Statistics and analyses

Trends and challenges for the Italian financial sector

Economic report

1974 - 2024

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The Report provides an overview of trends and risks of the Italian financial system in a comparative perspective, also analysing the developments that can affect the achievement of CONSOB remit.

ABSTRACT

The current economic context is shaped by persisting uncertainties related to both economic growth and intensifying geopolitical tensions. In addition to the ongoing war in Ukraine, there are several other conflicts currently taking place in various regions across the globe, with the Middle East being a prominent area of concern. The impact of these events on the financial markets remains relatively limited at the present time. Neverthless, the effects on commodity prices in the future could potentially influence the declining trends of inflation observed in all developed economies in 2024. Furthermore, the potential for mounting geopolitical risks to affect the real economy is heightened by their impact on foreign trade and global value chains. On this regard, the World Trade Organisation (WTO) has indicated that the weight in world trade of exports of non-fuel intermediate goods declined from 57% in early 2022 to 53% in June 2024, signalling a slight deterioration in the global value chains.

Overall, trends in GDP growth exhibit heterogeneous dynamics across economies. The GDP growth rate for 2024 is lower than the pre-pandemic levels in the major European countries, with the exception of Italy, while in the United States the output shows a more robust performance. As for the euro area, in its latest forecasts, published in November, the European Commission (EC) estimates that, after a weak GDP growth in 2024, the output will increase slightly in the next two-year period, with an estimated annual change of +1.3% in 2025 and +1.6% in 2026. According to EC's forecasts, among the major countries in the area, Germany exhibits the most subdued performance in 2024, largely due to the persistent weakness of the manufacturing sector. In Italy, the GDP growth rate is projected to remain positive in the period 2024-2026, albeit at a rate below the euro area average. With regard to price dynamics, in 2024, as the inflation rate decreased, a phase of gradual monetary policy easing started at the global level. In the euro area inflation rate is expected to remain around 2% in 2025 and 2026.

The macroeconomic trends were only partially reflected in the performance of the stock markets. In Europe the EuroStoxx50 increased by 8% in 2024, while in US the S&P500 rose by about 23%. The Italian stock market exhibited a good performance with an increase of Ftse Mib index of about 13%. As for the other major euro area countries, the German Dax40 index displayed the most robust

rise (+19%) despite the negative performance of the real output, followed by the Spanish Ibex35 (+15%). In France, conversely, the Cac40 exhibited a decline of about 2%. Throughout 2024, stock markets volatility remained at low levels on average, with only a few significant but short-lived episodes of market turbulence.

In this context, euro area markets continue to be characterised by a smaller size than the US market. Furthermore, Eurozone and US are facing a contraction in equity markets, with a notable decline in the number of listed companies in recent years.

As for Italy, in 2024, there were 23 new listed Italian companies on Borsa Italiana, with only two on the main market Euronext Milan (EXM) and 21 on the Euronext Growth Milan (EGM) dedicated to smaller companies. In the same period, 29 companies were delisted, 15 from EXM and 14 from EGM.

Since 2018, the total number of new listings on both markets was equal to 254 (50 on EXM and 204 on EGM) compared to 175 delisted firms (84 on EXM and 91 on EGM). Overall, the number of companies listed on the Italian market has increased, although the net number of new listed and delisted companies is negative for EXM (-34) and positive for EGM (+113).

The decrease of listed companies on European markets confirms the importance of intensifying efforts to fully implement the actions outlined in the EU Plan for a Capital Markets Union (CMU), which aims to foster a greater market development in the EU. In order to achieve this objective, it is essential to consider the role of institutional investors in equity markets. In Europe, the participation of such investors is significantly lower than in the US. As of November 2024, the market capitalisation of the top 100 US companies attributable to institutional investors was approximately 74%, compared to 42% for the top 100 European companies.

With specific reference to Italy, the need to foster a greater development of capital market is even more pronounced. The increase in the types of source of funding is particularly important for SMEs that represent ‘niches of excellence’ in the Italian economy. In order to compete on a global scale they need to increase their efficiency typically through a greater scale of operations or technology updates and hence, through a wider capital base. Indeed, limited access to capital is one of the main obstacles to SME growth and institutional investors can play a key role in their success. These investors, with substantial resources and long-term horizons, are inclined to favour stable investments suitable for SMEs. As a matter of fact, the presence of institutional investors in the Italian companies listed on Euronext Milan (EXM) increases with their size, reaching 31% for the top 5 companies by market capitalisation, and falling to 1.4% for the 5 smallest. At the end of October 2024, institutional investors hold around 11.2% of the capital of SMEs listed on EXM compared to 24.1% for non-SMEs (listed SMEs are defined based on article 1 of the Italian Consolidated Law on Finance). When considering the size of SMEs, the percentage is higher for those with a market capitalisation greater than 500 millions of euros (16.6%) than for smaller ones (9.8%).

In order to foster a greater development of capital markets, retail investors participation represent an additional important factor. Furthermore, public capital markets represent a crucial component of an investor protection system, as they provide households with accessible, transparent, and liquid investment opportunities. A key objective of the CMU project is to facilitate greater direct and indirect participation of retail investors in capital markets. In this regard, the data from the Eurozone do not offer a reassuring comparison with those from the US. An analysis of the financial assets held by households in the two regions shows that, as of June 2024, the ratio of capital market instruments (listed and unlisted equities, mutual fund shares, debt securities, insurance products and pension fund shares) to total financial assets held by households was approximately 70% in the US, compared to 54% in the euro area (57% in Italy). During the same period, the ratio of liquidity (cash and deposits) to capital market instruments in the household portfolio was 17% in the US and 60% in the euro area (48% in Italy).

A well-developed, efficient, and adequately sized capital market also plays a pivotal role in financing the real economy, particularly in the current economic context, which is characterised by less favourable financial conditions than those observed in the past. In the euro area, interest rates exhibited a downward trajectory throughout 2024, after reaching their highest point at the end of 2023.

Nevertheless, as of December 2024, the interest rate level in the Eurozone was approximately 4% higher than in early 2022 and it is projected to remain at higher levels than during the decade 2012-2021. This higher-interest-rate environment carries risks to debt sustainability and, more in general, to financial stability, particularly in sectors or geographical areas characterised by a high level of debt. In Europe, where firms' funding is more heavily dependent on debt than on equity, the current higher-rate environment and the consequent increase in the cost of debt represent crucial factors. As of June 2024, the debt-to-equity ratio of non-financial companies (NFCs) stood at 47% for US companies in contrast to 70% for euro area firms (77% in Italy). The level of NFCs indebtedness in the euro area is remarkable, even when compared to gross domestic product (GDP). In the United States, the indebtedness of NFCs accounts for 75% of GDP, whereas in the euro area, this ratio stands at 102% (60% in Italy). This figure is mitigated by household debt, which in the euro area is 52% of GDP (37% in Italy) compared with 71% in the US. Additionally, the public sector contributes to the overall indebtedness, with a debt accounting for 120% of GDP in the US in June 2024, compared to a euro area average of 88% (137% in Italy).

The data presented in this Report suggest that one of the primary challenges for the Eurozone, and for Italy in particular, is the need to foster a structural change in the sources of financing for the real economy. A greater diversification in the sources of funding could ensure a better resilience of the financial system as a whole and support the competitiveness of firms in a global framework more and more complex.

In addition to this goal, to implement an effective investor protection, a growing attention must be paid to the development of sustainable finance and to the technological innovation occurring within the financial sector.

In order to make it easier for businesses and investors to meet and navigate financial markets, it is important to further pursue the simplification of the regulatory framework and to intensify financial education activities for both households and enterprises, in particular SMEs. The aforementioned courses of action are precisely those that should facilitate the transition from a CMU to a Savings and Investments Union (SIU). Italy must undertake this transition to play a more prominent role in the rapidly evolving global landscape.

HIGHLIGHTS

GDP growth rate for 2024

+1.9% US
+1.3% EURO AREA
+1.0% ITALY

inflation rate YoY change
(December 2024)

2.4% EURO AREA
1.4% ITALY

households participation in capital markets
(June 2024)

capital market instruments to total financial assets

70% US
54% EURO AREA
57% ITALY

liquidity to capital market instruments

17% US
60% EURO AREA
48% ITALY

households indebtedness
debt-to-GDP

71% US
52% EURO AREA
37% ITALY

sovereign indebtedness
public debt-to-GDP

120% US
88% EURO AREA
137% ITALY

indebtedness on NFCs
(June 2024)

debt-to-equity ratio

47% US
70% EURO AREA
77% ITALY

debt-to-GDP ratio

75% US
102% EURO AREA
60% ITALY

stock markets performance 2024

+23% S&P500

+8% EuroStoxx 50

+13% FTSE MIB

Italian stock market

	NEW LISTED	DELISTED
2024	23 (2 EXM + 21 EGM)	29 (15 EXM + 14 EGM)
SINCE 2018	254 (50 EXM + 204 EGM)	175 (84 EXM + 91 EGM)

institutional investors participation in equity market

share of market capitalisation

- of **top 100** listed companies

74%
US

42%
Europe

- of **Italian** listed companies

NON-SMEs

24%

TOP 5
31%

SMEs

11%

BOTTOM 5
1%

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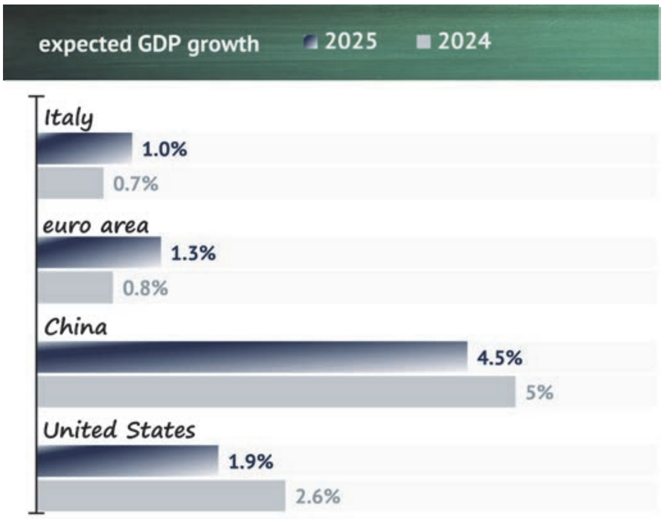
Boxes

