ACRI

Association of Italian Savings Banks

2024 World Savings Day

1924-2024: one hundred years of fostering a savings culture

Address by the Governor of Banca d'Italia

Fabio Panetta

Rome, 31 October 2024

Mr President, Ladies and Gentlemen,

World Savings Day was established one hundred years ago, during the celebrations for the foundation of Cassa di Risparmio delle Provincie Lombarde.[1] Every year since then, this day has focused on the importance of saving.

Saving means transferring resources from the present to the future: people save in order to smooth consumption over the course of their lives; to handle unforeseen events such as job loss or illness; to pay for education, buy a house or start a business.

A person's ability to save depends on their expected lifetime income, although the constraint of current earnings becomes stringent for those who, like many young people, struggle to access credit. The social protection system also plays an important role: a generous pension and an efficient healthcare system attenuate the need to set resources aside. Finally, saving decisions are based on wealth – that which we inherit and that which we plan to leave to our loved ones[2] – and on expected returns.[3]

Savings are an element of stability in the lives of households, yet they are also an important resource for business investment.

Savings and economic and social progress are closely linked, as recognized by Article 47 of Italy's Constitution, which states that 'The Republic shall foster and protect savings in all forms'.

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1 Cassa di Risparmio delle Provincie Lombarde was founded in 1823, but the international conference marking its 100th anniversary was postponed to 1924 for organizational reasons.

2 '[V]i sono […] uomini, fortunatamente i più, i quali, mossi da sentimenti diversi, hanno l'istinto della costruzione. […] Il padre non risparmia per sé; ma spera di creare qualcosa che assicuri nell'avvenire la vita della famiglia', L. Einaudi, *Lezioni di politica sociale*, Turin, Einaudi, 2004 (c. 1949), p. 191 (There are men who, driven by a wide range of different feelings, have an instinct for construction. The father does not save for his own benefit, but rather hopes to create something that will secure the wellbeing of his family in the future).

3 The higher the return the greater the incentive to save, thereby increasing opportunities for consumption in the future.

1. One hundred years of saving in Italy

In 1924, when World Savings Day was established, Italians' savings had bridged the gap with the other advanced economies,[4] thanks to the increase resulting from the economic growth of the Giolittian Era (1901-1914) and the sizeable remittances by Italian emigrants.[5] The stock of bank deposits and postal savings books amounted to 27 per cent of GDP.[6]

Subsequent dramatic historical events – the Great Depression, the Second World War and post-war inflation – decimated the financial wealth of an entire generation: by 1948 the value of bank and postal deposits had plummeted to 10 per cent of GDP.

Those painful experiences sharpened the focus of society and of the newly established republican institutions on savings. The protection of savings was even enshrined in our Constitution, a rarity in the international landscape.[7]

After the Second World War and up to the early 1990s, Italian households were saving one quarter of their income every year on average (Figure 1).[8]

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4 According to the available statistical reconstructions, Italy's gross national savings (including the public sector) stood at 9 per cent of GDP in the mid-1920s and, up until the eve of the Second World War, remained on average lower than in Germany and the United States, and higher than in the United Kingdom.

5 M. Gomellini and C. Ó Gráda, 'Le migrazioni', in G. Toniolo (ed.), 'L'Italia e l'economia mondiale: dall'Unità a oggi', Venice, Marsilio, 2013 (Historical Series of Banca d'Italia - Analysis and Essays Series, XII), pp. 375-421.

6 F. Cotula, T. Raganelli, V. Sannucci, S. Alieri, and E. Cerrito (eds.), 'I bilanci delle aziende di credito 1890-1936', Roma-Bari, Laterza, 1996 (Historical Series of Banca d'Italia - Statistics Series, III); R. De Bonis, F. Farabullini, M. Rocchelli and A. Salvio, 'Nuove serie storiche sull'attività di banche e altre istituzioni finanziarie dal 1861 al 2011: che cosa ci dicono?', Banca d'Italia, Economic History Working Papers, 26, 2012.

