

# Italy outlook report

## Third quarter of 2024



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The objective of Italy’s quarterly report is to provide a comprehensive and summarized overview of the main indicators of the country's banking sector, as well as the macroeconomic situation at the end of each quarter.

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# 1. International overview

***Global growth remains stable, driven by recovery in both advanced and emerging economies, with moderating inflation supporting real income growth. Labour market pressures continue to ease, while unemployment remains mostly stable, majorly at or near historical lows.***

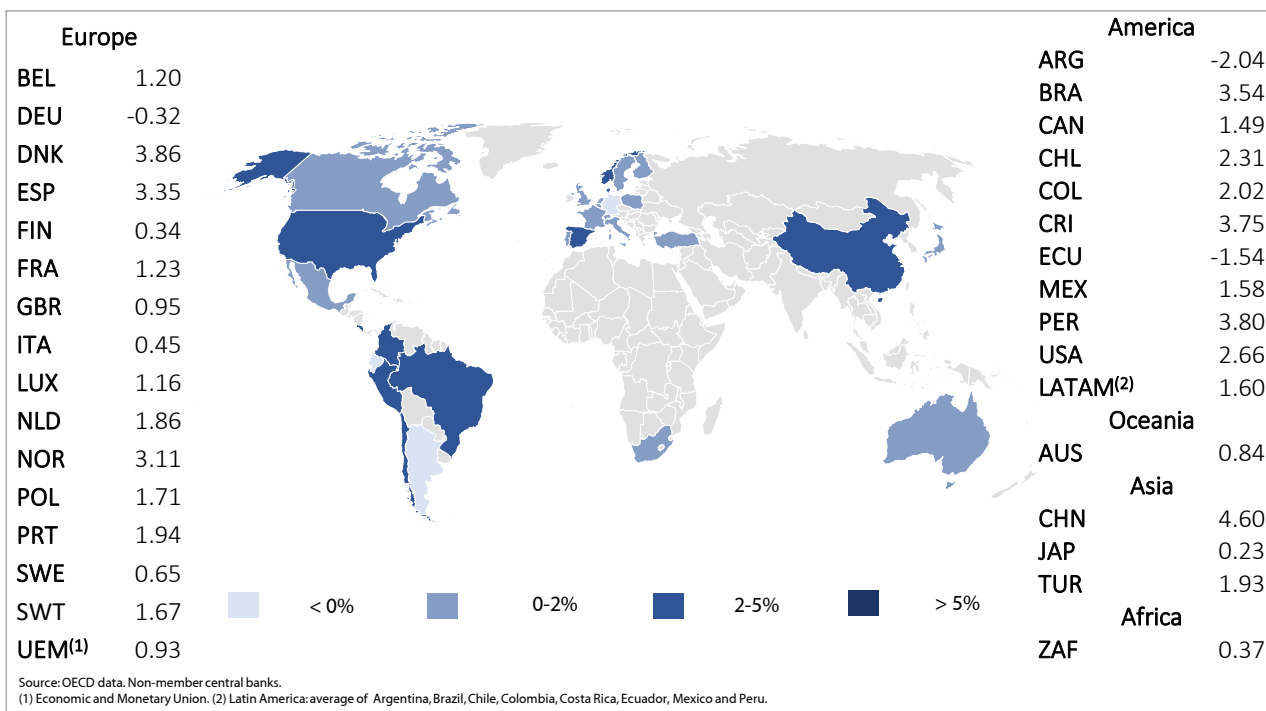
## **Macroeconomic outlook**

- ▶ In the third quarter, GDP in the eurozone grew by 0.93% year-on-year, continuing its upward trend. However, Germany continued its negative trend, recording negative growth of -0.32%. The average CPI in the eurozone continued to fall for another quarter, reflecting the effectiveness of the EU's current monetary policy. Only the Netherlands recorded an increase in its CPI compared to 3Q23. The average unemployment rate in the eurozone was 6.33%, down slightly from 6.40% in the previous quarter.
- ▶ In the third quarter of 2024, U.S. GDP grew by 2.66%, while Canada's year-over-year growth was 1.49%, still slightly up from the second quarter. Latin America's growth rate rose to 1.87%. Inflation in the U.S. decreased to 2.62% and in Canada to 2.04%. The average inflation rate in Latin America was 2.57%, excluding Argentina's high rate of 234.24%. Also in Latin America, the average unemployment rate was 5.88%, with a slowdown observed in Brazil (6.40%) and Peru (5.99%), both of which declined on a quarterly and annual basis. On the other hand, the unemployment rate increased in the United States and Canada, reaching 4.20% and 6.50%, respectively.
