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ITALY

FINANCIAL SECTOR ASSESSMENT PROGRAM

July 2026

This paper on Italy was prepared by a staff team of the International Monetary Fund [as background documentation for the periodic consultation with the member country]. It is based on the information available at the time it was completed on June 30, 2026.

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KEY ISSUES

- Context: Italy's financial system remains broadly sound and has demonstrated resilience in a challenging macrofinancial and geopolitical environment. Since the 2020 FSAP, banks have rebuilt capital, achieved record profitability, strengthened balance sheets, and advanced consolidation. Sovereign market sentiment has improved, supported by expectations of fiscal discipline. Yet important structural constraints persist; high public debt, weak potential growth, and adverse demographics weigh on the medium-term outlook and limit policy space. External risks are also rising, with heightened global tensions—including the war in the Middle East—posing challenges for a trade-oriented, energy-importing economy.

- Findings: The Italian financial system shows strong resilience to severe shocks. Bank stress tests indicate ample system-wide capital and liquidity buffers, with vulnerabilities concentrated in a subset of less significant institutions (LSIs). Key vulnerabilities arise from the sovereign-bank nexus, reinforced by extensive public guarantees. Additional challenges include business-model sustainability for some LSIs, the still-slow insolvency and foreclosure procedures, and rising climate and cyber risks. Progress to implement the 2020 FSAP recommendations has been meaningful. The authorities exhibit strong institutional capacity, including in monitoring key risks.

- Policies: The policy agenda should shift toward greater proactivity and enhanced supervisory agility. The scope of the systemic risk buffer (SyRB) should be expanded, and risks arising from sovereign concentration exposures should be addressed through targeted policy tools, including Pillar 2 capital add-ons for bank-specific risks and SyRB for system-wide risks. Supervisory effectiveness would benefit from stronger legal protection for staff, integration of the insurance supervisor into Banca d'Italia (BdI), and continued forward-looking focus on risks in LSIs—including governance, credit, operational and business model risks—supported by timely escalation. Other key areas include the completion of ongoing reforms to improve insolvency and debt enforcement processes, scaling back public guarantees on bank lending, and discontinuing the recurrent reliance on deposit guarantee schemes (DGS) resources for preventive recapitalizations, while removing active bankers from its governance.

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This report is based on the work of the Financial Sector Assessment Program (FSAP) mission that visited Italy in November and March 2026. The FSAP findings were discussed with the authorities during the Article IV consultation mission in May 2026.

- The FSAP team was led by Naomi Griffin (Mission Chief) and Jaime Ponce (Deputy Mission Chief), and comprised Aleksandra Babii, Yaiza Cabedo, Aldona Jociene, Alain Kabundi, Tanai Khiaonarong, Caterina Lepore, Angelica Lizarazo, Natalia Novikova, Elina Paraschou and Peter Windsor (all MCM); Yueling Huang (EUR); Grace Jackson (LEG); and Eamonn White (short-term expert). David Ramirez (MCM) provided administrative assistance.

- The mission met with the Minister of Economy and Finance (MEF), Mr. Giorgetti; the Senior Deputy Governor of the Bank of Italy (BdI), Mr. Signorini, the Deputy Governor, Mr. Angelini; and other senior officials from BdI, MEF, Institute for the Supervision of Insurance (IVASS), National Commission for Companies, Pension Fund Supervisory Commission (COVIP), and the Stock Exchange (CONSOB), and other ministries and public agencies. The mission also met with representatives from industry associations, private financial institutions, and consulting firms and professionals. The mission is grateful to all counterparts for their assistance and extensive cooperation.

- FSAPs assess the stability of the financial system as a whole and not that of individual institutions. They are intended to help countries identify key sources of systemic risk in the financial sector and implement policies to enhance its resilience to shocks and contagion. Certain categories of risk affecting financial institutions, such as operational or legal risk, or risk related to fraud, are not covered in FSAPs.

- Italy is deemed by the Fund to have a systemically important financial system according to the 2021 Financial Sector Assessment Program Review—Towards a More Stable and Sustainable Financial System (05/28/2021), and the stability assessment under the FSAP is part of bilateral surveillance under Article IV of the Fund's Articles of Agreement. The previous FSAP was completed in 2020.

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Glossary

AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
AC	Amortized cost
BBM	Borrower-Based Measure
BdI	Banca d'Italia
CAR	Capital Adequacy Ratio
CBC	Counterbalancing Capacity
CCoB	Capital Conservation Buffer
CCyB	Counter-cyclical Capital Buffer
CCP	Central Counterparty
CET1	Common Equity Tier 1
CISO	Chief Information Security Officer
CMDI	European Union Crisis Management Deposit Insurance framework
CMP	Committee for Macroprudential Policies
CONSOB	National Commission for Companies and the Stock Exchange
COVIP	Pension Fund Supervisory Commission
DGS	Deposit Guarantee Schemes
DORA	European Union Digital Operational Resilience Act
DTA	Deferred tax assets
DTI	Debt-to-Income
DSECTI	Debt Service plus Essential Consumption to Income ratio
DSTI	Debt Service-to-Income ratio
EA	Euro Area
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
ELA	Emergency Liquidity Assistance
ENXC	Euronext Clearing
ES-MIL	Euronext Securities Milan
EU	European Union
FITD	Interbank Deposit Protection Fund
FMI	Financial Market Infrastructures
FOLTF	Failing or likely to fail
FSAP	Financial Sector Assessment Program
FSR	Financial Stability Report
GACS	State Guarantee on NPL Securitization
IRRBB	Interest Rate Risk in the Banking Book
IRRD	European Union Insurance Recovery and Resolution Directive
IFRS	International Financial Reporting Standards
IVASS	Institute for the Supervision of Insurance
LCR	Liquidity Coverage Ratio

LE	Large exposures
LGD	Loss Given Default
LSI	Less Significant Institution
MEF	Ministry of Economy and Finance
ML/TF	Money Laundering/Terrorist Financing
MPS	Monte dei Paschi di Siena
MoU	Memorandum of Understanding
NBFI	Non-bank Financial Institutions
NFC	Non-financial Corporate
NII	Net interest income
NLP	Net Liquidity Position
NPL	Non-performing Loans
NRRP	National Recovery and Resilience Plan
ROE	Return on equity
O-SII	Other Systemically Important Institution
PD	Probability of Default
PFMIs	CPMI-IOSCO Principles for Financial Market Infrastructures
pp	Percentage points
RCMU	Resolution and Crisis Management Unit
RWA	Risk-weighted assets
SI	Significant Institution
SSM	Single Supervisory Mechanism
SyRB	Systemic Risk Buffer
TLTRO	Targeted Longer-Term Refinancing Operations
USD	United States dollars
UTP	Unlikely to Pay
WEO	World Economic Outlook

EXECUTIVE SUMMARY

Italy's financial system remains broadly sound and has demonstrated resilience in a challenging macrofinancial and geopolitical environment. This resilience is supported by solid capital and liquidity buffers, strong bank profitability, and improved sovereign market sentiment. The banking sector has benefited from the interest-rate cycle and sustained improvements in asset quality, while its reliance on central bank funding has declined. Upgrades to the sovereign credit profile and compressed spreads have supported market confidence and facilitated some easing of the sovereign-bank nexus. The insurance and the broader non-bank sectors remain broadly stable.

The authorities have made meaningful progress since the 2020 Financial Sector Assessment Program (FSAP) in addressing key vulnerabilities. Banks' nonperforming loan (NPL) ratios have declined to historically low levels, supported by active secondary markets, supervisory pressure, and the use of government-guaranteed securitizations. Capital positions have strengthened across both significant institutions (SIs) and less significant institutions (LSIs), reflecting robust profitability and enhanced supervisory expectations. Supervisory practices—particularly for LSIs—have become more intrusive and risk focused, supported by greater use of horizontal analysis and supervisory technology. The macroprudential framework has also advanced, through the establishment of a macroprudential authority and the activation of the systemic risk buffer (SyRB).

At the same time, longstanding structural vulnerabilities continue to weigh on medium- to long-term growth and financial stability. Public debt remains high, potential growth subdued, and demographic trends adverse, constraining Italy's policy space. The sovereign-bank nexus has moderated but remains sizeable relative to peers, with LSIs particularly exposed to domestic government securities, loans to public entities, and public guarantees. A large stock of NPLs transferred off bank balance sheets remains unresolved, reflecting still slow debt resolution processes that delay corporate restructuring, credit restoration and efficient reallocation of capital. Against this backdrop, risks remain elevated. Heightened geopolitical tensions—including the war in the Middle East—pose risks to a trade-oriented, energy-importing economy, while climate and cyber risks are intensifying as shocks become more frequent and severe.

While the FSAP analysis predates the war in the Middle East, the results indicate that the Italian financial system can withstand severe shocks, supported by strong capital and liquidity buffers and low private sector leverage.

- *Banks.* Solvency stress tests indicate that banks could absorb severe adverse macrofinancial shocks under two adverse scenarios, underpinned by strong initial capital positions. Liquidity risk analysis also points to ample buffers, while highlighting sensitivity to idiosyncratic funding shocks and confidence effects at selected institutions. Overall, vulnerabilities remain contained, affecting few entities. They are more pronounced among some LSIs with specialized business models (e.g., consumer credit or NPL management) or greater reliance on higher-cost funding

sources. While the adverse scenarios were designed prior to the outbreak of the Middle East war, they remain sufficiently severe to indicate the system's resilience to current challenges.

- *Nonfinancial corporates and households:* Household balance sheets remain strong, reflecting low indebtedness and high net financial wealth, though vulnerabilities exist among lower-income households and borrowers with variable-rate mortgages. Corporate leverage is moderate; while default probabilities increase under adverse scenarios, they remain well below Euro Area (EA) sovereign crisis levels and concentrated among SMEs and selected regions and sectors.

- *Interconnectedness*: Financial interlinkages remain significant, though direct contagion risks appear contained. The general government remains the primary net borrower, increasingly financed by households and foreign investors. Indirect linkages between banks and domestic non-bank financial institutions (NBFIs)—particularly insurers through common sovereign exposures—leave the system exposed to correlated shocks. Direct bank exposure to NBFIs has also grown, though it remains modest in absolute terms.

- *Climate risk:* Banks appear broadly resilient to severe flood scenarios, with moderate capital impacts driven initially by sovereign valuation losses and subsequently by credit risk. Stronger post-disaster fiscal support would mitigate short-term bank impacts but could worsen medium-term outcomes through higher public debt and sovereign yields. This underscores the importance of reducing reliance on fiscal measures through early adaptation, resilience investment, and greater use of insurance.

Preserving the resilience of Italy's financial system will require sustained and proactive policy action in an increasingly challenging macrofinancial environment. Supervisory, macroprudential, and resolution frameworks have strengthened since the previous FSAP, also reflecting developments in the European Union (EU). Emerging risks and remaining vulnerabilities call now for a recalibration of priorities toward greater supervisory agility, a broader and more proactive use of macroprudential tools, and further policy efforts to support efficient financial intermediation and address crisis-era legacies (Table 1).

The macroprudential framework should be strengthened through a more proactive, formalized, and forward-looking use of available tools. The SyRB should be extended beyond domestic credit and counterparty exposures to cover all residual systemic risks—including the sovereign-bank nexus—with regular reassessment to preserve flexibility in a highly uncertain environment. A more proactive approach to borrower-based measures is also warranted, including addressing regulatory constraints that delay activation and more systematically integrating stress testing and granular data into policy calibration. Additional priorities include formalizing a macroprudential strategy, enhancing transparency and communication, and strengthening external engagement.

Prudential oversight in Italy is robust, well-coordinated, and of high quality across sectors, but targeted areas warrant further attention to reinforce supervisory effectiveness.

- *Cross-cutting.* The prolonged use of government guarantees on corporate lending distorts prudential oversight and credit allocation and reinforces sovereign–bank linkages; it should be scaled back toward pre-Covid levels. Legal protection for supervisory and resolution staff should be strengthened, particularly regarding legal defense costs. Greater use of targeted and thematic on-site inspections would support more frequent engagement across entities.

- *Less Significant Institutions.* Priorities include further reinforcing governance oversight, credit and operational risk supervision, and the monitoring of business model vulnerabilities. Early and decisive intervention should be supported by a more systematic use of corrective and sanctioning powers and a more formalized escalation ladder process. Granting Banca d'Italia (BdI) explicit authority to require asset reclassification and additional provisioning for prudential purposes would strengthen preventive supervision. Consideration should also be given to a Pillar 2 add-on to address sovereign concentration risks, while avoiding double counting with existing requirements.

- *Insurance.* Completing the full integration of the Institute for the Supervision of Insurance (IVASS) into BdI would address resource constraints. Internal model oversight should be harmonized, through more consistent treatment of sovereign risk and the adoption of capital floors. Remaining gaps in the insurance resolution framework should be closed through timely implementation of the Insurance Recovery and Resolution European Union Directive (IRRD) and broader Life Guarantee Scheme coverage.

- *Financial Market Infrastructures.* Governance enhancements are warranted for Euronext Securities Milan (ES-MIL), including ensuring adequate staffing and strengthening its independent risk management and conflict-of-interest safeguards. ES-MIL and Euronext Clearing (ENXC) should also improve board performance evaluations and further strengthen crisis preparedness.

- *Cybersecurity.* A rapidly evolving landscape of artificial intelligence-enabled cyber threats, digitalization, and third-party reliance calls for further strengthening of cyber resilience. Implementation of the EU Digital Operational Resilience Act (DORA) provides an opportunity to strengthen cyber governance, supervisory capacity, and board-level accountability, while expanding system-wide cyber stress testing—particularly for critical third-party disruptions—and applying enforcement where deficiencies are identified.

Italy's financial safety net and crisis preparedness capacity are effective, but additional enhancements are needed. BdI has used its crisis-management toolkit proactively to facilitate the orderly exit of weak LSIs and maintains strong operational preparedness. However, some gaps against the 2020 FSAP advice remain. In particular, the repeated use of deposit guarantee schemes (DGS) resources for preventive recapitalizations, rather than administrative liquidation of non-systemic institutions, should be reconsidered, and active bankers should be removed from DGS governance. Further priorities include establishing a cross-authority forum for crisis coordination, enhancing transparency of DGS valuation methodologies, and clarifying BdI's role as liquidity provider of last resort for banks in resolution. Continued implementation of judicial and legal reforms will be essential to improve the efficiency of insolvency and debt enforcement processes.

Table 1. Italy: Key FSAP Recommendations

Recommendations	Authorities	Timeline[1]
Systemic Risk Monitoring and Macroprudential Policies		
Extend the Systemic Risk Buffer (SyRB) beyond domestic credit and counterparty risk exposure to cover all residual systemic risks.	BdI	I
Deploy targeted policy tools to address risks from sovereign concentration exposures—such as Pillar 2 capital add-ons for bank-specific risks and SyRB for system-wide risks—while clearly differentiating their objectives to minimize overlap.	BdI	ST
Further strengthen the macroprudential institutional framework through greater formalization of institutional practices, enhanced public communication, and broader external engagement.	CMP/BdI	I/ST
Revise regulations to allow the early deployment of borrower-based measures (BBMs) and adopt a proactive approach to build resilience.	BdI	ST
More actively integrate analytical tools into macroprudential policy calibration and implementation, while continuing to develop system-wide stress testing and strengthening data on banks' market risk sensitivities and hedging strategies.	BdI	ST
Cross-Cutting Issues		
Adopt a time-bound plan to significantly reduce the public guarantees on bank lending, while closely monitoring the impact on the most exposed LSIs.	Government, BdI	ST
Amend primary legislation to ensure effective legal protection for supervisory and resolution authorities' staff, including full coverage of legal costs from the onset.	Government	ST
Prioritize risk-based on-site inspections for LSIs, insurance companies and other NBFIs, expanding targeted inspections and streamlining processes.	BdI, IVASS, CONSOB	I
Banking Sector Regulation and Supervision		
Grant BdI the explicit power to require LSIs to adjust their asset risk classification and increase provisioning levels for prudential purposes.	Government	ST
Continue prioritizing corporate governance supervision to strengthen board oversight, independent directors' role, and risk management and control functions.	BdI	ST
Proactively conduct supervisory work to strengthen LSIs' operational resilience and increase supervisory capacity for IT and cyber risks.	BdI	ST
Further strengthen preventive supervision through earlier and more active use of corrective powers within the escalation ladder, including timely action to address business model-driven vulnerabilities.	BdI	ST
Insurance Sector Regulation and Supervision		
Complete the integration of IVASS into BdI to address structural resource constraints and ensure supervisory effectiveness.	Government	ST
Introduce a floor on capital relief from internal models and apply a consistent approach to the risk of sovereign bonds across internal model users.	IVASS, EIOPA	ST

Table 1. Italy: Key FSAP Recommendations (concluded)		
Fully implement the Insurance Recovery and Resolution Directive and extend the Life Insurance Guarantee Scheme to cover all insurers and intermediaries operating in Italy.	Government, IVASS	MT
Extend the use of International Financial Reporting Standards to all insurance companies.	Government, IVASS	MT
Financial Market Infrastructures		
Ensure that Euronext Securities Milan (ES-MIL) effectively manage competing priorities within the Euronext group and across CSDs, safeguarding its independence in risk management and maintaining an adequate staff level.	CONSOB, BdI	ST
Strengthen FMI governance by improving board performance evaluations, establishing a direct reporting line from the Chief Risk Officer to a non-executive board director at ES-MIL, and reinforcing conflict-of-interest policies at ES-MIL.	CONSOB, BdI	MT
Cybersecurity Regulation and Supervision		
Update the national cybersecurity strategy for the financial sector, explicitly incorporating insurance and pension fund supervisors.	BdI, CONSOB, COVIP, IVASS	ST
Strengthen cyber governance, including board-level oversight and the designation of accountable executives (e.g., CISOs) in proportion to institutional risk profiles.	BdI, CONSOB, COVIP, IVASS	MT
Expand simulations and cyber stress tests to cover payment disruptions, supply chain attacks, and cross-sector scenarios involving energy and telecom infrastructures.	BdI, CONSOB, COVIP, IVASS	C
Financial Integrity		
Continue strengthening risk-based AML/CFT supervision, notably through dissuasive enforcement, greater emphasis on preventive measures for certain NBFIs, adequate supervisory resourcing, and assessing financial stability implications of financial integrity failures.	BdI	C
Enhance geographic ML/TF risk analysis to better assess the economic rationale of cross-border flows and maintain support for regional supervisory cooperation efforts.	BdI	ST
Financial Safety Net and Crisis Preparedness		
Reinforce the DGS by removing active bankers and considering its eventual transition to the public sector, discontinuing the recurrent reliance on preventive interventions of failing banks, and publishing valuation methodologies.	Government, BdI, DGS	ST
Incorporate well-defined indicators to inform BdI's decision-making on the assessment of failing or likely to fail (FOLTF).	BdI	ST
Strengthen inter-agency crisis coordination by establishing a forum for coordination on crisis-management.	BdI, DGS	ST
Improve disclosure of the policy framework on the possible central bank role as lender of last resort for banks that have been stabilized in resolution.	BdI	ST
Continue operationalizing ongoing reforms to enhance the efficiency of insolvency and enforcement procedures.	Government	ST

[1] C = Continuous; I = Immediate (less than 1 year); ST = Short Term (within 1–2 years); MT = Medium Term (within 3–5 years)

BACKGROUND

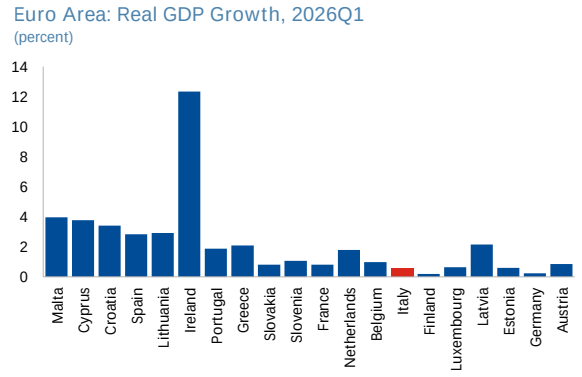
A. Macrofinancial Context

1. Italy's economic growth has remained stable but subdued, while recent fiscal consolidation has improved market sentiment (Figure 1, Table 4). Real GDP growth slowed to 0.5 percent in 2025, from 0.8 percent in 2024, and is projected to remain at the same level in 2026, with activity still supported by investment linked to the National Recovery and Resilience Plan (NRRP) but weighed down by headwinds from the war in the Middle East. The labor market remained robust and inflation has recently increased above target, amid higher energy prices. The primary balance turned positive in 2024 and strengthened further to 0.8 percent of GDP in 2025, bolstering investor confidence and compressing sovereign spreads to multi-year lows.

2. Longstanding structural constraints continue to weigh on medium- to long-term growth and are increasingly compounded by geopolitical headwinds. Public debt remains high, at 137.1 percent of GDP in 2025, while medium-term growth prospects are subdued, with output expected to increase only slightly above current levels over the medium term. Weak growth and adverse debt dynamics reflect persistent productivity stagnation and unfavorable demographic trends.[1] The outlook could deteriorate further amid geopolitical tensions, particularly in a trade-oriented and energy-importing economy where imported fossil fuels account for more than 70 percent of energy consumption.

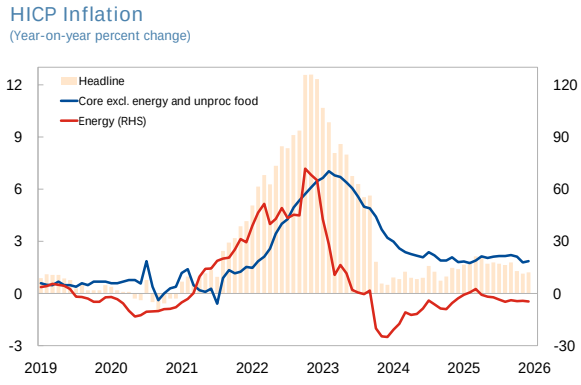
Figure 1. Italy: Macroeconomic Context and Financial Market Indicators

Italy's GDP growth is among the lowest in the EA.



Sources: Eurostat and Haver Analytics.

Inflation has remained low prior to the Middle East war.

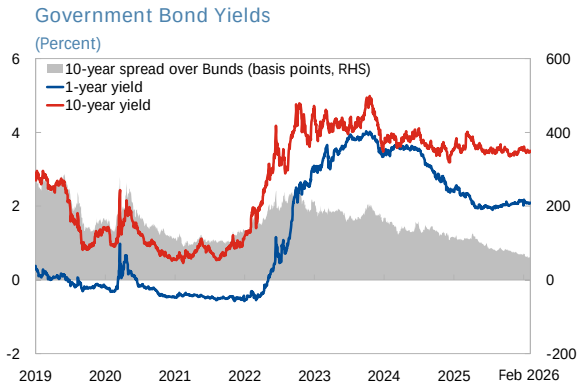


Sources: ISTAT; Haver Analytics; and IMF staff calculations.

