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The Italian Financial System: Stability, Innovation, and the Road Ahead

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Over the past decade, the Italian financial system has undergone a profound transformation. From the severe strains of the sovereign debt crisis to today's stronger conditions, banks and financial institutions have rebuilt resilience, improved efficiency, and adapted to a rapidly changing environment.

At the same time, new challenges have emerged, from geopolitical tensions, structural shifts in global finance, technological change and the need for deeper European integration.

In my remarks, I will briefly review some key aspects: the transformation of Italian banks, the evolving role of non-bank intermediaries and the risks shaping the outlook, before turning to the broader European dimension.

1. Italian banks: from crisis to recovery

The challenges of the past decade

In early 2010s, Italian banks were facing severe difficulties. The Global Financial Crisis and, even more so, the euro area sovereign debt crisis had taken a substantial toll. The sharp increase in Italian sovereign spreads hit banks directly, through their holdings of government bonds, and indirectly, via rating downgrades, higher funding costs and liquidity tensions.

A double-dip recession significantly worsened credit quality, with non-performing loans (NPLs) reaching very high levels. A credit crunch further aggravated the situation, delaying recovery. Profitability was low, capital buffers had become thin, and funding was under pressure. Banks' failures were relatively limited in number, involving mostly smaller

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banks, but nonetheless painful for many investors; they were managed mainly through market-based solutions, avoiding systemic stress.

Restoring confidence and ensuring sufficient credit flows to the economy were the central challenges.

The second half of the decade saw an intensive “repair” process,¹ alongside major reforms in regulation and supervision. The establishment of the Single Supervisory Mechanism (SSM) and the Basel III standards enhanced oversight, risk control, and loss-absorption capacity.

Under strong supervisory pressure by the SSM and the Bank of Italy, balance sheet clean-up progressed steadily. A key priority was reducing NPLs. A securitization scheme, supported by partial government guarantees,² helped develop a secondary market, enabling a rapid disposal of bad loans, while coverage ratios were increased. By 2019, gross NPLs had more than halved from their 2015 peak of around 350 billion euro.

Capital ratios improved significantly through recapitalizations and de-risking, and liquidity buffers increased. Reforms also addressed structural vulnerabilities of the Italian banking system, including governance shortcomings and fragmentation. Consolidation and improved risk management enhanced resilience.

By the late 2010s, these efforts had paid off. Banks entered the current decade in a much stronger position to confront the pandemic and, later, the energy crisis following Russia’s invasion of Ukraine. While policy support at the European and national level was crucial, banks were able to maintain adequate credit flows to the economy.

The recent period: restored profitability

In recent years, profitability has remarkably improved. Rising interest rates after the 2021-23 inflation surge restored margins after years of compression, while better asset quality, reflecting better screening and financially sounder borrowers,³ kept losses low. Return on equity has been in double digits since 2023 and is now close to 14 per cent. Lower net interest income, due to monetary policy normalization, has been offset by fee and commission revenues.

Efficiency gains, driven by digitalization, have also supported profitability. Over the past decade, branches have declined by 35 per cent⁴ and staff by 12 per cent. Banks investing more in innovation achieved the largest cost-to-income reduction.

¹ Visco, I. (2019), [Speech at the Italian Banking Association Annual Meeting](#), Milan, July.

² Guarantee on Securitization of Bank Non-Performing Loans (GACS).

³ As a result of the profound restructuring of the Italian production system in the second half of the 2010s.

⁴ Despite the sharp reduction in physical bank branches, the share of households with at least one current account has increased, as digitalization has made banking services more accessible.

Our surveys show that AI adoption is now a central element of digital strategies:⁵ while still mainly used for internal processes, its application is expanding to core activities, such as credit assessment and customer relations.

Consolidation has progressed, particularly among cooperative banks. The number of banks has declined from 500 in 2015 to 129 today. A new wave of mergers, involving large institutions as well, is underway. As Governor Panetta noted, these “must strengthen intermediaries and further improve their efficiency and their ability to provide services better suited to customer needs”.⁶

Capitalization has been sustained by retained earnings, offsetting share buybacks and higher risk-weighted assets, alongside supervisory and macroprudential measures by the Bank of Italy.⁷ The CET1 ratio now stands at almost 16 per cent.

