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The Evolution of Bad Debts in Italy During the Global Financial Crisis and the Sovereign Debt Crisis: A Counterfactual Analysis

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Abstract


This paper presents the results of a counterfactual exercise that aims at quantifying the contribution to the evolution of bad debts made by the two recessions that have hit the Italian economy since 2008. The counterfactual simulations are performed using the Bank of Italy's Quarterly Model (BIQM). A 'no-crisis scenario' is built for the period 2008-2015. The counterfactual dynamics of the main macroeconomic and financial variables are used to feed a simple model, in which the new bad debt rate depends on macroeconomic conditions and borrowing costs. The analysis suggests that, in the absence of the two recessions – and of the economic policy decisions that were taken to combat their effects – non-financial corporations' bad debts at the end of 2015 would have reached €52 billion, instead of €143 billion. The ratio of bad debts to the total amount of loans to non-financial corporations would have reached 5%, a value in line with the pre-crisis period.

Keywords: business cycle, global financial crisis, sovereign debt crisis, banking, Italian economy

JEL Classification: E27, E37, E65, G21

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