7 C. Pagliarin, 'Le radici costituzionali della tutela del risparmio', *Banca Impresa Società*, 1, 2021, pp. 29-58. The drafters of the Constitution decided to include the safeguarding of savings in the Constitution, although they were aware of the risk that rules similar to Article 47 could turn it into 'a memorandum and a list' (Constituent Assembly, session of 19 May 1947, p. 4039). This decision is a testament to the deep wound that the severe monetary disasters of the previous 30 years had inflicted on our economic and social fabric and individual experiences.

8 This flow of savings does not include social security contributions, although in the perspective of the life-cycle theory originally put forward by Richard Brumberg and Franco Modigliani (and then extended by Modigliani and Albert Ando), they are indeed a form of saving, albeit involuntary. See A. Ando and F. Modigliani, 'The "life cycle" hypothesis of saving: aggregate implications and tests', *American Economic Review*, 53, 1, 1963, pp. 55-84.

The household saving rate began to decline in the 1980s; it then fell more rapidly after 1992, and eventually stabilized at 10 per cent in this century.[9]

There are several reasons behind this reduction in the propensity to save.

In the 1980s, the presence of a very generous public pension system was an important contributory factor.

Later on, household saving was adversely affected by macroeconomic conditions. The 1992 currency crisis and the subsequent fiscal consolidation squeezed disposable income, leading households to save less in order to sustain consumption. On top of that, since the late 1990s, the fall in interest rates brought about by the introduction of the euro and better access to credit have favoured current over future consumption.

More recently, savings have been affected by the global financial crisis, the sovereign debt crisis in the euro area, and finally by the pandemic.

Demographic factors have also come into play. Population ageing has compounded the fall in the saving rate, with a rising share of elderly people drawing on their assets to fund their expenses, and therefore recording negative savings.[10] The resources set aside by younger workers have been very limited, due to their low incomes.[11]

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9 The rise in the saving rate as a consequence of forced saving during the pandemic was the exception to this general trend.

10 In 1991, for each resident aged 65 or over, there were four people aged between 20 and 64; today that number has become two. For more details, see A. Brandolini and A. Rosolia, 'Consumi, redditi, risparmi e benessere', in A. Golini and A. Rosina (eds.), *Il secolo degli anziani. Come cambierà l'Italia*, Bologna, Il Mulino, 2011, pp. 137-158.

11 With less stable and low-paid jobs, young people are being limited in their ability to save, in spite of the stimulus to make precautionary savings to meet their needs during periods of unemployment. See A. Rosolia, 'L'evoluzione delle retribuzioni in Italia tra il 1986 e il 2004 secondo i dati dell'archivio WHIP', *Politica economica*, 2, 2010, pp. 179-201; A. Rosolia and R. Torrini, 'The generation gap: a cohort analysis of earnings levels, dispersion and initial labor market conditions in Italy, 1974-2014', Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), 366, 2016.

But households are not the only savers: in this century, corporate savings have grown steadily, accounting for two thirds of private savings in the last decade (Figure 2).[12]

Overall, the annual flow of private savings now exceeds €400 billion, or one fifth of national income. Only part of it, however, goes towards financing investments in Italy. In the five years before the pandemic, domestic financial resources spent abroad averaged 2.5 per cent of GDP. Had they been used to purchase capital goods, investments would have increased by almost one fifth.

2. A stable, growth-oriented economy

Having a robust real economy is the first pillar in the protection of savings.

A robust economy is one that grows and invests, generating jobs, income and opportunities to use savings profitably. By contrast, an economy vulnerable to shocks is prone to frequent recessions, which tend to slow the accumulation of savings.

The Italian economy has gone through difficult phases in this century. Between 2000 and 2019, Italy's real GDP per capita declined slightly, against an increase of 25 per cent for the other European countries, although they too were losing ground to the United States.

I have already discussed this disappointing trend and its causes in past speeches: low innovation capacity and limited investment, a fragmented production system oriented towards traditional sectors, shortcomings in the public administration and in infrastructure, and low labour market participation.