- ▶ In the Asia region, China recorded growth of 4.60% in the quarter, down from 4.90% in 3Q23. Japan recorded a GDP increase of 0.23% after two consecutive quarters of negative growth. Turkey's growth slowed down to 1.93%, continuing a downward trend since 1Q24 (6.70%). China's inflation rose to 0.48%, an increase both year-on-year and quarter-on-quarter. Turkey ended its upward trend, with inflation dropping by 18.18 p.p. quarter-on-quarter and by 2.11 p.p. Y-o-Y. Unemployment rates in China and Japan remained relatively stable compared to the previous quarter. In Turkey, however, the unemployment rate decreased by 0.53 p.p. compared to 3Q23.
- ▶ In the third quarter of 2024, South Africa's GDP growth rate increased by 0.87 p.p. compared to 3Q23, reaching a growth rate of 0.37%. Inflation continued to decline, falling by 0.78 p.p. year-on-year. The unemployment rate remained high at 32.10%. In Australia, GDP slowed down with a decline of 1.28 p.p. compared to 3Q23. The CPI continued its downward trend and stood at 2.81%, 2.56 p.p. lower than in 3Q23. Unemployment worsened significantly by 4.62 p.p. compared to 3Q23.
- ▶ According to the OECD, indicators point to a gradual moderation in the second half of the year after the strong growth in the first half. The services sector slowed down in July and August, but recovered in September. Similarly, retail trade grew by 5.1% in the first half of 2024, remained flat in July and August, and then picked up again in September. Industrial production followed a similar trend, showing robust growth in early 2024, but losing momentum in July and August.
- ▶ The IMF's growth projections show that emerging economies will remain stable, similar to advanced economies, which slowed in 2023. Global inflation is expected to decline, although disinflation will be faster in advanced economies than in developing ones.

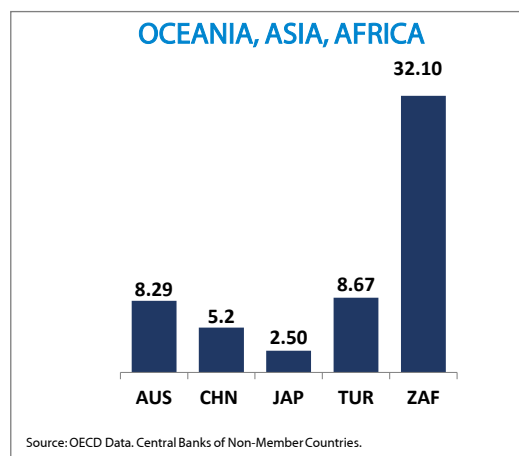
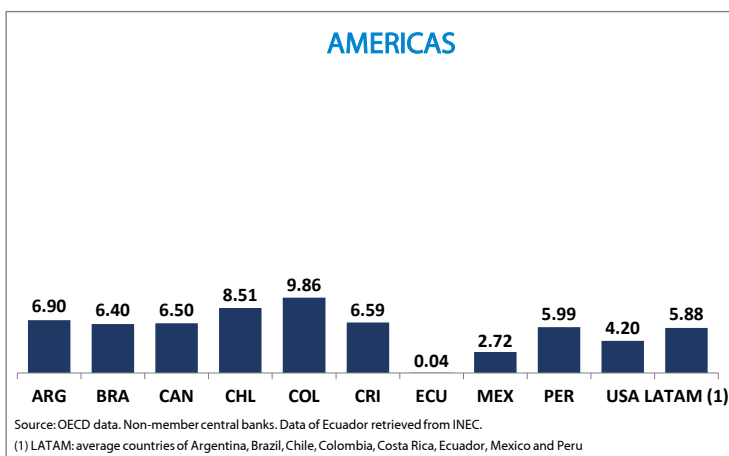
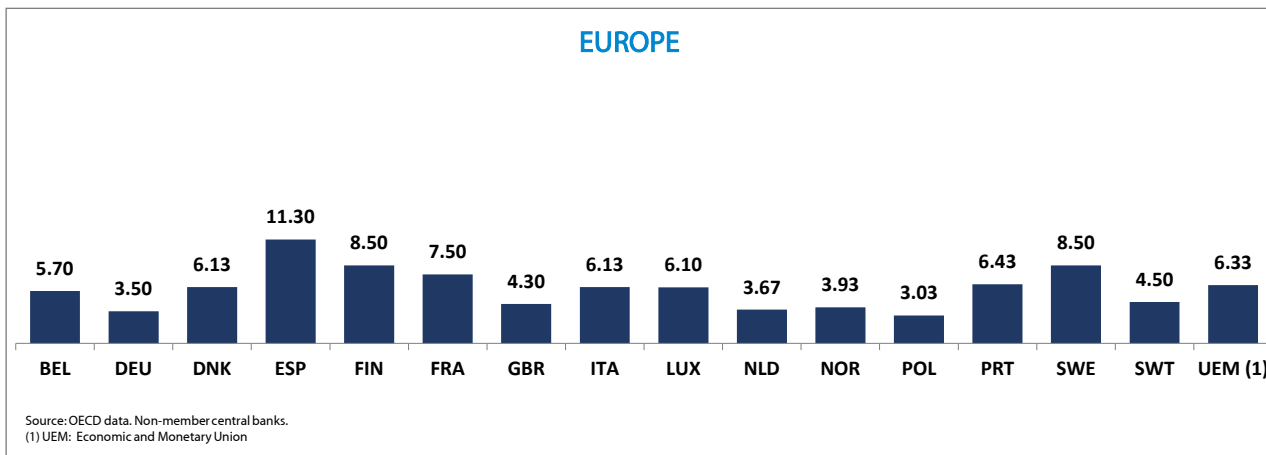
## **Other indicators and key risks**

