Iryna Lomachynska
Bachelor's Degree in International Economic Relations, Odessa National University named after I. I. Mechnikov, Odessa
Alina Olshevska
Bachelor's Degree in International Economic Relations, Odessa National University named after I. I. Mechnikov, Odessa

TRANSFORMATION OF ITALIAN BANKING SYSTEM IN CONTEXT OF THE DEVELOPMENT OF EUROPEAN ECONOMIC AND CURRENCY INTEGRATION

Introduction. The latest trends in the internationalization of the banking sector indicate that leading banks are constantly improving the forms of economic activity, the methods of entering the foreign markets. At present, a integrated EU banking system, with which the banking systems of other European countries cooperate, is being formed. The EU banking system has already gained considerable experience in balancing the management of national banking systems on the single currency basis. This experience is important for the rapid development of the Ukrainian banking system. First of all, it concerns the directions of participation of Ukrainian business in the European integration, secondly, it concerns the cooperation of Ukrainian banks with European banking systems, and thirdly, it concerns the conditions of European banks' activity in the Ukrainian banking system. The developed banking systems of EU, Italian in particular arose the greatest interest.

The purpose of the study is to analyze the development of the national Italian banking system in the context of development of European economic integration.

Both the achievement of world economic science and the work of modern researchers are as the theoretical basis in the research of the development of the European banking systems. The theoretical framework are also the works of foreign scientists such as M. Balcer, R. de Bonis, K. Sorensen, F. Heinemann and others.

The information base for research was provided by the informational and statistical material of the European Central Bank (ECB), the Bank for International Settlements, the Central Bank of Italy, specialized surveys, prepared by various professional associations, information agencies and companies, as well as the regulatory authorities of the EU, Italy.

1. Evolution and the main stages of the development of the Italian banking system. The genesis of Italian banking system begins with the emergence of banking. The banking system of Italy originated in ancient Rome and was organized according to the prototype and likeness of the Greek. It was in Rome that the primary rules of banking were established. The scope of lending transactions of the first banks was broad enough and covered operations ranging from servicing consumer needs to purchasing and selling land plots. Houses of Opius and Ignatius carried out their operations in the territory from Macedonia to the Pillars of Herakles [1].

Particularly the banking activity established in the Middle Ages and the Renaissance period in Venice and Florence, where, in addition to commercial banks, public banks operated (1156-1171), that were engaged in transferring funds between accounts and received the name of girobanks. The first one was the Venice Bank "Monte Nuovo".

Further development of banks led to the participation of the state in their activities. In 1401, by the merger of many government-crediting societies, the famous Banco di San Giorgio in Genoa was formed, which became the creditor of the Republic. For capital served customs and other government revenues. The bank enjoyed great privileges of the state.

At the same time, the first credit institutions that lended against the collateral to private individuals began to appear. In particular, in 1472 a bank "Monte dei Paschi di Siena" emerged, which still exists today. And in 1587 in Venice the first state girobank "Banco di Rielto" was opened; in 1619 the second giroobank was opened on identical terms. All operations of Venetian banks were carried out in a special bank coin, which was recognized as the best coin in circulation in Venice - dukati d'argento.

The work of girobanks caused a fundamental change in the banking business: banks of the simple custodians of values turned into intermediaries between individuals who have free capital and those who are in need of loans. Girobanks turn into so-called deposit banks.

In the 12th century there appeared in Northern Italy the first private bankers' houses and family of bankers, who soon began to open branches in different cities. An example is the Florentine Bardi House, which had offices in England, Belgium and Africa. The largest lender was the Medici family, managing branches in Venice, Naples, Geneva and Lyon. Having expanded the bank activity across Europe, Medici became the most famous among the new class of capitalists.

Over time, the development of the banking system was due to the emergence of new girobanks and commercial deposit banks, savings banks, mortgage and business banks, the creation of a network of financial-credit institutions. In 1893 the Italian National Bank appeared, which began to serve as the central bank of the country.

The main features of modern banking system in Italy were formed in 20-30s of XIX century. The crisis of the 1930s seriously touched the banking system, which forced the state to nationalize a large part of the banks and to form two institutes as the highest bodies of the credit system – the Interministerial Committee on loans and savings and the Central issuing bank – the Bank of Italy. The second level of the credit system is represented by commercial banks and specialized lending institutions.

Since 1947, the highest body of the Italian credit system was the State Institute – the Interministerial Committee on loans and savings, representing the so-called mini-government, endowed with great powers. Its functions were: to ensure the stable functioning of the Italian credit system; to develope key directions of credit policy; to control all important structural changes in the banking system and the activities of the Bank of Italy as a whole.

