Statistics and analyses

Risk Outlook

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The Risk Outlook analyses the current economic situation
and the trends in financial markets in order to
identify the main risks affecting the achievement
of Consob's institutional objectives.

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but for which the completeness and accuracy cannot be guaranteed.

The opinions expressed in the Risk Outlook are the authors'
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La congiuntura e i rischi

Nel corso del 2014, i mercati azionari dell'Eurozona hanno registrato performance disomogenee e discontinue, mostrando un incremento nel primo semestre, per poi esibire una correzione al ribasso nella seconda parte dell'anno, alla luce di una ripresa economica ancora debole e dell'acuirsi delle tensioni legate alla crisi ucraina e all'incertezza politica greca. Nel complesso, alla fine del 2014 il mercato azionario tedesco ha riportato un risultato positivo, pur se modesto, proseguendo su livelli superiori rispetto a quelli registrati nel 2007; al contrario, in Spagna, Francia e, in particolare, Italia, i mercati si sono mantenuti ben al di sotto dei livelli pre-crisi. Nei primi mesi del 2015, in tali paesi gli indici azionari hanno beneficiato del miglioramento delle aspettative indotto dal programma di acquisto di titoli della BCE (EAPP, cosiddetto *quantitative easing*) approvato a gennaio e attivato all'inizio di marzo, che ha esteso il programma di acquisto sul mercato secondario di titoli emessi dal settore privato, in particolare ABS e *covered bonds*, anche ai titoli pubblici denominati in euro. Conseguentemente, il *market sentiment* degli investitori nell'area euro (implicito nei rendimenti dei mercati azionari) è migliorato mostrando un netto rialzo e interrompendo la dinamica decrescente osservata a fine 2014, connessa alla debole crescita economica e alle pressioni deflazionistiche in atto.

La durata del programma EAPP è sostanzialmente indeterminata. L'intervento, infatti, è destinato a durare almeno fino a fine settembre 2016 ma potrebbe proseguire fino a quando l'inflazione non sarà tornata stabilmente su livelli prossimi all'obiettivo di medio periodo della BCE (ossia attorno al 2% annuo). Il programma prevede acquisti di titoli (pubblici e privati) fino a 60 miliardi di euro mensili per un ammontare complessivo di circa 1.140 miliardi di euro, di cui si stima 900 miliardi di titoli emessi da istituzioni pubbliche. La ripartizione degli acquisti per paese sarà fatta in proporzione del contributo delle banche centrali nazionali al capitale della BCE (mantenendo una certa flessibilità negli acquisti mensili) e riguarderà titoli con scadenze comprese fra 2 e 30 anni. Con riferimento all'Italia, in base alle prime operazioni effettuate dalla BCE sul mercato secondario, si può stimare che l'acquisto di titoli pubblici si attesterà attorno ai 150 miliardi di euro (equivalente all'11,6% delle titoli in circolazione e al 30% circa delle emissioni previste per il biennio 2015-2016).

Il *quantitative easing,* finalizzato a influenzare variabili finanziarie e reali attraverso il canale del tasso di interesse, ha una portata più ampia delle misure di politica monetaria che l'hanno preceduto, indirizzate principalmente al settore bancario e volte a ristabilire il corretto funzionamento del meccanismo di trasmissione della politica monetaria all'economia attraverso il canale bancario (cosiddetto *bank lending channel*).

In seguito all'annuncio dell'EAAP, i rendimenti del debito sovrano sono scesi a livelli eccezionalmente bassi in tutta l'area euro e su tutte le scadenze. Conseguentemente la percezione del rischio sovrano per i paesi dell'Eurozona si è notevolmente attenuata, come si rileva anche dell'andamento dei prezzi dei CDS sul debito pubblico e dai rating impliciti nelle quotazioni di mercato. Il calo dei rendimenti di titoli pubblici ridurrà la spesa per il servizio del debito e renderà più agevole la realizzazione delle misure di contenimento del deficit da parte dei paesi con maggiori squilibri di finanza pubblica.

Il programma EAPP inoltre, è finalizzato a ridurre il costo dell'indebitamento per imprese e famiglie, allo scopo di sostenere investimenti e consumi e, da ultimo, portare il livello dell'inflazione verso il 2%. In effetti, l'espansione monetaria sta spingendo verso il basso i rendimenti obbligazionari delle grandi imprese europee, che nei primi mesi del 2015 sono scesi sotto il 2% per le obbligazioni con rating pari a BBB e intorno all'1% per le emissioni con rating superiore, sia per il settore bancario sia per quello non bancario.

Una ripresa di consumi e investimenti dovrebbe innescare una maggiore domanda di credito bancario; al contempo, la vendita alla BCE di titoli sovrani detenuti da istituzioni private potrebbe consentire di liberare risorse a favore dell'economia reale espandendo l'offerta di credito al settore privato. Per i paesi periferici, come Italia e Spagna, in cui i titoli pubblici domestici rappresentano rispettivamente il 11 e 10% degli attivi bancari (dati al terzo trimestre 2014) il possibile ribilanciamento del portafoglio titoli assieme al miglioramento della fiducia delle imprese, potrebbe determinare una ripresa dei prestiti bancari a imprese e famiglie, interrompendo il calo ancora in atto. Già nel corso del 2014, in effetti, le banche italiane e spagnole hanno cominciato ad allentare le condizioni di accesso al credito per le imprese non finanziarie, anche grazie alla riduzione del costo del *funding* e al generale miglioramento delle condizioni di liquidità e patrimonializzazione.

In linea generale, le maggiori banche europee hanno beneficiato di significative ricapitalizzazioni, effettuate a partire dal 2011 (essenzialmente con fondi pubblici in Spagna, Germania, Francia) e proseguite nel 2014 in vista dell'Asset quality review (AQR) e degli stress test propedeutici all'avvio del Single supervisory mechanism (SSM). L'aumento del patrimonio delle banche si è riflesso nell'innalzamento dei multipli e della capitalizzazione di mercato. Anche la redditività, in rapporto agli attivi ponderati per il rischio (RWA) ha mostrato un miglioramento per le maggiori istituzioni creditizie italiane, spagnole e inglesi, mentre è rimasta stabile in Germania e si è ridotta in Francia. Tuttavia, il recupero il termini di redditività sembra riconducibile al calo dell'RWA; il margine di intermediazione si è infatti ridotto in tutti i maggiori paesi europei, ad eccezione della Francia, mentre l'efficienza operativa è rimasta pressoché stabile. La qualità del credito mostra invece un andamento disomogeneo tra paesi, evidenziando una certa stabilità in Francia e un miglioramento in Germania e Spagna. In Italia invece prosegue la crescita delle sofferenze sebbene ad un tasso notevolmente inferiore rispetto agli anni precedenti.

Il perdurante deterioramento della qualità del credito per le banche italiane rispecchia la vulnerabilità delle imprese non finanziarie che restano piuttosto deboli. In dettaglio, nel 2014, il 90% delle società non finanziarie italiane ha mostrato un tasso di crescita del fatturato inferiore alla propria media degli ultimi 10 anni, mentre le imprese in perdita sono state circa l'11% del totale (in linea con quanto rilevato per le imprese spagnole e inglesi). Inoltre le imprese italiane continuano a registrare il maggior *leverage* nel contesto europeo, così come la più alta quota di imprese che mostrano contemporaneamente bassi livelli di *payout* del debito e copertura dei debiti a breve.

Nonostante il *quantitative easing*, i mercati finanziari europei restano esposti a numerosi rischi per la crescita economica. Il deprezzamento dell'euro, accentuato dalle politiche monetarie divergenti di BCE e FED, potrebbe contribuire a stabilizzare significativamente la crescita nell'Area euro favorendo l'incremento delle esportazioni. Tuttavia, se la domanda globale, in particolare quella dei paesi emergenti, si rivelasse più debole di quanto atteso, la ripresa dell'export europeo potrebbe risultarne compromessa. Inoltre, i cambiamenti inattesi nel percorso di normalizzazione della politica monetaria statunitense, indotti da un eccessivo apprezzamento del dollaro in un contesto di crescita globale ancora poco sostenuta, non possono essere esclusi. Infine, il futuro andamento del prezzo del petrolio resta incerto, alla luce delle tensioni geopolitiche in grado di determinare improvvise fluttuazioni dell'offerta.

Inoltre, l'aumento della frammentazione finanziaria nell'Area euro resta un problema, sebbene nei mercati azionari e obbligazionari il livello di eterogeneità tra paesi si sia ridotto rispetto alla fase più acuta della crisi del debito sovrano. Questa dinamica ha riflesso presumibilmente il minore divario nelle aspettative economiche tra i paesi dell'area, i progressi realizzati nel percorso di riforme strutturali, l'impatto positivo della politica monetaria e l'incremento di liquidità sui mercati a livello globale con il conseguente fenomeno del *search-for-yield*. Sui mercati non azionari, a seguito degli interventi BCE, i rendimenti dei titoli pubblici hanno mostrato un andamento decrescente, verso livelli probabilmente maggiormente in linea con i fondamentali fiscali e macroeconomici dei singoli paesi e meno soggetti agli effetti negativi del contagio. Nel settore bancario e non finanziario il grado di frammentazione resta tuttavia significativo. Con riferimento al settore non finanziario, il divario nei costi e nelle condizioni di accesso al credito per le imprese dei diversi paesi dell'area euro è cresciuto rispetto ai livelli pre-crisi ed è rimasto ampio nel 2014. Il differenziale dei tassi d'interesse sui prestiti bancari fra paesi core e periferici risulta infatti elevato, pur mostrando un andamento discendente nel corso dell'anno. Il divario appare più accentuato per le piccole e medie imprese (PMI), con conseguenti riflessi negativi per quei paesi, come l'Italia, in cui le PMI rappresentano una quota rilevante dell'intero tessuto produttivo. Con riferimento al settore bancario, una misura del grado di integrazione finanziaria fra gli enti creditizi dell'Eurozona è

rappresentata dalle attività bancarie transfrontaliere. Se si esclude la Francia, l'esposizione delle banche europee verso gli istituti di credito dei paesi dell'Area è diminuita a partire dal 2011. Una dinamica del tutto analoga ha caratterizzato l'attività di prestito al settore non finanziario privato. Un aumento della frammentazione finanziaria si evidenzia anche negli squilibri dei saldi di Target2, che continuano ad essere significativi rispetto ai livelli del 2007.

Il calo dell'integrazione finanziaria tra i paesi dell'Area euro evidenzia la necessità di ulteriori interventi di politica economica a completamento delle iniziative di politica monetaria. L'attuazione della Banking Union dovrebbe contribuire alla ripresa dei flussi di credito transfrontalieri verso l'economia reale e alla convergenza dei tassi d'interesse sui prestiti nei vari paesi.

La realizzazione di un autentico mercato unico dei capitali, tuttavia, necessita di ulteriori iniziative di *policy*, quale ad esempio la Capital Market Union (CMU) per i 28 paesi membri. La CMU attualmente allo studio da parte della Commissione europea, rappresenta un progetto in grado di promuovere un maggiore sviluppo dei mercati di capitali, in modo da fornire alle imprese, in particolare a quelle piccole e medie, fonti di finanziamento alternative al credito bancario. Tali imprese si trovano a fronteggiare condizioni reddituali e finanziarie molto diverse nei maggiori paesi dell'Area euro, in peggioramento in Italia a fronte di un miglioramento in Germania e Spagna. Nel 2014 tra i problemi percepiti come più pressanti dalle PMI europee hanno assunto maggiore rilevanza la regolamentazione, il costo del lavoro e la disponibilità di personale altamente qualificato; l'accesso al finanziamento resta un problema rilevante in Italia. La Commissione europea svilupperà delle proposte finalizzate a semplificare l'accesso delle imprese al mercato dei capitali per la raccolta di finanziamenti anche transfrontalieri; migliorare la disponibilità di informazioni sul merito di credito delle PMI, in modo da facilitare le scelte degli investitori; sostenere la creazione di nuovi fondi europei per gli investimenti a lungo termine, volti a convogliare risorse verso progetti infrastrutturali e di lungo periodo.

Trends and risks

In 2014, Eurozone equity markets recorded heterogeneous and discontinuous performances, showing an upward trend in the first semester and suffering a downward correction in the second half of the year, when the area's sluggish and patchy recovery together with heightened geopolitical risks in neighboring regions became a concern. Overall, at the end of 2014 the German stock market delivered a positive (although moderate) return, further exceeding with respect to 2007 levels, while Spanish, French and especially Italian markets were still lagging far behind their pre-crisis levels. In the first months of 2015, in the aforementioned countries equity market indexes were boosted by the improvement in the expectations ahead of the ECB's expanded asset purchase programme (EAPP, so called quantitative easing) launched in January and started in early March, combining the purchase in the secondary market of euro-denominated public sector securities (PSPP) with the already implemented repurchase of asset-backed securities (ABSPP) and covered bonds (CBPP3). Consequently, in the euro area investors' market sentiment (as implied by stock market returns) switched to an upward trend, thus reversing the fall experienced till the end of 2014 in the wake of a persisting subdued growth, weak investment and deflationary pressures.

The EAPP is basically an open-ended programme, intended to be carried out until the end of September 2016 and, in any case, until the adjustment in the path of inflation becomes consistent with the ECB's medium term inflation target (i.e. rates below, but close to, 2%). EAPP purchases, to be carried out up to the tune of 60 billion per month, are estimated around 1.140 billion of euros, with sovereign bonds-buying accounting for 900 billion of euros. Purchases will be made roughly in proportion to the capital that each member central bank has contributed to the ECB (though that guideline may not be strictly followed every month), along the 2-30 years maturity spectrum. For Italy, this implies an estimated purchase of bonds around 150 billion euros (11.6% of total outstanding 2-30 years bonds, around 30% of 2015-2016 estimated gross issues).

Differently from the previous monetary policy measures, primarily aimed at ensuring the provision of liquidity to the banking sector and repairing the bank-lending channel, the ECB's quantitative easing is envisioned to affect both financial variables and real economy through changes in interest rates on sovereign bonds and other financial instruments.

Following the EAAP announcement, government bonds' yields fell to record lows across the major euro area countries along the entire maturity spectrum. Consistently with this pattern, the perception of sovereign risk improved across the Eurozone, as shown by the developments in sovereign CDS quotations and market implied ratings. The decline in government yields will relieve the interest expense on public debt and ease the implementation of deficit reducing measures by high-debt Eurozone countries.

The EAPP is also aimed at making access to finance cheaper for firms and households, in order to support investment and consumption and ultimately lead inflation rates towards 2%. Indeed, the ease in monetary conditions is stirring down European corporate bond yields, which in the first months of 2015 dropped below 2% for BBB rated bonds and around 1% for higher rated issuances across both banking and non-financial sectors.

Revived investment and consumption are expected to trigger a higher demand for loans, whereas the institutions selling government bonds to the ECB are expected to buy other assets and extend credit to the real economy. In peripheral countries such as Italy and Spain, whose banks' holdings of domestic government bonds account respectively for 11 and 10% of their assets (third semester of 2014), the effective functioning of the portfolio-rebalancing channel coupled with an improved business confidence would interrupt the still enduring decline in banks' lending to firms and households. In 2014, however, Spanish and Italian banks tightened credit supply at a slower pace than before and reported a net easing of credit standards on loans to non-financial companies. The main contribution to the easing of credit standards for loans to enterprises is related to banks' cost of funds and balance sheet constraints, driven in particular by their liquidity situation and capital positions.

Indeed, the conditions of the main Eurozone banks are improving thanks to the recapitalizations realized since 2011 (mainly through public capital injections in Spain, Germany and France) and the equity further raised on capital market in 2014, ahead of the Asset Quality Review (AQR) and the stress test run for the implementation of the Single Supervisory Mechanism (SSM). The increase in the banks' capital base led to a rise in multiples and market capitalization. Also profitability, relative to the risk-weighted assets (RWAs), exhibited a recovery for the main Italian, Spanish and English credit institutions, while remaining stable in Germany and decreasing in France. However, the improvement in profitability seems to be mainly associated with the decline of the RWAs: indeed, gross banking income fell across Europe, with the exception of France, whilst cost efficiency remained almost stable in all countries. Credit quality showed a divergent pattern across the Eurozone banks, remaining substantially stable in France, improving in Germany and Spain and still declining (although by a significantly lower degree) in Italy.

The enduring deterioration of credit quality suffered by Italian banks mirrors also the vulnerabilities of Italian non-financial firms, whose conditions remained weak. In more details, in 2014 the percentage of non-financial Italian groups showing a change in revenues below the 10-year average was about 90%, whilst the percentage of loss-making companies is around 11% (in line with the figures recorded for Spanish and UK peers). As for financial vulnerability, Italian companies keep recording the highest leverage ratio in the European framework, as well as the biggest percentage of firms showing both low payout of debt and short-term debt coverage.

Notwithstanding the ECB quantitative easing, euro area financial markets remain exposed to the risks related to adverse shocks to the economic recovery. The euro depreciation could foster European export. However, a weaker than expected dynamics of global demand and, in particular, of the demand from emerging countries could hamper the recovery of the European export sector. Moreover, although the euro depreciation hastened also by the ECB and FED divergent monetary policies could significantly contribute to stabilize growth, surprises in the path of monetary policy normalization in the United States may not be excluded in a context of a continued uneven global expansion. Finally, geopolitical turbulences as well as unexpected fluctuations in the supply generate sizable uncertainty about the oil price path in the future.

Moreover, financial fragmentation might still be an issue across the Eurozone, although not for all financial segments. Since the peak of the sovereign debt crisis, the degree of cross-country heterogeneity has declined, although partially, in stock markets and bond markets, presumably due to lower disparity in economic sentiment across euro area countries, as well as progress on structural reforms, the ECB's policy actions and global liquidity conditions which triggered a search-for-yield behaviour. In the stock markets, however, the degree of integration (as measured through the dispersion of equity index returns) remains higher for non-distressed countries relative to distressed countries. In the non-equity markets, following the ECB's interventions, sovereign bonds have shown a common descending pattern, towards levels which are presumably closer to country-specific fiscal and macro risks and are less prone to 'negative' contagion effects. In the banking markets, referring to banks' lending activities, financial integration has recorded only a very limited degree of improvement. Non-financial firms keep facing different bank credit conditions across euro area countries. The gap between core and peripheral countries in bank interest rates on new loans is still high, although narrowing throughout 2014. This circumstance seems to affect more small and medium enterprises (SMEs), thus generating obstacles to economic recovery in those countries (such as Italy) where SMEs play an important role. As for deposit gathering, financial integration is improving, with Spain being the only country (among the main Eurozone economies) still experiencing negative growth rates. Another perspective on financial integration among Eurozone banking market is given by banks' cross-border activities. Apart from French institutions, banks' foreign exposures towards other banks of main European countries have been falling since 2011. Similar dynamics characterized banks' foreign lending to the private non-financial sector. Financial fragmentation is also signaled by Target 2 imbalances, that remained high relative to the 2007 levels.

This framework of fragmentation underscores that further policy actions are needed, besides monetary policy intervention. The implementation of the Banking Union is expected to contribute to the return of cross-border credit flows to real economy and to the convergence of bank lending rates across countries.

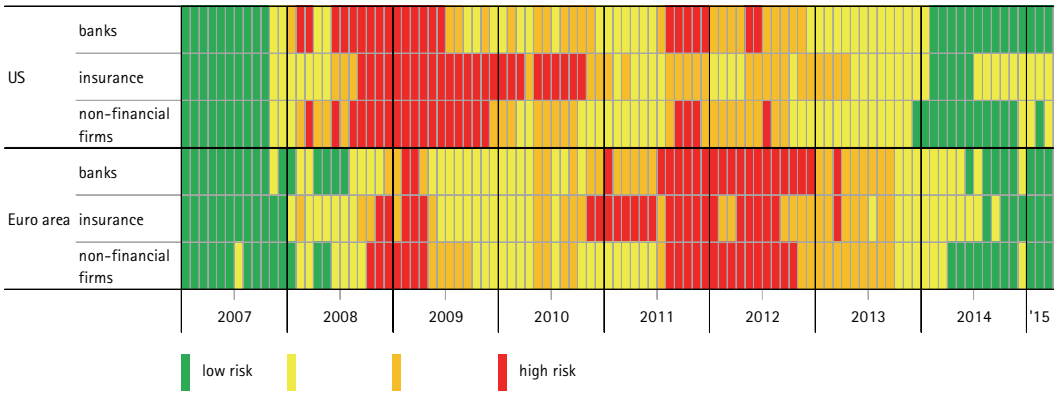
Further policy initiative encompass the development of a true single market for capital, i.e. a Capital Markets Union (CMU) for all 28 Member States. A CMU is conceived by the European Commission as a project fostering stronger capital markets, able to complement banks as a source of financing and especially benefiting SMEs. This firms, keep facing diverse developments in profit and leverage across the Eurozone. Profit situation and debt-to-assets ratio are still worsening in Italy, while improving in Germany and Spain. Among the problems perceived as the most pressing, in 2014 regulation, labour costs and availability of skilled staff have become more relevant issues than before across the SMEs in the main euro area economies; in addition, access to finance keep being a serious concern in Italy. In the following months the European Commission will develop proposals aimed at making it simpler for enterprises, particularly smaller ones, to raise funds and reach investors cross border; improving the availability of credit information on SMEs so that it is easier for investors to invest in them; support the take up of new European long term investment funds to channel investment in infrastructure and other long term projects.

Risk dashboards

Sovereign risk indicator

Source: calculations on Thomson Reuters data. The risk level is computed on the basis of the historical distribution of 10-year sovereign yields.

Credit risk indicator



Source: calculations on Thomson Reuters data. The risk level is computed on the basis of the historical distribution of CDS Thomson Reuters price indexes.

Gross issuance activity indicator by sector

Source: calculations on Dealogic data. The indicator is computed by comparing gross issuance of the period with its historical distribution and it is estimated by correcting for outliers.

Equity markets

In 2014 advanced countries' equity returns have diverged, reflecting differences in economic activity across regions (Figure 1.1). The recovery was sluggish and patchy in the euro area thus triggering a significant downward correction in the second half of the year, when additional concerns were raised by heightened geopolitical risks in neighboring regions. In details, the S&P500 increased by 11%, while the Euro Stoxx 50 grew approximately only by 3%. Within the Eurozone, German Dax30 and Spanish Ibex35 rose marginally (by 2.6% and 3.6% respectively), whereas French Cac40 and Italian FTSE Mib substantially delivered flat returns (Figure 1.2). These indexes remained far below their 2007 levels (by 54%, 23% and 27% in Italy, Spain and France, respectively), apart from Dax30 (+49%). As for the banking sector, stock returns rose only in the US (+13%), whilst falling in the Eurozone (-5%), where Germany and France experienced a negative trend (-20% and -10%, respectively) against the rise in Italy and substantial stability in Spain (+11% and +1%, respectively).

In the first quarter of 2015, the US stock markets delivered flat returns, whereas in the euro area the ECB's launch of the EAPP (so called quantitative easing; see Section 'Non-equity markets' for further details) spurred a benign financial market climate, with stock indexes recording an upswing ranging from around 12% (Spain) to 22% (Italy and Germany). Since the announcement of the ECB's quantitative easing, Eurozone stock markets have experienced a reduction in the implied volatility towards early-2014 historical lows levels, thus reversing the upward trend shown at the end of the previous year when flare-ups of geopolitical tensions, divergence in the economic outlook across advanced countries and uncertainties posed by future central banks' actions had revived instability in financial markets (Figure 1.3). Easing in market conditions is reflected also in liquidity conditions, which remain good both in the Eurozone and Italian stock markets, back to the levels marked before the sovereign debt crisis (Figure 1.4 and Figure 1.5).

During 2014, financial contagion declined in Europe, also in the wake of the expectations of the ECB's quantitative easing, whilst heightening at the global level (Figure 1.6); however, in the first months of 2015 the European indicator reverted to an upward trend, especially in the banking sector (Figure 1.7). The degree of herding behaviour (signaling the investors' propensity to undertake imitative strategies) keeps being higher in the banking sector relative to the non-financial companies sector. In particular, in the banking sector the herding behaviour indicator is now back to its mid-2013 levels, after experiencing a moderate hike at the end of 2014. Consistently with the pattern shown by herding, information efficiency kept improving especially in the banking sector (Figure 1.8).

Integration of Eurozone stock markets, as proxied by cross-countries' dispersion in equity returns, has been showing divergent patterns for distressed and non-distressed countries, with the former experiencing a higher degree of segmentation since the sovereign debt crisis. However, in the first quarter of 2015 the degree of integration of peripheral and core economies is getting closer. As for liquidity conditions, distressed countries still tend to cluster more than non-distressed ones (Figure 1.9). Since the outburst of the sovereign debt crisis, euro area distressed countries' equity returns have become increasingly more sensitive to idiosyncratic shocks than those of non-distressed countries. This divergence, however, has been narrowing during 2014 and in early 2015, pointing to a rising degree of integration. Distressed euro area countries keep showing a persistently higher sensitivity to worldwide shocks, especially during crisis periods (Figure 1.10).

Market sentiment (as implied by stock market returns) has been sharply improving in the Eurozone since the beginning of 2015, when uncertainties about the coming ECB's actions directed at reviving

the flagging Eurozone economy vanished. This marked a reversal with respect to the downward trend experienced the previous year against the backdrop of subdued growth, weak investment and deflationary pressures (Figure 1.11). The upsurge in market sentiment is consistent with the upward adjustment of short term expectations on stock returns recorded in the first quarter of 2015 (Figure 1.12).

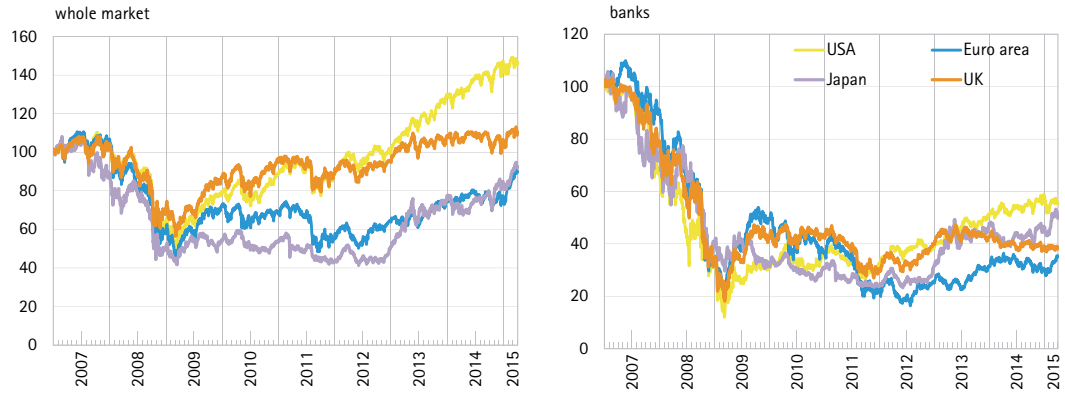
As for stock market valuations of listed firms, during 2014 the earnings-per-share (EPS) and the price-to-earnings ratio (P/E) showed different patterns across sectors and across the main euro area countries. Major Italian banks experienced a steady growth of EPS as well as a slump in their P/E (following a long lasting increase went on till the first quarter of the year), which however keeps being far higher than the figure recorded for their peers. As for non-financial companies, the growth rate of the EPS flattened to zero in all main Eurozone economies, whilst the P/E remained stable or grew in all countries but Italy (where it has been declining since the second quarter of 2014; Figure 1.13 and Figure 1.14). In the second half of 2014, the earnings yield premiums of the main Italian listed banks grew up more steadily with respect to their euro area peers, while in the non-financial sector, risk premiums followed the same slightly descending path across countries (Figure 1.15). Italian banks' stock prices are estimated to be misaligned with respect to their fundamental values, also in the wake of the slow pace of the economic recovery. This circumstance might reflect positive expectations driven by the balance sheet clean-up, undertaken ahead of the implementation of the Single Supervisory Mechanism, and by the significant recapitalization via equity carried out by major Italian banking groups in the first half of the year. Market valuations of German and French banks are estimated to be quite in line with fundamentals, while theoretical values of Spanish banks keep being above stock prices (Figure 1.16). The estimated valuation of euro area non-financial firms, instead, tends to be consistent with market prices across the main Eurozone countries (Figure 1.17).

Focusing on the Italian market, in 2014 de-equitisation, as measured by the amount of circulating equity (newly issued shares net of takeovers, buybacks and dividends), passed from -14.8 billions of euro in 2013 to -2.8 billions. The number of takeover bids has slightly increased over the previous year, although declining in value terms (by 56%; Figure 1.18). In 2014 the Italian Ipo market has grown significantly up to almost 3 billion of euros (i.e. the highest level since 2007). Market capitalisation of MTA newly listed companies keeps being on average significantly higher than that of the many firms admitted to AIM, which accounted for 7% of total placements in value terms (Figure 1.19). During 2014 M&A activity showed a positive trend both in terms of number of deals (+37%) and value of transactions (+26%); this latter however remained far below its 2007 levels. In the last two-year period, the proportion of foreign investments accounted for more than 40% of the total value of the deals (Figure 1.20).

The small cap segment of the Italian stock market has historically been under-represented with respect to the European average. At the end of the first quarter of 2015, its weight on total market capitalization is lower than 2%, halved with respect to its 2007 level and far below the 8% recorded on average for European small caps (Figure 1.21).

