazil and Mexico for 2021 below the OECD average.
- ▶ According to ECLAC, the Latin American economy continued its recovery during the second quarter of the year, even with greater strength. However, there is a risk of the reactivation coming to a standstill, due to insufficient investment, employment and further environmental deterioration. In addition, it argues that the fiscal measures adopted by the countries have been important, but insufficient in quantity and duration.
- ▶ In terms of inflation, all countries surveyed recorded increases in their inflation rate from the previous quarter. Peru was the country with the lowest inflation rate, at 2.69%. Argentina was the country that registered the highest increment in its inflation rate compared to 1Q21, with an increase of 10.20 p.p. up to 48.40%, again registering the highest inflation rate in this group of countries.
- ▶ During the second quarter of 2021, the labour market continued to be affected by the economic consequences of the pandemic, although in a more moderate way, as Chile, Mexico, Peru and Argentina recorded slight decreases in their unemployment rate compared to 1Q21. In this context, Colombia, after an increase of 0.43 p.p., positioned itself as the country with the highest unemployment rate, at 14.87%. Mexico registered the lowest unemployment rate within all the countries studied, at 4.25%.

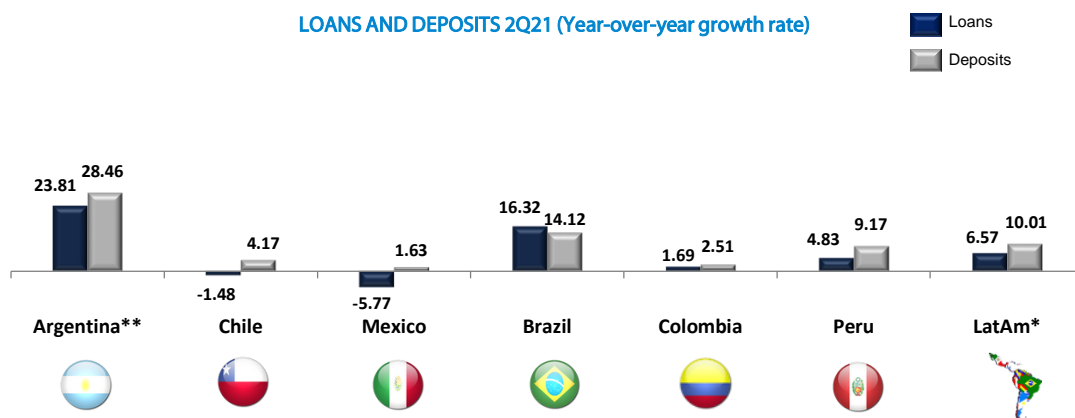
#### **Financial Sector**

- ▶ In terms of their ratings, all Latin American countries kept their ratings constant in the second quarter of the year, except Colombia, which went from a rating, at S&P and Fitch, of BBB- to BB+ during this period. This rating considers that, while the country has a high capacity to meet its financial obligations, it also faces instability due to uncertainty and exposure to adverse conditions.
- ▶ With regard to economic policies, the introduction of additional stimuli is more limited than in the previous year, in the face of the tightening of global financial conditions and the increase in inflation and its expectations in some countries. Thus, despite the effectiveness of the policies promoted, the public accounts of these countries have deteriorated, with increases in their public deficits, Latin America being the region with the highest external debt in GDP.
- ▶ All the countries analysed, except Argentina, Chile and Peru, increased the pace of granting credits compared to the previous quarter. Mexico continued to record the slowest year-on-year growth, with a decrease of -5.77%. Regarding deposits, all countries recorded positive year-on-year growth during the period, although their rate declined compared to the previous quarter, except Chile. Chile's growth rate was 4.17%, after an acceleration of 6.15 p.p. compared to 1Q21.

**UNEMPLOYMENT RATE 2Q21 (%)****INFLATION RATE 2Q21 (%)****LONG TERM RATINGS 2Q21**

	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+	—

▲ Increase since 1Q21  
 — Constant since 1Q21  
 ▼ Decrease since 1Q21

**LOANS AND DEPOSITS 2Q21 (Year-over-year growth rate)**

\*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 1Q21.

## 2. International Overview

### OECD & China

***In the second quarter of 2021, the recovery in economic activity in OECD countries strengthened. The progress in the Eurozone's vaccination process led its GDP growth rate to reach positive values, as did Japan's. For its part, the USA consolidated its recovery, presenting a positive GDP rate for the second consecutive quarter. On the other hand, China's rate slowed down compared to 1Q21.***

#### ***Macroeconomic Overview***

- ▶ In the second quarter of 2021, the Eurozone saw the recovery accelerate with a positive GDP rate, due to the progress of immunisation in the Eurozone against Covid-19. Consequently, the European Commission expects a positive evolution of the economy marked by an effective virus containment strategy and progress with vaccines. In the same vein, the OECD in its September forecast expects year-on-year GDP growth for 2021 and 2022 to be 5.29% and 4.63%, respectively, improving on its May forecast. Among the countries analysed in the region, all recorded positive year-on-year growth rates during the second quarter of the year. As a result, from the European countries analysed in 2Q21, France and Spain registered the highest year-on-year GDP growth rates (18.65% and 17.55%, respectively).
- ▶ USA consolidated the recovery of its economic activity in this period, reaching a year-on-year GDP growth rate of 6.60%, thus remaining positive after an increase of 6.20 p.p. compared to 1Q21. Moreover, the OECD revised upwards its forecast for 2021 and expects the US economy to grow by 5.96% in 2021 and 3.94% in 2022.
- ▶ The UK recorded the largest change in GDP during this period compared to the same quarter of the previous year at 23.58%. As a result, growth is estimated at 6.67% in 2021 and 5.22% in 2022.
- ▶ On the other hand, Japan's GDP growth in 2Q21 was 0.50%, 2.00 p.p. higher than in 1Q21. In turn, the OECD estimates GDP growth of 2.53% and 2.08% for 2021 and 2022, respectively.
- ▶ China recorded a lower GDP growth rate during the second quarter of the year compared to 1Q21, with a growth rate of 17.03%, after a decrease of 1.27 p.p. compared to the previous quarter, however it increased by 13.83 p.p. compared to the same quarter of 2020. In its September forecast, the OECD estimates growth of 8.53% and 5.78% for 2021 and 2022, respectively.
- ▶ In terms of international trade, despite the pandemic, political and trade tensions remained present. China, to mitigate the effects of the tensions it has been dragging with the US since 2018, implemented trade agreements in Asia and Europe. The EU-China CAI would allow for an unprecedented level of investment in China by the EU, helping to level the playing field for Europeans to invest in China. However, the European Parliament agreed in May to freeze the ratification of this agreement.
- ▶ Year-on-year inflation growth in 2Q21 increased for all the economies in question compared to 2Q20, with the exception of Japan and China. The EMU recorded an acceleration of 1.60 p.p. compared to the same period of the previous year. Japan was the only country with a negative inflation rate (-0.40%).
- ▶ The labour market improved slightly during this period, with all countries analysed recording lower unemployment rates compared to the same quarter of the previous year, except Italy, the UK, France and China. Moreover, compared with the previous quarter, all countries except China and Japan, experienced falls in their unemployment rates.

