

Financial stability issues in the EA

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The views expressed here do not necessarily reflect those of the Bank of Italy or the Eurosystem.

Four issues

Issue #1: Debt sustainability of HHs, NFCs, RE

Issue #2: The outlook for bank profitability

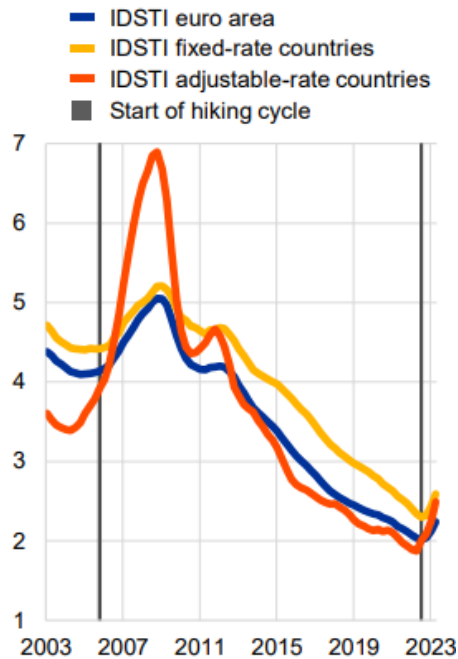
Issue #3: Shrinking liquidity (ECB balance-sheet)

Issue #4: Uncertainty and geopolitical risk

Past increases of interest rates challenge debt sustainability...

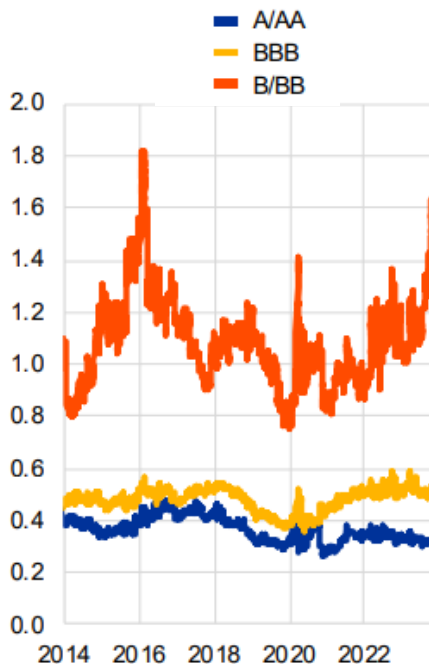
HHs Interest debt service-to-income (IDSTI) ratio

(percent)



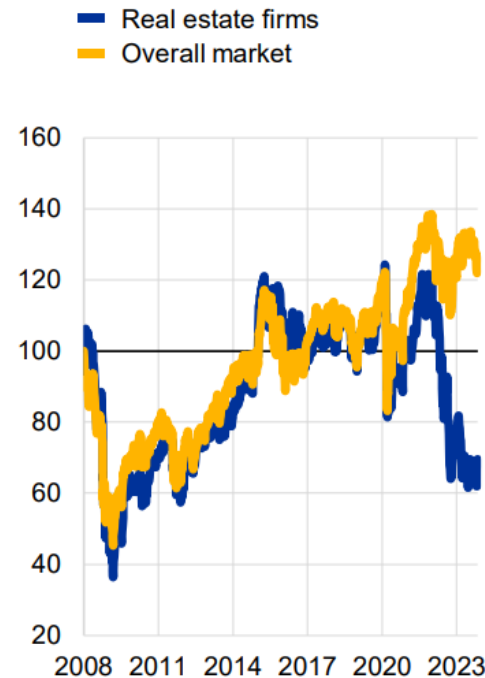
Corporate EDFs in the euro area, by rating category

(percent)