[1] See *Italy—Selected Issues*: *"Potential Growth—Adjusting to Aging"* and *"Unlocking the Productivity Potential of Italian Firms"* (IMF, 2025).

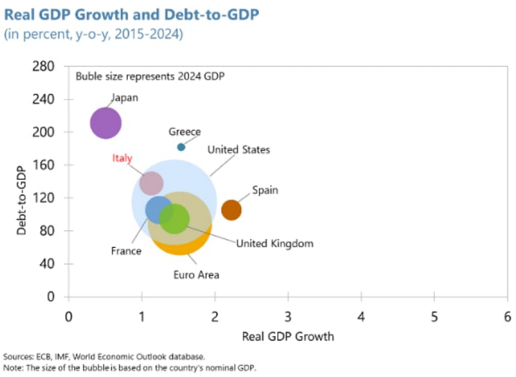
Figure 1. Italy: Macroeconomic Context and Financial Market Indicators (concluded)

Italian spreads narrowed notably, even while government bond yields rose with the monetary cycle.



Sources: Bloomberg, LP; and IMF staff estimates.

Public debt remains high, with risks amplified by persistently low growth.

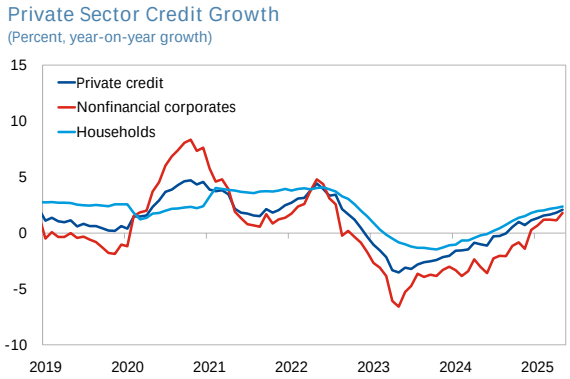


3. Italy's private sector indebtedness remains limited. Household debt (36 percent of GDP) and corporate leverage (58 percent) remain well below EA averages (Figure 2). Household net financial wealth is robust, with retail investors gradually increasing holdings of Italian public debt as well as more complex products, particularly bank-issued securities (certificates). According to BdI, corporates have so far weathered the impact of U.S. tariffs despite their relatively higher exposure as manufacturing-intensive exporters. Real estate risks remain contained amid broadly stable prices.

4. Weak credit dynamics weigh on banks' long-term profitability and constrain investment and productivity growth. Despite accommodative lending standards, extensive government loan guarantees, and strong bank capital and liquidity buffers, credit expansion remains historically subdued. European Central Bank (ECB) lending surveys suggest that demand-side factors are at play, including muted investment plans, geopolitical uncertainty, and firms' reliance on internal financing. Slow mechanisms for resolving nonperforming loans—now largely held by investors—also weigh on SME credit demand by delaying liquidations and debt restructuring that could otherwise revive corporate activity, investment, and credit.

Figure 2. Italy: Credit, Corporate and Household Indebtedness

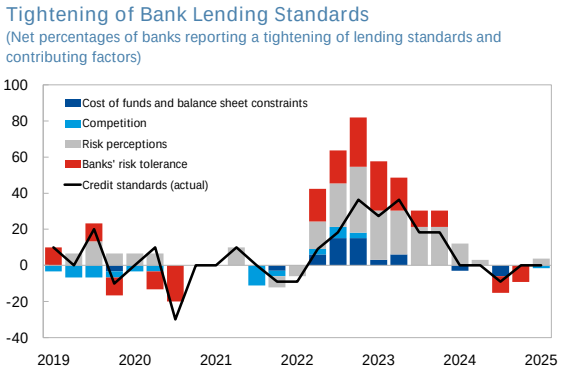
The credit provision returned to growth in late 2025, after a period of contraction…



Source: Haver Analytics

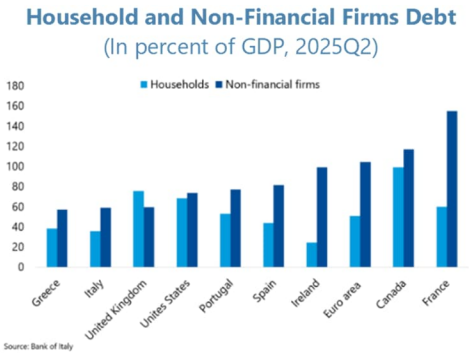
…that was more pronounced for smaller and higher-risk firms.

Banks relaxed lending standards since 2024…

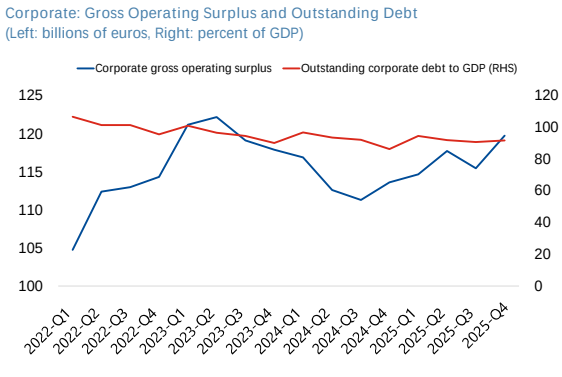


Source: Bank of Italy

…but household and NFC debt remains limited compared to EA peers.

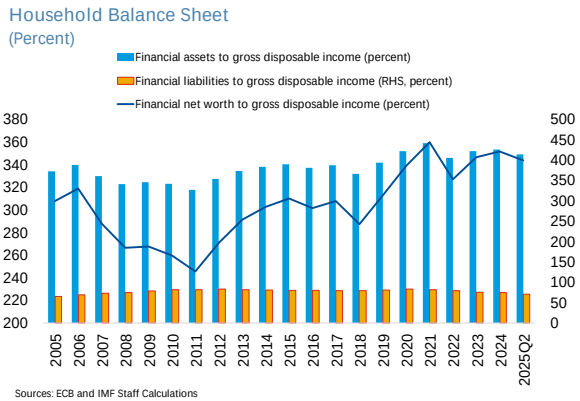


While corporate leverage has gradually declined, profitability peaked in 2023.



Source: ISTAT, Bank of Italy, Haver Analytics.
Note: Gross operating surplus is seasonally adjusted

Household balance sheets remain strong, with financial net worth continuing to rise as liabilities decrease.



Sources: ECB and IMF Staff Calculations

B. Financial Sector Structure and Developments

5. Italy's financial system remains bank-dominated (Table 5). The system represents about 280 percent of GDP as of 2024 and is relatively small compared to other major economies (Figure 3). Nonetheless, it includes two of the top ten banks and one of the three largest insurance companies in the EA. The banking sector accounts for more than half of the system assets although its size relative to GDP has significantly declined since 2020. As of June 2025, it comprised 12 significant institutions (SIs), five subsidiaries of foreign SIs, and over a hundred less significant institutions (LSIs). SIs hold 88 percent of total assets—slightly above the EA average of 84 percent. The number of LSIs has declined sharply in recent years, partly reflecting sustained supervisory efforts to consolidate weaker institutions.

6. The LSI sector is heterogeneous, shaped by differences in legal form, business models, and regional footprint. This in turn shapes different risk profiles, funding structures, and supervisory priorities (Table 2). Regional disparities also characterize the sector. LSIs in northern and central regions, where per capita income is higher, account for a larger share of lending and deposit activity and tend to benefit from stronger credit demand and lower NPL ratios.[2]

Table 2. Italy: Less Significant Institutions
(Q1 2025, in percent)

	# LSI	Assets	CET 1	NPL ratio	ROE
Legal Model					
Joint stock companies	57	77.3	18.0	7.4	11.0
Popolari banks	16	14.5	22.0	4.5	9.2
Cooperative banks	39*	4.9	31.8	3.7	9.8
Business Model					
Traditional banking	81	62.1	19.9	3.9	9.9
Specialized lending**	16	22.3	14.9	18.4	9.6
Asset Management	15	12.2	19.5	2.5	16.6
Third-country branches	6	3.3			
Total	118	100.0	18.7	6.6	10.7

Sources: BdI and IMF staff calculations and estimates. Notes: * All are part of Raiffeisen Institutional Protection Scheme. ** It includes LSI specialized in NPL acquisition and management.

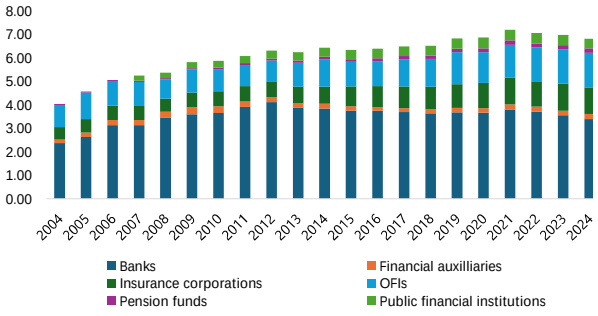
7. Non-bank Financial Institutions (NBFIs) play a sizable role in Italy's financial landscape. Insurance companies hold assets equivalent to 50 percent of GDP, with activity concentrated among a few dominant groups. Life insurance penetration (5.5 percent) exceeds the EA average and tends to decline in rising interest-rate cycles reflecting competition from alternative savings products, while non-life penetration remains low at 1.9 percent, indicating underinsurance in property and health lines. The investment fund sector reached about 66 percent of GDP at end-2024 and is dominated by foreign funds domiciled primarily in Luxembourg and Ireland. Domestic funds are mostly open-ended and held by retail investors, while closed-end funds—typically marketed to institutional investors—are heavily concentrated on real estate (67 percent), exposing this segment to real estate risks.

[2] BdI (2024), *The Economy of the Italian Regions: Recent Trends and Structural Features*, *Economie Regionali*, No. 22, November.

Figure 3. Italy: Financial System Structure

Financial system assets sat at about three times GDP…

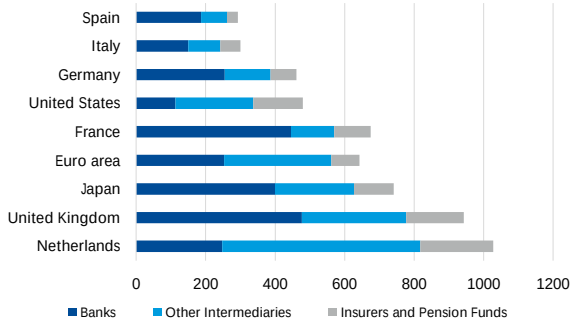
Financial Sector Structure, 2004-2024
(USD, trillions)



Source: Financial Stability Board
Note: Financial auxilliaries are corporations or quasi-corporations that are engaged primarily in auxiliary financial activities, e.g. insurance brokers, investment advisors and corporations providing infrastructure for financial markets.

…and remains smaller than other advanced economies.

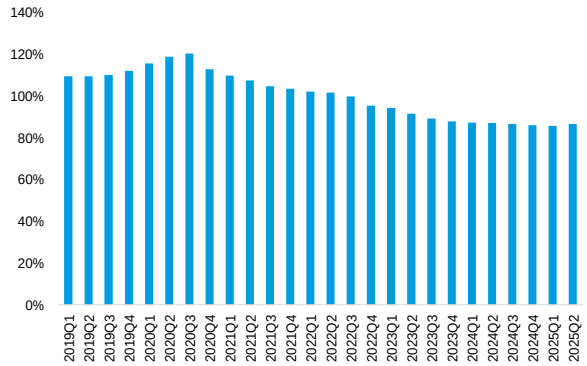
Total Assets of Financial Institutions
(as % of GDP, December 2024)



Sources: Financial Stability Board and IMF Staff Calculations. * Other intermediaries is the sum of Public Financial Institutions, other financial intermediaries and Financial Auxiliaries.

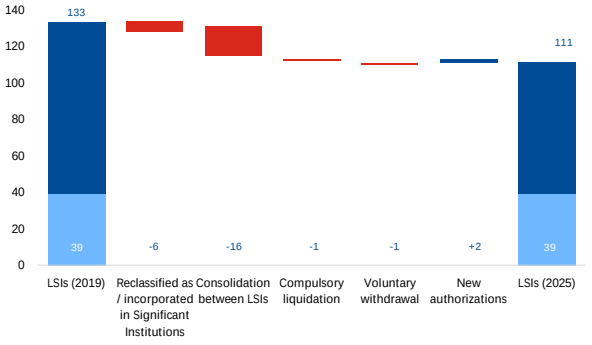
Bank lending to the private sector has contracted significantly since peaking in 2020

Bank Loans
(Percent of GDP)



The number of LSIs declined significantly since 2019 due mostly to mergers…

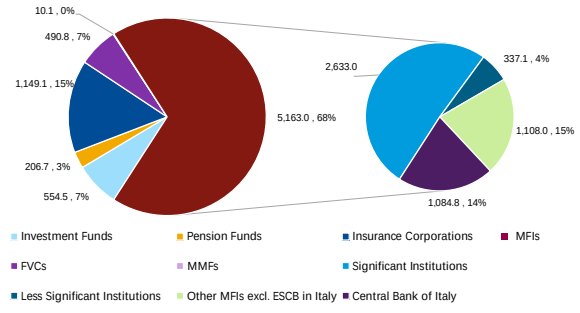
Italian LSIs: Changes 2019-2025 (Q3)
(number)



Source: Bank of Italy

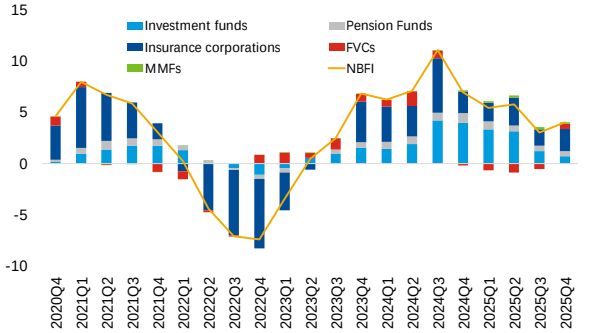
Non-bank financial institutions account for almost one third of total financial system assets …

Total Assets of Financial Sector, 2025Q4
(Euros billion, percent of Assets)



…and have been expanding since 2023 driven by insurance corporations, and more recently investment funds.

Total Assets of NBFI
(Year on Year Growth Rate)

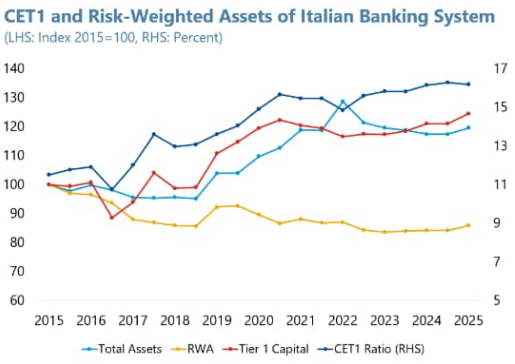


8. A consolidation wave is underway in Italy's banking sector, with some developments shaped by government actions. Since late 2024, five of the six largest banks have entered merger discussions, reflecting efforts to use excess capital positions to diversify revenue streams and improve efficiency in an environment of narrowing interest margins, subdued credit, and limited organic growth opportunities. The government has invoked its "golden power" to impose conditions in six transactions between 2020 and 2025.[3] Monte dei Paschi di Siena (MPS), still partially state-owned following its 2017 recapitalization, obtained control of another SI, creating Italy's third-largest banking group and acquiring a strategic stake in the largest insurer.[4]

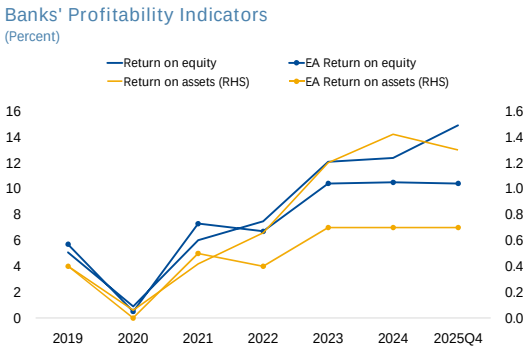
9. Italian banks maintain strong capital and liquidity buffers, alongside record profitability (Table 6, Figure 4). As of December 2025, Common Equity Tier 1 (CET1) ratios stood at 15.9 percent for SIs and 18.6 percent for LSIs. Liquidity conditions remained robust, with high Liquidity Coverage Ratios (LCR) and Net Stable Funding Ratios (NSFR), and declining reliance on ECB funding following the phase-out of TLTROs. Funding costs remain contained, supported by compressed sovereign spreads and continued access to low-cost retail deposits.[5] Profitability reached record levels in 2025, driven by still-elevated net interest income, earlier cost-efficiency gains, and strong fee-based revenues. At the same time, several fiscal measures weigh on the sector's tax environment, including the deferral of the use of convertible deferred tax assets (DTAs) for 2025–2026 to 2029 and the increase in taxes on banks and insurers in the 2026 Budget.

Figure 4. Italy: Financial Sector Developments

Banks' capital position improved further in 2024…



…as profitability remained strong.



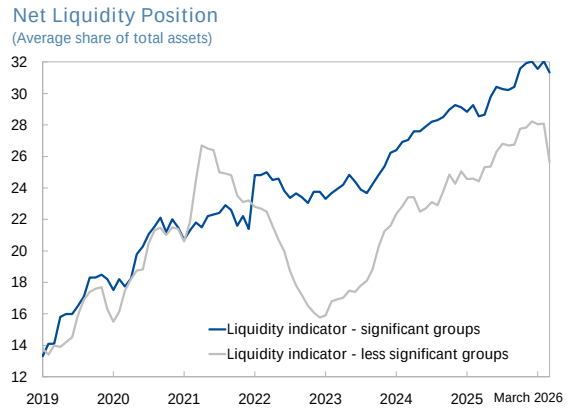
[3] In November 2025, the European Commission (EC) launched an infringement procedure against Italy, based on potential conflicts with EU banking and single-market rules. In January 2026, the "golden powers" regime was amended to allow upfront assessments by the ECB (prudential) and the EC (competition).

[4] In June 2026, Italy's largest bank launched a takeover bid for MPS that, if completed, would lead to further consolidation of the sector around the two dominant entities. At end-2025, the MEF held a 4.86 percent stake in MPS—valued at around €1.4 billion—and maintained representation on the bank's board.

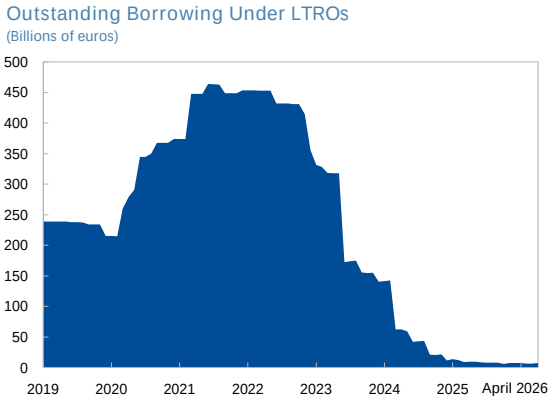
[5] According to BdI, pass-through was limited for overnight deposits (10 percent) but substantially higher for term deposits (70 percent), broadly in line with EA averages (10 and 80 percent, respectively).

Figure 4. Italy: Financial Sector Developments (concluded)

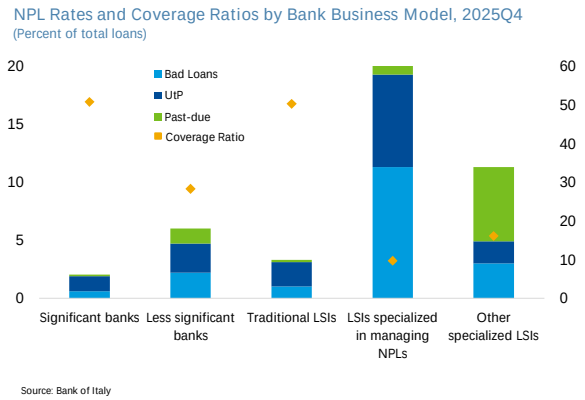
Liquidity is improving for both SIs and LSIs….



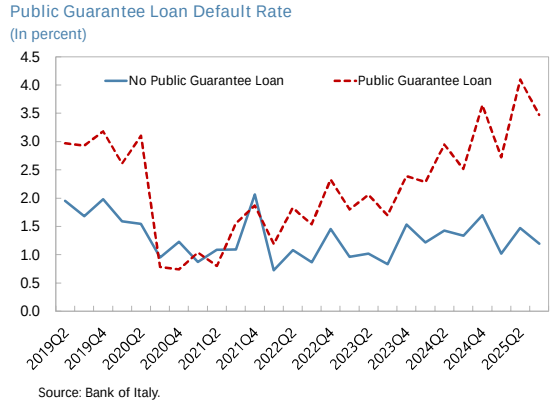
…and reliance on ECB funding was largely phased out.



Asset quality and coverage are overall strong but with heterogeneity across entities.



Gap in default rates between guaranteed and non-guaranteed loans is widening



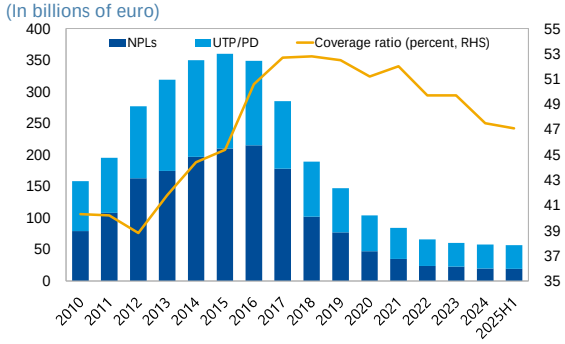
10. Asset quality has improved markedly since the 2020 FSAP, though residual issues persist, especially among some LSIs. The NPL ratio declined to 2.4 percent at the end of 2025 from a peak above 16 percent in 2014, supported by the supervisory pressure, the development of an active NPL market and the use of government-guaranteed securitization.[6] While this progress has strengthened bank balance sheets, some LSIs are still facing idiosyncratic challenges, including higher NPL ratios (averaging 6 percent), lower coverage, weaker profitability, and operational inefficiencies. These LSIs remain subject to intensified supervisory scrutiny. Moreover, about €287 billion in gross nonperforming exposures—around 75 percent of the 2015 peak—remain in the economy. While they are now largely transferred off banks' balance sheets following large price haircuts and impairment recognition, their final resolution is still hindered by inefficiency in

[6] GACS securitization scheme supported 46 transactions covering €117.8 billion in gross book value—about one-third of Italy's peak NPL stock. The state-owned asset management company AMCO currently manages €29.4 billion in assets (Financial Stability Board, 2024, *Peer review of Italy:* https://www.fsb.org/2024/01/peer-review-of-italy-2/).

insolvency, restructuring and enforcement procedures. In this context, supervisory focus has shifted appropriately to the NPL servicing industry and NPL specialized banks, whose business models face higher funding costs, a declining pipeline of NPLs, and a changing regulatory framework, including the EU Directive 2021/2167, which liberalizes NPL acquisitions while tightening requirements for servicers.