#### ***Financial Sector***

- ▶ In terms of their ratings, all the countries analysed kept their ratings constant during 2Q21.
- ▶ In regard to the economic policies of the different countries, it seems that the shared objective of the Fed and the ECB to keep interest rates close to 0.00% will not be maintained in the coming months. While the ECB has reiterated its intention to keep interest rates stable and continue with the PEPP, the Fed expects interest rates to rise in 2022.
- ▶ During this period, year-on-year credit growth slowed down in all countries, except in Canada and Italy, compared to the same quarter of the previous year, China being the country with the highest growth rate (11.85%). Deposit growth declined for all countries compared to 2Q20, with the exception of Italy, which also recorded the second highest year-on-year growth rate (7.88%) after China (9.49%).



### Germany

9.41%



### Canada

13.53%



### China

17.03%



### France

18.65%



### Spain

17.55%



### Italy

17.20%



### Japan

0.50%



### EMU

14.32%



### UK

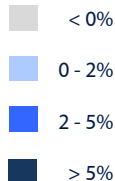
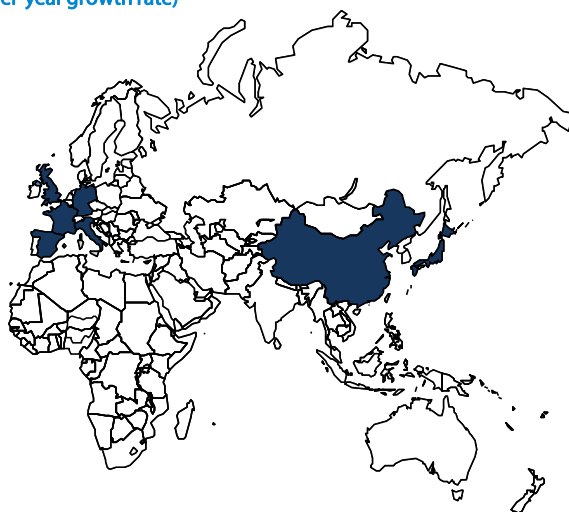
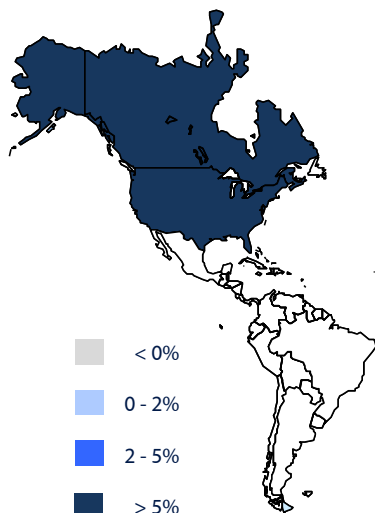
23.58%



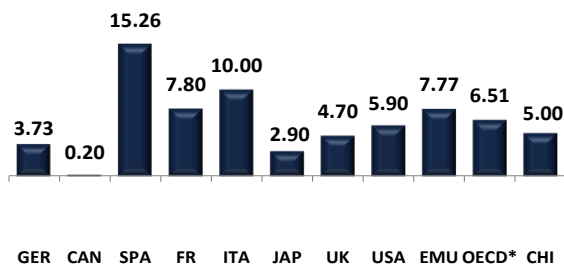
### USA

6.60%

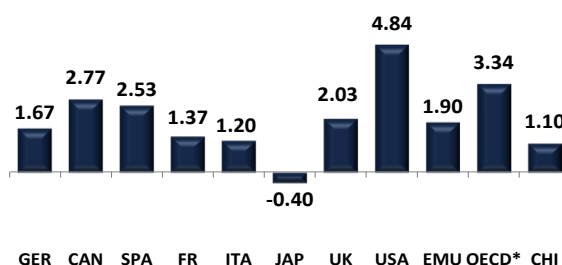
### GDP 2Q21 (% year-over-year growth rate)



### UNEMPLOYMENT RATE 2Q21 (%)

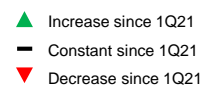


### INFLATION RATE 2Q21 (%)



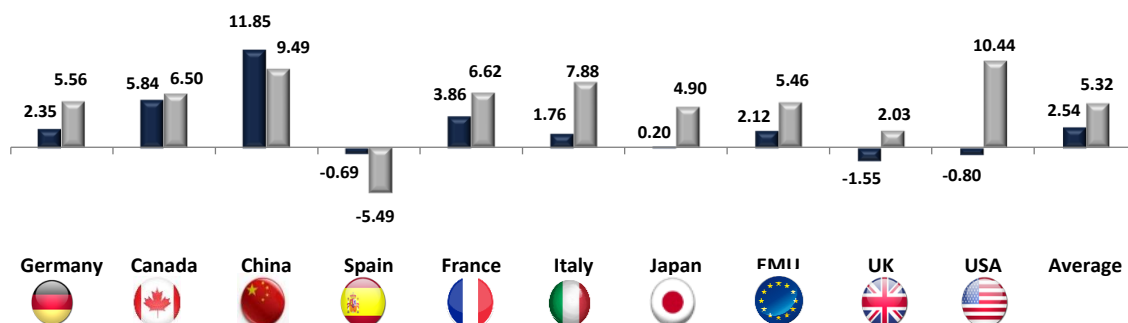
### LONG TERM RATINGS 2Q21

	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 -



### LOANS AND DEPOSITS 2Q21 (year-over-year growth rate)

Loans  
Deposits



# 3. Italian macroeconomic view

## Italy

**Following the end of the second lockdown in early April, Italy started its economic recovery in the second quarter of 2021. Economic growth gained momentum as restrictions were gradually eased, with national demand rebounding driven by a generous public stimulus alongside a spike in private consumption.**