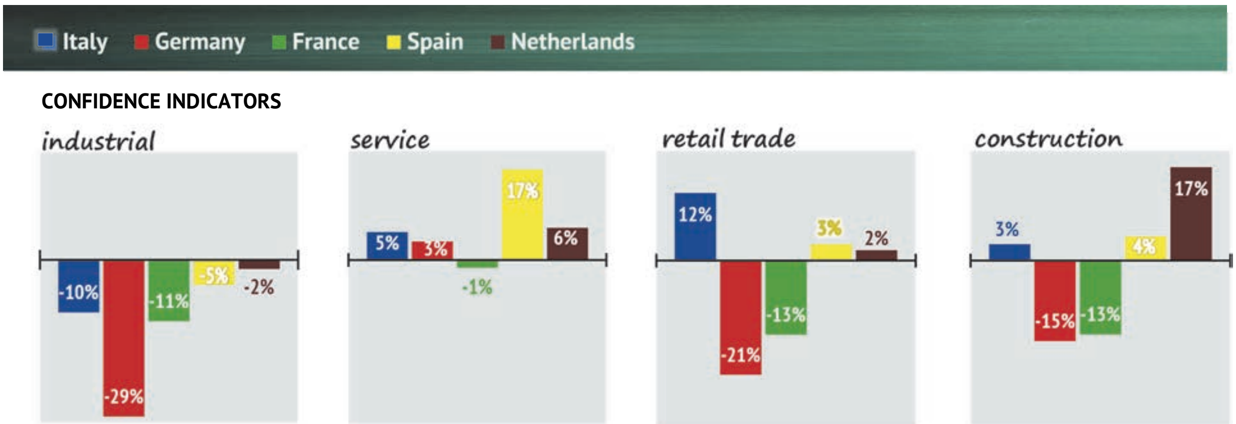
Macroeconomic Overview

The prevailing economic climate is shaped by the persistence of significant uncertainties related to trends in economic growth and geopolitical tensions. The expected GDP growth rate for 2024 is in line with pre-pandemic levels in the United States, while it is substantially lower in China and in the major European countries apart from Italy. The weakness in the dynamics of output is particularly pronounced in the euro area, where Germany has the most subdued performance among the major countries, due to the persistent weakness of the manufacturing sector.



Source: IMF and European Commission.

The fragile economic outlook in the euro area is confirmed by industrial confidence indicators, whose values are firmly negative in the major European countries. Furthermore, the German and French economies also display substantial negative confidence indicators in retail trade and construction activity.



Source: Eurostat data as of December 2024.

In this context, the Italian economy shows a certain degree of resilience in terms of GDP dynamics, which can be attributed in part to investments related to the European Recovery and Resilience Plan (RRP). As of August 2024, the amount of grants and loans disbursed to Italy has reached 113 billions of euros, representing 58% of the total resources allocated to the country.

top three Italian trading partners

IMPORT	
Germany	15.0%
China	8.7%
France	8.0%
EXPORT	
Germany	11.6%
USA	10.5%
France	10.0%

Source: Osservatorio economico MAECI, September 2024.

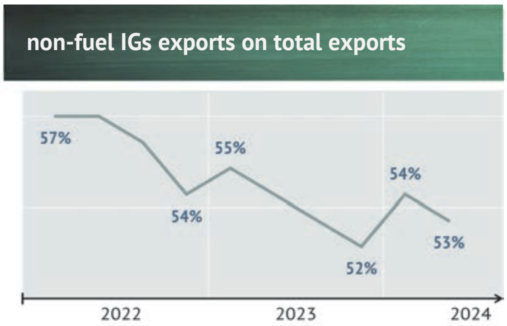
Despite the resilience of the Italian GDP performance, the economic weakness affecting the most important partner economies will likely have repercussions for our country, primarily due to the contraction in demand for exports. Germany represents Italy's primary trading partner, with a share of imports from Germany equal to 15% of the total Italian imports and a share of Italian exports towards Germany amounting to approximately 12% of the total exports.

The fragile economic situation in the euro area was reflected in the inflation trend, with the preliminary estimate of the general harmonised consumer price index standing at 2.4% in December (1.4% in Italy). The underlying component declined, although reaching a higher value of 2.7% (1.8% in Italy), supported by the price of services characterised by a strong seasonality, such as tourism, and of activities whose prices adjust with some delay to movements in the general index (Fig. 1.9 in the Appendix).

In this context, the European Central Bank (ECB) has reduced the key interest rates by 1% during the period June-December 2024, a decision that was informed by the assessment of the inflation outlook. Nevertheless, the current declining trajectory of inflation may be influenced on the upside, by geopolitical tensions impacting the dynamics of energy prices and, in turn, inflation trends and on the downside if the economic environment worsens more than expected.

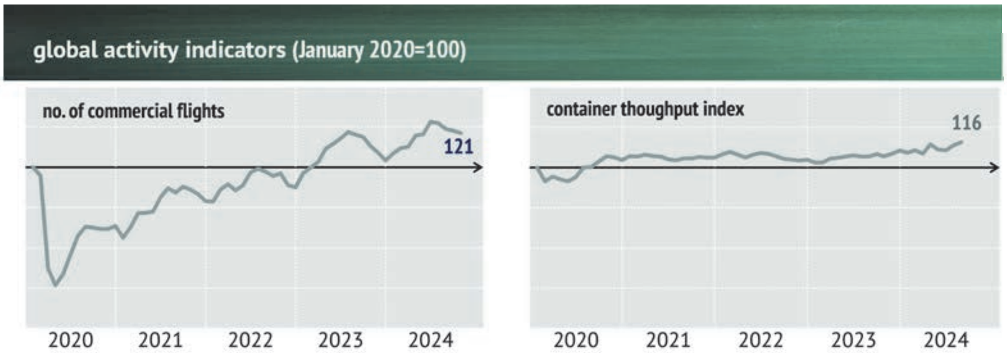
The economic outlook in Europe remains a source of considerable uncertainty, while in the United States, concerns related to geopolitical developments appear to be a more prominent factor, particularly in the context of the presidential elections in November.

Geopolitical risk affects foreign trade and global value chains, which deteriorate from 2022, as shown by exports of non-fuel intermediate goods, whose weight in world trade fell from 57% in early 2022 to 53% in June 2024. Indeed, trends in the exports of this kind of good, used to produce final goods, are typically considered as a proxy for the strength of global value chains.



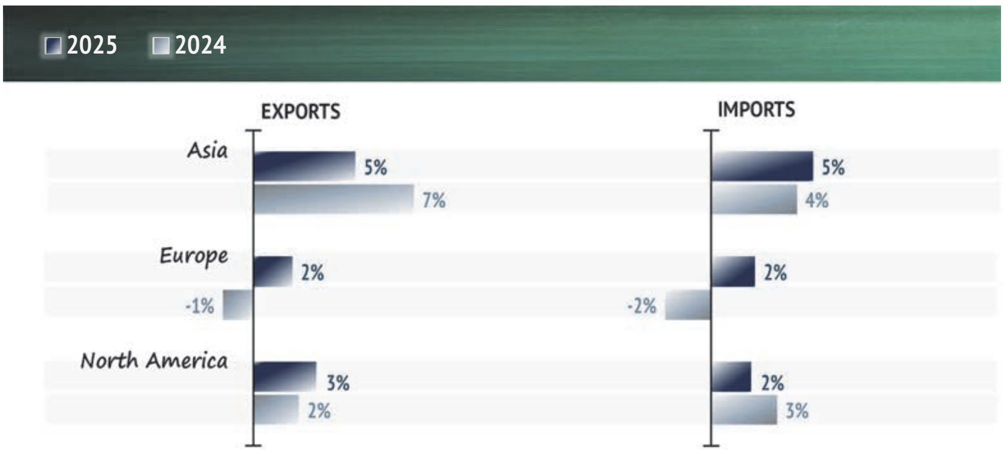
Source: WTO, October 2024.

Nevertheless, as for international trade of goods, the evidence shows signs of resilience on a global scale. This is highlighted by both the increase in trade volumes and the dynamics of selected indicators providing an insight into trends in economic activity, such as the number of commercial flights worldwide and the global container traffic.



Source: calculations on data from RWI Leibniz Institute for Economic Research and Flightradar24, October 2024.

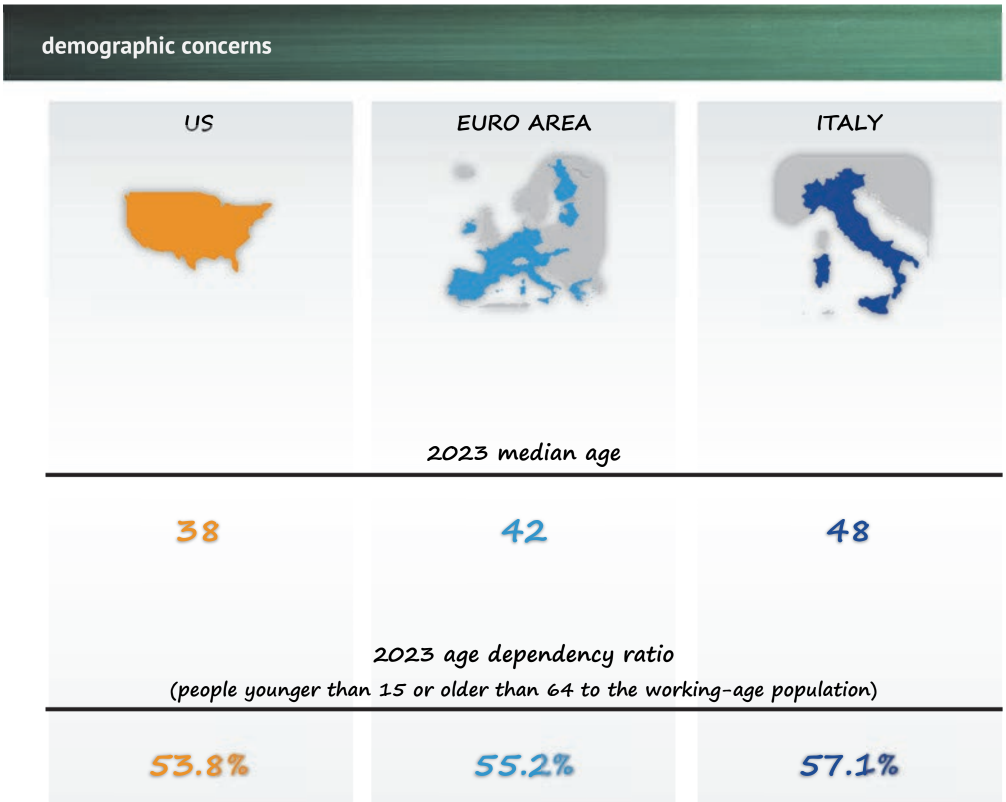
The WTO's projections regarding trade volumes indicate a contraction in imports and exports in Europe during 2024, followed by an increase in 2025. However, these projections might be overestimated, given that the intensified protectionist stance of the incoming US administration has the potential to exert a detrimental influence on global trade and EU external demand. Italy could be one of the most affected countries as US represents the second markets for Italian exports.