Figure 5. Italy: Non-performing Loans

Aggregate NPLs on banks' balance sheets declined significantly since their peak in 2016...



Source: BdI

... but they remain largely unresolved, held by investors

Source: PWC/AMCO

11. The NBFI sector remains broadly stable, though sector-specific risks warrant close monitoring. Insurance companies maintain strong capital and solvency positions, however their exposure to domestic sovereign debt remains relatively high at about 29 percent of assets. Liquidity conditions are ample and surrender ratios in life insurance continue to decline following the 2023 peak. Non-life insurers face rising climate-related claims, though balance-sheet impacts have been contained through pricing and underwriting adjustments. In asset management, leverage remains low and liquidity risks appear manageable, with funds most vulnerable for redemption pressures accounting for less than 2 percent of total assets.

C. Key Systemic Vulnerabilities and Risks

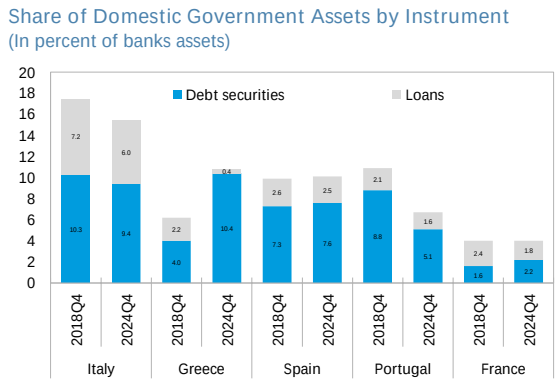
12. Since the last FSAP, the sovereign–financial sector nexus has eased somewhat but remains substantial (Figure 6). Banks' holdings of domestic government securities declined to 8.6 percent of total assets in September 2025, from 10 percent in 2020, yet remain well above the EA average and are heavily concentrated among cooperative banks (about 23 percent of assets). Direct lending to the public sector is also substantial—around 6 percent of total assets—and markedly concentrated. By contrast, two channels of indirect sovereign exposure—legacies of the banking crisis—have been steadily unwinding. The stock of convertible DTAs has fallen from the peak of 23 percent of CET1 in 2016 to 6 percent in 2025. In addition, the volume of State Guarantee on NPL

Securitization (GACS) securities has declined to roughly €8 billion in 2024, from €21.5 billion at issuance (2017-2022).

13. The extensive use of government guarantees on bank loans amplifies sovereign–bank linkages and creates distortions in the prudential framework. As of June 2025, such guarantees cover about 23 percent of total performing corporate loans, with some LSIs particularly exposed and exhibiting rising default rates relative to non-guaranteed portfolios. While emergency guarantees during the pandemic are gradually amortizing, expansion of non-emergency targeted schemes have kept the overall public guarantee stock elevated. Such guarantees risk distorting prudential oversight—including through zero risk weighting—and credit allocation. A time-bound and well-communicated phase-out strategy toward at least pre-pandemic levels would help mitigate these risks. In parallel, BdI should assess institution specific impacts, particularly among LSIs.

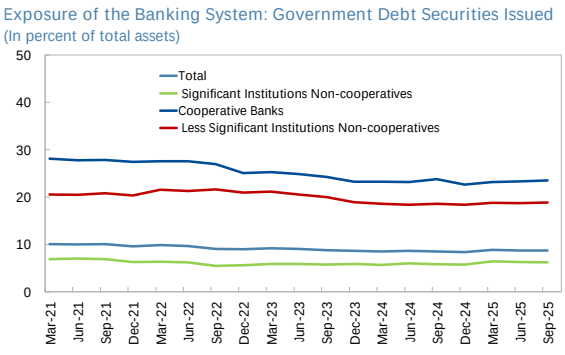
Figure 6. Italy: Sovereign-Bank Nexus

The sovereign-bank nexus declined slightly since 2018 though remains elevated compared to peers...



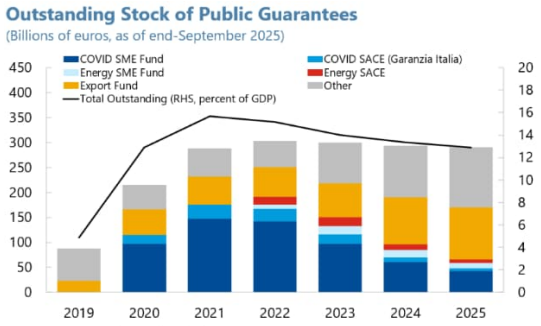
Source: IMF, Monetary and Financial Statistics (MFS) database.

...with cooperative banks and LSI disproportionally concentrated in government bonds



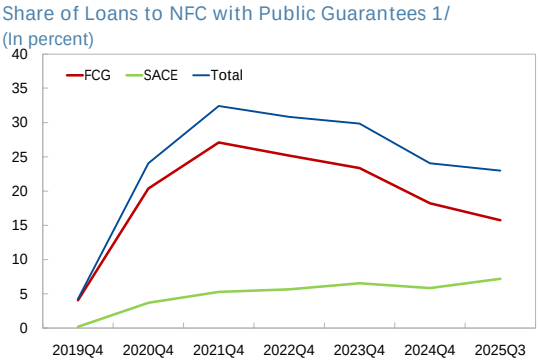
Source: Bank of Italy
Note: All public sector securities, including those issued by local authorities. Total is calculated as public sector securities/total assets.

The stock of public guarantees is elevated at about 13 percent of GDP...



Sources: MEF and Italian Budgets.
Note: "Other" includes the guarantee schemes outside of COVID-19, energy-crisis programs and the Export Fund.

... and nearly a fourth of loans to NFC are backed by public guarantees.



Source: Bank of Italy.
1/ Loans equal only performing loans. FGC: Fund for the Guarantee of Companies, SACE: Italian Export Credit Agency.

14. In the current macroeconomic and geopolitical environment, the materialization of adverse risks would pose challenges for the financial system (Table 7). Adverse macrofinancial developments or heightened geopolitical tensions would test the financial sector resilience, with pressures further amplified by sizeable sovereign exposures, sensitivity of the economy to global trade and energy conditions, elevated public debt, and limited policy space. While the recent Middle East war has so far had limited direct impact on the financial sector, in more acute or prolonged scenarios, stress could transmit through weaker growth prospects and tighter financial conditions ultimately leading to a deterioration in asset quality, strains in core financial markets, and spillovers from the NBFI sector.

15. Climate- and digitalization-related risks are becoming increasingly prominent. Floods, storms, and extreme temperatures are the most frequent natural hazards, with rising intensity, while a sizeable insurance protection gap persists despite the introduction of mandatory natural catastrophe coverage under the 2024 Budget Law. At the same time, rapid digitalization has reshaped financial intermediation—digital payments have exceeded cash since 2022, and cloud adoption is widespread across banks and NBFIs—delivering efficiency gains but also heightening cyber and operational risks. These vulnerabilities are reflected in the sharp increase in incidents, with the number of major cyberattacks increasing from 10 to 35 between 2020 and 2024 and payment-fraud losses totaling €246 million in 2024.

SYSTEMIC RISK ANALYSIS

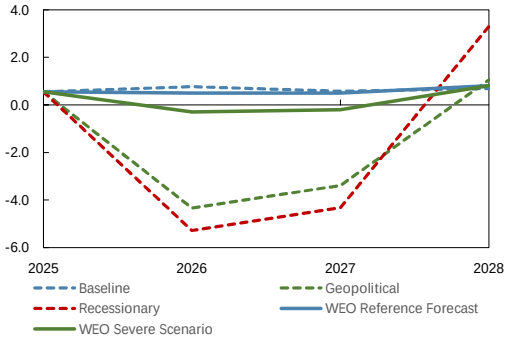
16. The FSAP's systemic risk analysis assessed the resilience of households, non-financial corporates, and banks under two adverse scenarios (Figure 7, Table 7). The first is a geopolitical scenario, featuring a further escalation of geopolitical conflicts and heightening commodity price volatility with large adverse trade, price and tariff shocks and negative demand shocks. The second is a recessionary scenario, characterized by a synchronized global slowdown amplified by sovereign debt distress in the EA, widening credit spreads, term premium decompression, and confidence effects weighing on aggregate demand. The implied GDP shock—measured as cumulative growth over the first two years—corresponds to 2.3 and 2.7 standard deviations of the historical distribution under the geopolitical and recessionary scenarios, respectively.

17. Although specified prior to the outbreak of the Middle East war in March 2026, the adverse scenarios remain relevant. They are considerably more severe than the recent downgrades to economic forecasts, which reflect more moderate growth slowdowns and higher inflation. Both scenarios incorporate a two-year GDP contraction and the geopolitical scenario features an inflation increase broadly comparable to the April 2026 WEO severe scenario, while being markedly more severe in terms of other key macroeconomic variables. Moreover, the transmission channels assumed in the geopolitical scenario are similar to those in the WEO severe scenario of a protracted Middle East war, albeit with different assumptions regarding commodity price shocks.

Figure 7. Italy: Key Macro Variables Stress Test Scenarios

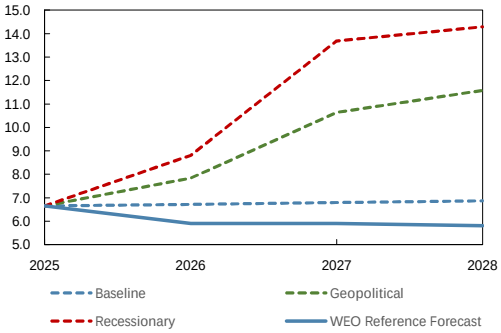
Real GDP growth contracts by 5.3 (R)[1/] and 4.3 (G) percent in 2026, with a two-year cumulative decline of 9.4 (R) and 7.6 (G) percent....

Real GDP Growth
(percent)



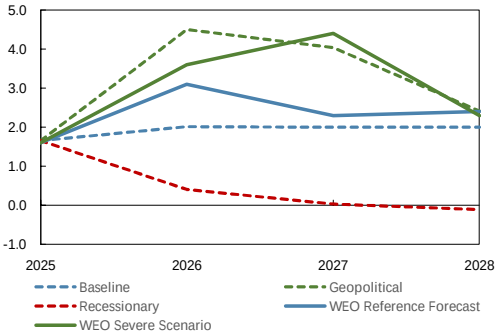
...and unemployment rises, peaking at 14.3 percent (R) 11.6 percent (G)

Unemployment
(percent)



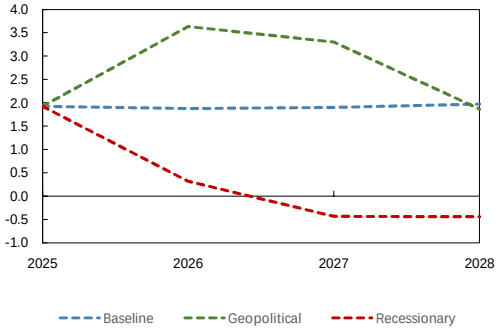
Inflation falls to 0.4 percent (R) in the recessionary; and rises to 4.5 percent (G) in the geopolitical scenario in 2026.

Inflation
(percent)



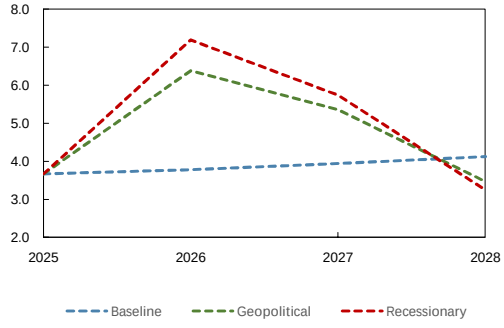
As a result, the short-term rate drops to 0.3 (R) and increases to 3.6 percent (G) in the same year...

Short Term Rate
(percent)



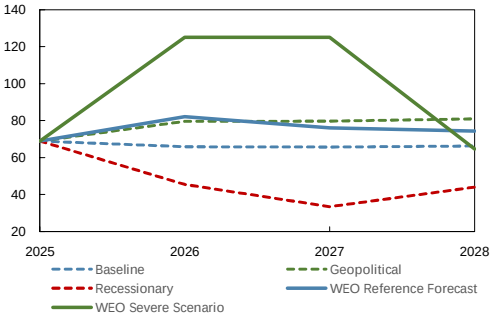
... while long-term rates spike in both scenarios to 7.2 percent (R) and 6.4 percent (G)...

Long Term Rate
(percent)



... and the oil price decreases by 36 percent (R) and increases by 17 percent (G) by the end of 2028.

Oil Price
(in USD)



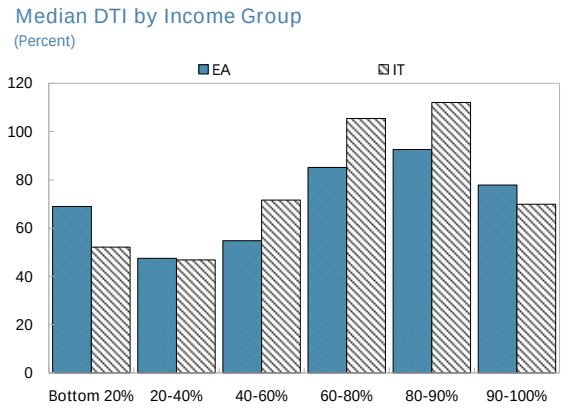
Sources: IMF, World Economic Outlook database and IMF staff estimates.
[1/] R = Recessionary scenario; G = Geopolitical scenario.

A. Household and Corporate Vulnerability Assessment

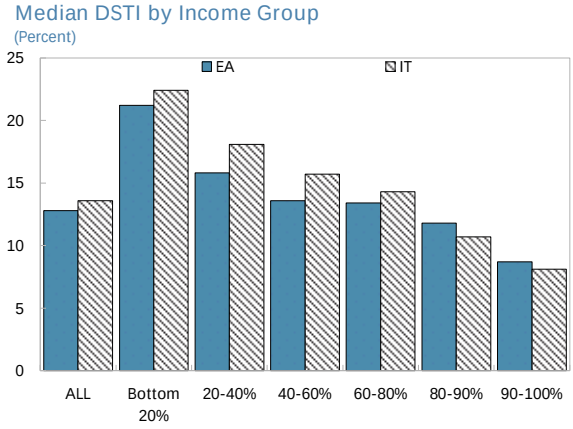
18. While Italian households exhibit moderate aggregate indebtedness, pockets of vulnerability persist, particularly among lower-income households (Figure 8). Although a smaller share of households is indebted than in the EA, indebted households tend to be more financially stretched, with debt-to-income and debt-service ratios exceeding peers for middle- and lower-income groups. These vulnerabilities reflect lower savings buffers, still-significant share of adjustable-rate mortgages,[7] and higher pre-existing arrears than the EA average. Under adverse scenarios, household credit risk increases materially. In the geopolitical scenario, the share of vulnerable households among indebted households and bank debt at risk could exceed 17 and 18 percent, respectively.[8] Risks are also unevenly distributed, with around 45 percent of low-income households at risk, compared with 8 percent of median-income and 1 percent of high-income households. Vulnerability among renters rises more sharply than among mortgage holders, by about 10 percentage points (pp) compared with 7 pp, respectively.

Figure 8. Italy: Household Vulnerability Assessment

Median Debt-to-Income (DTI) is higher than EA peers, particularly for middle income households.



Median Debt Service-to-Income ratio (DSTI) is higher than EA peers, particularly for lower-income households.



[7] 26 percent of outstanding loans in 2025.

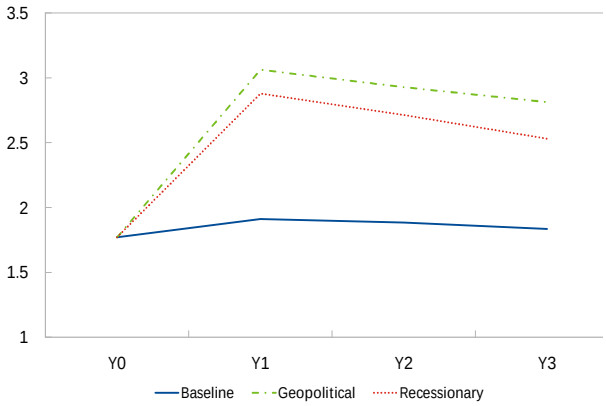
[8] Vulnerable households are defined as those with a Debt Service plus Essential Consumption to Income ratio (DSECTI) above 70 percent. Debt at risk is defined as the outstanding debt held by these households.

Figure 8. Italy: Household Vulnerability Assessment (concluded)

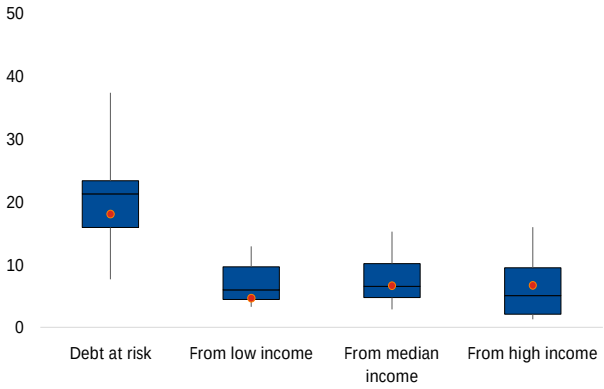
Households Probability of Default (PD) projection is slightly higher under the geopolitical scenario than the recessionary scenario.

High-income households account for 37 percent of total debt at risk, compared to 30 percent in the EA.

Household Stress Test Model: PD results
(percent)



Debt at risk by income tercile - 2026
(Percent; FSAP geopolitical scenario)



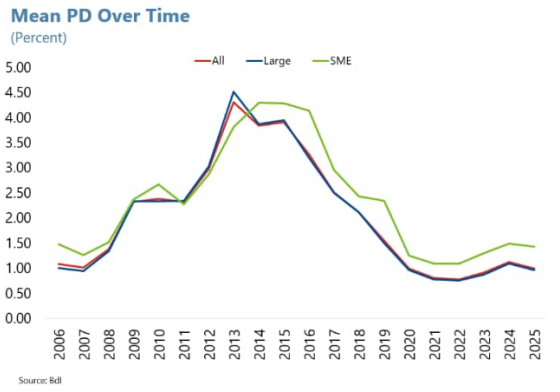
Sources: HFCS and IMF staff calculations.

Note: The household model projects PDs relative to 2021 levels (2.6 percent), which are higher than those observed in 2025 (1.8 percent). Relative to 2025 levels, average household PDs increase by 129 basis points in the geopolitical scenario and by 111 basis points in the recessionary scenario.

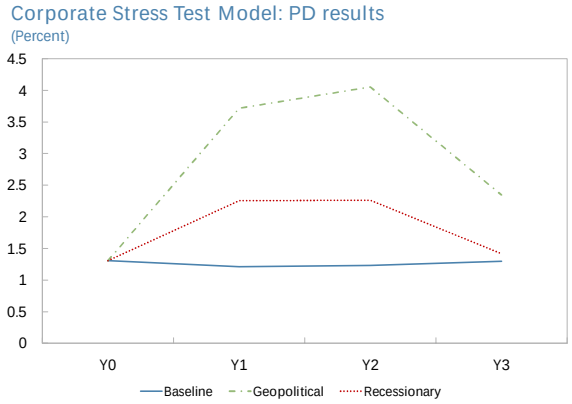
19. Italian non-financial corporates (NFCs) are in a solid financial position, supporting resilience under adverse scenarios (Figure 9). Corporate balance sheets have improved steadily since the sovereign debt crisis, with sustained gains in profitability, declining leverage, and stronger liquidity buffers—supported in part by pandemic-era policy measures—helping to keep aggregate default risk low since 2020. Under adverse scenarios, default probabilities rise, more sharply in the geopolitical scenario where higher interest rates weigh on earnings, but remain below levels observed during the sovereign debt crisis, consistent with the sector's improved starting position. Stress is concentrated among SMEs and firms in southern regions, and industries such as construction, transport, agriculture, and other services.

Figure 9. Italy: Corporate Vulnerability Assessment

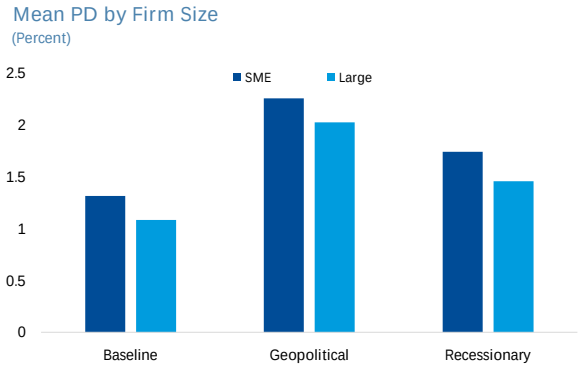
Average PD falls markedly after the sovereign debt crisis and remains low since Covid.



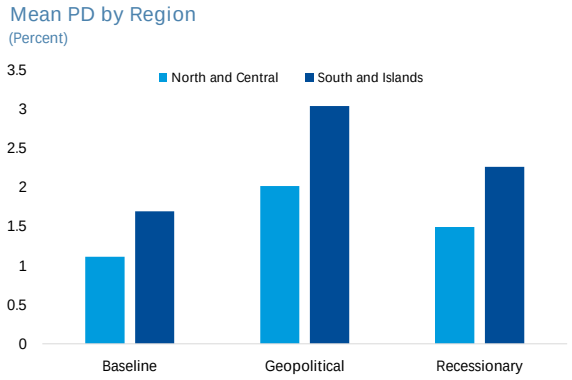
Average corporate PD increases much more under the geopolitical scenario than under the recessionary scenario.



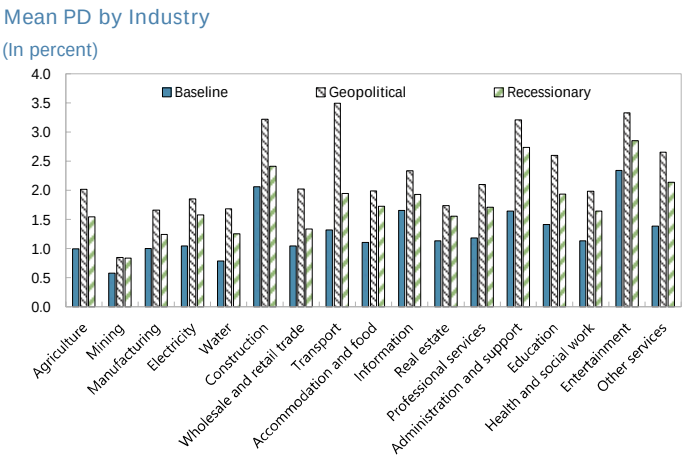
Average PD is higher for SME than large firms under the baseline and adverse scenarios.