- ▶ The IMF highlights the importance of mitigating the disruption caused by exchange rate volatility. Differences in disinflation across countries lead to desynchronization of central bank policies, which may result in increased capital flows. The appreciation of the US dollar on the back of high-interest rate expectations could push up domestic prices in economies with higher import dependence and a larger share of dollar-denominated imports, potentially putting pressure on their financial sectors.
- ▶ OECD notes that global risks include geopolitical tensions, trade issues, and slower growth, but a recovery in real incomes could boost consumer confidence. Fiscal measures and structural reforms are crucial to ensuring sustainability and long-term growth.
- ▶ The OECD also warns that financial risks remain due to elevated debt levels, overvalued assets, and the deteriorating creditworthiness of some borrowers, particularly in the commercial real estate sector. In addition, the growing scope and interconnectedness of less regulated non-bank financial institutions increase the likelihood of adverse shocks spreading rapidly across different market segments.

## GDP (% , year-on-year growth)

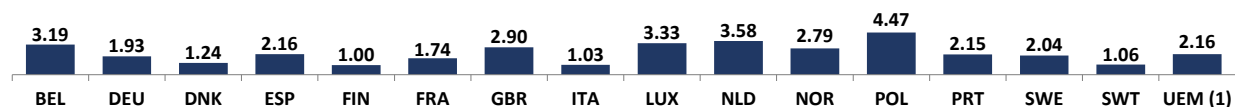


## Unemployment rate (%)



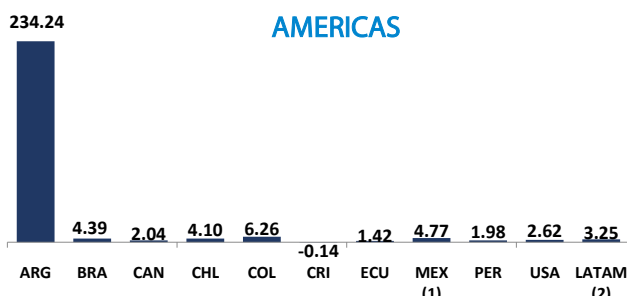
## Inflation rate (%)

### EUROPE



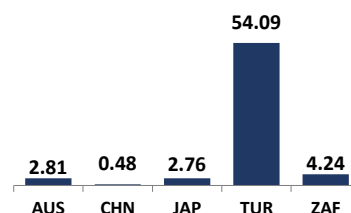
Source: OECD Data, Central Banks of Non-Member Countries.  
(1) Monetary and Economic Union