The high level of public debt amplifies these weaknesses, exposing the economy to the vagaries of the markets and limiting our ability to react effectively

[12] Corporate savings consist mainly of retained earnings; national saving is the sum of private sector and general government savings, which is the balance between current revenue and current expenditure (not including capital expenditure, which instead contributes to the general government deficit or surplus).

to adverse circumstances. Interest expenditure absorbs considerable resources, which could otherwise go into funding education, infrastructure and healthcare.[13]

In recent years, the Italian economy has shown encouraging signs of improvement. After the crisis of the last decade, the production system has undergone a profound – and painful – overhaul. Firms have come out stronger.[14]

These changes help explain how the Italian economy has been able to bounce back from recent shocks. Since the end of 2019, Italy's GDP has grown by 5.5 per cent, against 4.1 per cent for France and 0.2 per cent for Germany.[15]

The global economy is now in a phase of uncertainty and weakness. According to the latest IMF estimates, global GDP is expected to grow by just over 3 per cent in 2025, below the average for previous decades. The euro-area economy remains weak (Figure 3), partly owing to still high real interest rates and the end of the fiscal stimulus measures introduced in previous years. The Italian economy is suffering as a result.

However, it is the longer-term trends that are worrying: ongoing conflicts, the fragmentation of global trade, the division of countries into opposing blocs, and a continent, Europe, which is suffering the effects of population decline, lagging behind and losing influence in international relations.

In this context, the European Union and Italy stand in need of far-reaching reforms.

Europe needs to revive the sense of common purpose that enabled the adoption of the NextGenerationEU programme and has since waned. The areas in which to take action are numerous:[16] we need to realize the full potential of the single market; launch joint projects in innovation and technology, starting with the

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13 As I noted recently, Italy is the only euro-area country where interest payments on public debt almost match spending on education; see F. Panetta, 'If we are not after the essence, then what are we after?', speech at the 45th Foundation Meeting for Friendship among Peoples, Rimini, 21 August 2024.

14 F. Panetta, 'The Governor's Concluding Remarks for 2023', Rome, 31 May 2024.

15 These figures include preliminary estimates for the third quarter of 2024 released on 30 October.

16 F. Panetta, 'The future of Europe's economy amid geopolitical risks and global fragmentation', Lectio Magistralis on the occasion of the conferral of an honorary degree in Juridical Sciences in Banking and Finance by the University of Roma Tre, 23 April 2024; F. Panetta, 'The Governor's Concluding Remarks for 2023', Rome, 31 May 2024; M. Draghi, *The future of European competitiveness*, September 2024.

digital and green transitions; reduce foreign dependency in the energy and defence sectors; streamline rules and regulations; create a centralized and autonomous fiscal capacity; and address the demographic challenge.

Italy has an important responsibility in lending credibility to the European project, which it can fulfil by carrying out the investments and reforms laid out in the National Recovery and Resilience Plan, reducing the public debt-to-GDP ratio, and decisively tackling the unresolved issues I have mentioned.

3. Monetary stability

Monetary stability is the second pillar in the protection of savings. Inflation worsens the allocation of resources and erodes the real value of savings.[17]

In its first two decades of existence, the monetary union ensured moderate inflation. The pandemic and the energy shock, however, changed this: in 2022, consumer prices grew by 10 per cent in the euro area and by 12 per cent in Italy.

The ECB's monetary tightening actions helped bring inflation down as swiftly as it had risen: today, price growth stands at around 2 per cent for the first time since 2021. The ECB has thus been able to cut its key interest rates in three consecutive Governing Council meetings since June.

However, monetary conditions are still tight and new cuts will be necessary. As inflation subsides, our focus should be on the sluggishness of the real economy: without a sustained recovery, inflation risks being pushed well below the target, opening up a scenario that would be difficult for monetary policy to counteract and should therefore be avoided.

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[17] Tommaso Zerbi opened the Italian Constituent Assembly meeting of 19 May 1947, during which Article 47 of the Constitution was discussed and approved, recalling 'the cry of millions and millions of small Italian savers, the tragedy – without exaggeration – of our entire generation of small savers, who in the last 30 years or so have seen the purchasing power of the lira fall to one one-hundred-and-fortieth of its value in 1913 or to one thirty-fifth of its value in the period between the First and the Second World War' (see Constituent Assembly, session of 19 May 1947, p. 4025; only in Italian).