Average PD is higher for firms in Southern Italy than Northern Italy under the baseline and adverse scenarios.



Under adverse scenarios, average PDs are substantially higher for construction, transport, agriculture, administration and support, entertainment, and other services.



Sources: BdI, Cerved, and IMF staff calculations

B. Bank Stress Tests

Solvency Stress Test

20. The FSAP assessed the resilience of the Italian banking system using a top-down solvency stress test. The exercise covered 31 banks—representing 98 percent of total system assets—including 12 significant institutions (86 percent of assets), two subsidiaries of foreign SIs (6 percent), and 17 less significant institutions (a further 6 percent), spanning a range of LSI business models (traditional banking, asset management, NPL management, and specialized lending). The analysis used the IMF's internally developed solvency stress-testing framework and captures credit, market, and income risks. Credit losses are projected using the results from the micro-models for households and corporates; market risk reflects interest-rate and equity shocks on fair-value portfolios; net interest income is modeled through a granular structural model; and other profit-and-loss components are estimated using satellite models linked to macroeconomic conditions and historical relationships (Table 8).

21. Stress test results indicate that banks remain resilient to severe macrofinancial shocks (Figure 10). Under the baseline scenario, the aggregate total capital ratio follows an upward trajectory, despite a slight decline in revenue-generating capacity from net interest income (NII). Under the geopolitical scenario, the aggregate total capital ratio declines to 16.5 percent by end-2027, corresponding to a decline of 3.5 pp relative to the starting point and 4.0 pp relative to the baseline. Capital depletion is more pronounced for SIs, with a decline of 3.6 pp from the starting point, compared with 2.2 pp for LSIs.[9] In this scenario, four banks (one foreign subsidiary and three specialized LSIs) fall below minimum capital requirements, while three additional banks—two SIs and one LSI—meet minimum requirements but do not fully comply with the capital conservation buffer (CCoB).[10] Under the recessionary scenario, the aggregate total capital ratio declines more moderately to 18 percent by end-2027, with only one LSI falling below the minimum capital requirement.

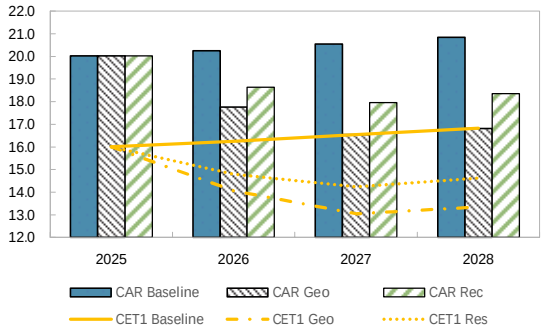
[9] While methodologies, scenario shocks, starting points (end-2024 for the EBA vs. June 2025 for the FSAP), and bank samples differ (EBA covers only the six largest SI banks), SI results are broadly consistent with the 2025 EBA stress test: the CET1 ratio declines by 2.5 pp (15.1 to 12.6) in the EBA and by 3.0 pp (16 to 12.9) in the FSAP geopolitical scenario.

[10] Banks that fail to meet the minimum requirements and/or the CCoB account for 9 percent of total assets in the Italian banking system.

Figure 10. Italy: Solvency Stress Test Results

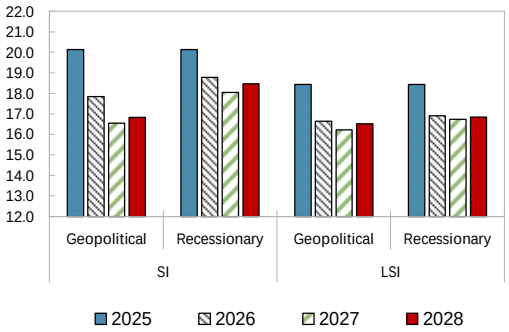
Total capital and CET1 capital of the banking system sufficiently cover losses under adverse scenarios.

Capital Ratios: All Banks
(Percent)



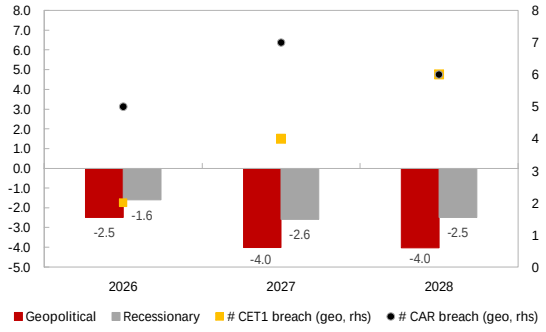
While capital declines are more pronounced for SIs relative to LSIs, SI banks start with higher capital buffer.

Capital Ratio: SI vs LSI
(Percent)



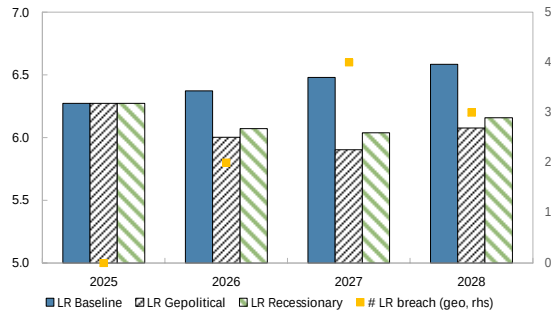
In the geopolitical scenario, four banks fall below minimum capital requirements, while three additional banks fail to comply with the CCoB.

CAR: Baseline - Adverse Scenarios: All Banks
(Percentage points, number of banks)



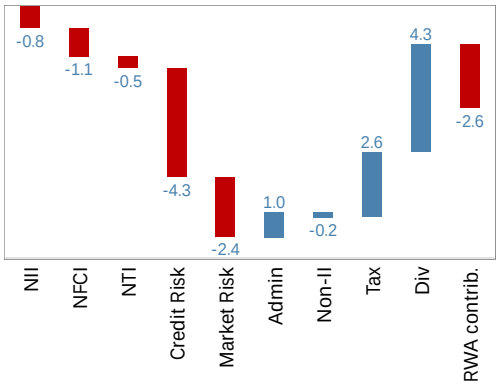
Leverage ratio is also on a downward trajectory, but the system remains well above the hurdle rate of 3 percent.

Leverage Ratio: All Banks
(Percent)



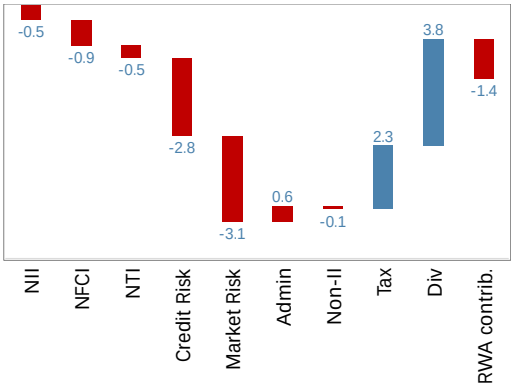
Credit impairments are the key factor underpinning the profitability decline in the geopolitical scenario…

Geopolitical - Baseline: Cumulative Impact up to 2027
(Percent of RWA)



… while in the recessionary scenario, the main driver is market risk due to higher sovereign spreads.

Recessionary - Baseline: Cumulative Impact up to 2027
(Percent of RWA)



Sources: ECB and BdI supervisory data, IMF staff calculations.

22. Sensitivity analyses suggest that additional capital depletion would remain contained. First, assuming higher-loss-given default (LGD) rates—ranging from an additional 10 pp to 30 pp—for government and NFC exposures result in limited impact for SIs, whereas LSIs are more adversely affected, reflecting their higher government exposures and NFC lending often supported by public guarantees. Second, applying larger shocks to tariff-exposed sectors, as well as combined shocks under the household vulnerability model, generates only limited additional depletion, indicating relative resilience of Italian NFCs.

23. Near-term impact of the Middle East war on bank credit risk would likely remain contained. Additional sensitivity analysis using the April WEO severe scenario indicates that the share of vulnerable households and bank debt-at-risk increases by 12 and 3 pp, respectively, to about 29 and 31 percent—remaining below EA averages. In this scenario, CET1 capital depletion for Italian banks amounts to 97 basis points, compared to 127 basis points for the EA average. Evidence from Europe's 2022 energy shock also suggests moderate impacts on bank credit risk from the corporate sector.[11] According to BdI analysis, asset quality did not deteriorate broadly following the war in Ukraine conflict, and NPL ratios in energy-intensive sectors remained stable despite a significant increase in NFC costs. While the ultimate impact of the Middle East war is subject to significant uncertainty, in the absence of a more severe or prolonged shock, the associated pressures are likely to remain relatively contained, with manageable implications for banks.[12]

Liquidity Risk Analysis

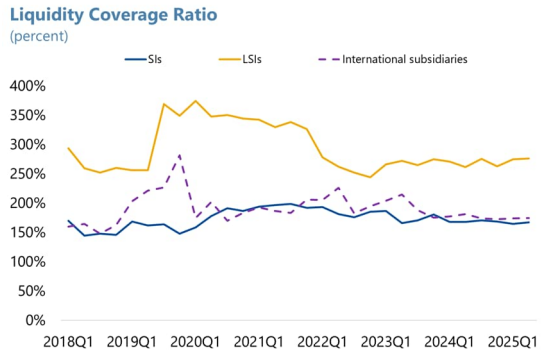
24. Structural indicators point to generally comfortable liquidity buffers across banks (Figure 11). Banks aggregate liquidity buffers appear ample, supported by a decline in asset encumbrance. However, funding concentration could be a source of vulnerability for some banks, especially among specialized LSIs. Common funding exposures among SIs—those reported among top 10 by three or more banks—may amplify vulnerabilities for banks with concentrated funding profiles.

[11] Banca d'Italia (2023), Financial Stability Report, No. 1, Box "The effects of rising energy costs on credit risk in the main euro-area countries."

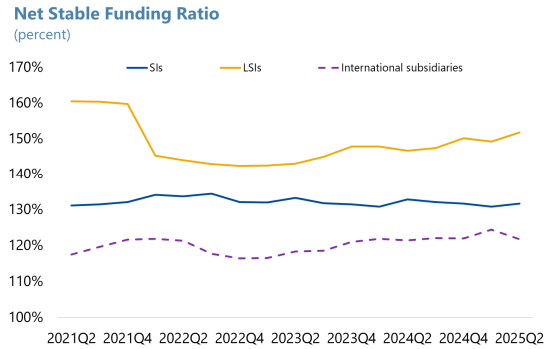
[12] The ECB has stated that a direct comparison between the 2022 energy shock and the current shock comes with important caveats. The current shock is global and potentially more inflationary, as—unlike in 2022—Europe cannot rely on imports of goods and services unaffected by the shock.

Figure 11. Italy: Liquidity Indicators

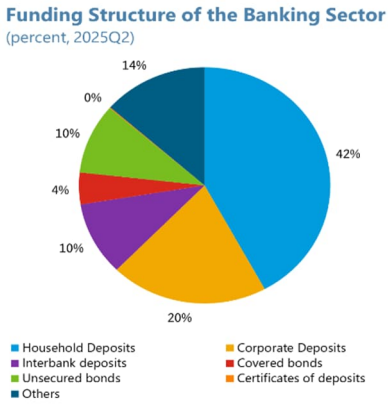
All banks meet LCR requirements, and most banks have substantial buffers about the 100 percent minimum.



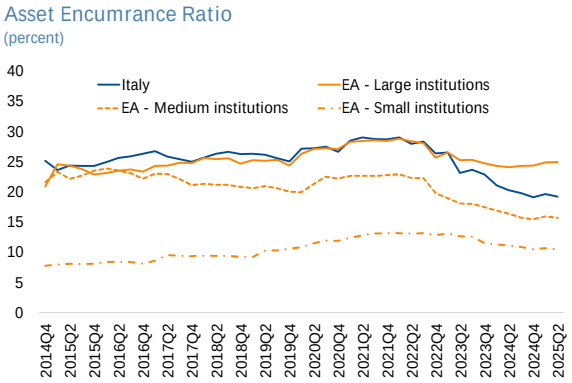
All banks meet NSFR requirement; LSIs tend to have even larger buffers against the minimum.



Deposits constitute almost 70 percent of banks' total liabilities.



The asset encumbrance ratio declined from pandemic-era levels and now stands below the EA average.



Sources: BdI, ECB, and IMF staff estimates. Notes: The data covers all Italian SIs, foreign subsidiaries, and LSIs operating at each reporting date. The declines in LCR and NSFR indicators for LSIs in 1Q 2022 reflect reclassification of two banks as SIs.

25. The cash-flow-based analysis indicated banks can withstand significant liquidity outflows (Figure 12). The exercise covered the same sample of banks used in the solvency stress tests, with a horizon spanning overnight to six months. Banks' outflows, inflows, and counterbalancing capacity (CBC) were stressed under three scenarios with increasing degree of severity: a general risk aversion shock (Mild), market sovereign distress shock (Severe), and idiosyncratic funding shock (Idiosyncratic).

- *SIs* preserve positive net liquidity position (NLP) even under the severe shock, despite elevated outflows and significant decline in asset values. Under the idiosyncratic scenario, a few banks experience liquidity shortfalls within a two-day period. Over a six-month horizon, seven banks would have shortfalls; however, the aggregate shortfall remains limited, at below 2 percent of SI sample assets.

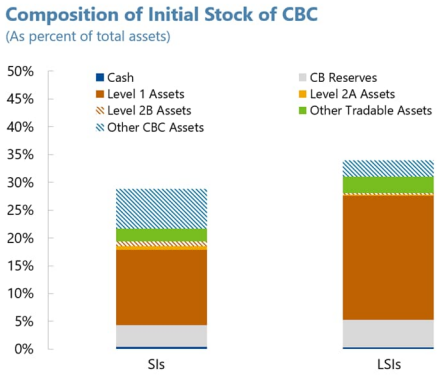
- *LSIs* appear comparably more vulnerable but remain broadly resilient. Two specialized banks show liquidity shortfalls across all three scenarios, while two traditional banks would experience negative liquidity position overnight under the idiosyncratic scenario.

- *Mitigating role of inflows*. Higher inflows from banks' loan books could help to mitigate stress. For SIs, rolling over half of retail and corporate loans would significantly improve outcomes, leaving only two banks with overnight shortfalls. For LSIs, loan inflows mitigate stress under mild scenario but may remain insufficient for some banks under the idiosyncratic scenario.

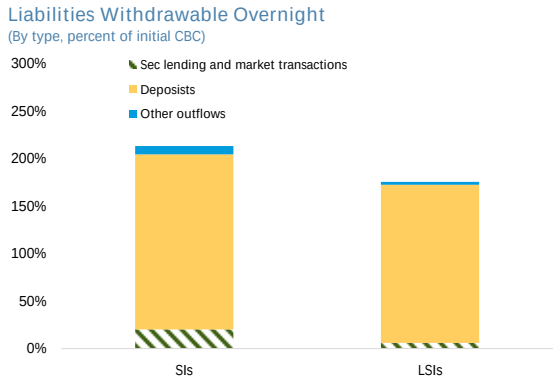
- *Identified vulnerabilities*. The analysis highlights several potential vulnerabilities. A high share of Italian sovereign bonds in liquidity buffers could act as a channel of contagion. In addition, some banks rely heavily on liabilities with open maturity and non-operational deposits, and in some cases readily available CBC is low relative to liabilities withdrawable overnight or subject to significant haircuts due to assets composition. For some SIs, contingent commitments could represent a material source of liquidity drains.

Figure 12. Italy: Cash-flow-based Liquidity Stress Test Results

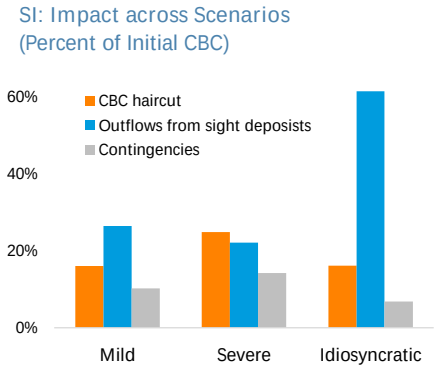
Initial CBC stock stands at about 30 percent of assets, with the Level 1 assets at 50 and 66 percent for SIs and LSIs.



Over 85 percent of liabilities with open maturity and payments due overnight are deposits.



Outflows from sight deposits exceed 60 percent of initial CBC under the idiosyncratic scenario.



LSIs are on average less affected by CBC haircuts and shocks to contingent liabilities.

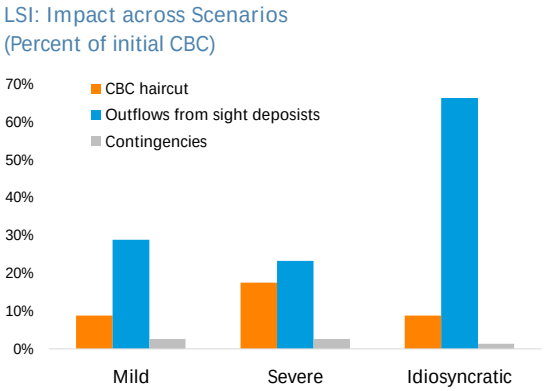
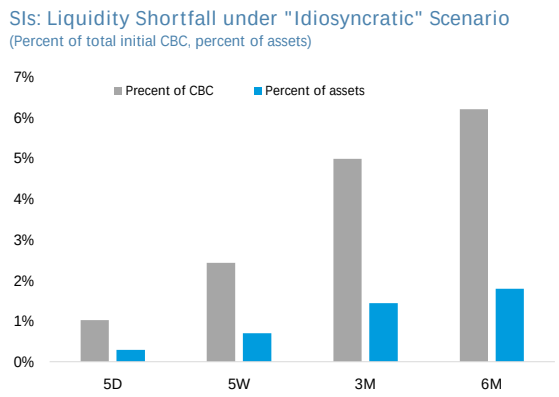
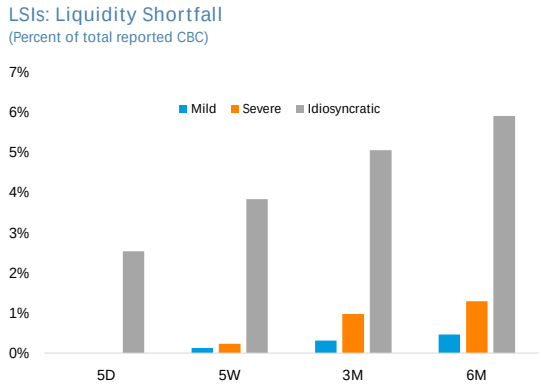


Figure 12. Italy: Cash-flow-based Liquidity Stress Test Results (concluded)

For SIs, liquidity gaps are only observed under the idiosyncratic scenario, with aggregate shortfall reaching 1.8 (6) percent of sample assets (CBC).

For LSIs, the number of banks with shortfalls increases across scenarios; under idiosyncratic shock, aggregate shortfall across 5 banks reaches 6 percent of CBC.





Sources: ECB supervisory reports, IMF staff estimates. Notes: A bank experiences a liquidity shortfall when it faces a negative liquidity position, i.e. when its CBC is insufficient to cover the gap between cash outflows and cash inflows. SI sample includes 12 Italian SIs and two subsidiaries of foreign SIs. LSI sample includes 17 banks.

26. SIs with material USD operations appear resilient to U.S. dollar liquidity shocks, despite some vulnerabilities in their funding structures. Cash flow tests for three SIs show positive USD liquidity positions beyond six months under the mild and severe scenarios, whereas two banks experience shortfalls within two months under the idiosyncratic scenario. These vulnerabilities reflect reliance on runnable liabilities—including about 50 percent in overnight non-operational deposits—and funding concentration, with around 11 percent sourced from the top three counterparties.

27. The LCR-based reverse stress test suggests that banks' liquidity buffers are generally robust, with breaches emerging only under severe assumptions. Among SIs, only one bank would fall below the 100 percent LCR threshold if deposit outflow rates increased by 50 percent relative to Basel parameters,[13] rising to six banks under a 75-percent increase. LSIs start from higher average LCR levels and display greater resilience under moderate stress, with only two banks breaching the requirement at a 75 percent increase in run-off rates. A substantially more severe shock—an increase of 125 percent—is required for eight LSIs to fall below the threshold.

Liquidity-to-Solvency Interactions

28. The liquidity–solvency interaction analysis highlights vulnerabilities linked to the sovereign–bank nexus, particularly for LSIs (Figure 13). In a tail-risk scenario where banks facing liquidity shortfalls are unable to access central bank funding and must liquidate bonds held at

[13] This would imply, for example, an increase in run off rates for retail category 1 deposits from 10 to 15 percent and for operational deposits not covered by deposit guarantees from 20 to 30 percent.

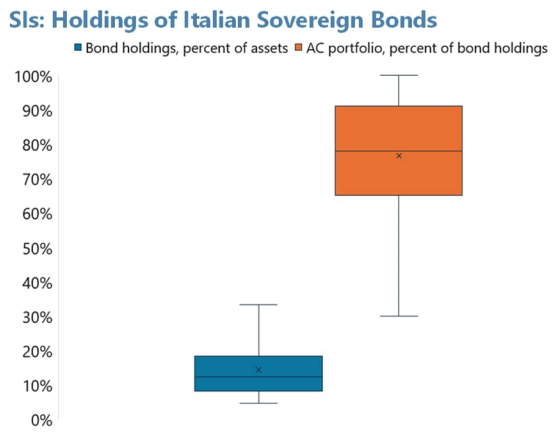
amortized cost (AC), liquidity stress could translate into material solvency losses. The resulting impact could reduce aggregate capital ratios by up to 2.5 pp for SIs and 3.7 pp for LSIs. LSIs are also more exposed to market losses from bond sales under stress, with two additional banks falling below minimum capital requirements and three others breaching the CCoB.

