MINUTES OF THE MEETING OF 13 DECEMBER 2024

The second meeting of the Macroprudential Policy Committee ('Committee') was held on 13 December 2024. The meeting was attended by the Governor of Banca d'Italia Fabio Panetta, who chaired it, the President of Commissione nazionale per le società e la borsa (Consob) Paolo Savona, the Acting President of Commissione di vigilanza sui fondi pensione (Covip) Francesca Balzani, the President of Istituto per la vigilanza sulle assicurazioni (Ivass) Luigi Federico Signorini, and the Director General of the Treasury Riccardo Barbieri Hermitte. The meeting was held at Banca d'Italia's headquarters in Rome.

The items on the agenda were:

1) the risks to the stability of the Italian financial system;

2) initiatives having macroprudential relevance;

3) the start of preparation of the report to the Government and the Parliament on the Committee's activities in 2024.

1. The risks to the stability of the Italian financial system

The meeting began with an analysis of the main risks to the stability of the Italian financial system.

Against the backdrop of an overall stable macrofinancial framework, Committee members noted that the main short-term risks for Italy stem from the external environment, due to the possible escalation of geopolitical tensions, the prospect of more protectionist trade policies, and uncertainty about political and economic developments in some major European economies. Italy's exposure to these risks is amplified by its high public debt and low growth. GDP growth in 2024 continued at a slower pace than expected, but economic activity is expected to improve in 2025-26, partly due to lower interest rates.

Compared with last July, when the previous meeting of the Committee was held, the yield spread between Italian 10-year government bonds and German bonds has narrowed and equity prices have recovered from the decline in the summer months. Greater uncertainty about the evolution of the business cycle and geopolitical framework has resulted in increased volatility in equity markets. Valuations remain high for several financial assets at international level.

With reference to the Italian banking sector, the Committee pointed out that the high profitability observed in recent months benefitted from high interest rates and abundant liquidity in the markets, leading to higher returns on lending and the containment of the cost of funding. As these particularly favourable conditions wane, net interest income is expected to decrease. In addition, profitability could be affected by deteriorating credit quality, especially if some of the negative signs that have emerged in recent quarters for loans to non-financial corporations are confirmed. Overall, however, the rate of deterioration in bank loans remains low.

The risks to financial stability arising from the insurance sector are moderate. The Committee delved into the issue of liquidity in the life insurance sector. The decline in premium income and the increase in surrenders recorded in the last two years have shown the importance of monitoring insurance companies' exposure to liquidity risk, including considering possible new safeguards of a regulatory and a supervisory nature.

The Committee assessed the risks of Italian pension funds as limited, thanks to growing contribution flows, favourable financial market trends, and structural features of the sector, such as stable strategic allocation and a defined contribution system. An overview of the investments of *Casse di previdenza*, which are regularly surveyed and monitored by Covip in order to report on them to the supervising ministries, was brought to the Committee's attention.

The financial condition of households remains strong due to very low debt by international standards and a slight increase in disposable income. During 2024, the share of households investing in certificates, which are held mainly by households possessing high income and wealth, increased again. Although certificates still account for a limited share of Italian households' financial wealth, they have reached significant volumes. The share of households holding crypto assets, whose price tends to be very volatile, has also increased. Committee members agreed on the need to continue to closely monitor developments in investment in certificates and crypto assets, including with regard to the adequacy of subscribers' financial literacy and their ability to bear possible losses.

Vulnerabilities arising from the Italian real estate market were assessed as limited, but imbalances accumulated in this sector in other countries could give rise to contagion episodes.

Following the discussion, Committee members concluded that the risks to financial stability in Italy are moderate overall, although the country remains exposed to possible unfavourable developments in the external environment.

2. Initiatives having macroprudential relevance

The Committee discussed the macroprudential policy measures taken by Banca d'Italia in the second half of 2024 and the European Commission's recent consultation on non-bank intermediation.

Committee members expressed appreciation for the macroprudential measures for the banking sector taken by Banca d'Italia. They stressed the importance of continuing to maintain adequate safeguards, ensuring that the initiatives are commensurate with the level of risks and take into account the profitability conditions of intermediaries.

The Committee discussed the risks posed by the growth of the complex non-bank finance industry, both globally and with reference to the recent consultation on the subject conducted by the European Commission.[1] Committee members agreed that the analysis of risks and the adoption of any macroprudential policy measures should be based on an approach that takes into account the sector's contribution to systemic risk and the implications of related vulnerabilities for the financial sector as a whole.

The Committee welcomed the proposals included in the Commission's consultation for greater alignment between the degree of liquidity of the assets and liabilities of investment funds; it was noted that Italian law already focuses on this aspect. The Committee also noted that risk assessment of the non-bank finance sector requires close coordination between European and Member State authorities, not least in light of the increasing interconnectedness between different segments of the financial sector and the high leverage that characterizes some intermediaries in the sector.

Furthermore, the Committee agreed that for the non-banking financial sector too, the possibility to use macroprudential tools, or to introduce them into regulation, should be placed on a complementary footing with existing microprudential tools. It was highlighted that stress tests, especially systemic ones, can be a useful tool for assessing the resilience of the financial sector. However, the shortage of data may limit the conducting of in-depth

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[1] The European Commission's consultation *Targeted consultation assessing the adequacy of macroprudential policies for non-bank financial intermediation (NBFI)* on the review of the regulatory framework to support the European Union's macroprudential policy ended last November. Banca d'Italia sent a response (*Bank of Italy's response to the European Commission's consultation document*) supplementing that sent by the Eurosystem (*Eurosystem response to EU Commission's consultation*). ESMA (*ESMA's response to the EC consultation on the review of the EU macro-prudential policy framework for NBFI*), EIOPA (*EIOPA feedback to EU COM Consultation Paper on Assessing the adequacy of macroprudential policies for Non-Bank Financial Intermediation*) and ESRB (*A system-wide approach to macroprudential policy*) also participated in the consultation. Banca d'Italia, Consob, Covip and Ivass contributed to formulating those responses, for those parts within the scope of their respective competences.

analyses, which, to be informative, require an international perspective and the involvement of jurisdictions where non-bank intermediation is most significant.

Finally, it was noted that to avoid competitive disparities between jurisdictions, shared actions are required, not only at the European level but also on an international basis, to effectively develop macroprudential instruments.

3. The start of preparation of the report to the Government and the Parliament on the Committee’s activities in 2024

The Committee began work on the preparation of the report on the activities it carried out in 2024, which is to be submitted to the Government and the Parliament by March 2025. Members agreed on the structure, editorial style and broad contents of the document, which will also be made available to the public in English.

4. Any other business

The meeting concluded with the approval of the press release. The next meeting of the Committee is scheduled for 13 June 2025.