Stock prices of real estate firms vs overall market

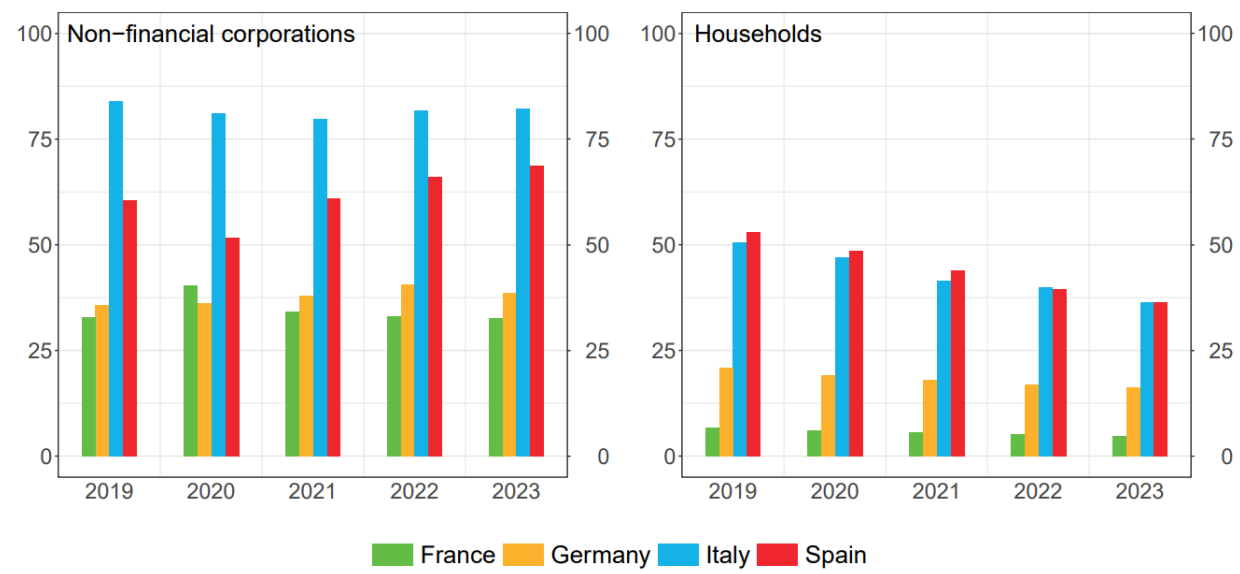
(indices: Jan 2008 = 100)



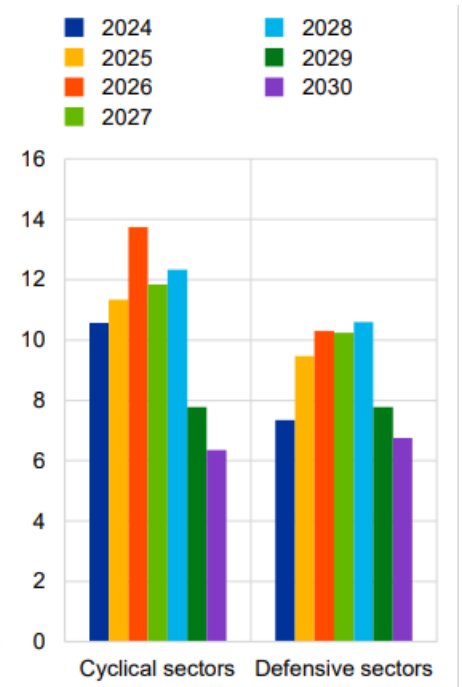
Source: ECB, Financial Stability Review, November 2023.

...also in light of the repricing of maturing debt

Share of variable-rate bank loans
(percent)



Maturity wall for euro area non financial firms, by type of industry
(percent)

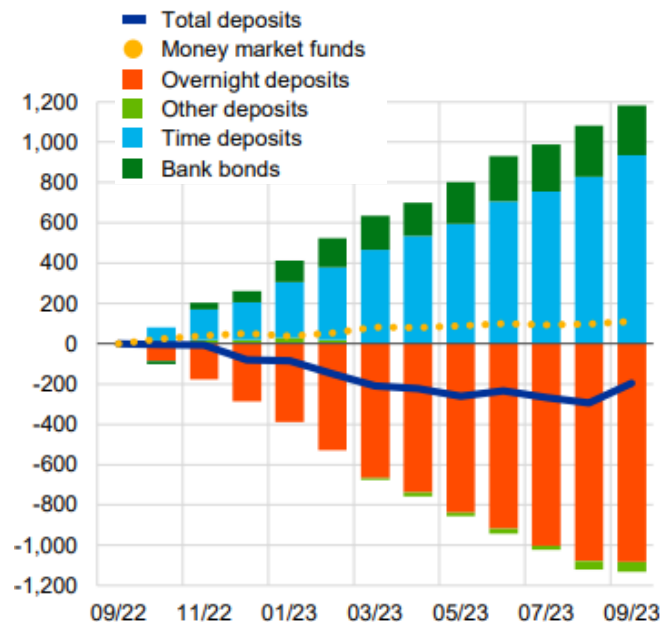


Sources: lhs, ECB and Banca d'Italia; chart is taken from F. Panetta, *Economic developments and monetary policy in the euro area*, Speech at the 30th ASSIOM FOREX Congress, 10 February 2024; rhs: ECB, Financial Stability Review, November 2023. rhs: corporate bonds not in default and issued by euro area entities; cyclical sectors include consumer discretionary, technologies, energy, materials, industrials and communications; defensive sectors include consumer staples, health care and utilities

Worsening NII and asset quality will imply lower bank profitability...