Strengthening Systemic-Wide Stress Testing Framework

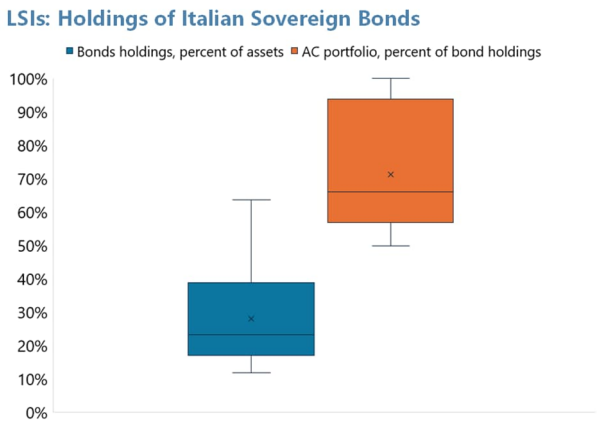
29. BdI should continue to assess and incorporate the impact of emerging risks and the evolving macroeconomic environment in its stress-testing framework. Future exercises should reflect heightened macrofinancial volatility and assess implications for financial stability in a timely manner. BdI should also continue developing the system-wide stress test framework, leveraging the recently constructed comprehensive and granular dataset to assess risks from common sovereign exposures across financial intermediaries and to inform macroprudential policy. Further efforts to expand datasets and address data gaps would strengthen the framework, including: (i) broadening granular network data to cover key funding markets (including repos), derivatives, cross-border exposures, and foreign investment funds; and (ii) improving the availability and quality of data on banks' market risk sensitivities and hedging strategies.[14]

Figure 13. Italy: Liquidity to Solvency Interaction Results

For the majority of banks, the share of Italian bond holdings classified as AC exceeds 60 percent.



In addition, LSIs hold a larger share of Italian bond relative to their total assets.



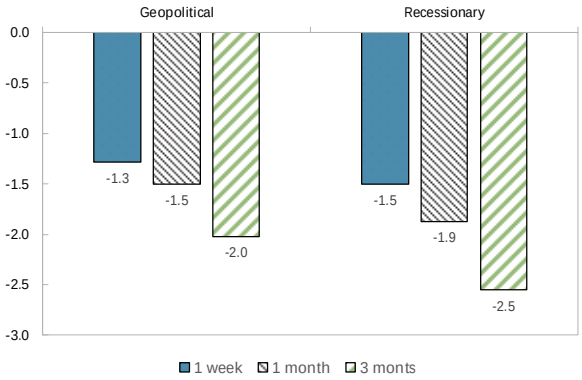
[14] The lack of data on portfolio-level hedging positions prevented their incorporation into the FSAP methodology for estimating market losses in the banking book. As a result, the team relied on informed assumptions about bank-level hedging ratios, which may overstate actual losses.

Figure 13. Italy: Liquidity to Solvency Interaction Results (concluded)

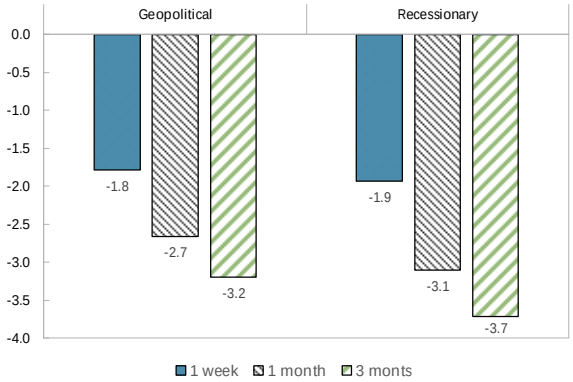
The impact on the aggregate capital ratio from the sale of AC bonds under liquidity stress could reach up to 2.5 pp for SIs.

LSIs are more vulnerable, with estimated capital depletion at up to 3.7 pp.

SI: Selling AC bonds to cover Liquidity Shortfalls (percent of RWA)



LSI: Selling AC bonds to cover Liquidity Shortfalls (percent of RWA)



Source: Europe Banking Association (EBA) Transparency Exercise 2025; ECB and BdI supervisory data, IMF staff calculations.

Notes: The analysis uses as inputs the simulated liquidity shortfalls under the idiosyncratic scenario from the cash flow-based liquidity stress tests, excluding AC portfolios. Capital impacts are estimated using the same duration-based approach as in the solvency stress test, combined with the instantaneous market risk shocks specified under the adverse market risk scenario. Each scenario is treated as a standalone event and assumes a full liquidation of the AC portfolio.

C. Interconnectedness and Large Exposure Analysis

Inter-Sectoral Financial Linkages

30. Domestic and cross-border interconnectedness remains significant, with indirect contagion risks driven primarily by common sovereign exposures rather than direct funding links (Figure 14). Italy's financial system is organized around a bank-centric core, with insurers serving as key intermediaries and investment funds becoming increasingly connected. The general government remains the main net borrower, with liabilities predominantly in the form of debt securities. Since 2023, its investor base has shifted, with households and foreign investors—supported by higher yields and retail instruments—partly replacing banks, NBFIs and BdI purchases. Indirect interlinkages between banks and NBFIs are largely driven by common—and sizeable—holdings of bonds, especially Italian government securities, with insurers accounting for a significant share. This creates scope for indirect contagion through price co-movements. Direct funding linkages between banks and NBFIs are more limited and concentrated in other financial intermediaries (OFIs). Bank liabilities to OFIs amount to 14.5 percent of GDP, while banks' credit exposures and holdings of OFIs-issued securities total around 12.4 percent of GDP.

Banks' Cross-Border Linkages

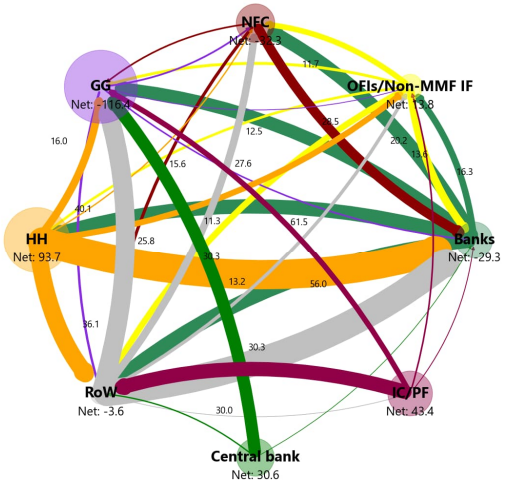
31. Italian banks are increasing their cross-border linkages, largely within the EA. Total consolidated foreign claims of Italian banks reached €958 billion in 2025, with the expansion largely driven by rising exposures to the foreign official sectors. Banks' exposures to NBFIs—especially in financial hubs such as Ireland and Luxembourg—have also risen rapidly, though they remain modest in absolute terms. Exposure to the nonfinancial private sector are concentrated in Germany and Austria. At the same time, foreign banks' claims on Italian banks reversed downward trend and increased sharply since 2022, with a significant contribution from Spain.

Figure 14. Italy: Network of Cross-Sectoral Financial Exposures

Domestic interlinkages remain significant; households are the largest net lenders; government is the largest net borrower.[1/]

Creditor/Debtor	NFC	Banks	Central bank	OFI	Non-MMF IF	IC & PF	GG	HH	RoW	Total
NFC		20.2	0.0	0.2	0.7	0.5	3.5	0.0	6.6	**32**
Banks	28.5		0.0	12.4	1.3	0.8	27.6	30.3	30.3	**131**
Central bank	0.7	1.3		0.0	0.0	0.0	25.8	0.0	2.8	**31**
OFI	10.9	14.5	0.0		0.1	0.3	3.6	5.4	4.0	**39**
Non-MMF IF	0.8	1.9	0.0	0.3		0.1	2.5	0.0	9.3	**15**
IC & PF	0.8	1.8	0.0	0.1	3.3		11.3	0.0	30.0	**47**
GG	3.8	3.4	0.0	1.1	0.7	0.1		0.1	5.0	**14**
HH	2.8	61.5	0.0	0.2	12.3	0.6	16.0		36.1	**130**
RoW	15.6	56.0	0.0	4.9	2.2	1.6	40.1	0.0		**120**
Total	**64**	**160**	**0**	**19**	**21**	**4**	**130**	**36**	**124**	

Banks play the key intermediary role in the system.[1/]



Banks have strong linkages with insurers through sovereign debt holdings.[1/]

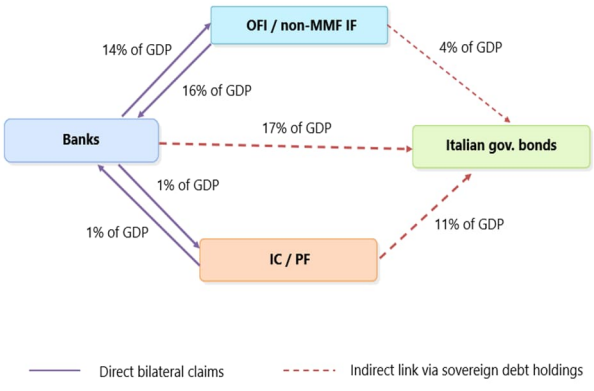
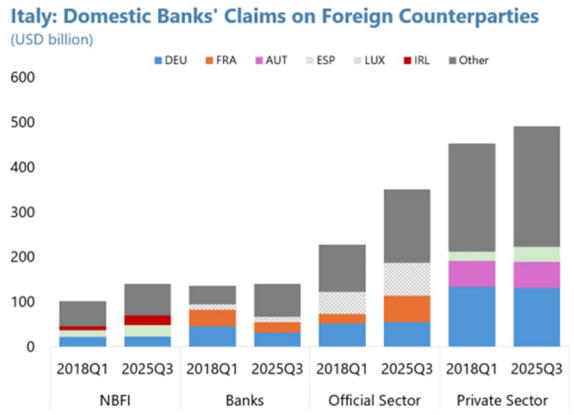
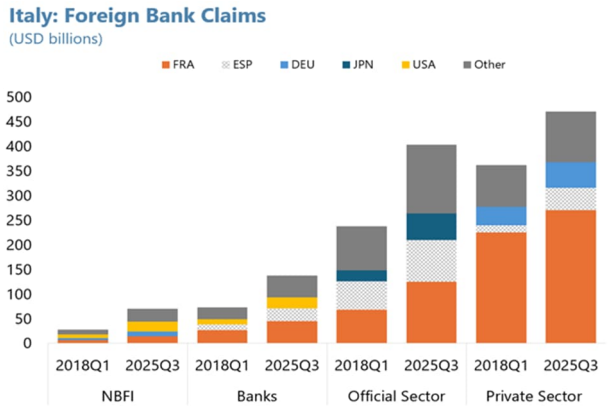


Figure 14. Italy: Network of Cross-Sectoral Financial Exposures (concluded)

Claims on official sector grew significantly...



... as well as foreign banks' claims on Italian banks.[2/]



Source: Eurostat, BIS CBS, Haver Analytics, IMF staff estimates.

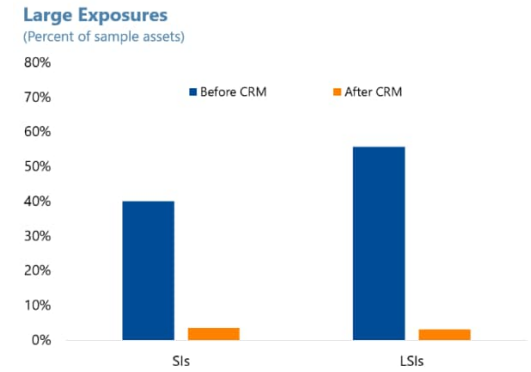
[1/] Numbers represent shares of GDP in 2025Q3. Exposures include debt securities, loans, listed shares, investment fund shares, and deposits. Arrowheads indicate the recipient of funds (debtor) from the source (creditor). Arrow thickness reflects the relative size of each sector's financial exposures to counterpart sectors.
[2/] BIS CBS data is on a claims-on-ultimate-risk basis. Each bar shows the top three holding or issuing jurisdictions by the nominal size of claims in 2025Q3. The private sector refers to non-financial entities.

Large Exposures and Common Exposures Analysis

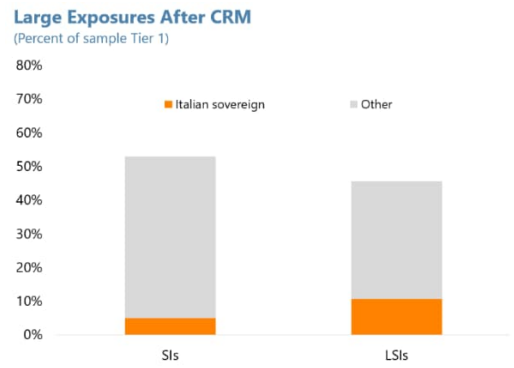
32. Granular data reported under large exposure (LE) templates provides useful insights into credit risk concentration and overlap in banks' asset portfolios (Figure 15). Total LE after the application of exemptions and credit risk mitigation (CRM) measures amount to about 40 percent of assets for SIs and 56 percent for LSIs. A predominant share of these exposures is to the Italian and other European sovereigns. Analysis of individual exposures reported by SIs suggests that nearly half of exposures to the NFC sector (after CRM) are to Italian counterparties, with manufacturing and professional services accounting for over 45 percent of these exposures, followed by firms in the energy and utilities sectors. Outside Italy, banks report material exposures to corporate and financial counterparties in the United States, Germany, and France.

Figure 15. Italy: Large Exposures Analysis

Total large exposures decline significantly after applying exemptions and CRM measures...



... with post-CRM exposures standing at about 50 percent of banks' Tier1 capital.



Sources: BdI, IMF staff estimates.
Notes: The SI sample includes 12 Italian SIs and two subsidiaries of foreign SIs, while the LSI sample includes 17 banks. LE estimates include exposures exceeding 10 percent of Tier 1 capital. The analysis relies on COREP templates C.27, C.28, and C.29. For SIs, the list of exposures was adjusted to account for alternative reporting treatment of general government exposures under Regulation (EU) No 575/2013 (CRR) and for the treatment of group of connected clients for private borrowers under Delegated Regulation (EU) 2024/1728.

D. Climate Risk Analysis

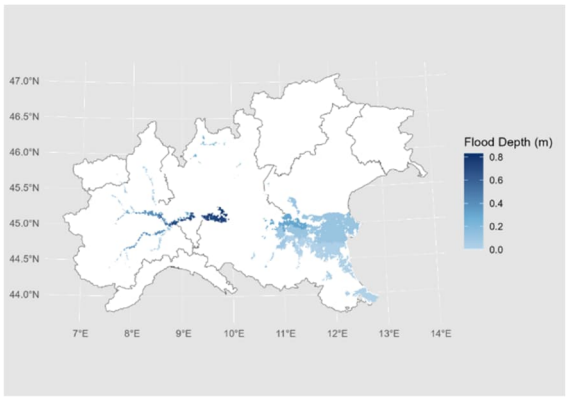
33. The FSAP assessed the banking sector resilience to flood-related physical climate risks using an integrated micro-macro approach (Figure 16). Flood scenarios are calibrated using World Resources Institute projections for 2030 and assume simultaneous shocks across Italy's main river basins, each one amounting to 1-in-100 and 1-in-200 year return periods in terms of affected total real estate value. The analysis captures the impact of floods on credit risk—through mortgage portfolios, sovereign bonds and loans held at amortized cost—as well as market risk from sovereign bonds at fair value. It focuses on the medium-term (2026-2030) and covers 9 SIs and 78 LSIs.

34. The banking system appears broadly resilient to severe flood shocks. Flood events lead to moderate but non-negligible deterioration in capital ratios, with heterogeneous impacts across institutions (Figure 17). In the first year, capital ratios are primarily affected by market valuation losses on sovereign exposures, reflecting the immediate repricing of sovereign risk premia. In subsequent years, credit risk channels became more prominent. Overall, mortgage credit risk remains limited, reflecting relatively low loan-to-value ratios and probabilities of default (PDs). Capital impacts vary across banks, with larger effects observed for LSIs with higher sovereign exposures. Results should be interpreted with caution, given the inherent uncertainties and limited scope of the climate risk analysis.

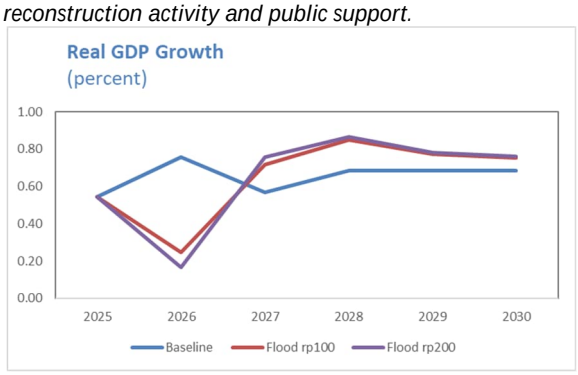
35. A sensitivity analysis of post-disaster government support highlights key trade-offs for financial stability. While stronger public support mitigates the short-term impact of economic contraction on banks' capital, it also raises public debt and—given limited fiscal space— induces a more persistent rise in sovereign yields, resulting in larger capital losses over the medium term. Greater investment in adaptation and resilience, alongside broader natural catastrophe insurance coverage, would help reduce reliance on post-disaster government support.

Figure 16. Italy: Climate Physical Risk Analysis - Scenarios

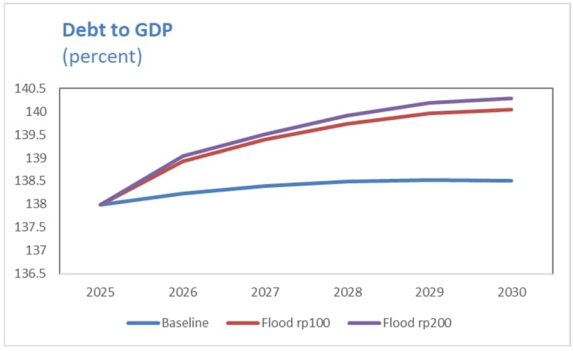
Flood events are simulated to affect all regions in Italy, with the largest flood depths occurring in the Po river basin.



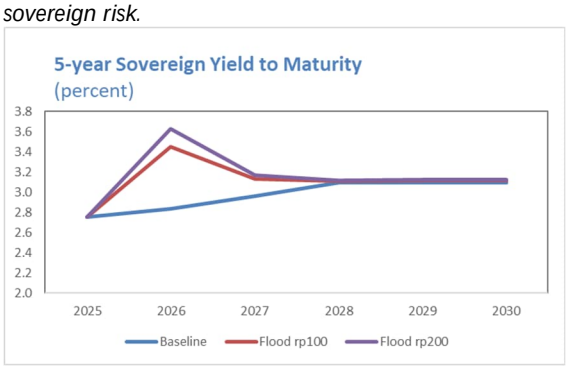
Growth declines following the flood, reflecting direct capital damage and production losses, before rebounding from the second year onward, on the back of reconstruction activity and public support.



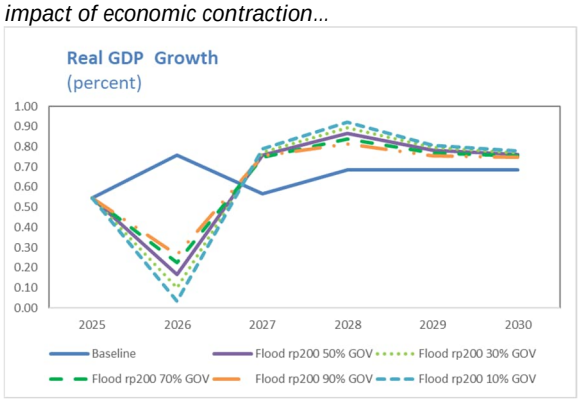
Flood events trigger higher government spending for post-disaster relief and support to affected sectors.



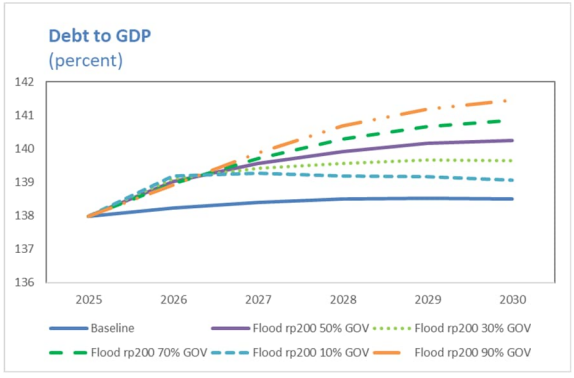
Sovereign yields increase in the immediate aftermath of the flood shock, reflecting a temporary reassessment of sovereign risk.



Higher government support mitigates the short-term impact of economic contraction…



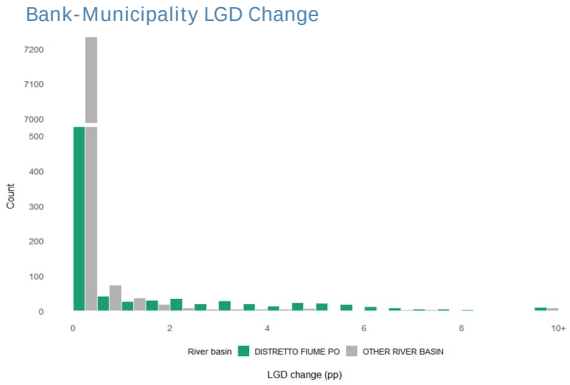
…but increase public debt over the medium-term.



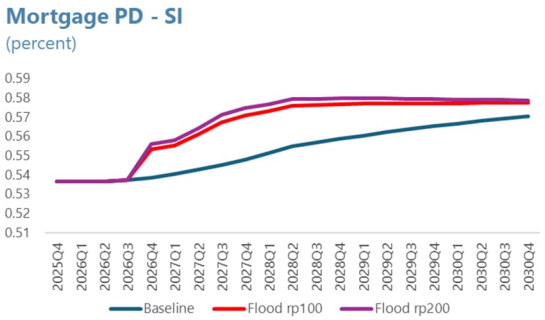
Source: WRI data, EIRIN model and IMF Staff calculations. Note: The bottom two charts show the impact of varying levels of post-disaster government support. The government compensates firms for 10%-90% of the capital stock destroyed by the flood. This assistance is spread over multiple quarters; it supports firms' liquidity and creates a contingent reconstruction liability that materializes through gradual fiscal outlays, creating budgetary pressures over time.

Figure 17. Italy: Climate Physical Risk Analysis - Banking Sector Impacts

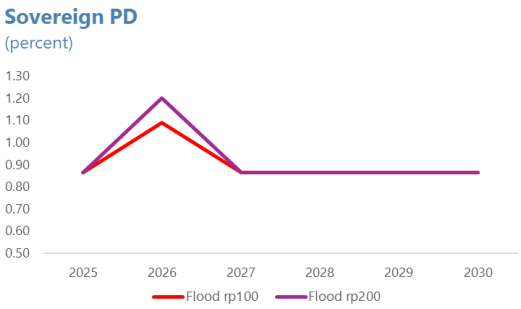
Flood impacts on mortgage LGDs are generally small but can be significant in the Po river basin.