Source: WTO projections, October 2024.

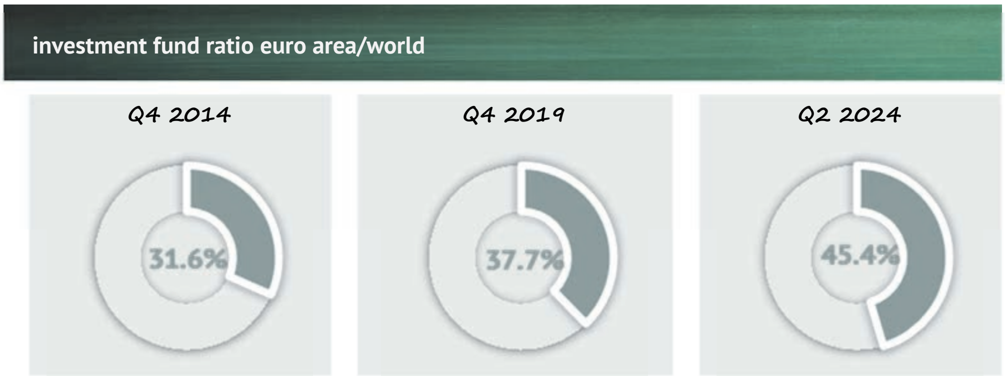
Although there is currently only weak evidence of a global fragmentation in the international trade, such prospect constitutes a risk that should be monitored because of its potential impact on the economic growth. According to a study of the European Investment Bank (EIB, Navigating supply chain disruptions, October 2024) based on survey data, 37% of EU importers consider as major obstacle to their activities the limited access to raw materials since the beginning of 2022. Additionally, 34% of EU importers also indicate as a serious problem the disruptions of logistics and transport. Other obstacles include access to semiconductors and microchips (23%), semi-finished products and equipment (27%). Indeed, global supply chains disruptions in the wake of several factors as pandemic crisis and protectionist policies fuelled by geopolitical events have led governments to consider strategies such as relocating supply chains back home or to neighbouring countries (so called reshoring or nearshoring). This type of policy can be detrimental especially for Europe which could be less attractive for reshoring because of higher labour and energy costs, stricter environmental standards and, in a long run perspective, because of concerns related to the population aging.

Indeed, the euro area (and in particular Italy) is characterised by a significantly higher median age and age dependency ratio than, for example, the United States, with negative implications for both labour supply and skills.



Source: UN data through OurWorldinData.org, October 2024.

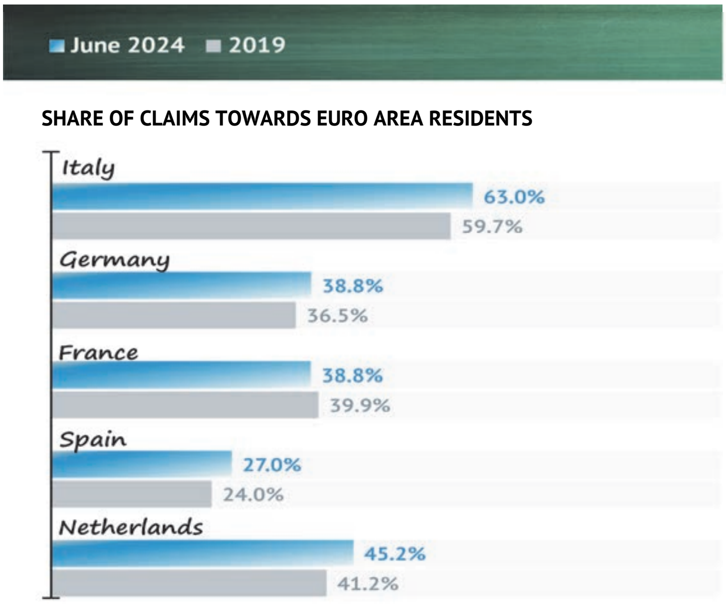
A slight reduction in cross-country exposure can be observed in financial markets: in the second quarter of 2024 the investments of European mutual funds in equity and bond issued in the euro area account for more than 45% of the total investments in this type of instruments, from less than 38% and 32% recorded in 2019 and 2015, respectively. As for European pensions funds, the share of investments in euro area equity stood at 8.6% of the total investments in equity, compared to 8% at the end of 2019 (Figs. 7.8 – 7.9 in the Appendix).



Source: calculations on ECB data.

Even in the banking sector the share of foreign claims of banks located in the main euro area countries towards euro area residents slightly increased with respect to the figures recorded at the end of 2019.

In this context, new technologies, coupled with the advantages they offer in terms of efficiency and productivity, gives rise to potential risks pertaining to the cyber-security of public and private infrastructure. In 2024, the global average cost of a data breach reached approximately 5 millions of US dollars, representing a 10% increase from the previous year and the highest annual growth rate since 2020.

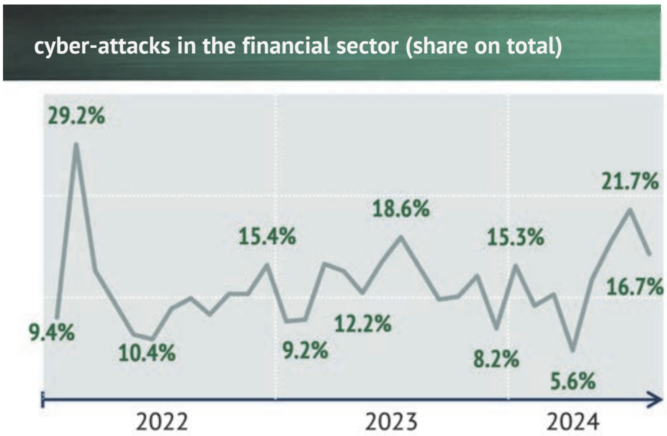


Source: calculations on Bank for International Settlements data.

The healthcare industry exhibited the highest average cost of a data breach, with an average of nearly 10 millions, while the financial sector ranked second, with an average of 6 millions per breach.

Source: IBM, Cost of a Data Breach Report 2024.

In 2024, the share of number of cyber-attacks in the financial sector exhibits an increase with respect to the 2023 figures, accounting for 16% of the total as of June 2024. Industries affected the most by cyber-attacks remain healthcare and public administration.



Source: calculations on University of Maryland data.

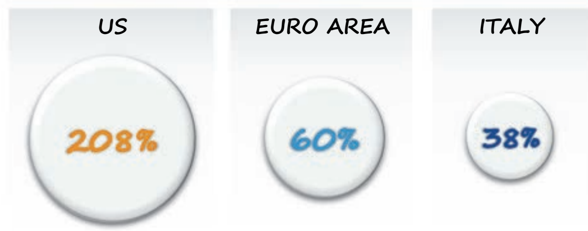
Likewise, the development of crypto-currency markets highlights a phenomenon that demands careful attention to ensure effective investor protection. In 2024, the market value of crypto-currencies increased by more than 100% (3.5 trillions of US dollars as of 3 January 2025). In particular, the bitcoin's value more than doubled (+120% in the reference price of bitcoin in US dollars as of 31 December). In the same period, the funds accumulated in decentralised finance applications (DeFi) exhibited a growth rate exceeding 150%, increasing from 46 to 119 billions of US dollars as of 31 December 2024 (Figs. 1.18 – 1.22 in the Appendix). Despite the relatively modest scale of the crypto-currency sector (with a market value equal to 2% of the global stock markets capitalisation), the mounting interest of investors in this asset class, coupled with the proliferation of investment products such as ETFs on Bitcoin and Ether, could potentially lead to increased interconnections with the conventional financial system (see section 4 for more details). This, in turn, could give rise to risks to financial stability, particularly given the pronounced volatility that characterises these assets. As a matter of fact, in the first nine months of 2024, the investment flows in the bitcoin ETFs listed on the NYSE and Nasdaq, reached 17.5 billions of US dollars.

Capital Markets

The development of capital markets in Europe has been at the core of discussions and policy initiatives since 2015. These discussions ended up with two action plans, in 2015 and in 2020, setting up and scheduling the big and ambitious project denominated Capital Markets Union (CMU). The main goals of the project were twofold: on one side, CMU was aimed at increasing the diversification in the sources of funding in the EU and, on the other side, CMU was intended to increase integration across many and heterogeneous national markets.

The need to support a greater development of capital markets in Europe is evident when looking at the size of the European stock market compared to the US. As of September 2024, the estimated ratio of equity market capitalisation to GDP was more than 200% in the US compared to 60% in the euro area. The latter is also characterised by extreme heterogeneity across countries. As for the largest countries in the region, France has the highest ratio above 90%, followed by the Netherlands with 80%, Spain and Germany with values less than 50%. Italy, on the other hand, shows the lowest ratio among the main euro area countries at 38%.

equity market capitalisation to GDP (September 2024)

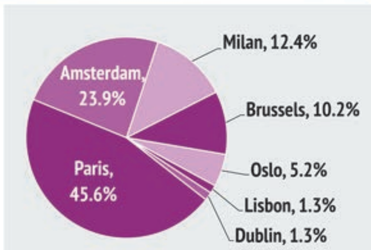


Source: estimates based on Eurostat, FED, Bloomberg and Euronext data.

Beyond its limited scale, the European capital market is characterised by a significant fragmentation across exchanges. Among the largest stock markets by capitalisation, Euronext, the leading stock exchange in Europe, ranks fifth globally, with a market capitalisation of 5.4 trillions of euros at the end of November 2024.

Indeed, when considering the individual markets managed by Euronext, their size is relatively modest compared to major international players (on average, for each Euronext exchange, around 900 billions of euros).

