

Non-performing loans: banks accelerate NPL sales. Transactions of Euro 40 billion in 2021

- Default rate to climb to 2.6% this year, more than twice the level in 2020
- Total volume of NPEs in Italy will reach Euro 389 billion in 2021
- Since 2017 over Euro 50 billion has been invested to acquire approximately Euro 214 billion in NPLs
- Italian NPE ratio improves, falling from 17% in 2015 to 6%

Mestre (Venice) 26 January 2021 – The banking system is accelerating its disposal of non-performing loans to unburden its balance sheets. The trend, already identified in late September at the NPL Meeting in Cernobbio, intensified in the fourth quarter, and particularly in December, closing the year at **Euro 38 billion in NPLs sold in 2020**.

According to the 13th edition of the [Banca Ifis Market Watch NPL report](#), an additional **Euro 40 billion of non-performing loans** could be sold on the market in 2021. As much as Euro 30 billion of this amount has already been announced for imminent disposal and is thus already in the pipeline. Sale flows are estimated to remain high in 2022, due to the Covid-19 crisis, in addition to the need for alignment with European targets (NPE ratio of 5%).

Transactions involving **UTP portfolios** are also set to rise, with approximately Euro 24 billion in estimated sales: Euro 12 billion in 2021 and an equal amount again in 2022. The NPL MW also reveals that the **secondary market** will confirm its maturity by contributing 29% of total transactions in 2021 (compared to the 23% exchanged on the secondary market in 2020).

The estimates contained in the Banca Ifis report generally indicate a sharp increase in non-performing positions on banks' balance sheets and a **default rate** (i.e., the percentage of performing loans that become non-performing) rising from 2.6% in 2021 to 3% in 2022, primarily due to defaults on loans to Businesses, with around **80 billion euros of new flows expected** in the two-year period 2021-2022. However, the forecasts do not call for a return to the peak seen in 2013 (4.5%). In 2020, the default rate remained unchanged on 2019 (1.1%), due above all to public interventions (moratoria, decrees, etc.).

The total volume of NPEs (which includes non-performing, UTP and past-due positions) is estimated to have reached Euro 340 billion in Italy in 2020, but in 2021 it could climb to Euro 389 billion and even reach a record high of Euro 441 billion in 2022.

The amount of non-performing loans on the **balance sheets of EU banks** is also expected to increase 40%, after years of constant decline, to reach Euro 700 billion in 2021. The report stresses that since 2015 **the Italian NPE ratio has fallen faster than the European average, from 17% to 6%**. Italian non-performing loans make up 21% of the European total (figures as at 30 June 2020), compared to 34% in 2015.

From 2017 to 2020 it is calculated that **over Euro 50 billion** was **invested** in the **NPL market** to purchase approximately Euro 214 billion in NPL portfolios. The **average sale price** of Unsecured portfolios was stable, whereas valuations of Mixed, Secured and UTP portfolios were conditioned by GACS and big deals.

Through a thorough analysis of such deals, the Banca Ifis report stresses that from 2016 to the present **GACS have supported the NPL transactions market** with Euro 85 billion thanks to 35 transactions. There are currently seven servicers engaged in transactions closed at the end of 2020. All but two of the GACS portfolios are showing declining portfolios due to the pandemic.

In a methodological note it is clarified that all forecasts have been prepared considering, first and foremost, an impact of Covid on GDP in 2020 of 9.5% and a possible recovery of 4% in 2021 (+3.8% in 2022), an extension of moratoria until 30 June 2021, and soft lockdowns that mainly penalise commercial activities. Within this scenario, the report explains, aid measures taken by the government, the Next Generation EU plan – the recovery package for the member states – the duration of the pandemic and the vaccine plan are key variables.

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