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Equities

Italian banks slide as scepticism meets EU deal

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Italian bank shares dropped sharply a day after the EU and Rome announced measures to tackle the country's bad debt problem.

The FTSE Italia All Share banks index fell 5.8 per cent yesterday, to its lowest since 2013. Nearly a quarter of its value has been wiped out so far this year.

Banca Popolare di Milano, UniCredit and Banca Monte dei Paschi di Siena slid sharply. MPS, which dropped 8 per cent, has lost 44 per cent of its value this year.

Italian bank share prices have gyrated in recent weeks amid mounting concerns over an estimated €350bn of non-performing loans.

Investors recoiled from the sector this month after news of a European Central Bank investigation into non-performing loans across the continent.

Wednesday's deal, which came after months of negotiation, encouraged banks to sell the loans, providing investors with a government guarantee.

The strategy was met with scepticism. Fitch, the rating agency, said its success would depend on how NPLs were valued. And the fact that participation was voluntary might "limit take-up", it said.

"We also doubt whether the scheme will be sufficiently attractive to entice banks to make significant use of it. Our initial impression is that the mechanism's ability to materially improve asset quality . . . is limited."

After the eurozone crisis authorities across the European periphery created "bad banks" to separate good loans from bad. The Italian approach — where debt is not bought with public funds — relies on private investors buying bundles of loans with a government guarantee linked to credit default swaps on similar domestic issuers.

Italian banks' bond prices have also weakened. A UniCredit contingent convertible bond — the riskiest kind of debt banks can issue — is trading at 86 cents on the dollar.

A new regulatory approach for failing banks, launched at the beginning of the year, aims to impose losses on bondholders to avoid taxpayer bailouts.

In late December Portuguese authorities imposed losses on international investors in Novo Banco by transferring assets to a bad bank, sparking worries over bonds across peripheral lenders.

Weak loans were not the only problem facing the Italian banking sector, analysts warned. "Fragmentation, high costs and low profitability are [their] bigger demons," said Alberto Gallo, a strategist at Royal Bank of Scotland.