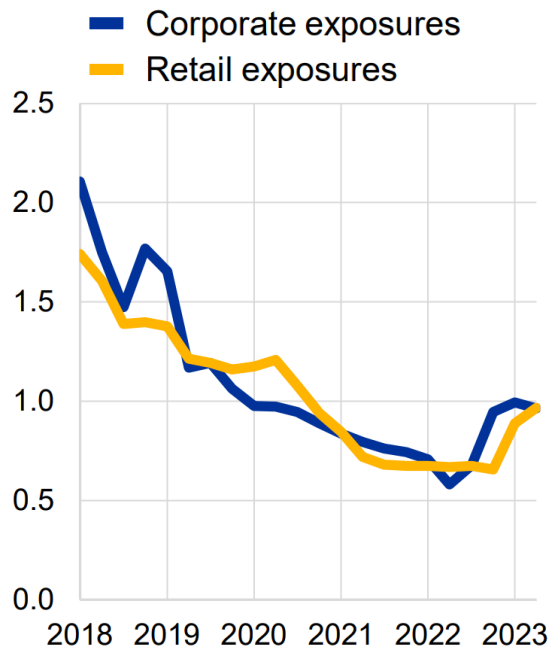
Cumulative flows of bank deposits and bonds and MMFs

(€ billion)



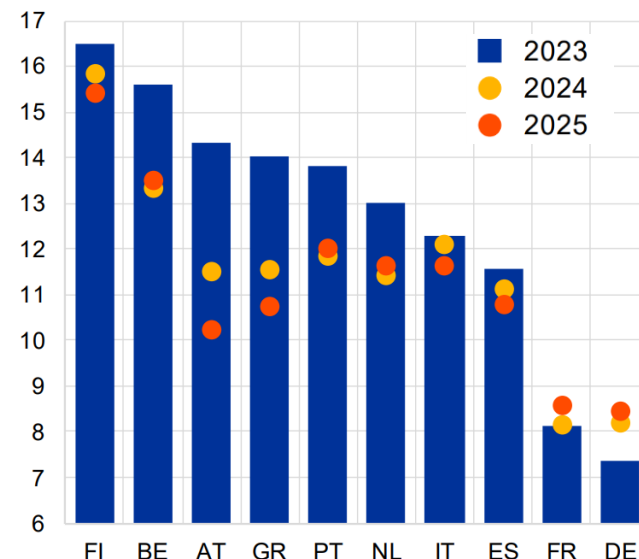
Default rates on banks' exposures

(percent)



ROE projections for euro area banks as of November 2023

(percent)