### AMERICAS



Source: OECD Data, Trading Economics, Central Banks of Non-Member Countries. Data of Ecuador retrieved from INEC.  
(1) Data from 2Q24. 3Q24 data not available.  
(2) LATAM: average of Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, and Peru

### OCEANIA, ASIA, AFRICA



Source: OECD Data, Trading Economics, Central Banks of Non-Member Countries

## Global Ratings and Exchange Rates

### LONG-TERM RATES 3Q24

	MOODY'S	S&P	Fitch
<b>EUROPE</b>			
BEL	Aa3	AA	AA-
DEU	Aaa	AAA	AAA
DNK	Aaa	AAA	AAA
ESP	Baa1	A	A-
FIN	Aa1	AA+	AA+
FRA	Aa2	AA-	AA-
ITA	Baa3	BBB	BBB
LUX	Aaa	AAA	AAA
NLD	Aaa	AAA	AAA
NOR	Aaa	AAA	AAA
POL	A2	A-	A-
PRT	A3	A-	BBB+
GBR	Aa3	AA	AA-
SWE	Aaa	AAA	AAA
SWT	Aaa	AAA	AAA
<b>AFRICA</b>			
ZAF	Ba2	BB-	BB-
<b>OCEANIA</b>			
AUS	Aaa	AAA	AAA
<b>ASIA</b>			
CHN	A1	A+	A+
JAP	A1	A+	A
TUR	B1	BB- ▲	B
<b>AMERICAS</b>			
ARG	Ca	CCC	C
BRA	Ba1 ▲	BB	BB ▲
CAN	Aaa	AAA	AA+
CHL	A2	A	A-
COL	Baa2	BB+	BB+
CRI	Ba3 ▲	BB-	BB-
ECU	Caa3	B-	B-
MEX	Baa2	BBB	BBB-
PER	Baa1	BBB-	BBB
USA	Aaa	AA+	AAA

▲ Increased from 2Q24 ▼ Decreased from 2Q24

Source: Investing

### EXCHANGE RATES 3Q24 (\$¹)

EUROPE	3Q23	4Q23	1Q24	2Q24	3Q24	2024
EUR	0.92	0.93	0.92	0.93	0.91	0.92
CHF	1.13	1.13	1.14	0.90	0.87	0.88
DKK	6.85	6.93	6.87	6.93	6.79	6.90
NOK	10.48	10.81	10.51	10.75	10.70	10.75
SEK	10.81	10.65	10.39	10.68	10.42	10.58
GBP	0.79	0.81	0.79	0.79	0.77	0.78
PLN	4.14	4.10	3.99	3.99	3.90	3.99
AMERICAS	3Q23	4Q23	1Q24	2Q24	3Q24	2024
ARG	334.66	443.71	833.91	885.25	940.59	913.54
BRL	4.89	4.96	4.95	5.21	5.55	5.36
CLP	839.20	895.36	945.96	933.72	903.11	943.76
COP	4,043.78	4,064.32	3,913.15	3,923.29	4,904.54	4,090.76
PER	3.66	3.77	3.74	3.73	3.47	3.76
MXN	17.06	17.54	16.97	17.23	18.93	18.30
AFRICA	3Q23	4Q23	1Q24	2Q24	3Q24	2024
ZAR	18.64	18.73	18.87	18.56	17.97	18.36
OCEANIA	3Q23	4Q23	1Q24	2Q24	3Q24	2024
AUS	1.53	1.54	1.52	1.52	1.49	1.51
ASIA	3Q23	4Q23	1Q24	2Q24	3Q24	2024
RMB	7.24	7.22	7.19	7.24	7.16	7.20
TRY	26.81	28.55	30.90	32.35	33.50	32.77

Source: Investing, OECD projections, December 2024.

