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Il sistema bancario italiano tra stress test, misure non convenzionali della BCE e ripresa economica

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Agenda

1 – The economic context, Europe and Italy

2 – Bank profitability, industry structure and business model

3 – The ECB Comprehensive Assesment

4 – New regulatory challenges?

Long period GDP per capita dynamics

	Italy	Euro Area	USA	France	Germany	UK	Spain	Japan
1951-60	**5.4**	4.3	1.8	3.7	7.1	2.3	3.5	7.6
1961-70	**4.9**	3.7	3.0	4.4	3.5	2.2	6.3	8.9
1971-80	**3.1**	2.4	2.2	2.7	2.7	1.8	2.4	3.3
1981-90	**2.4**	1.8	2.4	1.9	2.0	2.9	2.6	4.1
1991-00	**1.6**	1.4	2.2	1.6	1.5	2.8	2.5	0.9
2001-10	**0.0**	0.4	0.7	0.5	1.0	1.1	0.6	0.7
2011-13	**-1.5**	0.0	1.4	0.3	2.0	0.1	-1.0	1.0

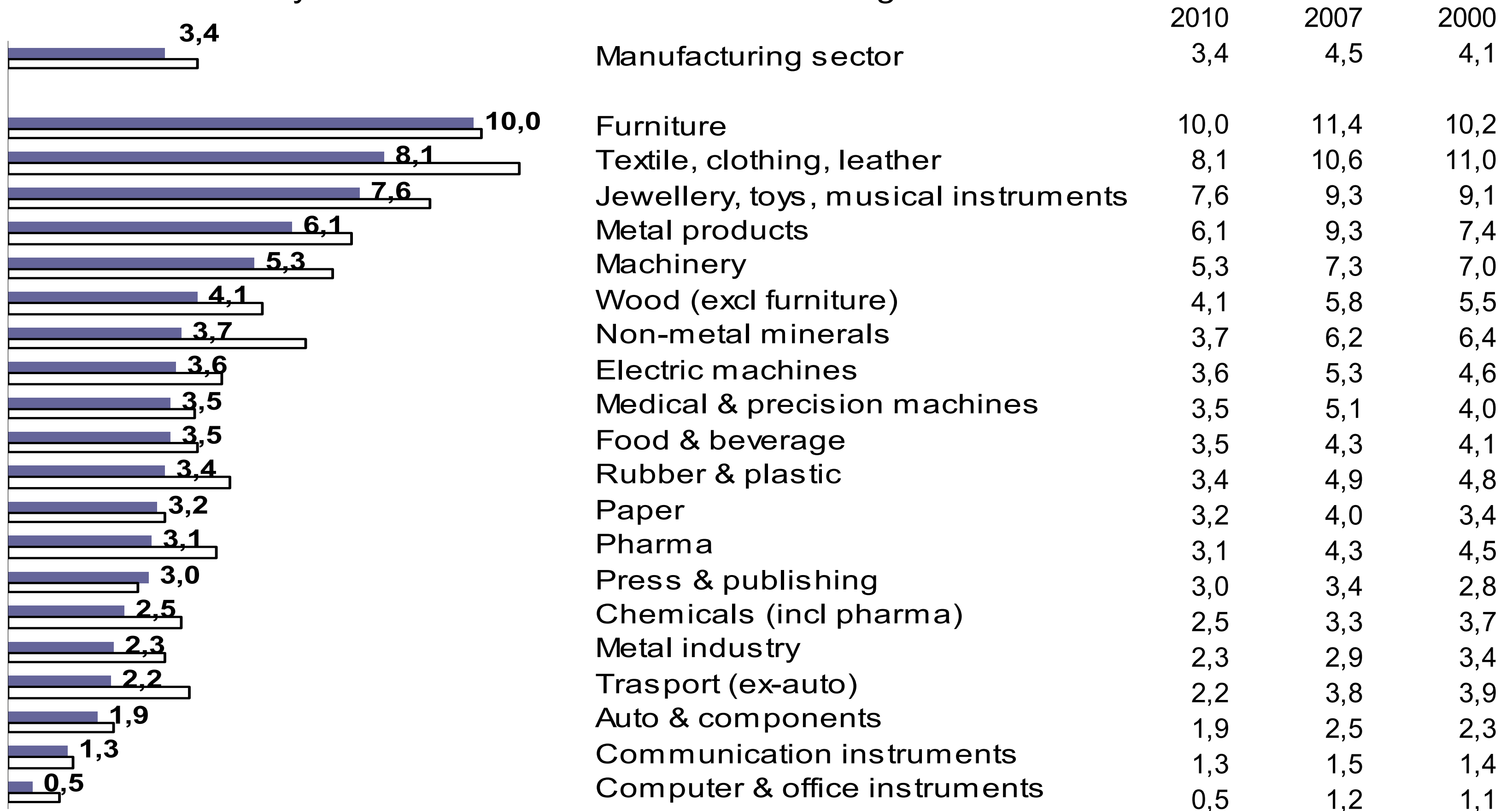
Italy: Our Structural Problems

- Low productivity
- Low competitiveness
- Inefficient labor and goods markets
- Excessive weight of SMEs, and of micro-firms among the latter
- Excessive bureaucracy, service sectors highly regulated and protected
- Costly and inefficiently provided local public services
- Corruption
- Inadequate infrastructures (material and immaterial)
- High costs of politics and too many (and inefficiently coordinated) decision levels
- Lack of Assessment-Evaluation-Intervention procedures in public spending
- Too many laws, rare enforcement
- Slow and inefficient Justice
- High taxes on families and firms and high tax evasion
- Low social expenditure (excluding pensions)

……..Italy has lost several positions in World Bank rankings for attractiveness as regards "Doing Business"

Italy: manufacturing sector

"Made in Italy" loosing share. Italy accounted for 3.4% of total world manufacturing production in 2010, it was 4.1% in 2000. The specialization in low skilled sectors is a minus for Italy in the context of globalization.



	2010	2007	2000
Manufacturing sector	3,4	4,5	4,1
Furniture	10,0	11,4	10,2
Textile, clothing, leather	8,1	10,6	11,0
Jewellery, toys, musical instruments	7,6	9,3	9,1
Metal products	6,1	9,3	7,4
Machinery	5,3	7,3	7,0
Wood (excl furniture)	4,1	5,8	5,5
Non-metal minerals	3,7	6,2	6,4
Electric machines	3,6	5,3	4,6
Medical & precision machines	3,5	5,1	4,0
Food & beverage	3,5	4,3	4,1
Rubber & plastic	3,4	4,9	4,8
Paper	3,2	4,0	3,4
Pharma	3,1	4,3	4,5
Press & publishing	3,0	3,4	2,8