Reflecting these developments, bank valuations have risen markedly: price-to-book ratios of listed institutions increased from 0.5 in 2022 to around 1.4, above the euro area average.

2. The Non-Bank Financial Intermediaries in Italy

The Italian financial system remains bank-centred. Despite strong growth in recent years, non-bank financial intermediaries’ (NBFIs) assets amount to about 140 per cent of GDP, less than half the US, and to around 80 per cent of banks’ assets. More than half of these assets are held by insurance companies and open-ended mutual funds.

As in other major European countries, bank-controlled firms manage over two-third of total assets under management, while in the United States around 80 per cent is managed by independent players. In Italy, retail fund investment is almost entirely distributed by banks.

A main problem is that fragmentation of European capital markets limits scale, leading to lower competition, higher costs for investors and less retail participation. Together with the stronger US market performance, this has driven significant capital outflows to the US.

Foreign NBFIs play a growing role, especially in government bond markets, where hedge funds account now for about 30 per cent of transactions. While these funds provide liquidity in normal times, they operate with highly leveraged short-term positions and could become a source of volatility when conditions change.

⁵ Banca d'Italia (2025), *Indagine Fintech sugli intermediari bancari e finanziari – 2025*.

⁶ Panetta, F. (2025), “[Address to the 2025 World Savings Day](#)”, Rome, October 2025.

⁷ In 2024, the Bank of Italy introduced a systemic risk buffer (SyRB) equal to 1.0 per cent of (credit and counterparty) risk-weighted exposures to Italian residents. The buffer, which is fully releasable, is meant to preserve resilience of the system in the event of adverse shocks.

Italian private capital markets remain small, despite recent expansion. The private equity and private debt industry amounts to about 2 per cent of GDP (40 billion euro in assets), versus 10 percent in the euro area. Around 80 per cent of investments are made by foreign operators.

Within private equity, the venture capital (VC) industry – crucial for financing innovative firms – is also underdeveloped, reflecting limited R&D spending, weak demand, low institutional investor participation and few exit opportunities.⁸

Over the past decade, however, venture capital investment has grown faster than in European peers, suggesting a catching up process. Recent policy initiatives strengthened incentives for R&D and start-ups. Patents by Italian residents have increased by about 40 per cent since 2014, and public initiatives have supported technology transfer through competence centres and digital innovation hubs. The stronger role of a major public player, CDP (Cassa Depositi e Prestiti) Venture Capital, has also provided momentum.

Overall, this segment shows strong growth potential.

3. Strengths and Risks in the Current Environment

Italy's economy and financial system have shown strong resilience to recent shocks.

Today, domestic risks to financial stability remain limited, but global risks are increasing. Geopolitical tensions and trade disruptions have clear repercussions for an open economy like Italy.

Over the past year, attention has focussed on the impact of the new US tariffs. The US is Italy's second-largest market, accounting for over 10 per cent of exports. Exports to the US have been resilient so far:⁹ their sectoral composition, the high quality of products and firms' profitability are mitigating the direct effects of tariffs. From a financial perspective, bank exposure is contained and diversified.

By contrast, the conflict in the Middle East poses grater risks, given its impact on energy. Around 10 per cent of oil and 11 per cent of gas imports come from that region, along with about one quarter of refined petroleum imports. Compared with other euro-area economies, the share is particularly high for natural gas, a key input for industry and electricity prices.

Economic projections are highly sensitive to the future evolution of the conflict and commodity prices. In our baseline projections – which assumes a gradual decline in energy prices in line with market expectations – GDP is expected to grow 0.5 per cent

⁸ Gallo, R., Signoretti, F.M., Supino, I., Sette, E., Cantatore, P. & Fabbri, M.L. (2025), *The Italian venture capital market*, Occasional Paper No. 919, Banca d'Italia.

⁹ In 2025, exports to the US have actually increased, in value terms, by about 7 per cent. Besides the anticipation of US imports in view of the higher tariffs, this performance has been driven by two sectors (pharmaceutical and naval shipbuilding) that have been practically exempt from tariffs.

this year and the next, and 0.8 per cent in 2028, a downward revision of about half percentage point over the whole horizon relative to previous projections. Inflation would peak at 2.6 per cent this year, before falling back to below 2 per cent.