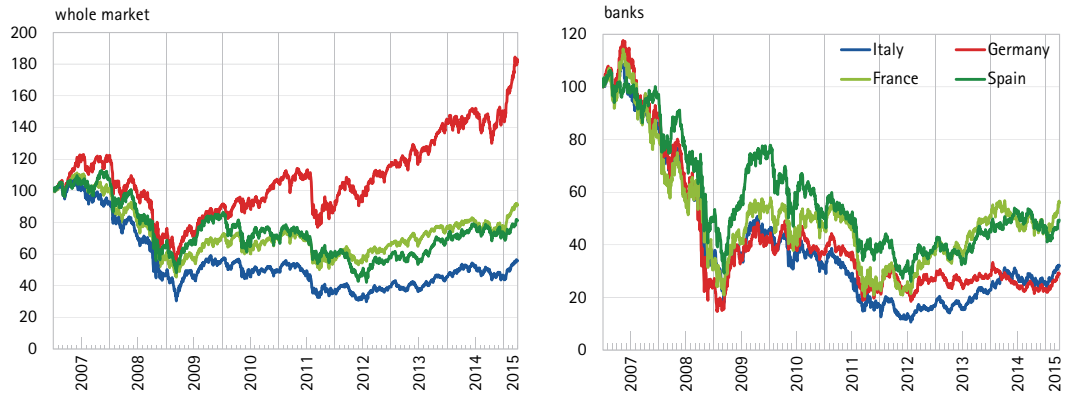
In 2014 advanced countries' equity returns have diverged, reflecting differences in economic activity. Within the Eurozone, after experiencing a rise in the first half of the year, stock markets suffered a downward correction due to heightened geopolitical risks in neighboring regions and sluggish and patchy recovery in the area. Overall, at the end of 2014 equity indexes remain far below their 2007 levels (by 54%, 23% and 27% in Italy, Spain and France, respectively), apart from Germany (+49%). In the first term of 2015, the US stock markets delivered flat returns, whereas in the euro area the ECB's launch of the EAPP spurred a benign financial market climate, with equity indexes recording an upswing ranging from around 12 (Spain) to 22% (Italy and Germany).

Figure 1.1 – Advanced countries stock indexes
(daily data; 01/01/2007 - 31/03/2015; 01/01/2007 = 100)



Source: Thomson Reuters Datastream. Stock indexes represented in the left graph are: S&P500 (USA), Topix (Japan), FTSE100 (UK), Euro Stoxx 50 (euro area). Stock indexes represented in the right graph are: S&P500 Banks, Euro Stoxx Banks, Japan FTSE Banks and UK FTSE Banks.

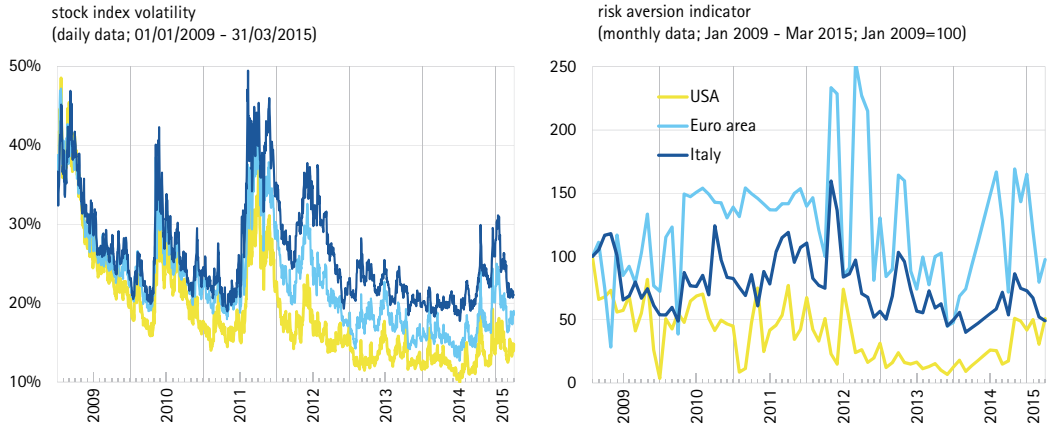
Figure 1.2 – Euro area stock indexes
(daily data; 01/01/2007 - 31/03/2015; 01/01/2007 = 100)



Source: Thomson Reuters Datastream. Stock indexes represented in the left graph are: Dax30 (Germany), Cac40 (France), Ibex35 (Spain), FTSE Mib (Italy). In the right graph domestic FTSE Banks stock indexes are represented.

Since the announcement of the ECB quantitative easing, Eurozone stock markets have experienced a reduction in the implied volatility towards early-2014 historical lows levels, thus reversing the upward trend shown at the end of the previous year. Also investors' risk aversion has lessened, after the peaks reached in 2014.

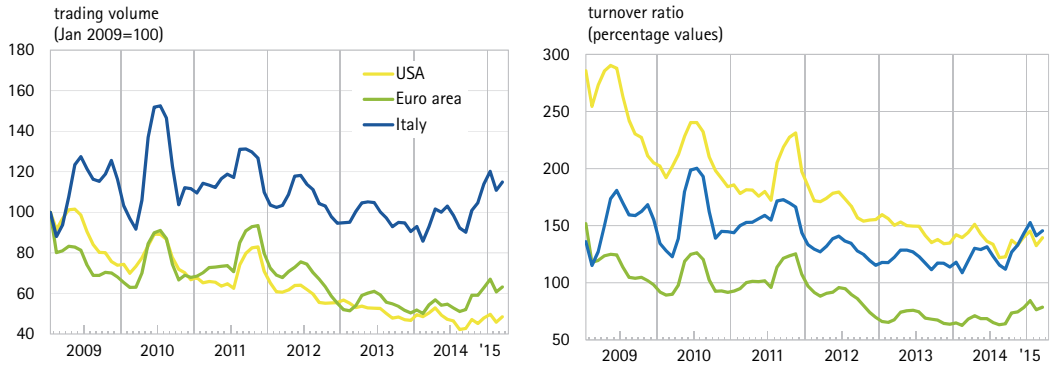
Figure 1.3 – Implied volatility and risk aversion indicator



Risk aversion is estimated by comparing stock return historical distribution with the distribution implied in stock index option prices (Shimko, 1993). Call and put on S&P500 (USA), Euro Stoxx 50 (euro area) and FTSE Mib (Italy) are taken into consideration. Calculations are based on Thomson Reuters Datastream data.

In the first quarter of 2015, traded volume slightly declined both in the US and in the euro area, after the rise recorded in the second half of the previous year.

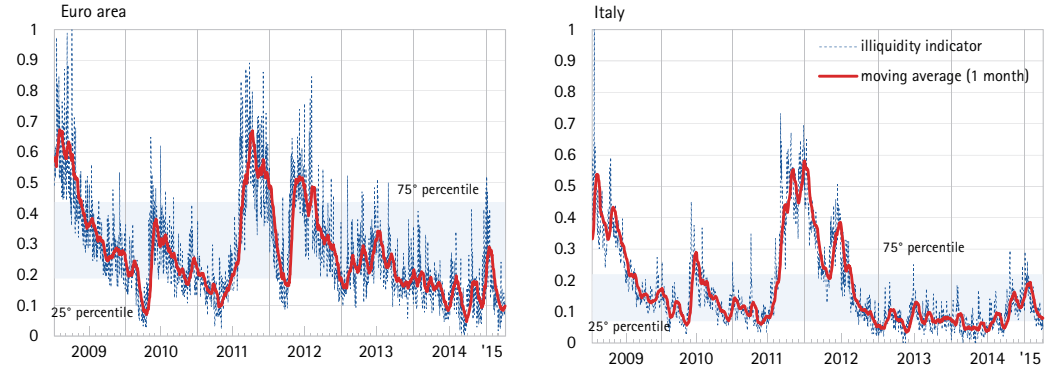
Figure 1.4 – Trading volume and turnover ratio
(monthly data; 4-months moving average; January 2009 – March 2015)



Trading volume is deflated on the basis of stock index prices. The turnover indicator is computed as the ratio between monthly average trading volume and monthly average market value. The sample includes S&P500 (USA), Euro Stoxx 50 (euro area) and FTSE Mib (Italy) stock indexes. Calculations are based on Thomson Reuters Datastream data.

Over the same time period, liquidity conditions remained good both in the Eurozone and Italian stock markets, back to the levels marked before the sovereign debt crisis.

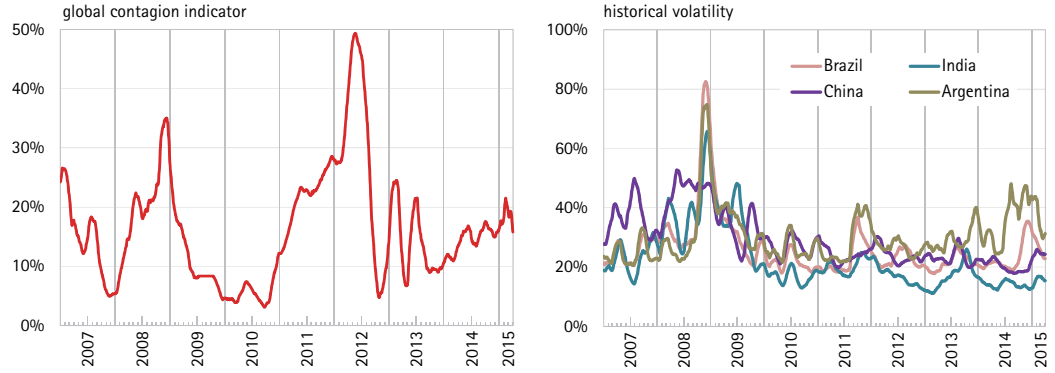
Figure 1.5 – Stock market illiquidity in the euro area
(daily data; 01/01/2009 - 31/03/2015)



The illiquidity indicator is the principal component estimated on illiquidity and volatility measures applied on Euro Stoxx 50 (euro area) and FTSE Mib (Italy) stock indexes: price impact (Amihud, 2002), bid-ask spread, implied volatility and historical volatility (range based estimator). The indicator is rescaled between zero (= high liquidity) and one (= low liquidity). Calculations are based on Thomson Reuters Datastream data.

During 2014, financial contagion at the global level heightened, as shown by the trend in correlation among advanced and emerging economies' stock market indexes not driven by fundamentals. The indicator keeps being lower than its historical heights and appears to slow down at early 2015.

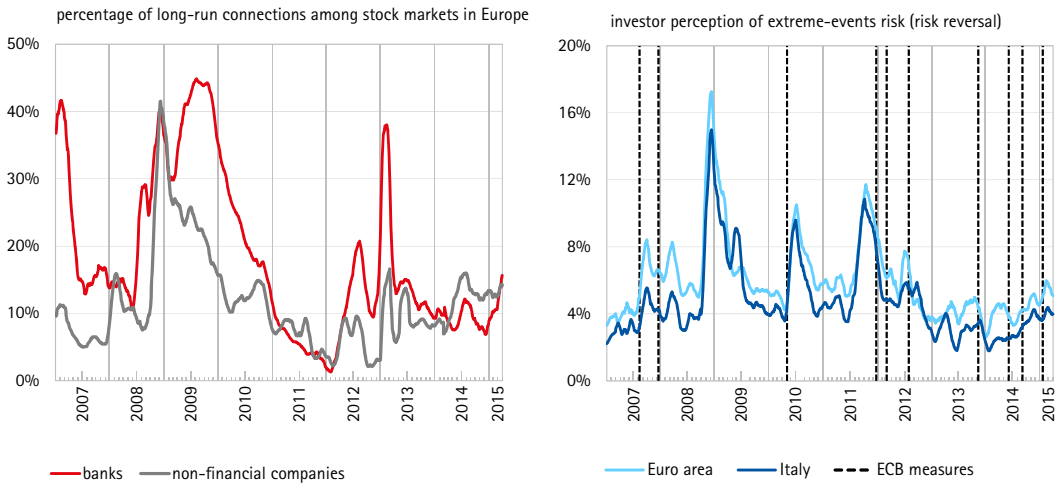
Figure 1.6 – Financial contagion at the global level
(percentage values; daily data; 2-months moving average; 01/01/2007 - 31/03/2015)



Contagion is measured on the following stock index return time series: Merval (Argentina), Bovespa (Brazil), Micex (Russia), Sensex (India), Shenzhen SE (China), MSCI Turkey, S&P500 (US), Euro Stoxx 50 (euro area), FTSE100 (UK) and Topix (Japan) (left graph; for the methodology see Consob Working paper no. 72, 2012). Annualized historical stock index return volatility is estimated by applying multivariate Garch models (right graph). Calculations are based on Thomson Reuters Datastream data.

In Europe, after experiencing a rise in early 2014, financial contagion dropped in the wake of the new non-conventional monetary policy actions announced by the ECB (TLTROs in June and the ABSPP and CBPP3 in September) and the expectation of the quantitative easing, announced in January 2015 and launched in early March. In the first months of 2015, the launch of the EAPP contributed also to set down the investors' risk perception of extreme events, following the upward trend showed during 2014.

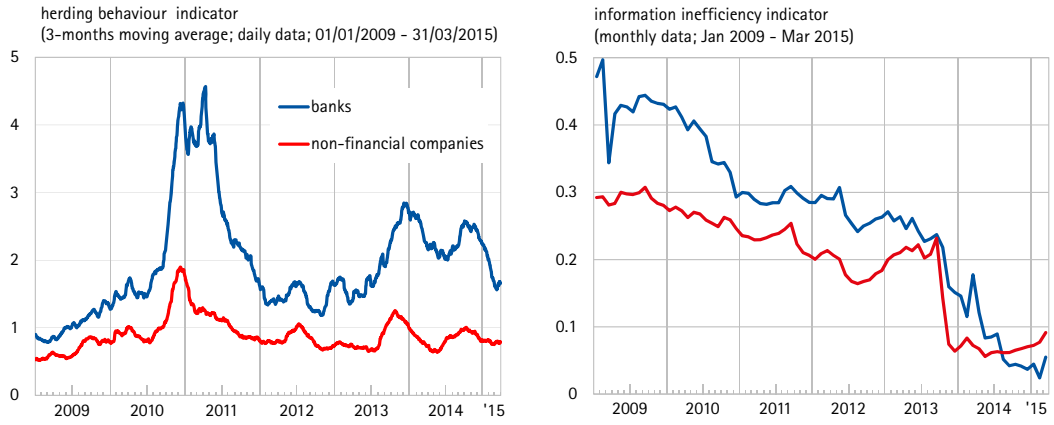
Figure 1.7 – Financial contagion and investors perception of extreme-event risk in Europe
(percentage values; daily data; 2-months moving average; 01/01/2007 - 31/03/2015)



Contagion is measured on UK, Germany, France, Italy, Spain, Greece, Portugal, Ireland, Netherlands, Austria and Finland MSCI stock index return time series (left graph; for the methodology see Consob Working paper no. 72, 2012). The indicator of risk reversal (right graph) is defined as the difference between implied volatilities computed on put and the call out of the money options characterized by the same maturity (2 months) and equal risk premium sensitivity to the variations of the underlying asset price (delta equal to 25); the sample includes options on Euro Stoxx 50 (euro area) and on FTSE Mib (Italy). Higher values of the risk reversal indicator signals a higher perception of extreme-events risk (negative returns). The unconventional policy measures adopted by ECB and reported in the right graph are: 09/08/2007, injection of liquidity; 12/12/2007, swap agreement with Fed to inject liquidity in US dollars in exchange of guarantees in euro; 09/05/2010, Securities Market Programme; 20/12/2011, long-term refinancing operations (LTRO); 28/02/2012, LTRO; 26/07/2012, OMT announcement programme; 07/11/2013, interest rates cut; 05/06/2014, interest rates cut and TLTRO announcement; 04/09/2014, interest rates cut and ABSPP/CBPP3 announcement; 22/01/2015, PSPP announcement. Calculations are based on Thomson Reuters Datastream and Bloomberg data.

The degree of herding behaviour keeps being higher in the banking sector relative to the non-financial companies sector. In particular, in the banking sector the herding indicator is now back to its mid-2013 levels, after experiencing a moderate hike at the end of 2014. Consistently with the pattern shown by herding, information efficiency kept improving especially in the banking sector.

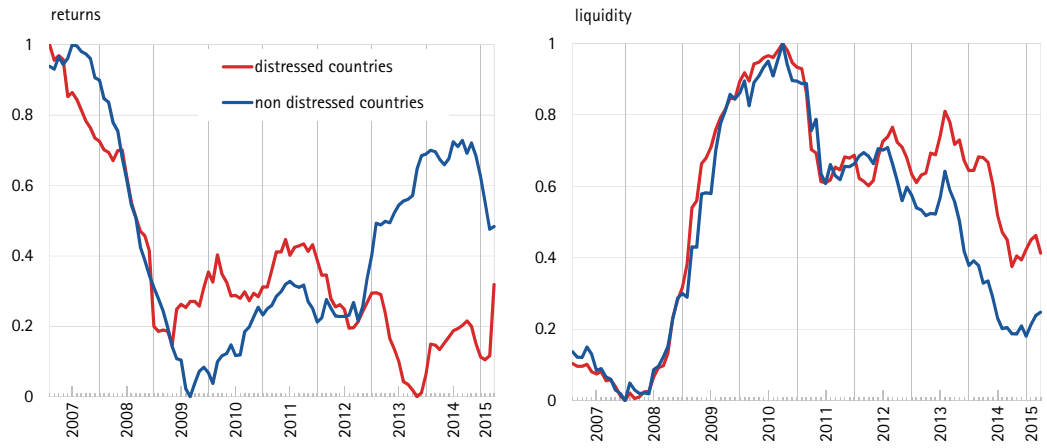
Figure 1.8 – Indicators of herding behaviour and information inefficiency in the euro area stock markets



The indicator of herding behaviour is computed as the inverse of the standard deviation of stock market returns referring to main blue chips in the euro area (Chang, E., Cheng, J. and Khorana, A. 2000). A lower dispersion (i.e. a higher level of the indicator) signals that the investors adopt more frequently similar or imitative investment strategies and, therefore, that the herding behaviour phenomenon is more intense. The information inefficiency indicator is the absolute value of the first order stock index return autocorrelation. The indicators are computed on the stocks included in the euro area Datastream non-financial indexes and in Euro Stoxx Banks index. Calculations are based on Thomson Reuters data.

Integration of Eurozone stock markets, as proxied by cross-countries' dispersion in equity returns, has been showing divergent patterns for distressed and non-distressed countries, with the former experiencing a higher degree of segmentation since the sovereign debt crisis. However, in the first quarter of 2015 the degree of integration of peripheral and core economies is getting closer. As for liquidity conditions, distressed countries still tend to cluster more than non-distressed ones.

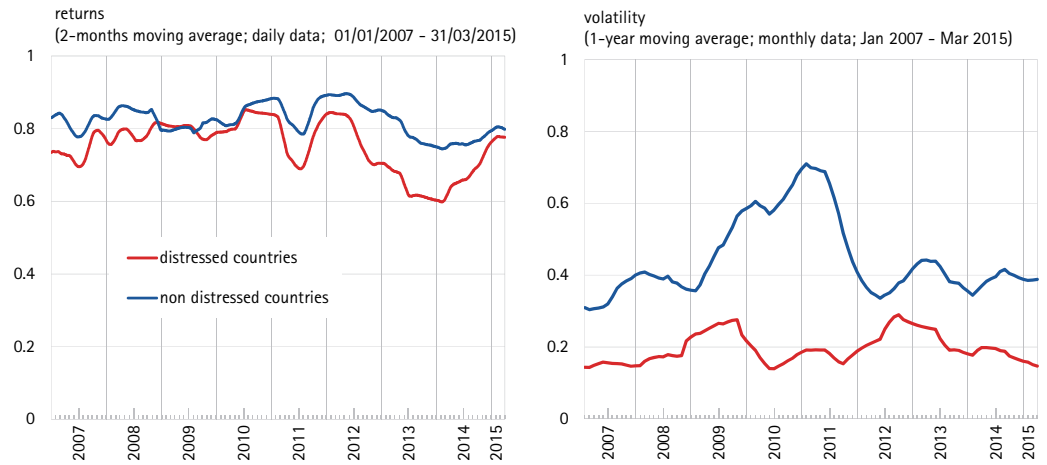
Figure 1.9 – Euro area stock market level of integration
(24-month moving average; monthly data from January 2007 to March 2015)



The level of stock market integration is measured as the inverse of cross-countries standard deviation among stock returns and liquidity measures. The indicator ranges from zero (=low level of integration) to one (=high level of integration). The liquidity level is measured by applying Amihud (2002) price impact indicator. Non-distressed countries included in the sample are: Germany, France, Netherlands, Austria, Finland. Distressed countries included in the sample are: Italy, Portugal, Spain, Ireland. Calculations are based on Thomson Reuters data.

Since the outburst of the sovereign debt crisis, euro area distressed countries' equity returns have become increasingly more sensitive to idiosyncratic shocks than those of non-distressed countries. This divergence, however, has been narrowing during 2014 and in early 2015, pointing to a rising degree of integration. Distressed euro area countries keep showing a persistently higher sensitivity to worldwide shocks, especially during crisis periods.

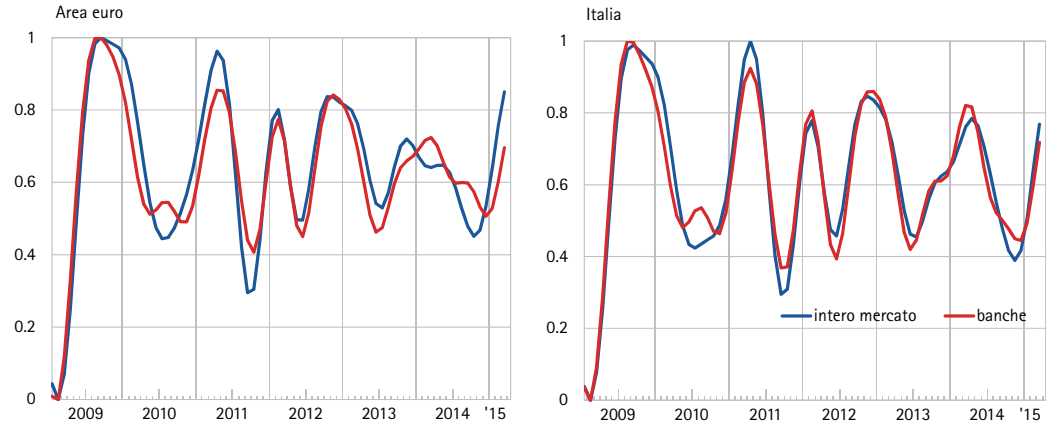
Figure 1.10 – Euro area stock market level of sensitivity to common shocks



Left graph represents the explanatory power of common factor equity portfolio, which is the average R-square of the following regression: $return\_index_{i,t} = \alpha_{i,t} + \beta_{i,t}\theta_{i,t} + \varepsilon_{i,t}$, where $\theta_{i,t}$is the return on the first common factor equity portfolio (first principal component) for country i on day t. Regressions are estimated recursively (200 observations window). Right graph represents variance ratios, which are computed in two steps. Firstly, domestic historical volatility time series are estimated by applying asymmetric Garch models ($\sigma^2_{i,t}$). Secondly, the following regression is run for each country i: $\sigma_i^2 = \alpha_i + \beta_i\sigma^2_{euro} + \gamma_i\sigma^2_{usa} + \varepsilon_i$, where σ^2_{euro} and σ^2_{usa} are respectively EuroStoxx 50 and S&P500 stock index volatilities. The variance ratio indicator is computed as $VR_{usa,i} = \frac{\beta_i\sigma^2_{usa}}{\sigma_i^2}$. Non-distressed countries included in the sample are: Germany, France, Netherlands, Austria, Finland. Distressed countries included in the sample are: Italy, Portugal, Spain, Ireland. Calculations are based on Thomson Reuters data.

Market sentiment (as implied by stock market returns) has been sharply improving since the beginning of 2015, when uncertainties about the coming ECB's actions directed at reviving the flagging Eurozone economy vanished. This marked a reversal with respect to the downward trend experienced the previous year against the backdrop of weak economic data.

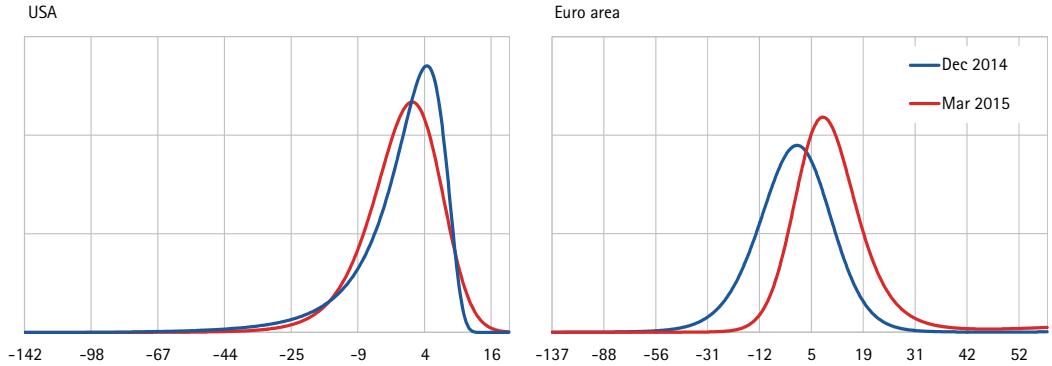
Figure 1.11 – Investors' market sentiment implied by stock prices in the euro area
(monthly data; January 2009 – March 2015)



The market sentiment indicator is estimated as the long-run component of stock index return time series (Andersson *et al.*, 2011). After estimating the cyclical component by applying the Christiano Fitzgerald filter , the indicator is rescaled between zero (low growth expected) and one (high growth expected). Stock indexes included in the sample are FTSE Mib, Italy FTSE Banks, Euro Stoxx 50 and Euro Stoxx Banks for the euro area. Calculations are based on Thomson Reuters data.

The improved market sentiment is consistent with the upward adjustment of short term expectations on stock returns recorded in the euro area in the first quarter of 2015.

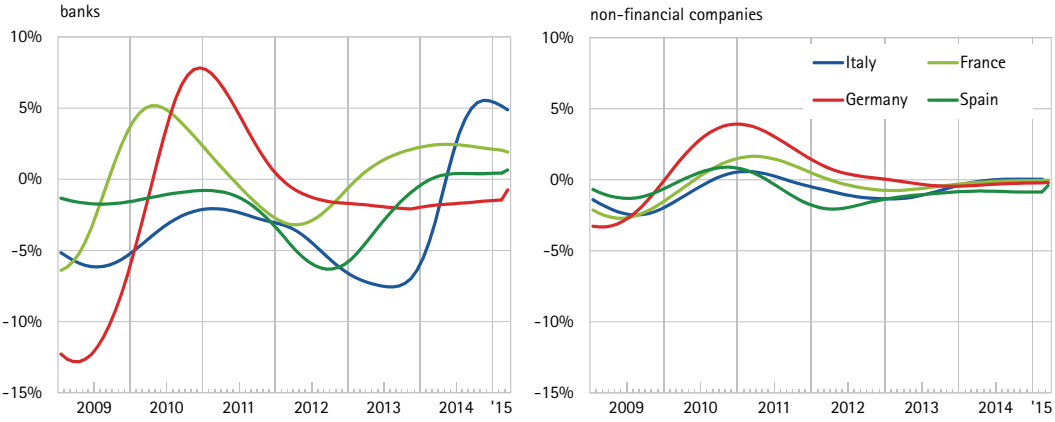
Figure 1.12 – Stock return expectations on 3-months' time horizon



Risk neutral probability distributions are estimated on S&P500 and Euro Stoxx 50 option prices. Calculations are based on Thomson Reuters data.

During 2014, the earnings-per-share (EPS) of major banks in the main euro area countries showed different patterns. Major Italian banks experienced a steady growth of EPS ...

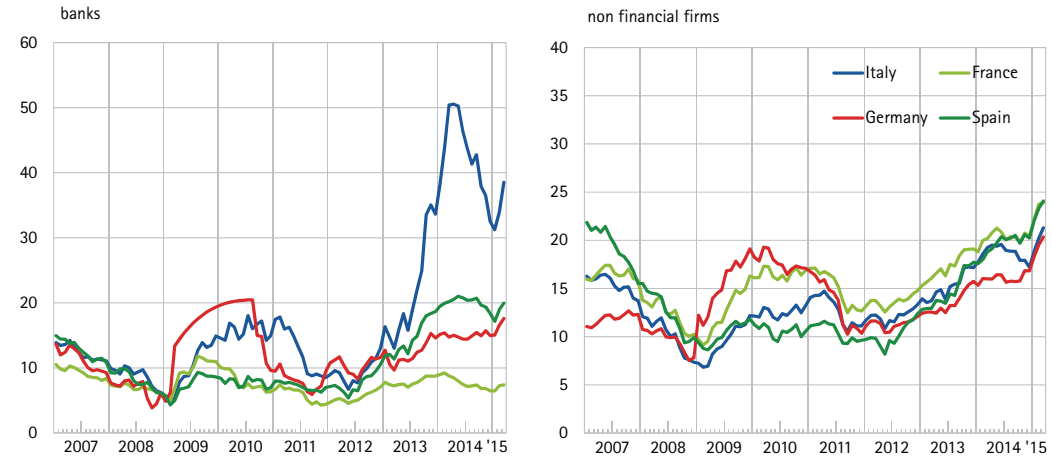
Figure 1.13 – Actual growth rate of earnings-per-share in the euro area
(monthly data; January 2009 – March 2015)



The sample includes euro area main listed banks (20 groups) and non-financial companies (Datastream non-financial indexes). Earnings-per-share are adjusted for the business cycle (Hodrick-Prescott filter). Calculations are based on Thomson Reuters data.

... as well as a slump in their P/E (following a long lasting increase went on till the first quarter of the year), which however keeps being far higher than the figure recorded by their peers. As for non-financial companies, the P/E remained stable or grew in all countries but Italy, where it has been declining since the second quarter of 2014.

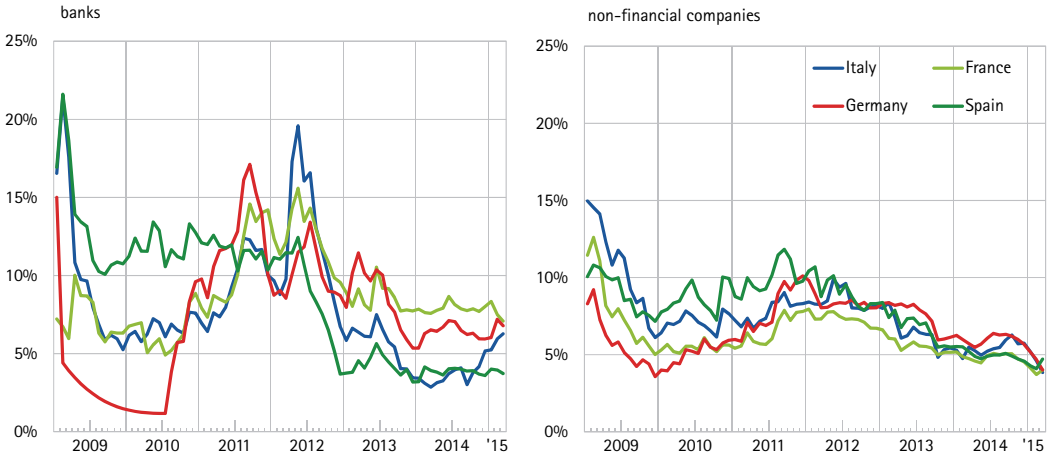
Figure 1.14 – Price-earnings ratio adjusted for the business cycle in the euro area
(monthly data; January 2009 – March 2015)



The sample includes euro area main listed banks (20 groups) and non-financial companies (Datastream non-financial indexes). The price-earnings ratio is calculated on the earnings-per-share adjusted for the business cycle (Hodrick-Prescott filter). Calculations are based on Thomson Reuters data.