Chemicals (incl pharma)	2,5	3,3	3,7
Metal industry	2,3	2,9	3,4
Trasport (ex-auto)	2,2	3,8	3,9
Auto & components	1,9	2,5	2,3
Communication instruments	1,3	1,5	1,4
Computer & office instruments	0,5	1,2	1,1

Source: Confindustria – Scenari industriali, June 2011

Italy: Bad System Incentives, CHANGE is the challenge

- Efficiency and competitiveness depend upon product and process innovation
- In Italy, private sector (more than public) investment in R&D (and as a consequence patents) are much lower than in other industrialized countries
- The productive system has resisted to change and sectoral shifts
- It has become dangerously exposed to emerging countries' competitive pressure
- QUESTION: Is the reduced dimension of Italian firms (which surely affects R&D and limits our weight in high–tech sectors) a rational response to the institutional incentive system (and not a signal of myopic capitalism)?
- As a matter of fact, small enterprises have been systematically subsidized and protected by distorting and more favorable legislation and practices in terms of accounting and fiscal rules and practices, labor market, credit facilities
- Moreover, they have been also frequently exempted from ordinary controls and monitoring activities
- *If Answer is YES…….there is room and need for policy intervention*

Continuing the reforming process

- CHANGE is necessary in the country
- Spending review to lower high fiscal pressure
- In a downturn a better target is: Recomposition of public expenditure (more investment in infrastructures and human capital, less business subsidies, reduced expenditure for purchases and health through efficiency and by fighting corruption and criminality)
- More private capital (equity finance) and a fiscal reform are necessary to boost innovation and dinamism
- These measures have to be complemented with growth enhancing measures based on:
    - ✓ Correcting distorting incentives
    - ✓ Opening market spaces (dismissions – privatizations, focus on local public services) within clear rules and public monitoring
    - ✓ Improving public administration outcomes at constant cost (inter-institutional labor mobility in a range of 50km)
    - ✓ More rapid judicial outcomes to guarantee contracts enforcement
- MESSAGE: USE ECONOMIC POLICY TO PROVIDE RIGHT INCENTIVES TO INDIVIDUAL ACTIONS
- …..Hope for a new age of Dinamism and Prosperity