Euronext breakdown



Source: Euronext.

Notwithstanding the disparities in size and structure, both jurisdictions exhibit a contraction in the stock market, as evidenced by a decline in the number of listed companies. This decline has been particularly pronounced in the Euro area, with over 800 companies exiting the market between January 2021 and October 2024. In the United States, the number of companies leaving the market during the same period was nearly 400.

Regarding companies going public in 2024, the IPO barometer developed by EY (EY, Global IPO trends Q4 2024) indicates a decline in the number of new companies listed during the last year. Indeed, in 2024 there were 1,215 initial public offerings (IPOs) worldwide, representing a 10% decline year-on-year. The total amount of capital raised was 121 billions of US dollars, a 4% decrease. The number of IPOs increased in the United States (183 IPOs compared to 127 in 2023) and declined in Europe (125 IPOs compared to 148). In both regions, the capital raised during IPO deals increased by more than 40% year-on-year and stood at 32.8 billions of US dollars in the US and 19.1 billions in Europe. The capital raised through IPOs in the US is therefore 1.7 times the amount raised on European exchanges.

As for the Italian market, the number of new listed Italian companies in 2024 was 23 (see Box 1).

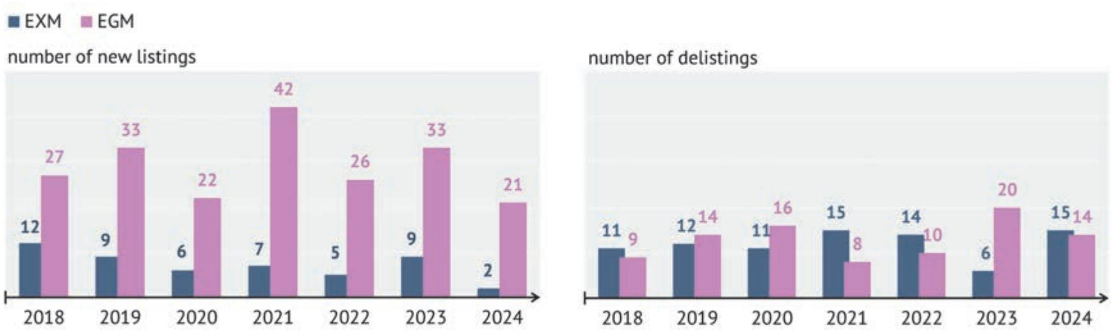
The participation of institutional investors is a crucial factor for the development of equity markets. In this regard, the differences between the US and European markets are noteworthy. As of November 2024, the market capitalisation of the top 100 US companies attributable to institutional investors was 74%, compared to 42% for the top 100 European companies. US companies are also distinguished by a larger scale: the average market capitalisation of the 100 main US listed companies exceeded 380 billions of euros compared to slightly more than 80 billions for the first 100 European companies. The hypothesis that there is a positive relationship between the presence of institutional investors and company size is also corroborated by data from Euronext Milan (see Box 2).

1 | Italian primary market

In 2024, there were 23 new listed Italian companies on Borsa Italiana, with only two on the main market Euronext Milan (EXM) and 21 on the Euronext Growth Milan (EGM) dedicated to smaller companies. In the same period, 29 companies were delisted, 15 from EXM and 14 from EGM.

Since 2018, the total number of new listings on both markets was equal to 254 (50 on EXM and 204 on EGM) compared to 175 delisted firms (84 on EXM and 91 on EGM). Overall, the number of companies listed on the Italian market has increased, although the net number of new listed and delisted companies is negative for EXM (-34) and positive for EGM (+113).

New listings and delisting of Italian companies on Borsa Italiana since 2018



Source: CONSOB, Bollettino statistico Mercati, January 2025.

The high number of new listed companies on the EGM is a positive sign, albeit insufficient to offset the impact, in terms of capitalisation, of exits from the main market, since the EGM represents a very small share (around 1%) of the total Italian equity market capitalisation (above 800 billions of euros).

As a matter of fact, when the total capitalisation of the new listed securities on the Italian market is compared with the market capitalisation on the last day of trading of the delisted securities, the balance is negative by about 12 billions of euros since the beginning of 2023.

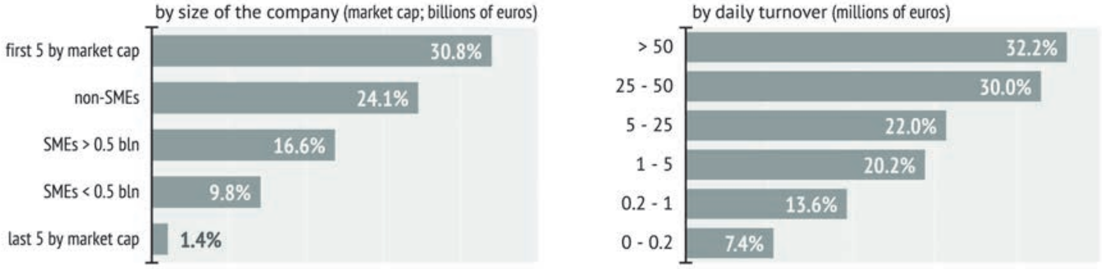
Estimated impact of new listings and delistings on the overall market capitalisation
(monthly data; millions of euros)

Source: calculations on Euronext data. Figures for new listed securities refer to the market capitalisation at the end of the first trading day, while figures for delisted securities refer to the market capitalisation on the last trading day.

Institutional investors in Italian listed companies | 2

Limited access to capital is one of the main obstacles to SME growth and institutional investors can play a key role in their success. These investors, with substantial resources and long-term horizons, are inclined to favour stable investments suitable for SMEs. At the end of October 2024, institutional investors hold around 11.2% of the capital of SMEs listed on Euronext Milan (EXM) compared to 24.1% for non-SMEs (listed SMEs are defined based on article 1 of the Italian Consolidated Law on Finance). When considering the size of SMEs, the percentage is higher for those with a market capitalisation greater than 500 millions of euros (16.6%) than for smaller ones (9.8%).

Market capitalisation share held by institutional investors for Italian companies listed on EXM
(data as of 18 October 2024)



Source: calculations on CONSOB and FactSet data. The sample includes 174 Italian companies with ordinary shares listed on EXM, of which 110 qualified as listed SMEs. The figure does not include 25 companies for which data on the presence of institutional investors are not available (0.07% of the total capitalisation of Italian companies with ordinary shares listed on EXM). The market capitalisation of the sample is 667 billions of euros.

As a matter of fact, the presence of institutional investor increases with company size (also due to the increasing global weight of passively managed investment funds), reaching almost 31% for the top 5 listed companies by market capitalisation, and falling to 1.4% for the 5 smallest. The presence of institutional investors in companies listed on EXM is positively associated with the average daily value of trades (turnover). In companies with daily trades of more than 50 millions of euros, institutional investors hold on average 32% of the capital, while for those with trades of less than 200,000 euros, the share drops to just over 7%.

For comparison, a similar analysis for French companies shows the same relationship between the share held by institutional investors and the market capitalisation of the companies.

Market capitalisation share held by institutional investors for French companies listed on Euronext Paris
(data as of 18 October 2024)

	market capitalisation buckets (billions of euros)			
	0 - 1	*0 – 0.5*	*0.5 - 1*	> 1
institutional investors share	11.8%	*9.7%*	*18.9%*	28.6%

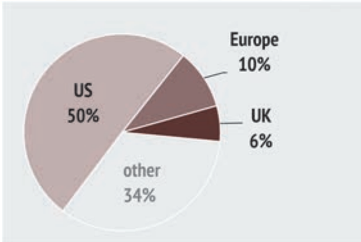
Source: calculations on FactSet data. The sample of French companies listed on Euronext Paris included in the analysis was determined using a classification based on market size. Data do not include 43 companies (for a market capitalisation of 2.68 billions of euros, as of 18 October 2024) out of a total of 333 companies (for a market capitalisation of 2,750 billions of euros).

Moreover, looking at the tail of the distribution, for the top 5 French companies by market capitalisation, the institutional investors' share is 28.2% (30.8% in Italy), while for the bottom 5 French companies it is 2.1% (1.4% in Italy).

Overall, the evidence indicates that European institutional investors have a low level of participation in European capital markets. This is highlighted by the analysis of asset composition of euro area mutual and pensions funds, which shows that, over the period 2019-2024, investment in equity and bond instruments issued within the euro area has remained persistently lower than investment in the same instruments but issued outside the area. As of June 2024, the ratio between equity and bonds issued within the euro area to the total investment in equity and bonds stood at 45% for euro area mutual funds and 16% for euro area pensions funds.

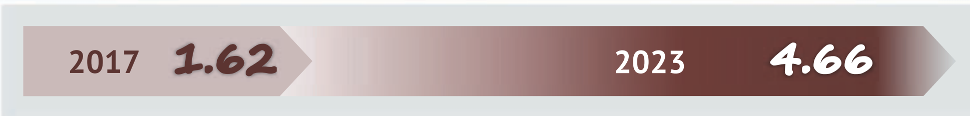
Another ongoing dynamic in the financial markets, alongside the contraction of public capital markets, is the progressive expansion of the private equity sector. Drivers of the shift from public to private equity include investors seeking higher returns, public markets turmoil during several crisis, and interest rates dynamics. In particular, the extended period of historically low interest rates and turbulence in the stock markets contributed to a significant increase in the investments in private equity funds, which reached their highest level of assets under management (AuM) in 2023. As of the end of 2023, the AuM worldwide by private equity funds were almost 3 times higher than the 2017 amounts. In this sector, discrepancies between the US and European markets are more marked than those observed in the public markets, with the AuM by US private equity funds accounting for 50% of the global AuM, compared to 10% of EU and 6% of UK (Fig. 7.10 in the Appendix).

AuM by private equity 2023



Source: Statista Market Insights.

asset under management worldwide by private equity funds (trillions of euros)



Source: Statista Market Insights.

Discrepancies between the US and European markets are pronounced as regards to private equity investments too. According to PitchBook, in the first nine months of 2024, the investments in US in terms of deal value was 650 billions of US dollars equal to 1.6 times the European figure (413 billions). Italy accounted for almost 15% of deal value for the region.

In the venture capital (VC) sector, the difference between Europe and the US is even more marked, with investments standing at a figure 3 times higher in the US than in Europe (131 billions of US dollars in US compared to 41 billions in Europe). Based on AIFI data, as of June 2024, the VC investments in Italy reached 4.5 billions of euros (Figs. 7.11 – 7.13 in the Appendix).

