

# ITALIAN BANKS RENAISSANCE?

Piergiacomo Braganti – Director, Research  
10 Jun 2021

**How and why, they are returning to make profits and pay dividends.**

Italian banks have experienced a decade of difficulties due to:

- Low interest rates and profitability.
- Bad loans which were disposed of through write-downs and sales.
- Increasingly stringent restrictions on capital requirements, eroded in the meantime by losses.

However, 2021 and the next few years can represent a turning point, for at least 5 reasons:

1. Interest rates should start to rise again, in part they are already doing it, and with them the interest margin, or the margin deriving from the "historical characteristic" banking activity of money management. It is the most historic and obvious profession of banks, made up, on one hand of customer deposits at the lowest possible rate and, on the other of loans to customers, in the most profitable and least risky way. The gradual rise in lending rates and the stabilization of "no cost" funding, looks reasonably possible.
2. An increase in revenues from services, typically remunerated on a commission basis, is expected mainly from payment services, securities brokerage, securities trading, asset management and life & health insurance.
3. Analysts expect a drop in operating costs, as a result of streamlining branch networks and staff (in number, average age, and salary), plus investments in fintech has made customers increasingly independent on "home banking"<sup>1</sup>.
4. A decline in provisions and loans value adjustments is expected, thanks to the "cleaning" work done in recent years, which has drastically reduced non-performing loans in the assets of banks and implied a greater selectivity in new disbursements.
5. On the future profits, for some listed banks, a lighter level of taxation is imaginable, thanks to the "tax recovery/compensation" of the losses recorded in previous years.

Table 1. Main trend in Italian banks P&L

| Interest margin | Commissions and other revenues | Trading profits | Labour cost | General expenses | Cost of risk and provisions | Tax rate |
|-----------------|--------------------------------|-----------------|-------------|------------------|-----------------------------|----------|
| ↗               | ↑                              | ↗               | ↘           | ↘                | ↘                           | ↓        |

Source: WisdomTree, as of 27th May 2021 P&L: Profit and Loss statement.

**Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

In addition to the above,

- Banks will be able to return to pay dividends<sup>2</sup>, overtaking the limits currently in force until 30 September 2021 (due to the so-called moratorium).
- The Italian and European governments are pushing for greater concentration in the sector.
- The Central Bank continues to guarantee the banking system plenty of money at zero or negative cost

Meanwhile, in the first 3 months of this year, loans to Italian residents grew by 6.5% year on year<sup>3</sup>, with loans to the private sector (households and non-financial companies) up by 2.9% year on year. year and + 0.5% month on month in March, favoured by the Government's initiatives to support and guarantee the debt of households and companies, channelling the liquidity injected by the European Central Bank (ECB) mainly through Targeted longer-term refinancing operations (TLTROs).

In March 2021 (latest data available) the average active interest rate charged to businesses on new loans increased by 12 basis points compared to the previous month, while those for households, mainly on mortgages, increased by 7 basis points "month on month"<sup>4</sup>.

The cost of funding, mainly "cash or cash like deposits", and less on bond issues, is still steadily low, at 0.33%<sup>5</sup>.

The liquidity of the "system" is always overabundant, with liquid balances on current account deposits which marked the historical record of Euro 1,357 billion. At the same time, Italian banks' investments in Italian national public debt bonds (BTP) clearly decreased, -5% quarter on quarter, to EUR 426 billion, easing the concentration risk and the potential for losses in a scenario of rate rebounds<sup>6</sup>.