- Precious and extensive summary of the evolution of deposit and credit markets in Italy and its macro regions
- Interesting comparison with main dynamics in Euro-wide area
- Timely focus on the Comprehensive Assessment conducted by the ECB with the NCBs and on the results of the latest EBA-ECB stress tests
- As anticipated, I will touch upon only a few sets of items and invite the audience to go and read the report

Bank profitability, industry structure and the business model

- Negative or very low ROEs (Figure 1) reflect prolonged decline in the Italian (and Euro area) economy, higher values of non-performing loans and loan loss provisioning (Figure 2), extremely low interest rates and a traditional banking model

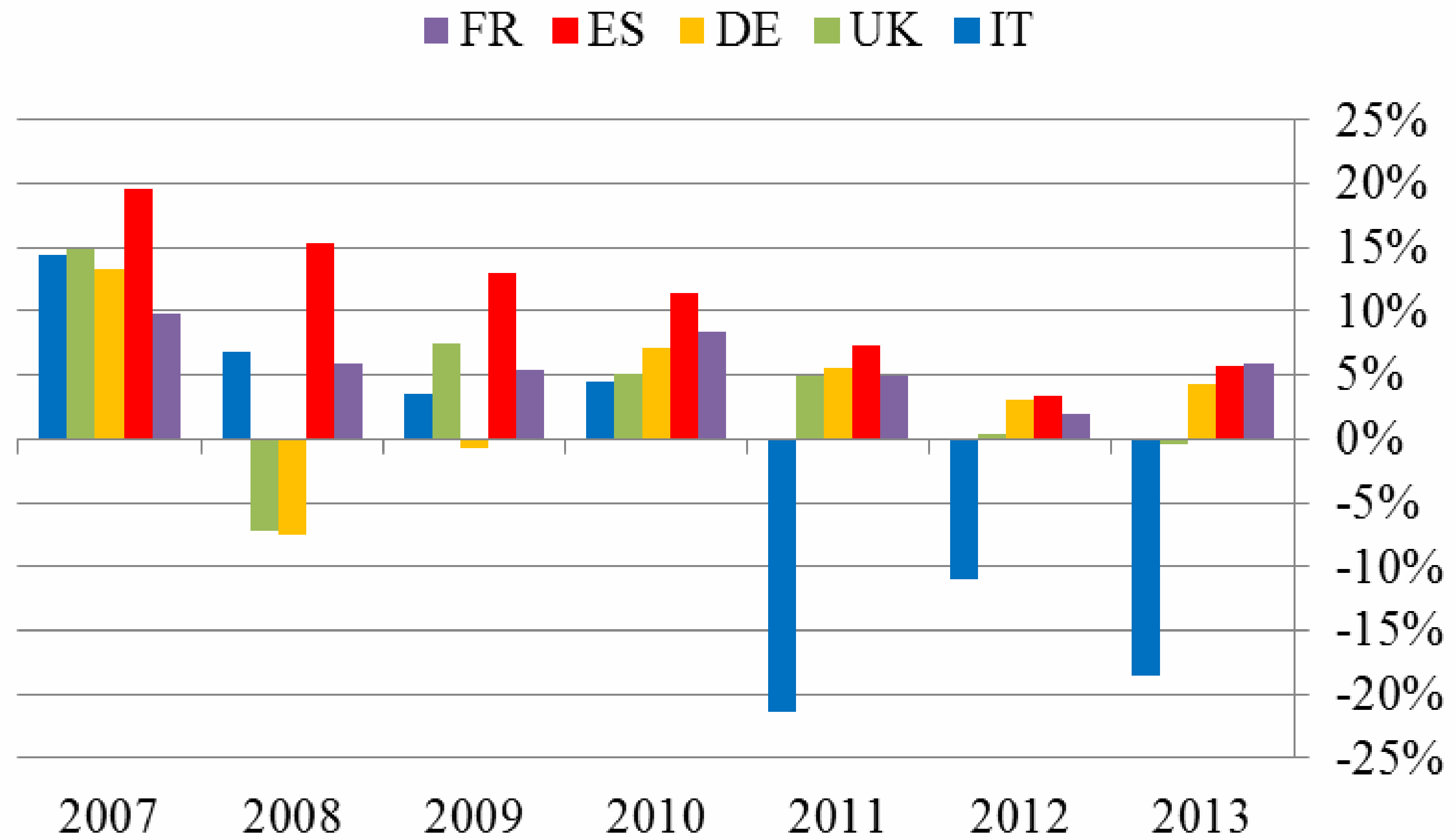
- Textbook consequence: strong consolidation process, to extract higher rents from more market power and to exploit economies of scale (cost efficiency)

