

A FOREIGN VIEW ON THE PROBLEMS OF THE ITALIAN FINANCIAL AND BANKING SYSTEM:

A bunch of measures necessary

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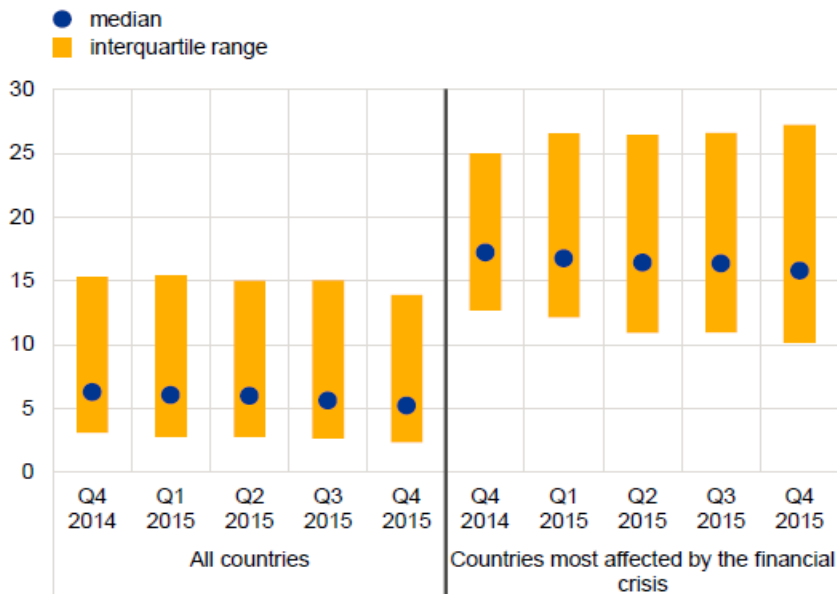
Seeking Europe
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High proportion of non-performing loans

Banks' NPE ratios remain persistently high in some vulnerable countries

Non-performing loan ratios of significant banking groups in the euro area

(Q4 2014 – Q4 2015; percentage of loans; median and interquartile range for SBGs)



Source: ECB.

Note: Euro area countries most affected by the financial crisis include Cyprus, Greece, Ireland, Italy, Portugal, Slovenia and Spain.

Without tougher action, the NPL issue looks set to persist a long time in several countries.