4. Financial stability

Financial stability is the third pillar in the protection of savings. Financial crises pose a severe threat to savers because of the destruction of wealth they bring about.[18]

Banks

Over the previous decade, Italy's banking system suffered the consequences of two recessions within a few years. Between 2008 and 2014, GDP fell by 9 per cent, leading to an increase in business bankruptcies and unemployment.[19] Non-performing loans rose to 10 per cent of total loans. Banks suffered sizeable losses, which in many cases resulted in outright banking crises.

That is now a distant memory. The banking system is currently well capitalized and profitable. The stock market valuations of the main financial intermediaries exceed their book values (Figure 4), signalling investor confidence in banks' ability to generate income in the future.

These improvements reflect the efficiency gains achieved by financial intermediaries and the strengthening of prudential rules, as well as the favourable conditions of recent years.[20]

Public aid during the pandemic crisis, including the expansion of state guarantees on loans to small and medium-sized enterprises, played an important

18 In Italy, the global financial crisis of 2007-09 led to a drop in equity prices of almost 70 per cent, followed by a slow and partial recovery. The sovereign debt crisis caused further losses, coupled with a sharp fall in house prices.

19 In that period, yearly bankruptcies doubled to more than 15,000; the unemployment rate rose by over 6 percentage points, to 12.9 per cent.

20 In recent years, the European financial system has been characterized by ample liquidity supply and rapidly rising interest rates. These market conditions have created a particularly favourable environment for banks' profitability.

role. Now that the conditions allow it, the time has come to return to a system of guarantees based on ordinary criteria.[21]

Looking ahead, the high capital levels and the foreseeable reduction in profitability could push banks towards consolidation, including at cross-border level. Consolidation deals must be made by improving efficiency and creating strong, profitable intermediaries that can better serve the real economy.

Greater integration of the banking market at European level would increase the soundness of banks and allow them to operate in multiple countries, diversifying risks and strengthening the provision of services to households and firms. The banking union needs to be completed by establishing a European deposit guarantee scheme and improving the bank crisis management framework.

Creating a European capital market is also necessary. The most important – though not the only – condition for achieving this goal is the introduction of a European safe asset,[22] which is essential for the operation of financial markets.[23]

Non-bank financial intermediaries

Non-bank intermediaries have become the main financial players, both globally and in the euro area. In Italy, banks continue to predominate, but non-bank intermediaries are growing rapidly (Figure 5).

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21 The draft budget law for 2025 reduces the ceiling for guarantees that can be issued by the Italian fund created to improve access to credit for SMEs from €200 billion to €160 billion. This ceiling was €225 billion in 2023. In the five-year period 2015-19, the total guarantees issued by the fund amounted to about €60 billion.

22 In addition to introducing a safe asset, we must draft a consolidated European law on finance, strengthen centralized supervision of non-bank financial intermediaries, and standardize corporate crisis management procedures; see F. Panetta, 'Europe needs to think bigger to build its capital markets union', The ECB Blog, 30 August 2023; and F. Panetta, 'The Governor's Concluding Remarks for 2023', Rome, 31 May 2024.

23 A European safe asset would allow for better pricing of financial products, such as corporate bonds and derivatives, encouraging their expansion; it would provide a form of collateral that could be used across all market segments, including for cross-border transactions; and it would serve as the basis for foreign central banks' reserves in euros, strengthening the global role of our currency.

Non-bank finance facilitates the diversification of savings and is a primary source of funding for innovative projects, but it can make the financial system more complex and risky.

Banca d'Italia carries out in-depth supervision of about 650 non-bank intermediaries with diverse activities and risks.[24] However, strong supervision requires that national efforts be complemented by effective international cooperation.

Interaction between different national regulatory and supervisory frameworks is necessary to oversee the activity of financial intermediaries operating on a cross-border basis. This is the case for foreign intermediaries providing financial services in Italy using the single European passport.[25] This model offers advantages in terms of competition and freedom of choice for savers, but it assumes that supervision is highly effective everywhere, a condition that is not always met.

The supervisory rules and practices for non-bank intermediaries need to be strengthened and harmonized across countries. Banca d'Italia is working towards this goal at both European level and as part of the Financial Stability Board.

