

Financialization and the 2007-2008 Economic Crisis (first draft)

This work aims to analyze the phenomenon of financialization in Italy with reference both to companies, divided by sector, size, and territorial area and to banks and financial intermediaries on a territorial basis.

In the following part of the report, we analyze the evolution of companies' financial indicators from 2011 to 2020. Specifically, we focus on companies located in three Italian regions, representative of each area of Italy (North, Center, and South), namely Lombardy, Lazio, and Sicily.

1. Companies Data

The financial data are provided by Aida, the Italian Bureau Van Dijk database. The database contains balance sheet information for more than 700,000 companies in Italy. In particular, it covers 100% of the Italian companies required to deposit the balance sheet without distinction of size and sector¹. For each company, Aida offers the name of the registered company, province of registration, fiscal code, industry in which the firm operates, detailed financial variables, and the optical balance for ten years since the last available.

Table 1, panel A illustrates the geographical distribution, while panel b presents the industry distribution by two-digit ATECO2007 code, distinguishing three macro-categories (i.e., primary, secondary, and tertiary sector) for the sample of companies considered in the analysis.

Table 1

Panel A				
Geographical distribution	Number of obs	Percentage	Number of firms	Percentage
Lombardy	4,251,266	48.36	438,992	48.19
Lazio	3,271,609	37.22	340,822	37.41
Sicily	1,267,735	14.42	131,142	14.40
Total	8,790,610	100	910,956	100
Panel B				
Sectoral Distribution	Primary	Secondary	Tertiary	No classified
Lombardy	3,574	111,714	300,547	23,157
Lazio	4,383	73,343	242,317	20,779
Sicily	5,519	34,620	81,367	9,636
Total	13,476	219,677	624,231	53,572

Geographical and sectoral distributions are reported. Author's elaboration on AIDA data

To provide some descriptive evidence, we specifically focus on the following variables:

- Financial Fixed Asset (*Immobilizzazioni finanziarie*)
- Financial Activities (*Attività finanziarie*)
- Total Debt (*Totale debiti*)

¹ According to the Italian law, limited companies are required to deposit the balance sheet.

- Value of production (*Valore della produzione*)
- EBITDA
- Net Profit (*Utile netto*)
- Equity (*Patrimonio netto*)
- Leverage (*Leva finanziaria*), as a proxy of debt aspect, can be measured by using different financial ratios and can be defined as either the ratio of total debt to total equity or the ratio of total debt to total assets, which is the variable used in the current study.
- Total financial income and charges (*Proventi e oneri finanziari*)
- Financial expense (*Oneri finanziari*)

Table 2 below reports the descriptive statistics of each variable and each region. Given the large variation and the potential problem of misreporting, following the literature, we winsorize outliers of the dependent variable at 1%. Applying this method, it is possible to limit the effect of outliers and abnormal extreme values on the estimation.

Table 2

Panel A: Lombardy					
Variable	Obs	Mean	Std. Dev	Min	Max
Financial Fixed Asset	2,075,534	326.4	1771.757	0	14909.94
Financial Activities	2,075,525	24.03397	154.451	0	1353.374
Total Debt	2,075,533	1797.006	5293.997	.28	40152.92
Value of production	2,081,784	2105.6	7000.517	0	54374.49
EBITDA	2,075,528	151.6199	573.8038	-605.311	4373.562
Net profit	2,081,285	49.21208	377.8484	-1247.767	2678.44
Equity	2,076,547	1214.992	4493.603	-807.207	35173.68
Leverage	2,075,532	.7444453	.8400455	.0018361	7.147324
Total financial income and charges	2,075,529	-9.962158	83.71413	-471.555	472.537
Financial expense	2,075,766	23.83356	83.95723	0	654.635
Panel B: Lazio					
Variable	Obs	Mean	Std. Dev	Min	Max
Financial Fixed Asset	1,314,567	96.74546	551.5462	0	4691.595
Financial Activities	1,314,563	4.13153	28.23065	0	250
Total Debt	1,314,567	983.2833	2891.095	0	22133.77
Value of production	1,317,279	808.3776	2406.846	0	18455.62
EBITDA	1,314,560	53.43002	206.4623	-345.688	1521.432
Net profit	1,317,056	7.218025	125.3053	-593.612	760.739
Equity	1,315,035	418.65	1694.592	-516.003	13582.82
Leverage	1,314,566	.8012121	.8291155	0	6.994238

