PRESS RELEASE

Forecasts: ABI, economy slow to recover, bank profits are falling while doubtful loans increase

The AFO financial outlook was published today. The Italian banking sector is holding up to the crisis and continuing to sustain enterprise and households, but is still suffering from the difficult economic scenario. Doubtful loans are up (+27% in 2010 and +9% next year); profits are also down in 2009(-45%) with a slight inversion of the trend in 2010 (+8%). Signs of growth for the Italian economy: GDP +0.6% in 2010, +1.6% in 2011

Signs of recovery for the Italian economy, that as of next year will gradually start growing again. The macro-economic scenario contained in the AFO-Financial Outlook, circulated today by ABI, clearly shows that a gradual recovery of both the national and international economies is expected over the next two years. According to the estimates of ABI's research centre and of the main Italian banks, GDP in Italy – which had started to rise after 5 quarters of downturn, then recorded a drop of 4.8% in 2009 – will start to rise again by 0.6% over the course of 2010 and by 1.6% in 2011.
With regard to the banking sector, Italian banks continue to stand their ground, although suffering the effects of the crisis and recording considerable reductions on their income statements: net profits, after being halved in 2008, fell another 45% in 2009, and even though a slight inversion of the trend is expected in 2010 (+8%) figures will be a long way from pre-crisis levels. The upward trend in doubtful loans is also confirmed: +34% in 2009, +27% in 2010 and +9% in 2011.

The macroeconomic scenario in the euro area and Italy

GDP in the euro area, whose fall had substantially come to a halt in the second quarter, resumed an upward trend in the third (+0,4%). The main economic indicators also show a comforting picture. Industrial production has started to rise gradually since last May; even consumer and enterprise confidence indicators continue to recover. The negative effects of the recession are leading to repercussions on the labour market: in the third quarter, the unemployment rate was 9.6%, and has even continued to rise (9.8% in October 2009).

The Italian economy

With regard to Italy, the official figures for the last two quarters confirm the signs of recovery suggested by economic indicators in recent months. Italy's GDP, whose fall had already come to a halt in the second quarter (-0.5%), started to rise again between July and September (+0.6%), after five consecutive quarters of downturn. On the basis of the first official figures for the third quarter, the Italy economy is therefore technically out of recession. Given the considerable negative inheritance left by previous quarters (with a knock-on effect of -4.8%), the decrease in GDP in 2009 has in any event kept close to the 5% threshold already envisaged last summer. For Italy, expectations as regards **inflation** saw a rate of 0.8% in 2009, subsequently rising to 1.6 and 1.9 in the next two years.

The Italian banking industry

Italian banks continue to guarantee their support of households and enterprise, despite the substantial repercussions of the international economic crisis, the increase in doubtful loans and the further fall in profits. Even in the presence of a slowdown in the loans' trend, the credit sector has shown relatively positive signs in the past year and a half if compared to the profound fall in economic activity.

Loans. The growth rate of household and business loans – around 0.5% in 2009 – will start to rise again to 3.4% in 2010 and to 4.3% in 2011. Over the forecast period as a whole, loans exceeding one year appear to be the most dynamic category, recording an increase of 2.5% in 2009, and expected to rise by around 4.5% in 2010-2011, while short-term loans, which closed the year with a decrease of 4.1%, should gradually recover in 2010 and 2011.

Business loans recorded an initial downturn in September, with a negative yoy rate of change for the first time (-0.2%), but performing better than the euro area (-0.4%). An inversion of the trend is already predicted for the first half of this year, which should see business loans increase by 2.6% in 2010 and 3.2% in 2011.

Household loans rose by 3.5% in 2009, driven by mortgages for house purchases (+4.2%). For 2010-11, the increase in household loans is expected to consolidate, growing by 4,7 and 6% respectively. The poor vivacity of consumption, according to the AFO report, should lead to a substantial stability on consumer credit.

Deposits. After having risen by 13% in 2008 and by around 6% in 2009, total deposits are expected to record a growth of 5.3% in 2010 and 7.5% in 2011. With respect to 2008, the growth rate of bonds has slowed down: +14.5% in 2009, falling to +7.7% in 2011. As far as foreign deposits are concerned, a slight downturn was recorded in 2009 (-3,2%), while figures are expected to gradually improve in 2010 (+0.7%) consolidating in 2011.

Doubtful loans. The severity of the recession is resulting in a sharp and worrying upturn in doubtful loans: net of write-downs, they recorded an increase of 34% in 2009, and are expected to rise by 27% in 2010 and 9% in 2011. As a percentage of total loans, net doubtful loans point to a progressive and gradual deterioration, rising to 2.1% in 2011, almost one percentage point higher than that of 2008 (1.2%).

Net profit. After a fall of 54% in 2008, the net profits of the banks was halved again in 2009 (-45%); an inversion of the trend is envisaged in 2010, with a growth of 8.6%. The critical stage is expected to be overcome in 2011, when a rebound is expected, which will bring net profits back to the same level as those of 2008, although continuing to remain at values that are considerably lower than pre-crisis ones.

Roma, Palazzo Altieri, 7 January 2010