In the second half of 2014, the earnings yield premiums of the main Italian listed banks grew up more steadily with respect to their euro area peers, while in the non-financial sector, risk premiums followed the same slightly descending path across countries.

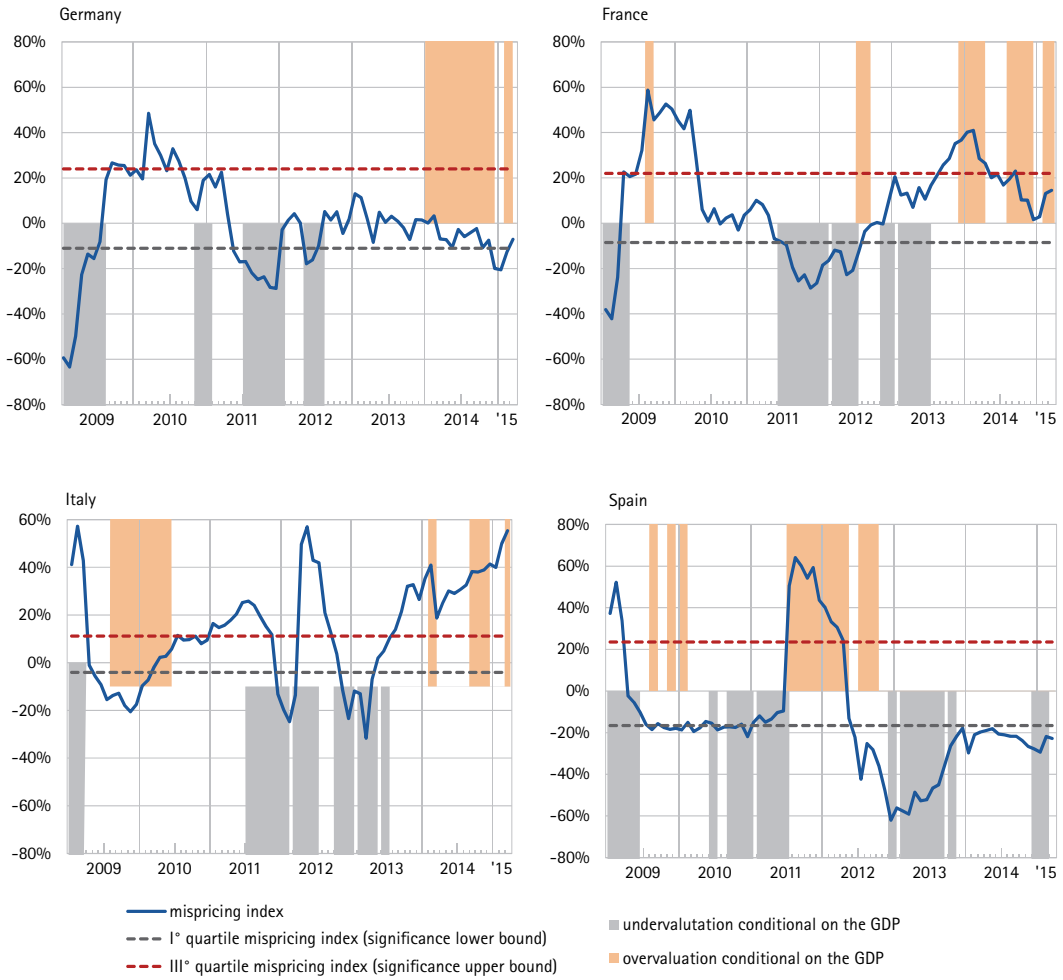
Figure 1.15 – Earnings yield premiums in the euro area
(percentage values; monthly data; January 2009 - March 2015)



The sample includes euro area main listed banks (20 groups) and non-financial companies (Datastream non-financial indexes). The risk premium is estimated as the average earnings yield premium, that is the difference between the earnings yield (the inverse of the P/E ratio) and the real risk-free interest rate (proxied by the euro area overnight interest rate). For German banks risk premiums from March 2009 to June 2010 are interpolated. Calculations are based on Thomson Reuters data.

Italian banks' stock prices are estimated to be misaligned with respect to their fundamental values, also in the wake of the slow pace of the economic recovery. This misalignment might reflect positive expectations driven by the balance sheet clean-up, undertaken ahead of the implementation of the Single Supervisory Mechanism, and by the significant recapitalization via equity carried out by major Italian banking groups in the first half of the year. Market valuations of German and French banks are estimated to be quite in line with fundamentals, while theoretical values of Spanish banks keep being above stock prices.

Figure 1.16 – Boom and bust episodes of bank stock price in the euro area
(monthly data; January 2009 - March 2015)



The figure plots two mispricing indicators: a micro indicator (blue line) and a macro indicator (shaded areas).

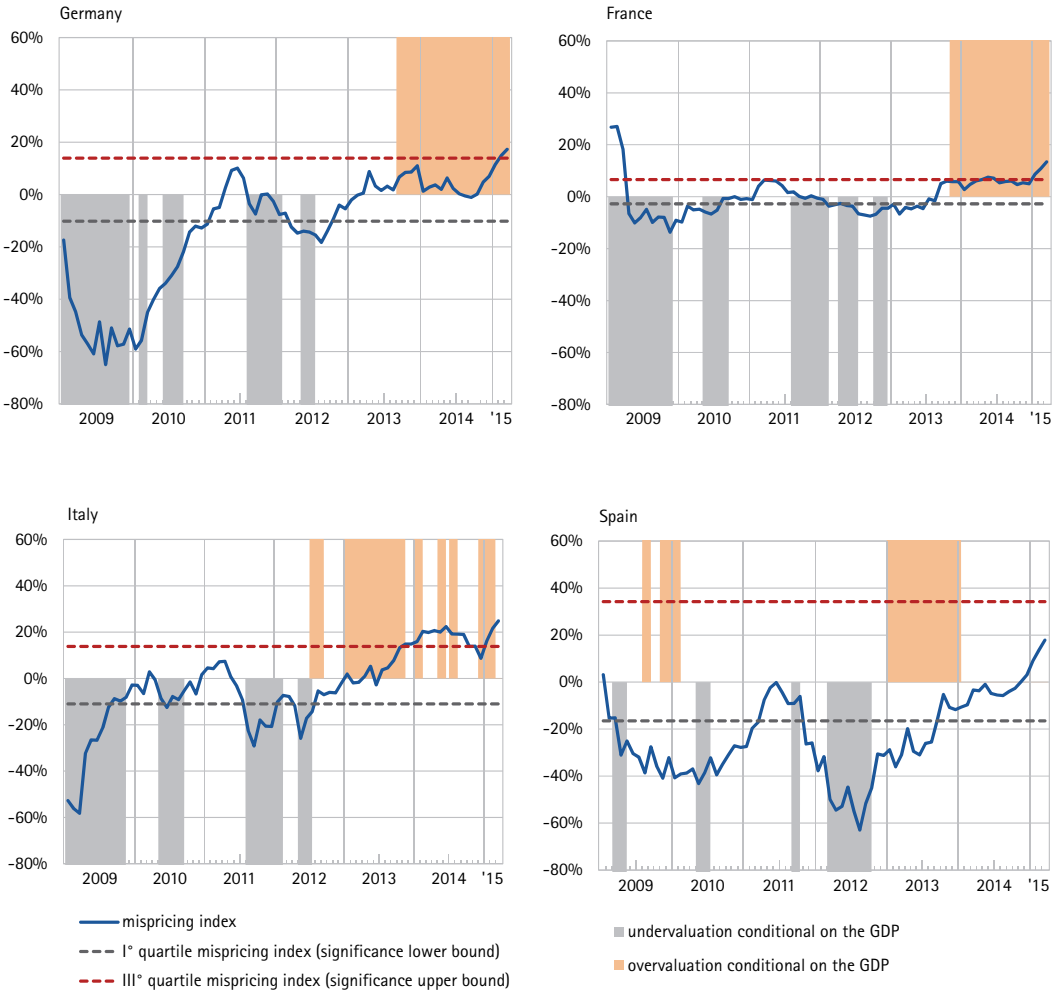
The micro mispricing index is the percentage difference between the observed price and the fundamental value (Campbell and Shiller, 1988; Nelson, 1999; De Bondt et al., 2010). The fundamental value is estimated by applying a VECM co-integration model on stock prices, earnings per share adjusted for the business cycle, and risk premium (earnings yield premium). The micro mispricing indicator signals undervaluation (overvaluation) if it is lower than its I° quartile (greater than its III° quartile). The quartiles are computed on micro mispricing indicator's distribution estimated by taking into consideration time series starting from January 2000.

The macro mispricing indicator signals undervaluation (overvaluation) with respect to the business cycle. It is computed by estimating the time series of the $p_t^{I°quartile,GDP}$ ($p_t^{III°quartile,GDP}$) of the stock index price distribution conditioned on the GDP (trend component estimated by applying the Hodrick-Prescott filter). The indicator signals undervaluation (grey area) if $p_t < p_t^{I°quartile,GDP}$; the indicators signals overvaluation (orange area) if $p_t > p_t^{III°quartile,GDP}$; white areas correspond to a statistically insignificant mispricing level (Quiros and Timmermann, 2001; Cassola and Morana, 2002; Detken and Smets, 2004).

Calculations are based on Thomson Reuters Datastream data on main listed euro area banks (20 groups).

The estimated valuation of euro area non-financial firms tends to be consistent with market prices across the main Eurozone countries.

Figure 1.17 – Boom and bust episodes of non-financial firms stock price in the euro area
(monthly data; January 2009 - March 2015)



The figure plots two mispricing indicators: a micro indicator (blue line) and a macro indicator (shaded areas).

The micro mispricing index is the percentage difference between the observed price and the fundamental value (Campbell and Shiller, 1988; Nelson, 1999; De Bondt et al., 2010). The fundamental value is estimated by applying a VECM co-integration model on stock prices, earnings per share adjusted for the business cycle, and risk premium (earnings yield premium). The micro mispricing indicator signals undervaluation (overvaluation) if it is lower than its I° quartile (greater than its III° quartile). The quartiles are computed on micro mispricing indicator's distribution estimated by taking into consideration time series starting from January 2000.

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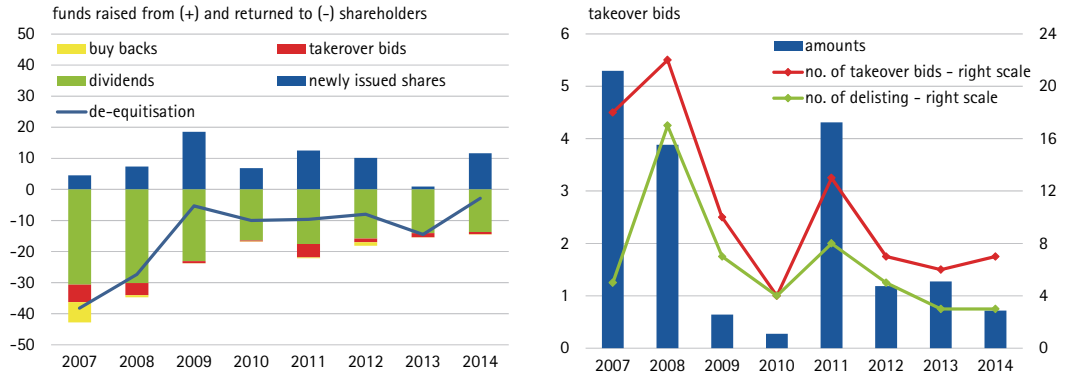
Calculations are based on Thomson Reuters Datastream data on main listed euro area non-financial groups.

In 2014 de-equitisation, as measured by the amount of circulating equity, passed from -14.8 billions of euro in 2013 to -2.8 billions. The number of takeover bids has slightly increased over the previous year, although declining in value terms by 56%, and led to delisting in half of the cases.

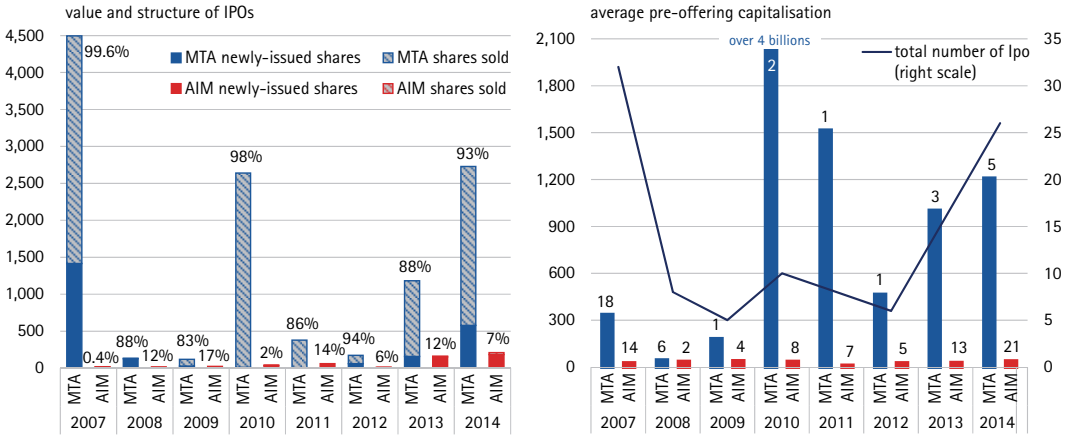
Figure 1.18 – De-equitisation and takeover bids on Italian listed shares
(amounts in billions of euro)



The de-equitisation indicator is computed as the difference between new issues and the sum of dividends, takeover bids and buybacks. Buybacks are net acquisitions of own shares, disclosed by the issuers to Consob; the amount of buyback in 2014 is estimated. Calculations are based on Consob, Borsa Italiana and Thomson Reuters data.

In 2014 the Italian Ipo market has grown significantly over the previous year, up to almost 3 billion of euros (i.e. the highest level since 2007). Market capitalisation of MTA newly listed companies keeps being on average significantly higher than that of the many firms admitted to AIM, representing 7% of total placements in value terms.

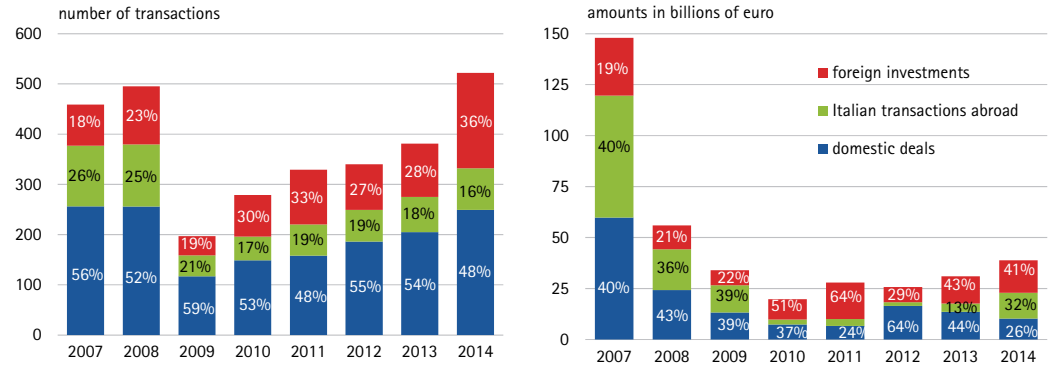
Figure 1.19 – Initial public offerings (IPO) by Italian companies
(amounts in billions of euro)



Source: Consob and Borsa Italiana. Data for the MTA include the Expandi Market (up to 2009) and the MIV (from 2010); data on AIM refer to AIM Italy and include the Mac until unification between MAC and AIM Italia. Average capitalisation of companies admitted to listing is computed on the basis of the offering price and the pre-offering number of shares.

In 2014 Italian M&A market showed a positive trend both in terms of number of deals (+37%) and value of transactions (+25,9%), which however remained far below its 2007 levels. In the last two-year period, the proportion of foreign investments accounted for more than 40% of the total value of the deals.

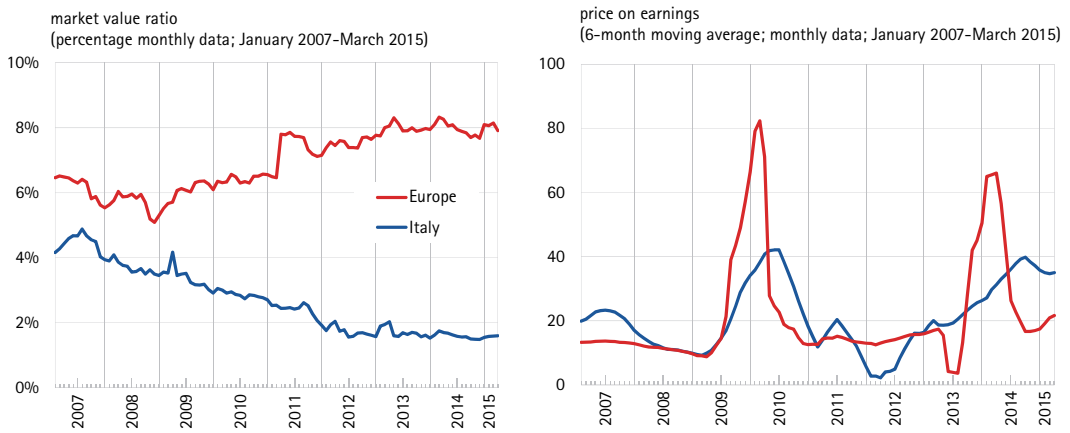
Figure 1.20 – Italian M&A market



Source: KPMG.

The small cap segment of the Italian stock market has historically been under-represented with respect to the European average. At the end of the first quarter of 2015, its weight on total market capitalization is lower than 2%, halved with respect to its 2007 level and far below the 8% recorded on average for European small caps.

Figure 1.21 – Stock market trends for small cap listed firms



The left graph represents the ratio between small cap listed firm and all listed shares market value. Calculations are based on Thomson Reuters data (Stoxx Europe total market small cap index and Italian Datastream small cap index).

Non-equity markets

Since 2012 there has been a remarkable reduction in sovereign yields and CDS premia in the euro area. Such a reduction has recently been strengthened further by the announcement of the ECB's EAPP (Figure 2.1). The EAPP, launched in January and started in early March, combines the purchase in the secondary market of euro-denominated public sector securities (PSPP) with the already implemented repurchase of asset-backed securities (ABSPP) and covered bonds (CBPP3). It is basically an open-ended program, intended to be carried out until the end of September 2016 and, in any case, until the adjustment in the path of inflation becomes consistent with the ECB's medium term inflation target (i.e. rates below, but close to, 2%).

After increasing in the first half of 2014, contagion has returned to relatively low levels at the end of the year. The upward movement at the beginning of 2015 might mirror a 'benign contagion effect' triggered by the launch of the EAPP. Despite remaining at remarkable low levels, conditional volatility of sovereign bonds' spreads is experiencing a marginal upward shift in peripheral countries (Figure 2.2).

Following the ECB's launch of the EAPP, Eurozone sovereign yield curves have exhibited an unprecedented downward shift. Since the beginning of 2015, not only long-term yields have significantly declined, but also short-term interest rates have reduced further. In core countries short term yields keep recording negative values (Figure 2.3). Due the improvements in public finance fundamentals and the implementation of the EAPP, yields differentials between peripheral countries' sovereign bonds and the German benchmark have notably dropped along the entire maturity spectrum (Figure 2.4). The ongoing reduction in Eurozone sovereign debt yields is reflected in the dynamics of implicit ratings, which at the first quarter of 2015 tend to be higher than official ones for all countries except Greece (Figure 2.5).

Since 2013 non-resident holdings of Eurozone peripheral countries' government bonds have been retracing towards their pre-crisis levels. In 2014, foreign investors' exposure towards Italian and Spanish sovereigns was slightly lower than 40% of the outstanding public debt, while for other euro area countries it ranged between 50 and 70% (Figure 2.6). At the end of the third quarter of 2013, private banks' exposure to domestic public bonds was still higher in the euro area (around 22%) than in the UK and US (9% and 3% respectively), whilst ECB's holdings of sovereign bonds were declining over the previous two year, being lower than 3% of the outstanding debt (Figure 2.7). This figure is due to rise following the implementation of the EAPP. Within this programme, the overall amount of purchases is estimated around 1.140 billion of euros (to be carried out up to the tune of 60 billion of per month) with sovereign bonds-buying accounting for 900 billion of euros (600 for the main countries). Purchases will be made roughly in proportion to the capital that each member central bank has contributed to the ECB (though that guideline may not be strictly followed every month), along the 2-30 years maturity spectrum. For Italy, purchases are estimated to reach about 12% of the outstanding 2-30 years public debt (Figure 2.8).

In 2015, sovereign refinancing needs keep being challenging in Italy, France and Spain relative to expected GDP and public deficit dynamics. In 2015 Italy will refinance a maturing debt higher than 15% of the European Commission's estimated GDP and a deficit equal to 2.6% of GDP (Figure 2.9). Both the relative size of debt-to-GDP and the contribution of each single component to debt accumulation reflect deep differences across major European countries. In particular, the debt-to-GDP ratio is declining in Germany, while it is increasing in France and Italy (where it is expected to decline from 2016 onward). The main driver of debt accumulation has been primary deficit in Spain and France, against the weakness of the economic activity and the high cost of debt service in Italy (Figure 2.10).

This latter has already shrunk thanks to the downward shift of the Italian sovereign yield curve, thus also easing the compliance with the Fiscal Compact rules. In details, given the real interest rates and the GDP growth rates forecast by the IMF in 2015, the debt dynamics envisaged by the Fiscal Compact rules will require to Italy a primary surplus equal to 3.4%, against an historical average equal to 2% and the higher 4% required at the conditions prevailing before the EEAP announcement (see Figure 2.9 Risk Outlook no. 8). However the figure remains far higher than the primary balances to be achieved in other Eurozone countries (Figure 2.11). Given that interest rates are expected to remain at historically low levels in the next two years, compliance with Fiscal Compact rules will depend mainly on the growth pace of the economic activity. The nowcasts available for the first quarter of 2015 signal an improvement in all Eurozone countries, although with a significant degree of heterogeneity. German and Spanish economies are expected to grow slightly, whereas Italian GDP is expected to level off after experiencing negative growth rates (Figure 2.12).

In the second half of 2014, the oil price dropped back to early 2009 levels, due to strong supply and weak demand. In spite of the ongoing geo-political tensions in the middle-east area, supply is anticipated to remain high in the short-medium term, also as increasing production of shale products in north America may substitute for traditional oil products. Consistently, the oil price is expected to lower further, as signalled by the still negative difference between future and spot prices and the descending trend of some leading indicators such as the Baltic Dry index (Figure 2.13). Also commodity prices kept falling during 2014, driven by uncertainties about the pace of the worldwide economic activity and the relative strength of the supply side. This trend is still ongoing in the first quarter of 2015, in spite of the improvement in the global outlook (Figure 2.14).

Since the second half of 2014, the euro has depreciated significantly against the main international currencies. The weakening of the euro area currency against the US dollar was driven by the very low levels of interest rates in the Eurozone (which triggered capital outflows), the divergence in the economic recovery across regions (patchy and slow in the euro area and firm and rapid in the US), and the tendency of the US dollar to remain the main world's reserve currency (Figure 2.15). The weakness of the Eurozone currency may stimulate the aggregate demand through the foreign sector channel. Although the overall euro area current account balance is positive, single countries' positions are significantly different. In particular, at the end of 2014 Germany remains the leading country with net exports representing more than 5% of the GDP (Figure 2.16).

Although foreign trade has intensified over the last fifteen years, in the main Eurozone countries the proportion of extra-UE trade has not changed significantly relative to intra-UE transactions. Since 2009, major euro area economies (especially Spain) have underwent competitiveness gains vis-à-vis other countries, as shown by the dynamics of the unit labor costs based real effective exchange rates (Figure 2.17).

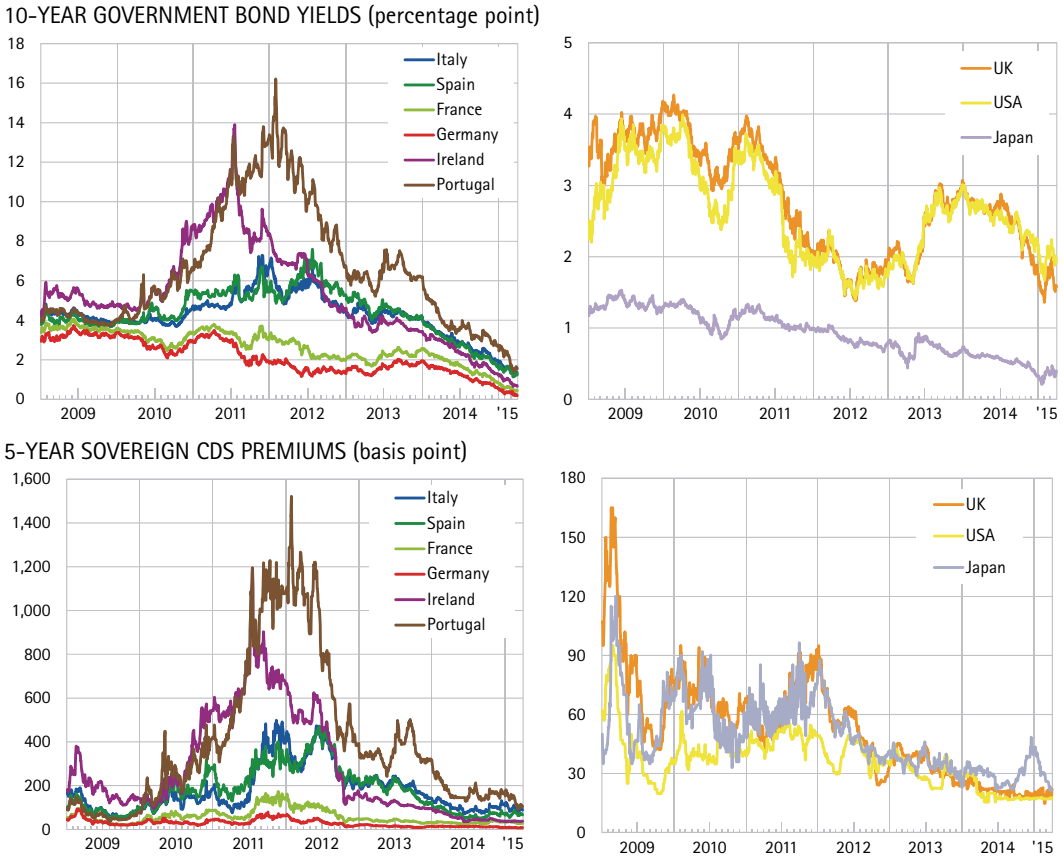
In 2014 corporate bond yields continued to decline in Europe, while remaining stable at higher levels in the US. Therefore, the gap between corporate bond yields across the two regions widened, mirroring the divergence in the monetary policy stance of the respective central banks (Figure 2.18). Issuance activity in the US and European corporate bond markets remained stable in 2014 compared to the previous year, whilst significantly decreased in Italy, where net issuances fell to 3 billion from 13 billion of euros in 2013. In the US and Europe the proportion of non-investment grade bonds equals, respectively, 21% and 28% of total issuances, against 40% in Italy. In 2015 refinancing needs, as measured by maturing bonds in percentage of the outstanding debt, are slightly higher in Italy than in the US and Europe (Figure 2.19). In 2014 the primary market of bank bonds remained subdued especially in Europe, where net issuances kept recording negative values. In Italy total gross issuances resulted stable due to the increase in the activity on the wholesale market compensating the decline in the retail market (Figure 2.20). At a global level, securitization markets continued to be almost

stagnant. In details, in the US net issuances of mortgage-backed securities decreased from 240 billion in 2013 to 170 billion of dollars in 2014. In Europe net issuances flattened to zero, while in Italy the mortgages-backed securities segment showed weak signs of restart (Figure 2.21).

In 2014, Italian bank bonds issues rose slightly on the international market, while experiencing a reduction on the domestic market (from 113 billion euros in 2013 to almost 92 billion; Figure 2.22). Issuances to wholesale investors were characterized by a higher spread than those issued to retail investors. The median value of the spread (computed over sovereign bond returns for fixed rate bonds and over Euribor for floating rate securities) was close to zero in the domestic market, while ranging between around 1% and 1.5% for fixed and floating rate bonds, respectively, on the wholesale market. Following the downgrades of many Italian banks, the proportion of high rated bonds has been decreasing since 2011 (Figure 2.23).

In the last few years there has been a remarkable decline in both sovereign yields and CDS premia within the euro area. The announcement of the ECB's EAPP has further strengthened this dynamics.

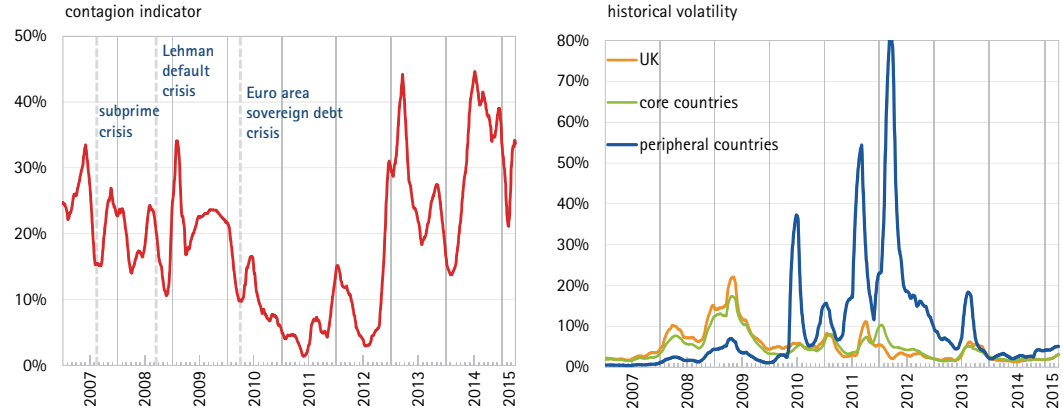
Figure 2.1 – Government bond yields and CDS on public debt in advanced countries
(daily data; 01/01/2009 – 31/03/2015)



Source: Thomson Reuters.