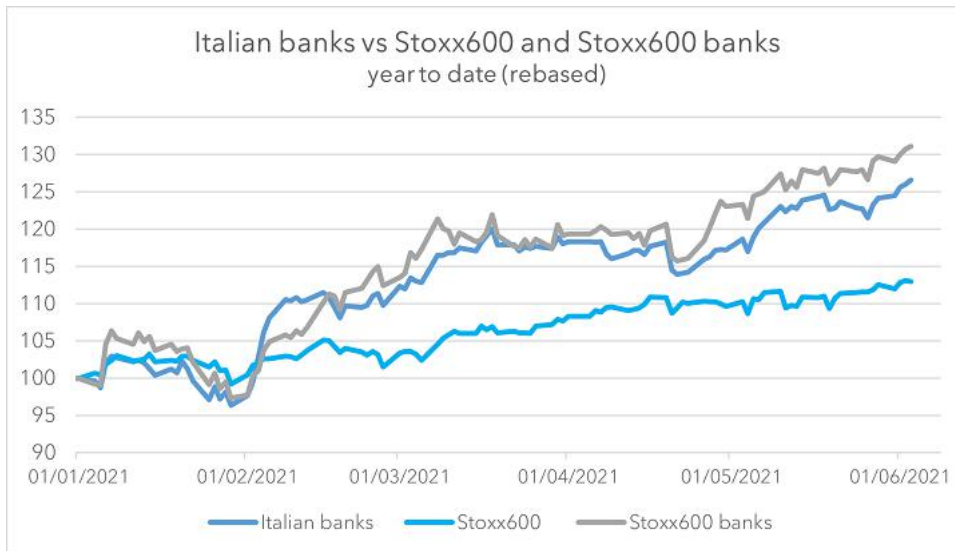
If we look at the quality of the balance sheet assets at the end of the first quarter of 2021, we note that gross and net impaired loans are stable at around €52 billion and approximately 20 billion respectively<sup>7</sup>, with a degree of "coverage" of possible losses future, unchanged, at around 61%.

Meanwhile, expectations on the Italian government initiative to boost and expand the tax advantages in the case of bank mergers are surging, starting based on the so-called DTA (Deferred Tax Assets), partly aimed at facilitating the sale of the absolute majority stake held by the State in Banca Monte Paschi di Siena, which should take place by the end of 2021.

In an imaginary merger involving Unicredit/Banco Popolare and Banca Monte dei Paschi di Siena (MPS), the historic Siennese bank, despite being the smallest partner, would be the one that brings the maximum advantage in terms of Deferred Tax Assets (DTA), which can be calculated in a pre-tax "reduction" of approximately Euro 3 billion<sup>8</sup>.

There are therefore good reasons why the Italian banking sector is enjoying and can continue to enjoy, also in the rest of 2021 and next year, a growing interest from investors.

Chart 1. Italian bank index vs Eurostoxx600 banks and Eurostoxx600



"Italian banks" defined as the FTSE Italia all-share financials index eur, "Stoxx600" is a stock index of European stocks designed by STOXX Ltd, "Stoxx600 banks" is a sub-index of the STOXX Europe 600 (SXXP) which includes only European companies that are involved in the bank sector.

**You cannot invest directly in an index. Historical performance is not an indication of future performance and any investments may go down in value.**

#### Sources

- <sup>1</sup> Bloomberg, as of 03 June 2021
- <sup>2</sup> ECB, Bloomberg, Investing, WisdomTree research
- <sup>3</sup> ABI, Italian banking Association
- <sup>4</sup> The Bank of Italy, monthly statistical bulletin as of 03 June 2021
- <sup>5</sup> The Bank of Italy, monthly statistical bulletin as of 03 June 2021
- <sup>6</sup> The Bank of Italy, monthly statistical bulletin as of 03 June 2021
- <sup>7</sup> Bloomberg, companies websites
- <sup>8</sup> BMPS 1st quarter results as of 03 June 2021

#### Related blogs

+ [Draghi Government could be the timely tailwind Italian Banks need](#)

#### Related products

+ [WisdomTree FTSE MIB Banks \(ITBL\)](#)

+ [WisdomTree BTP 10Y 3x Daily Leveraged \(3BTL\)](#)

+ [WisdomTree BTP 10Y 3x Daily Short \(3BTS\)](#)

View the online version of this article [here](#).

Important Information

**Marketing communications issued in the European Economic Area (“EEA”):** This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

**Marketing communications issued in jurisdictions outside of the EEA:** This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

**For professional clients only.** The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.