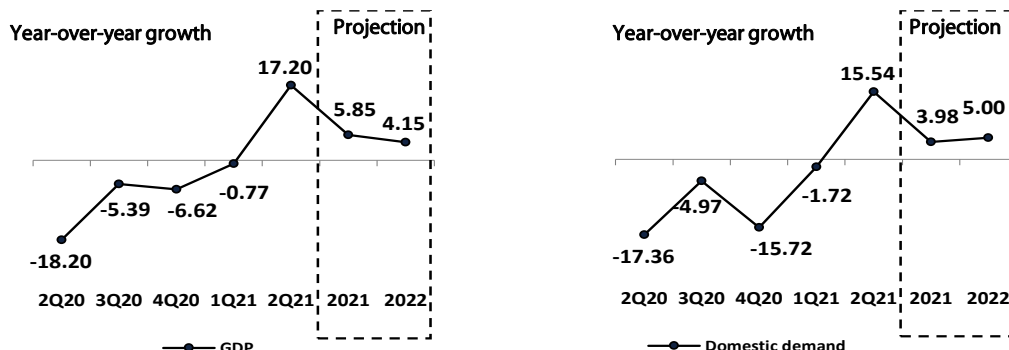
### MAIN MACROECONOMICS INDICATORS ( Interannual growth %)

INDICATOR	2Q20	3Q20	4Q20	1Q21	2Q21	2021	2022
<b>GDP</b>	<b>-18.20</b>	<b>-5.39</b>	<b>-6.62</b>	<b>-0.77</b>	<b>17.20</b>	<b>5.85</b>	<b>4.15</b>
DOMESTIC DEMAND	-17.36	-4.97	-15.72	-1.72	15.54	3.98	5.00
PRIVATE CONSUMPTION	-20.48	-10.03	-12.36	-6.64	14.43	3.09	5.17
PUBLIC CONSUMPTION	0.85	1.79	4.18	2.37	1.95	1.76	1.11
GROSS FIXED CAPITAL FORMATION	-24.98	-2.53	-1.88	10.86	37.85	10.04	8.28
EXTERNAL DEMAND							
EXPORTS	-32.32	-10.14	-8.11	1.49	39.45	11.40	7.30
IMPORTS	-25.79	-14.11	-6.55	2.79	30.12	10.70	9.70
<b>INFLATION</b>							
<b>CPI</b>	<b>-0.13</b>	<b>-0.48</b>	<b>-0.23</b>	<b>0.58</b>	<b>1.20</b>	<b>1.55</b>	<b>1.60</b>
<b>LABOR MARKET</b>							
<b>UNEMPLOYMENT</b>	<b>8.38</b>	<b>9.64</b>	<b>9.18</b>	<b>10.40</b>	<b>10.00</b>	<b>9.77</b>	<b>9.65</b>
<b>EMPLOYMENT</b>	<b>-2.87</b>	<b>-2.29</b>	<b>-1.87</b>	<b>-4.13</b>	<b>-0.88</b>	<b>-0.14</b>	<b>0.82</b>

Source: ISTAT, OECD May and September 2021 forecast.

- As a result of relaxed restrictions alongside the acceleration of the vaccination campaign, the Italian economy began its recovery knowing significant levels of growth with its GDP standing at 17.20%. Additional fiscal policy support, granted by the Next Generation EU funds, will boost further growth in the second half of 2021, while preserving productive capacity, but also raising public debt levels. Faster global growth supported the rebound in manufacturing, exports and investment, the latter also benefitting from higher public investment.
- Growth in the manufacturing sector has been supported by export demand, primarily from European partner countries and for intermediate goods. Therefore, despite late lifting of restrictions, the Italian economy managed to perform well, owing to an export-oriented recovery which was complemented by gradual households spending alongside a comprehensive fiscal support.
- When it comes to the labour market, unemployment decrease was quite related to the gradual reopening of the economic activity, specially the one related to the service sector. According to the Banca d'Italia the effects of the pandemic are still tangible in the labour market, accounting roughly for 500,000 job losses. Employment growth has been indeed moderated and will effectively resume in 2022 as the vaccination rollout accelerates.
- Concerning inflation, Italy double its average prices owing to worldwide inflationary pressure. The speed-up of all-item index was mainly due to the prices of both regulated energy products (that slightly sped up from +16.8% to +16.9%) and non-regulated ones (from 12.6% to 12.8%).

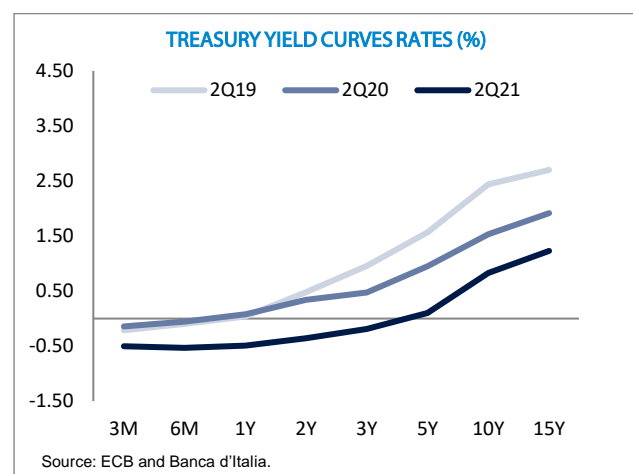
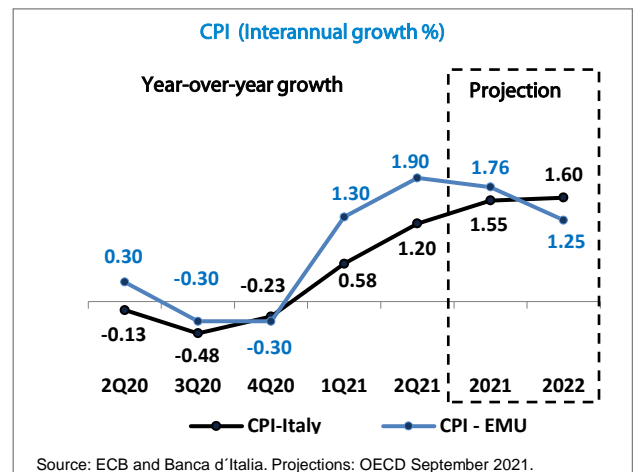
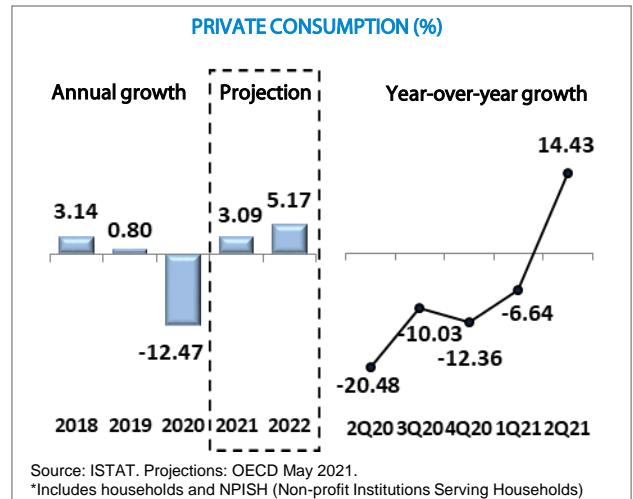
### GDP and domestic demand interannual growth (%)