5. The role of Banca d'Italia in the protection of savings

The protection of savings does not end with the supervision of financial intermediaries. It is also about ensuring the smooth operation and integrity of the financial system as a whole.

This means working to improve people's financial skills,[26] and hence their ability to make sound investment decisions. It means offering tools to uphold savers'

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24 Banca d'Italia supervises insurance companies (89 at the end of 2023) through the Italian Insurance Supervisory Authority (IVASS). Other non-bank operators supervised by Banca d'Italia include investment fund managers, investment firms, financial corporations providing loans, crowdfunding service providers, electronic money institutions and payment institutions.

25 The single European passport allows financial intermediaries to freely provide their services in any EU country without the need to establish themselves on their territory. These intermediaries are supervised by their home country authority.

26 As part of its activities in the field of financial education, Banca d'Italia reaches more than 150,000 people each year, including students, small business owners, and socially and economically vulnerable groups at high risk of financial exclusion.

rights quickly and inexpensively.[27] It means protecting the financial system against money laundering and the financing of terrorism.[28] It means taking direct action to counter cyber risks to financial and market infrastructures and making sure that financial intermediaries put the necessary safeguards in place.[29] It means ensuring the efficiency and security of the payment system, which is the backbone of the financial system.[30]

Banca d'Italia performs all these tasks, working with law enforcement and judicial authorities, as well as with other national and foreign supervisory and regulatory bodies.

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27 Banca d'Italia reviewed 100,000 complaints from bank customers over the decade 2014-23. The Banking and Financial Ombudsman handled 210,000 complaints, with the assistance of Banca d'Italia's staff. As a result of the latter and of our supervisory activities, more than €1 billion were returned to customers. The Insurance Ombudsman service will be rolled out over the next few months.

28 Banca d'Italia is responsible for anti-money laundering supervision of financial intermediaries, issues relevant regulations and is involved in setting national and international rules and standards. It carried out about 350 inspections and 1,300 interventions over 2019-23. The Financial Intelligence Unit for Italy (UIF), which works with staff and funding from Banca d'Italia, examines reports of alleged money laundering and terrorist financing (more than 150,000 suspicious transactions were reported in 2023) and carries out its financial analysis.

29 At national level, Banca d'Italia fosters cooperation with various institutional players through its Computer Emergency Response Team (CERT-BI). Together with the Italian Banking Association (ABI), it chairs the Computer Emergency Response Team for the Italian financial sector (CERTFin). At European level, Banca d'Italia is a member of the Euro Cyber Resilience Board for pan-European Financial Infrastructures (ECRB) and the Cyber Information and Intelligence Sharing Initiative (CIISI-EU) for sharing information and cyber intelligence across systemic financial structures. At national and European level, Banca d'Italia monitors cyber risks in order to strengthen the security and business continuity safeguards of intermediaries. It identifies minimum requirements and measures for information system management.

30 Banca d'Italia manages a large number of Italian and European payment infrastructures. For example, at European level, the Bank has been involved in the development and is responsible for the operational management of the Eurosystem's market infrastructures, consisting of: the T2 system for the real-time gross settlement of large-value transactions in central bank money between financial institutions and with the central bank; the TARGET2-Securites (T2S) platform, which enables securities transactions in central bank money to be settled simultaneously based on the delivery versus payment principle; the TARGET Instant Payment Settlement (TIPS) system for instant payment settlement, which has been processing transactions in Swedish krona, in addition to those in euros, since February 2024. The first two platforms are managed together with the central banks of Germany, France and Spain, while TIPS has been fully developed and is managed autonomously by Banca d'Italia.

Saving means looking ahead, at times with uncertainty and concern, more often with confidence and optimism. Adam Smith wrote that 'the principle which prompts to save, the desire of bettering our condition; a desire which [...] comes with us from the womb, and never leaves us till we go into the grave'.[31]

Savings are a source of stability and progress for households, as well as an invaluable asset for the economic and civil advancement of a country.

The protection of savings, enshrined in our Constitution, is at the heart of Banca d'Italia's action.