Despite the multiple functions, the Committee did not have the right to supervise directly the credit system. This function was delegated to the Central Bank of Italy – the Bank of Italy, established in 1893. Since then, the Bank of Italy has close relations with the state, although it is a private joint-stock company. Since 1926, the

Bank of Italy has become the only issuing center of the country, received the right to control the credit system and the rate of lira. Since 1936, he has become a "bank of banks".

The legal tasks of the Bank of Italy could be formulated only in general terms. Its main functions before the creation of the ESCB were as follows: accumulation and holding official gold and foreign exchange reserves; servicing the state account; providing loans to credit institutions and government; c over the activity of credit institutions and currency turnover; the implementation of a monetary policy, the directions of which are determined jointly with the state treasury, the Committee; cashless payments organization [2].

The most important developement for the Italian banking system in the last two decades was the entry of the country into the European Economic and Monetary Union and the introduction of the euro. The issue of the need to move to a single currency reached its agreement between both center-right and left-centered forces of Italy. From 1 January 1999, the Bank of Italy became an integral part of the ESCB.

At present, the Bank of Italy is an organization that implements the policy of the ECB. In addition, according to the ECB statute, the national banks handed over part of their foreign exchange reserves. The foreign reserves available to national banks are used by them to fulfill their obligations vis-à-vis international organizations. Other transactions with these reserves above the limit must be agreed with the ECB. This is considered necessary to ensure a consistent monetary policy within the framework of the European Monetary Union.

Bringing the banking sector of Italy in line with the requirements of the new European legislation was against the background of unfavorable economic and financial conditions both in Italy itself and in the EU, as well as in other regions of the world. The instability of the economy negatively affected the conditions and performance of the Italian banking system. The actual stagnation of production activity in the country caused a slowdown in lending growth.

To regulate the activities of the financial sector, the parliament of the country has adjusted legislation to strengthen control over financial markets, to form a new mechanism of audit control and to verificate financial and economic activities of banks, as well as to increase responsibility for offenses by managers of banking institutions.

The adoption of new banking legislation and the start of the process of forming a single European financial market have sharply raised the question of increasing the capitalization and competitiveness of the Italian banking sector. This has prompted public authorities, the Association of Italian Banks and leading trade union federations to concentrate joint efforts on the development and implementation of a single program for the development of the banking sector, known as the "Protocol of June 4, 1997".

The Protocol stated that the Italian banking sector was operating in less favorable conditions than its main European competitors. Taking into account the development of the processes of globalization and the creation of a single European currency market, the document addressed the problem of remedying the situation, namely: transitioning from a large number of low-power banks to the creation of a network of large competitive financial institutions; eleminating the existing system, in which many banks had a cooperative ownership form and a large number of small owners, in favor of substantial parts of equity in the hands of owners with significant financial resources; increasing level of profitability of banking institutions to acceptable level.

The development of the Italian banking sector within the framework of the above-mentioned program allowed to reduce significantly the gap between the major European banking systems in terms of competitiveness and financial capacity of banks, optimizating the property structure, positioning on international markets and ensuring the necessary level of profitability.

The financial crisis of 2008 has severely hit the banking system and the social sphere of Italy. As a result, there was a low level of growth and high unemployment. Italy came out of a crisis with low percentage of growth caused by the lack of reforms, which has provoked the loss of country competitiveness in 15 years.

In order to overcome the consequences of the global financial crisis, the Italian government adopted a number of appropriate measures to stabilize the national banking system in three areas: recapitalization of Italian banks; supporting operations aimed at overcoming the liquidity crisis; state guarantees to depositors.

2. Structure and dynamics of the national Italian banking system. The banking system of Italy is small: at the end of 2015 the ratio of assets to GDP of the country was 165%, compared with 229% in Germany, 340% in Spain and 280% in France (see Table 1). The ratios of deposits to GDP and loans to households to GDP point to similar conclusions. The low ratio of bank deposits to GDP is due to the propensity of the population to hold deposits in government bonds and shares of private corporations, as well as the popularity of deposits in post offices, which is not common in other EU countries, where post offices have been privatized and converted into banks .

Table 1 Size of bank balance sheets in the large euro-area countries

(as percent of GDP, 2015)

	Germany	**Spain**	**France**	**Italy**
Total assests	229%	340%	280%	165%
Loans to households	0,57	0,83	0,52	0,38
of them: mortgage loans	0,39	0,63	0,40	0,23
Consumer credit	0,07	0,08	0,08	0,04
Other loans	0,36	0,86	0,43	0,57
Loans to firms	0,36	0,86	0,43	0,57
Deposits	0,79	0,93	0,76	0,48

Source: based on [3].

