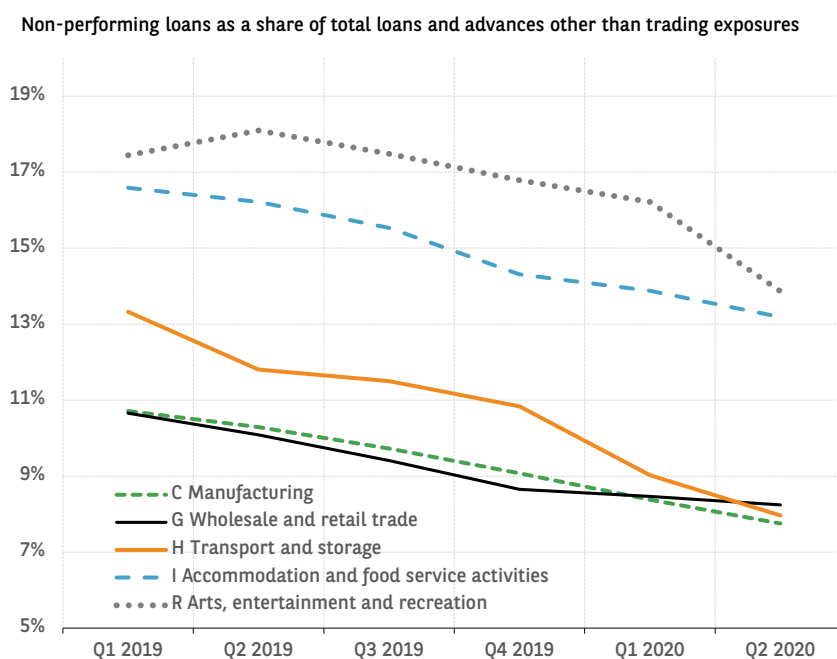


18 November 2020

ITALY: DECREASE IN NON-PERFORMING LOAN RATIOS MIGHT SOON END

Thomas Humblot

NPL ratios in the sectors of activity most heavily affected by the health crisis in Italy



Source: EBA

While Italy's real GDP fell by 12.8% q/q in the second quarter of 2020 (after -5.5% in the first quarter), the non-performing loan (NPL) ratios of sectors of activity that have been subject to administrative closures, in particular, continued to decrease. Surprising as it may seem, this development can be explained. On the one hand, public guarantees on new loans have contributed to increase the outstanding amount of «healthy» loans to these sectors¹, diluting NPL ratios. On the other hand, sales of NPLs continued in 2020 (albeit at a slower pace than in 2019), which reduced the outstanding amount of NPLs and contributed to the cleaning up of bank balance sheets.

The decline in NPL ratios in Italy may nevertheless be coming to an end as most of the moratorium periods granted have expired. Therefore, some loans could soon be more than 90 days past-due, which is one of the two criteria for classifying a loan as non-performing².

¹ Banca d'Italia, 2020, Economic Bulletin, Number 4 - October

² The other is the debtor being unlikely to pay its creditor obligations in full, which might imply realization of collateral.

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