Private equity and venture capital investments are important source of funding for both mature firms and companies developing new technologies and entering innovative businesses. Their role in the financial system can be seen as complementary to that of public capital markets. However, the latter also serve an additional crucial purpose, namely, to provide households with investment opportunities that are more accessible, transparent, and liquid compared to private options. In this regard, a key objective of the CMU project is to foster a greater participation of retail investors in capital markets, both directly and indirectly, in line with the European Commission's Retail Investment Strategy.

The level of retail investors' participation in the capital market can be inferred from an analysis of the financial assets held by households. The ratio of market-based assets (listed and unlisted shares, mutual fund shares, debt securities, insurance products and pensions funds shares) to the total financial assets held by households can be considered a good proxy of the overall participation in capital markets. To provide a basis for comparison, as of June 2024 this ratio was approximately 70% in the US, compared to 54% in the euro area (57% in Italy). Over the same period, the share of liquidity (cash and deposits) to market-based assets held by households was 17% in the US compared to 60% in the euro area (48% in Italy). In order to adjust the EU ratio to match that of US households, up to 6.5 trillions of euros of liquidity in the European households' portfolio should be redirected into market-based investments.

households' willingness to invest in capital markets

Source: calculations on Eurostat data as of June 2024.

Analysing both the gross saving rate and the ratio of liquidity to market-based assets can provide further insights into households' willingness to invest in capital markets. For the major euro area countries, 2024 data reveal that Spain lags behind the others, with a lower saving rate and a higher proportion of liquidity compared to the Eurozone average, while the most virtuous country seems to be Sweden with both a high saving rate and a lower proportion of liquidity. Italy (as Belgium) shows a below-average saving rate accompanied with a proportion of liquidity below the eurozone average. The Italian situation presents two potential avenues for improvement. Firstly, encouraging an increase in disposable income would have a positive impact on the savings rate, potentially enabling it to reach the Eurozone average. Secondly, encouraging a greater propensity to invest in market-based assets could facilitate a more optimal allocation of resources towards more profitable activities.

debt Sustainability

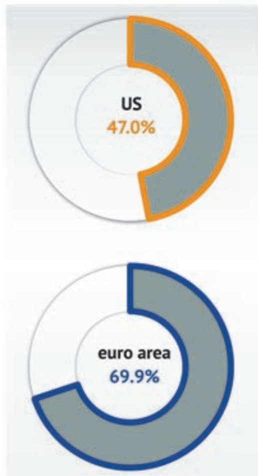
From the beginning of 2022 onwards, interest rates have increased significantly and abruptly in response to the inflationary pressures resulting from both the post-pandemic economic recovery and the surge in energy commodity prices associated with the emergence of considerable geopolitical risks. Interest rates reached their highest point at the end of 2023, subsequently declining throughout 2024. Nevertheless, as of December 2024, the interest rate level in the Eurozone was more than 3% higher than in early 2022 and it is projected to remain at higher levels than during the decade 2012-2021. A higher-interest rates environment carries risks to debt sustainability and, more generally, to financial stability, particularly in sectors or geographical areas characterised by a high level of debt. Indeed, tighter financial conditions raise debt-servicing costs, which in turn lead to an increase in future debt levels. In Europe, where funding is more heavily dependent on debt than on equity, the higher interest rate environment and the consequent increase in the cost of debt represent crucial factors.

EU non-financial corporations' ecosystem is distinguished by a heightened dependence on debt financing sources, notably traditional bank financing. As of June 2024, the debt-to-equity ratio of non-financial companies (NFCs) stood at 47% for US companies in contrast to 70% for euro area firms, though on a downward trajectory over the past decade.

Nevertheless, a reassuring sign is the deleveraging of the NFCs indebtedness compared to the GDP in the main euro area countries, the ratio indeed went down from 108% in 2022 to 102% in Q2 2024 on average (Fig. 1.15 in the Appendix).

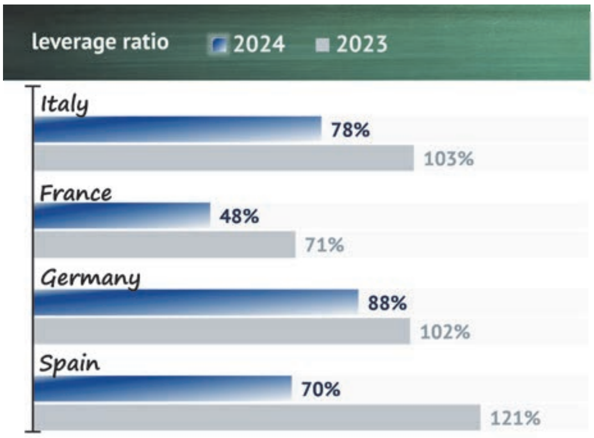
Furthermore, an analysis of the financial structure of the main listed NFCs reveals that the aggregated level of leverage (defined as total debt to equity) in 2024 is expected to decline significantly in the majority of countries under consideration. In particular, the forecasts for Italian and Spanish main listed firms are in the range of 70-80%, representing a decline from above 100% in 2023. French large listed companies display the lowest levels of leverage, both in 2023 and in

debt-to-equity ratio



Source: calculations on data from Eurostat and Federal Reserve.

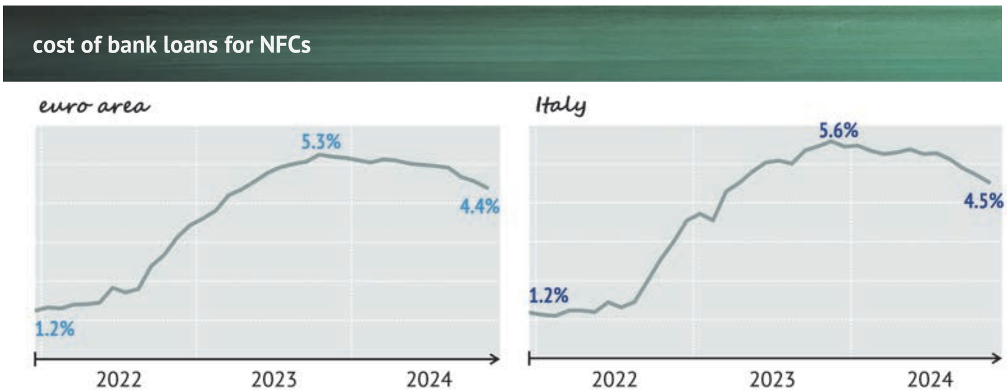
2024. Additionally, the interest coverage ratio of large euro area listed NFCs is expected to improve in 2024.



Source: calculations on FactSet data.

Nevertheless, among the major Italian listed NFCs, 35% of companies exhibit a leverage ratio that is higher than their 10-year average, compared to 30% among the major European peers. Furthermore, 23% of the Italian sample show both an increasing net debt and a decreasing coverage ratio.

A financial structure more reliant on debt than on equity raises concerns in the current higher-interest rates environment. In the euro area, the cost of borrowing for NFCs reached its highest point in 2023, exceeding 5% for the first time since 2008. This figure then experienced a slight decline in 2024, standing at 4.4% by November of 2024. When compared to the end of 2021, the current cost of bank borrowing is 3.2% above the previous level. As for Italy, cost of borrowing for NFCs was in line with the euro area average, recording an increase of 3.4% over the period December 2021-November 2024.



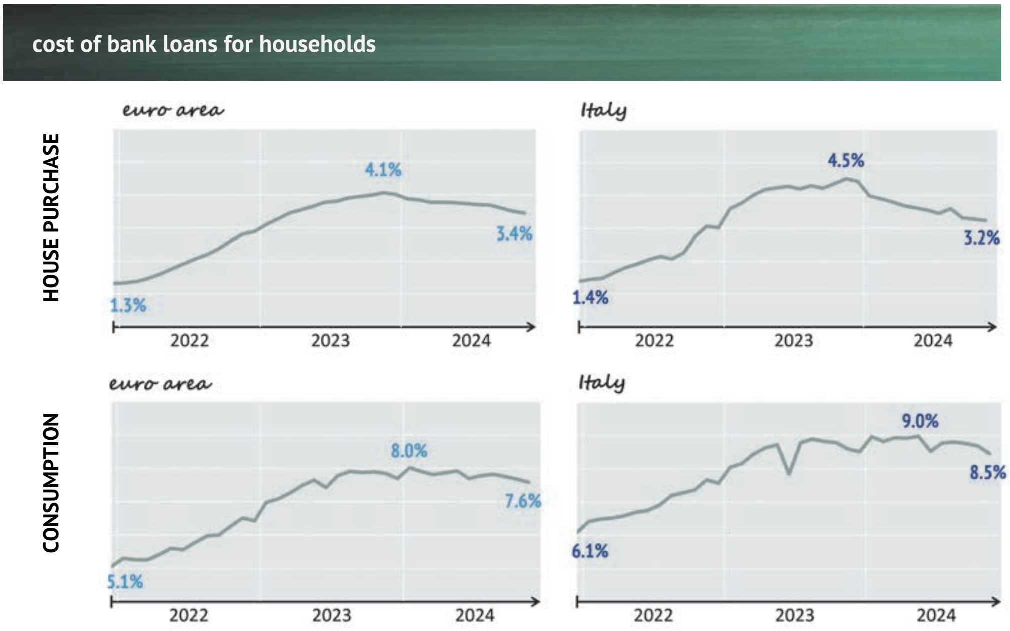
Source: calculations on ECB data.

Additionally, yields on private bonds issued by NFCs also increased significantly, with a notable rise of 2.4% from the end of 2021 to November 2024.

In this context, NFCs issued 700 billions of euros of debt instruments in 2024, marking a 9% decrease compared to 2023 and a 17% increase in net terms. The debt issued in 2023 and 2024 by NFCs will heavily impact the overall cost of debt, given the higher return required by investors.

Nevertheless, positive earnings dynamics may serve to mitigate concerns associated with the debt sustainability. As for main European listed NFCs, after the significant increase in revenues posted in 2022 - mainly driven by the still ongoing general recovery from the pandemic and, particularly in some specific sectors, by the increase in energy prices - large listed NFCs showed a decline in revenues, which on aggregate is expected to continue also in 2024, affecting the overall profitability (see Box 3).