(1) The base currency used is the U.S. dollar against each local currency quoted

## 2. Macroeconomic view

***In 3Q24, the Italian economy experienced higher growth and lower inflation compared to 3Q23. The overall economic indicators suggested stable growth, price and labour environments. Although these factors remain at low values, they contributed to a generally positive economic outlook for the country.***

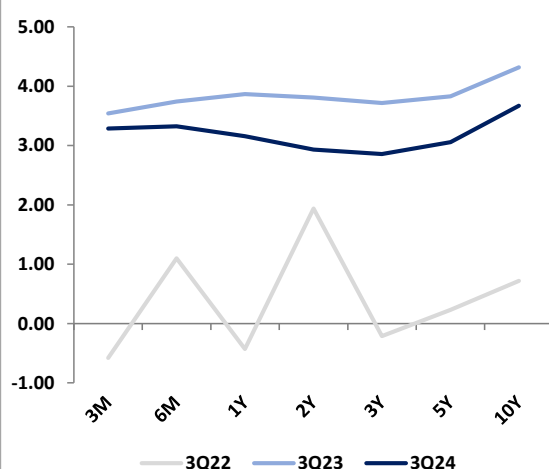
MAIN MACROECONOMIC INDICATORS (%)

ACTIVITY	3Q23	4Q23	1Q24	2Q24	3Q24	Var. p.p.2Q24	Var. p.p.3Q23	2024	2025
GDP	0.13	0.32	0.31	0.67	0.45	-0.22	0.32	0.48	0.90
DOMESTIC DEMAND	-0.97	-0.74	-1.54	-1.22	0.63	1.85	1.60	-0.75	1.05
HOUSEHOLD CONSUMPTION	-0.22	0.42	0.16	-0.12	0.42	0.54	0.64	-0.15	0.72
PUBLIC CONSUMPTION	2.55	1.81	0.59	0.96	0.40	-0.56	-2.15	0.87	1.95
CAPITAL FORMATION	8.94	9.17	1.82	1.96	-1.05	-3.01	-9.99	1.12	0.84
EXTERNAL DEMAND									
EXPORTS	0.25	1.20	1.27	1.11	-1.02	-2.13	-1.27	-0.14	1.83
IMPORTS	-2.92	-1.63	-4.16	-4.37	-0.64	3.73	2.28	-3.91	2.42
INFLATION									
CPI	5.57	0.98	0.92	0.81	1.03	0.22	-4.54	1.21	2.06
LABOUR MARKET									
UNEMPLOYMENT RATE	7.70	7.47	7.13	6.70	6.13	-0.57	-1.57	6.53	6.02
EMPLOYMENT <sup>(1)</sup>	1.72	1.72	1.24	1.71	2.24	0.53	0.52	1.65	1.09

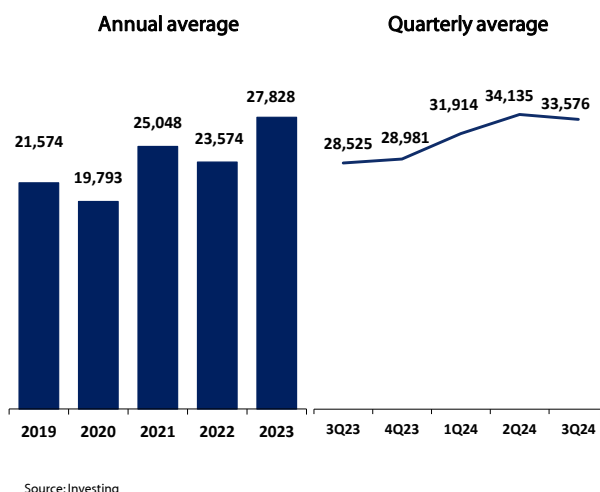
(1) The employment variable represents the year-on-year change in employment growth. Source: quarterly data extracted from the Organization for Economic Cooperation and Development (OECD) as of November 26th, 2024. The series for the other quarters have also been updated to the database as of November 26th, 2024, to gain consistency. Projections OECD December 2024.

- ▶ In 3Q24, Italy's economic growth experienced a YoY growth rate of 0.45%, supported by a rise in domestic demand (+1.60 p.p.), while gross fixed capital formation growth declined by 9.99 p.p. compared to the prior year. External demand remained weak, with exports contracting by -1.02% and imports contracting by -0.64%, highlighting challenges in trade and investment.
- ▶ The CPI for 3Q24 was recorded at 1.03%, which was 4.54 p.p. lower than the prior year. These data suggest a stable price environment, with inflationary pressures well below under the objective. The employment data showed a year-on-year change in employment growth of 0.52 p.p. The unemployment lowered during these quarter and reached 6.13%, reflecting an overall improvement in the labour market.
- ▶ The FTSE MIB Index stood at 33,576 points, decreasing compared to the previous quarter. Compared to 3Q23, the index recorded a YoY growth of 17.70%, reflecting strong investor confidence. Finally, the Treasury yield curve remained above the 3% benchmark, signaling stability in government bond markets and continued investor appetite for Italian debt securities.