Yet it is crucial that all those who manage people's savings operate with integrity and abide by the highest ethical and professional standards.

Only then can we ensure that savings continue to be a driver of prosperity and progress for current and future generations, making it possible to look ahead with foresight and peace of mind.

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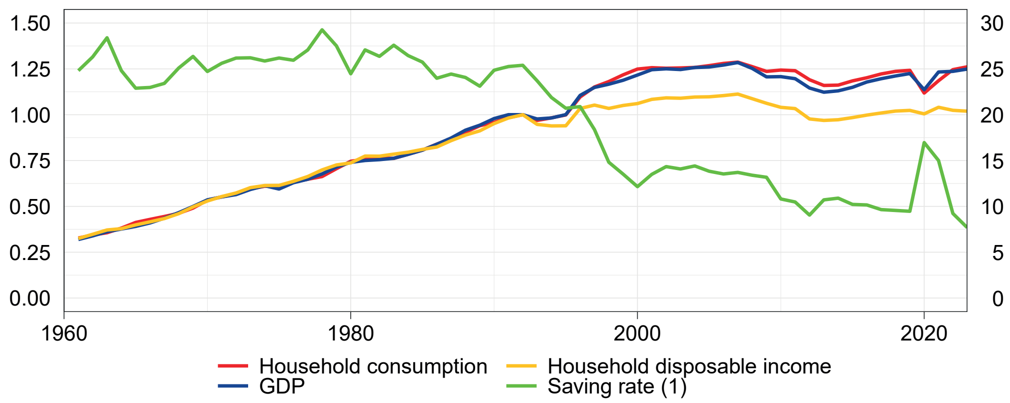
31 A. Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, London, Methuen Co., sixth edition, reprinted in 1961, Book II, Chapter III, pp. 362-3.

FIGURES

Figure 1

GDP and household finances

(indices: 1992=1; per cent)

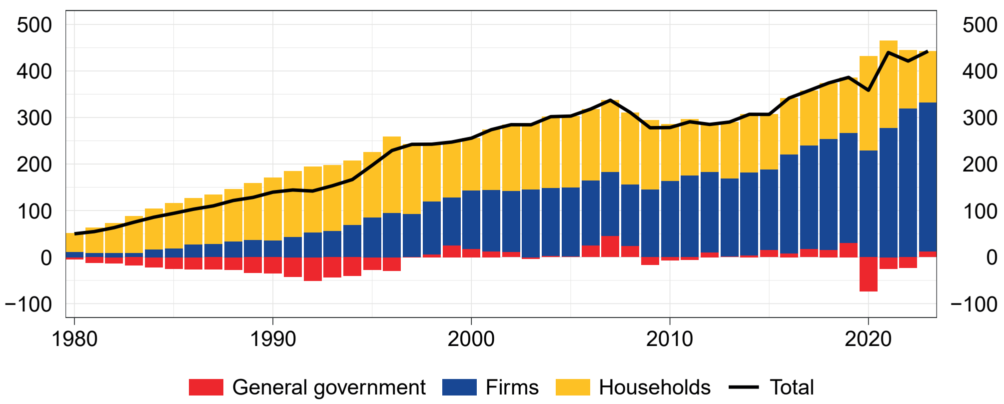


Source: Istat's national accounts.
(1) Right-hand scale.

Figure 2

Gross saving

(billions of euros)

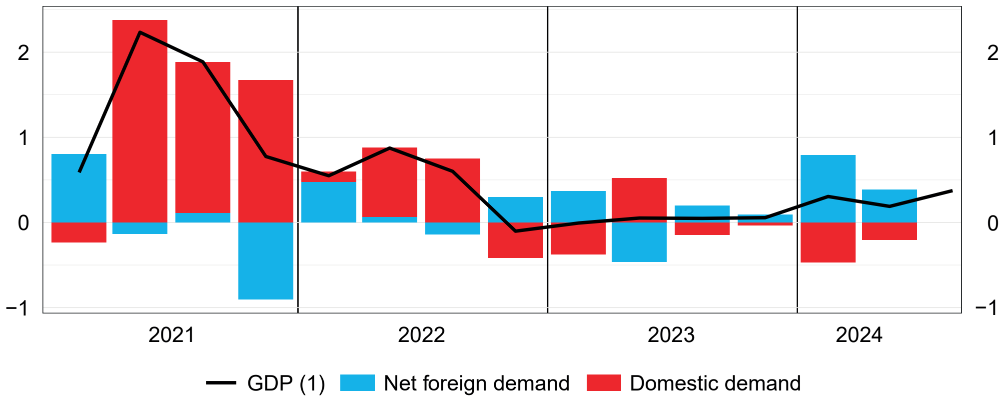


Source: Istat's national accounts by institutional sectors.