After increasing in the first half of 2014, contagion has returned to relatively low levels at the end of the year. The upward movement at the beginning of 2015 might mirror a 'benign contagion effect' triggered by the launch of the EAPP. Despite remaining at remarkable low levels, conditional volatility of sovereign bonds' spreads is experiencing a marginal upward shift in peripheral countries.

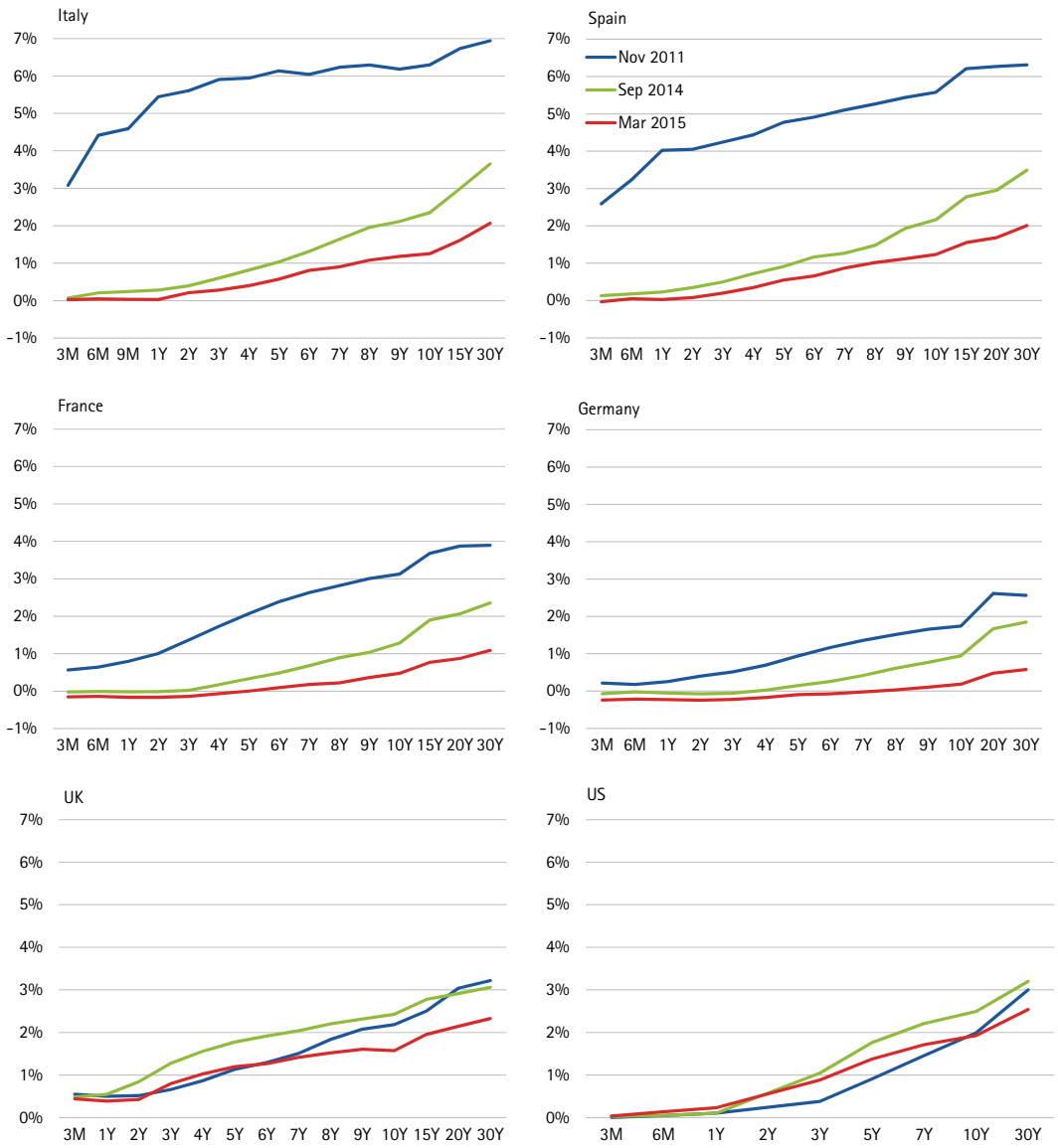
Figure 2.2 – Contagion and historical volatility of 10-year sovereign bond spreads for some European countries
(percentage values; 2-months moving average; daily data; 01/01/2007 – 31/03/2015)



For the methodology applied to estimate the contagion indicator see Consob Working paper no. 72, 2012 (left graph). On the left graph the percentage of statistically significant long-run relations among sovereign bond spreads; the long-run connections have been detected by applying the bi-variate cointegration test of Johansen (1988) with a rolling window of 1,000 days on the stock return time series. The countries included in the sample are the UK, Germany, France, Austria, the Netherlands, Finland, Italy, Spain, Greece, Portugal and Ireland. The right graph reports the average value of the annualised historical volatility of sovereign bond spreads which has been estimated by applying a multivariate Garch model. The group of "core" countries include Germany, France, Austria, the Netherlands and Finland, while the group of "peripheral" countries include Italy, Spain, Portugal and Ireland. The sovereign spreads are computed by using US Treasury bond as the benchmark. Calculations are based on Thomson Reuters data.

Following the ECB's launch of the EAPP, Eurozone sovereign yield curves have exhibited an unprecedented downward shift. Since the beginning of 2015, not only long-term yields have significantly declined, but also short-term interest rates have reduced further. In core countries short term yields keep recording negative values.

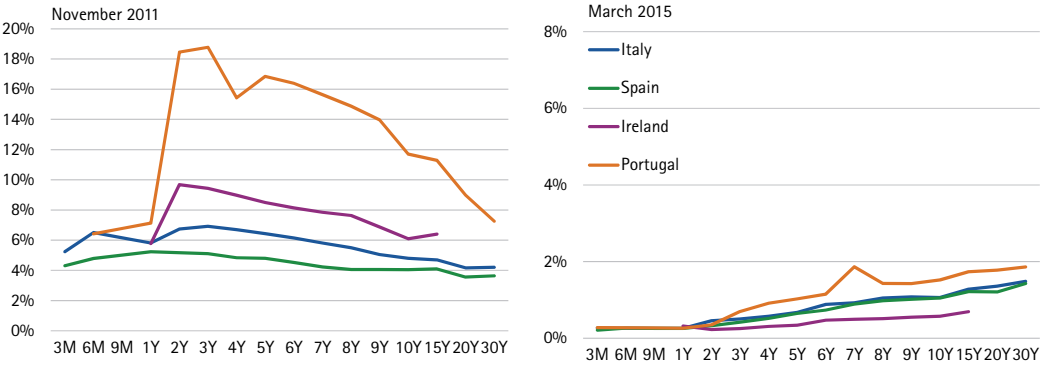
Figure 2.3 – Sovereign yield curves in major advanced countries



Source: calculations on Thomson Reuters data.

Due to the improvements in public finance fundamentals and the implementation of the EAPP, yield differentials between peripheral countries' sovereign bonds and the German benchmark have notably dropped along the entire maturity spectrum.

Figure 2.4 – Term structure of yields' spreads between peripheral euro area countries and Germany



Source: calculations on Thomson Reuters data.

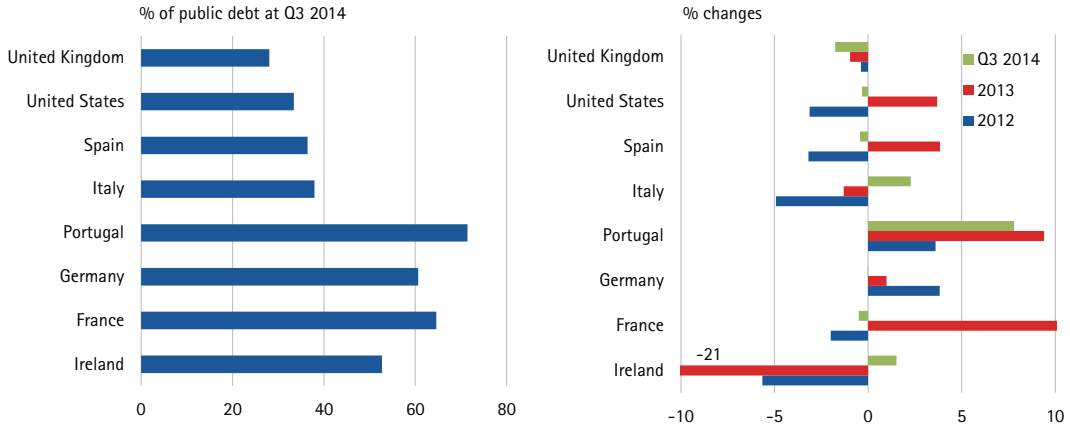
The ongoing reduction in Eurozone sovereign debt yields is reflected in the dynamics of implicit ratings, which at the beginning of 2015 tend to be higher than official ones for all countries except Greece.

Figure 2.5 – Bond and CDS implied ratings in some euro area countries
(monthly data; January 2009 – March 2015)

Source: calculations on Moody's data.

Since 2013 non-resident holdings of Eurozone peripheral countries' government bonds have been retracing towards their pre-crisis levels. In 2014, foreign investors' exposure towards Italian and Spanish sovereigns was slightly lower than 40% of their public debt, while for other euro area countries it ranged between 50 and 70%.

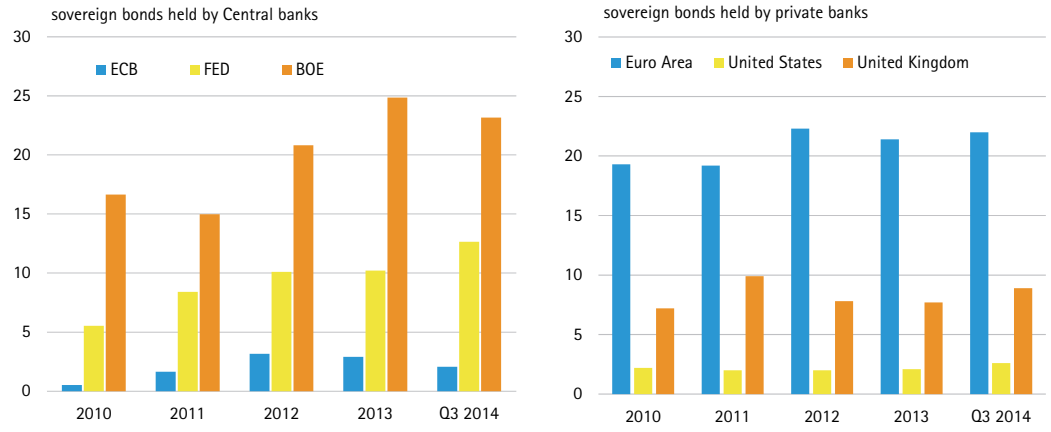
Figure 2.6 – Non-resident holdings of general government debt in selected countries



Source: calculations on data from Bruegel database of sovereign bond holdings developed in Merler and Pisani-Ferry (2012; www.bruegel.org) and IMF data (for Portugal).

At the end of the third quarter of 2014, private banks exposure to domestic public bonds were higher in the euro area (around 22%) than in the UK and the US (9% and 3% respectively). On the other hand, ECB's holdings barely accounted for 3% of the outstanding debt (14% and 23% for FED and BoE respectively).

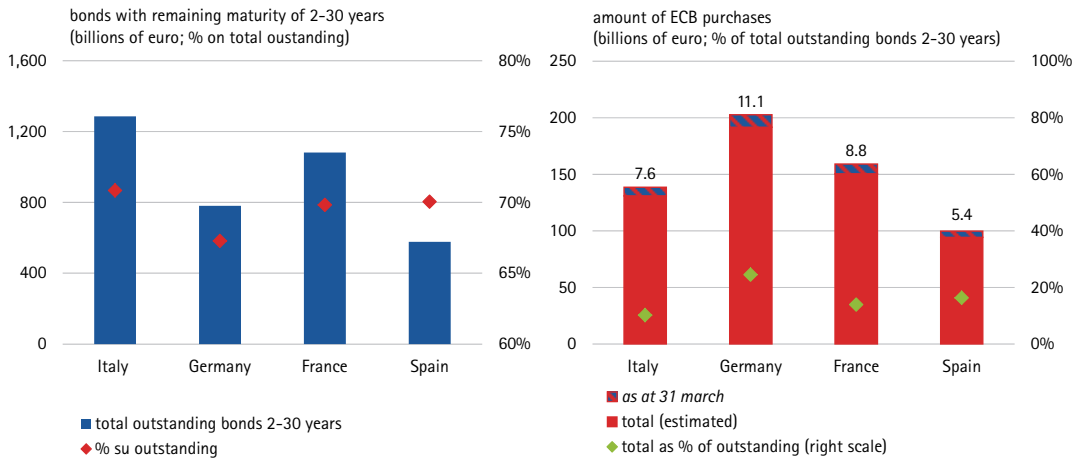
Figure 2.7 – Central bank and private banks holdings of general government debt in main advanced countries
(percentage of total sovereign bonds)



Source: Thomson Reuters and Bruegel database of sovereign bond holdings developed in Merler and Pisani-Ferry (2012; www.bruegel.org). The data for euro area refer to private bank holdings of Greece, Ireland, Italy, France, Germany, Spain and the Netherlands.

In 2015 and 2016, the ECB purchases of euro area countries' sovereign bonds will be around 900 billion of euros. For Italy, purchases are estimated to reach around 12% of the eligible outstanding bonds.

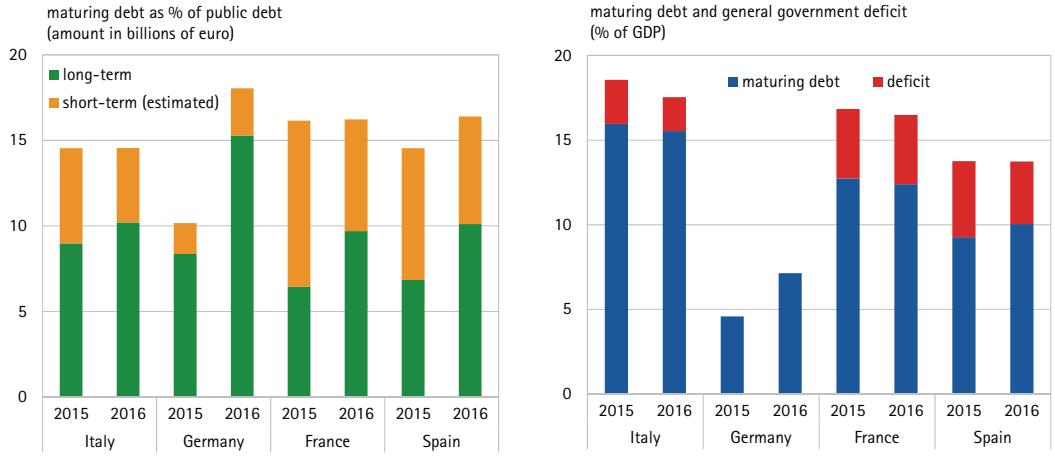
Figure 2.8 – The ECB extended asset purchases programme



Source: calculations on data from Thomson Reuters Eikon.

In 2015, sovereign refinancing needs keep being challenging in Italy, France and Spain relative to expected GDP and public deficit dynamics. In 2015 Italy will refinance a maturing debt higher than 15% of the European Commission's estimated GDP and a deficit equal to 2.6% of GDP.

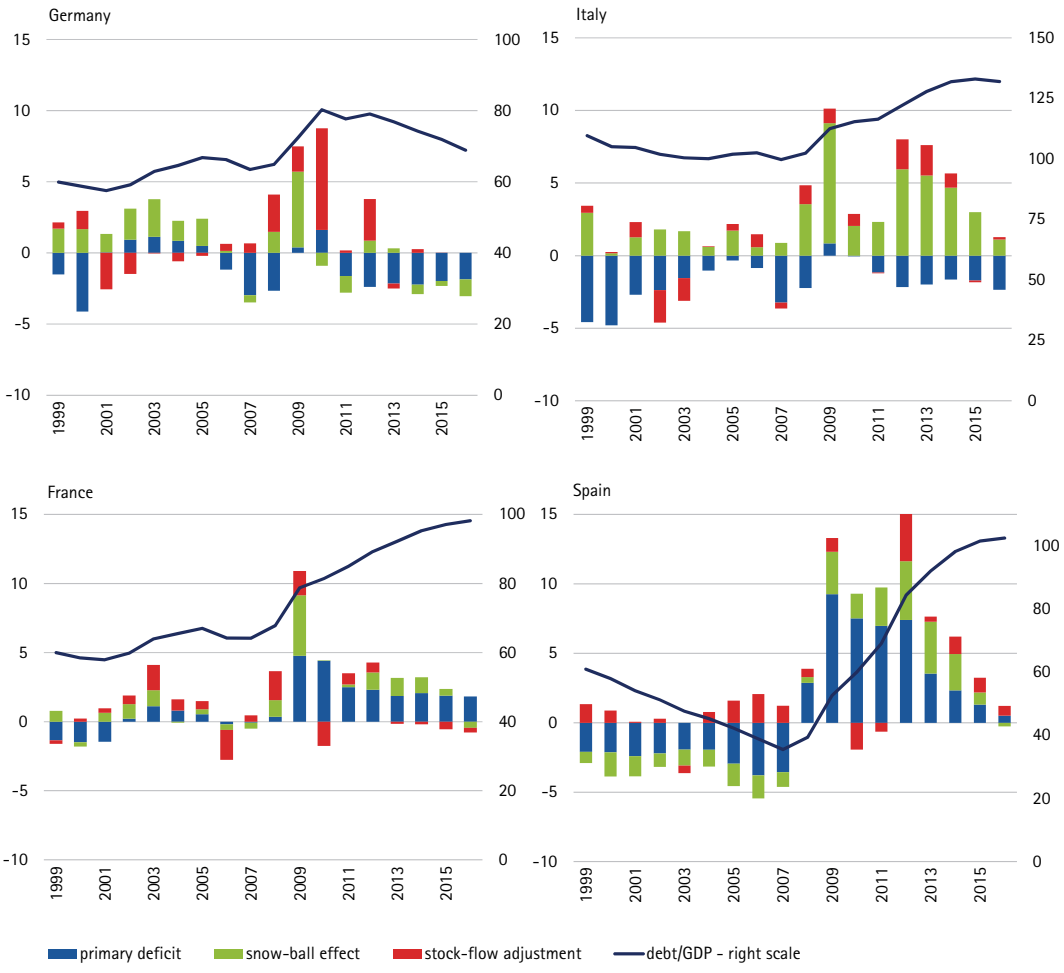
Figure 2.9 – The refinancing needs of general government debt in main euro area countries



Source: calculations on data from Thomson Reuters Eikon and EU Commission, Winter Forecasts 2015.

Both the relative size of debt to GDP and the contribution of each single component to debt accumulation reflect deep differences across major European countries. In particular, the debt-to-GDP ratio is declining in Germany, while it is increasing in France and Italy (where the size of debt relative to GDP is expected to decline from 2016 onwards). Turning to the determinants of the debt dynamics, the main driver was primary deficit in Spain and France, against the weakness of economic activity and the high costs of debt service in Italy.

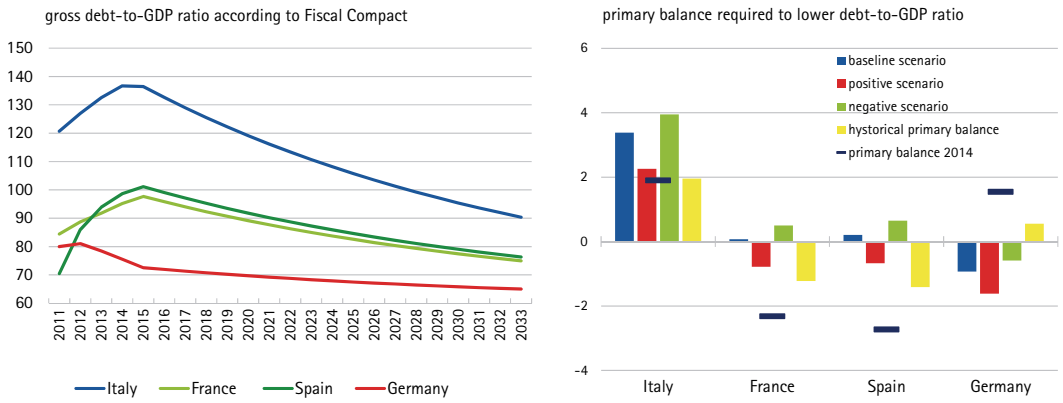
Figure 2.10 – General government debt components in main euro area countries



Source: EU Commission. The *snow-ball effect* measures the increase in public debt to GDP determined by the difference between interest rate and GDP growth rate; the stock-flow adjustment is the difference between the change in government debt and the government deficit/surplus for a given period.

The debt dynamics envisaged by the Fiscal Compact rules, given the real interest rates and the GDP growth rates forecast by the IMF in 2015, will require to Italy a primary surplus equal to 3.4% (against an historical average equal to 2%), far higher than the primary balances to be achieved in other Eurozone countries.

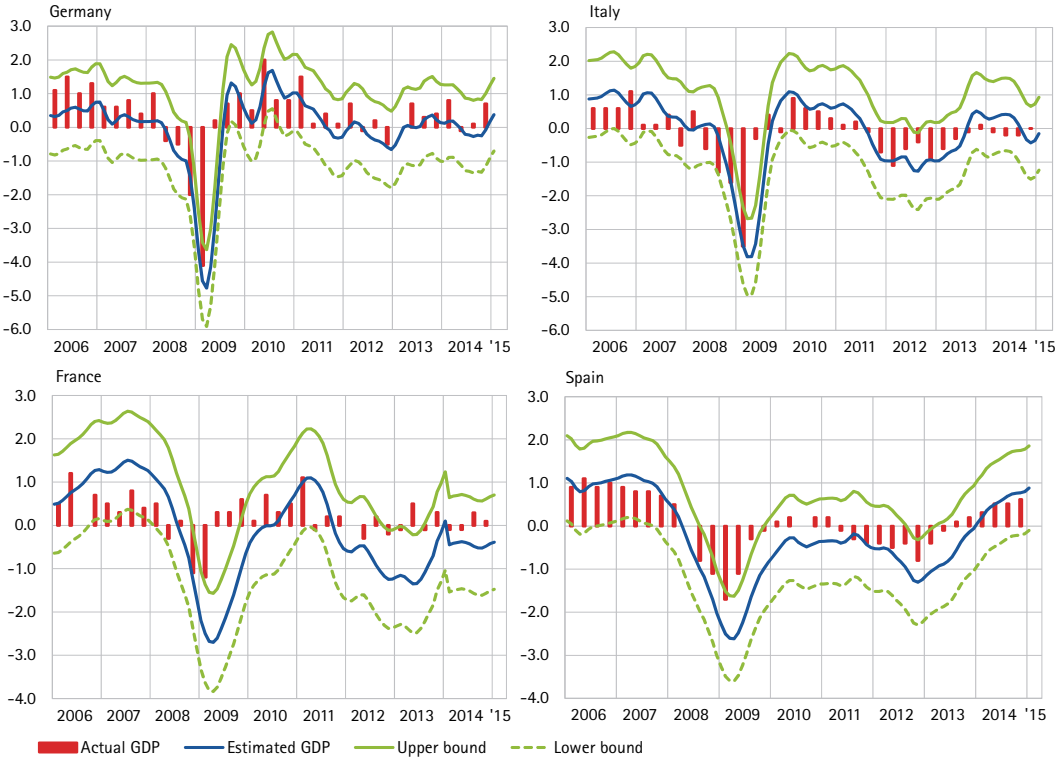
Figure 2.11 – Primary balance required to comply with the Fiscal Compact Treaty in some euro area countries



In the baseline scenario interest rates and GDP growth rates are equal to those forecast for 2015 (i.e., GDP growth rate equal to 0.4% for Italy, 1.3% for Germany, 0.9% for France and 2% for Spain; and real interest rates equal to 1.2% for Italy, -0.9% for Germany, -0.3% for France and 0.9% for Spain). In the positive scenario, interest rates are equal to those forecast for 2015 and GDP growth rates are equal to those forecast for 2015 plus 1%. In the negative scenario, interest rates are equal to those forecast for 2015 and GDP growth rates are equal to those forecast for 2015 minus 0.5%. In all scenarios the inflation rate is equal to that forecast for 2015. The source for all data is the IMF. Historical primary balance is the average of cyclically adjusted primary balances from 1999 to 2014.

The nowcasts available for the first quarter of 2015 signal an improvement in all Eurozone countries, although with a significant degree of heterogeneity. German and Spanish economies are expected to grow slightly, whereas Italian GDP is expected to level off after experiencing negative growth rates.

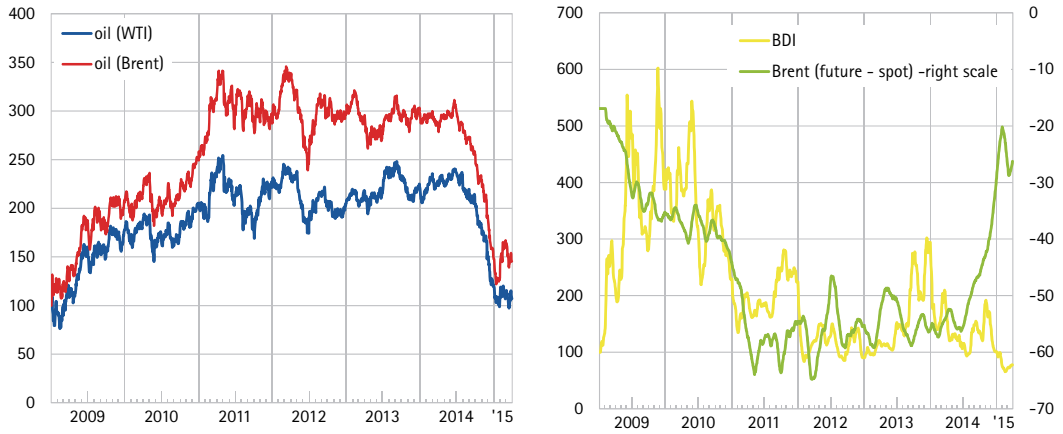
Figure 2.12 – GDP nowcasts for some euro area countries
(percentage values)



The methodology applied to construct the forecast is based on a small-size state space model, using 11 hard and soft indicators (preliminary and final estimates of GDP; hard indicators: Exports, Industrial Production Index, Retail Sales, Employment; soft indicators: Economic Sentiment Indicator, Business Confidence Indicator, Consumer Confidence Indicator, Building Confidence Indicator) adapted from Camacho and Perez-Quiros (2010). The Kalman filter methodology is used to extract a common factor. The model is estimated separately for each country (Germany, Italy, France, Spain). Calculations are based on data from EU Commission, Istat, Insee, Bundesbank, Ine. The sample used to construct the forecast ranges from June 2002 to January 2015.

In the second half of 2014, the oil price dropped back to early 2009 levels, in the wake of a strong supply and a weak demand. The oil price is expected to lower further, as signaled by the difference between future and spot prices (which is, however, shrinking towards zero), and the descending trend of some leading indicators such as the Baltic Dry index.

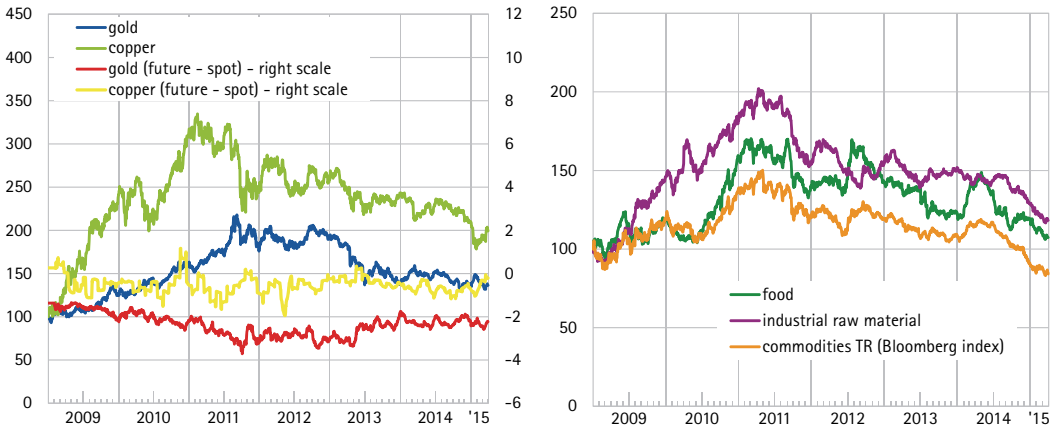
Figure 2.13 – Oil price and the Baltic Exchange Dry Index



Source: calculations on data from Thomson Reuters. Price and index series: 01/01/2009 = 100. The future - spot differential is computed as the monthly moving average of the difference between the re-scaled series (01/01/2009 = 100).

Commodity prices kept falling during 2014, driven by uncertainties about the pace of the worldwide economic activity and the relative strength of the supply side. This trend is still ongoing in the first quarter of 2015, in spite of the improvement in the global outlook, especially in the US.