However, a prolonged conflict, with sustained pressure on commodity prices and financial markets, would substantially increase recession risks.

Italy's strong macro-financial conditions provide a buffer. Solid bank capital and liquidity support overall stability, along with low private debt, well below other advanced economies,¹⁰ and a positive and increasing net international investment position.

That said, high public debt remains a key vulnerability, requiring continued fiscal prudence and growth-enhancing reforms.

Despite recent volatility, markets have remained orderly, with stable liquidity and funding conditions.

4. The European landscape: regulation and institutional change

Italy, like the rest of Europe, would greatly benefit from deeper financial integration. Fragmentation of financial markets is a key reason why the full potential of the European single market is still unexploited.

Despite significant progress, insufficient harmonization in areas such as taxation, civil and corporate law, insolvency procedures and prudential rules hampers cross-border activity, limiting funding and investment possibilities for households and firms.

Following the Letta and Draghi reports,¹¹ several initiatives have been launched to deepen the single market and strengthen European competitiveness. These include measures to better channel savings to productive investment, expand opportunities for citizens, improve access to financing for companies, enhance market infrastructures and supervisory convergence, simplify regulation and facilitate cross-border activity – including the introduction of a “28th regime”, i.e. an EU-wide legal framework for companies.

While these initiatives are crucial, further progress requires two key steps: completing the banking union with a European deposit insurance scheme (EDIS) and creating a common European safe asset.

¹⁰ As of Q3 2025, firms' debt stands at 56 per cent of GDP, while households' financial debt stands at 58 per cent of disposable income, vis-à-vis 82 and 104 per cent, respectively, for the euro area on average.

¹¹ Letta, E. (2024), [Much more than a market: Speed, security, solidarity – Empowering the Single Market to deliver a sustainable future and prosperity for all EU citizens](#), Report to the European Council. Draghi, M. (2024), [The future of European competitiveness: A competitiveness strategy for Europe](#), Report to the European Commission.

The Eurosystem¹² – and the Bank of Italy within it – is contributing in several ways. First, by streamlining supervisory practices to make them more efficient and proportionate.¹³

Second, by reducing compliance and reporting burdens. As an example, a recent review at the Bank of Italy showed that domestic reporting requirements could be cut by nearly one third and work is underway to achieve this objective.

Third, most importantly, by upgrading payment system infrastructure to ensure sovereignty, efficiency and resilience in an increasingly digital world.

The digital euro project will preserve the role of public money in the digital economy, as an anchor for trust, while strengthening sovereignty and supporting innovation.

In parallel, the Eurosystem is working to integrate distributed ledger technology (DLT) into wholesale payments: in the shorter-term, by connecting DLT platforms to TARGET2, the platform for real-time settlement in the euro area; in the longer-term and in collaboration with market participants, by developing a fully DLT-based ecosystem for settling transactions.

The Bank of Italy is at the forefront of these efforts, co-managing TARGET2 and operating TIPS, the platform which enables real-time, low-cost instant payments across borders. TIPS is now expanding beyond the euro area and evolving into a multi-currency platform.

5. Conclusions

The Italian financial system is today significantly stronger and more efficient than it was a decade ago. Banks have rebuilt capital, restored profitability, and are better equipped to support the economy even in a difficult environment.

At the same time, important challenges remain. Global risks are rising, structural gaps – particularly in capital markets – persist, high public debt continues to require careful management and growth is still unsatisfactory.

Looking ahead, deepening European financial integration will be essential. Completing the banking union, advancing the capital markets union, and investing in innovation and infrastructure are key steps to unlock growth and strengthen resilience.

In this evolving landscape, the priority is clear: to preserve stability while fostering a more dynamic and integrated financial system capable of supporting growth.

¹² The Eurosystem comprises the European Central Bank and the national central banks of the countries that have adopted the euro.

¹³ ECB (2025), “Streamlining supervision, safeguarding resilience: the ECB’s agenda for more effective, efficient and risk-based European banking supervision”, December.