Analyzing the structure of consolidated balance sheets of banks, it is worth noting that they clearly reflect the low degree of financialisation of the economy and specialization in the field of corporate lending. The underdeveloped stock market and corporate bond market have always set the industry dependent on bank loans. Less than 300 companies are listed on the stock exchange, compared with 760 in Germany and 630 in France. In addition, Italy is a country of small firms with an average of only 3 employees per each. Owners of the company make limited capital contributions and, therefore, Italy has one of the lowest own funds in the company's overall liabilities, and because of this, external financing is necessary [4]. Loans to firms account for 57% of GDP, compared with 43% in France and 36% in Germany; Only Spain, another country with a banking-focused financial system, has a higher ratio of 86%.

It can be argued that the Italian banking system is small, because the entire financial system is less advanced than in other countries of the Eurozone. In proportion to GDP, capitalization of the Italian stock market was low and in 2015 amounted to 28%, compared with 51% in Germany, 65% in Spain and 86% in France [4]. The underdevelopment of financial markets is due to the desire of numerous family-controlled firms to keep third-party shareholders away, as well as to a legal system that is accused of inability to protect minority shareholders and small investors.

By the end of 2016, the Italian banking sector has 575 banks and 29,000 branches, 70% of which are limited liability companies (SpA). The sector also includes two types of institutions operating within a joint structure, namely, 15% of the mutual banks ("Banche di credito cooperativo" – BCCs) and 14% of cooperative banks ("Banche popolari – BPs"). Branches of foreign banks in Italy account for 1% of the total number of branches.

The ownership of the Italian banks is private. The transition from state ownership to limited liability companies in the 1990s was the most important change in the credit system of the country since the Great Depression. Italy stopped the existence of state-owned banks, de facto, unlike Germany and Spain, where the bank's state capital reserves remain a distinctive feature of the national economy, or countries such as Great Britain and Ireland, where financial instability, caused by the crisis of 2008, has led to nationalization of a large part of the credit system.

All Italian banks, with the exception of mutual banks that aret specially regulated, operate as private individuals for profit. Even BPs, characterized by the principle of "one person, one voice," operate on the market in the same way as SpA: some are listed on the stock market and some are the leading players in the Italian banking market.

By contrast, mutual banks are very small (13 branches per bank on average) and serve only local clients (artisans, farmers, retailers, small businesses in general, and households). BCCs differ from other banks primarily because their main tasks are the welfare of shareholders and the development of the local economy. BCCs have their own specific deposit insurance fund, and their retail nature is confirmed by the share on the deposit market (7.7% in 2015) over the share in the loan market (7.2%) [5].

Besided the National Association of BCCs, the mutual banks of Italy are members of the European Association of Co-operative Banks (EACB), which is currently implementing the reform of the reorganization of Italian mutual banks, which includes:

- the consolidation of all 317 Italian BCCs into a single banking group under the supervision of the Single Supervisory Mechanism of ECB;

- the creation of a central body owned by a banking group in the form of a joint-stock company;

- the majority of shares will belong to local mutual banks, while some will be listed in the open market;

- the central authority will have the power to intervene in BCCs, but each BCC will remain a full-fledged mutual bank and will keep its banking license [6].

The geographical distribution of branches shows a significant presence of banks in the North (58%), in particular in the regions of Lombardy and Emilia-Romagna, against 21% in the South and in Sicily.

As for the size of bank, 36% of the total number of Italian banks belongs to the largest banks (assets over 60 billion euros), the rest are proportionally divided between large (assets in the range of 26-60 billion euros), average (assets in the range of 9-26 billion euros), small (assets in the range of 1.3-9 billion euros) and insignificant (assets less than 1.3 billion euros) banks [7].

At the turn of the 1990s, the system was considered outdated, as its essential features remained unchanged since the 1930s: a large number of banks and a small number of branches; local oligopolies were dominating. Since 1990, the structure has changed due to two main factors:

1) The growth of the number of branches: the number increased from 16.6 thousand in 1990 to 31.9 thousand in 2015: more new branches were established in these twenty years than in the previous sixty. The opening of new branches has benefit the competition between banks [3].

2) Mergers and acquisitions: during the period of 1990-2006, the wave of consolidation was the main factor in reducing the number of banks from 1,2 thousand in 1990 to 575 in 2015 [3].

Despite mergers and acquisitions, Italy still has a relatively large number of banks: less than in Germany, but more than in France, which has a larger banking system, and more than 2 times more than in Spain (see Fig. 1). A large number of banks means a relatively low concentration of assets: the Herfindahl Index for Italian banking assets is 435, while the 5 largest banks hold 34% of all bank assets (see Table 2). The highest concentration among the major countries of the Eurozone is in France, with the Herfindahl index 589; 5 banks own 60% of all assets.