Figure 3

Euro-area GDP growth rate and contributions of domestic and foreign demand

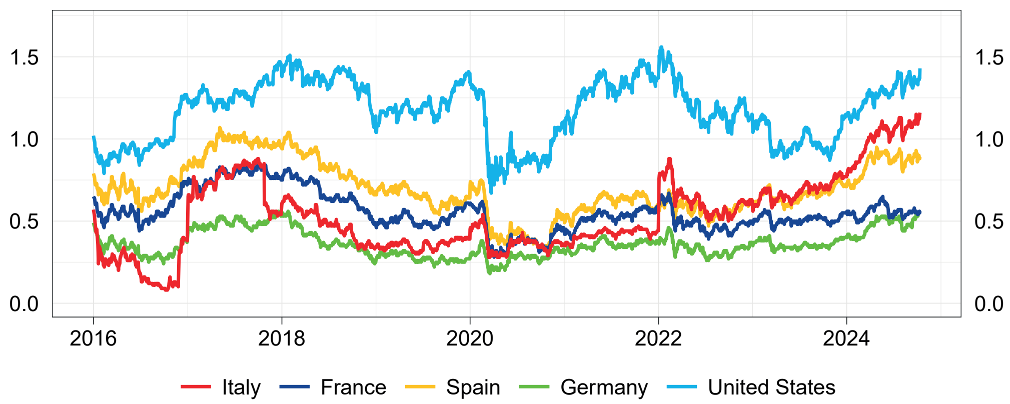
(quarterly data; percentage changes and percentage points)



Source: Based on Eurostat data.
(1) Quarterly percentage changes. The data for the third quarter of 2024 are preliminary estimates released on 30 October.

Figure 4

Price-to-book ratio of listed banks (1)

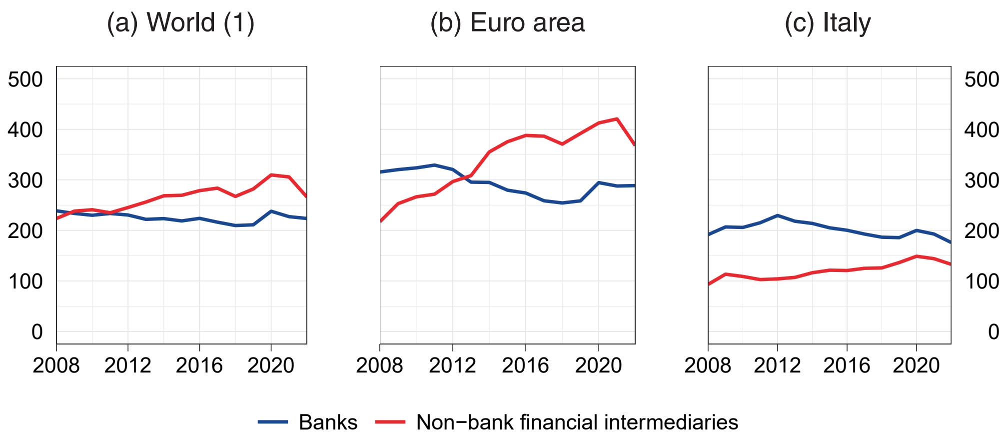


Source: LSEG.
(1) The data refer to the banks included in the Datastream Banks indices of the countries in the key.

Figure 5

Financial assets of banks and non-bank financial intermediaries

(per cent of GDP)



Source: Based on FSB data.
(1) FSB sample, which includes the 21 largest world economies and the euro area as a whole.

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