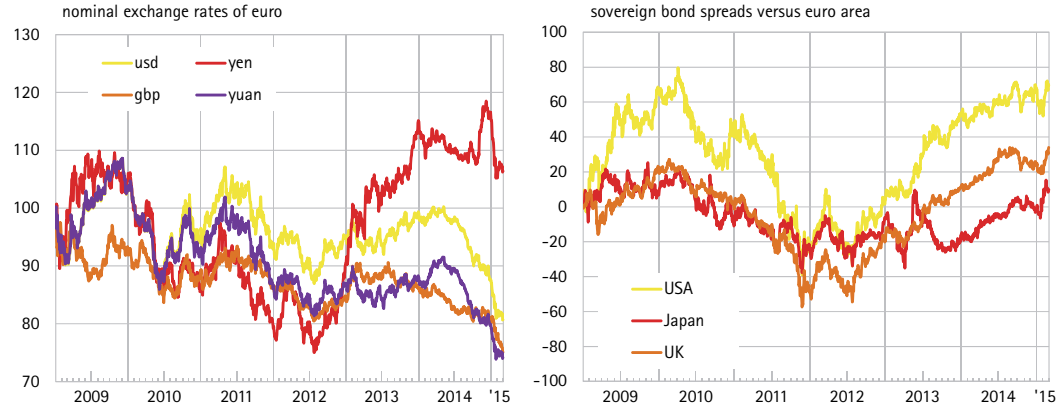
Figure 2.14 – Commodity prices



Source: calculations on data from Thomson Reuters. Price and index series: 01/01/2009 = 100. The future - spot differential is computed as the monthly moving average of the difference between the re-scaled series (01/01/2009 = 100).

Since the second half of 2014, the euro has depreciated significantly against the main international currencies. The weakening of the euro area currency against the US dollar was driven by the very low levels of interest rates in the Eurozone, the divergence in the economic recovery across regions, and the tendency of the US dollar to remain the main world's reserve currency.

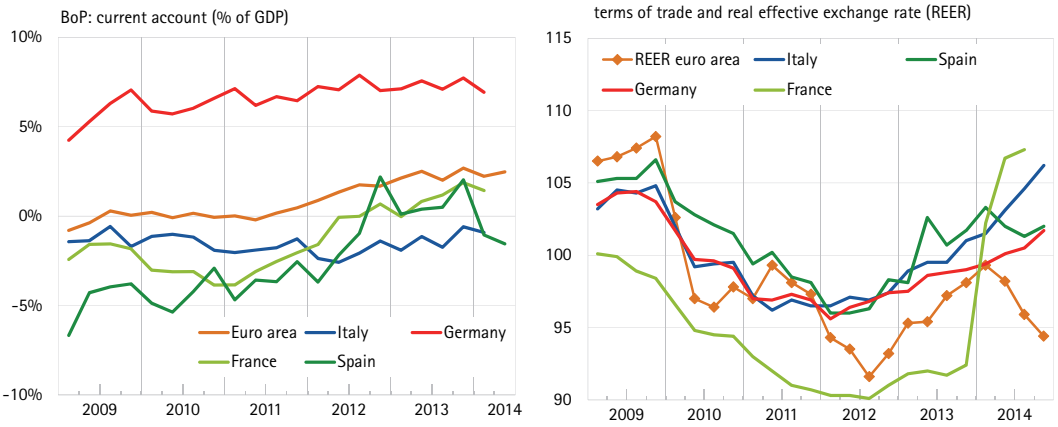
Figure 2.15 – The exchange rates of selected foreign countries against euro and interest rates spreads of sovereign bonds



Source: calculations on data from Thomson Reuters. Nominal exchange rates: 01/01/2009 = 100. The interest rate spread is computed using the *benchmark yield* on 10-year sovereign bonds. The *benchmark yield* of the euro area is a weighted average of the 10-year yields prevailing in the single member countries.

The weakness of the euro may stimulate the aggregate demand in the Eurozone through the foreign sector channel. Although the overall euro area current account balance is positive, single countries' positions are significantly different. In particular, Germany remains the leading country with net exports representing more than 5% of the GDP.

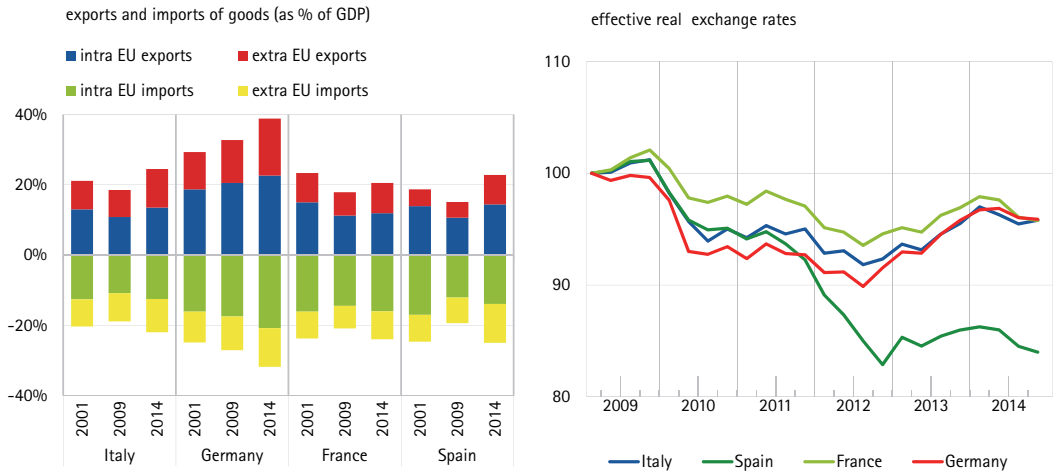
Figure 2.16 – Current account balances and terms of trades of selected euro area countries



Source: calculations on data from Thomson Reuters.

Although foreign trade has intensified over the last decade, in the main Eurozone countries the proportion of extra-UE trade has not changed significantly relative to intra-UE transactions. Since 2009, major euro area economies (especially Spain) have underwent competitiveness gains, as shown by the dynamics of the unit labor costs based real effective exchange rates.

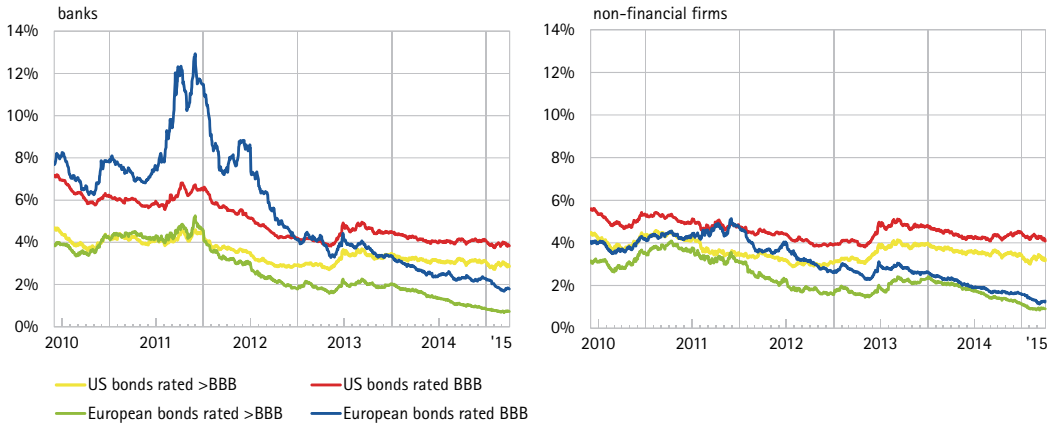
Figure 2.17 – The European trade pattern and the effective real exchange rates (ULC)



Source: calculations on data from Thomson Reuters.

In 2014, corporate bond yields continued to decline in Europe, while remaining stable at higher levels in the US. Therefore, the gap between corporate bond yields across the two regions widened, mirroring the divergence in the monetary policy stance of the respective central banks.

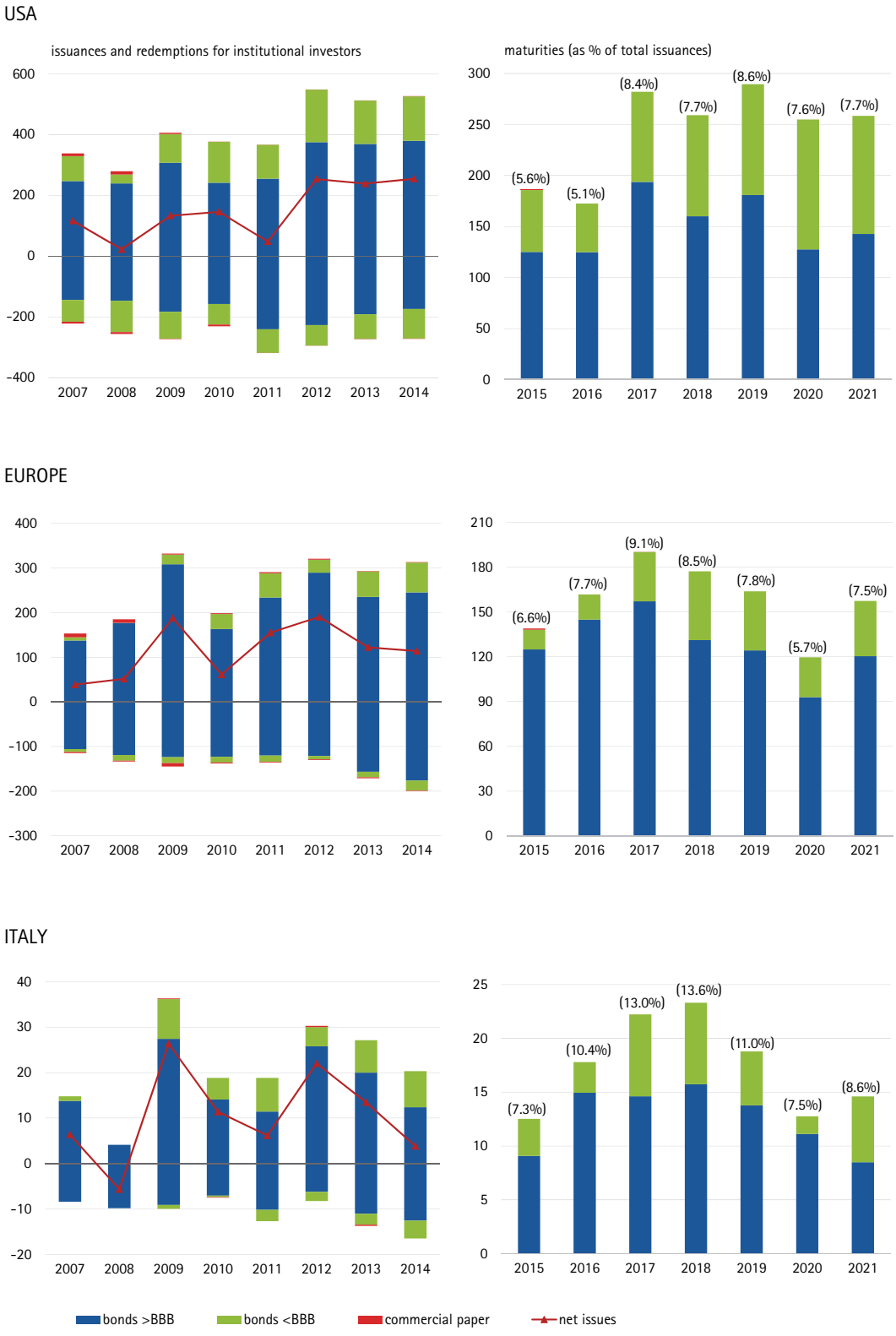
Figure 2.18 – Bank and non-financial corporate bond yields
(percentage values; daily data; 01/06/2010 - 31/03/2015)



Source: Thomson Reuters Eikon. Data refer to Markit Iboxx indexes.

Issuance activity in the US and European corporate bond markets remained unchanged in 2014 compared to 2013, whilst significantly decreased in Italy, where net issuances fell to 3 billion from 13 billion of euros in 2013. In the US and Europe the proportion of non-investment grade bonds equals, respectively, 21% and 28% of total issuances, against 40% in Italy. In 2015 refinancing needs, as measured by maturing bonds in percentage of the outstanding debt, are slightly higher in Italy than in the US and Europe.

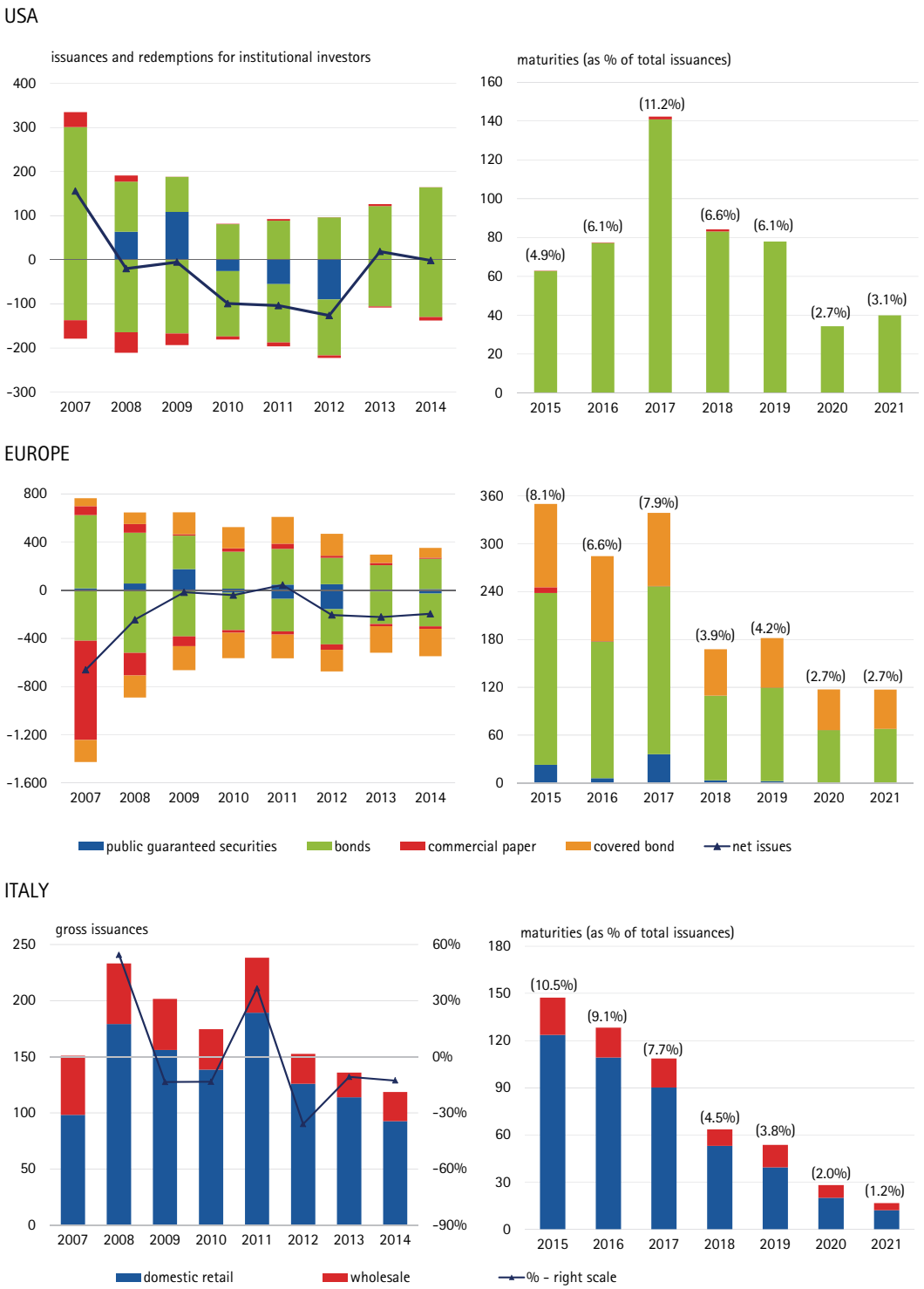
Figure 2.19 – Non-financial corporate bonds issues and maturities
(billions of euro)



Source: calculations on Dealogic data. European issuance data refer to companies with registered office in Italy, France, Germany, Spain, the Netherlands and the UK and their subsidiaries (even those established in other countries). Maturities refer to bonds issued since 2007.

In 2014 the primary market of bank bonds remained subdued especially in Europe, where net issuances kept recording negative values. In Italy total gross issuances stood stable due to the increase in the activity on the wholesale market compensating the decline in the retail market. In 2015 refinancing needs seem higher for Italian banks than those of their European and US peers.

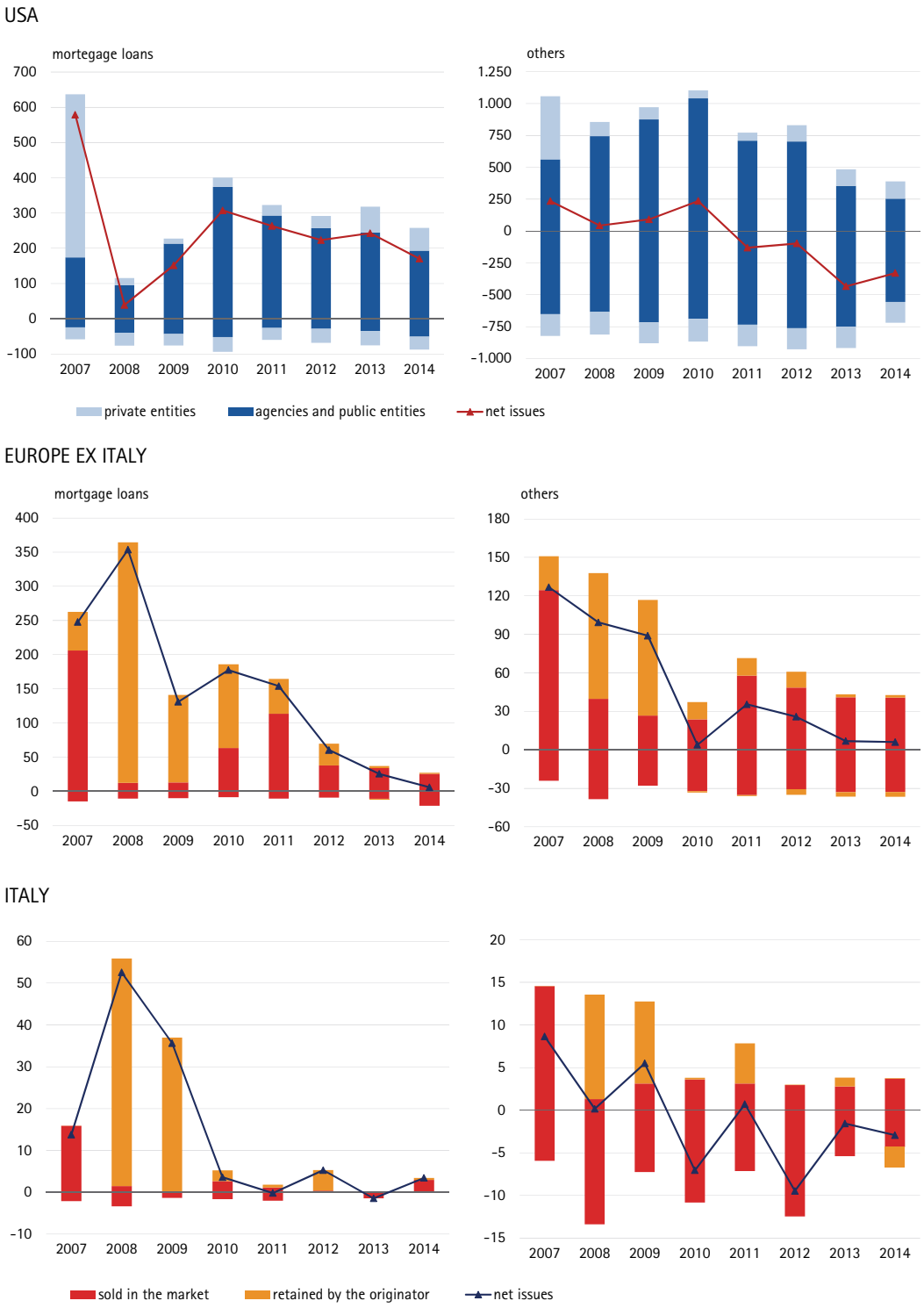
Figure 2.20 – Bank bonds issues and maturities
(billions of euro)



Source: calculations on Dealogic data. European issuance data refer to companies with registered office in Italy, France, Germany, Spain, the Netherlands and the UK and their subsidiaries (even those established in other countries). Gross issuance change for H1 2014 is computed relative to H1 2013. Maturities refer to bonds issued since 2007.

At a global level, securitization markets continued to be almost stagnant. In the US the net issuances of mortgage-backed securities dropped from 240 billion in 2013 to 170 billion of dollars in 2014. The European market, which is smaller than the US one, exhibited net issuances close to zero, while in Italy the mortgage-backed securities segment showed weak signs of restart.

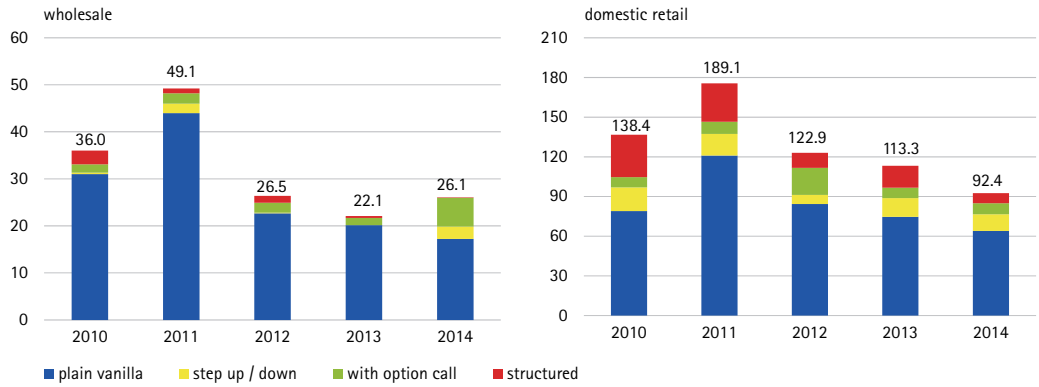
Figure 2.21 – Securitisation issuances
(billions of euro)



Source: calculations on Dealogic data. The data for Europe refer to asset-backed securities of companies with registered office in Italy, France, Germany, Spain, the Netherlands and the UK and their subsidiaries.

In 2014, Italian bank bonds issues rose slightly on the international market, while experiencing a reduction on the domestic market (from 113 billion euros in 2013 to almost 92 billion).

Figure 2.22 – Bond issues by Italian banks
(amount placed in billions of euro)

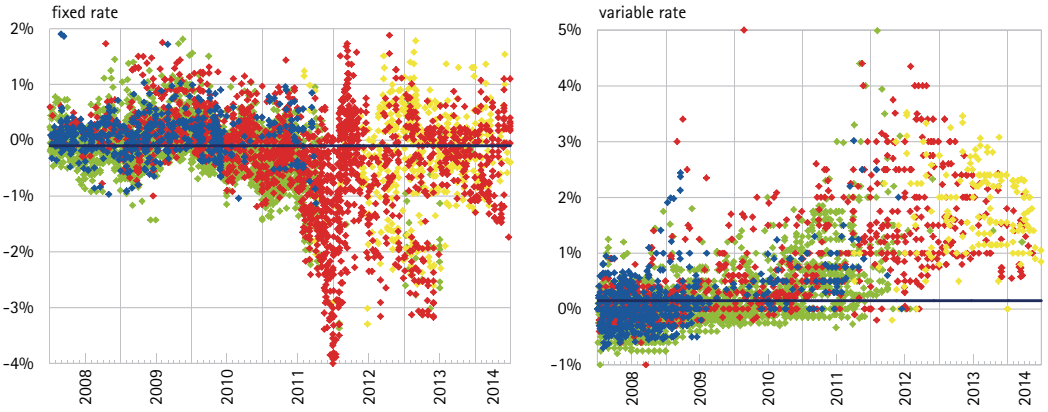


Source: statistical supervisory reports. Provisional data and partial estimates. Excludes bonds guaranteed by the State.

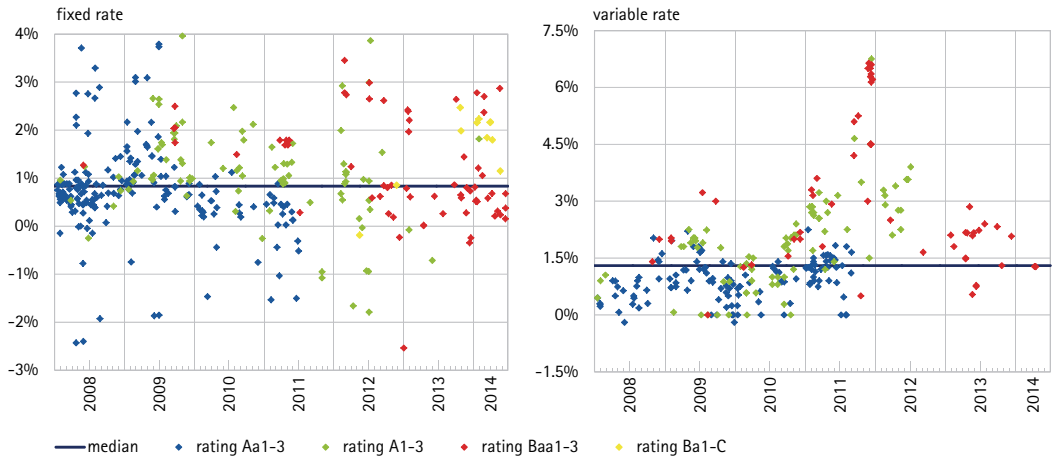
Issuances to wholesale investors were characterized by a higher spread than those issued to retail investors. The median value of the spread (computed over sovereign bond returns for fixed rate bonds and over Euribor for floating rate securities) was close to zero in the domestic market, while ranging between around 1% and 1.5% for fixed and floating rate bonds, respectively, on the wholesale market. Following the downgrades of many Italian banks, the proportion of high rated bonds has been decreasing since 2011.

Figure 2.23 – Spread of returns of Italian bank bonds by rating class
(percentage values)

DOMESTIC RETAIL



WHOLESALE



Source: prospectuses, final terms and interactive data bonds issued to retail investors; Dealogic data securities issued to institutional investors. Fixed-rate bonds include the step up/down securities. Public guaranteed bonds are excluded. Spread are computed over public bonds returns with the same maturity for the fixed rate bonds and over Euribor rate for the variable-rate bonds.

Non-financial companies

During 2014, stock market performance of large European non-financial companies was heterogeneous across sectors. Consumer goods, telecoms and pharma stocks were among the top performers, while industrials remained overall stable and oil&gas companies were among the hardest hit by the fall in oil prices in the second half of the year. Oil&gas and utilities kept lagging behind other sectors and are still below the 2007 levels. European small and mid-caps have increasingly performed better than large companies since 2010, whilst in Italy stock prices have recovered especially for large and medium size companies (Figure 3.1).

On the basis of preliminary financial data, during 2014, revenues continue to decline for large Italian, French and UK non-financial companies, while showing a timid trend reversal for Spanish and German firms. Consistently, Ebit margins contracted for all groups except for Spain. Nevertheless, UK, German and Spanish companies' profitability (ROE) slightly improved while their Italian and French peers were not able to match the same results. At the same time, short term debt exposure relative to total debt decreased most for Italian companies (Figure 3.2).

Italian non-financial companies exhibited the highest leverage in 2014, while UK and French groups showed the lowest ratio. As for interest expense coverage, Italy recorded the lowest value after Spain and, along with Spain and Germany, displayed the highest percentage of firms with a coverage ratio below their 10-year average (Figure 3.3).

In 2014, UK companies were characterised by the highest debt payout ratio, consistent with their higher cash flows from operating activities, which also helped sustain the highest capex. Italian groups (along with German peers) showed the lowest payout ratio and the highest percentage of firms with a ratio below the 10-year average. As for short-term debt coverage, Italy and the UK maintained the highest ratio which, in turn, has generally declined for the European sample as a whole (Figure 3.4). In 2014, the percentage of groups experiencing a change in revenues below the 10-year average was higher than 80% across all countries. The percentage of loss-making companies declined in Italy, placing it in line with other European economies, where it slightly increased. The number of companies with short-term debt incidence reached its highest in Spain (Figure 3.5). As for financial structure, European groups look less vulnerable in terms of current leverage and interest coverage relative to their 10-year average. French, German and less markedly Spanish companiesn improved their payout of debt and coverage of short-term debt ratio. The evidence for Italian firms is instead mixed (Figure 3.6).

As for credit conditions, trends in bank lending to non-financial companies are improving in all euro area countries, also in Italy and Spain where bank loans to firms are declining at a slower pace over the previous year (Figure 3.7). The gap between core and peripheral countries in bank loans growth rates and in interest rates on new loans to non-financial firms has therefore narrowed during 2014. However in Italy and Spain small firms continued to bear a higher cost of bank credit (Figure 3.8). Demand for loans from non-financial firms is gradually, although discontinuously, recovering in the main Eurozone countries. In the last term of 2014, among the main factors affecting demand for loans prevail debt restructuring and financing needs related to inventories and working capital in Italy, while financing needs for fixed investments are relevant only in Germany and France (Figure 3.9).

Perceived risk of European non-financial companies as implied by actual and theoretical CDS spreads kept declining also in the first quarter of 2015. Such dynamics was more marked for Italian firms, which since the beginning of 2014 have experienced a reductions in spreads by around 200 basis

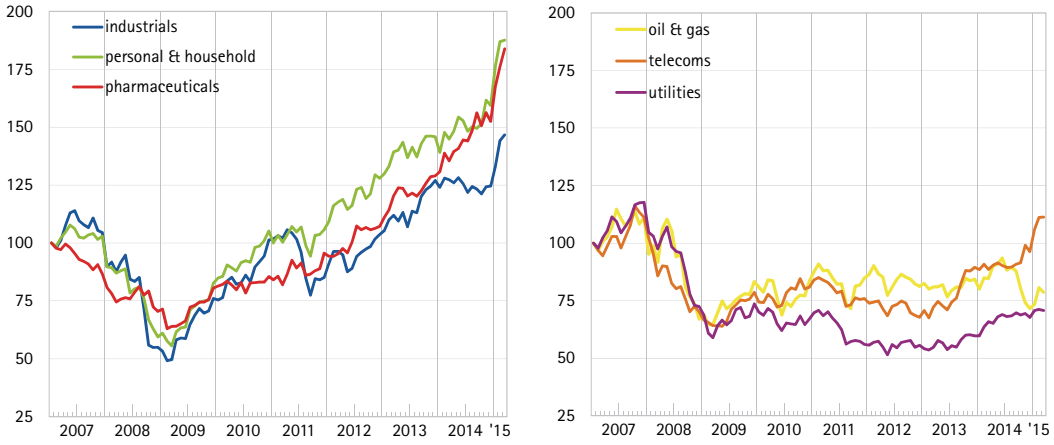
points, towards levels aligned to those of their European peers (Figure 3.10). As for corporate ratings, during 2014 and early 2015, CDS prices' and stock returns' implied ratings of large non-financial European firms have converged, on average, towards official ratings. Similar dynamics are experienced by Italian firms, whose CDS prices' and stock returns' implied ratings have increasingly diverged from official ratings since the half of 2014 (Figure 3.11).