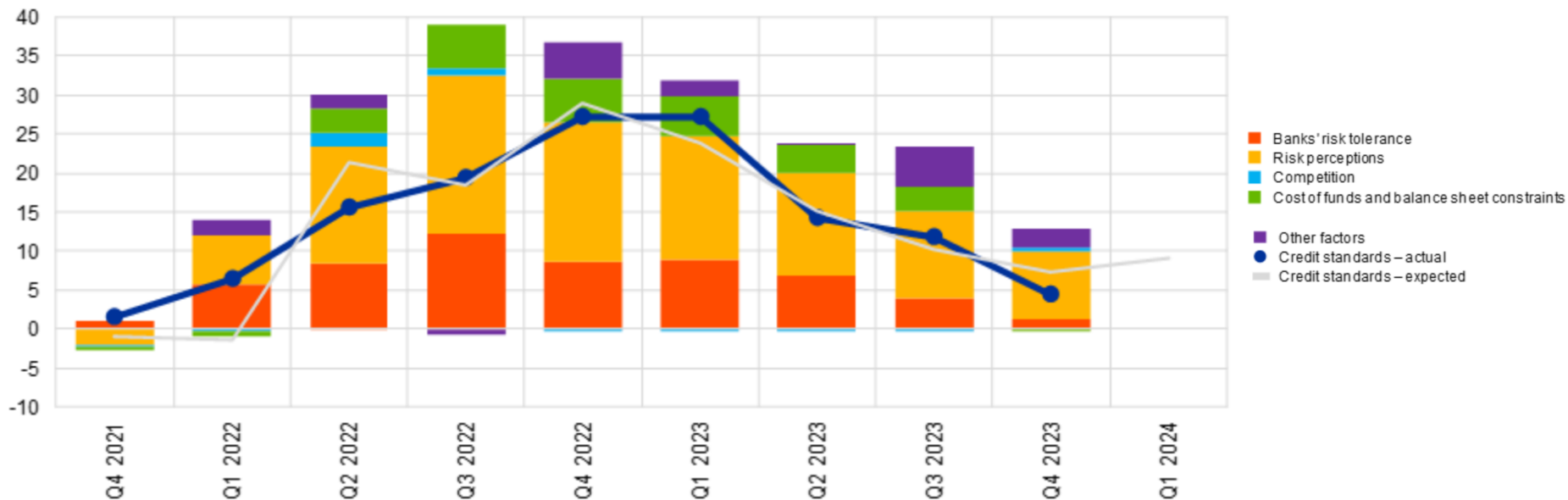


Source: ECB, Financial Stability Review, November 2023; rhs: Based on market analyst projections of ROE for a sample of 29 listed euro area banks, as of November 2023.

...possibly determining stronger supply-side effects on credit conditions

Changes in credit standards applied to the approval of loans or credit lines to enterprises and contributing factors

(net percentages of banks reporting a tightening of credit standards and contributing factors)

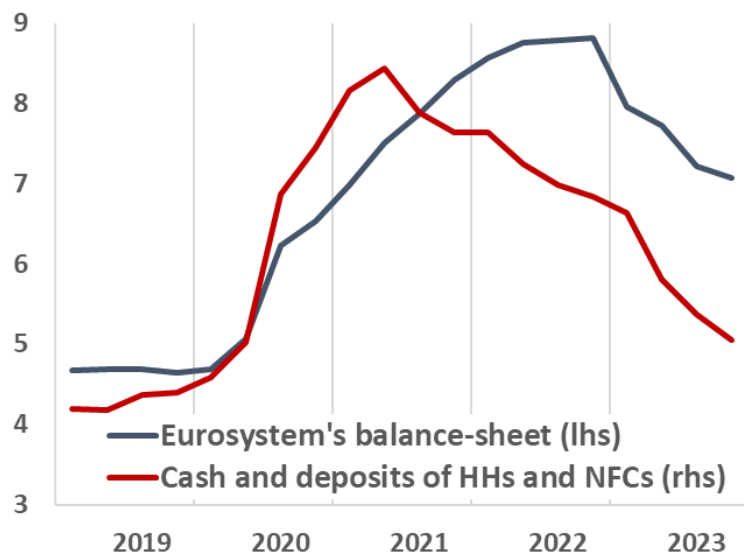


Source: ECB, Bank Lending Survey. Chart taken from P: Cipollone (ECB), *The confidence to act: monetary policy and the role of wages during the disinflation process*, Speech at an event organised by the House of the Euro and the Centre for European Reform, 27 March 2024

Shrinking liquidity buffers may increase fragility and amplify risks

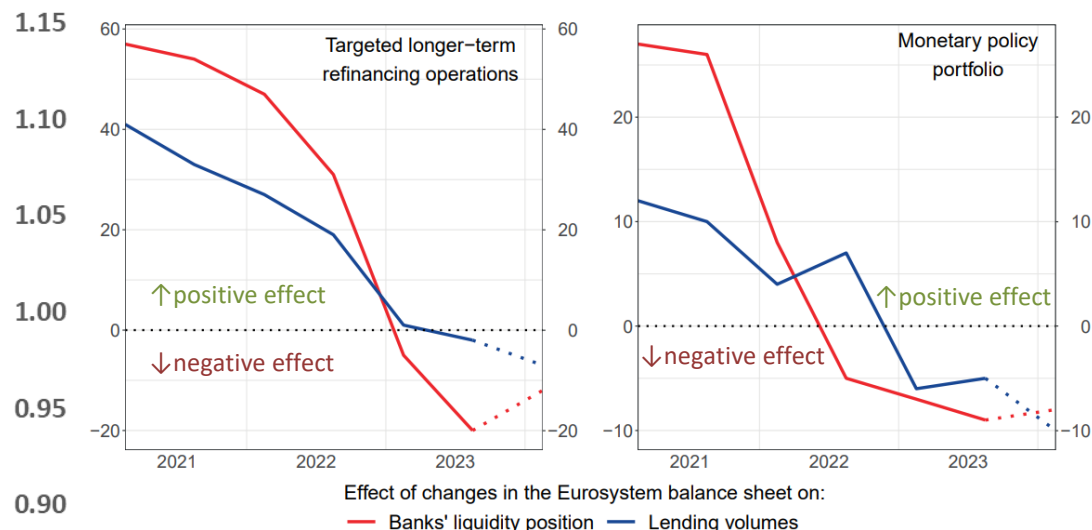
Size of the Eurosystem balance-sheet and Non-financial private sectors' liquid assets