- What about the business model?

  - ✓ inefficient and excessively large branch network
  - ✓ scarce use of technological innovations (e-banking, mobile banking, etc.)
  - ✓ poor services portfolio for both business and household – some exceptions…

- The «banca territoriale commerciale» shielded the economy in the first phase of the crisis: is it now an obstacle to recovery?

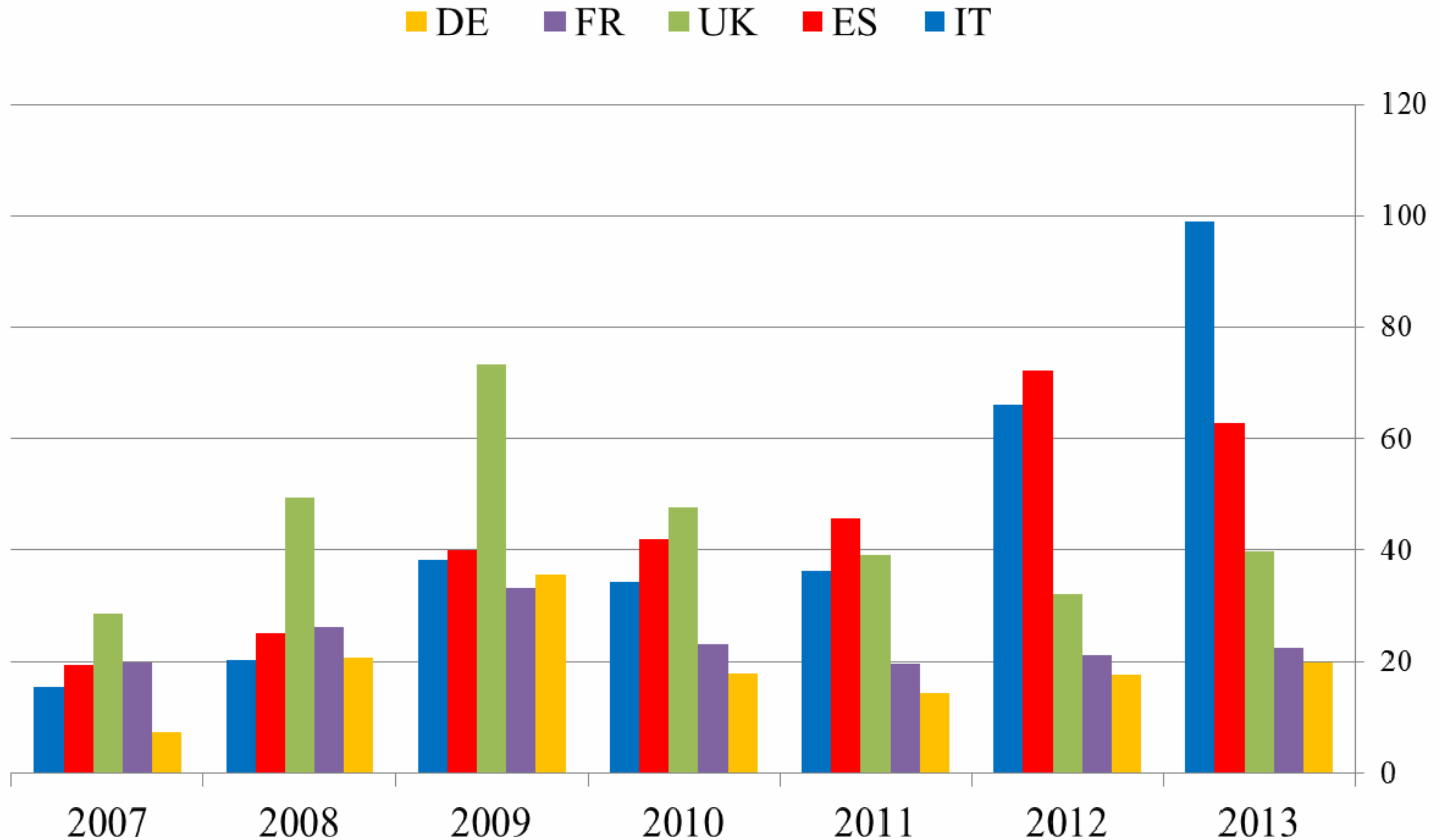
Figure 1: ROE of the 3 largest banking groups* in selected EU countries (average by country)



