Italian banks can help economic recovery: banking association head

MILAN, Italy, Jan. 15 (Xinhua) -- Italian banks are stronger compared to many European competitors and can play a leading role in supporting the country's economic recovery, the general manager of the Italian Banking Association (ABI) Giovanni Sabatini said on Tuesday.

Speaking during a meeting with foreign journalists in business capital Milan, Sabatini said that recession is still deep and will likely extend to 2013.

But though in 2012 industrial output and investment fell by around 6 and 8 percent respectively, "Italy has a good deficit control that will allow it to achieve a cyclically adjusted balance budget this year" and a decline of debt ratios once the economy stabilizes.

Its "solid banking system" is one of Italy's strengths which adds to other key indicators of stability such as healthy private sector, high households' net wealth and a strong industrial network with excellent potential for growth driven by well-performing export and globalization, he said.

The Italian "commercial banking model," which implies a strong correlation between bank performance and economic growth, can especially help withstand the crisis, Sabatini pointed out.

According to ABI figures, a series of features make Italian banks stronger, even in the current difficult times, compared to many major European competitors, including low levels of financial assets and leverage, high percentage of retail funding and quality of capital, low exposure to the eurozone's weakest economies, absence of state aids and high stability of performance.

In fact, the crisis has mainly hit Italian banks through the real sides of the economy including fall in demand for loans and increase in default rates, Sabatini said.

"Therefore, the economic recovery remains a key factor for the Italians' banks profitability whose main future challenges include achieving better performance in lending, asset quality, profitability, capitalization, funding and liquidity," he noted.

The ABI general manager said that banks' loans slowdown to Italian residents last year was mainly due to difficulties in the ability to access the market and a contraction in the quality and amount of the demand, especially by firms.

However, he highlighted, in terms of loans per gross domestic product (GDP) unit variation, in a European context of general alignment in the dynamics of the two values, Italian figures show a better performance than those of all other major European peers, Germany included.

From the third quarter of 2011 there were signs of deterioration in credit quality, but ABI was "confident in the ability of Italian banks to control the risk" also on the grounds of the low level of loan to value ratio and high quality of the collateral, "thanks to the absence of a real estate bubble."

"Profitability can be enhanced in the short and medium term mainly by introducing effective cost cutting measures and by a reduction in the average cost of funding," Sabatini said.

He added that, in the long term, "an important revenue contribution can come from the exploitation of the growth potential in many financial products and services including credit cards, asset management, insurance products and pension funds."

ABI targeted return on equity (ROE) surging up to 3 percent in 2014.

He also noted that the capitalization gap with European peers has been closed, but the harmonization of practices on the European average standards would favor Italian banks more than their competitors.

A recent Economic Outlook of the Organization for Economic Cooperation and Development (OECD) estimated that, if the eurozone banks were to move to a 5 percent capital-assets ratio standard, identified as a benchmark for well-capitalized banks, Italian banks show a capital shortage of only 0.15 percent of GDP compared to a eurozone average of 4.2 percent.

The ABI general manager said that "Italian banks have never had big problems of liquidity."

Though there is still a negative funding gap of 200-250 billion euros (266-333 billon U.S. dollars,) they are beginning to show signs of recovery, especially in the deposit component which was 6.6 percent up year on year in November.

He estimated that non-performing loans would reach a peak of around 7 percent between 2013 and 2014, but they should begin reducing from the second half of this year.

Again, markets' pressures were mitigated by some specific characteristics of Italian banks, namely the composition of external debt which relies mainly on deposits and bonds offered to domestic retail investors.

In the second half of 2012, some major Italian banks were able to issue unsecured bonds, Sabatini also added.

He said that the recent decisions taken at the European level, such as the Outright Monetary Transaction (OMT) scheme launched by the European Central Bank (ECB,) as well as the action taken by the Italian 13-month technocratic government led by prime minister Mario Monti have helped restore investors' confidence.

However, Sabatini stressed, more structural measures need to be adopted by the next Italian government, which will come out from election set on Feb. 24-25, to secure the country.

A more stringent "spending review" especially aimed at reducing record high fiscal pressure, privatization of public assets and simplification of bureaucracy would be some of the most urgent measures, he said.

Sabatini has been Co-Manager of the Italian Stock Exchange Authority (CONSOB) as well as overseeing its Issuers Information Division since 2008, and was named Chairman of the Italian Stock Exchange Council in 2010.

From 2006 to 2008, he was the head of the Banking and Financial System - Legal Affairs Department of the Italian Economy Ministry.