(€ billion; as a share of GDP, in percent)



Effects of changes in the Eurosystem balance sheet on banks' liquidity position and lending

(net percentages of respondent banks)

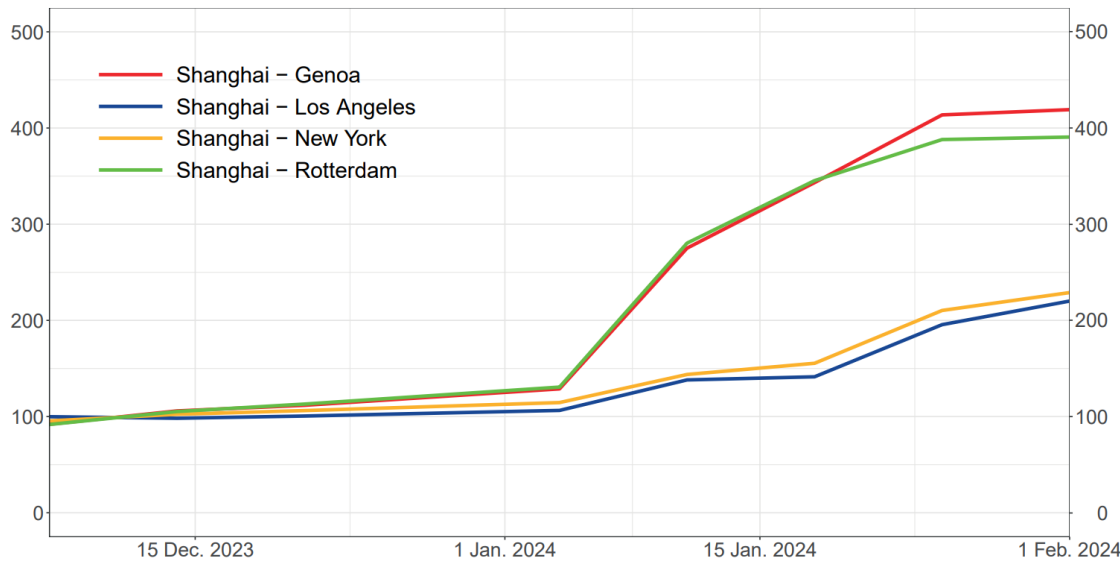


Source: ECB, Financial accounts and BLS. RHS chart is taken from F. Panetta, *Economic developments and monetary policy in the euro area*, Speech at the 30th ASSIOM FOREX Congress, 10 February 2024

Uncertainty and geopolitical risk weigh on the outlook and may trigger volatility

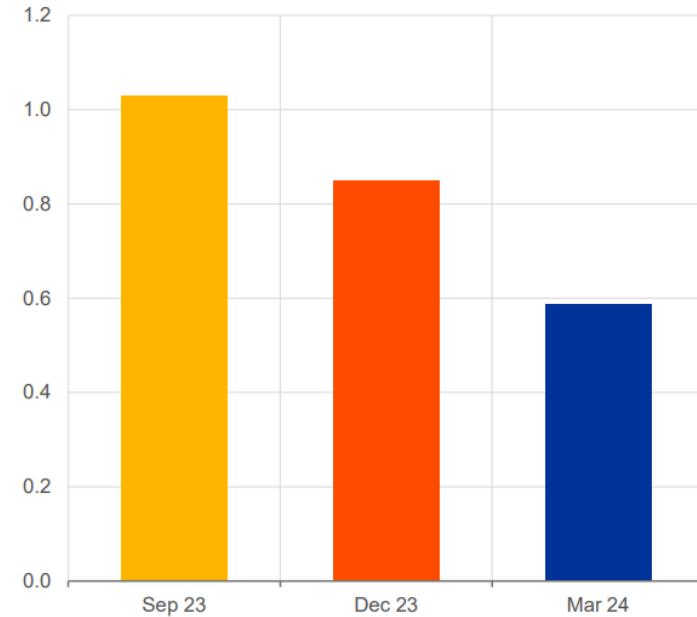
Sea freight rates for container shipping on a number of different routes

(indices: December 2023 average = 100)



Real GDP growth in 2024

(annual percentage changes)



Sources: lhs: Eikon, based on Freightos data; chart is taken from F. Panetta, *Economic developments and monetary policy in the euro area*, Speech at the 30th ASSIOM FOREX Congress, 10 February 2024; rhs: ECB and Eurosystem staff projections; chart is taken from P. Lane, *Inflation and monetary policy*, Policy Lecture at AMSE Policy Lecture at Aix-Marseille School of Economics, Marseille, 22 March 2024.

Thank you!