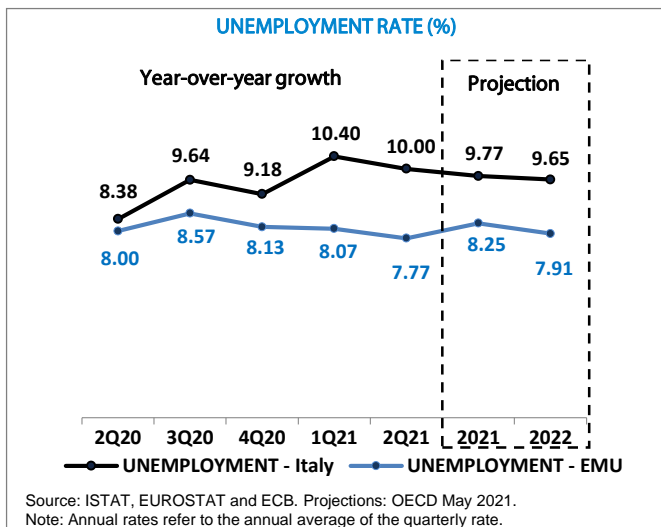
Source: ISTAT. Projections from the OECD September 2021

**In the second quarter of 2021, private consumption recorded a considerable increase in its y/y growth rate compared to the previous quarter, standing at a 14.43% rate. In the same line, the inflation rate double, standing at 1.20% rate in 2Q21 owing to worldwide inflationary pressure. All short and medium run yields stood at negative levels while long term yields remained positive, envisioning positive numbers as the ECB purchased assets.**

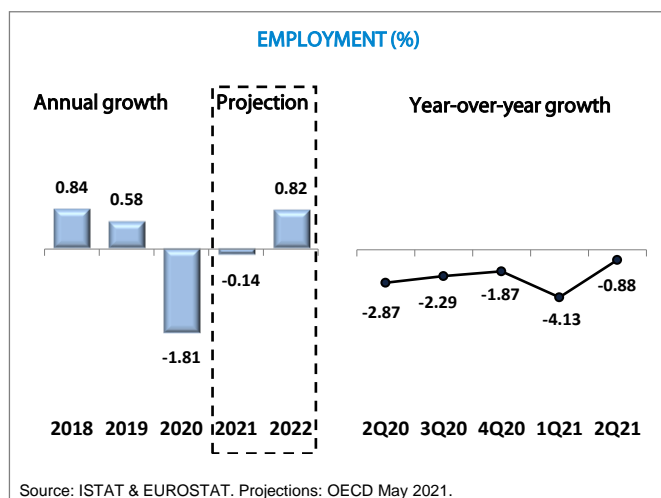
- During the second quarter of the year, private consumption recovered significantly after five negative quarters of growth owing to the gradual reopening of the economy since April, reaching a 14.43% y/y growth rate and increasing by 21.07 p.p. when compared to the previous quarter.
- The OECD forecast for private consumption predicts a year-over-year growth rate of 3.09% for 2021. Moreover, it expects private consumption to further recover in 2022, growing at a 5.17% rate. These results come down to a quicker normalization of consumption and a faster spending of excess savings of past months.
- In the second quarter of 2021, Italy registered an inflation rate of 1.20%, which was 0.62 p.p. above the rate recorded in the previous quarter. Despite this increase, the CPI in Italy remained below the EU average inflation rate in the second quarter of 2021 (1.90%).
- According to OECD forecasts, inflation is likely to be higher at the end of 2021 and during 2022 due to rising global inflationary pressure related to labour shortages and disruptions in global supply chains, reaching a rate of 1.60% in 2022.
- In the second quarter of 2021, all short and medium term bond yields of the Italian sovereign debt stood at negative levels, whereas long-run bond yields remained positive, as in the previous quarter.
- Compared to the second quarter of 2019, bond yields experienced decreases for all maturities.. The sharpest fall corresponded to the 10Y, with a decline of 1.61 p.p..
- When compared to the second quarter of 2020, bond yields followed a similar pattern. All bond yields decreased; where the sharpest fall corresponded to the 5Y, with a 0.85 decline on a year-to-year basis. Long term maturities suffered largest decline than short and medium run ones, both with respect to 2Q19 and 2Q20.



**Regarding the labour market, during the second quarter of 2021, the unemployment rate decreased compared to the previous quarter, standing at a 10.00% rate. Yet, in year-over-year terms, unemployment increased by 1.62 p.p.. Concerning the y/y growth rate of employment it increased significantly, despite standing at -0.88% in the second quarter of 2021. This performance was driven by the gradual reopening of the service sector.**