*Return on average equity. Banking groups selected on the basis of yearend 2013 total assets: for Italy, Intesa Sanpaolo, MPS, Unicredit; for France, BNP Paribas, Crédit Agricole, Société Générale; for Germany, Commerzbank, Deutsche Bank, DZ Bank; for Spain, BBVA, La Caixa, Santander; for the UK, Barclays, HSBC, RBS.

Source: computations on Bankscope data.

Figure 2: Loan loss provisioning/net interest margin (%) of the 3 largest banking groups in selected EU countries (average by country)



Source: computations on Bankscope data.

- Very nice reconstruction of process and results
- Bad outcome for the country
- Many factors at work:
  - ✓ Poor performance of the real economy coupled with a traditional (credit oriented) banking model
  - ✓ Regulatory bias towards finance and «gaming options» (use of hybrids in T1, role of internal models «optimization» and «securitization practices» on RWA)
  - ✓ Strong link with sovereign risk (excessive home bias)
- Which future for provincial and regional banks? Still there, but not for all
- Find your «niche», exploit one or more «nets»

Basel rules simply don't work

- The 2008 financial crisis exposed the weaknesses and unreliability of the Basel rules on bank risk-weighted capital requirements

- Banking groups with great risk-weighted capital ratios were operating – and still operate – with excessive leverage, through a low ratio between Risk Weighted Assets (RWA) and total assets; key role of internal models, introduced exactly to allow large banks to save on capital

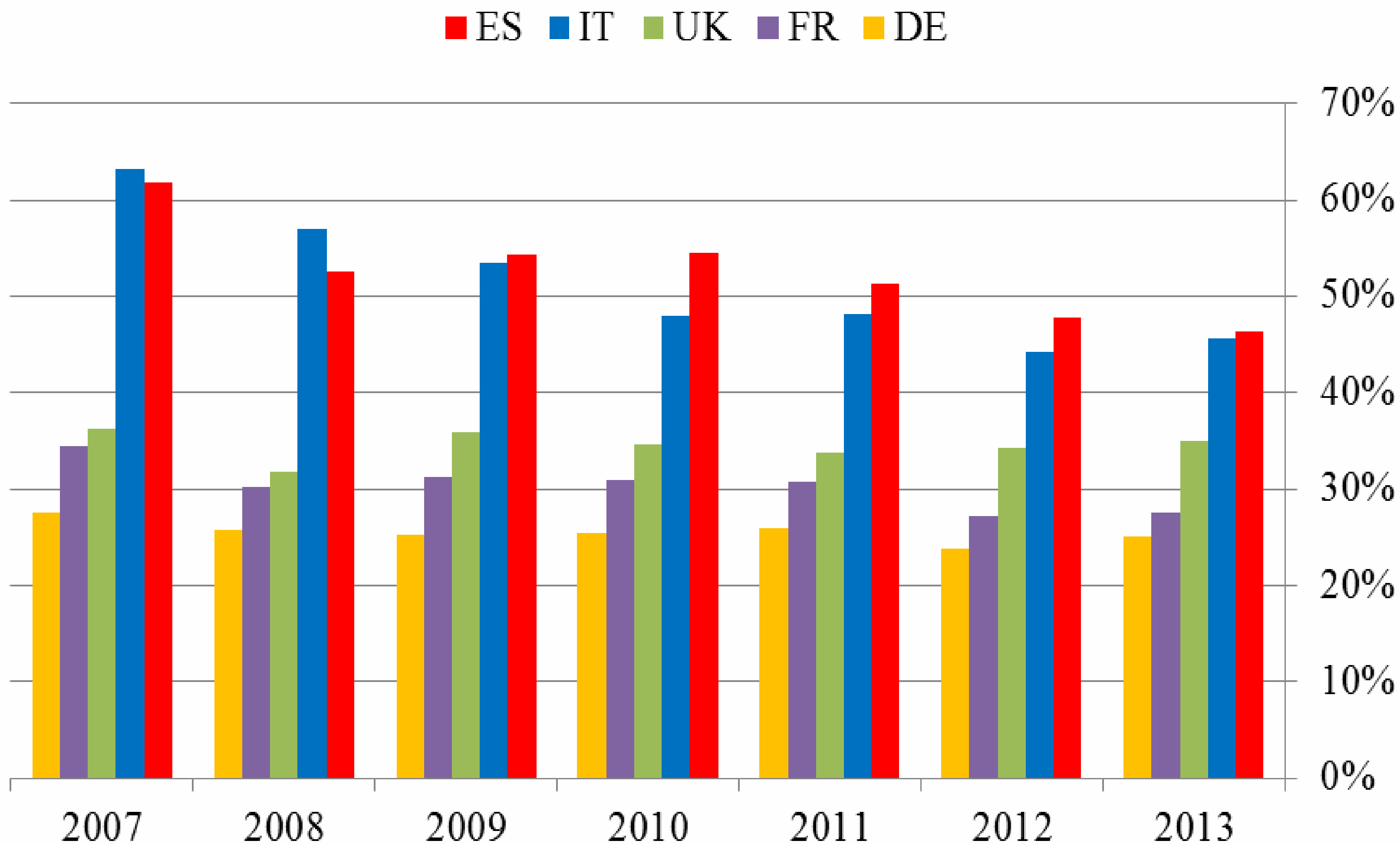
- Capital ratios referred to RWA lack any signaling power on the capital strength of a bank: failed or rescued banks had very high risk-weighted capital ratios