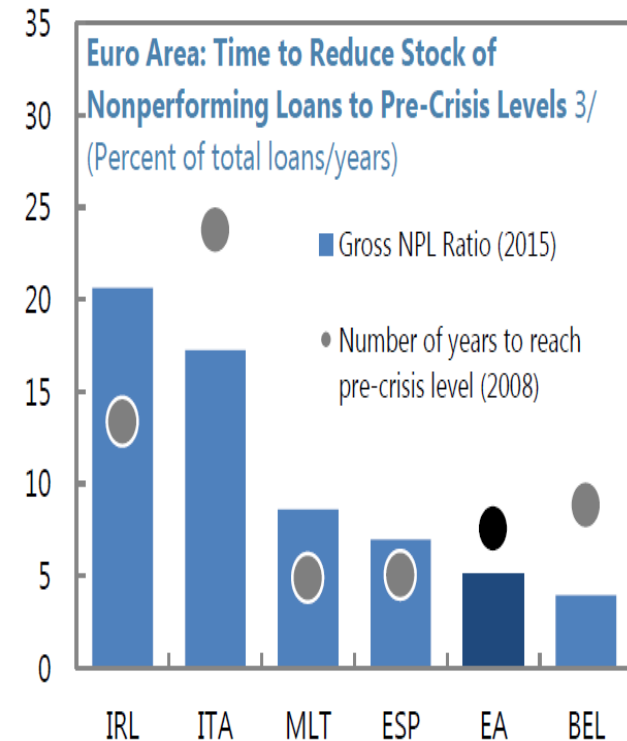


Table 20. Non-performing loans to total gross loans

In %

Country	2008	2009	2010	2011	2012	2013	2014	2015	% point increase since 2008
AUT	1.9	2.3	2.8	2.7	2.8	2.9	3.5	3.5	1.6
BEL	1.7	3.1	2.8	3.3	3.7	4.2	4.2	3.7	2.1
BGR	2.4	6.4	11.9	15.0	16.6	16.9	16.7	—	14.3
CYP	3.6	4.5	5.8	10.0	18.4	38.6	44.9	45.6	42.0
CZE	2.8	4.6	5.4	5.2	5.2	5.2	5.6	5.6	2.8
DEU	2.9	3.3	3.2	3.0	2.9	2.7	2.3	—	—
DNK	1.2	3.3	4.1	3.7	6.0	4.6	4.4	3.6	2.4
ESP	2.8	4.1	4.7	6.0	7.5	9.4	8.5	6.3	3.5
GRC	4.7	7.0	9.1	14.4	23.3	31.9	33.8	34.7	30.0
HRV	4.9	7.7	11.1	12.3	13.8	15.4	16.7	16.3	11.5
HUN	3.0	8.2	10.0	13.7	16.0	16.8	15.6	11.7	8.7
IRL	1.9	9.8	13.0	16.1	25.0	25.7	20.6	14.9	13.0
ITA	6.3	9.4	10.0	11.7	13.7	16.5	18.0	18.0	11.7
EA	2.8	4.8	5.4	6.0	7.5	7.9	6.8	5.7	2.9
EU	2.8	4.7	5.4	5.8	6.7	6.4	5.6	5.6	2.9

Source: World Bank.

Table 23. Non Performing Exposure (NPE) Ratios by Sector

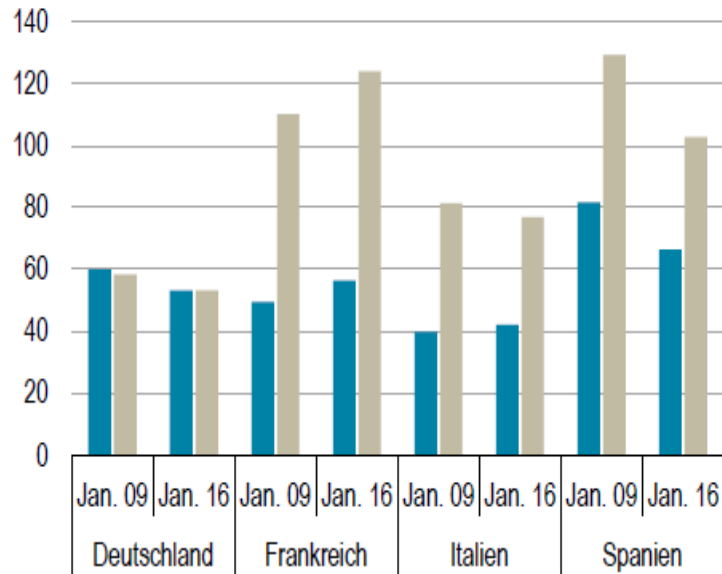
Asset-weighted average; in percent of total assets, 2014

	Total	Corporate	Retail	Total (in % of GDP)
AUT	4.6	5.0	4.0	2.0
BEL	3.4	5.1	2.4	2.3
BGR	16.7	19.2	17.7	11.9
CYP	39.4	46.3	29.6	48.0
DEU	2.5	2.3	2.6	1.4
FRA	3.2	2.9	3.4	2.7
GRC	25.3	23.2	26.9	25.4
HRV	16.7	30.5	12.0	8.1
HUN	15.6	13.8	18.9	8.7
IRL	32.2	50.2	21.7	40.9
ITA	17.6	21.0	13.7	12.0

Source: Aiyar et al. (2015).

