

# Italian Banks

Sector trends – January 2024

## Funding cost growth decelerating

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Italian Equity Market

January 2024 data show that funding cost growth is decelerating (+1bp M/M), and non-fin. corp and household yields are hanging tough: this implies that 1Q24 may remain a positive quarter in terms of the commercial spread trend. On the other hand, volumes remain weak. NPLs are slightly up but it seems to be a seasonal effect. Banks are still not increasing their portfolios of Govies.

■ **Lending:** January 2024 volumes remained sluggish, penalized by high Euribor rates: this was especially the case for corporates (-5% Y/Y) while households were -2% Y/Y. All in all, the net stock of loans on banks' balance sheets was €2.18tr (-6% Y/Y), o/w €1.28tr related to the real economy (-3% YoY). The mortgage stock was fairly flattish M/M at €424bn, while consumer lending was +4% Y/Y to €121bn; non-fin. corp remained weak at €615bn -5% Y/Y.

■ **Asset quality:** gross/net NPLs remained under control at €30/18bn, in line with what banks stated during 4Q23 conf.calls. Coverage was down to 41% on sales and disposals, typical in 4Q23.

■ **Lending rates:** lending rates were mixed: non-fin. corp net new money was up 2bp M/M with the stock up 5bp; on the other hand, household mortgages (NNM APRC) were sharply down to 438bp (-45bp M/M) with the stock flattish M/M at 314bp.

**Securities portfolio:** banks' securities portfolios are worth some €912bn (-1% MoM, -3% Y/Y); of these, some €351bn are IT Govies (-3% MoM, -9% Y/Y); once again, we stress that this absolute number is fairly low, and we believe that banks will soon start going longer govies in order to freeze the high coupon paid now.

■ **Funding:** given high-for-longer rates and the ongoing switch from liquidity to Govies, also helped by different taxation, funding was weak in January '24 with current accounts plunging to €1.3tn (-3% M/M, and still -7% YoY). In point of fact, despite this increase, banks have kept funding costs under control.

■ **Funding rates:** all in all, funding costs in January '24 increased 3bp M/M and 50bp Y/Y on the back of higher rates. As we stated one month ago, to put things into perspective, the YoY increase remains far lower than the surge in lending rates, with banks keeping deposit rates broadly under control and maintaining a solid customer spread.

■ **Might the new SyRB reduce lending capacity?** Leaving aside the usual topic on banks regarding deposit beta, we stress the focus on the new SyRB, which may hinder lending growth. The Bank of Italy launched a public consultation on the activation of a systemic risk buffer (i.e. SyRB) of 100bp on domestic credit/counterparty RWAs; this is meant to be a capital buffer envisaged by the EU legislation and immediately releasable by macroprudential authorities when deemed necessary. The buffer target would be reached gradually: 50bp by FY24 and 50bp by 1H25. The SyRB, which we argue may be seen as a top-up on the SREP, is aimed at further increasing banks' resilience to shocks, enhancing their capacity to absorb possible losses. The BoI says that analyses show that the costs of introducing the buffer would be extremely low in the current macroeconomic environment (we argue that banks have a buffer on the SREP which is far higher than 100bp). We assume that any further increase in minimal capital ratios, especially on the credit side, may actually force banks to diminish their lending capacity, specifically to reduce the absorption of this additional buffer.

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