- As of yearend 2013 the RWA/total assets ratio for the three largest Italian and Spanish banking groups was on average equal to 46%; it was 35% for UK banks, 27% for French banks and 25% for German banks (19% for Deutsche Bank); see Figure 3

- Leverage remains high for banks with low RWA/total assets ratio (see Figure 4)

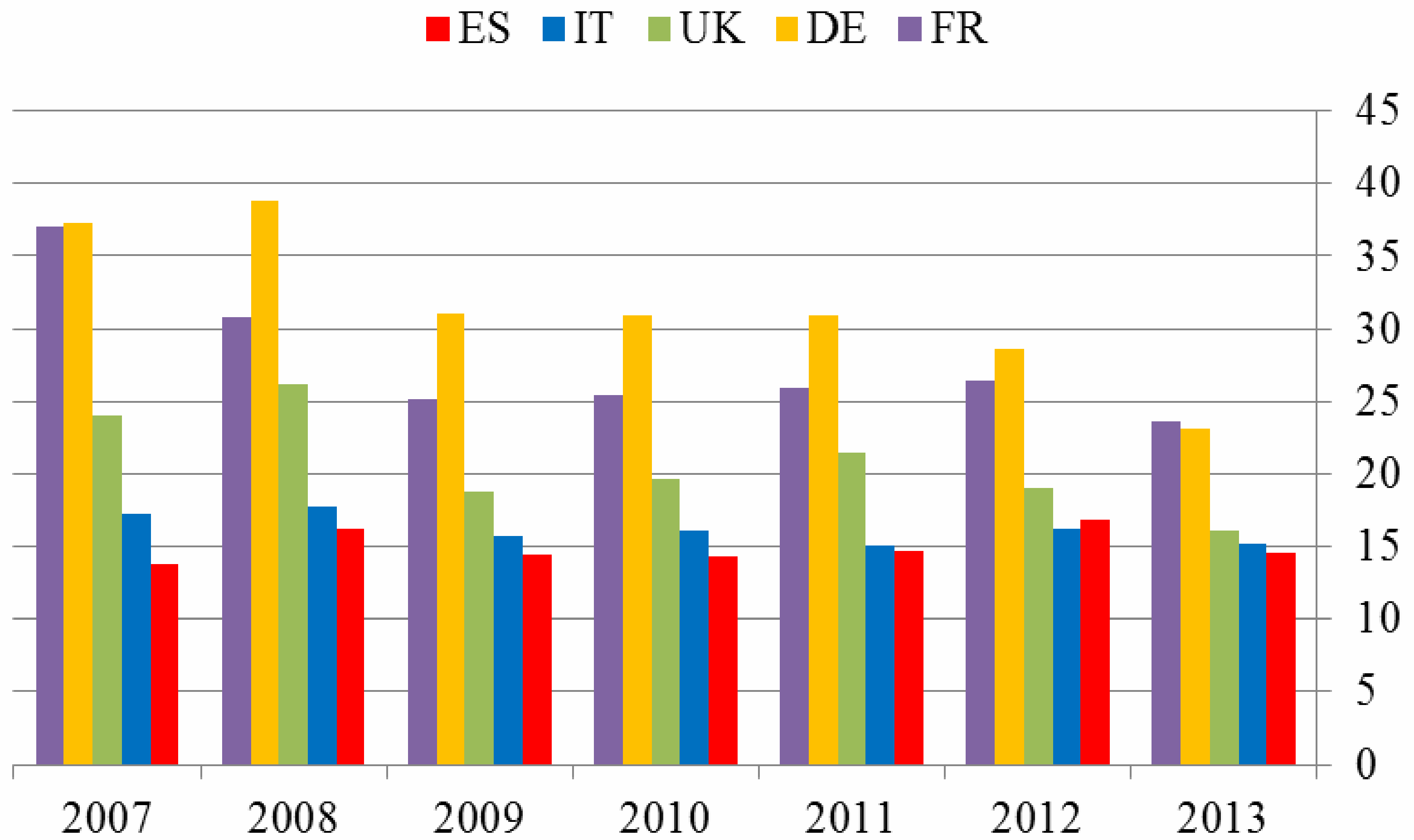
- Increasing focus on the leverage ratio, both in the academic debate and among policy-makers: 3% introduced by Basel III, higher in the United States (5% for banking groups, 6% for depository institutions); FSB has now proposed a 6% TLAC