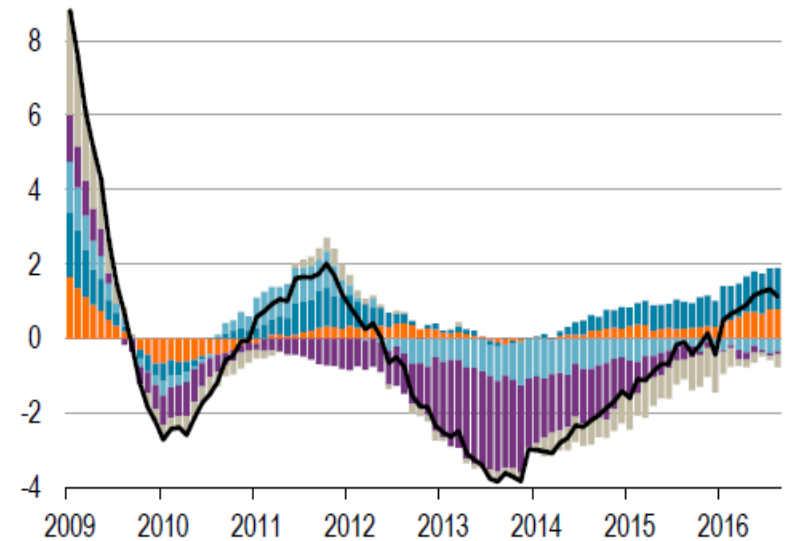
Macro-financial environment

Private Verschuldung



■ Haushalte (in % des BIP)
■ Unternehmen (in % des BIP)
 Private Verschuldung umfasst Buchkredite und Wertpapiere

Beiträge zum Buchkreditwachstum, Unternehmen

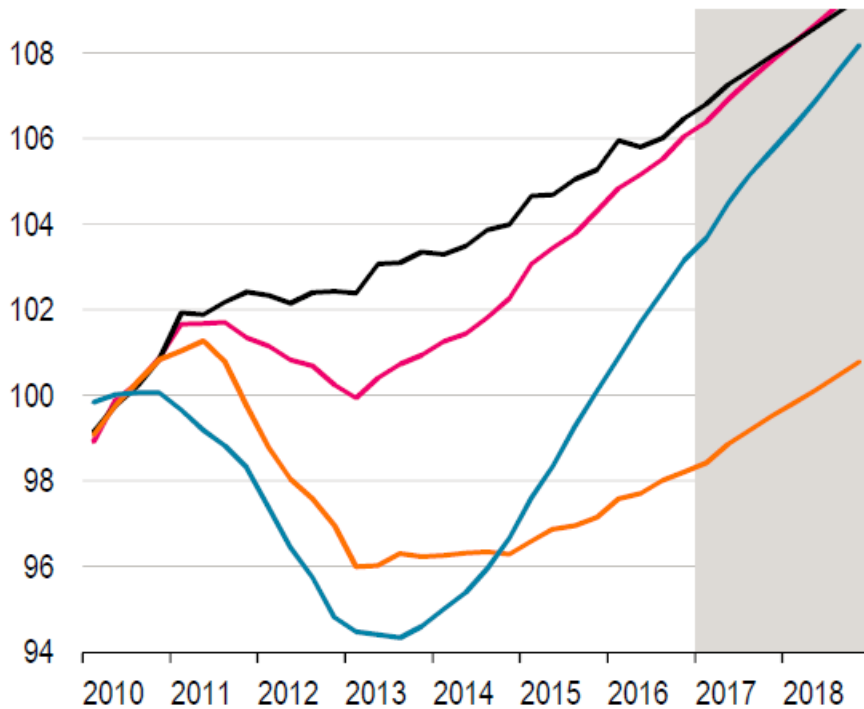


■ Deutschland (% J/J) ■ Frankreich (% J/J)
■ Italien (% J/J) ■ Andere (% J/J)
■ Spanien (% J/J) ■ Gesamtwachstum (% J/J)