With regard to households, debt levels in the euro area are not particularly high, although there are significant differences across countries. As of June 2024, euro area households' debt-to-GDP ratio was 52% on average. Among the main countries, the Netherlands recorded the highest ratio (95%), followed by France (61%), while Italy showed the lowest ratio (37%). However, Italian households are characterised by a gross disposable income that, in real terms, is well below the euro area average and at lower levels than in 2007. Meanwhile, the savings rate, defined as the portion of disposable income not allocated for consumption, declined in Italy since 2008 and has been below the euro area average since 2010. These trends, coupled with the observed increase in the cost of borrowing over the past three years (+1.8% for house purchase and +2.4% for consumption purposes in Italy as of November 2024 compared to December 2021), raise concerns about debt sustainability in the future.

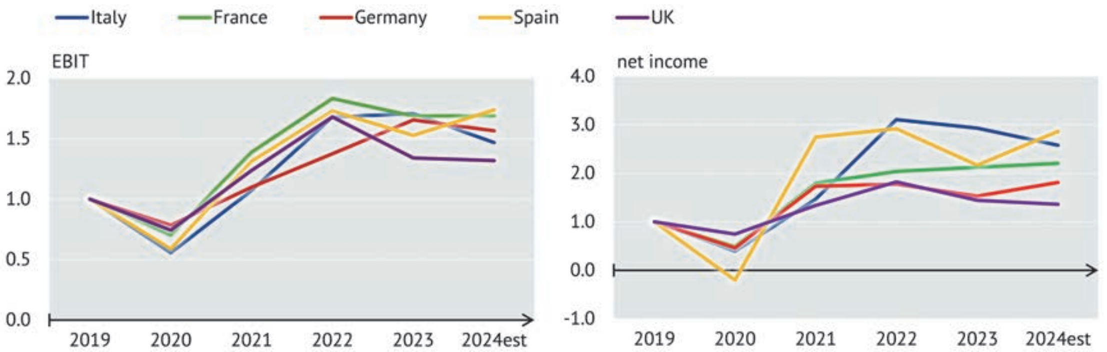


Source: calculations on ECB data.

Profitability of the main listed European NFCs | 3

The trend in revenues is also reflected in the mixed results in terms of both EBIT and net income, in 2023 and 2024 (estimates), which range from a (year-on-year) contraction for Italian large firms to an expected increase for Spanish large corporate in 2024.

Trends in operating and net income of large European non-financial listed companies
(annual data; 2019=1)

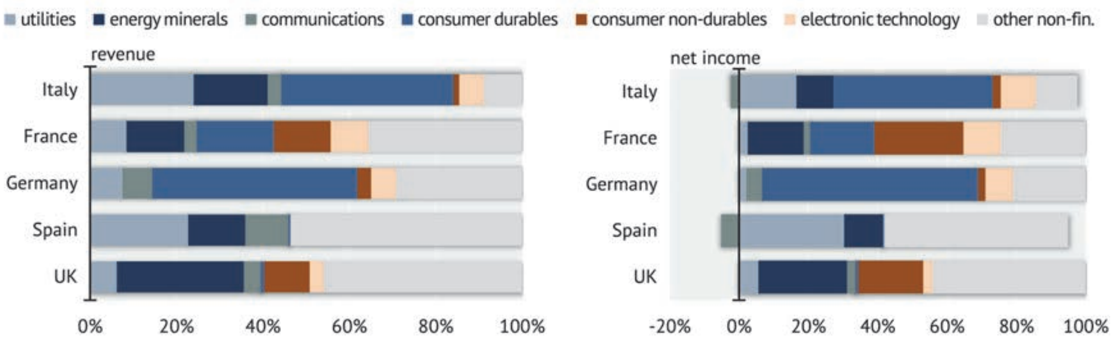


Source: calculations on FactSet data. The figures represent annual changes in aggregated sample data. See note to Fig. 4.1 in the Appendix for details on the NFCs included in the sample and estimates cut-off date. The base year is 2019 = 1.

As for the profitability indicators, despite a significant decline relative to 2022, European large corporate ROE and ROA on aggregate remained positive in 2023, and their estimates suggest they will improve slightly in 2024 (except for the Italian sample). Generally speaking, the profitability of large corporates was higher than that of non-financial listed SMEs in 2022 and 2023. Moreover, after the pandemic the aggregated ROE of large European listed NFCs has remained above the average cost of equity, with just the exception of the German and Spanish large corporates in 2023.

Looking at the sectoral breakdown of revenues and ROE, significant contribution to the overall sample data in 2023 came from the utilities, energy (except for Germany) and durables sectors. The latter includes the main listed companies of the automotive industry, and it is particularly relevant for Germany, France and Italy.

Revenue and net income breakdown by sector of large European non-financial listed companies in 2023
(percentage values)



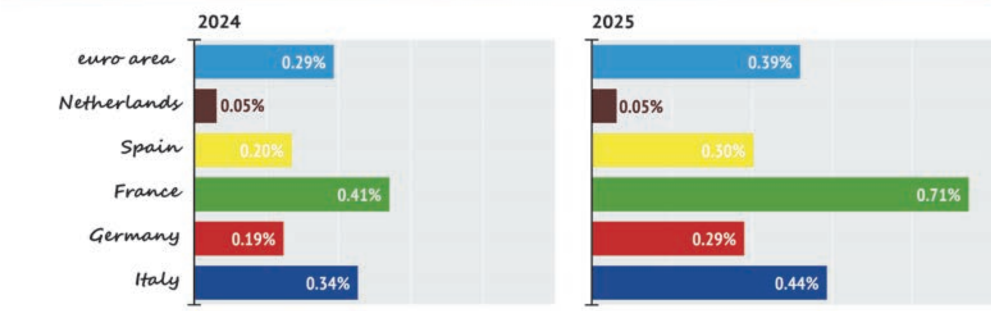
Source: calculations on FactSet data. Figures represent the sectorial breakdown of aggregated sample data. See note to Fig. 4.1 in the Appendix for details on the NFCs included in the sample.

The dynamics of private debt (including both households and NFCs debt) have an impact on the quality of bank assets. With regard to significant banks, ECB data indicates that non-performing loans (NPL) of credit institutions in the main European countries have remained at relatively low levels, with an NPL ratio between 2% and 3% as of June 2024. However, the latest risk dashboard from the EBA highlights that the NPL ratio shows significant divergences across segments as it is higher for loans to NFCs, in particular to SMEs, than for loans to households. In this context, major Italian banks exhibit a level of NPLs comparable to that observed in other major European countries. Nonetheless, significant Italian banks have a relatively higher exposure to the manufacturing and construction sectors, which are particularly vulnerable to the current weak economic environment, than the largest German and French banks (Figs. 5.6 – 5.9 and 5.12 in the Appendix).

The quality of banks' assets may also be affected by their exposure to sovereign debt, which is higher in June 2024 than at the end of 2022. With specific reference to Italian banks, exposure to domestic sovereign debt accounts for 10% of total assets, compared to values close to or below 7% for the largest banks in the other major European countries.

Furthermore, Italy is the country with the most significant public finance imbalances. As for government debt-to-GDP ratio, after the peak 154.9% in 2020, up from 134.2% in 2019, the ratio is expected to drop at 136.6% in 2024. The European Commission's most recent estimates indicate an increase of 1.6% in 2025 (0.5% in the euro area). The decline observed from 2021 to 2024 was primarily driven by favourable GDP dynamics and rising inflation. In light of the subdued growth projections, reduced inflation prospects (+2.1% in 2025 for the euro area) and significant geopolitical tensions, the increase in Italy's public debt/GDP ratio constitutes an element of vulnerability.

interest expenses as % of GDP in the main euro area countries
deviation from 2019-2023 average



Source: calculations on ECB and European Commission data.

In 2024, Italy issued nearly 400 billions of euros in sovereign debt securities, representing the 14% of the total outstanding amount. Over the next two years, more than 20% of the total debt will be refinanced. Even if the weighted average cost of debt has slightly decreased to 2.5% in 2024 (2.8% in 2023), the ratio of interest expenses to GDP is expected to increase by 0.29% in 2024, compared to the 2019-2023 average.

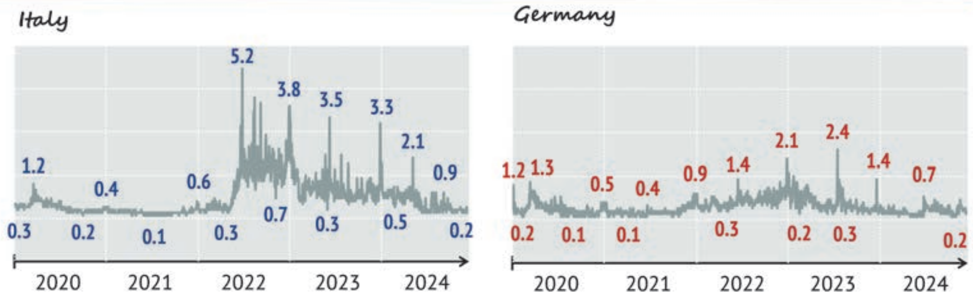
In this context, 10 years sovereign bond's volatility remained low overall in 2024, though temporary spikes were observed during periods of political instability in France following the European elections in June and amid stock market turbulence in August.

10 years sovereign bond's yields volatility

Source: calculations on FactSet data.

Furthermore, reassuring signs may be derived from the analysis of liquidity, despite the reduction of reinvestment under the ECB assets purchases programmes. As for Italy, in 2024 liquidity indicator for the 10-year sovereign bond exhibits values comparable to that of German bonds, as indicated by the size and the dynamic of the bid-ask spread.

10-year sovereign bond's bid-ask spread



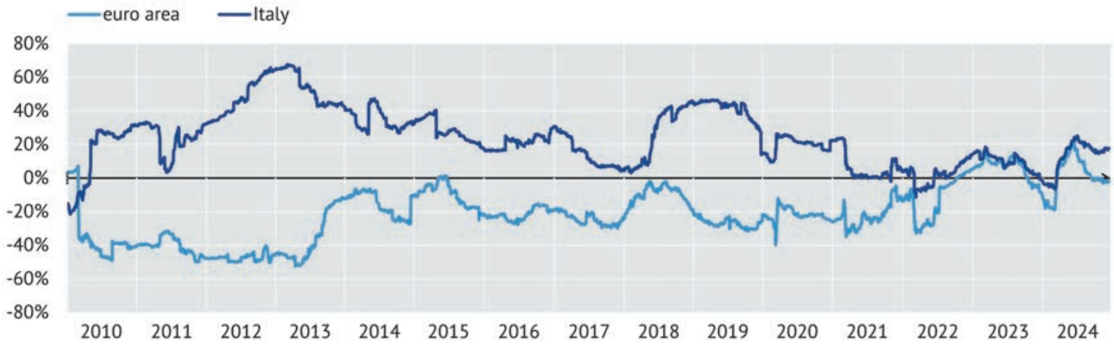
Source: calculations on Bloomberg data.