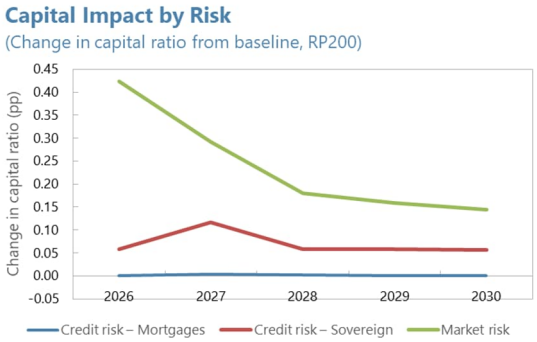
Mortgage PDs increase modestly following the flood shock….



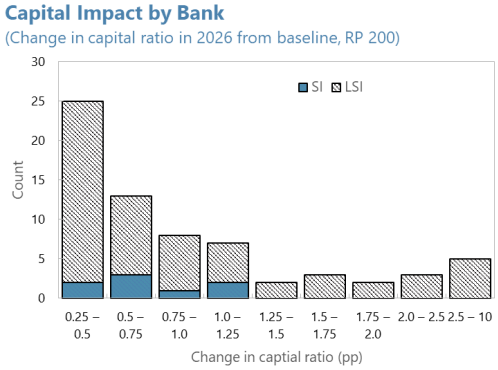
…and sovereign PDs increase in response to higher government support and public debt.



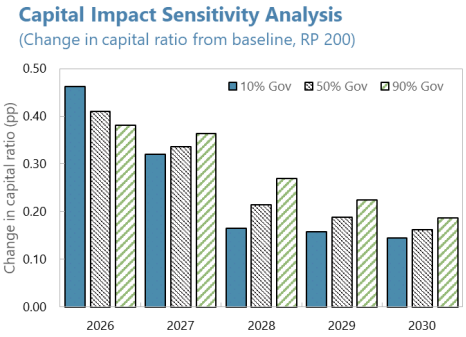
Market risk, from sovereign valuation losses, is the main driver of capital impacts, followed by sovereign credit risk.



Banks' capital impact is heterogeneous, with larger effects observed for LSIs with higher sovereign exposures.



Higher public support mitigates short-term impacts but can lead to higher capital losses over the medium term.



Source: IMF Staff calculations.

FINANCIAL SECTOR OVERSIGHT

A. Macroprudential Framework and Policy

36. Since the last FSAP, Italy has developed a strong macroprudential framework and advanced in its implementation. The Committee for Macroprudential Policies (CMP) began meeting twice a year in 2024. Chaired by the BdI Governor, it brings together the main supervisory authorities—the Institute for the Supervision of Insurance (IVASS), the National Commission for Companies and the Stock Exchange (CONSOB), and the Pension Fund Supervisory Commission (COVIP)—as well as the Treasury (without voting rights), enhancing coordination and willingness to act. The CMP has formal information-gathering powers and communicates with the public through press releases, published minutes, and an annual report. Operational progress is also evident: the systemic risk buffer (SyRB) was fully phased in at 1 percent in June 2025. In April 2026, BdI completed its periodic review of the SyRB and confirmed the 1 percent level. Counter-cyclical capital buffer (CCyB) remains at zero, in line with the current stage of the credit cycle. Borrower-based measures (BBMs) have been incorporated into the legal framework but have not yet been activated (Figure 18), as the relevant secondary regulation (Circular 285 of BdI) allows activation only when vulnerabilities are high, while real estate risks are currently assessed as low.

37. Italy's macroprudential framework could be further strengthened through targeted institutional enhancements. Embedding best-practice standards would help consolidate an already high-quality framework. Priorities include further formalizing existing practices, notably by regularly updating an ex-ante macroprudential policy strategy; increasing the minimum frequency of CMP and the Financial Stability Coordination Committee meetings; and setting standard agenda items focused on systemic risk and policy options. Stronger public communication would enhance transparency and accountability, including through dedicated policy framework documents for individual tools and reciprocity decisions, more accessible explanations of the rational for macroprudential decisions, and a press conference accompanying the CMP Annual Report. Broader external engagement—such as involving independent experts, as done in other European jurisdictions—could enrich analytical debate and help mitigate groupthink and inaction bias.

38. Further strengthening the operational use of analytical tools in macroprudential policy calibration and implementation is also encouraged. Italy already benefits from a comprehensive set of state-of-the-art systemic monitoring tools, including BdI's risk dashboard covering 150 indicators across 11 risk categories. More systemic use of stress-test results to guide the calibration and release of the SyRB, as well as integrating household sector analytical frameworks into the design and assessment of BBMs, would enhance the operational use of available tools. Continued efforts to build analytical capacity for emerging risks—such as geopolitical, cyber, and climate risks—and to address cross-border data gaps would further support the refinement of reciprocity arrangements and decisions regarding Other Systemically Important Institution (O-SII) buffers.

39. In the context of heightened global uncertainty, a forward-looking and proactive approach to macroprudential policy is warranted. Elevated bank profitability and stable real estate markets provide a favorable window to build releasable buffers at relatively low cost, while Italy's macrofinancial context—characterized by high public debt, low growth, and banks' concentrated exposures to the sovereign—heightens vulnerability to system-wide shocks. In this context, the scope of the SyRB should be extended beyond domestic credit and counterparty risk-weighted exposures—currently covering around 60 percent of total RWAs[15]—to cover all residual systemic risks, including operational and market risks. The SyRB should also capture the systemic dimension of common exposures to sovereign risks that is unaccounted for in the capital requirements framework.[16] At the same time, regular and forward-looking reassessment of the SyRB should be maintained, building on BdI's existing monitoring practices. Moreover, the regulatory framework should be amended to allow earlier activation of BBMs, even when real estate vulnerabilities remain moderate, thereby enhancing flexibility for pre-emptive action and gradual resilience-building while reducing the costs associated with delayed tightening. Any policy actions—including the activation or release of the SyRB and the activation of BBMs—should be accompanied by clear and effective communication to strengthen policy credibility, manage market expectations, and minimize unintended side effects.

Figure 18. EU: Macroprudential Policies Across Jurisdictions

SyRB can be general or sectoral; Italy's has activated sectoral SyRB.

Country	SyRB	Exposures
General		
Austria	0.5-1	All exposures (Bank specific)
	1	Exposures to real estate companies located in Austria
Bulgaria	3	Domestic exposures
Croatia	1.5	All exposures
Czech Republic	0.5	Domestic exposures
Finland	1	All exposures
Romania	0-2	All exposures (Bank specific)
Sweden	3	All exposures (Bank specific)

[15] Such 60 percent is driven by the low level of one SI. Excluding this SI, the domestic credit and counterparty risk-weighted exposure is around 90 percent.

[16] In addition, Pillar 2 requirements would cover the bank-specific risks, thereby ensuring a layered and non-duplicative approach across both dimensions (see section C on Banking Sector).

Figure 18. EU: Macroprudential Policies Across Jurisdictions (concluded)

Sectoral		
Belgium	6	IRB retail exposures secured by residential immovable property for which the collateral (immovable property) is located in Belgium
Denmark	7	Exposures to real estate companies located in Denmark (Exemption for exposures secured by real estate in the 0 to 15 percent loan-to-value range)
Hungary	0-2	Exposures to commercial real estate
Germany	1	Exposures secured by residential property to legal and natural persons
Italy	1	Domestic credit and counterparty credit risks exposures
Lithuania	2	Retail exposures secured by residential property
Malta	1.5	All retail exposures to natural persons secured by residential property
Portugal	4	IRB retail exposures secured by residential immovable property for which the collateral (immovable property) is located in Portugal
Slovenia	0.5	Retail exposures secured by residential property and other exposures to natural persons

Source: ESRB

Note: Hungary's SyRB classified as sectoral by IMF staff

Italy, Germany, and Spain have not activated BBMs.

	Italy	Germany	France	Spain	Austria	Belgium	Netherlands	Finland	Greece	Ireland	Portugal
Household sector tools											
Household sector capital requirements	Yes	No	No	No	No	Yes	Yes	No	No	No	No
Cap on credit growth to the household sector	No	No	No	No	No	No	No	No	No	No	No
Cap on loan-to-value ratio	No	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Cap on loan-to-income ratio	No	No	No	No	No	No	No	No	No	Yes	No
Cap on debt-service-to-income ratio	No	No	Yes	No	Yes	Yes	Yes	Yes	Yes	No	Yes
Limit on amortization periods	No	No	Yes	No	Yes	No	No	No	No	No	Yes
Limit on lending and borrowing denominated in foreign currency	No	No	No	No	Yes	No	No	No	No	No	No

Source: IMF, Macroprudential Database.

Note: Caps on loan-to-value ratio, loan-to-income ratio, and debt-service-to-income ratio differentiated by currency are not applicable for the countries in the table.

B. Cross-cutting Issues

40. The legal protection framework for supervision and resolution authorities' staff should be strengthened to ensure full and timely coverage of defense costs. While Italian legislation broadly aligns with international standards by limiting liability to cases of intentional misconduct or gross negligence, it does not fully protect staff—nor professional service providers engaged in supervisory or resolution tasks—from exposure to legal defense costs. Existing reimbursement mechanisms at BdI, CONSOB, and COVIP, which operate ex post or subject to conditions, only partially mitigate these risks; similar arrangements are absent in IVASS. This framework may undermine supervisory independence critical for adopting timely and decisive interventions. Amending primary legislation to ensure upfront and comprehensive coverage of defense costs would align legal protection with best practices and reinforce operational independence.

41. Greater use of targeted on-site inspections, supported by streamlined processes, would enhance supervisory effectiveness and resource allocation. In Italy, on-site inspections are typically comprehensive and resource-intensive, and are often deployed as follow-ups to off-site

findings. This can result in lengthy inspection cycles and prolonged gaps in on-site presence. Expanding the use of thematic and risk-based on-site inspections—underpinned by clearer prioritization and streamlined processes—would enable more frequent and focused supervisory coverage across sectors and risk types, for banks, NBFIs, and FMIs.

C. Banking Sector

42. The regulatory and supervisory framework for LSIs—primarily based on the EU system—is robust and has seen well-targeted improvements since the 2020 FSAP. Prudential supervision of LSIs is high-quality and comprehensive, structured around the Supervisory Review and Evaluation Process (SREP). Intrusive oversight of vulnerable LSIs has been supported by thorough on-site inspections and decisive measures, while supervisory effectiveness has improved through a departmental reorganization along business models. Additional advances include enhanced horizontal off-site analysis, more proactive communication of supervisory expectations, and expanded use of supervisory technology tools.

43. Credit risk remains the dominant financial risk for LSIs. Sustained supervisory vigilance is essential to ensure timely identification of credit-related vulnerabilities and preserve sound risk management practices. While BdI uses other powers to pursue similar objectives—requests and recommendations to LSIs, specific provisioning policies for own funds purposes and capital add-ons—it should be granted the explicit power to require LSIs to adjust their asset classifications and increase provisioning for prudential purposes, as recommended in the 2020 FSAP. BdI treats concentration risk as a subset of credit risk, but all forms of material concentration risk should be incorporated under Pillar 2. An explicit Pillar 2 add-on targeting bank-specific sovereign concentration exposures should be considered, with appropriate safeguards to avoid double-counting under existing capital measures.[17]

44. Corporate governance and operational risk oversight in the LSI sector have strengthened since the 2020 FSAP, and supervisory intensity should remain high. On-site inspections—with an increased use of targeted ones—and horizontal off-site reviews should continue to reinforce board oversight, strengthen the role of independent directors, and improve risk management and control functions. BdI's regular meetings with non-executive board members, including separate sessions with independent directors, could further support more accountable and forward-looking board behavior. Regarding operational risk, the majority of Italian LSIs have been outsourcing their IT functions to a small number of IT providers. In response, BdI conducted five on-site inspections of these IT providers, and established a dedicated Outsourcers and Third-party

[17] Pillar II in Italy does not directly address concentration risk for sovereign exposures. However, it captures sovereign-related risks through Pillar 2 Requirements, including the Interest Rate Risk in the Banking Book (IRRBB) framework and, where warranted, a specific add-on informed by banks' internal capital adequacy assessment process (ICAAP), and through Pillar 2 Guidance, as sovereign risk is a driver of capital depletion in stress tests.

Supervision Unit in 2022. Sustaining efforts to further enhance supervisory capacity in the rapidly evolving digitalization landscape remains critical.

45. BdI has increased the use of sanctioning and early intervention measures for fragile and troubled LSIs. BdI should keep momentum by acting early and decisively at the first signs of deterioration and moving swiftly up the escalation ladder toward progressively stronger interventions. In this vein, a more formalized escalation ladder process would expedite decision-making and support the full and timely use of corrective and sanctioning powers, ranging from supervisory dialogue to the imposition of Periodic Penalty Payments or other pecuniary sanctions. In parallel, BdI should intensify forward-looking intervention where vulnerabilities persist, particularly for certain LSI business models, such as NPL-specialized LSIs, and those relying heavily on public guarantees or online deposit platforms, which face credit and policy risks, procyclical earnings, and heightened liquidity sensitivity linked to potential interest rate volatility in non-resident deposits.

D. Insurance

46. IVASS delivers high-quality supervision but faces significant resource constraints and requires targeted enhancements. With headcount capped, rigid recruitment processes, and expected turnover of senior staff, full integration of IVASS into BdI would help address resourcing challenges. In the interim, while IVASS remains separate, staffing should be increased to the statutory headcount limit of 400. Further improvements are also warranted in internal model supervision. While comprehensive within the regulatory framework, greater harmonization is needed, including ensuring consistent treatment of sovereign risk across entities. In addition, IVASS, together with EIOPA, should consider implementing a floor to internal model calculations of capital, consistent with the Basel III reforms in banking.[18] Finally, extending IFRS to all Italian insurers would reduce duplicative reporting, avoid the need for temporary and arbitrary orders to suspend accounting requirements, and better align general-purpose financial statements with Solvency II balance sheets.

47. Italy has taken steps to protect policyholders, but key gaps remain in its insurance resolution framework. Although the 2023 resolution of Eurovita was managed effectively, and a Life Guarantee Scheme has since been established, Italy still lacks a dedicated resolution regime. The forthcoming IRRD, expected to be implemented by January 2027, will help address this gap. The Life Guarantee Scheme is pre-funded and compulsory for life insurers and intermediaries (with annual premiums above EUR 50 million), while EU insurers operating in Italy through branches or under Freedom of Services can join on a voluntarily basis. In the absence of EU-wide harmonization, making participation mandatory for all entities offering life insurance products in Italy would strengthen policyholder protection and ensure a level playing field.

[18] Similar recommendation was included in the 2025 Euro Area FSAP.

E. Financial Market Infrastructures

48. As Italy's CSD and CCP expand, BdI and CONSOB have intensified monitoring within an already robust FMI supervisory framework. Following Euronext Group's acquisition of ES-MIL and Euronext Clearing (ENXC), BdI and CONSOB have intensified continuous monitoring, and recent and ongoing inspections underscore heightened supervisory attention to these FMIs. The supervisory framework is robust and well-coordinated, supported by clear EU mandates and a harmonized application of the CPMI-IOSCO Principles for FMIs (PFMIs) through European and Italian regulations. Supervisory processes are well documented, reviewed annually, and underpinned by proportional tools, frequent reporting, strong inter-agency cooperation, and adequate staffing.

49. Further strengthening governance at ES-MIL and advancing ENXC's supervision and resolution arrangements would reinforce resilience. For ES-MIL, priorities include close monitoring of group-level organizational changes within Euronext, ensuring adequate staffing, and maintaining clear management responsibilities despite dual reporting lines. Board oversight should be reinforced through more frequent and effective performance evaluations, and the conflict-of-interest framework should be strengthened through regular reviews, updated mitigation measures, and greater transparency vis-à-vis authorities. Supervisors should also require ES-MIL to formalize a reporting line from the Chief Risk Officer to a non-executive director to safeguard independence, in line with the PFMIs. For ENXC, priorities include more frequent and effective board performance evaluations, sustained participant engagement and information sharing, and completion of resolution plans for all critical services. In addition, ENXC should also share the results of its sensitivity analyses with all participants, consistent with the PFMIs.

F. Cybersecurity

50. Italy's financial sector is undergoing rapid digital transformation, with artificial intelligence adding new layers of complexity to cybersecurity oversight. Investment in new technologies is accelerating across payments, insurance, and banking, while authorities assess threats using global, national, and supervisory intelligence. At the same time, the threat landscape is shifting rapidly, with increasingly advanced artificial intelligence models dramatically lowering the barriers to discovering and exploiting cyber vulnerabilities. In this context, Italian regulatory and supervisory framework is anchored in the EU Digital Operational Resilience Act (DORA) and builds on earlier national efforts but will require sustained adaptation and strengthening to ensure cyber resilience.

51. Italy's cyber resilience framework is relatively mature but still continues to evolve in response to regulatory developments and heightened risks. Authorities collaborate effectively on incident response and intelligence sharing, supported by on-site and off-site inspections, thematic reviews, and advanced testing aligned with international standards. Supervisory capacity has been strengthened through dedicated units, recruitment of IT experts, and advanced training, alongside active participation in domestic and international cyber crisis simulations. Key priorities

include: (i) updating the sector-wide cyber strategy to reflect the DORA and formally integrate insurance and pension fund supervisors; (ii) strengthening governance and independence of cyber-risk oversight across financial entities, including through the appointment of senior cybersecurity officers (e.g., Chief Information Security Officers), and (iii) expanding simulations and cyber stress tests to encompass payment disruptions, supply chain attacks, and cross-sector scenarios involving energy and telecommunication infrastructures, while ensuring effective board-level involvement in sector-wide exercises.

G. Financial Integrity

52. The authorities have strengthened the supervisory framework for money laundering/terrorist financing (ML/TF) risk assessment, and ongoing efforts to ensure effective supervision of the financial sector are welcome. Continued efforts to enhance effective risk-based supervision of the financial sector remain essential, including the consistent application of dissuasive supervisory enforcement actions where Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) deficiencies are identified, and ensuring that adequate resources are in place. BdI has enhanced its ML/TF risk assessment framework, enabling more granular and consistent risk identification across supervised entities. While banks and large NBFIs appear to have generally improved their preventive measures, small and foreign institutions—notably in sectors such as payment and electronic money institutions—continue to lag and warrant increased supervisory attention. Given the predominance of domestic generation of illicit proceeds, additional priorities include refining geographic risk analysis to better assess the economic rationale of cross-border flows and ensuring that supervisory intensity is not overly influenced primarily by institutional size. Further efforts to assess the financial stability implications of integrity failures—through enhanced engagement among AML/CFT, prudential, and financial stability functions—would be beneficial. Continued focus on cross-border cooperation, strengthening regional ML/TF risk assessments, and preparing for the start of supervision by the European Anti-Money Laundering Authority will also be important.

FINANCIAL SAFETY NET

53. Italy has a well-developed financial safety net and crisis-management framework, supported by strong institutional capacity and a track record of effective interventions. BdI serves as an operationally independent resolution authority through its Resolution and Crisis Management Unit (RCMU), which is adequately resourced, staffed with specialized expertise, and reports directly to the BdI Board. Since 2019, the authorities have made extensive use of early-intervention and crisis-management tools to address weaknesses in LSIs and facilitate orderly market exits. Crisis readiness has been further strengthened through closer coordination between supervision and resolution functions, as well as an updated internal crisis-management protocol in 2024. Loss-absorption capacity has increased significantly, resolution plans have been completed for all banks, and the BdI's crisis-management and resolution manual was updated in 2025.

54. Crisis management and decision-making would nevertheless benefit from targeted refinements. First, cooperation among financial safety net authorities should be further formalized through a permanent, yet flexible, coordination forum (without decision-making powers), involving RCMU, sectoral supervisors, and both DGS. Clear roles and interaction modalities should be established through appropriate internal rules (such as Terms of Reference or amendments to the BdI's Statute), especially given BdI's multiple functions and the need to coordinate with private DGS during preventive measures, resolution actions, and liquidation transfers. Second, RCMU should develop an independent set of well-defined indicators—including metrics linked to minimum capital adequacy and other regulatory ratios—to support its assessment of when institutions are "failing or likely to fail." Finally, to enhance LSI resolvability, the RCMU should clarify expectations and facilitate engagement with FMIs and other critical third-parties, helping entities address operational constraints beyond their direct control.

55. Private DGS are a core component of Italy's crisis-management framework, with a far-reaching role that merits stronger public involvement. The 2020 FSAP recommendations in this area remain relevant, including improving fund adequacy to handle multiple LSI failures, establishing a public backstop, and integrating DGSs into crisis contingency planning. As DGS resources are expected to play a greater role in resolution funding under the emerging European Crisis Management Deposit Insurance framework (CMDI), effective public governance will become increasingly important. Accordingly, the authorities should remove active bankers from DGS governance and consider the eventual transition of the DGSs to the public sector, to eliminate conflicts of interest, enhance information exchange and inter-agency coordination, facilitate resolution funding, and ensure appropriate legal protection for DGS actions.

Table 3. Italy: Interventions by Interbank Deposit Protection Fund
(2019 – 2026Q1)

Bank	Year	FITD intervention	Cost in € million
Banca Progetto	2026	Preventive	750 + guarantees
Banca Carige	2022	Preventive	530
Aigis Banca	2021	Alternative in Liquidation	48,8
Banca Popolare di Bari	2020	Preventive	1170
Banca Carige	2019	Preventive	301
Banca del Fucino	2019	Preventive	30*

Sources: BdI and Interbank Deposit Protection Fund (FITD)
* Guarantee was ultimately not activated

56. Italy's recurrent reliance on DGS-funded preventive interventions should be discontinued in favor of liquidation that equally preserve financial stability. Since 2019, BdI has addressed bank weaknesses proactively through market-based solutions, notably consolidation.[19]

[19] During this period, the number of LSIs declined by 22 due to market consolidation (excluding one voluntary withdrawal and one compulsory liquidation), with 10 cases involving troubled or crisis banks (see Figure 3). Additionally, nine fragile banks underwent

(continued)

Alternatively, DGS resources have been used either to support compulsory administrative liquidation ("alternative interventions," in one case) or—more frequently—to preserve banks as going concern, with "preventive interventions" applied to three LSIs and one SI (Table 3). While these interventions aim to avert failure, they rest on uncertain forward-looking viability and valuation assessments, subject to the discretion of privately governed DGS. As illustrated by a recent case,[20] this can result in sizable recapitalizations of small, severely undercapitalized institutions, a form of open-bank assistance for non-systemic banks that the DGS should avoid. For such cases, DGS-supported liquidation ensures appropriate loss allocation to unsecured creditors, relies on clearer BdI execution powers, and—by closing institutions—reduces moral hazard and risk of second-round losses. To strengthen transparency around trade-offs and decisions to deploy DGS resources, the DGS should, under the RCMU supervision, publish clear valuation methodologies specifying how economic and liquidation values are determined and these valuations inform the least-cost tests.