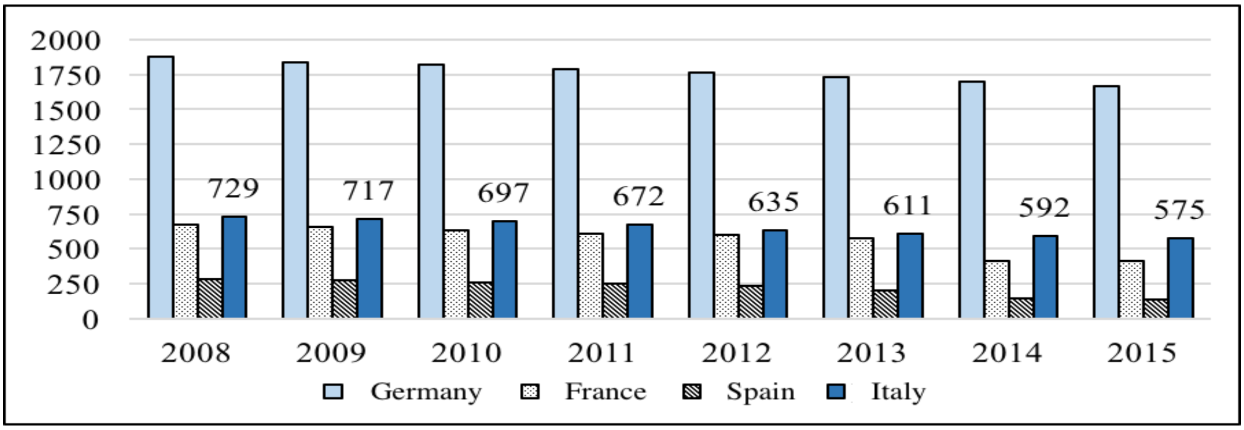

Figure 1 – Number of banks in the largest countries of the Eurozone

Source: [3].

Table 2 Structure of the large euro-area banking systems, 2015

The indicator	Germany	Spain	France	Italy
Herfindahl Index, from 0 to 10,000	273	896	589	435
Market share of 5 largest banks, %	31	60	47	41
Branches per 100,000 inhabitants, pieces	14,0	67,5	37,5	49,5
Employee per branch, person.	17,3	6,0	12,4	9,8
Assets per employee, mln. euro	11,852	14,348	19,211	13,111
Population per branch, person	2,397	1,493	1.770	1,993

Source: based on [3].

It should be noted that among the top ten largest banks in Europe there is only one Italian (UniCredit). In terms of assets and number of employees, the Italian banks are relatively small. On average, they are larger than German but less than French or Spanish banks. The cost of assets managed by one employee is lower than the major countries of the Eurozone, except Germany. In 2015, the number of residents in a branch in Italy was 1.9 thousand, which is higher than in Spain (1.5 thousand) and France (1.8 thousand), but lower than in Germany (2.4 thousand).

As of 2016, the largest Italian commercial banks in terms of aggregate assets are the UniCredit banking group (€ 939.5 billion), Intesa Sanpaolo (€ 766.5 billion), and the cooperative bank Banco BPM, which has been functioning since January 1, 2017 as a result of the merger between Banco Popolare and Banca Popolare di Milano. Italian banking sector assets are comprised 87% of Italian banks, 5.6% of EU subsidiaries and 6.5% of EU member banks [3].

UniCredit Group is one of the largest European banking groups and the most successful banking group in 13 countries of Central and Eastern Europe, that until recently operated in Ukraine. Having been present on the Ukrainian market since 1997 as UniCredit Bank Ukraine, the company completed the merger with HVB Bank Ukraine and its subsidiary Ukrsotsbank in 2007 in accordance with the UniCredit Group Integration Strategy in CEE countries. The purchase of 95% of Ukrsotsbank shares, the third largest bank by assets in 2007 in Ukraine, was held at a record for its market price of 1.52 billion euros with the bank's capital worth 2.07 billion UAH, which corresponds to a sales ratio of 5.36.

However, in 2013, the Unicredit Bank Ukraine apperead on the list of assets held for sale, and in January 2016 UniCredit group left the Ukrainian market, having sold 99.8% of the shares of Ukrsotsbank to ABH Holdings (ABHH), that is part of Russian Alpha Group. The shares were sold in exchange for a minority stake of 9.9% in ABHH, one seat on the board of directors of ABHH and a right to oblige the company to hold the initial IPO as a protection of its rights. The price of 9.9% of the shares in cash was not announced, though Bank Austria, which belongs to UniCredit group and oversees the Ukrainian assets, estimated the Ukrainian UniCredit in the 0.7-1 billion USD, but was ready to make a large discount [8] .

K. Vivaldi, the CEO of UniCredit's banking business in the CEE, links the sale with UniCredit losses in Ukraine due to the deep economic recession under the influence of geopolitical tension and eastern conflict, as well as currency depreciation, loss of confidence in politicians and deterioration of the business environment, that all together affect the banking sector. According to Vivaldi, the deal will eventually help the group to return investments brought in Ukraine, and the essence of the deal is to exchange Ukrainian assets to Russian, as Italians expect the recovery of the Russian economy faster than Ukrainian [8].