Moreover, the Italian sovereign bond yields show a decreasing spread over the German Bund during the year (by 60 basis points from a level around 170 basis points as of December 2023). The positive signs related to the narrowing of the spreads are also confirmed by the alignment of the Italian correlation between equities and sovereign bonds returns with the German one. Indeed in Italy, there has been a positive correlation between stock and government bond returns since 2010, particularly during the period of turbulence affecting the secondary markets for public debt instruments in the wake of the European sovereign debt crisis. However, this positive correlation has declined since 2021 and, at present, although still positive, it is essentially in line with the euro area (see Box 4).

4 | Correlation between equities and sovereign bonds

A negative correlation between equity and bond returns represents a significant risk mitigation instrument, as it permits the diversification of a portfolio in the context of a long-term investment strategy. The analysis of the correlation between German government bond returns (used as a proxy for the euro area) and the EuroStoxx50 stock index returns shows highly negative values up to the pre-covid period (since the rolling window is twelve months, the effect of the post-covid supply shock is seen with a lag). On the contrary, the correlation for Italy was always positive for the same period, probably because Italian government bonds were not considered 'safe assets' in the same way as German bonds. We can observe that the correlation reaches highest levels during the European sovereign debt crisis, signalling a period in which both share prices and government bond prices appeared to decline. The graph also signals that, after the common response to the pandemic crisis with the launch of the Next Generation EU, the two correlations started to move together.

Correlation between stock and government bond indices
(daily data; 12-month rolling correlation)



Source: calculations on FactSet data. The stock-bond correlation is computed based on a twelve-month moving window on stock and bond price returns at a daily frequency. For the euro area, the ten-year German government bond price is used to capture bond returns; the EuroStoxx index is used for equity returns. For Italy, the ten-year Italy government bond price is used to capture bond returns; the Ftse Mib index is used for equity returns.

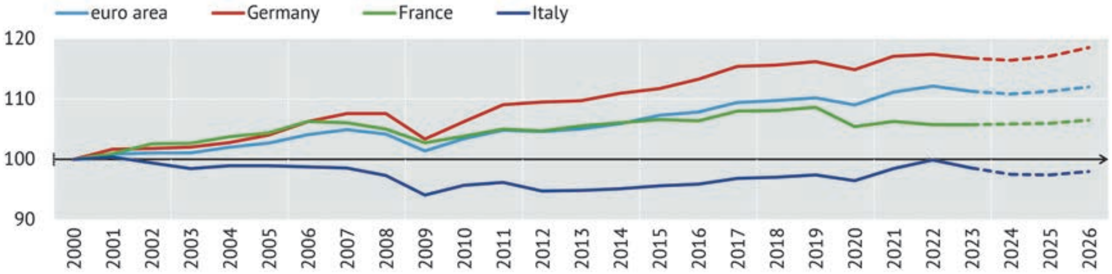
Future debt sustainability is linked to productivity dynamics, which is a crucial factor for structurally supporting GDP growth, especially in the context of a declining working-age population. In Italy, while there has been a slight increase in total factor productivity in recent years, the productivity index has remained relatively low in comparison to the levels recorded in 2000 (see Box 5).

Looking ahead, it will be essential to implement measures to encourage productivity growth, also with the aim of improving public debt sustainability.

Italian productivity 5

In the last two years, total factor productivity (TFP) in Italy has remained stable (+0.1%), showing an increase in 2022 (+1.4%) and a nearly identical decrease (-1.3%) in 2023. This result was influenced by the growth in capital productivity (+1.1%) and the reduction in labour productivity (-0.8%). A comparison with the euro area shows that, over the period 2022-2023, the slight increase in Italian productivity is in line with the European average. On the other hand, when compared to the two largest countries in the area, it emerges that Germany and France experienced a decline in TFP, with a decrease of 0.3% in Germany and 0.5% in France. Expanding the time frame of the analysis, it is observed that in the euro area and in the major European countries, productivity decreased during the period affected by the 2008 financial crisis, while it grew in other periods. The exception is Italy, which saw a decline in productivity even during the 2010-2014 period, which was marked by the sovereign debt crisis in Europe that began in 2011, and during which our country was one of the most exposed due to the well-known public finance imbalances.

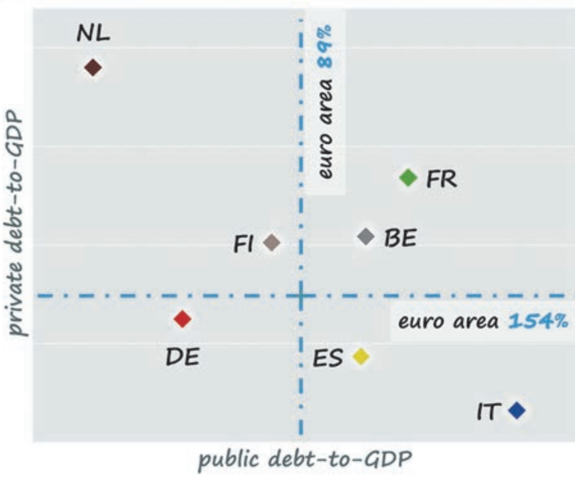
Trends in total factor productivity in the euro area and in the main countries
(annual data; 2000=100)



Source: calculations on European Commission AMECO Database. The dotted lines indicate projections.

Nevertheless, as previously indicated, despite its elevated public debt, Italy is distinguished by a relatively modest private debt burden in comparison to the euro area average. This factor contributes to mitigating concerns about the overall sustainability of debt.

private vs public debt to GDP ratio



Source: calculations on Eurostat data as of June 2024.

Equity Market Outlines

equity market trends in main advanced countries

Source: FactSet. Data as of 31 December 2024.

In 2024, equity indices in main advanced countries exhibited an upward trend, albeit at different pace across geographic areas. Indeed, over the past year EuroStoxx50 and Ftse100 only increased slightly by 8% and 6% respectively, while S&P500 performed better with an increase of approximately 23%.

The divergence between S&P500 and EuroStoxx50 performances was due to both macroeconomic factors and structural reasons (see Section 1 and Section 2 and Fig. 2.7 in the Appendix). In particular, euro area equity market trends were affected by higher economic uncertainty and lower expected GDP growth rates than US. These macroeconomic factors could have dampened stock performance despite the ease of monetary policy and the reduction of the benchmark rate promoted by the European Central Bank since June.

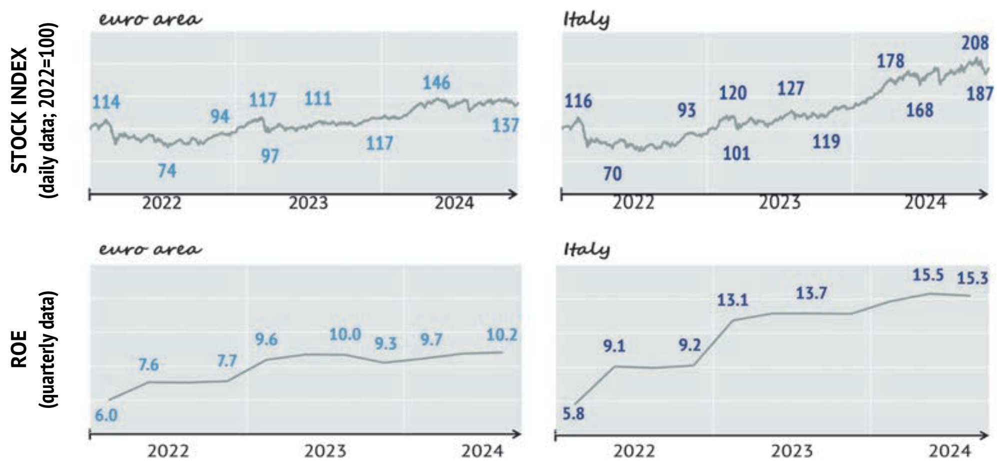
In the euro area, equity market trends exhibited heterogeneity across different countries during 2024. Indeed, in Spain Ibex35 index and in Germany Dax30 increased respectively by about 15% and 19%, while in France Cac40 index decreased by 2%. Ftse Mib increased by 13% and outperformed EuroStoxx50, partly due to a good resilience of GDP growth dynamics in Italy (see Section 1 for more details).

equity index market trends in main euro area countries

Source: FactSet. Data as of 31 December 2024.

The positive performance of Ftse Mib was driven by the banking sector, whose index price increased by about 53%, the travel and leisure sector (+31%) and the industrial sector (+23%). In the same period, index prices fell in the telecommunication (-14%) and technology (-40%) sectors (see Fig. 2.5 in the Appendix). The strong performance of banking sector was led by an improvement in both capital adequacy and profitability in the wake of higher-interest rate environment with respect to the decade 2012-2021 (Fig. 2.10 and Figs. 5.2-5.4 in Appendix).

banking sectors performance



Source: calculations on FactSet and Refinitiv Datastream data and ECB data. Stock indices data up to 31 December 2024; ROE data as of Q3 2024.

Indeed, Italian banks fundamentals has shown a significant improvement since 2022. More in detail, in June 2024, the profitability of banks reached a 10-year high, with a quarterly ROE equal to +15.5%. At the same time, there was a notable enhancement in capital adequacy, as evidenced by a rise in the tier 1 ratio from 16% at the beginning of 2022 to nearly 18% in June 2024. This favourable earnings trend was largely attributable to the positive influence exerted by the increase in interest rates on banks' balance sheets. Looking ahead, the Italian banks will face a decrease in net interest margin linked to both a reduction in the reference interest rates and an increase in the cost of debt resulting from the refinancing of bonds that were issued during a period of historically low interest rates. This dynamic coupled with uncertainties in the macroeconomic growth and the deterioration in credit quality could reduce banks profitability in future.