57. BdI's Emergency Liquidity Assistance (ELA) framework is well developed but would benefit from greater transparency and operational testing for liquidity in resolution. Internal arrangements under the Eurosystem Agreement on ELA provide clear processes for eligibility, oversight, and risk management, supported by the monetary function through internal Memorandum of Understanding (MoUs) that enable timely information sharing and analysis. BdI has also made progress on prior FSAP recommendations by standardizing contractual and IT arrangements, strengthening liquidity and collateral monitoring, and advancing Eurosystem work on disclosure and cross-border risk sharing. To build on these improvements, and in line with EA FSAP recommendation, BdI should review its lending capabilities and procedures to ensure full operational readiness for providing liquidity in resolution, subject to adequate safeguards (including viability assessments, close cooperation between supervision and resolution authorities, and ex-ante agreement on a government indemnity to the central bank). This should include enhanced public disclosure of BdI's arrangements in this area, as well as the establishment of testing arrangements to confirm operational capacities for counterparty collateral pledging and other related reporting requirements.

58. Ongoing efforts to improve the enforcement and insolvency frameworks should continue. Inefficient debt resolution has long been a structural weakness in Italy, with significant long-term implications for both the effectiveness of financial intermediation and the broader economy. It depresses NPL recovery values and delays corporate restructuring, credit restoration, and capital reallocation. Italy is implementing a comprehensive reform agenda in this area, centered on the new Insolvency Code (in force since mid-2022 and amended in 2024), increased use of out-of-court mechanisms, and the NRRP-backed measures to enhance court resourcing and

major business-model changes linked to capital injections or ownership changes, and early-intervention measures (e.g., temporary administration) were applied in nine cases.

[20] In January 2026, the FITD implemented the preventive recapitalization of Banca Progetto, a digital bank with €7.7 billion in assets. The bank received a €750 million capital injection and guarantees costing €550 million. It was sold to five banks, with FITD retaining a 9.9 percent stake.

digitalization.[21] While authorities report improvements in processing times, cases initiated prior to the reforms remain lengthy—averaging about 7.5 years for judicial liquidations and five years for foreclosures. Sustained implementation remains critical to fully operationalize the reforms and secure durable gains for the financial sector.

AUTHORITIES' VIEWS

59. The authorities welcomed the FSAP as a valuable exercise and appreciated both the constructive nature of the assessment and the recognition of Italy's significant progress. They underscored their commitment to a useful and policy-relevant assessment by engaging actively in discussions and data provision. The significant resource demands involved were assessed as fair and worth accommodating in the light of the importance of the exercise. Overall, the authorities considered the team's analysis and policy dialogue to be broadly consistent with their own view of key risks and vulnerabilities.

60. The authorities broadly agreed with the systemic risk assessment. They concurred with the FSAP stress test results indicating that the banking system is resilient to severe but plausible macrofinancial shocks, from both solvency and liquidity perspectives. They highlighted the recent shift in the sovereign investor base away from banks toward households and foreign investors, and supported a gradual rollback of public guarantees toward pre-pandemic levels, to rebuild policy space against the next crisis episode. They agreed that remaining vulnerabilities are concentrated in a limited number of LSIs, and pointed out that top-down stress test exercises such as those carried out domestically, as well as by the IMF team, do not properly consider the features of specific business models such as NPL management and other forms of specialized lending. On liquidity, they viewed the idiosyncratic funding shock as a tail risk scenario that is most useful for identifying vulnerabilities in specific funding structures, but less informative for assessing system-wide resilience. Finally, the authorities welcomed the finding of broad resilience to flood-related physical risks, while noting that the analysis carried out by the IMF team is based on an extreme assumption of simultaneous flooding across Italy's main river basins.

61. The authorities welcomed the assessment of the regulatory and supervisory framework, although their views differed on the materiality of some findings. They broadly endorsed recommendations to further strengthen supervisory effectiveness, including enhancing legal protection, acknowledged staff's recommendation to complete IVASS's integration into BdI, and agreed that improvements in insolvency procedures and in the enforcement of judicial and extrajudicial processes remain essential to support NPL recovery values and efficient post crisis capital reallocation. They also agreed with the key areas identified for forward-looking supervision of LSIs and cybersecurity and noted that ongoing supervisory work is well-aligned with these

[21] Applications for *concordato preventive*—a judicial insolvency proceeding—rose to 762 in 2024 (from 678 in 2023), while negotiated workout procedures exceeded 1,000 cases in 2024 and nearly doubled again in the first half of 2025. In addition, the new Ufficio per il Processo has about 12,000 professionals.

priorities. At the same time, they considered an explicit prudential power to require reclassification and additional provisioning to be of limited practical relevance, given the effectiveness of existing supervisory tools. They emphasized that sovereign risk is already covered under the prudential framework through Pillar 2 measures (within the IRRBB and the stress test exercise) and cautioned against additional supervisory measures that may overlap with the existing ones. In this context, they did not support extending the SyRB beyond its current perimeter, arguing that the existing scope captures the main systemic channels (covering most domestic RWAs) and supports implementation and reciprocity by other EU jurisdictions. They also noted their ongoing analytical work on BBM and stressed their readiness to act if risks rise. Finally, the authorities underscored that their approach to crisis prevention and management has been very proactive and effective since the last FSAP, contributing to a significant restructuring of the overall LSIs sector. Therefore, they saw no need for material changes at this stage. In particular, they disagreed on the need of restricting DGS funded preventive interventions, which are a standard tool under EU and national law and are applied proportionally and parsimoniously on a case-by-case basis (three LSIs involved out of 19 crisis related cases since 2019). They also emphasized that such interventions typically entail full shareholder loss absorption and governance changes, mitigating moral hazard concerns, and that the new CMDI makes a substantial step in the direction of easing DGS interventions other than payouts.

Table 4. Italy: Selected Economic Indicators, 2024 – 2031
(Percent change, unless otherwise indicated)

			Projections					
	2024	2025	2026	2027	2028	2029	2030	2031
Real GDP	0.8	0.5	0.5	0.5	0.8	0.7	0.7	0.7
Real domestic demand	0.7	1.2	0.6	0.4	0.7	0.6	0.6	0.6
Final domestic demand	0.3	1.5	0.9	0.5	0.6	0.6	0.6	0.6
Private consumption	1.2	1.1	0.5	0.3	0.8	0.7	0.6	0.6
Public consumption	1.5	0.6	0.5	0.3	-0.3	0.1	0.3	0.4
Gross fixed capital formation	-3.1	3.5	2.3	1.0	0.9	0.7	0.7	0.7
Stock building 1/	0.4	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0
Net exports 1/	0.1	-0.6	-0.1	0.1	0.2	0.1	0.1	0.1
Exports of goods and services	-0.4	1.2	1.5	2.1	2.0	2.2	2.2	2.1
Imports of goods and services	-1.0	3.6	1.9	1.9	1.5	2.0	1.9	1.8
Savings 2/	23.4	23.4	23.0	23.1	23.4	23.6	23.7	23.8
Investment 2/	22.3	22.2	22.5	22.0	21.8	21.8	21.6	21.5
Nominal GDP (billions of euros)	2,202	2,258	2,320	2,381	2,441	2,499	2,558	2,618
Resource utilization								
Potential GDP	0.7	0.7	0.7	0.7	0.7	0.7	0.6	0.6
Output gap (percent of potential)	0.2	0.0	-0.2	-0.3	-0.2	-0.1	-0.1	0.0
Employment	1.5	0.8	0.1	-0.7	-0.6	-0.7	-0.9	-1.0
Unemployment rate (percent)	6.6	6.1	5.6	5.9	5.9	5.9	5.9	5.9

Table 4. Italy: Selected Economic Indicators, 2024 – 2031 (concluded)
(Percent change, unless otherwise indicated)

Prices								
GDP deflator	2.0	2.0	2.2	2.1	1.7	1.7	1.7	1.7
Consumer prices	1.1	1.6	2.9	2.4	2.3	2.0	2.0	2.0
Consumer prices (core)	2.2	2.0	2.2	2.2	2.0	2.0	2.0	2.0
Hourly compensation 3/	3.2	3.9	1.3	0.3	2.4	1.8	1.1	0.8
Productivity 3/	-1.6	1.3	0.4	0.7	0.5	0.5	0.5	0.5
Unit labor costs 3/	4.8	2.6	0.9	-0.4	1.9	1.3	0.6	0.3
Fiscal Indicators								
General government net lending/borrowing 2/	-3.4	-3.1	-2.9	-2.8	-2.5	-2.5	-2.5	-2.7
General government primary balance 2/ 4/	0.5	0.8	1.2	1.3	1.8	1.9	2.0	2.0
Structural overall balance (percent of potential GDP)	-3.7	-3.2	-2.8	-2.7	-2.3	-2.5	-2.5	-2.7
Structural primary balance (percent of potential GDP)	0.2	0.7	1.3	1.5	2.0	1.9	2.1	2.0
General government gross debt 2/	134.7	137.1	138.2	138.2	137.5	136.7	136.3	136.1
Exchange Rate Regime			Member of the EMU					
Exchange rate (national currency per U.S. dollar)	0.9	0.9	...	...	...	...	...	...
Nominal effective rate: CPI based (2010=100)	110.1	112.6	...	...	...	...	...	...
Financial sector								
Bank loans to the private sector (change in percent of	-0.9	1.0	0.0	0.5	0.9	0.9	0.9	0.9
External Sector 2/								
Current account balance	1.1	1.1	0.5	1.1	1.5	1.8	2.1	2.3
Trade balance	2.2	1.9	1.3	1.9	2.2	2.4	2.6	2.8
Capital account balance	0.0	0.2	0.1	0.1	0.1	0.1	0.1	0.1

Sources: National Authorities; and IMF staff estimates.

1/ Contribution to growth.
2/ Percent of GDP.
3/ In industry (including construction).
4/ Primary balance: net lending/borrowing excluding

Table 5. Italy: Financial System Structure
(as of end 2024)

	2020				2022				2024			
		Assets				Assets				Assets		
	Number	(billions of euro)	(percent of total)	(percent of GDP)	Number	(billions of euro)	(percent of total)	(percent of GDP)	Number	(billions of euro)	(percent of total)	(percent of GDP)
Banks	**224**	**3,525**	**56%**	**211%**	**213**	**3,528**	**58%**	**177%**	**208**	**3,397**	**54%**	**154%**
Domestic	134	3,012	48%	180%	125	2,973	49%	149%	121	2,839	45%	129%
Significant Institutions	11	2,646	42%	158%	12	2,668	44%	134%	12	2,531	40%	115%
Less Significant Institutions	123	366	6%	22%	113	305	5%	15%	109	308	5%	14%
Foreign (incl. branches)	90	513	8%	31%	88	555	9%	28%	87	558	9%	25%
Insurance Companies	**99**	**1,088**	**17%**	**65%**	**92**	**972**	**16%**	**49%**	**89**	**1,098**	**17%**	**50%**
Life	34	668	11%	40%	29	594	10%	30%	28	666	11%	30%
Non-Life	53	26	0%	2%	51	26	0%	1%	47	28	0%	1%
Others	12	394	6%	24%	12	352	6%	18%	14	404	6%	18%
Pension funds	**221**	**162**	**3%**	**10%**	**197**	**163**	**3%**	**8%**	**176**	**195**	**3%**	**9%**
Fund management and securities companies	**243**	**445**	**7%**	**27%**	**257**	**466**	**8%**	**23%**	**260**	**586**	**9%**	**27%**
Asset management companies	**39**	**889**	**14%**	**53%**	**40**	**787**	**13%**	**39%**	**37**	**879**	**14%**	**40%**
Total Financial Sector	**826**	**6108**	**100%**	**366%**	**799**	**5917**	**100%**	**296%**	**770**	**6155**	**100%**	**280%**

Source: Bank of Italy, ECB

Table 6. Italy: Financial Soundness Indicators, 2020-2025

(In percent)

	2020	2021	2022	2023	2024	2025
	Core FSIs for Deposit-taking institutions					
Regulatory capital to risk-weighted assets	19.3	18.8	19.2	19.4	19.7	19.4
Regulatory tier 1 capital to risk-weighted assets	16.9	16.5	16.7	16.9	17.2	17.0
Nonperforming loans net of provisions to capital	20.2	16.5	13.8	12.7	12.9	11.8
Nonperforming loans to total gross loans	4.4	3.3	2.8	2.7	2.8	2.5
Growth of bank loans to private non-MFI	4.7	2.1	2.1	-2.8	-0.3	2.0
Nonfinancial corporations	8.4	1.7	-0.2	-3.7	-2.3	1.8
Households	2.3	3.7	3.3	-1.3	0.3	2.5
Return on assets	0.1	0.4	0.7	1.2	1.4	1.4
Return on equity	0.9	6.0	7.5	12.1	12.4	13.5
Interest margin to gross income	49.5	46.4	51.5	60.4	58.5	54.2
Net open position in foreign exchange to capital	0.8	0.0	4.0	4.2	2.9	3.8
Liquid assets to total assets	21.3	23.1	18.3	17.6	15.5	15.2
Liquid assets to short-term liabilities	97.7	96.9	86.7	107.8	124.0	127.5
Liquidity coverage ratio	...	...	188.1	186.5	175.0	175.7
Net stable funding ratio	...	...	132.4	132.2	132.5	131.8
	Encouraged FSIs for Deposit-taking institutions					
Capital to assets	6.6	6.1	5.9	6.1	6.3	6.3
Gross asset position in financial derivatives to capital	38.4	34.3	48.9	35.8	33.5	35.8
Gross liability position in financial derivatives to capital	40.2	36.1	48.9	37.8	34.9	35.4
Personnel expenses to noninterest expenses	54.2	53.1	52.0	52.4	53.7	53.5
Customer deposits to total (noninterbank) loans	68.5	90.6	78.1	80.1	85.7	86.6
Foreign-currency-denominated loans to total loans	6.3	7.1	6.9	6.4	7.4	7.9
Foreign-currency-denominated liabilities to total liabilities	11.6	12.1	7.0	6.8	7.4	6.9

Sources: IMF, Financial Soundness Indicators

1/ Data from the IMF Financial Soundness Indicators database have been updated, when possible, with Bank of Italy's or ECB's data.

Table 7. Italy: Risk Assessment Matrix

Sources of Risk	Relative Likelihood[1]	Impact If Realized
Global Risks – Conjunctural		
Geopolitical tensions and intensification of conflicts. Rising geopolitical tensions, and a weakening of multilateralism, raise the risk of an escalation in military conflicts, accompanied by damage to key physical and financial infrastructure, disruptions in major transit routes and supply chains, higher migration pressures, additional financial frictions and market volatility.	High	High: Higher energy and food prices given Italy's energy dependence. Input shortages negatively impact on the manufacturing sector. Financial market volatility and increasing debt service costs. Defense needs may increase. A refugee influx could further stretch domestic absorption capacity. Tourism inflows could benefit from rerouting; however, jet fuel shortages could limit these gains and amplify the negative impact.

Table 7. Italy: Risk Assessment Matrix (continued)		
Commodity price volatility. Supply and demand imbalances—triggered by geopolitical tensions, coordinated production decisions, shifts in investor preferences, or structural changes in demand—fuel commodity price swings, amplifying external and fiscal pressures, social unrest, and macro instability.	High	High: Italy is a large commodity importer, including energy products. Supply disruptions and/or price spikes could significantly impact business profitability and output, real incomes, and the current account.
Trade-related risks • Protectionism and trade disruptions. Tariff and nontariff measures disrupt global supply chains, weighing on activity while increasing inflation. Trade diversion triggers broader protectionism. • New trade agreements. Tangible progress in trade talks reduces uncertainty and trade barriers. Wider cooperation on services, FDI, and taxation boosts investment and bolsters public finances.	High Low	Medium: Given Italy's openness, integration in the global value chains, and importance of the manufacturing sector, higher trade barriers negatively impact export growth both directly and indirectly through adverse impacts on trading partners. However, these adverse effects can be mitigated if trade within the EU and with the rest of the world remains open.
Fiscal vulnerabilities and higher interest rates. Higher public debt and deficit levels put further upward pressure on long-term interest rates, sharply tightening global financial conditions, amplifying currency volatility, and reducing consumption and investment that exacerbate adverse debt dynamics. Disruptions are amplified by increased role of price-sensitive investors and leveraged NBFIs in sovereign debt markets, limited market absorption capacity when NBFIs offload debt securities, higher roll-over needs on shorter sovereign debt maturities, and strong sovereign-financial nexus. Concurrently, capital outflows from emerging and developing economies elicit a sharp increase in short-term rates.	High	High: Higher sovereign borrowing costs and a shift in risk sentiment would cause repricing of government, bank, and non-financial corporate bonds, curtail credit activity, and strain leveraged corporates and households. Loan quality would deteriorate. Insolvencies would increase, deteriorating bank balance sheets and profitability. An increase in sovereign borrowing costs would further deteriorate public debt dynamics.

Table 7. Italy: Risk Assessment Matrix (continued)

Sources of Risk	Relative Likelihood[1]	Impact If Realized
Policy uncertainty. Elevated and wide-ranging policy uncertainty weighs on sentiment and holds back consumption and investment. Political interference in independent economic institutions erodes public confidence and trust and raises the risk of policy mistakes.	High	High: Precautionary saving would rise and durable spending delayed despite increasing disposable income. Uncertainty also depresses investment and hiring, weakening growth.
Disorderly AI correction. An abrupt revision in expectations of strong AI-led productivity gains causes a sharp market correction, investment decline, and wealth loss, which suppress demand and tighten financial conditions globally.	High	Medium: The main channels would be (i) household wealth effects (e.g., indirect exposure via funds/ pensions/insurance products) and (ii) tighter global financial conditions and weaker external demand in a broader risk-off episode. Overall impact is highly uncertain but could increase if accompanied by a generalized repricing of risk that widens sovereign spreads and tightens credit.
Global Risks – Structural		
Labor shortages and remittances. Tighter immigration policies exacerbate labor shortages in aging destination economies, reducing potential output, fueling inflation, and straining fiscal balances through lower revenues. Origin countries see depressed remittances and incomes, and worsening external balances, though a larger labor force could partly offset the remittance decline over the medium term.	High	Medium: Immigrant labor shortages would significantly amplify existing demographic headwinds, posing risks to medium-term growth and potential output. Worsening labor shortages would constrain production capacity, add to inflationary pressures, and weaken fiscal balances through lower employment and revenue bases.
Sources of Risk	Relative Likelihood[1]	Impact If Realized
Cyberthreats. Cyberattacks on physical or digital infrastructure, technical failures, or misuse of AI technologies could trigger financial and economic instability.	High	High/Medium: While digitalization is advancing in Italy, cyberattacks could still impair the functioning of the financial system, public services, and overall economic activity.
Climate change. Extreme climate events and rising temperatures could cause loss of life, damage to infrastructure, food insecurity, supply disruptions, and heighten economic and financial instability.	Medium	Medium: Climate-related losses could reduce real GDP and increase fiscal costs. EU member states may experience increased migration flows from economies severely affected by climate disruptions.

Table 7. Italy: Risk Assessment Matrix (concluded)		
AI acceleration. Rapid AI adoption significantly improves productivity, boosts growth, and revives business dynamism. Realizing these gains requires complementary policies to manage energy constraints, scale critical inputs, and support labor market transitions.	Medium	Medium: Rapid AI adoption would raise productivity and potential growth, supporting business dynamism and fiscal sustainability in an aging economy. Gains may be uneven across firms and regions, while rising energy demand and skill mismatches could limit the aggregate payoff absent complementary policies.
Domestic Risks		
Lack of a post-NRRP reform strategy. Failure to assess and build upon NRRP policy instruments and strategies could weaken the reform and investment momentum needed to sustain medium-term growth after NRRP funding ends.	Medium	High: Loss of NRRP-related productivity and growth gains. Ineffective or fiscally costly instruments persist, while successful reforms are not scaled up. Weak continuity in outcome-based conditionality could lower investment efficiency and weigh on fiscal sustainability.
Ineffective tax reform. A more regressive tax system or one that relies on ad hoc rate cuts while preserving large policy gaps.	High	High: Relying on a supply-side response from tax cuts to boost revenue could disappoint, particularly in the context of the current strong labor market. Reducing progressivity would further raise inequality and raise the need for costly social transfers. Inability to raise revenues risks resulting in under-delivery on much-needed fiscal consolidation.
Failure to put public debt firmly on a downward path. Debt-to-GDP and gross financing needs are expected to remain elevated. More acute spending pressures on defense and energy security amid ongoing geopolitical tensions. Proliferation of public loan guarantees.	Medium	High: With already elevated public debt and gross financing needs, any further macro-financial shocks would increase Italy's already high borrowing costs, potentially triggering the need for a sharp fiscal adjustment. High borrowing costs could also lead to financing constraints for banks and a credit crunch. The increasing use of public loan guarantees is adding to contingent liability and medium-term fiscal risks.
Stronger spillovers from European infrastructure and defense spending. Larger-than-expected infrastructure and defense spending in Europe, especially Germany, could generate stronger positive spillovers to Italy through tightly integrated industrial supply chains.	Low	High: Given Italy's strong production linkages with Europe, particularly Germany, higher public investment could boost Italian industrial output, exports, and investment, particularly in manufacturing and capital goods. Stronger external demand would support growth, employment, and fiscal revenues, improving the near-term outlook.