The strategy of the Italian banks in Ukraine was slightly different from other European banks in the Ukrainian market (for example, French), that made them unable to withstand the difficult economic conditions and forced them to sell their assets. At the times of entering the Ukrainian market, the Italians bought large banks, which in 2008 were significantly affected by the crisis and found themselves in a large number of non-performing loans and non-creditworthy clients, unlike French banks that bought small Ukrainian banks with a small number of customers and at low cost.

2. Influence of EU financial integration on the stability of the Italian banking system. Under the influence of European monetary and financial integration along with other members of the EMU, Italy has committed itself to comply with the Maastricht convergence criteria. The commitment was streghtened by Stability and Growth Pact after the third phase of the EMU in 1999. The requirement is to support an annual budget deficit of no more than 3%, national debt of no more than 60%, and inflation should not exceed the corresponding indicators of the three best (in terms of price stability) member countries by more than 1,5%.

However, according to Table 3, Italy does not fully fulfill the convergence criteria - national debt over the period 2011-2016 exceeded 60% almost twice and at the end of the period reached a maximum of 132%. The budget deficit in this period corresponded to the requirment (except for 2011) and ammounted 2.4% in 2016. The inflation rate steadily declined from 3.3% in 2012 to a negative value of -0.1%, which indicates a significant decline in consumer demand in Italy.

Table 3 The dynamics of macroeconomic indicators in Italy

Indicator	2011	2012	2013	2014	2015	2016
Budeget deficit, % of GDP	3,7	2,9	2,9	3,0	2,7	2,4
Government debt, % of GDP	116,5	123,3	129,0	131,8	132,1	132,6
Consumer price index, %	2,9	3,3	1,2	0,2	0,1	-0,1

Source: [3].

To examine the impact of financial integration on economic development and the financial health of Italy, two regression models were set up based on the ECB's one-year statistical data for the period of 2003-2016. The first model examines the impact of government debt (X1), budget deficit (X2), harmonized index of consumer prices (X3) and the ECB fixed rate on the main refinancing operations (X4) on GDP per capita (Y). Regression model received is: $Y = 1{,}573\ X_1 - 0{,}266\ X_2 - 0{,}21\ X_3 - 1{,}525\ X_4$. The model is significant: $R^2 = 0.871$; statistical significance is confirmed by X_1 and X_4 (coefficients of t-statistic X_1 and X_4 exceed the t-criterion); determination coefficients are statistically significant and the regression equation is statistically reliable (F-statistics of the Fisher distribution (13.53) is greater than the F-criterion (3.84); the probability of zero values of the coefficients X_1 and X_4 is 1%; X_2 and X_3 are 10%; no autocorrelation (Darbin-Watson coefficient is 1.168).

Regression analysis shows a statistically significant relationship between GDP per capita and selected independent variables. As a result, government debt has a direct impact on GDP per capita. The second most powerful influence is the ECB's interest rate, but dependence in reverse. If the rate increases, GDP per capita will decrease, which is logical, since the increase in the cost of lending leads to a reduction in the money supply in the country. At present, the ECB is pursuing a quantitative easing policy, gradually reducing its interest rate to stimulate the growth of the European economy and inflation, which still does not reach the acceptable level for developed economies of 2%. Budget deficits and inflation rates have a reverse, but a weakly significant impact on the variable, since the Student's ratios do not exceed the criterion.

Similar results are seen in a regressive model of the influence of these independents on the Composite Indicator of Systemic Stress (CISS), which measures the level of tension in the financial system and represents a comprehensive quantitative assessment of its state: CISS = 1,409 X_1 - 0,975 X_2 + 0,337 X_3 + 1,153 X_4. The model is significant: R^2 = 0,645; statistical significance is confirmed by X_1 and X_4 (coefficients of t-statistic X_1 and X_4 exceed the t-criterion); Fischer's coefficient is 3.49; the probability of zero values of the coefficients X_1 and X_4 is 5%; X_2 and X_3 are 10%; no autocorrelation (Darbin-Watson coefficient is 1.640).

Regression analysis shows a statistically significant relation between GDP per capita and selected independent variables. The most influencial independent variable is government debt, the growth of which leads to an increase of country's level of financial stress. The second and third most influential indicators are ECB's interest rate and inflation, respectively, with a direct dependence on GDP per capita: with their growth, CISS increases. As for the budget deficit, there is a reverse dependence: its growth led to the improvement of financial stress index, though in observed period the deficit did not exceed 3% but in the post-crisis years.