In 2024, Italian equity prices outperformed euro area for both large and small cap. Indeed, Ftse Italy small cap index rose by 23% (a rate higher than 13% registered for Ftse Mib), while Ftse Eurozone small cap index fell by nearly 2% (see Fig. 2.8 in the Appendix). Also in the context of small cap sectors performance, some heterogeneity across euro area countries can be observed: Ftse Small Cap France and Germany decreased, respectively, by almost 11% and 14%, while Ftse Small Cap Spain rose by approximately 8%.

equity small cap index trends in main euro area countries

Source: FactSet. Data as of 31 December 2024.

In Italy, a comparison between implied values estimated on the basis of fundamentals and market prices does not seem to reveal any critical issues despite the increase in share prices.

fundamental values and observed prices

Source: calculations on Refinitiv Datastream data.

The equity markets trends described above have been accompanied by somewhat mixed financial statement data for the large European non-financial listed companies, mirroring the weak EU economic growth, which is seen to gain traction only in 2025. The profitability of large corporates was higher than that of non-financial listed SMEs in 2022 and 2023 (see section 4 in the Appendix). This evidence is also in line with the European Commission's analysis of SMEs productivity (Annual Report on European SMEs 2023/2024, see Box 6).

Apart from profitability and efficiency, other closely watched key metrics that influence market valuations of listed companies are represented by cash flows and dividends (see Box 7).

EU SMEs productivity | 6

The average gap in profitability between EU large and small and medium-sized companies is related to structural differences in productivity. In general, the European Commission's analysis finds that the larger the enterprise, the more productive it is. Moreover, while EU SMEs' productivity did grow in absolute terms from 2008 to 2024, it has declined in relative terms compared to large firms. Whereas EU SMEs were about 68% as productive as large enterprises in 2008, this figure has fallen to 60% in 2024.

A key corollary from such evidence is that although many European SMEs represent 'niches of excellence' (such as the SMEs in North-East Italy), competition at global level requires increasing efficiency (typically through a greater scale of operations or technology updates) and hence more investments, which require 'patient' capital.

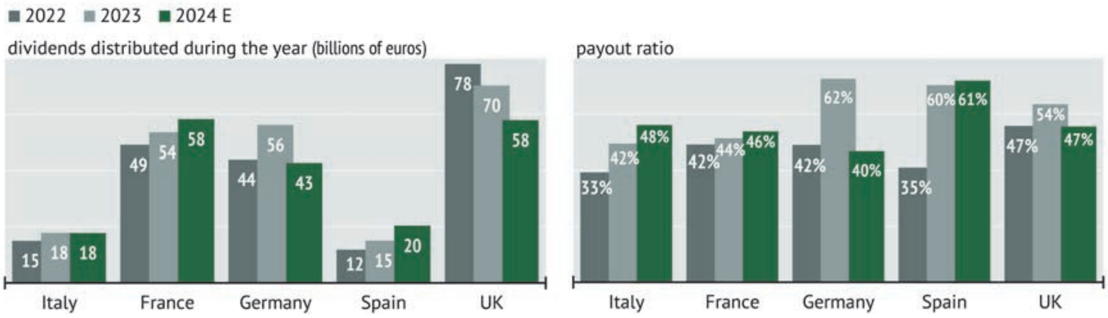
A key role under this regard can therefore be played by the stock market and also by the regulatory framework.

Main listed European NFCs dividends | 7

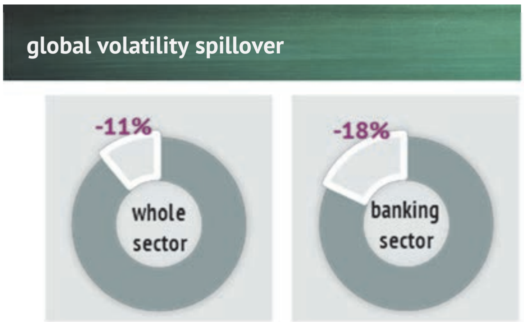
The dividends distributed in 2023 by large non-financial listed companies on aggregate exceeded those paid in 2022 in the main EU countries considered. The aggregate level of dividends is expected to slightly increase also in 2024 for French and Spanish large corporates and to remain stable for Italian companies.

At the same time, the aggregate dividend payout ratio increased across all the European countries considered in 2023, ranging from 42% (Italian firms) to 62% (German firms). The ratio is expected to increase also in 2024 for Italian, French and Spanish large corporates, and, consistently with dividend estimates, to decline in Germany and the UK.

Dividends and payout ratio of large European non-financial listed companies
(annual data; billions of euros and percentage points)



Source: calculations on FactSet data. Figures represent the aggregated sample data. Dividends refer to cash dividends distributed in a calendar year and the payout ratio is the proportion of net income paid as dividend. See note to Fig. 4.1 in the Appendix for details on the NFCs included in the sample.

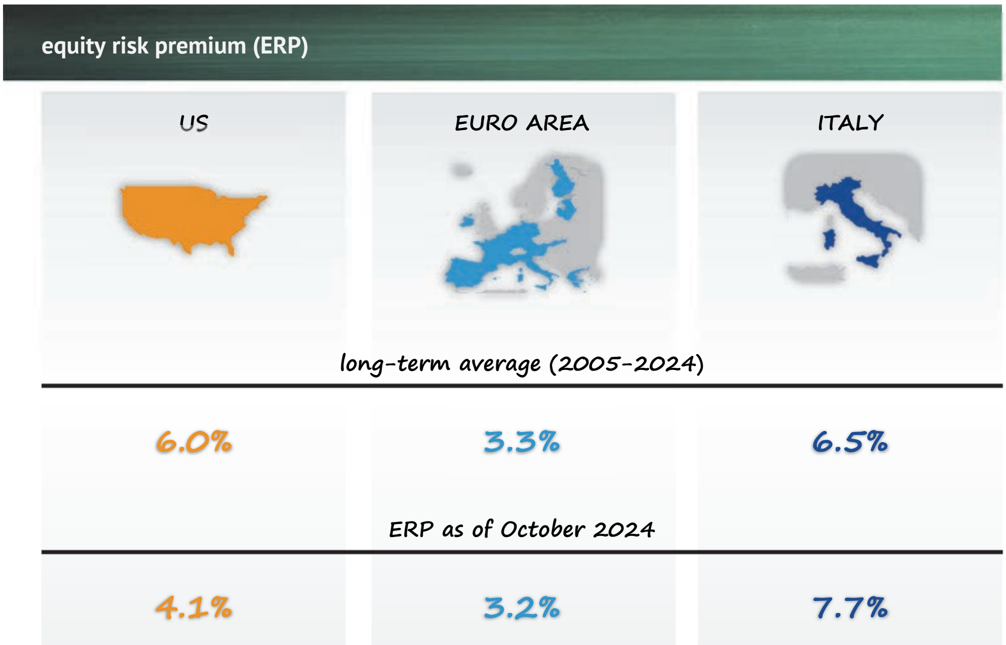


Source: calculations on FactSet data (yearly change at November 2024).

During 2024, volatility remained at low levels on average, with only few significant episodes of market turbulence. In particular, at the beginning of August, the release of some macroeconomic data less encouraging than expected for the US economy coupled with restrictive monetary policy decisions by the Bank of Japan led to a notable but extremely short-lived spike in stock market volatility. Similarly, other instances of heightened volatility were observed in July after elections in France and in November following US elections. Overall, the volatility remained low, resulting in a reduction in the intensity of volatility spillover phenomena both at the general level and in the banking sector (see Fig. 2.17 in the Appendix).

Even if, as mentioned above, the Ftse Mib outperformed the Eurostoxx50 index, the Italian market also continued to show a greater volatility than the euro area (see Fig. 2.9 in the Appendix).

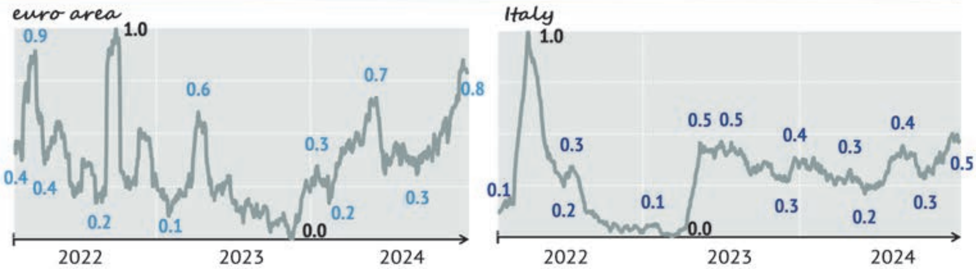
Moreover, Italian stock market appears to be characterised by higher equity risk premia (ERP) which have been steadily above long-term average during 2024 (see Fig. 2.11 in the Appendix).



Source: calculations on FactSet data.

With regard to liquidity conditions, during 2024 Italian equity market liquidity registered a stable pattern, with trading volumes reaching new highs in February. In particular, the main contribution to the overall market liquidity came from the banking sector followed by the energy sector, particularly renewable energy companies.

bid-ask spread



Source: calculations on FactSet data. Data up to 25 November 2024.

In 2024, the degree of correlation between the S&P 500 and bitcoin tended to increase. As for the European indices, the correlation, although positive, is lower in comparison to S&P 500. This evidence is presumably associated with expectations of a more favourable regulatory environment in the US with respect to this type of assets, also as a consequence of the results of the presidential elections in the US (see Box 8).

Correlation between crypto-currencies and equities | 8

The growing interconnectedness between traditional finance (TradFi) and decentralized finance (DeFi), particularly focusing on the role of institutional investors in the crypto-assets market, has been deeply analysed in the financial literature and by international organisations (see for reference OCSE 2022, Institutionalisation of crypto-assets and DeFi–TradFi interconnectedness). This interconnectedness is driven by a number of factors, first of all the increasing participation of institutional investors in crypto-assets.

Correlation between bitcoin and equity indices increased during 2024 and it seems to be more pronounced with the S&P 500 than with European stock indices.

Pairwise correlation between bitcoin and stock indices
(daily data up to 31 December 2024)

Source: calculations on Bloomberg data. Figures refer to pairwise correlations among return time series estimated using a 90-days window and considering prices of bitcoin in US dollars for the correlation with S&P500 and in euros for the correlation with European indices.

List of figures on the Appendix

Macroeconomic landscape

Equity markets

Bond markets

Non-financial corporations

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Households

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