Table 8. Italy: Stress Testing Matrix (STeM)		
Domain		Assumptions Top-down by FSAP team
Banking Sector: Solvency Stress Test		
1. Institutional Perimeter	Institutions included	• Stress tests cover 31 banks, including: o All Italian Significant Institutions (SIs): 12 banks accounting for 86 percent of total banking assets, of which seven SIs are identified by the Bank of Italy (BdI) as Other Systemically Important Institutions. o Foreign subsidiaries of SI banks: 2 banks accounting for 6 percent of total banking assets. o Less Significant Institutions (LSIs): 17 banks accounting for an additional 6 percent of banking assets.
	Market share	• About 98 percent of banking system assets and 53 percent of total financial system assets.
	Data source and starting date	• Data Sources: Balance sheet and supervisory returns (COREP and FINREP), supervisory data from Bank of Italy including the credit registry and Cerved data for corporate sector analysis, and publicly available data (ECB statistical data and household survey data such as HFCS and EU-SILC micro data for households analysis). • Baseline date: Balance sheets as of June 2025. • Scope of consolidation: Consolidate basis for domestic SIs (banks with their headquarters in Italy) and individual basis for other banks (LSIs and foreign SI banks).
2. Methodology	Overall framework	• Credit risk assessed with scenario-based, top-down, bank-level stress test model complemented with sensitivity analysis. • Credit portfolio in four main categories: households, corporate, financial institutions, and government.
	Satellite models for macro-financial linkages	• Credit risk: Satellite models linking bank-specific probability of defaults (PDs) for each credit type to a set of macroeconomic variables comprising GDP growth, interest rates, unemployment, and other macro variables. Alternatively, micro-models for households (projection of household DSTI ratios and PDs), and corporates (projection of PDs link to key financial indicators from the corporate stress test) will be used as credit risk parameters. • Market risk: valuation losses/gains due to the impact of interest rate shocks on banks' investment portfolio at fair value. • Net interest income: interest-rate projections for new business on assets and liabilities linked to macroeconomic scenarios.
	Stress test horizon	• 3-years (2025Q2-2028Q2).
	Assumptions	• Balance-sheet assumptions: (i) static balance-sheet assumption in line with the very low or negative credit growth rates in the last five years; (ii) the composition of banks' assets remains constant throughout the stress test horizon; (iii) banks build capital only through retained earnings, no new capital injections are assumed; and (iv) bank deposits adjust as

Table 8. Italy: Stress Testing Matrix (STeM) (continued)		
Domain		Assumptions Top-down by FSAP team
		needed to close the accounting identity. • The tax rate is set at the bank-specific median effective tax rate across the past five years for the stress testing horizon in case of positive net income and zero otherwise. • Dividends are assumed to be paid out of each period net income after taxes in compliance with supervisory capital requirements. The payout ratio is based on the bank's median dividend payout over the past five years. Banks that are not well-capitalized or have negative income are assumed to pay no dividends.
3. Type of analyses	Scenario analysis	• Scenario-based stress tests focus on the impact of macroeconomic variables on credit, market, and interest rate risks. • Three macroeconomic scenarios simulated with yearly frequency: a baseline scenario and two adverse scenarios consistent with those used in the 2025 Euro Area FSAP. The adverse scenarios rely on the GFM, a structural macro-econometric model of the world economy, disaggregated into forty national economies, documented in Vitek (2018). • Baseline scenario: In line with the World Economic Outlook (WEO) projections of the global economy and financial conditions for the October 2025 publication. The scenario considers the dynamics of GDP growth, unemployment, headline inflation, housing prices, labor costs, and oil price, which affect bank profitability and risk-weighted assets through various channels. • Geopolitical scenario: Features the materialization of a further escalation of geopolitical conflicts, heightening commodity price volatility and disrupting global production chains, with large adverse trade, price, and tariff shocks ("trade wars") slowing growth. In this scenario the inflationary impact of production chain disruptions would lead to monetary policy tightening. • Recessionary scenario: Considers a synchronized global slowdown amplified by sovereign debt distress in the EA, the widening of credit spreads, term premium decompression, and confidence losses impacting aggregate demand. Under this scenario, accommodative monetary policy would mitigate the adverse impact on aggregate demand.

Table 8. Italy: Stress Testing Matrix (STeM) (continued)		
Domain		Assumptions Top-down by FSAP team
	Sensitivity analysis	• Sensitivity analyses to complement the scenario-based analysis. • Credit risk assessed with additional scenarios in the household and corporate micro-models, focusing on economic sectors vulnerable to tariffs. • Concentration risk assessed with a separate assessment of individual bank exposures to their 10 largest borrowers. • Liquidity-solvency interaction to assess the potential effect of liquidity stress on solvency in case banks are unable to pledge bonds with the central bank (due to lack of access or operational failures during liquidity crisis) and need to sell AC bonds at depressed prices to cover liquidity shortfalls.
4.Risks and Buffers	Risks assessed	• Credit risk and sovereign risk: IFRS approach. • Market risks in the trading book: valuation losses/gains due to the impact of interest rate shocks on banks' investment portfolio at fair value • Interest rate risk in the banking book: structural model to estimate the impact of interest rates shocks on interest income and expenses using the repricing ladder structure and projected interest rates on new/repriced assets and liabilities.
	Buffers	• Existing loan loss provisions and capital buffers. • Internal capital generation (i.e., income after taxes).
5. Regulatory Standards	Regulatory Standards	• Bank-specific (STA/IRB). • Hurdle rates consistent with the Italian capital regulatory standards that reflect Basel III capital requirements. The hurdle rate applied in the stress test accounts for Common Equity Tier 1 (CET1) regulatory minimum of a 4.5 percent Pillar 1 requirement, bank-specific Pillar 2 requirements, the Capital Conservation Buffer (CCoB) of 2.5 percent and the bank specific O-SII buffers. For the leverage ratio the hurdle rate of Pillar 1 requirement was considered, corresponding to 3 percent.
6. Reporting Format for Results	Output presentation	• System-wide capital shortfalls from a macroprudential perspective. • Number of banks and percentage of banking system assets below hurdle rates. • Impact of shocks on key P&L components.
Banking Sector: Liquidity Stress Test		
1. Institutional Perimeter	Institutions included	• All Italian SIs (12 banks, 86 percent of total banking assets) and biggest LSIs (17 banks, 6 percent of banking assets).
	Market share	• About 92 percent of the banking system assets.
	Data and Starting position	• Cut-off date: June 2025. • Data Source: supervisory data from FINREP and COREP (LCR, NSFR, and ALMM Maturity Ladder template).

Table 8. Italy: Stress Testing Matrix (STeM) (continued)		
2. Methodology	Overall framework	• Cash-flow-based liquidity stress test: Assess the ability of banks to withstand a sequence of liquidity shocks in different maturity buckets (from one day to one year), incorporating both contractual and behavioral
Domain		Assumptions Top-down by FSAP team
		assumptions (where available). • LCR-based (30-day horizon) reverse stress tests: Identify the size of shocks that would lead individual banks to fall below 100 percent LCR requirement. • Currency: euro.
3. Type of analyses	Scenario analysis	• Various stress scenarios are considered, with varying intensity of adverse liquidity conditions. Main risks analyzed are tightening of market liquidity conditions (linked to solvency adverse scenario, where possible), deposit run-offs and outflows from top funding sources. • The run-off rates are calibrated to reflect scenarios of system-wide deposit runs and a dry-up of unsecured wholesale and retail funding, following historical events, recent international experience in liquidity crises and IMF expert judgment. • Outflow/inflow weights, the haircuts of high-quality liquid assets (HQLA) are aligned with EA 2025 FSAPs. Additional sensitivity analysis is used to assess the impact of higher outflows from term deposits based on Italian historical data.
4. Risks and Buffers	Risks	• Funding liquidity. • Market liquidity.
	Buffers	• The counterbalancing capacity includes liquidity obtained from markets and/or the central bank's facilities. Expected cash inflows are also included in the cash-flow based and LCR analyses.
5. Regulatory Standards	Regulatory Standards	• Consistent with Basel III regulatory framework and domestic regulation.
6. Reporting Format for Results	Output presentation	• System-wide liquidity ratios and liquidity shortfall by groups of banks. • Number of institutions with LCR below regulatory limits • Net Liquidity Position and the survival period for cashflow based analysis.
Corporate Stress Test		
1. Institutional Perimeter	Entities included	• All firms with available financial information in CERVED data source, including small and medium-sized enterprises (SMEs). Sample period covers 2000-2023, with about 500 thousand firms per year.
	Data	• Cerved financial database on corporations, including balance sheets and profit and loss statements. By number of firms, 68 percent are micro, 25 percent are small, 6 percent are medium, and 1.5 percent are large. By turnover, micro firms account for 6 percent, small firms for 15 percent, medium firms for 19 percent, and large firms for 61 percent.

Table 8. Italy: Stress Testing Matrix (STeM) (continued)		
	Time Horizon	• Corporate-level data in 2024 will be used as a starting point. Firms without 2024 data will be imputed by using growth rate of other firms with the same sector and firm size. The data will be projected to 2026 using the bank solvency stress test scenarios.
	Overall framework	• Liquidity and solvency of companies will be tested based on the four indicators (Return on Asset (ROA), Interest Coverage Ratio (ICR), cash balance, and leverage (debt to assets, D/A), conditional on the baseline
Domain		Assumptions Top-down by FSAP team
		and adverse scenarios applied to the bank stress tests. • Individual firms are classified by their economic activities and subject to the adverse scenarios used in the bank solvency stress tests. The shocks include an increase in interest expenses on short-term debt, a drop in turnover, and an increase in costs, estimated from the baseline and adverse scenarios.
	Scenarios	• The analysis applies the same baseline and distressed scenarios used in the bank stress tests. The corporate stress test uses the sectoral estimated scenarios and shocks to interest rates to apply firm-specific shocks consistent with the bank stress tests. • Sensitivity analysis will be conducted by assuming additional negative shocks to sectors vulnerable to tariffs (manufacturing, machinery, and transport equipment) and CRE-related sectors (construction & real estate activities).
2. Risks and Buffers	Risks	• Insolvency risk.
	Buffers	• EBIT (earnings before interest and taxes) and capital.
3. Reporting Format for Results	Output presentation	• Total debt, and number of risker firms (such as firms with ROA below 0 percent, ICR below 100 percent, negative cash balance, and negative equity). • Default probability by economic sectors, firm sizes, and macro region, under baseline and adverse scenarios.
Climate Risk Analysis		
1. Institutional Perimeter	Institutions Included	• 9 SIs and 78 LSIs.
	Data	• Bank of Italy Credit Register Data on banks' mortgages exposures: the stock of outstanding mortgages by bank and by municipality in which the bank branch which granted the loan is located as of end 2024. • Domestic sovereign loans and bonds data from Bank of Italy. • Osservatorio del Mercato Immobiliare dell' Agenzia delle Entrate (OMI) real estate price data. • Stock of residential real estate in Italy from the Italian National Institute of Statistics (Istat). • Flood risk maps from the Italian Istituto Superiore per la Protezione e la Ricerca Ambientale (ISPRA). • Flood depth maps under the RCP 4.5 climate scenario in 2030 from WRI. • NGFS short-term physical risk (floods) scenarios.

Table 8. Italy: Stress Testing Matrix (STeM) (concluded)		
2. Methodology	Overall framework	• Estimated flood damages to residential real estate by municipality will be mapped to banks' mortgages issued by a branch in the same municipality. • The macrofinancial EIRIN model will be used to calibrate macro financial scenarios accounting for the impact of floods.
3. Risks	Risks	• Credit risk on domestic mortgages and sovereign loans. • Market risk on domestic sovereign bonds.
4. Reporting of Results	Output presentation	• Maps of banks' exposures to flood risks. • Credit risk losses on domestic mortgages and sovereign loans. • Market risk losses on domestic sovereign bonds.
Domain		Assumptions Top-down by FSAP team
Interconnectedness Analysis		
1. Institutional Perimeter	Institutions Included	• BdI and IVASS.
	Data	• Eurostat counterparty sectorial exposure through financial accounts (whom-to-whom) information. • Inter-sectoral exposures and interconnectedness analysis. • It covers the following sectors: Banks, NBFIs (insurance and investment funds), general government, non-financial corporations, households, and the Rest of the World (USA, EU, and others). • The analysis encompasses the following financial instruments: loans, debt securities, listed shares, investment fund shares, transferrable deposits, and other deposits. • To assess contagion risks arising from the global financial system, the analysis will include the following variables: VIX, policy uncertainty indicator, geopolitical fragmentation.
2. Methodology	Overall framework	• The first analysis maps the network topology of the Italian financial system using Eurostat data to identity systemic risks and vulnerabilities. • The second analysis consists of an empirical assessment aimed at identifying spillovers of credit and lending risks across the network, as well as contagion effects from outside the Italian economy.
3. Risks	Risks	• Direct risks (domestic credit and lending risks) and indirect risks (common exposure to sovereign risks).
4. Reporting of Results	Output presentation	• Map the network topology of the Italian economy consisting of sectoral direct and indirect exposure. • Identify system-wide risks through direct interconnectedness. • A dynamic measure of interconnectedness is constructed to evaluate changes in the network topology over time.

Appendix I. Implementation Status of Key Recommendations in the 2020 Italy FSAP

Recommendations	Progress	Agency	Time[1]
Bank Supervision and Regulation and NPL Resolution			
Enhance banks' capital levels, as appropriate, to ensure all banks maintain adequate capital ratios under stress scenarios.	*Status: Implemented.* Recent profitability of the LSI sector has reached its highest historical value and has supported a sizeable increase in capital ratios. From a regulatory angle, BdI introduced a new approach for the determination of the Pillar 2 Guidance (P2G) for less significant institutions (LSIs), consistent with the European regulatory framework (CRR-CRD, and EBA). Over the period 2020–2022, the P2G more than doubled, reflecting a strengthening of the capital amount of the banks to cover stress scenarios. Following the SREP 2024, the average P2G continued to increase, further strengthening the overall capital requirements for LSIs, which are now aligned with those applied to significant banks.	BdI, SSM	ST
Consider more timely escalation of corrective measures for weak banks to effect improvement (e.g., in capital levels, operational efficiency, governance) or achieve consolidation or orderly wind-downs when needed.	*Status: Implemented.* BdI has increased the use of sanctioning and early intervention measures for fragile and troubled banks. Significant supervisory work was done with fragile banks, including through the LSI sector consolidation (that overall implied restructuring and transformation of 30 percent of LSIs). BdI has used intrusive measures, such as the appointment of temporary administrators supporting the bank's Board of Director or the enhancement of the role of independent directors. In the most severe situations, banks were put under the special administration regime. In February 2022, BdI achieved compliance with the new EBA guidelines on recovery indicators (EBA GL 2021/11). Finally, the revamping of the Schema Volontario d'Intervento (SVI) could also support timely escalation of corrective measures.	BdI	I
Perform more periodic deep dives and thematic and targeted inspections on key LSI weaknesses such as bank governance, credit risk, and business models.	*Status: Partially implemented.* While BdI has increased horizontal off-site reviews, full-scope on-site inspections remain the predominant supervisory tool. Only a few targeted and thematic prudential inspections were carried out recently to address ad-hoc situations or investigating horizontal issues. Further efforts are needed to increase the frequency and deepen the risk-based nature of on-site inspections, including through a more systematic use of thematic and targeted reviews.	BdI	ST
Continue scrutinizing banks' credit risk and loan classification and provisioning practices, particularly of UTP portfolios, and challenging	*Status: Implemented.* BdI continued to scrutinize banks' loan classification and provisioning practices and to monitor and challenge their NPL management strategies, both through regular horizontal analyses and through bank specific. The NPL reduction plans (submitted annually by a subset of directly supervised less significant banks) are subject to both horizontal and individual analyses aimed at assessing the results concretely achieved in the NPL management related	BdI, SSM	C

Recommendations	Progress	Agency	Time[1]
progress and ambition of banks' NPL reduction plans.	activities, the expected evolution of the NPL portfolio and the actions identified by the banks within the NPL strategies. Also, the OSI methodology was improved during 2022 to better reflect the best practices in the IFRS9 area and in the services of securitization. In 2023, BdI sent a letter to the LSIs drawing their attention to the potential impacts on banks' risk profiles stemming from the economic and geo-political overall situation. In 2024, BdI sent a letter to the LSIs requiring an assessment of the banks' processes relating to state-guaranteed loans.		
Consider extending the SSM approach that sets bank-specific expectations for the gradual path to full provisioning on existing NPL stocks to LSIs with high NPLs with an adequate phase-in period; and update the LSIs' NPL management guidance.	*Status: Partially implemented*. EBA Guidelines (GL) on NPE management (EBA/GL/2018/06) have been adopted, by replacing the previous national GL issued in 2018. Recently, the ECB's SSM launched a public consultation on a new initiative aimed at harmonizing supervisory approach to the coverage of non-performing exposures held by LSIs that originated before April 26, 2019. Currently, BdI is preparing to focus on the implementation of NPL calendar provisioning requirements for legacy NPLs. While measures are applied from end-2025, its introduction will be gradual, with full implementation envisaged by end-2028.	BdI	I
Amend relevant laws to confer BdI and IVASS authority on removal of authorization and winding-up of banks and insurers, respectively.	*Status: Not implemented*. There are no legislative initiatives aimed at modifying the current legislative framework. The authorities consider that the MEF's involvement in the decision-making process for the initiation of resolution or liquidation does not affect the BdI's operational independence or timeliness. They also support shared ownership of decisions with significant implications for creditors' property rights and the broader socio-economic context.	MEF, MISE	ST
Address gaps in governance regulations of banks and insurance companies by issuing the draft MEF and MISE decrees.	*Status: Partially implemented*. With regards to banks, the decree setting the suitability requirements for banks' board members and key function holders entered into force in 2020 (i.e., ministerial decree no. 169/2020), in line with the relevant framework provided by the CRD and the Joint European Securities and Markets Authority and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders. The suitability assessment procedure is in the Consolidated Law on Banking as complemented by an ad hoc Regulation of the Banca d'Italia adopted on May 4, 2021. In addition to the Regulation setting up fit and proper requirements for corporate officers (Ministerial Decree 169/2020), the competent units, together with BdI, have drafted the new regulation aimed at reviewing the decree on the suitability of major shareholders. The draft underwent public consultation in 2022 but has not yet been updated; finalization is pending the ongoing revision of the Criminal Code. With regard to the insurance sector, IVASS has provided its technical input to the Ministry of Enterprises and Made in Italy (MISE) for defining the regulation concerning the fit-and-proper requirements applicable to corporate officers and persons who carry out key functions, implementing Article 76 of the Italian Insurance Code.	MEF, MISE	I

Recommendations	Progress	Agency	Time[1]
	IVASS has also proposed to the MISE the establishment of a coordinated working group with the MEF to draft the regulation governing fit-and-proper requirements for qualified shareholders in insurance companies, implementing art. 77 of the Italian Insurance Code.		
Macroprudential Policies and Framework			
Establishing a macroprudential policy authority.	*Status: Implemented*. The Committee for Macroprudential Policies (CMP) is the independent authority designated – by Legislative Decree 207/2023 – to conduct macroprudential policies in Italy (s), pursuant to Recommendation 2011/3 of the European Systemic Risk Board (ESRB). The Committee for Macroprudential Policies met semi-annually since 2024.	MEF, BdI, IVASS, CONSOB, COVIP	ST
Incorporate the CRD IV Systemic Risk Buffer and borrower-based tools into the regulation and macroprudential toolkit.	*Status: Implemented*. In February 2022, the Systemic Risk Buffer and borrower-based measures have been incorporated into the BdI's macroprudential toolkit via a revision of Circular n. 285. On April 26, 2024, BdI announced its decision to gradually phase-in a systemic risk buffer equal to 1.0 per cent of domestic exposures weighted for credit and counterparty credit risks, for all banks and banking groups authorized in Italy. The full phase-in was completed in June 2025.	BdI	ST
Consider implementing prudential policies to moderate the sovereign-bank nexus with an appropriate phase in period to avoid possible market disruptions.	*Status: Not implemented*. No actions are planned beyond close monitoring.	BdI	MT
Evaluate the adequacy of O-SII buffers and if deemed necessary consider raising them with an adequate phase-in period.	*Status: Implemented*. The O-SII framework has been updated in 2023, including lower identification thresholds and more granular buffer buckets (each bucket implies a 25 basis points increase in the buffer).	BdI	ST
Insolvency Framework			
Enhance the enforcement and insolvency framework and ensure that courts have sufficient resources and specialization to timely handle insolvency cases.	*Status: Partially implemented-ongoing*. Material progress is ongoing through legislative reforms, greater reliance on out-of-court procedures, and better resourced courts. The new Insolvency Code—fully in force since mid-2022 and further amended in 2024—is aimed to create a more unified system, strengthening early warning tools, streamlining creditor agreements, and introducing simplified fast track restructuring options. EU funded investments under the National Recovery and Resilience Plan, is supporting digitalization and the rollout of the Ufficio per il Processo, a support unit that improves case preparation and	MoJ, NJC	ST

Recommendations	Progress	Agency	Time[1]
	already counts around 12,000 professionals. Despite these advances, insolvency and foreclosure cases initiated under the previous regime remain lengthy—about 7.5 years for judicial liquidations and 5 years for foreclosures—although forward-looking indicators suggest improvements, with estimated processing times now roughly half their levels a decade ago and further gains expected as reforms take root.		
Reinforcing Crisis Management and Safety Nets			
Establish additional loss absorbing capacity to enable greater loss allocation to unsecured and uninsured creditors in resolution and liquidation, notably for LSIs for which a resolution strategy is foreseen; and strictly limit the use of public funds [in resolution] to exceptional events that could undermine system-wide financial stability.	*Status: Implemented*. A resolution plan has been drafted for all the Italian LSIs and periodically updated. One additional LSI was designated for resolution, with MREL add-ons reaffirmed for previously assigned institutions. For LSIs under resolution, MREL targets cover loss absorption, recapitalization, and a market confidence charge. For those earmarked for liquidation, BdI sets MREL targets based on loss absorption plus either the full or half of the CBR, depending on the methodology. LSIs slated for liquidation without an MREL add-on are exempt from MREL targets, in line with EU Directive 2024/1174 ("Daisy Chain Act").	BdI, MEF	ST
Reinforce the DGS by removing active bankers from their boards; assessing the adequacy of funding targets; strengthening backstops; and avoiding the use of DGS resources for failure prevention outside of resolution or liquidation as much as possible, only using it in exceptional cases with strong prospects for successful rehabilitation and restoring long-term viability.	*Status: Not implemented*. Some changes have been made with the aim of enhancing Deposit Guarantee Scheme (DGS) governance arrangements, but Italian DGSs remain private law consortia led by bankers. The FITD by-laws were amended to streamline and strengthen the Chair's independence and introduce an independent Board member. Further changes to Board independence are under discussion. However, preserving the private nature of the DGS remains critical in order to avoid applying EU State aid rules and the associated constraints to use the DGS resources in preventative interventions. On DGS funding target and use cases, there have not been significant changes. The FITD has a €3.5 billion funding agreement with major banks for interventions if resources are insufficient. The FGDCC secured a credit line with the two cooperative banking groups' parent companies and the Institutional Protection Scheme (IPS) to strengthen financing capacity and adequacy. On the establishment of public sector backstop between DGS and MEF, there has been no progress since the last FSAP. Recourse to DGS resources to recapitalize weak institutions continues as a routine crisis management tool rather than an exceptional measure. Most recently, in January 2026, the Interbank Deposit Protection Fund approved a €750 million recapitalization of Banca Progetto, to be followed by its sale to a group of five banks with loss guarantee support.	DGS, BdI, MEF	ST

1/ C = Continuous; I = Immediate (within one year); ST = Short Term (within 1–2 years); MT = Medium Term (within 3–5 years)