In recent years the stability of national banking systems has become greatly important in context of development of the world economy. This feature of the banking system forms and maintains the basic level of trust among the population as its main investor of savings, trust among economic entities in each other as contractors of financial and business operations, trust in the state, etc.

One of the most common approaches to assessing the financial stability of the country's banking system, which is used by the World Bank and IMF experts, is the Z-score financial stability indicator. The methodology of this indicator involves assessing the probability of insolvency of the banking system of the country, that is, the probability that the value of assets of banks will be lower than the cost of obligations. The higher (lower) the value of the Z-score indicator, the lower (higher) is the level of probability of the insolvency of the banking system and, consequently, the higher (lower) level of its financial stability [9].

To calculate the Z-score financial stability indicator, use the following formula:

$$Z=\frac{\mu+k}{\sigma},$$

where μ – return on assets of the banking system (ROA); k - ratio of equity to total assets of the banking system; σ - the standard deviation of ROA.

During 2006-2015, the Z-score of Italy was quite volatile and at the end of the period ammounted 5.9, compared with 8.4 in the euro area countries (Fig. 2).

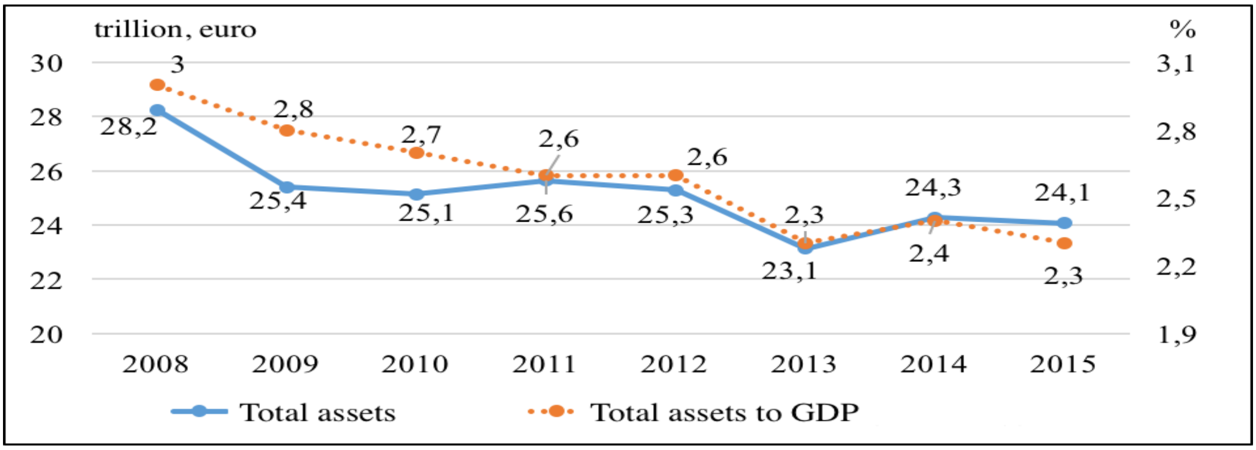

Figure 2 - Z-score for Italy and the Eurozone, 2006-2015

Source: based on [10].

This means that the Italian banking system is more vulnerable to the risk of insolvency of banks and is generally less financially stable than other Eurozone countries.

As can be seen from Fig. 6, the situation was different until 2013: Italy outperformed the Eurozone countries by the level of financial stability, especially in 2010. The global financial crisis of 2007-2008 significantly reduced the level of financial stability of the banking systems of the EU countries, and during 2012-2015 there was again a slight gradual decrease in the level in these countries.

The ratio of equity to bank's assets is one of the norms of banking activity, that characterizes its capital sufficiency and indicates the level of reliability. In Italy, in 2005-2015 period, it gradually improved, though was unsatisfactory - 4.6% at the beginning and 6.1% at the end of the period [11]. This indicates both weak stability of the banking system and its ability to withstand negative factors.

The ratio of non-performing loans (or gross loan loss provisions) to total loans shows a negative trend: in the second quarter of 2016, this figure amounted to 16.4% of all loans, compared with 5.1% in 2008. Bad in 2016 amounted to 9.8% of all loans, which is 4 times bigger than the pre-crisis 2.5%. The sector continues to increase coverage rates, which are currently higher than the EU average, although there are significant differences between banks [9].

According to a country report by the European Commission, the confidence in the banking sector in Italy fell in 2016, which is reflected in a significant drop of Italian banks' share prices. The main reasons for this trend are the high stock of non-performing loans, the weak growth forecasts, depressing banks' profitability, and structural weaknesses in the system, such as high operational costs and corporate governance flaws [9]. As a result, Italian banks are continiously vulnerable to shocks, which could be a potential source of economic spillover for other countries in the Eurozone.