Total financial income and charges	1,314,560	-8.414017	34.29376	-253.816	70.003
Financial expenses	1,322,067	11.54994	42.1617	0	330.575
<i>Panel C: Sicily</i>					
Variable	Obs	Mean	Std. Dev	Min	Max
Financial Fixed Asset	513,850	24.12349	126.8452	0	1064.604
Financial Activities	513,849	1.902956	12.17337	0	104.895
Total Debt	513,850	667.352	1531.35	0	10726.22
Value of production	514,400	684.3543	1792.625	0	13018.15
EBITDA	513,837	44.36311	138.8054	-201.554	958.563
Net profit	514,382	5.646559	73.28113	-340.057	402.416
Equity	514,029	252.0164	825.2229	-394.212	6145.256
Leverage	513,849	.7805422	.7029619	0	5.781033
Total financial income and charges	513,837	-7.435765	22.4031	-158.3	16.396
Financial expense	518,231	8.464573	24.83156	0	178.639

Summary statistics are reported according authors' elaborations.

2. Graphical evidence

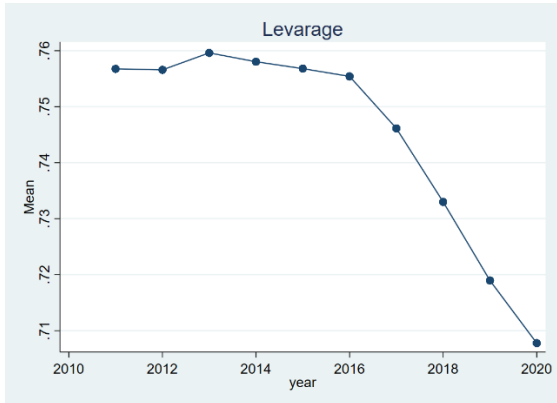
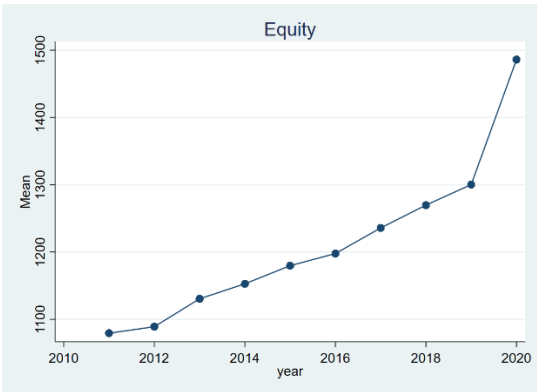
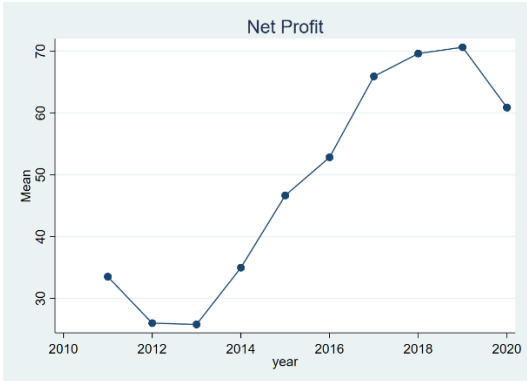
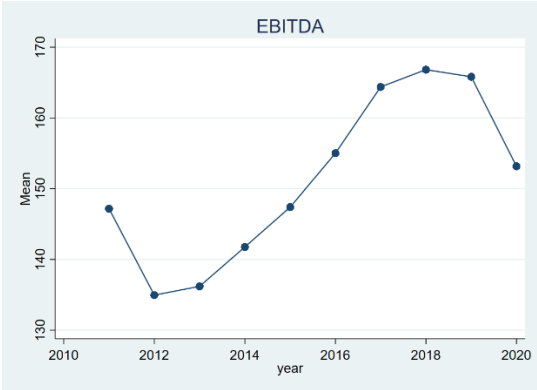
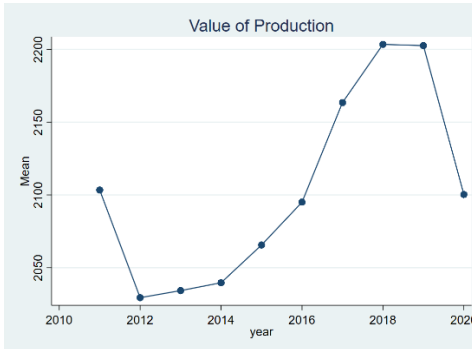
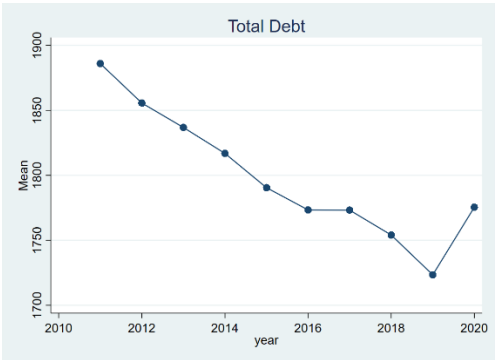
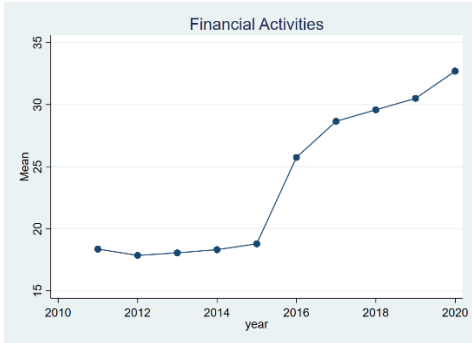
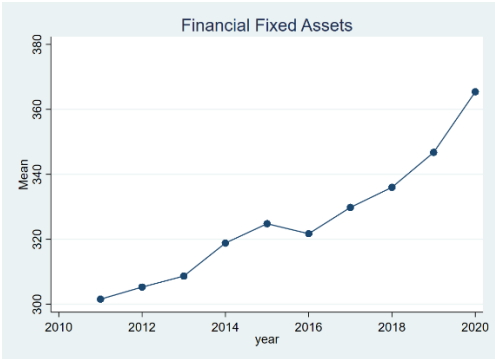
To provide graphical evidence, we report the evolution of firms' variables. Focusing on the three regions, we observe that over the analyzed period (2011-2020), companies' balance sheets account for an increase in the financial fixed assets and in financial activities, with a decreasing trend for financial expenses.