TREASURY YIELD CURVES RATES (%)



FTSE MIB



### 3. Banking sector

*In the third quarter of 2024, the total loans growth rate and the total deposits growth rate rose compared to 3Q23. Meanwhile, the cost-to-income ratio showed a YoY improvement, though the coverage ratio deteriorated annually. Regarding solvency, both the CET1 and leverage ratio increased, as did the Liquidity Coverage Ratio (LCR) relative to the 3Q23. The ECB reduced the interest rate to 3.65%.*

BANKING SITUATION 3Q24 (%)							
BUSINESS	3Q23	4Q23	1Q24	2Q24	3Q24	Var. p.p. 2Q24	Var. p.p. 3Q23
TOTAL LOANS <sup>(1)</sup>	-6.96	-3.84	-4.14	-3.55	-2.83	0.72	4.13
TOTAL DEPOSITS <sup>(1)</sup>	-2.95	-3.42	-0.55	0.97	-0.34	-1.31	2.61
LTD RATIO	82.72	82.05	82.16	80.55	80.65	0.10	-2.07
EFFICIENCY							
COST-TO-INCOME RATIO	51.77	53.81	50.42	49.20	47.86	-1.34	-3.91
EU AVERAGE	54.68	55.64	54.61	53.23	52.60	-0.63	-2.08
RISK							
NPL RATIO	2.40	2.35	2.44	2.41	2.40	-0.01	0.00
EU AVERAGE	1.80	1.84	1.86	1.86	1.88	0.02	0.08
COVERAGE RATIO	54.33	53.72	53.36	53.98	53.34	-0.64	-0.99
EU AVERAGE	42.55	42.26	41.76	41.99	41.63	-0.36	-0.92
SOLVENCY							
CET 1	16.03	15.75	15.84	16.15	16.30	0.15	0.27
LCR	170.46	180.73	168.08	168.17	170.71	2.54	0.25
LEVERAGE RATIO	5.95	5.95	6.07	6.13	6.20	0.07	0.25
ECB INTEREST RATE							
INTEREST RATES	4.50	4.50	4.50	4.25	3.65	-0.60	-0.85

Sources: Banca d'Italia, European Banking Authority (EBA).

<sup>(1)</sup> Total loans and deposits reflect year-on-year growth rates.

- ▶ During the third quarter of 2024, the total loans growth rate of the Italian banking sector was -2.83%, which rose 4.13 p.p. compared to the previous year, and 0.72 p.p. compared to the previous quarter. The total deposits growth rate reached -0.34%, which represents a decrease of 1.31 p.p. compared to the second quarter of 2024 and a 2.61 p.p. increase compared to the previous year. The LTD ratio was 80.65% in the third quarter of 2024.
- ▶ The cost-to-income ratio reached 47.86%, improving by 3.91 p.p. year-on-year and by 1.34 p.p. compared to the second quarter of 2024. Compared to the EU average, Italy's banking sector's cost-to-income ratio is 4.74 p.p. better.
- ▶ In 3Q24, the NPL ratio stood at 2.40%, marking a decrease of 0.01 p.p. from the previous quarter. This figure exceeded the EU average of 1.88%. Meanwhile, Italy's coverage ratio stood at 53.34%, higher than the EU average of 41.63%. This represents a decline of 0.99 p.p. in Italy's coverage ratio compared to the same quarter of the previous year and of 0.64 p.p. from 2Q24.
- ▶ Regarding solvency ratios, CET1 increased by 0.15 p.p. from the previous quarter and by 0.27 p.p. year-over-year, being 16.30% in 3Q24. The LCR slightly increased to 170.71% compared to the previous quarter, showing an increase of 0.25 p.p. from the third quarter of 2023. Additionally, the leverage ratio rose by 0.07 p.p. compared to the second quarter of 2024, reaching 6.20%, which is 0.25 p.p. higher than the previous year.
- ▶ In the third quarter of 2024, the ECB reduced interest rates by 0.60 percentage points to 3.65%.