The capitalization of the Italian banking sector in 2008-2016 has gradually improved: in 2016, due to retained earnings and an increase in equity, the average common equity tier 1 was 12.4% versus 7.1% in 2008, the total capital ratio was 15,3%. However, the Italian banking sector is still lagging behind other Eurozone banking systems and is in the last place in the ratings of Eurozone solvency indicators [9]. Low profitability and unfavorable market conditions hold back the further strengthening of capital reserves.

In 2008-2016 the profitability of the Italian banking sector was low: the average return on equity (ROE) was 4.5% in 2008, -9.3% in 2011, -7.8% in 2013, and improved to 2.5% in 2016. Currently, it ranks close to the bottom among all the Eurozone banking systems. The low profitability of Italian banks is due to several factors:

1) a low interest rate environment in the EU and price competition for the most creditworthy borrowers, which reduces the net interest margin that is key to the traditional business models of Italian banks;

2) slow lending: within the framework of the ECB's expansionary monetary policy, low levels of nominal interest rates for households and firms (2.05% and 1.56%, respectively) have led to an increase in lending to the population since 2014, while loans to firms diminishes since 2011;

3) reduction of non-interest income as a result of unfavorable changes in the market;

4) increase of non-recurring expenses (for example, measures for early retirement, resolution fund contributions);

5) significant amount of loan-loss provisions.

In 2008-2016 the cost-to-income ratio of the Italian banking sector generally increased by 3.4% (64.2% at the beginning versus 67.6% at the end), as currently a significant reduction of income is not offset by a slight reduction of costs.

Regarding the structure of banks, it can be argued that medium and small Italian banks are less stable than large credit institutions. Less significant banks (LSB, small banks under the supervision of the Bank of Italy) on average are more profitable and less cost effective than significant banks (14 largest banks under the supervision of the ECB), while their capitalization is higher. However, in general, LSBs have more serious problems with asset quality (higher rates of non-performing loans and lower coverage ratios). This may be explained by a higher tendency of LSBs to smaller and more risky firms and a greater degree of lending [9].

In order to test the resilience of large significant banks in a crisis situation, in particular, when investors escape from market or when there is a deterioration of bank's balance sheet, the ECB regularly conducts stress tests, checking the resilience of large banks in a crisis situation. The stress tests were conducted in 2009, 2010, 2011, 2014 and 2016, and the next one is scheduled for 2018 [12].

Stress testing of 2014 found that out of the 123 largest credit institutions in the Eurozone, 25 banks did not pass the test; the total capital deficit amounted to 25 billion euros in 25 banks. Among them there were 4 Italian, 2 Slovenian, 2 Greek, 1 bank from Austria, Ireland, Portugal, and Cyprus. The largest lack of capital (-2.11 billion euros) was found in the oldest and 3rd largest Italian bank by assets, Monte dei Paschi di Siena.

Unlike the previous, stress testing of 2016 examined 50-60 Eurozone banks and included 2 scenarios – basic and adverse, which assesses how banks will survive the recession, low interest rates and currency depreciation, as well as falling real estate prices. Also, there was no passed or fail threshold – the ECB checked how much capital would remain in banks in both scenarios, and investors would do their own conclusions. The desirable capital adequacy in a crisis situation should be 5.5%. According to the test results, Monte dei Paschi di Siena showed the worst result again: in the unfavorable scenario, the bank would have remained negative at -2.44% [12]. The low result was also demonstrated by the Italian bank UniCredit.

The dependence of Italian banks on ECB refinancing in the period of 2008-2016 was volatile: in 2008 ECB loans amounted to 50.3 billion, in 2011-2012 they reached a maximum of 210 and 271 billion euros, but declined further. In 2016, loans totaled 173.9 billion euros, having increased by 15.5 billion compared to 2015 due to the transition from the first to the second round of long-term refinancing operations by ECB.

In order to examine the influence of the Italian financial system indicators on country's economic development, a model of the impact of ROE (X_1), foreign claims to Italian banks (X_2), and loan-to-deposit ratio (X_3) to GDP per capita in Italy (Y) was built. This model is built based on one-year statistical data provided by the ECB for the period from 1997 to 2015. The model is: $Y = -105,2\ X_1 + 0,004\ X_2 + 28,6\ X_3$. The model is significant: $R^2 = 0.798$; Darbine-Watson coefficient is 1,506; coefficients of t-statistics do not exceed the t-criterion; Fischer's coefficient is 19.79; Probability of zero values of coefficients is 1%.

Regression analysis shows a statistically significant relation between GDP per capita and selected independent variables. Standardized coefficients show that the profitability of Italian banks has the greatest impact on the variable with reverse dependence: with the growth of bank profitability, GDP per capita decreases. The second most influential indicator is the loan-to-deposit ratio, that has a direct dependence with GDP per capita: with the growth of lending, GDP per capita increases. The smallest impact on GDP per capita has foreign claims to Italian banks, that have a positive effect on GDP dynamics.