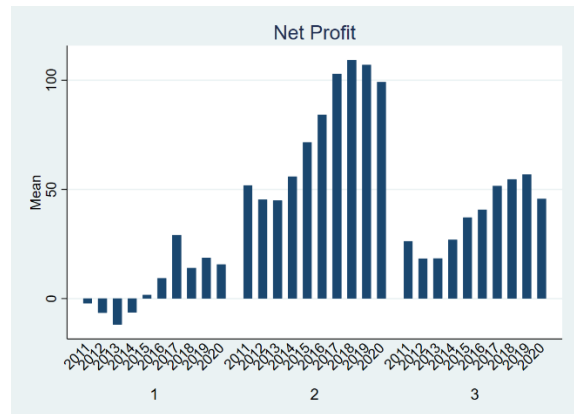
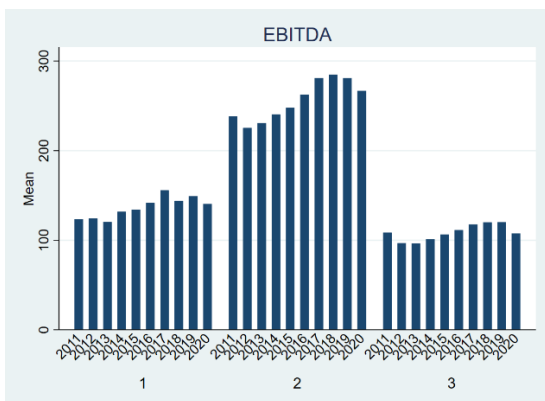
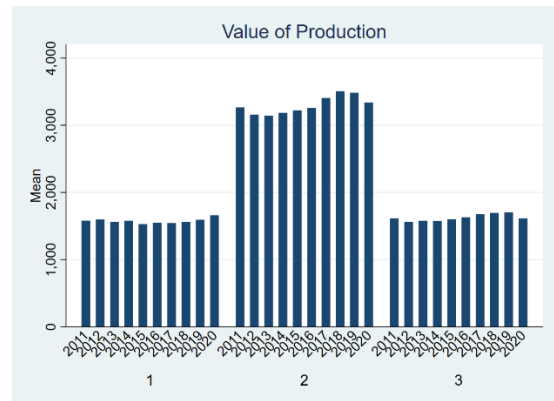
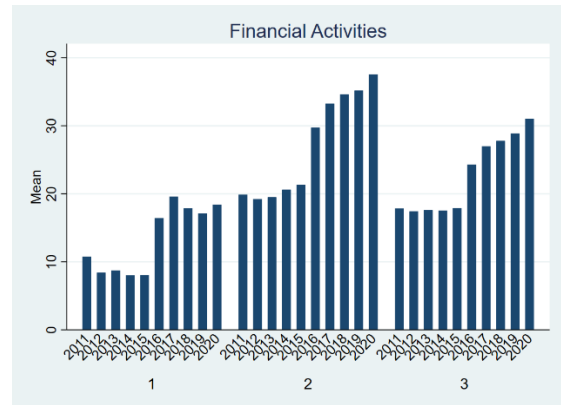
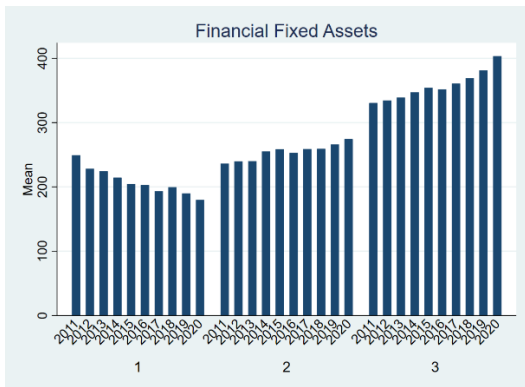
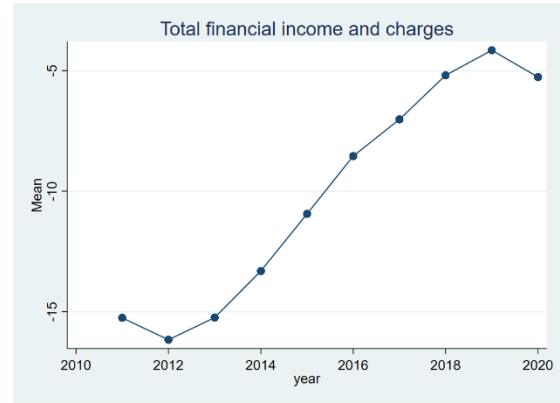
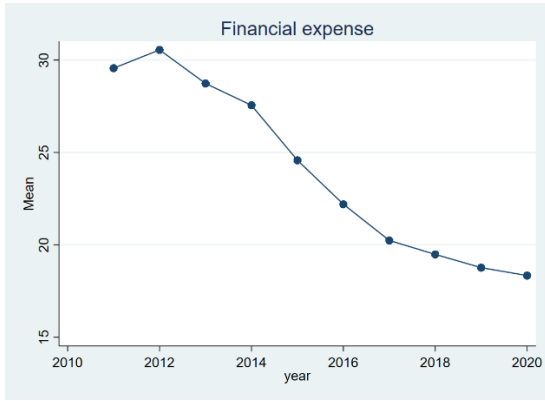
Overall, companies reduced the total debt (except for a slightly reverse trend from 2019 to 2020), and a similar trend is accounted for the value of production, EBITDA, and net profit. While over time companies increased their equity, especially from 2018-2019 to 2020, with an obvious decrease in the use of leverage.