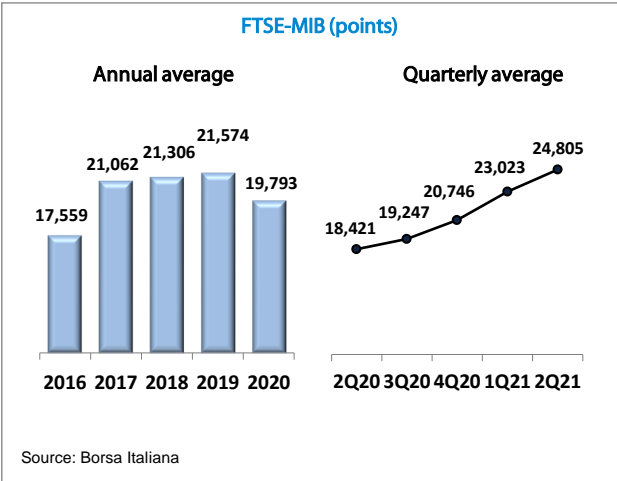
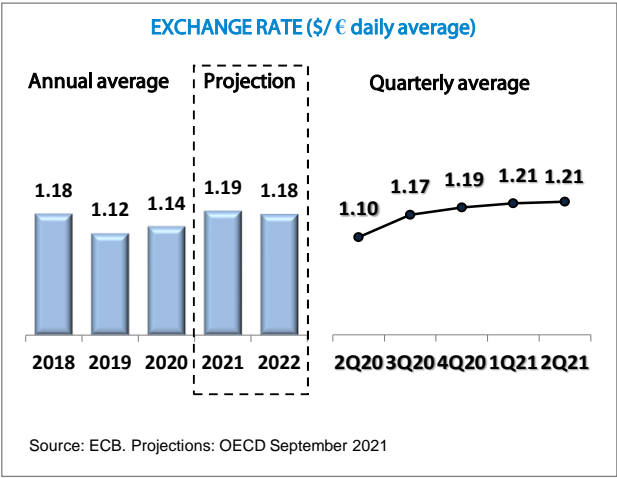


- ▶ In the second quarter of the year, the unemployment rate decreased compared to the previous quarter, standing at a 10.00% rate. Nevertheless, it increased by 1.62 p.p. relative to the same quarter of the previous year.
- ▶ The long-term effects of the pandemic are expected to continue having an impact on the labour market in 2021 and 2022, despite observing a gradual deceleration. Accordingly, the OECD projects an unemployment rate of 9.77% and 9.65% in 2021 and 2022, respectively.
- ▶ Regarding the employment growth rate, it recovered substantially during the second quarter, after the shrinkage experienced in 1Q21 as a result of the relaxation of restrictions, rising by 3.25 p.p., up to a -0.88% rate.
- ▶ Nevertheless, during the second quarter of the year, the employment y/y growth rate showed still negative levels for the sixth consecutive quarter, yet with a long path to go until reaching pre-covid levels.
- ▶ In its May projections, the OECD has improved its forecast for the Italian employment growth rate in 2021, although predicting a -0.14% growth. For 2022, a y/y employment growth rate of 0.82% is expected to be reached, consolidating the labour market recovery.
- ▶ In accordance with the Banca d'Italia, the Covid crisis has specially harmed service sector activities. Besides, when dissecting the labour market, women and youth employment have distinctively faced difficulties and fell substantially compared to other labour segments.
- ▶ Moreover, the support provided by the government should help to mitigate the loss of productive capacity. Unemployment will fall modestly as more people actively look for a job. Employment growth will be subdued, given high levels of job preservation. Improving the content and quality of training for workers would reduce unemployment and facilitate a move to higher paying jobs over time, especially for the vulnerable, women and youth above all.





- ▶ During the second quarter of 2021, the euro remained unchanged against the US dollar when compared to the previous quarter. Therefore, the average quarterly exchange rate stood at 1.21 \$/€.
- ▶ The OECD expects the annual average dollar/euro exchange rate to stand at 1.19 \$/€ for 2021 and slightly lower for 2022 standing at 1.18 \$/€ , with the US dollar depreciating against the euro with respect to 2020.
- ▶ The Italian stock index (FTSE-MIB) recorded a quarterly average of 24,804.58 points during the second quarter of 2021, following a 1,781.36 points increase when compared to the average level registered in the previous quarter.
- ▶ Moreover, the CAC 40 quarterly average incremented by 6,383.23 points with respect to the same quarter of the previous year.
- ▶ In accordance with the Banca d'Italia, the potential reasons behind such a positive behaviour lies on the European Central Bank's accommodative monetary policy which continues to support aggregate demand. In line with this strategy, household consumption and investments should drive economic recovery while creating an atmosphere of trust. Investors are hence driven to set their decisions towards more attractive, liquid and diversified placements in stock markets.





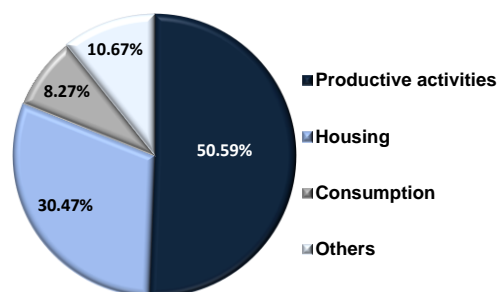
## 4. Banking sector: general overview

### Loans

**During the second quarter of 2021, the total value of loans granted in the financial system registered a positive year-over-year growth rate of 1.76%, decelerating by 1.15 p.p. when compared to the first quarter of the 2021. This decrease was mainly driven by the decline in the y/y growth rate of loans to productive activities and loans to other purposes, while loans to housing increased relative to 1Q21.**

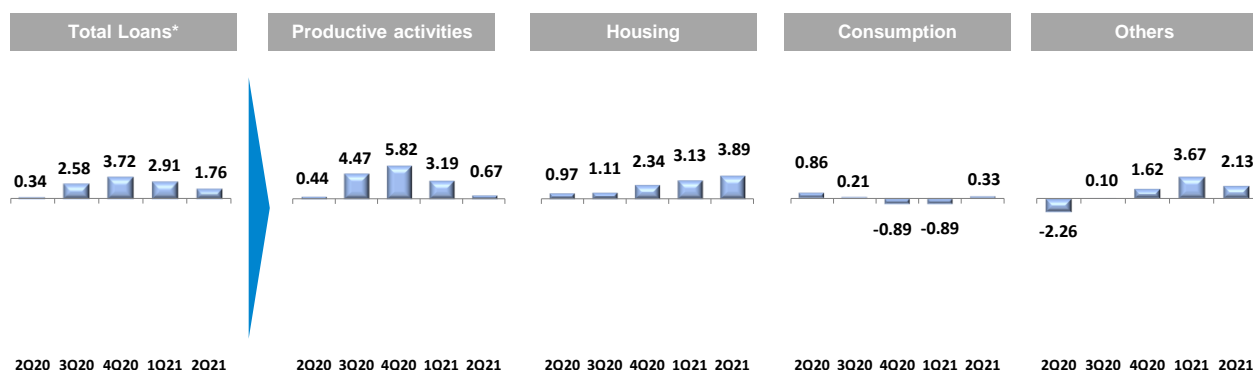
- During the second quarter of 2021, the year over year growth rate of total loans decreased by 1.15 p.p. compared to the previous quarter, recording a positive growth rate for the fifth consecutive quarter (+1.76%).
- By types of loans, loans to productive activities registered a 0.67% y/y growth rate in 2Q21, after declining 2.52 p.p. relative to the previous quarter.
- Regarding the y/y growth rate of housing loans, it increased by 0.76 p.p., reaching a 3.89% rate.
- Moreover, consumption loans also rose when compared to the first quarter of the previous year recording a 0.33% y/y growth rate, breaking hence with its two quarter fall negative trend.
- In turn, the y/y growth rate of loans to other purposes decelerated by 1.53 p.p. with respect to 1Q21, down to a 2.13% rate, although remaining in positive values for the fourth consecutive quarter.
- As far as the distribution of loans is concerned, loans granted to productive activities represented during this period 50.59% of total loans. Housing loans were the second most common ones, accounting for 30.47% of total loans. The share of other types of loans and loans to consumption over total loans was 10.67% and 8.27%, respectively.