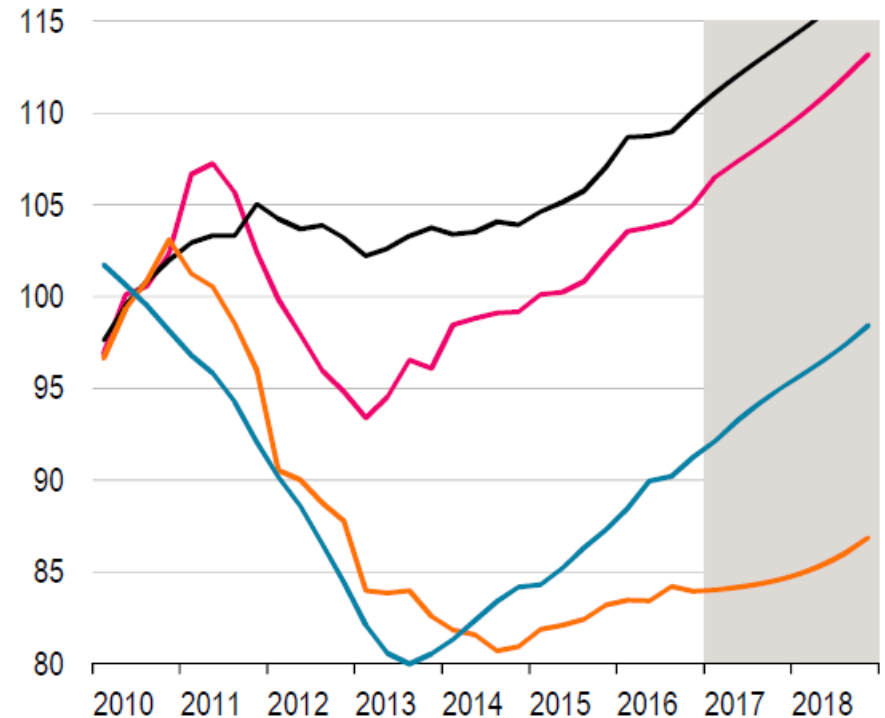
Kreditwachstum bezieht sich nur auf Buchkredite von MFIs an nichtfinanzielle Kapitalgesellschaften im Euroraum (EZB-Monatsstatistik).