As for SMEs, developments in profit and leverage across the Eurozone keep being diverse. Profit situation and debt-to-assets ratio are still worsening in Italy, while improving in Germany and Spain (Figure 3.12). The perception of the most pressing problems faced by SMEs is divergent across countries. During 2014, in Italy, labour costs, availability of skilled staff and regulation have become more relevant issues than before (Figure 3.13). Bank loan availability to SMEs has been easing in Germany and Spain since the end of 2012, while still deteriorating in Italy and France. Fund raising, either via debt securities or via equity, is still subdued in Italy and France (Figure 3.14).

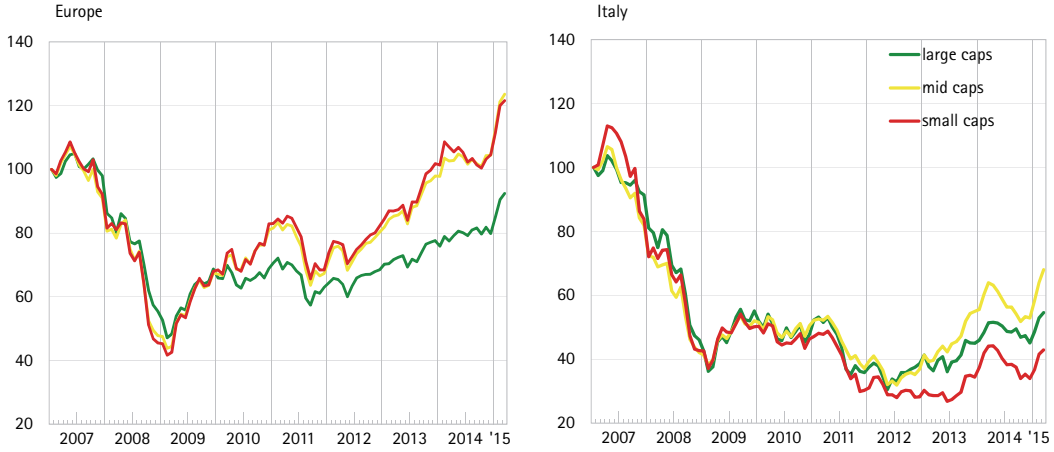
During 2014, stock market performance of large European non-financial companies was heterogeneous across sectors. Consumer goods, telecoms and pharma stocks were among the top performers, while industrials remained overall stable and oil&gas companies were among the hardest hit by the fall in oil prices in the second half of the year. Oil&gas and utilities kept lagging behind other sectors and are still below the 2007 levels. European small and mid-caps have increasingly performed better than large companies since 2010, whilst in Italy stock prices have recovered especially for large and medium size companies.

Figure 3.1 – Relative performance of European non-financial listed companies
(monthly data; January 2007=100)

Stock performance of large European non-financial companies by sector



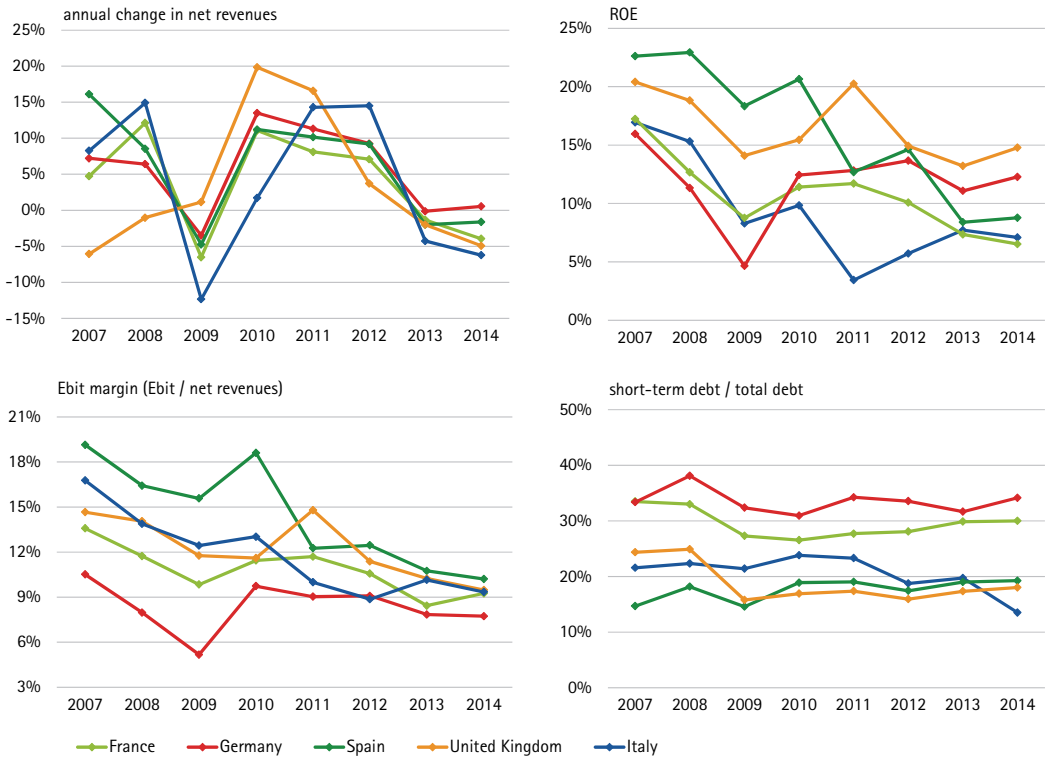
Stock performance of European and Italian non-financial companies by size



Source: Thomson Reuters data for the Stoxx600 (Europe) main sectorial indexes ex financials. Mid and small size company indexes are represented by the Stoxx600 (Europe) and the FTSE Italia All Share sub-indices, respectively for European and Italian companies. The Europe Stoxx50 and Ftse Mib indexes are used as proxies for large caps.

During 2014, revenues continued to decline for large Italian, French and UK non-financial companies, while showing a timid trend reversal for Spanish and German firms. Consistently, Ebit margins contracted for all groups except for Spain. Nevertheless, UK, German and Spanish companies' profitability (ROE) slightly improved while their Italian and French counterparts were not able to match the same results. At the same time, short term debt exposure relative to total debt decreased for most Italian companies.

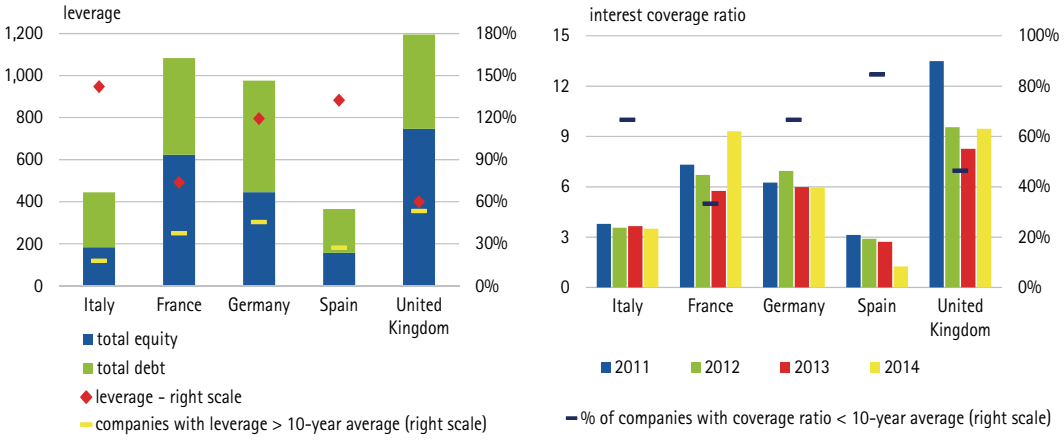
Figure 3.2 – Profitability and financial structure of major European non-financial listed companies



Source: elaborations on Worldscope and Bloomberg data for the top 30 non-financial companies by market capitalisation as of December 2014 for Italy, France, Germany, Spain and UK. Sample size and constituents may be adjusted to take into account leavers/joiners movements in the top 30 ranking and historical data availability. The annual change in net revenues is computed with respect to the restated figure for the previous year. Figures for 2014 are preliminary and partly estimated.

While UK and French non-financial groups showed the lowest leverage in 2014, Italian companies exhibited the highest ratio, although the percentage of Italian groups above their 10-year average is lower than in other countries. As for interest expense coverage, Italy recorded the lowest value after Spain and, along with Spain and Germany, displayed the highest percentage of firms with a coverage ratio below their 10-year average.

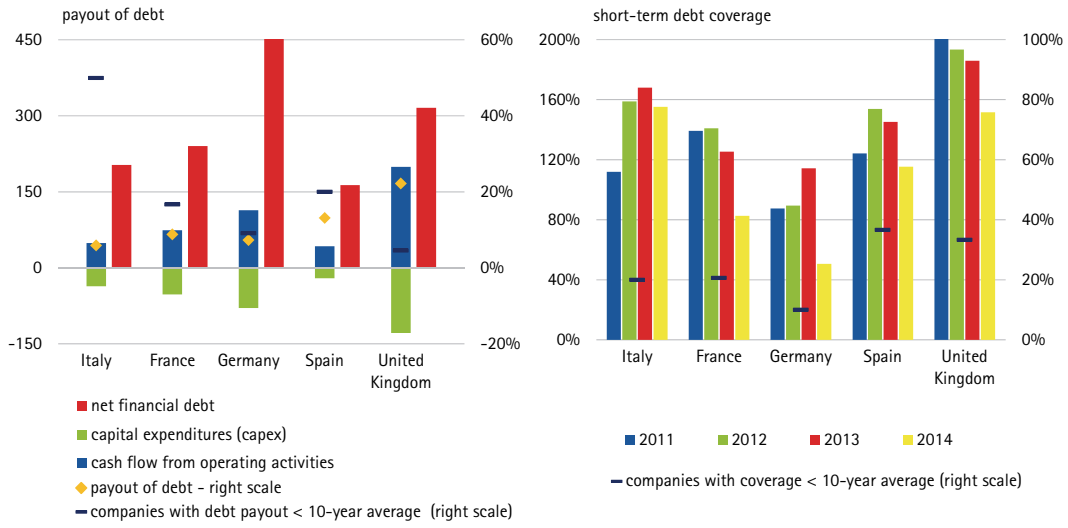
Figure 3.3 – Leverage and interest expense coverage of large European non-financial listed companies
(amounts in billions of euro)



Source: calculations on Worldscope and Bloomberg data of the top 30 non-financial companies by market capitalisation as of December 2014 for Italy, France, Germany, Spain and UK. Sample size and constituents may be adjusted to take into account leavers/joiners movements in the top 30 ranking and historical data availability. The leverage is the ratio between total debt and total equity. The interest coverage ratio is computed as Ebit divided by interest expenses. Figures for 2014 are preliminary and partly estimated.

In 2014, UK companies were characterized by the highest debt payout ratio, consistent with their higher cash flows from operating activities, which also helped sustain the highest capex. Italian groups (along with German peers) showed the lowest payout ratio and the highest percentage of firms with a ratio below the 10-year average. Considering the short-term debt coverage ratio, Italy and the UK maintained the highest ratio which, in turn, has generally declined for the European sample as a whole.

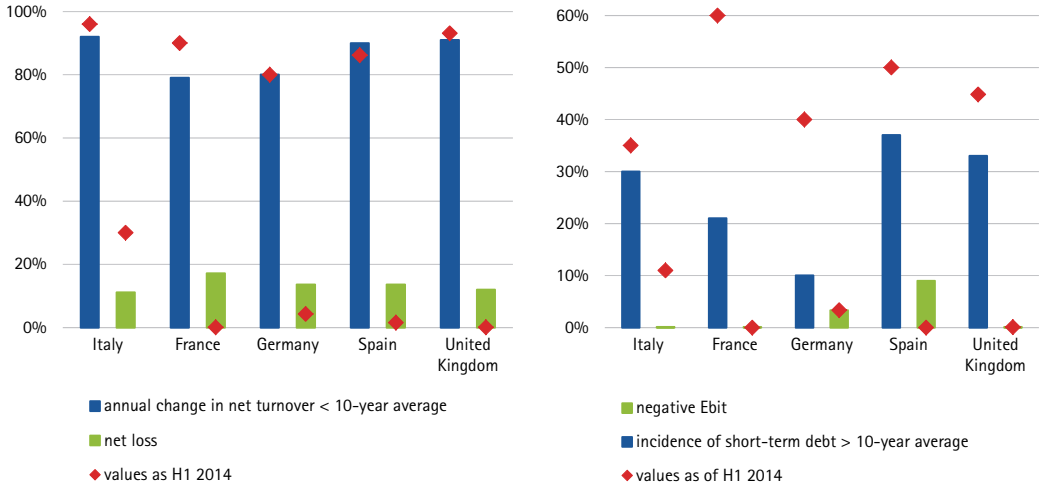
Figure 3.4 – Payout of debt and coverage of short-term debt of major European non-financial listed companies
(amounts in billions of euro)



Source: calculations on Worldscope Bloomberg data for the top 30 non-financial companies by market capitalisation as of December 2014 for Italy, France, Germany, Spain and UK. Sample size and constituents may be adjusted to take into account leavers/joiners movements in the top 30 ranking and historical data availability. The payout of debt ratio is calculated as the ratio between cash flows from operating activity net of capital expenditure and net financial debt. The coverage of short-term debt is the ratio between cash plus short term investments and short-term debt. Figures for 2014 are preliminary and partly estimated.

In 2014, the percentage of groups experiencing a change in revenues below the 10-year average was higher than 80% across all countries. The percentage of loss-making companies declined in Italy, placing it in line with other European economies, where it slightly increased. The number of companies with short-term debt incidence reached its highest in Spain.

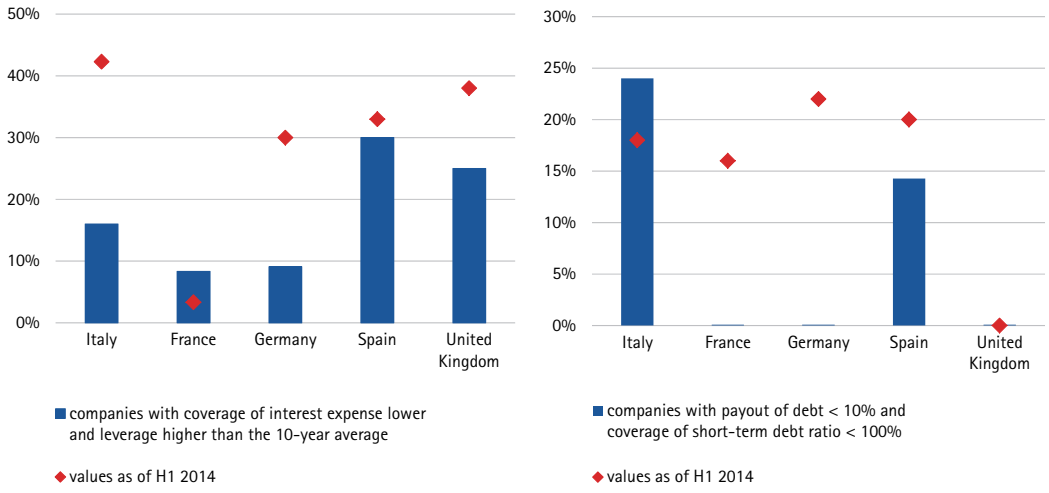
Figure 3.5 – Profit vulnerability of major European non-financial listed companies
(number of companies in percentage of the sample as of 2014)



Source: calculations on Worldscope and Bloomberg data for 30 non-financial companies by market capitalisation as of December 2014 for Italy, France, Germany, Spain and UK. Sample size and constituents may be adjusted to take into account leavers/joiners movements in the top 30 ranking and historical data availability. Figures for 2014 are preliminary and partly estimated.

As for financial structure, European groups look less vulnerable in terms of current leverage and interest coverage relative to their 10-year average. French, German and less markedly Spanish companies improved their payout of debt and coverage of short-term debt ratio. The evidence for Italian firms is instead mixed.

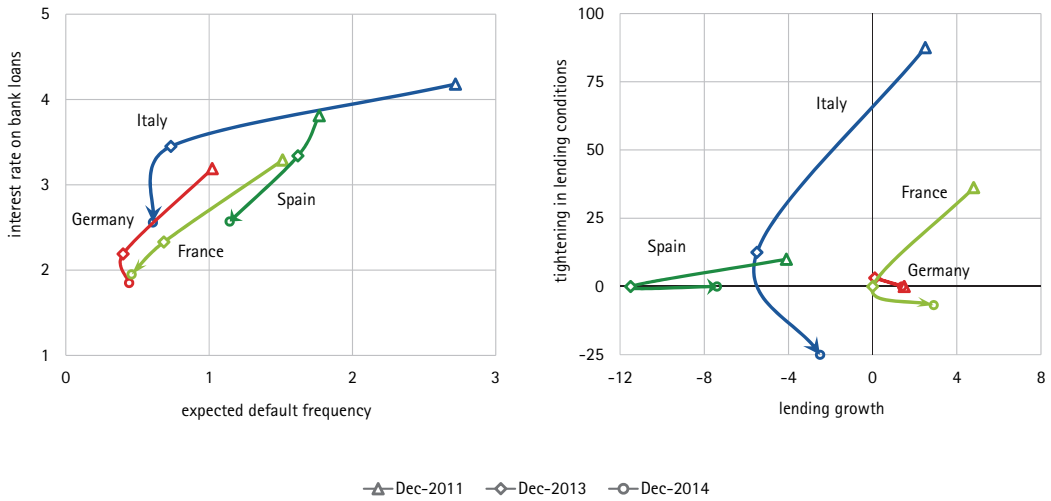
Figure 3.6 – Financial structure vulnerability of major European non-financial listed companies
(number of companies in percentage of the sample as of 2014)



Source: calculations on Worldscope and Bloomberg data for the top 30 non-financial companies by market capitalisation as of December 2014 for Italy, France, Germany, Spain and UK. Sample size and constituents may be adjusted to take into account leavers/joiners movements in the top 30 ranking and historical data availability. Figures for 2014 are preliminary and partly estimated.

Discrepancies in bank loans growth rates across euro area countries are slightly shrinking. Trends in bank lending to non-financial companies are improving in all countries, also in Italy and Spain where bank loans to firms are declining at a slower pace.

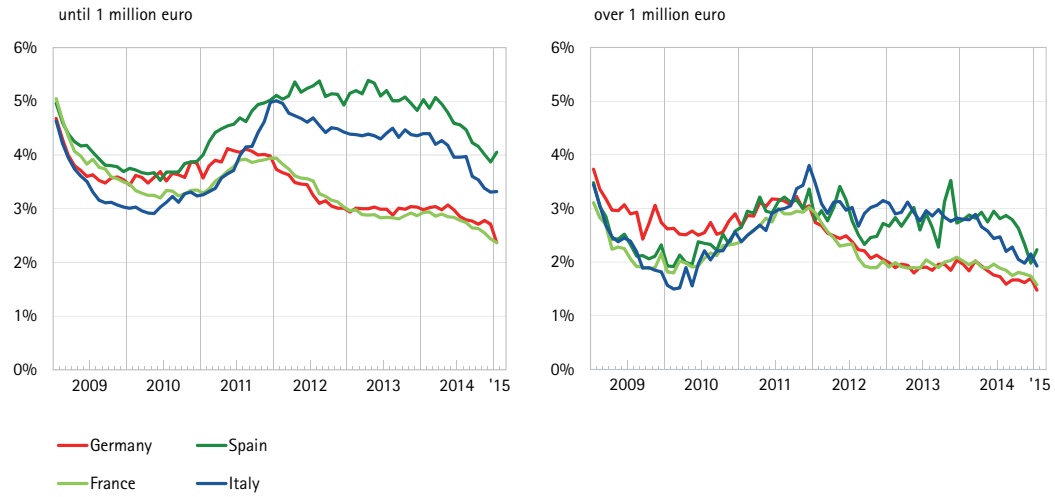
Figure 3.7 – Trends in bank lending to non-financial companies and expected default frequencies in main euro area countries
(percentage values)



Source: 'ECB Bank lending survey' and Moody's Credit Edge data. Tightening in lending conditions is the net percentage of banks reporting a tightening in credit standards (for Italy, Germany and Spain) and the net percentage of banks reporting a tightening in credit standards weighted for the share of each bank in the total loan outstanding amount in the sample (for France). Lending growth is the annual growth rate of bank loans to non-financial companies. Corporate EDF (one year) are the average of the 25th, 50th and 75th percentiles; the sample comprises publicly traded firms.

The gap between core and peripheral countries in bank interest rates on new loans to non-financial firms has narrowed during 2014. However, in Italy and Spain small firms continued to bear a higher cost of bank credit.

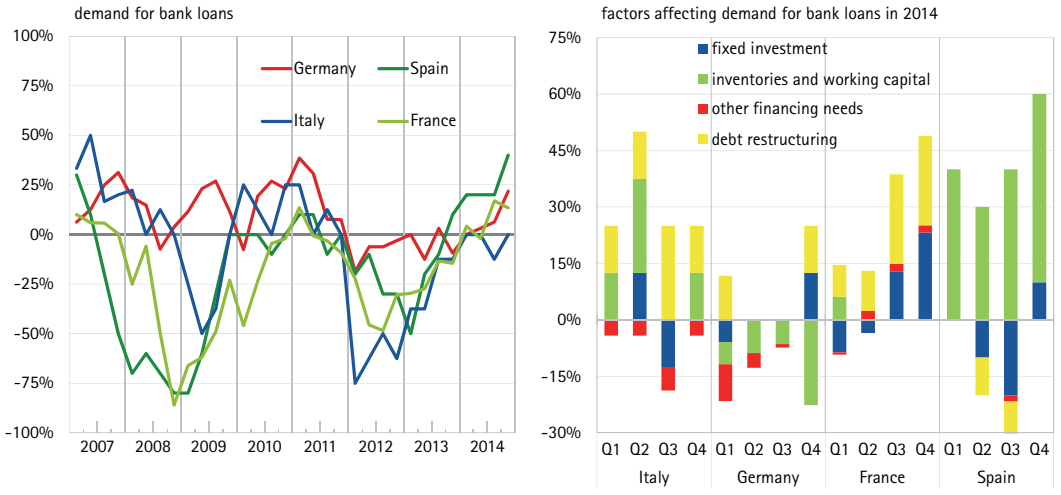
Figure 3.8 – Interest rates on bank loans to non-financial corporations in major euro area countries
(monthly data; January 2009 – January 2015)



Source: ECB; interest rates on new loans.

Demand for loans from non-financial firms is gradually, although discontinuously, recovering in the main Eurozone countries. In the last term of 2014, among the main factors affecting demand for loans prevail debt restructuring and financing needs related to inventories and working capital in Italy, while financing needs for fixed investments are relevant only in Germany and France.

Figure 3.9 – Demand for bank loans from non-financial corporations in main euro area countries
(quarterly data; 1Q 2007 – 4Q 2014)



Source: ECB Bank lending survey. The demand for bank loans is defined as the net percentage of banks reporting an increase in demand. Factors are defined as the difference between the percentage of banks reporting that the given factor contributed to increasing demand and the percentage reporting that it contributed to decreasing demand. 'Other financing needs' are calculated as the unweighted average of 'internal financing', 'loans from other banks', 'loans from non-banks', 'debt securities issuance', 'equity issuance' and 'mergers/acquisitions and corporate restructuring'.

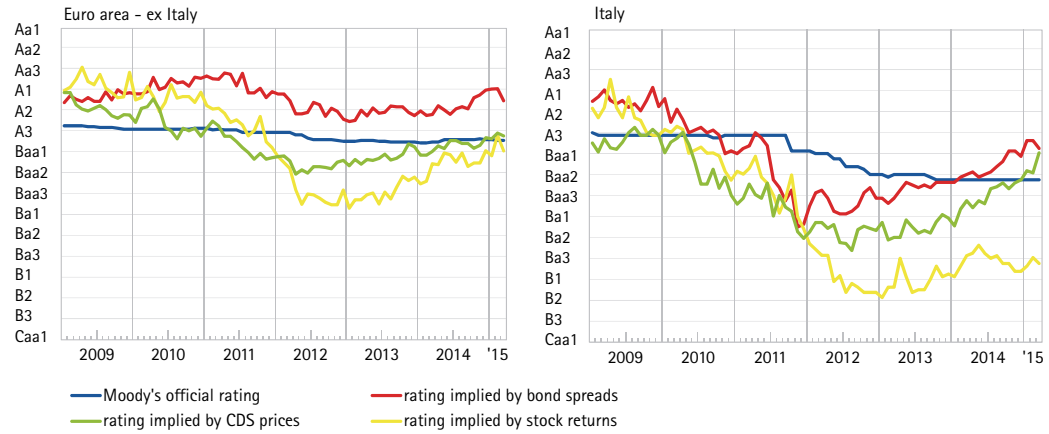
Perceived risk of European non-financial companies as implied by actual and theoretical CDS spreads kept declining also in the first quarter of 2015. Such dynamics was more marked for Italian firms, which since the beginning of 2014 have experienced a reductions in spreads by around 200 basis points, towards levels aligned to those of their European peers.

Figure 3.10 – Prices of 5-year CDS observed and implied by the expected default frequencies (EDF) for euro area non-financial firms
(basis point; daily data; 01/01/2009 – 20/03/2015)

Source: calculations on Thomson Reuters Datastream and KMV - Credit Edge data. The sample includes 68 listed firms in the euro area, which belong to Thomson Reuters corporate CDS indexes and under Moody's rating and of 7 Italian non-financial listed firms.

During 2014 and early 2015, CDS prices' and stock returns' implied ratings of large non-financial European firms have converged, on average, towards official ratings. Similar dynamics are experienced by Italian firms, whose CDS prices' and stock returns' implied ratings have increasingly diverged from official ratings since the half of 2014.

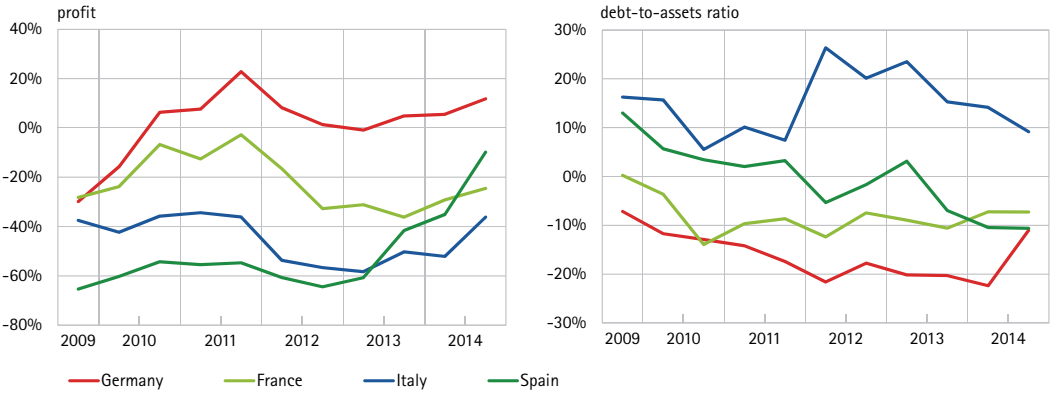
Figure 3.11 – Official and market implied ratings for euro area non-financial firms
(monthly data; January 2009 – March 2015)



Source: calculations on Moody's Implied Rating data. Average values, referring to *corporate* firms included in the Euro Stoxx 50 index for the euro area (excluded non-financial Italian firms) and to Italian non-financial companies included in the FTSE Mib.

Developments in profit and leverage SMEs across the Eurozone keep being diverse. Profit situation and debt-to-assets ratio are still worsening in Italy, while improving in Germany and Spain.

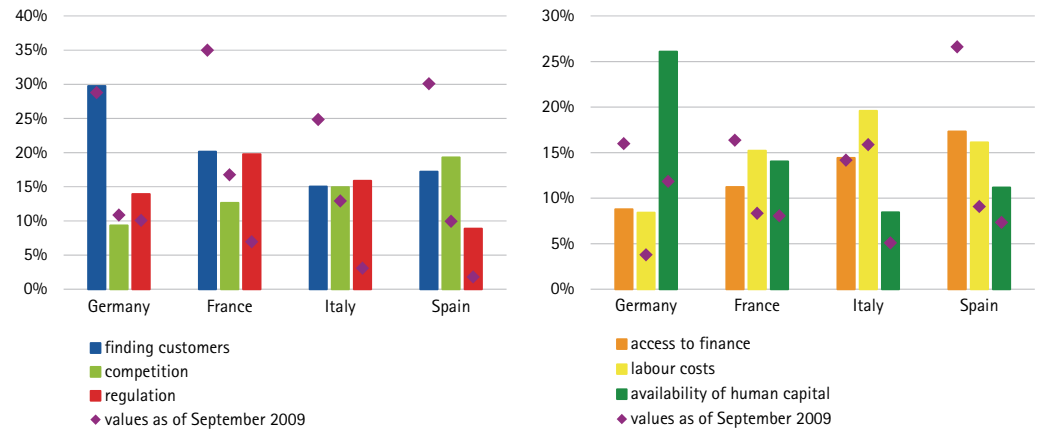
Figure 3.12 – Change in the income and debt situation of euro area SMEs
(over the preceding six months; net percentage of respondents)



Source: ECB, 'Survey on the access to finance of enterprises', November 2014. Net percentages refer to the difference between the percentage of firms reporting an increase for a given factor and that of those reporting a decrease. The reference periods are the semesters ended in March and September.