LOANS DISTRIBUTION BY SEGMENT 2Q21 (%)



Source: Banca d'Italia

LOANS (Year-over-Year %)



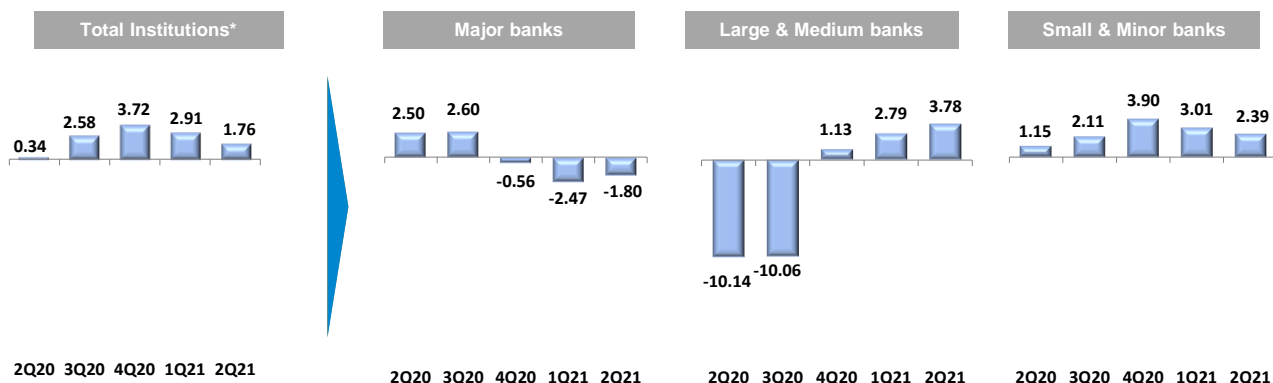
Source: Banca d'Italia.

\*Note: Data according to the methodology of Banca d'Italia. Details about banks classification available in Annex.



- ▶ In the second quarter of 2021, all types of banks recorded positive year over year growth rates for their loans except for major banks. As a matter of fact, Large and Medium banks registered their third consecutive positive annual growth rate since the third quarter of 2016.
- ▶ Major banks, whose volume of granted loans represented 63.06% of the total loans of the system, benefitted from a 0.67 p.p. increment in their y/y growth rate, from -2.47% in 1Q21 to -1.80% in 2Q21, although remaining in negative terms.
- ▶ Large and Medium-sized banks, who concentrated in 2Q21 the 21.00% of total loans granted, experienced an increment in their y/y growth rate, increasing 0.99 p.p. when compared to the first quarter, up to a 3.78% rate.
- ▶ Small and minor banks, who concentrated in 2Q21 the remaining 15.94% of total loans granted, registered a decrease of 0.63 p.p. with respect to the previous quarter, reaching a y/y growth rate of 2.39% and remaining in positive values for the sixth consecutive quarter.

#### LOANS (Year-over-Year %)\*



2Q20 3Q20 4Q20 1Q21 2Q21

Source: Banca d'Italia.

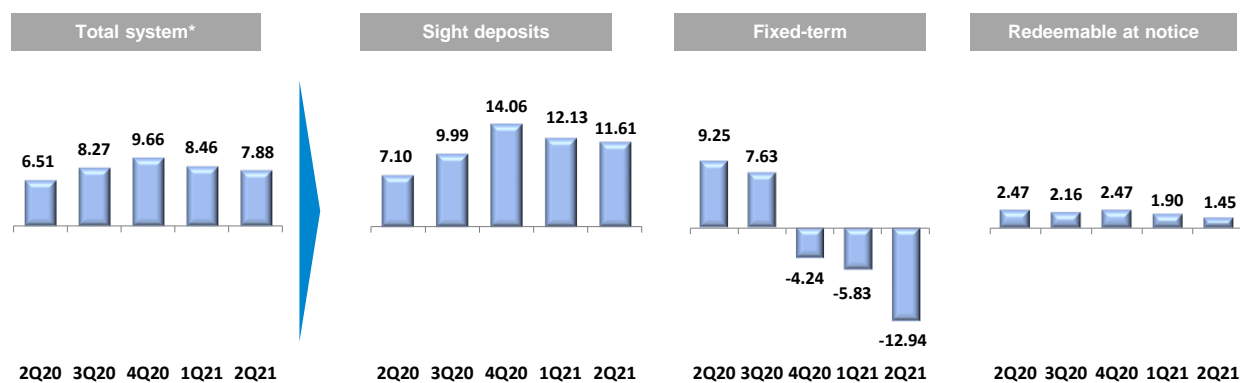
\*Note: Data according to the methodology of Banca d'Italia.