Figure 3: RWA/total assets for the 3 largest banking groups in selected EU countries (average by country)



Source: computations on Bankscope data.

Figure 4: Leverage* of the 3 largest banking groups in selected EU countries (average by country)



*Total assets/regulatory capital. For German banks, 2007 figure is the average of Deutsche Bank and Commerzbank; the 2007 figure for France only refers to Société Générale.
Source: computations on Bankscope data.

The ECB stress tests are based on the same Basel «philosophy»...

- Stress tests were carried out with reference to the risk-weighted capital ratios, not to un-weighted leverage

- Stress tests were passed by banking groups with excessive leverage (even higher than the ceiling of 33 introduced by Basel III), while banking groups with lower leverage failed

- The use of risk-weighted capital metrics might lead to underestimate the capital needs for banking groups with low RWA/total assets ratio; and to overestimate capital needs of banking groups with higher RWA/total assets ratios

- Credibility issue for the stress tests, with reputational risks for the ECB?

Are different business models treated equitably?

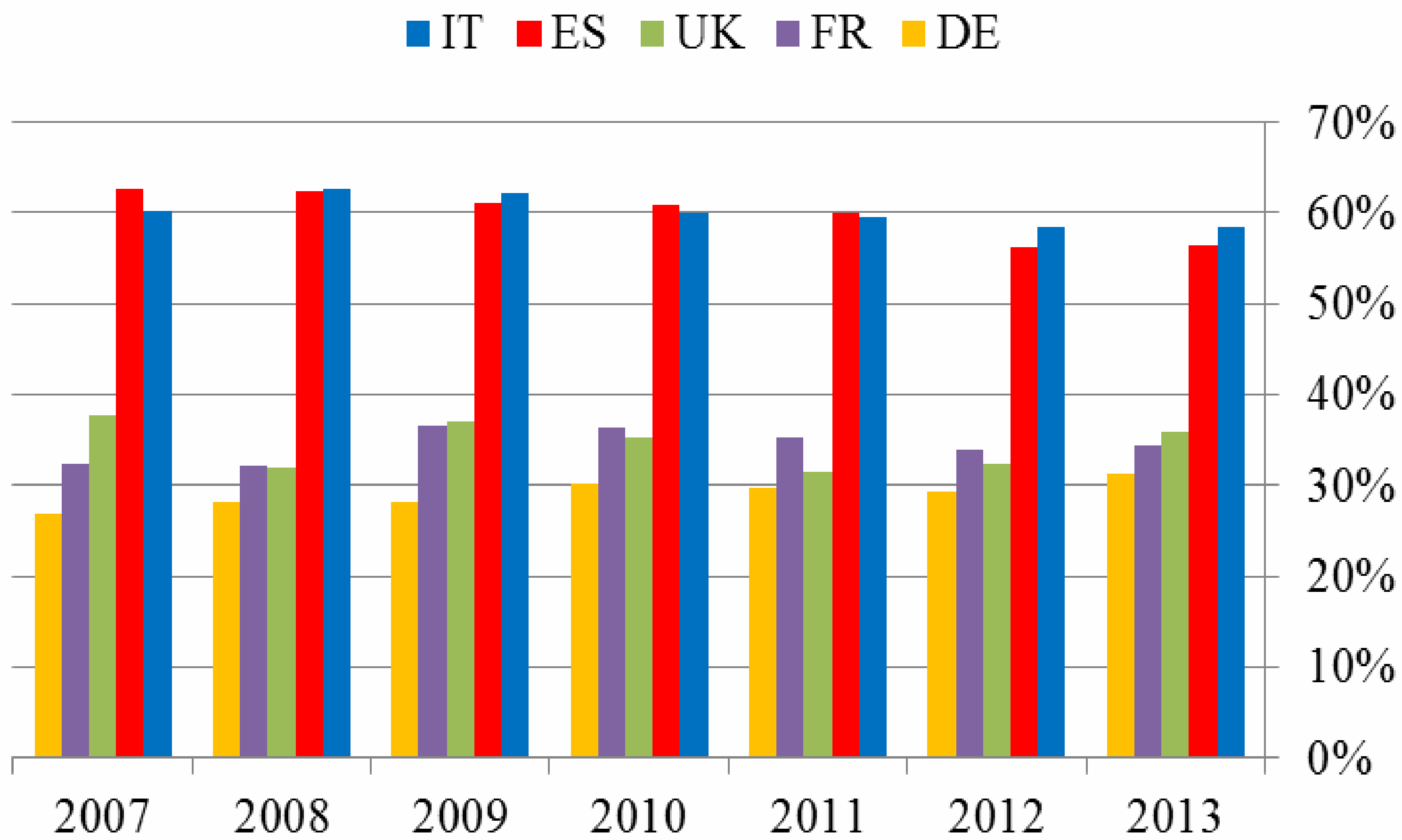
- Banking systems with lower leverage and higher RWA/total assets ratio are those which are more oriented to the traditional banking business model: higher share of loans on total assets (Figure 5), higher share of net interest income on operating income

- Two possible interpretations:

  - ✓The traditional banking business is actually riskier;

  - ✓The regulatory framework puts the traditional banking business at a disadvantage vis-à-vis financial investments and trading, through lower risk-weights for the latter activities – market risk underestimated relative to credit risk