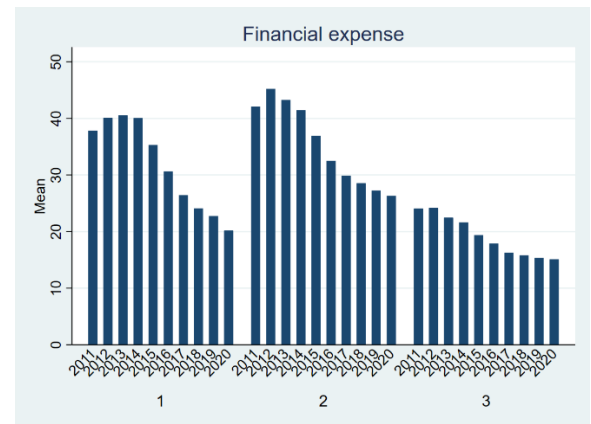
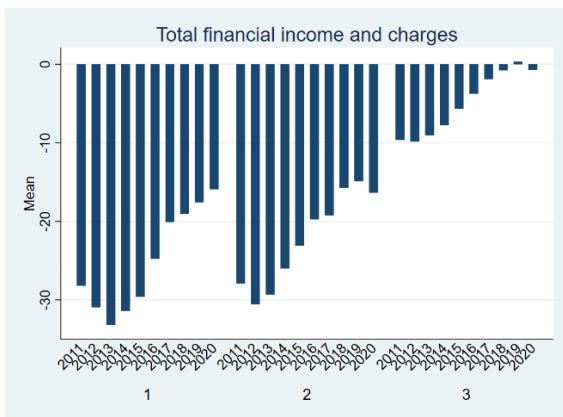
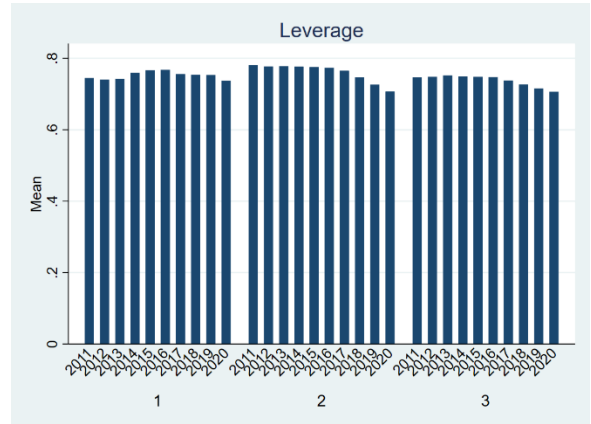
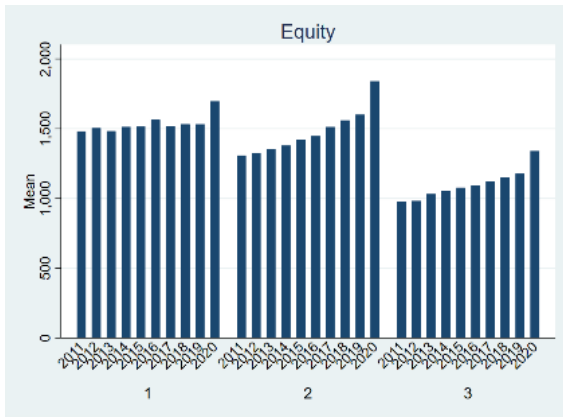
To sum up, companies the performance of companies suffered from the COVID crisis, since the financial indicator shows a diminishing value. However, they accumulate more financial fixed assets and invest in financial activities, reducing the debt level and using more equity.