Consequently, it can be concluded that the Italian banking system is showing a weak financial stability and ability to withstand stressful situations, while the macroeconomic conditions in Italy remain unsustainable, due to the structural problems of the banking system, as well as the low profitability conditions in which all countries in Eurozone are currently operating. One way to increase profitability is to consolidate the Italian banking system, but this process is very slow. The country needs to conduct reforms that would improve the stability of the banking and financial system as a whole, as it has a significant impact on its socio-economic development.

Conclusions

The Italian banking system, where the modern banking business emerged in the 12th century, is currently showing a weak financial stability and ability to withstand stressful situations, while the macroeconomic conditions in Italy remain fragile, due to the structural problems of the financial system, as well as low profitability conditions, in which now all the countries of the Eurozone operate. One way to increase profitability and profitability is to consolidate the Italian banking system, but this process is very slow. The country needs to carry out reforms that would improve the stability of the banking and financial system as a whole, because it has a significant impact on its socio-economic development.

Regression analysis of the impact of convergence criteria and the ECB interest rate on GDP per capita has demonstrated that Italy's high public debt is the most influential factor on the variable with the direct dependence. Similar results are shown by the regression model of the influence of these independents on the index of financial stress of the country, which measures the level of tension of the financial system and represents a comprehensive quantitative assessment of its condition – public debt is also the most influential factor. The analysis of impact of banking sector indicators on

GDP per capita showed that the profitability of Italian banks has the greatest impact on the variable with reverse dependence: with the growth of bank profitability, GDP per capita decreases.

BIBLIOGRRAPHICAL REFERENCES

1. Базазян С.Г. Некоторые аспекты возникновения и становления европейской банковской системы. [Електронний ресурс]. / С.Г. Базазян. // Экономика, Статистика и Информатика. – 2011. – №2 (23). – Режим доступу: http://cyberleninka.ru/article/n/nekotorye-aspekty-vozniknoveniya-i-stanovleniya-evropeyskoy-bankovskoy-sistemy

2. Жуков Е.Ф. Деньги. Кредит. Банки: Учебник для вузов / Е.Ф. Жуков, Л.М. Максимова, А.В. Печникова и др.; Под ред. проф. Е.Ф. Жукова. – М. : Банки и биржи, ЮНИТИ, 1999. – 622 с

3. ECB Statistic Warehouse International. [Електронний ресурс]. – European Central Bank. – Режим доступу: http://sdw.ecb.europa.eu/browse.do?node=9691101

4. De Bonis R. The Italian banking system: Facts and interpretation. [Електронний ресурс]. / R. De Bonis, A. F. Pozzolo, M. Stacchini – Режим доступу: http://web.unimol.it/progetti/repec/mol/ecsdps/ESDP12068.pdf

5. Key Statistics. Financial indicators 2015. / [Електронний ресурс] / European Association of Cooperative Banks. – Режим доступу: https://v3.globalcube.net/clients/eacb/content/medias/key_figures/copy_of_20161124_final__final_tias_eacb_2015_key_statistics.pdf

6. BCC: The Reform of the co-operative Banks in Italy is now law. / [Електронний ресурс] / European Association of Co-operative Banks. – Режим доступу: http://www.eacb.coop/en/news/members-news/bcc-the-reform-of-the-co-operative-banks-in-italy-is-now-law.html

7. Banks and Financial Institutions: Branch Network. / [Електронний ресурс] / Banca d'Italia – Режим доступу:

http://www.bancaditalia.it/pubblicazioni/banche-istfin/2017-banche-istfin/en_statistiche_STATER_31032017.pdf?language_id=1

8. UniCredit Group объяснила, что плохо в Украине. [Електронний ресурс]. – Фінансовий портал «Мінфін». – 2016. – Режим доступу: http://minfin.com.ua/2016/01/27/14215329/

9. Country Report Italy 2017. [Електронний ресурс] – European Comission. – Режим доступу: https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-report-italy-en_0.pdf

10. Bank Z-Score. / [Електронний ресурс] / FRED Economic Data – Режим доступу:https://fred.stlouisfed.org/graph/?id=DDSI01EZA645NWDB,DDSI01ITA645NWDB,

11. Статистика финансового сектора Италии. [Електронний ресурс]. – Світовий Атлас Даних. Фінансовий сектор Італії. – Режим доступу: http://knoema.ru/atlas/Италия/topics/Экономика/Финансовый-сектор-Активы/Отношение-собственных-средств-к-активам-банков

12. EU-wide stress testing. [Електронний ресурс] – European Banking Authority. – Режим доступу: http://www.eba.europa.eu/risk-analysis-and-data/eu-wide-stress-testing/2016