Figure 5: Share of loans on total assets for the 3 largest banking groups in selected EU countries (average by country)



Source: computations on Bankscope data.

New Regulatory Challenges?

- Banking union not completed yet
- SSM just started, SRM in fieri but problematic (size, strategic choices on how to deal with cross-border banks)…… deposit insurance?
- 3 plausible interventions could be on their way:
  - ✓ Measures to reduce sovereign–bank risk relationship; introduce incentives to diversify holdings of govies by banks
  - ✓ Measures to reduce forbearance: the ECB may want to be more intrusive given its «longer distance» and induce less forbearance on the supervised banks (cleaner balance sheets may be the result); at the moment, banks may be tempted to forbear and gamble for resurrection out of fear of resolution, and national supervisors may forbear as well in order to save their role/reputation
  - ✓ Measures to reduce leverage: notwithstanding increased capital ratios, simple leverage ratios have dangerously remained high even after the adoption of Basel III; moving to a 6% TLAC ratio as proposed by the FSB appears desirable, as well as the reference to market-based values of equity to assets ratio for listed banks

National Bad Bank?

- National Bad Bank: a possibility, if no other market routes are available, but…Who would pay the cost?
- Would it be compatible with our public finance constraints?
- Is it viable under the new European rules for resolution, which only allow injection of public money in exceptional circumstances?
- Aggregations (cross–border) and mixing the business models?