## Deposits: by maturity and type of entity

**During the second quarter of 2021, deposits recorded a year-over-year growth rate of 7.88%, after a decline of 0.58 p.p. compared to the previous quarter. Regarding deposits by maturities, all of them recorded decreases. In the case of deposits by entity, the annual growth rate accelerated for all types of entities except for major banks.**

- ▶ In the second quarter of 2021, the y/y growth rate of total deposits dropped down to 7.88%, after decelerating 0.58 p.p. compared to 1Q21.
- ▶ Regarding the maturity of the deposits, sight deposits decreased their y/y growth rate by 0.52 p.p. relative to the previous quarter, reaching a 11.61% rate. Moreover, fixed-term deposits suffered a decline in their y/y growth rate for the fourth consecutive quarter, decreasing their rate by 7.11 p.p. relative to 2Q21, down to a negative rate of -12.94%. Finally, the year over year growth rate of deposits redeemable at notice experienced a slight decline with respect to the previous quarter, decreasing by 0.46 p.p. and reaching a 1.45% rate in the second quarter of 2021.
- ▶ The annual growth rate of deposits accelerated for all types of entities, with the exemption of Major banks experiencing a decrease of -0.34 p.p. down to a 7.20% rate. Large and medium banks increased their y/y growth rate by 3.88 p.p. relative to 1Q21, reaching a 3.44% rate, while that of Small and Minor banks also rose by 0.73 p.p. up to 8.60%.

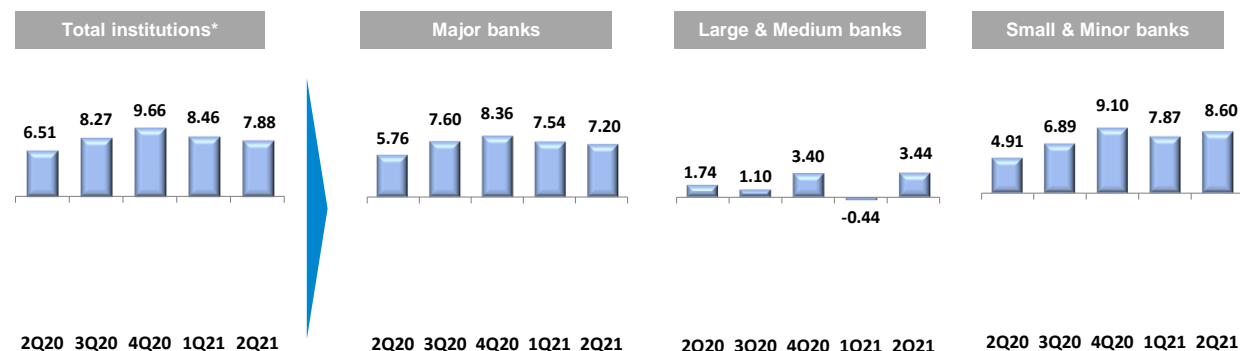
### DEPOSITS BY MATURITY (Year-over-Year %)



Source: Banca d'Italia.

\*Note: Data according to the methodology of Banca d'Italia. See definitions in Annex.

### DEPOSITS BY TYPE OF ENTITY (Year-over-Year %)\*



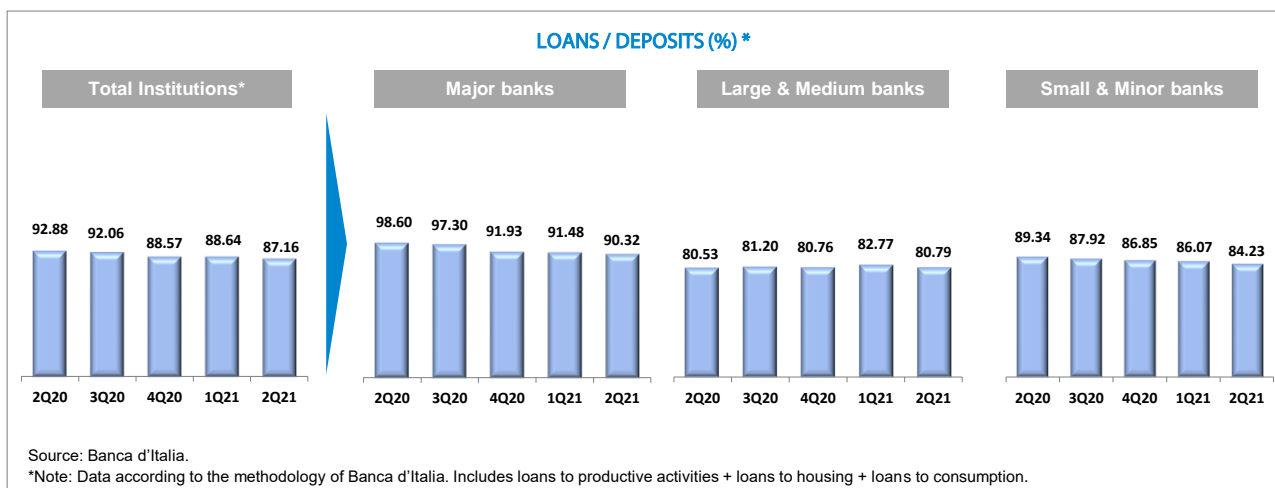
Source: Banca d'Italia.

\*Note: Data according to the methodology of Banca d'Italia. See definitions in Annex.

## LTD ratio

***In the second quarter of 2021, the loans-to-deposits ratio of the Italian financial system as a whole suffered a decline when compared to the same quarter of the previous year, standing at a ratio of 87.16%. 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 2Q20, except Large and Medium banks.***

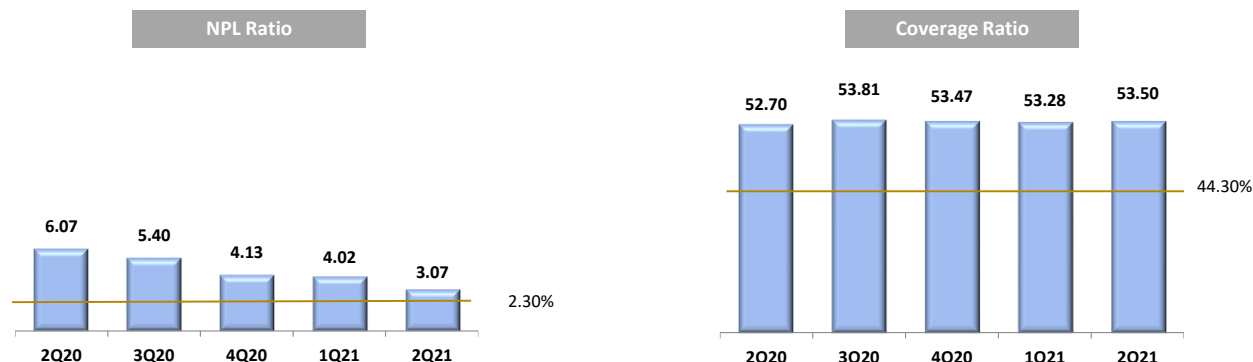
- ▶ In the second quarter of 2021, the loans-to-deposits ratio of the Italian financial system as a whole stood at 87.16%, turning to a net borrower position. Compared to the previous quarter, the LTD ratio decreased by 1.49 p.p.. Moreover, it declined from 92.88% in 2Q20 to 87.16% in 2Q21, after an annual fall of 5.73 p.p., motivated by the higher annual increase in the volume of deposits (+7.88%) than in the amount of loans (+1.76%).
- ▶ Regarding the LTD ratio by entities size, all types of entities recorded decreases in their ratios during the second quarter of the year compared to the previous one, standing as net borrowers.
- ▶ Major banks recorded an LTD ratio of 90.32% at the end of the second quarter, after a decrease of 1.16 p.p. when compared to 1Q21 and a decline of 8.28 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 (+7.20%) than of loans (-1.80%).
- ▶ As far as Large and Medium banks are concerned, their LTD ratio decreased by 1.98 p.p. when compared to 1Q21, while increasing by 0.27 p.p. compared with 2Q20.. This behaviour was caused by the higher annual growth rate of loans (+3.78%) than of deposits (3.44%).
- ▶ With respect to Small and Minor banks, their loans to deposits ratio stood at 84.23%, after a decline of 1.84 p.p. and 5.11 p.p. relative to 1Q21 and 2Q20, respectively. This behaviour was explained by the greater annual growth of deposits (+8.60%) than loans (+2.39%).



