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# Flash Note
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## European banking (Q&A)

I find below a brief Q&A's exercise on the situation of the European banking sector (courtesy of Rabobank's team)

1. **What are the ongoing challenges for European banks?** There remains a €1 trillion stock of outstanding NPLs, causing regulators to worry and the European Commission to agree on an action plan to tackle this.

2. **What is the special focus on Italy?** Aside from Greece, Cyprus and Portugal, Italy has the highest level of NPLs in Europe **which accounts for 19% of Italian GDP**.

    a. So far in Italy, we have seen state aid been given in one form or another to banks narrowly escaping full implementation of the BRRD (Banking Recovery and Resolution Directive)

    b. The NPL ratios of Italy's largest banks hinder the banks' lending capacity and profitability and leave them exposed to shocks that could trigger the intervention following the BRRD in Italy.

    c. We have seen the BRRD implemented in the classic sense only once to date (in the Spanish Popular), with an alternative solution being applied in Italy.

3. **How big is the problem:** Whilst it is difficult to estimate how much the Italian state could need to to inject in the Italian banking sector the €10bn still left in the government's banking sector support package agreed upon late last year looks small in the context of a €58bn gap between book and market value of total non-performing debt, or 30% of the entire CET1 of the entire Italian banking system.
4. **What does this mean overall?** While analysts at Rabobank don't expect a banking crisis in Italy imminently, they assume that "there certainly remain a large number of banks that are very sensitive to any possible shocks". "We believe creditors of larger banks in Italy could face the full force of the BRRD if they are deemed to be 'failing or likely to fail' by the regulator at any point in the coming months but we expect smaller banks will likely be resolved under national insolvency laws".

Kind regards

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