## 4. Glossary

- ▶ **BUSINESS VOLUME:** The business volume is the set of activities that generate income for a bank, formed by financing (loans) plus customer resources (deposits).
- ▶ **COVERAGE RATIO:** It is a ratio that informs us about the protection that financial entities have against the unpaid loans of their clients. It is represented as the total provisions that the entity has over the total doubtful loans.
- ▶ **CPI:** The consumer price index is an indicator that measures the variation of prices of a basket of goods and services in a specific location during a certain period of time.
- ▶ **EFFICIENCY RATIO:** It is a ratio that measures the productivity of an entity. It is the result of the quotient between operating expenses and gross margin. In other words, it relates the income obtained with the expenses necessary for its achievement. As a conclusion, an entity will be more efficient the lower its efficiency ratio.
- ▶ **GDP:** Gross Domestic Product (GDP) is an economic indicator that reflects the monetary value of all final goods and services produced by a territory in a certain period of time. It is used to measure the wealth generated by a country.
- ▶ **GM/ATAs:** Gross Margin / Average Total Assets. Gross margin is composed of the set of revenues generated by a financial entity in its activity.
- ▶ **LEVERAGE RATIO:** The Tier 1 leverage ratio measures a bank's core capital relative to its total assets. The numerator consists of the most stable and liquid capital, as well as the most effective at absorbing losses during a financial crisis or recession. The denominator is a bank's total exposures, which include its consolidated assets, derivative exposures and certain off-balance sheet exposures.
- ▶ **LCR (Liquidity Coverage Ratio):** this ratio measures a bank's liquidity. It is calculated as the institution total liquid assets divided by its short-term obligations.
- ▶ **LTD RATIO:** The loan-to-deposit ratio (LDR) is used to evaluate a bank's liquidity by comparing the total loans of a bank with the total deposits during the same period.
- ▶ **NON-PERFORMING LOANS (NPL) RATIO:** The non-performing loan (NPL) ratio is an indicator used to measure the volume of operations that have been considered non-performing, in relation to the volume of loans and credits granted by said entity.
- ▶ **OE/ATAs:** Operating Expenses / Average Total Assets. Operating expenses are those that an entity incurs during the exercise of its activity.
- ▶ **OECD:** Organization for Economic Cooperation and Development.
- ▶ **p.p.:** Percentage points
- ▶ **ROA:** An indicator that measures the profitability of a company in relation to its total assets. It indicates the return that is being obtained for its assets. It is calculated as the quotient between profit and total assets. The profit used is that obtained before taxes and interests.
- ▶ **ROE:** Financial profitability is also known as return on equity, which relates the net profits obtained in a given investment operation with the own resources.

# 5. Appendix

## MACROECONOMIC OVERVIEW

- ▶ Banca d'Italia:  
<http://www.bancaditalia.it>
- ▶ Borsa Italiana:  
<https://www.borsaitaliana.it/>
- ▶ European Banking Authority (EBA):  
<https://european-union.europa.eu/>
- ▶ European Central Bank (ECB):  
<https://www.ecb.europa.eu/>
- ▶ Investing:  
<https://www.investing.com/>
- ▶ Organisation for Economic Co-operation and Development, (OECD):  
<http://www.oecd.org/>
- ▶ The National Institute for Statistics, Istat:  
<http://www.istat.it/en/>

## ACRONYMS

▶ DEU - Germany	▶ LUX - Luxembourg	▶ TUR - Turkey	▶ ECU - Ecuador	▶ ZAF - South Africa
▶ BEL - Belgium	▶ NLD - Netherlands	▶ ARG - Argentina	▶ MEX - Mexico	▶ UEM- European Monetary Union
▶ DIN - Denmark	▶ NOR - Norway	▶ BRA - Brazil	▶ PER - Peru	
▶ ESP - Spain	▶ POL - Poland	▶ CAN - Canada	▶ USA- United States	
▶ FIN - Finland	▶ PRT - Portugal	▶ CHL - Chile	▶ AUS - Australia	
▶ FRA - France	▶ GBR- United Kingdom	▶ COL - Colombia	▶ CHN - China	
▶ ITA - Italy	▶ SUE - Sweden	▶ CRI - Costa Rica	▶ JAP - Japan	



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