The perception of the most pressing problems faced by SMEs is divergent across countries. During 2014, in Italy, labour costs, availability of skilled staff and regulation have become more relevant issues than before.

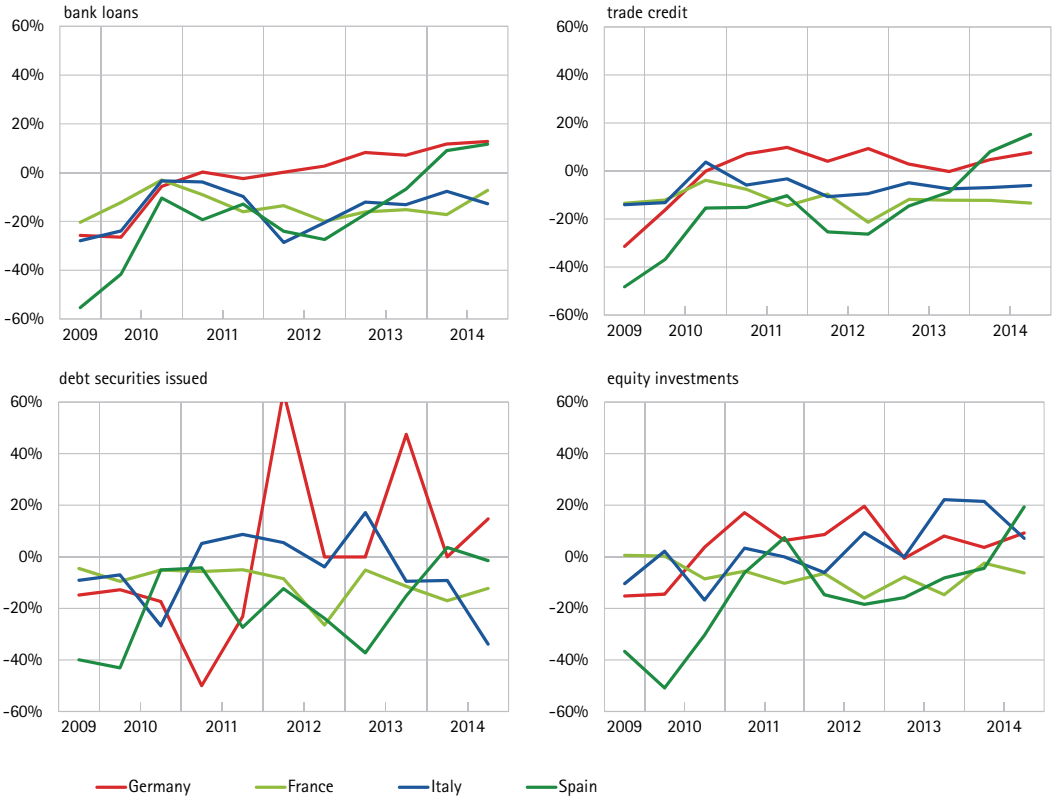
Figure 3.13 – The most pressing problems faced by euro area SMEs
(percentage of respondents as of September 2014)



Source: ECB, 'Survey on the access to finance of enterprises', November 2014. The item 'human capital' refers to the availability of skilled staff or experienced managers.

Bank loan availability to SMEs has been easing in Germany and Spain since the end of 2012, while still deteriorating in Italy and France. Fund raising, either via debt securities or via equity, is still subdued in Italy and France.

Figure 3.14 – Change in the availability of external financing for euro area SMEs
(over the preceding six months; net percentage of respondents)



Source: ECB, 'Survey on the access to finance of enterprises', November 2014. Net percentages refer to the difference between the percentage of firms reporting an increase for a given factor and that of those reporting a decrease. The reference periods are the semesters ended in March and September.

Banks

In the first nine months of 2014 profitability relative to risk-weighted assets (RWAs) of the main Italian, Spanish and English banks exhibited a recovery, while remaining unchanged in Germany and decreasing in France (Figure 4.1). The improvement in profitability seems to be mainly associated with the decline in RWAs, as over the same period gross banking income fell in all countries, with the exception of France. Cost efficiency stood almost stable for all major European banks (Figure 4.2). The level of major European banks' capital adequacy has remained at a relatively high rate, with Tier 1 ratio exceeding 11% in all countries. Due to the phase-in of CRD IV package, figures as of September 2014 are not fully comparable with previous period figures (Figure 4.3). Since 2011, the recapitalization of the banking system has mainly been implemented through public capital injections in Spain, Germany and France and equity capital raising in Italy. Banks' market capitalization and multiples have steadily increased driven by the heightened capital base thereafter. Italian and German banks have kept raising significant amounts of additional equity capital in 2014, ahead of the AQR (Figure 4.4). Italian and Spanish banks continue to be characterized by lower holdings of financial assets and derivatives relative to their European peers. In particular, the weight of derivatives at fair values on RWA is around 10% in Italy and Spain, compared with 88% in Germany, 50% in France and 44% in the UK (Figure 4.5). Across Europe, the proportion of bad loans on total gross loans keeps being higher for Italian and Spanish banks, while the UK and Germany are experiencing a substantial decline in non-performing loans (Figure 4.6).

In 2014 credit conditions for bank lending to households and firms improved considerably in the euro area. For the first time since the outburst of the global financial crisis, the percentage of banks reporting an easing in credit standards turned higher than the percentage of banks reporting a tightening (Figure 4.7). Bank credit conditions for loans to non-financial companies improved in the second half of 2014, mainly as a consequence of reduced pressures from competition, liquidity position and balance sheet constraints (Figure 4.8). Despite of the improving credit conditions, bank loans to non-financial firms continued to decline in Italy and Spain. However the fall is slowing down gradually. Banks funding through deposits exhibited a sharp increase in Italy while in Spain kept declining (Figure 4.9).

With the exception of Germany, the annual growth rate of residential mortgages stood at negative levels in all countries, in the wake of the enduring weakness of the property market, still experiencing a declining price to rent ratio (Figure 4.10). Focusing on the Italian real estate market, the price level for existing residential properties continued to decline significantly in 2014, in line with the trend recorded since 2011, while new houses have kept their value almost stable after 2010. In the last quarter of 2014 transaction prices were mainly expected to fall over the next three months. Expectations of rise in real estate prices are growing over the next two years (Figure 4.11). Other signs of weakness emerge from the steadily rise in the average selling time and in the bargaining margin. Market activity, as captured by the number of transactions and the volume of new residential mortgages, has been stagnant in the last three years (Figure 4.12).

Exposure to domestic sovereign debt continue to be heterogeneous across the main European banks, with Spanish and Italian institutions recording the highest levels (11% and 10% of total assets, respectively; Figure 4.13). Consequently, the sovereign-bank link, as measured by the dynamic correlation between CDS spreads, remained higher in Italy and Spain relative to France and Germany (Figure 4.14).

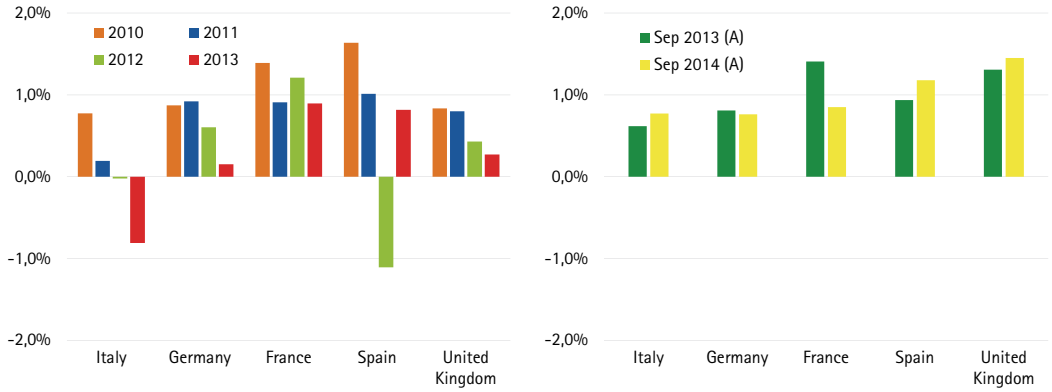
Foreign exposure of Italian banks to emerging countries is very low (around 1% of total assets) mainly due to claims vis-à-vis Russia. Spanish banks exhibit significant exposures to Brazil, while English

banks are the most exposed to China (Figure 4.15). In Europe the reduction in financial integration is still an issue, with an enduring decline in banks' cross-border exposures. In 2014 German banks reduced lending to foreign banks further, while French banks slightly increased their exposures vis-à-vis peripheral euro area countries (Figure 4.16 and Figure 4.18). Similar dynamics characterized banks foreign exposures to the private non-financial sector (Figure 4.17). The increase in financial fragmentation is also signalled by Target 2 imbalances that are persistently above the 2007 levels. Moreover, trends in international net financial positions are more and more divergent between Germany and the other main European countries (Figure 4.19). Reliance on ECB funding stood at high levels for Italian and Spanish banks (around 5% of total assets), also as a consequence of the funds allotted during the two TLTRO held in 2014 (Figure 4.20).
In 2014, contagion among banks (as measured by the joint probability of default implied by CDS spreads) kept going down by reaching values close to zero, both in the euro area and in Italy (Figure 4.21).
Since 2012, the perceived risk of major European banks has been declining. At the end of 2014, however, Italian banks are still perceived as riskier than their European peers, as shown by trends in actual and EDF-implied CDS spreads (Figure 4.22) and, above all, by the dynamics of the bond spreads implied rating (Figure 4.23).

Focusing on Italy, in the first half of 2014, major Italian banks have shown an increase in profitability. Capital adequacy has grown too, with both the primary Tier 1 ratio and total capital ratio rising. Efficiency gains, as measured by changes in cost-to-income ratio, were recorded in almost all main Italian banking groups (Figure 4.24). As for revenues breakdown, the incidence of net interest income to total income has slightly grown, although remaining below 60%. The proportion of revenues from investment services rose mainly as a consequence of the increase in fees from placement activity (Figure 4.25). The securities portfolio has grown significantly in the first six months of 2014, exceeding the 500 billion euros (equal to 25% of assets). This trend was more marked for the assets available for sale (Figure 4.26). In the first half of 2014 the quality of loans portfolio of Italian banks, as measured by the rate of change in bad loans, recorded significant improvements. This trend characterized also the other classes of non-performing loans. Coverage ratio of bad loans remained high (Figure 4.27). Direct funding of the major Italian banks continued to shrink due to the fall of the interbank funding, while indirect funding showed a slight increase mainly due to asset management activities (Figure 4.28).

In the first nine months of 2014 profitability relative to risk-weighted assets (RWAs) of the main Italian, Spanish and English banks exhibited a recovery, while remaining unchanged in Germany and decreasing in France. The improvement in profitability seems to be mainly associated with the decline in RWAs...

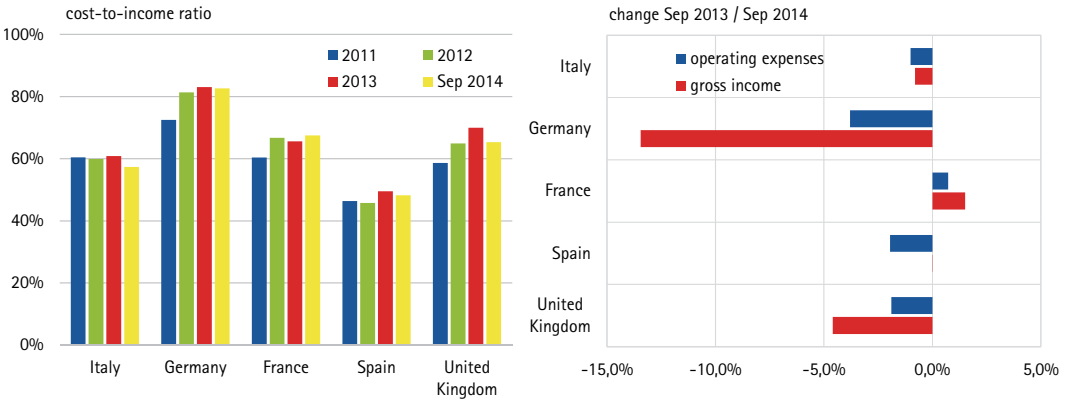
Figure 4.1 – Profitability of main listed European banks
(profit before taxes / risk-weighted assets)



Source: calculations on data from consolidated annual reports of main listed European banks (24 groups). The profit before taxes is calculated excluding goodwill impairment. The figures as at June 30 are annualised and partly estimated.

... as gross banking income fell in all countries, with the exception of France. Cost efficiency stood almost stable across the main European economies.

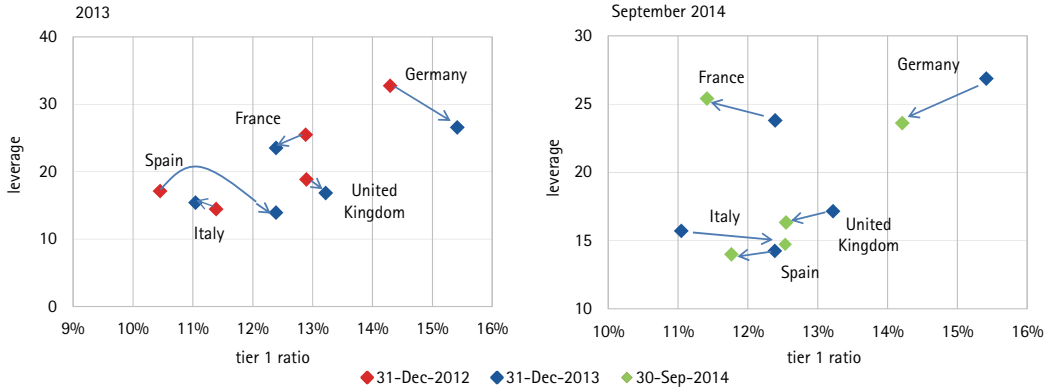
Figure 4.2 – Change in efficiency and profitability of main listed European banks



Source: calculations on data from consolidated annual and interim reports of main listed European banks (24 groups). The figures as at 30 June are annualised and partly estimated.

The level of major European banks' capital adequacy has remained at a relatively high rate, with Tier 1 ratio exceeding 11% in all countries. Due to the phase-in of CRD IV rules, figures as of September 2014 are not fully comparable with previous period figures.

Figure 4.3 – Capital adequacy and leverage of main listed European banks



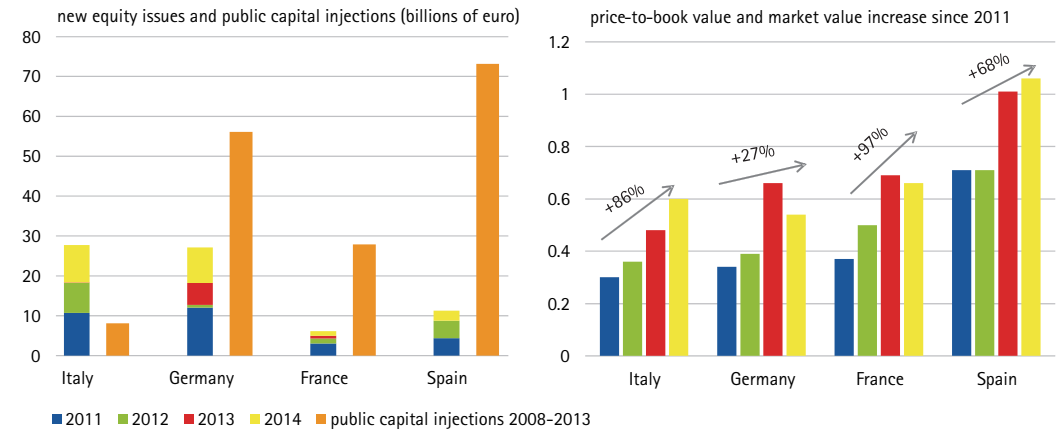
Source: calculations on data from consolidated annual and interim reports of main listed European banks (24 groups). The figures as at 30 June are partly estimated. Figures as of December 2013 and June 2014 are not fully comparables to previous figures as a result of both the retrospective application of IFRS 10 "Consolidated Financial Statements" and IFRS 11 "Joint Arrangements" back to the 1st of January 2013, that caused a change in the consolidation scope, and the phase in of Basel III framework.

Since 2011, the recapitalization of the banking system has mainly been implemented through public capital injections in Spain, Germany and France or equity capital raising in Italy. Banks' market capitalization and multiples have steadily increased thereafter. Italian and German banks have kept raising significant amounts of additional equity capital in 2014, ahead of the AQR.

Italian and Spanish banks continue to be characterized by lower holdings of financial assets and derivatives relative to their European peers. In particular, the weight of derivatives at fair values on RWAs is slightly higher than 10%in Italy and Spain, compared with 88% in Germany, 50% in France and 44% in the UK.

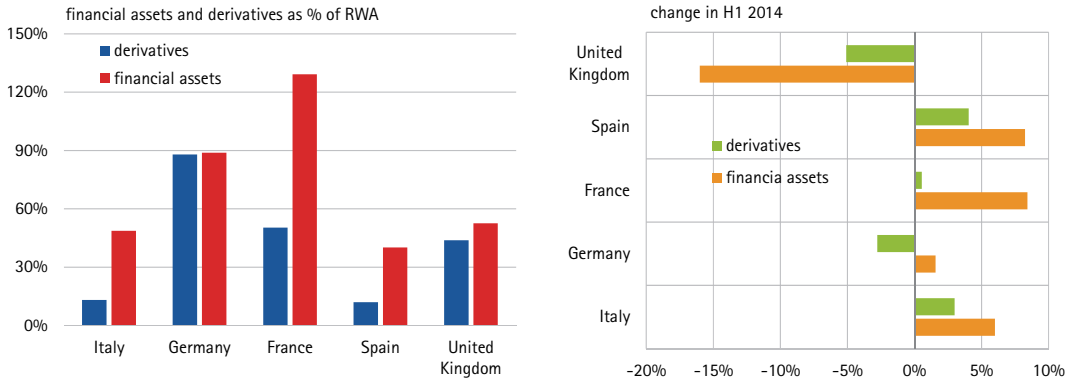
Across Europe, the proportion of bad loans on total gross loans keeps being higher for Italian and Spanish banks, while the UK and Germany are experiencing a substantial decline in non-performing loans.

Figure 4.4 – Equity capital raised by listed banks of main euro area countries and price-to-book values



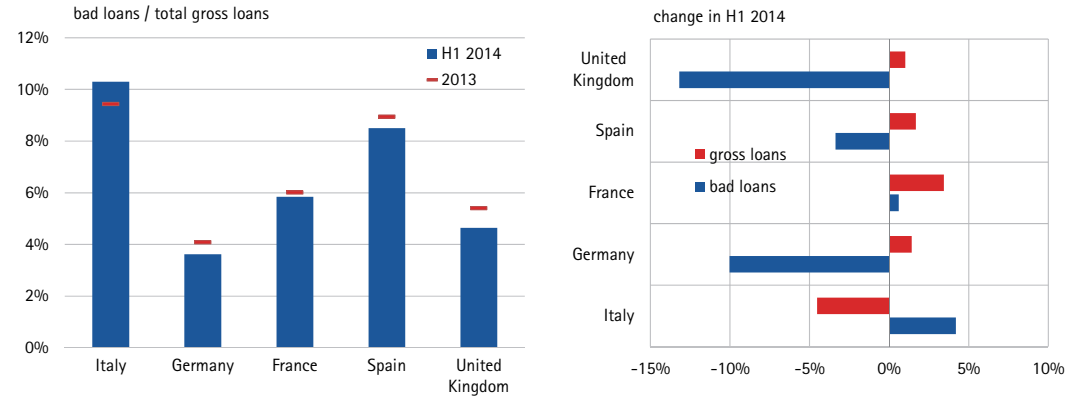
Source: calculations on data from ECB, Thomson Reuters and MBRES.

Figure 4.5 – Financial assets and derivatives of main listed European banks
(figures as of H1 2014)



Source: calculations on data from consolidated annual and interim reports of main listed European banks (24 groups).

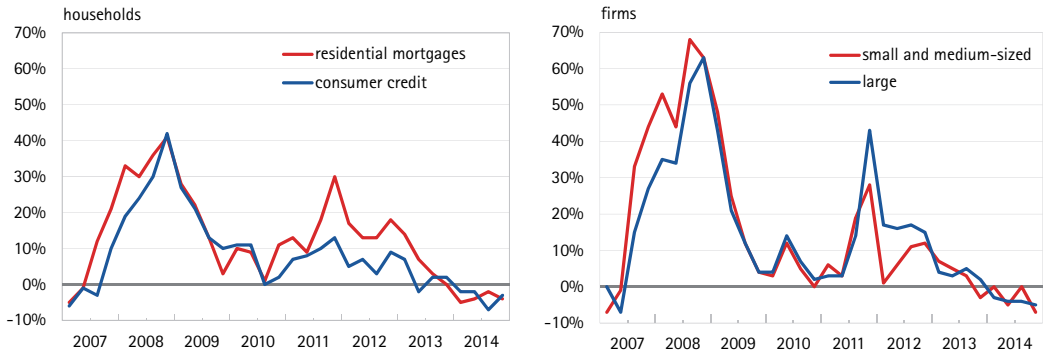
Figure 4.6 – Credit quality of main listed European banks



Source: calculations on data from consolidated annual and interim reports of main listed European banks (24 groups). The increase in non-performing loans of Spanish banks compared to 2011 reflects also the consolidation of Banca Civica by Caixa Bank in 2012. The figures are partly estimated. The retrospective application of IFRS 10 "Consolidated Financial Statements" and IFRS 11 "Joint Arrangements" back to the 1st of January 2013 caused a change in the consolidation scope. Figures as of December 2013 and June 2014 are not fully comparables to previous figures.

In 2014 credit conditions for bank lending to households and firms improved considerably in the euro area. For the first time since the outburst of the global financial crisis, the percentage of banks reporting an easing in credit standards turned higher than the percentage of banks reporting a tightening.

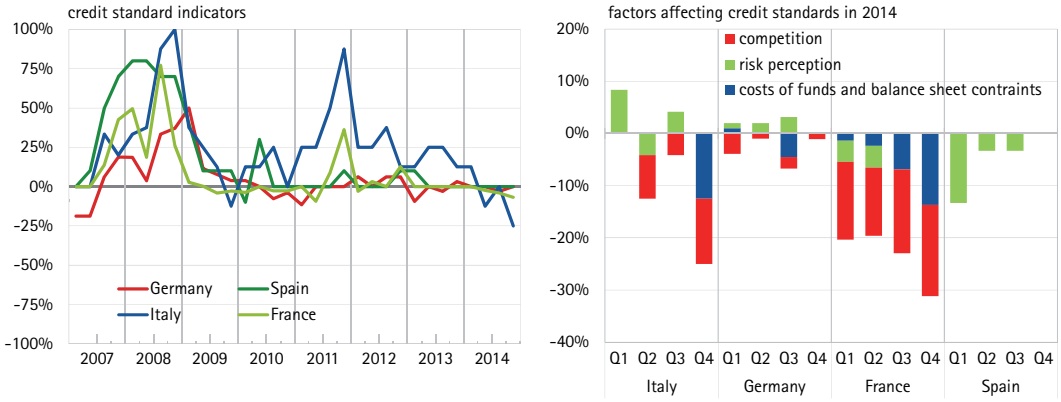
Figure 4.7 – Credit standard indicators for bank loans in the euro area
(quarterly data; 1Q 2007 – 4Q 2014)



Source: ECB, 'Bank lending survey'. Net percentage of banks reporting a tightening in credit standards.

Bank credit conditions for loans to non-financial companies improved in the second half of 2014, mainly as a consequence of reduced pressures from competition, liquidity position and balance sheet constraints.

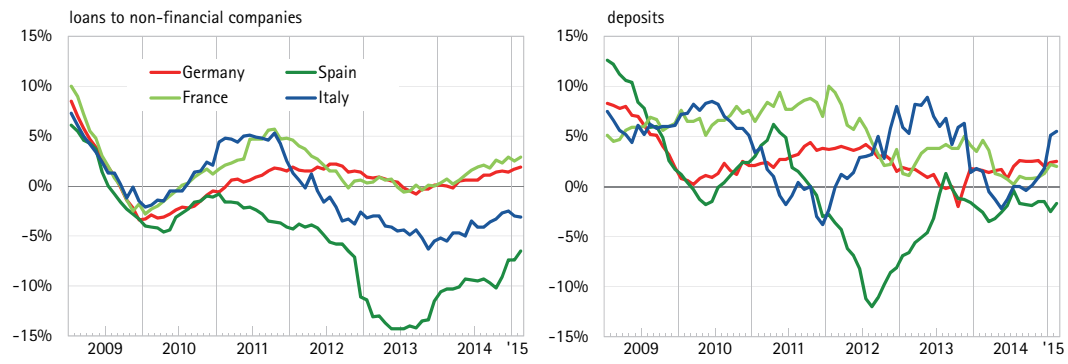
Figure 4.8 – Credit standards of supply of bank loans to non-financial companies in main euro area countries
(quarterly data; 1Q 2007 – 4Q 2014)



Source: ECB, 'Bank lending survey'. The credit standard indicator is the net percentage of banks reporting a tightening in credit standards (for France net percentages are weighted based on the amounts outstanding of loans of the individual banks in the sample). Factors are defined as the difference between the percentage of banks reporting that the given factor contributed to a tightening and the percentage reporting that it contributed to an easing. 'Cost of funds and balance sheet constraints' is calculated as the unweighted average of 'capital position', 'access to market financing' and 'liquidity position'; 'risk perception' is calculated as the unweighted average of 'expectations regarding general economic activity', 'industry-specific risk' and 'risk on collateral demanded'; 'competition' is calculated as the unweighted average of 'bank competition', 'non-bank competition' and 'competition by market financing'.

Despite of the improving credit conditions, bank loans to non-financial firms continued to decline in Italy and Spain. However the fall is slowing down gradually. Banks funding through deposits exhibited a sharp increase in Italy while in Spain kept declining.

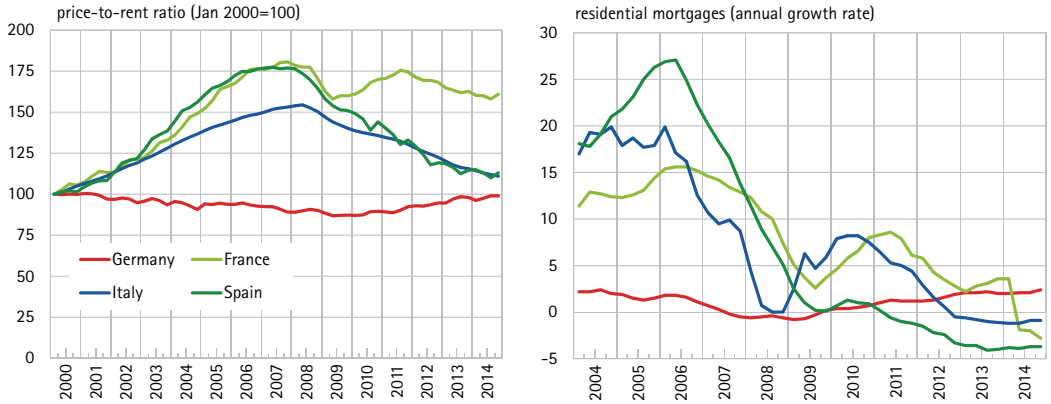
Figure 4.9 – Annual growth rate of loans to non-financial companies and deposits in main euro area countries
(monthly data; January 2009 – February 2015)



Source: ECB.

With the exception of Germany, the annual growth rate of residential mortgages stood at negative levels in all countries, in the wake of the enduring weakness of the property market, still experiencing a declining price to rent ratio.

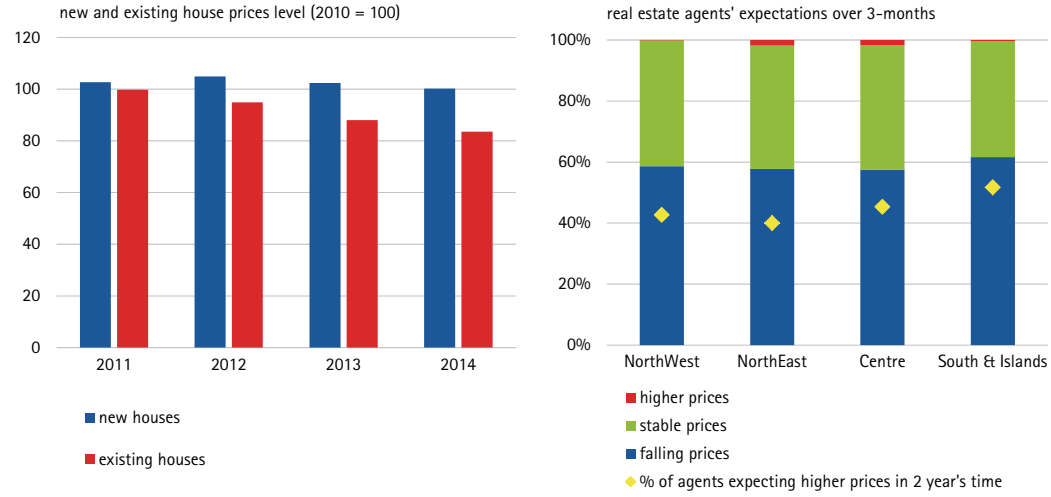
Figure 4.10 – House prices and residential mortgages in main euro area countries



Source: calculations on Thomson Reuters, BIS and ECB data.

Focusing on the Italian real estate market, the price level for existing residential properties continued to decline significantly in 2014, in line with the trend recorded since 2011, while new houses have kept their value almost stable after 2010. In the last quarter of 2014, transaction prices were mainly expected to fall over the next three months. Expectations of rise in real estate prices are growing over the next two years.