Macro-financial environment

Bruttoinlandsprodukt



Bruttoanlageinvestitionen



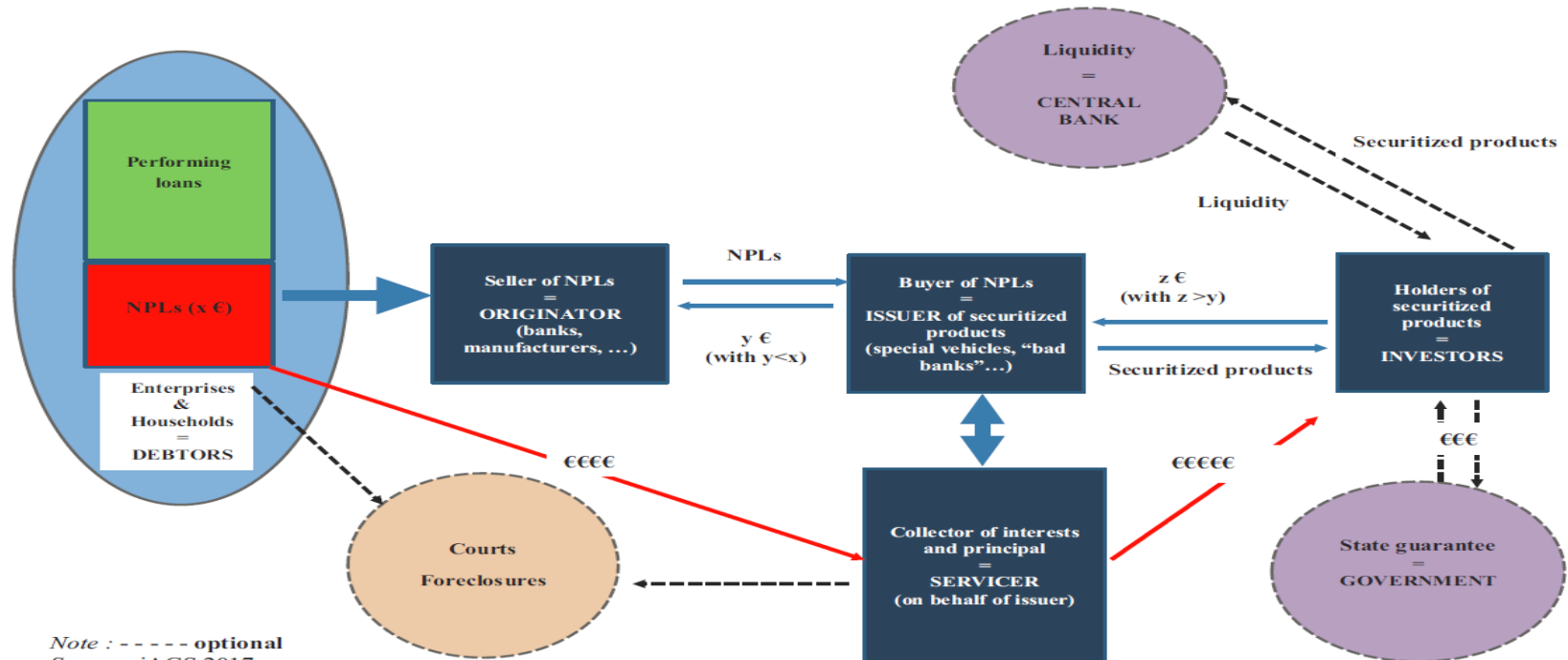
- Euroraum (Mittelwert 2010 = 100)
- Frankreich (Mittelwert 2010 = 100)
- Spanien (Mittelwert 2010 = 100)

- Italien (Mittelwert 2010 = 100)
- Prognose

Recent developments in the banking sector

- Banca Monte dei Paschi di Siena (MPS) agrees with the government plans for resolution, which itself represents a prerequisite for the Commission to accept them
- European institutions confirm that the MPS resolution should not be considered as a guideline that future bank resolution will be handled without a BRRD-typical bail-in
- Two smaller banks also asked for government help: Banca Popolare di Vicenza and Veneto Banca

Solutions to relieve bank balances



- See above: Securitization of NPL with state guarantees, similar to Garanzia Cartolarizzazione Sofferenza – has this worked so far ?
- Private sector fond solution (Atlante 1+2), which seems to have brought a slight improvement in 2016
- International evidence in favour of bad bank solutions (National Asset Management Agency in Ireland, Management Company of Assets Arising from the Restructuring of the Banking sector in Spain (Sareb) or FMS Wertpapiermanagement in Germany) delivers only a rough guideline

More structural solutions

- All the European institutions involved (ECB, SSM, Commission) approved the process of a precautionary recapitalization of Monte die Paschi di Siena so far; this makes a MPS recapitalization by the government amounting to 6.6 bn (70% equity holding) highly probable
- The ECB will continue to provide an expansionary monetary policy stance changing not much before 2018; this clearly helps the European and Italian recovery so that parts of the non-performing loans might indeed disappear under a stable growth regime (by definition a loan is non-performing, if debt-service is missing longer than 90 days)
- UniCredit and others look like they can achieve a capital market solution for recapitalization
- What if MPS is not able to sell any further part of its NPL portfolio to specialised private sector funds? Ring-fencing systemically relevant institutions is absolutely necessary.
- At the moment European help might be restricted to passive reaction on higher deficit spending
- It might be just honest to admit that in some cases guarantees / transfers will be necessary to clean up previous stocks for further integration; this can include a European bad bank