## Key ratios: NPL, coverage and efficiency

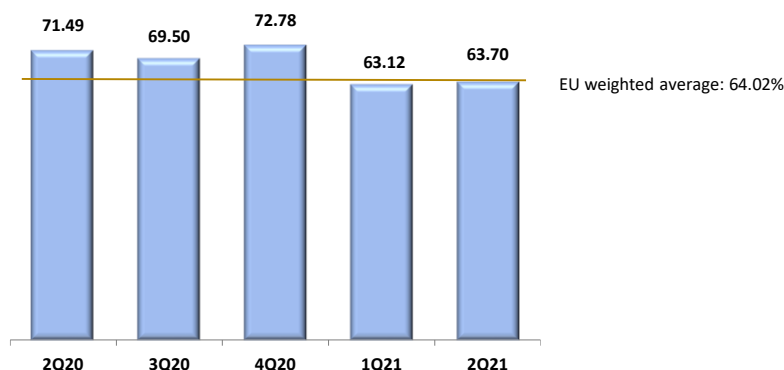
**In the second quarter of the year, the NPL ratio continued its downward trend decreasing 0.95 p.p. relative to 1Q21, down to a 3.07% ratio. As for the coverage ratio, it stood at 53.50% during this period, after a 0.22 p.p. rise compared with the previous quarter. In terms of efficiency, the ratio of the Italian financial system decreased with respect to same quarter of 2020, reaching a 63.70% cost-to-income ratio.**

NON-PERFORMING LOANS RATIO AND COVERAGE RATIO (%)



- ▶ In the second quarter of 2021, the Non-Performing Loans ratio stood at 3.07%, after a decrease of 0.95 p.p. when compared to the first quarter. In addition, with respect to the same quarter of the previous year, the NPL ratio declined by 3.00 p.p.. Consequently, the Italian NPL ratio was above the European Union average for this period (2.30%).
- ▶ The coverage ratio of the Italian financial system increased instead by 0.22 p.p. in the second quarter of 2021 with respect to the first quarter of 2021, up to a 53.50% ratio. Moreover, this ratio was 0.80 p.p. higher than the one registered in the same quarter of the previous year (52.70%). All in all, the coverage ratio of Italy for the second quarter of 2021 was higher than the EU average (44.30%).
- ▶ In terms of efficiency, the efficiency ratio of the Italian financial system increased by 0.58 p.p. compared to the first quarter of the previous year and decreased by 7.79 p.p. relative to the same quarter of the previous year, standing at a 63.70% cost-to-income ratio. The Italian financial system was more efficient than the EU average during this period (64.02%), although by a slight margin.

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<sup>(1)</sup>

**During 2020, the decrease in the number of branches of the Italian banking sector was less accentuated than in 2019, registering an annual growth rate of -3.42%, after an acceleration of 0.90 p.p.. Regarding the number of employees of the Italian financial system, it declined by 2.45% compared to 2019.**

- During 2020, the downward trend in the number of branches of the Italian financial system slowed down with respect to the previous year. At the end of 2020, the y/y growth rate of branches stood at -3.42%, 0,90 p.p. higher than at the end of 2019. In this context, a total of 23,481 branches were open at the end of 2020, meaning that 831 branches had been closed compared to the previous year.
- By size, all types of banks recorded negative y/y growth rates in 2020. Nevertheless, the annual growth rate of branches of Major banks was the only one which decelerated with respect to the previous year, decreasing by 4.43 p.p., down to a -4.24% rate. This meant a reduction of 539 branches for Major banks, recording a total of 12,180 branches at the end of 2020.
- Regarding Large and Medium banks and Small and Minor banks, their annual growth rate accelerated by 6.55 p.p. (-2.99%) and 6.07 p.p. (-2.09%) , respectively. Therefore, their number of branches decreased by 165 and 127, respectively, with a total of 5,350 branches for Large and Medium banks and 5,951 for Small and Minor banks at the end of 2020.
- In turn, the number of employees decreased in 2020, down to 275,224 employees, 2.45% less than in 2019. This fall was mainly driven by the behaviour of Major Banks, which reduced their number of employees by 6,132, 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.

## 5. 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.ceca.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's.com/>
- ▶ European Central Bank:  
<https://www.ecb.europa.eu/>
- ▶ Banco Central de la República Argentina:  
[www.bcra.gov.ar/](http://www.bcra.gov.ar/)
- ▶ Banco Central de Chile:  
[www.bcentral.cl/](http://www.bcentral.cl/)
- ▶ Banco de México:  
[www.banxico.org.mx/](http://www.banxico.org.mx/)
- ▶ Banco Central do Brasil:  
[www.bcb.gov.br/](http://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/](http://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/>

### 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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***Barbara Chiloiro***

Partner of Management Solutions  
Barbara.Chiloiro@ms-italy.com

***Manuel Ángel Guzmán Caba***

Partner of Management Solutions  
Manuel.Guzman@managementsolutions.com

***Management Solutions***

Tel. +(39) 06 9779 7026  
Fax. +(39) 06 97797026  
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