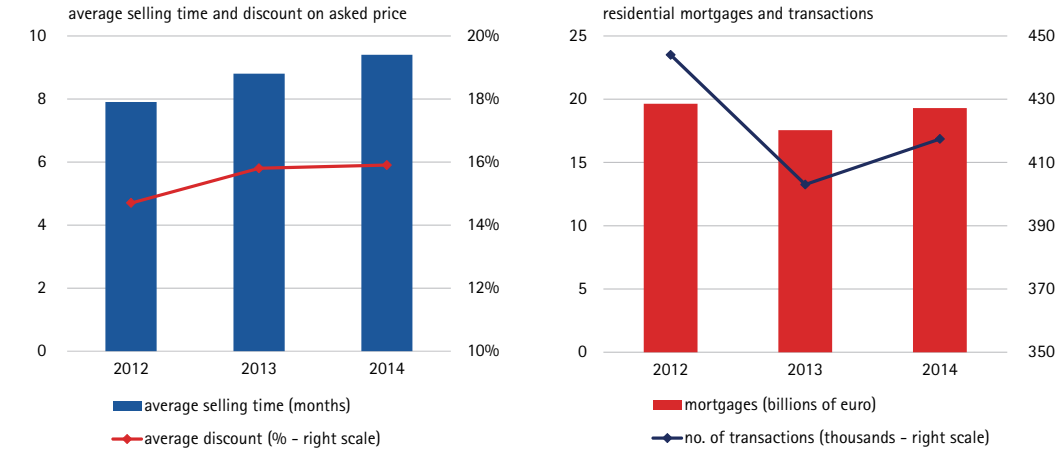
Figure 4.11 – Italian real estate market prices



Source: Istat, Banca d'Italia.

Other signs of weakness emerge from the steadily rise in the average selling time and in the bargaining margin. Market activity, as captured by the number of transactions and the volume of new residential mortgages, has been stagnant in the last three years.

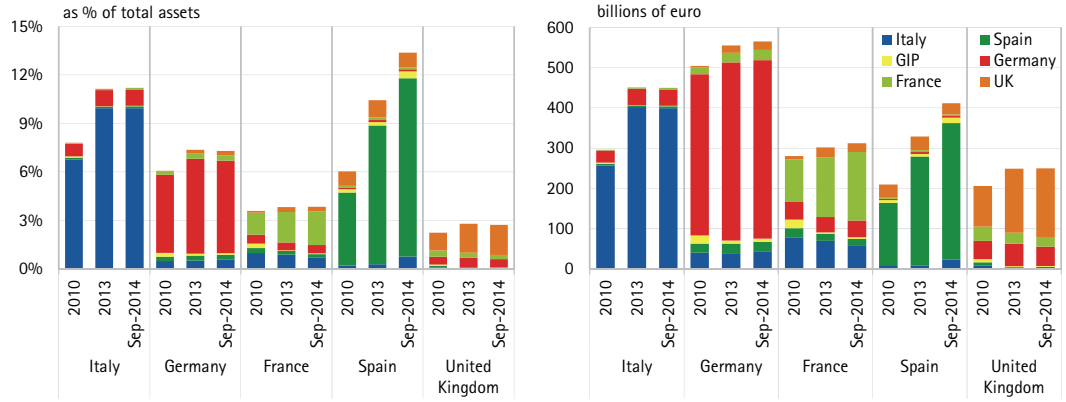
Figure 4.12 – Italian real estate market activity



Source: Agenzia delle entrate, Banca d'Italia.

Exposure to domestic sovereign debt continue to be heterogeneous across the main European banks, with Spanish and Italian institutions recording the highest levels (11% and 10% of total assets, respectively). During 2014, however, holdings of domestic sovereign bonds stood stable in all countries but Spain, where they have notably increased.

Figure 4.13 – Exposures of banks to domestic sovereign debt for main European countries

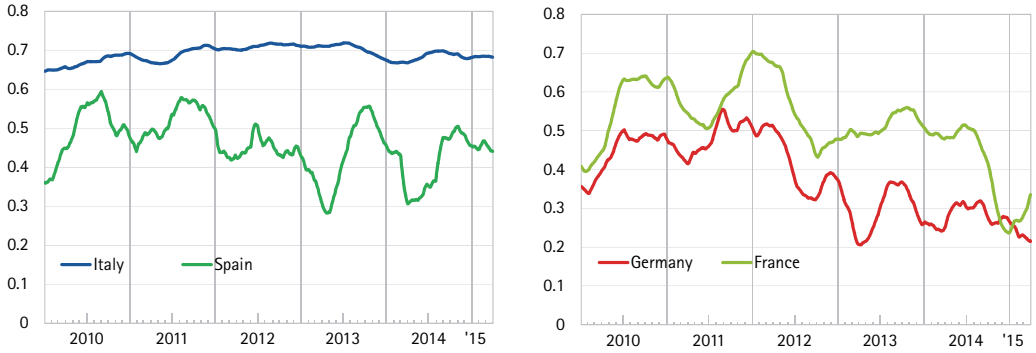


Source: calculations on Bank for International Settlements and Bruegel data. GIP: Greece, Ireland and Portugal. Figures refer to total banking system of Italy, Germany, France, Spain and the United Kingdom. The exposures to the country of origin are taken from *Bruegel database of sovereign bond holdings*, by Merler and Pisani-Ferry (2012) and do not include loans.

The sovereign-bank link, as measured by the dynamic correlation between CDS spreads, remained higher in Italy and Spain relative to France and Germany.

Figure 4.14 – Dynamic correlation between sovereign CDS spreads and bank CDS spreads for main European banks

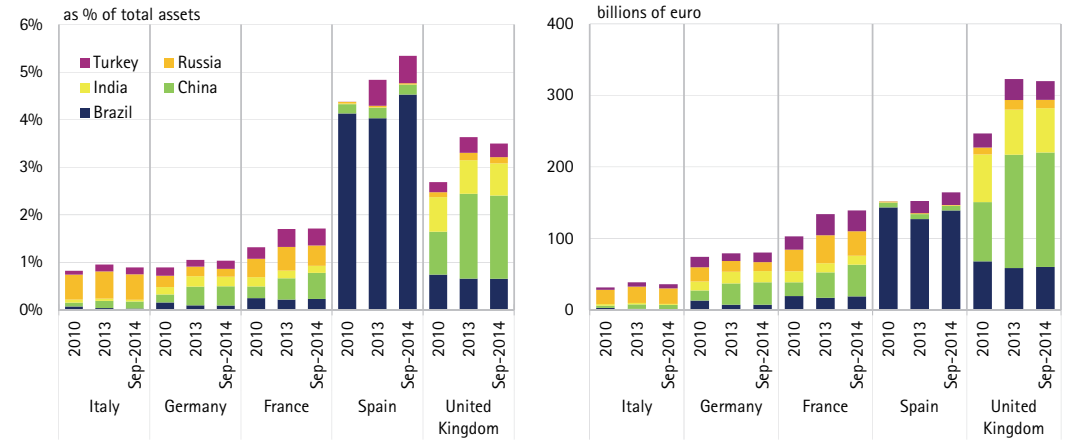
(daily data; six month moving average; 01/01/2010 – 31/03/2015)



Source: calculations on Thomson Reuters Datastream data. The bank samples include main listed groups in each country (5 for Italy and Spain, 3 for Germany and 4 for France). Dynamic correlation has been estimated following Engle (2002).

Foreign exposure of Italian banks to emerging countries is very low (around 1% of total assets), mainly due to claims vis-à-vis Russia. Spanish banks exhibit significant exposures to Brazil, while English banks are the most exposed to China.

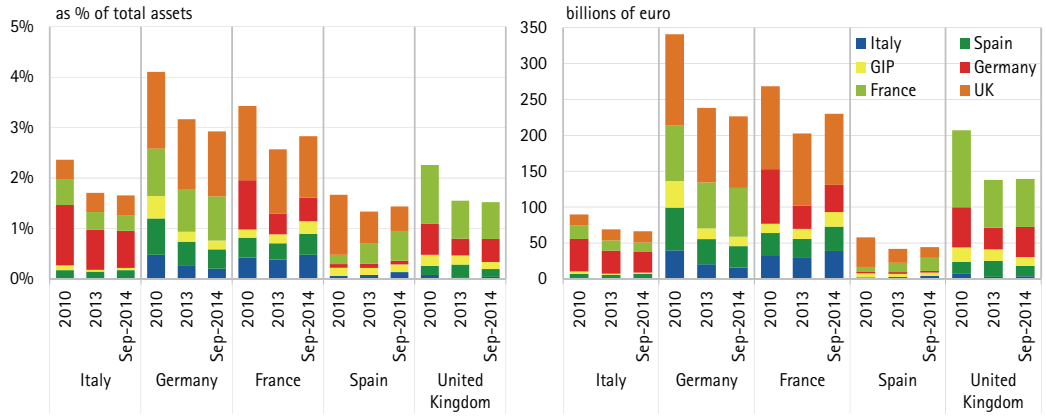
Figure 4.15 – Foreign exposures of banks of main European countries to selected emerging markets



Source: calculations on Bank for International Settlements data.

In Europe banks' cross-border exposures have steadily declined since 2010. In 2014 German banks reduced cross-border lending further, while French credit institutions slightly increased their exposures vis-à-vis peripheral euro area countries.

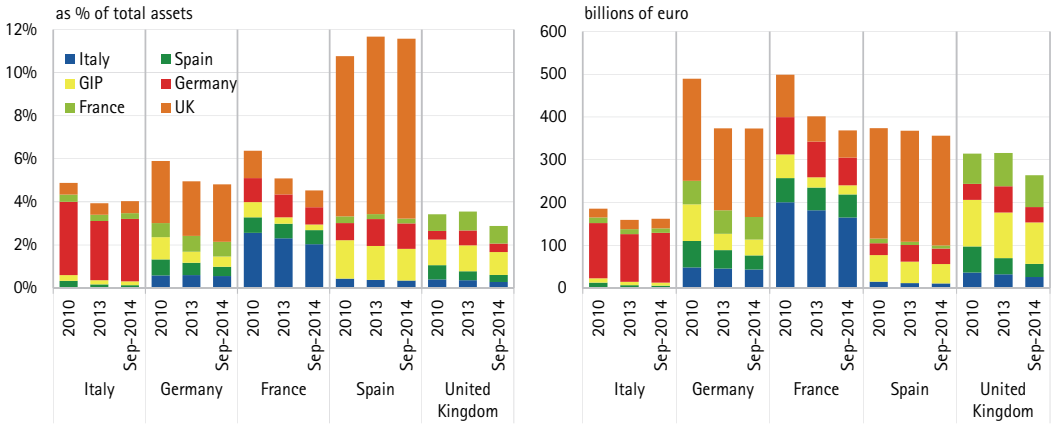
Figure 4.16 – Cross-border exposures among banks of main European countries



Source: calculations on Bank for International Settlements data. GIP: Greece, Ireland and Portugal. Figures refer to total banking system of Italy, Germany, France, Spain and the United Kingdom and do not include exposures to the country of origin.

Banks foreign exposures to the private non-financial sector also declined in all countries but Spain.

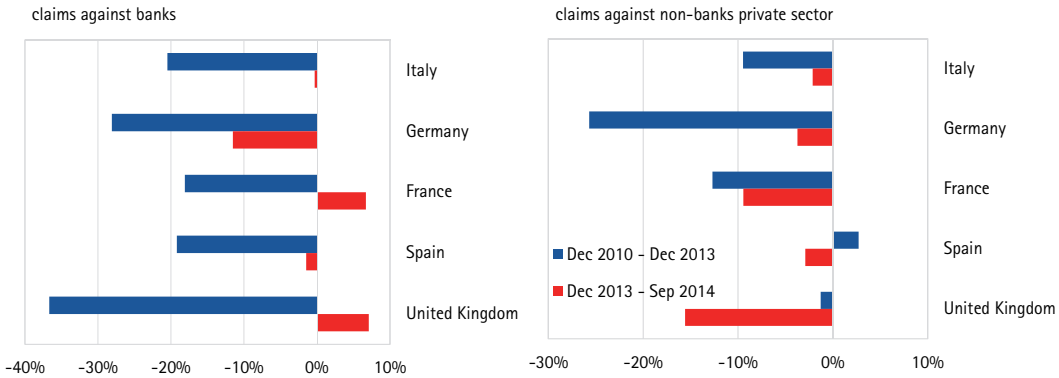
Figure 4.17 – Foreign exposures of banks to the private sector of main European countries



Source: calculations on Bank for International Settlements data. GIP: Greece, Ireland and Portugal. Figures refer to total banking system of Italy, Germany, France, Spain and the United Kingdom and do not include exposures to the country of origin.

Overall, European financial integration, as measured by the foreign banking claims within Europe, has been shrinking since 2010.

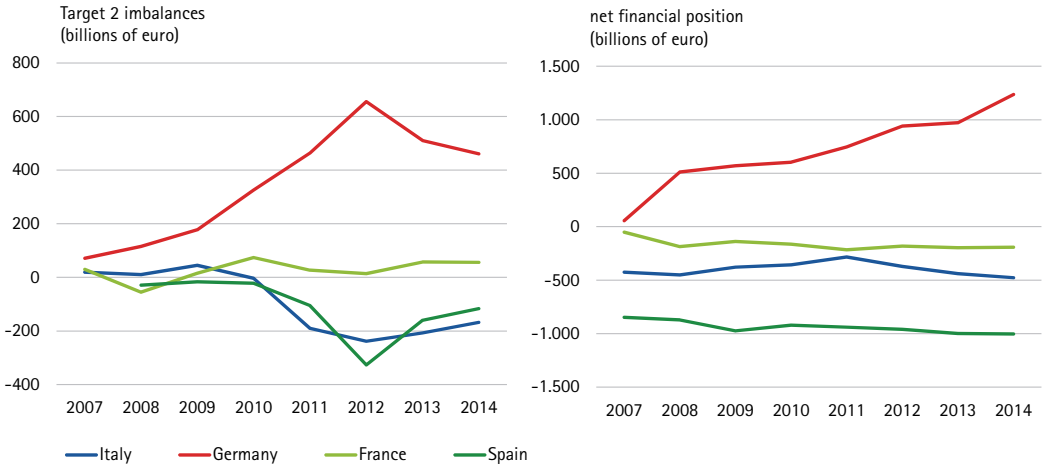
Figure 4.18 – Change in foreign claims of banks of main European countries



Source: calculations on Bank for International Settlements data. Figures on foreign claims of total banking system in Italy, Germany, France, Spain and the United Kingdom and do not include exposures to the country of origin. European countries for which foreign claims are availables are Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Poland, Portugal, Spain, Sweden, the United Kingdom.

The increase of financial fragmentation is signalled also by Target 2 imbalances that are persistently above the 2007 levels. German net financial position is increasingly divergent from that of the other main European countries.

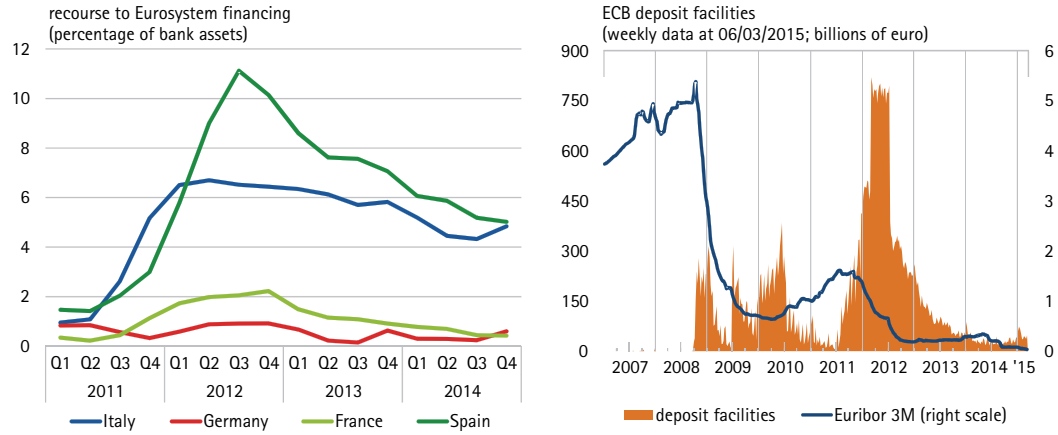
Figure 4.19 – Target 2 imbalances and net financial position for main euro area countries



Source: calculations on ECB and Central banks data.

Reliance on ECB funding remained high for Italian and Spanish banks (around 5% of total assets), also as a consequence of the funds allotted during the two TLTRO held in 2014.

Figure 4.20 – Reliance on Eurosystem funding by credit institutions of main euro area countries and ECB deposit facility

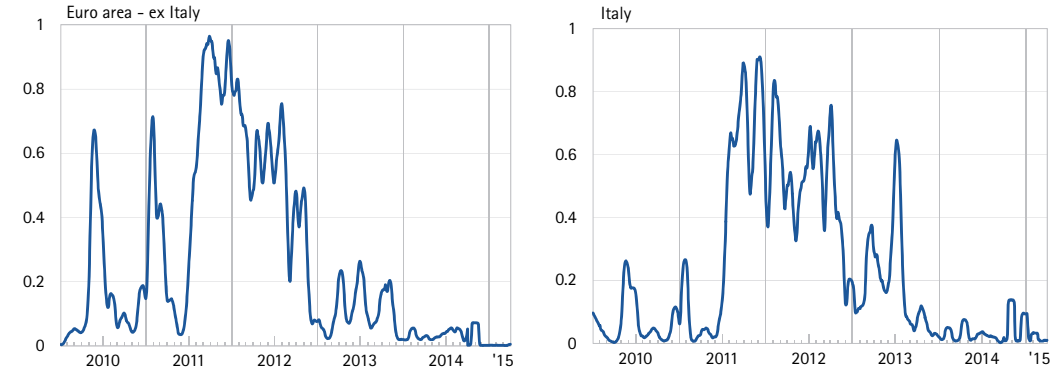


Source: calculations on ECB and national central banks data.

In 2014, contagion among banks (as measured by the joint probability of default implied by CDS spread changes) kept going down towards zero, both in the euro area and in Italy.

Figure 4.21 – Indicator of joint probability of default implied by CDS spreads for main European banks

(daily data; 01/01/2010 – 31/03/2015)



Source: calculations on Thomson Reuters Datastream data. The Italian sample includes 5 groups; the euro area sample includes 16 groups. Probabilities have been estimated by applying Markov switching regime model on daily variations of 5-year credit default swap prices. The indicator has been normalised between zero (= low probability of default) and one (= high probability of default).

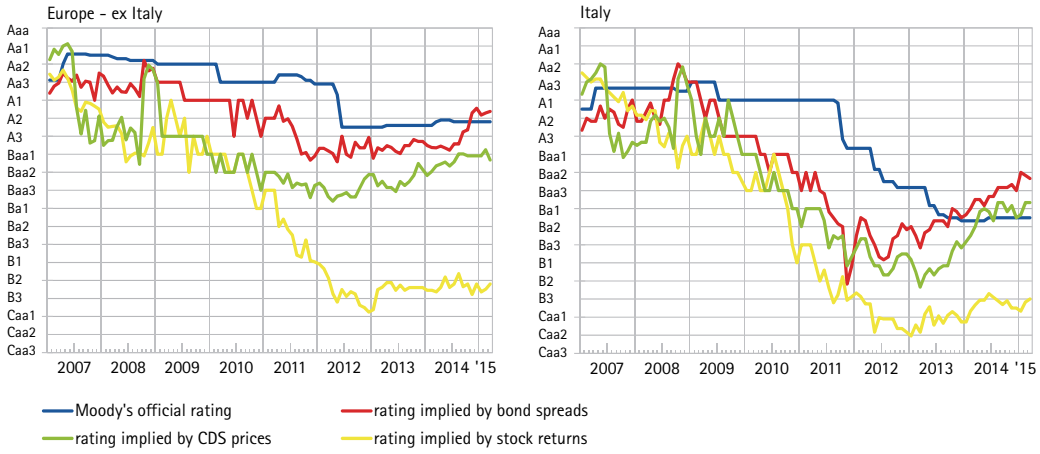
The perceived risk of European major banks has been declining since 2012. Italian institutions continued to be perceived as riskier than their European peers, as shown by trends in actual and EDF implied CDS spreads ...

Figure 4.22 – Average 5-year CDS prices observed and implied by the expected default frequencies (EDF) for main listed European banks
(basis points; daily data; 01/01/2009 – 20/03/2015)

Source: calculations on Thomson Reuters Datastream and KMV - Credit Edge data for main listed groups (5 for Italy and 16 for Europe).

...and, above all, by the dynamics of bond spreads implied rating.

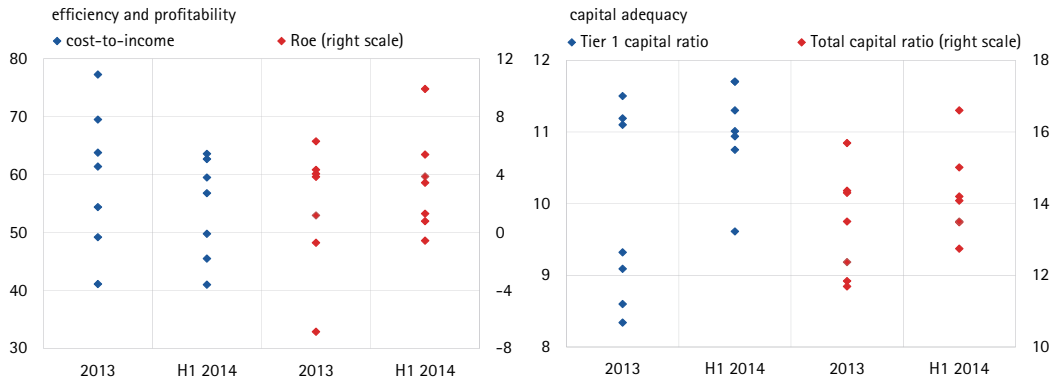
Figure 4.23 – Official and market implied rating for main European bank
(monthly data; January 2007 – March 2015)



Source: calculations on Moody's Implied Rating data. We report the average values for the banks included in the Euro Stoxx 50 (except for Italian banks) and for main listed Italian banks with Moody's rating.

In the first half of 2014, major Italian banks have shown an increase in profitability. Capital adequacy has grown too, with both the primary Tier 1 ratio and total capital ratio rising. Efficiency gains, as measured by cost-to-income ratio changes were recorded in almost all main Italian banking groups.

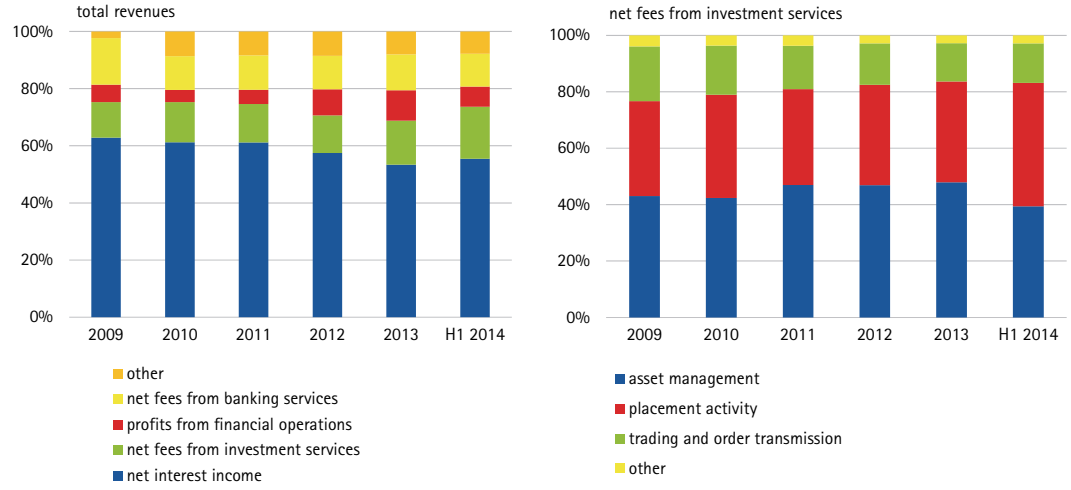
Figure 4.24 – Income and solvency ratios of major Italian banking groups



Source: calculations on data from consolidated annual and interim reports of the 8 largest groups.

As for revenues breakdown, the incidence of net interest income to total income has slightly grown, although remaining below 60%. The proportion of revenues from investment services rose mainly as a consequence of the increase in fees from placement activity.

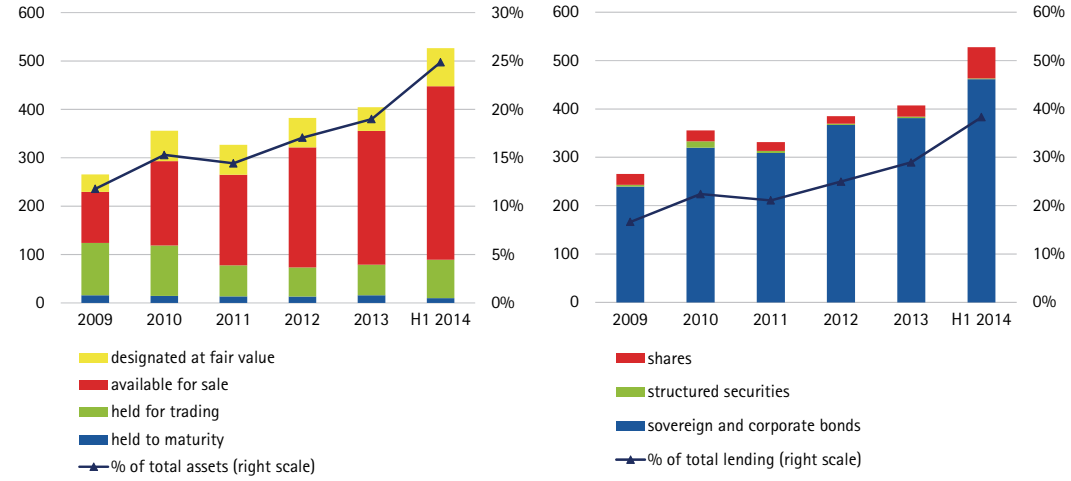
Figure 4.25 – Breakdown of revenues of the major Italian banking groups



Source: calculations on data from consolidated annual and interim reports of the 8 largest groups.

Financial assets held by major Italian banks have grown significantly in the first six months of 2014, exceeding 500 billion euro (25% of total assets). This growth was more marked for the assets available for sale.

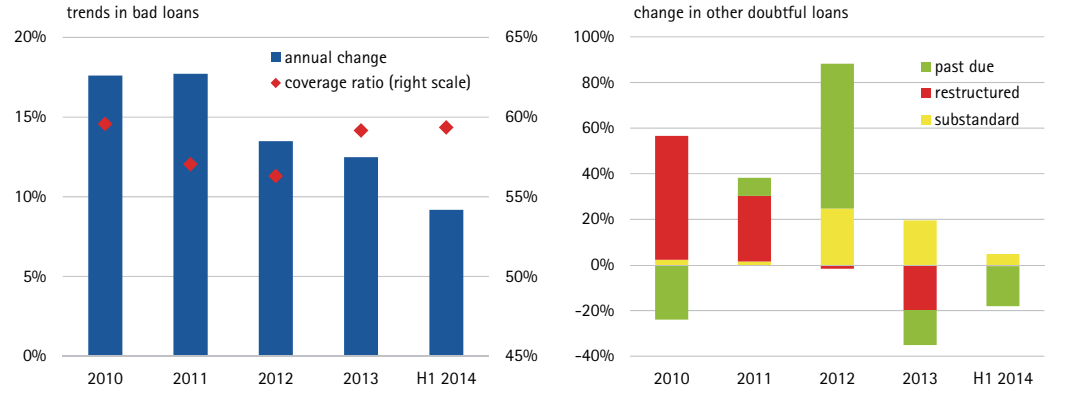
Figure 4.26 – Financial assets of the major Italian banking groups
(period end balances; billions of euro)



Source: calculations on data from consolidated annual and interim reports of the 8 largest groups. Financial assets other than securities (i.e. credit facilities or loans) and assets sold and not cancelled or impaired are excluded. UCITS are included in sovereign and corporate bonds.

In the first half of 2014 the quality of loan portfolio of Italian banks, as measured by the rate of change in bad loans, recorded significant improvements. This trend characterized also the other classes of non-performing loans. Coverage ratio of bad loans remained high.

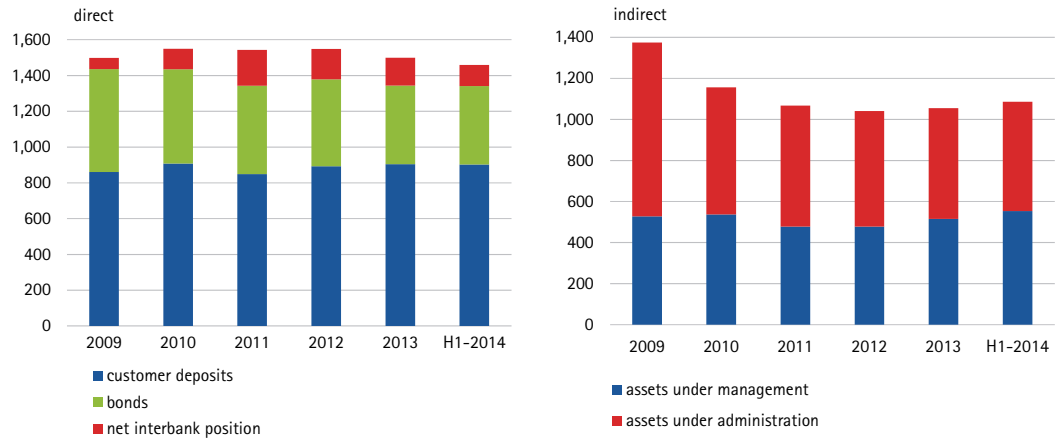
Figure 4.27 – Credit quality of major Italian banking groups



Source: calculations on data from consolidated annual and interim reports of the 8 largest groups. The half-yearly figures are annualised. The retrospective application since the 1st January 2013 of IFRS 10 "Consolidated Financial Statements" and IFRS 11 "Joint Arrangements" caused a change in the consolidation scope. Therefore figures as of December 2013 and June 2014 are not fully comparables to previous figures.

Direct funding of the major Italian banks continued to shrink due to the fall in the interbank funding, while indirect funding showed a slight increase mainly due to asset management activities.

Figure 4.28 – Funding of major Italian banking groups
(period end balances; billions of euro)



Source: calculations on data from consolidated annual and interim reports of the 8 largest groups. Asset management includes technical reserves for insurance and welfare products for group companies. Subordinated and trading liabilities are excluded from direct deposits.