As for the overall trend, for each sector, the trend is similar between them, even less visible. Focusing on the different macro-sectors, the tertiary and secondary sectors are characterized by a major increase in financial fixed assets and financial activities, as expected. Since 2018, companies reduced their debt level (reducing the leverage "effect") and used more equity. The value of output, EBITDA, and net profit all follow a similar pattern.

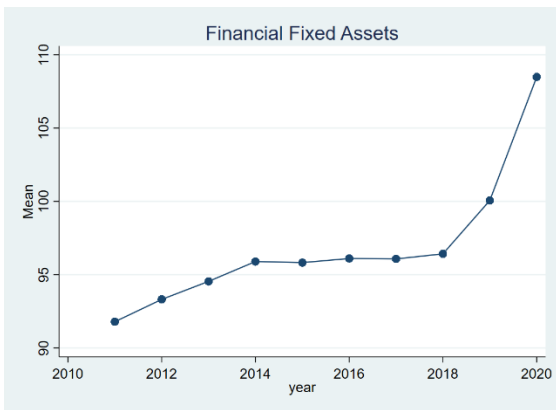
2.1 Lombardy

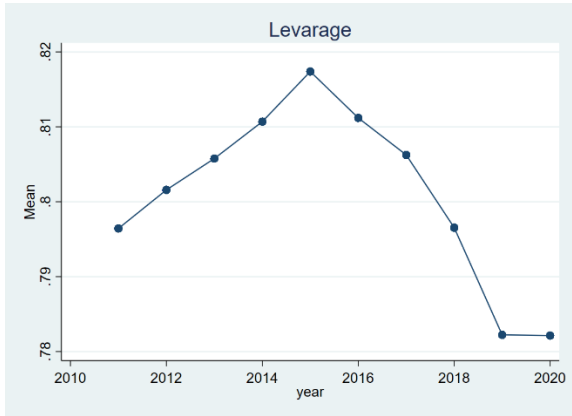
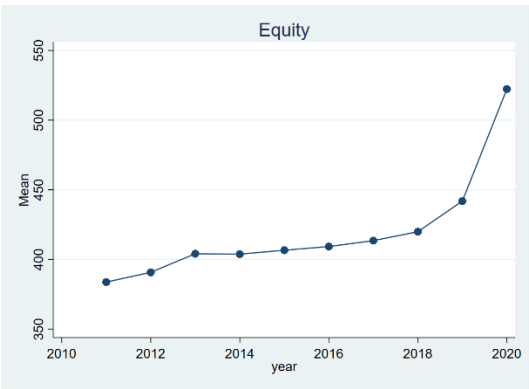
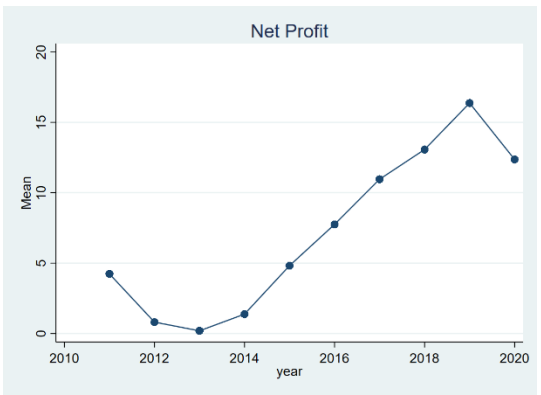
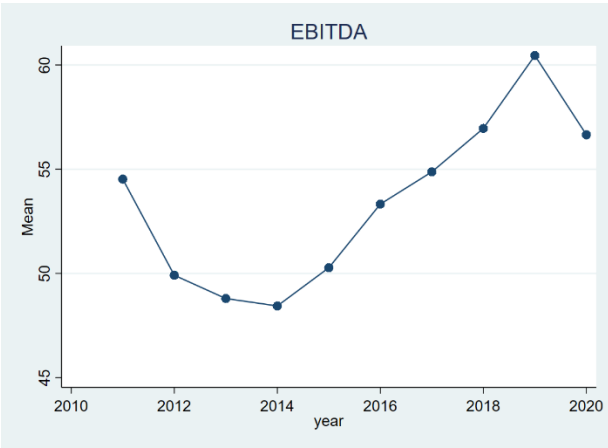
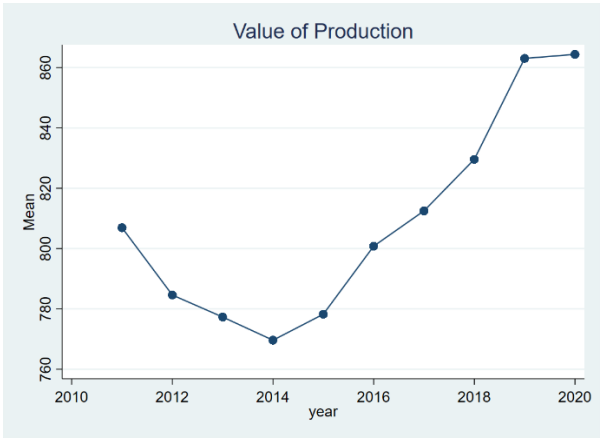
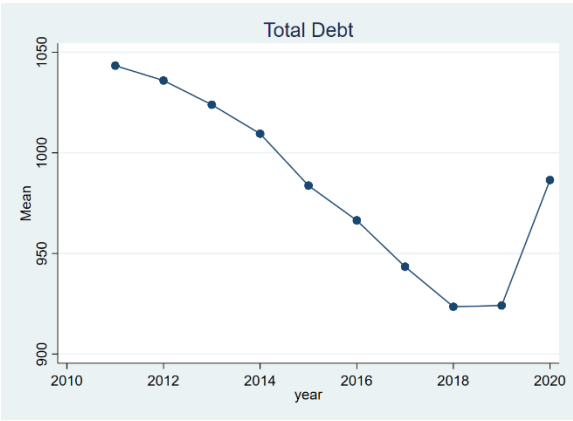


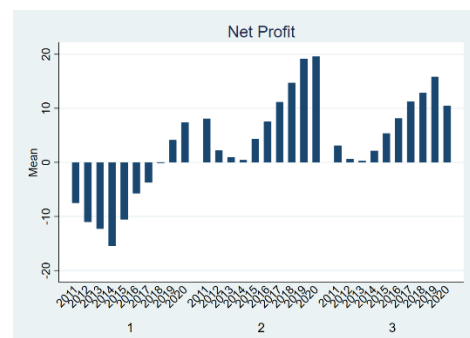
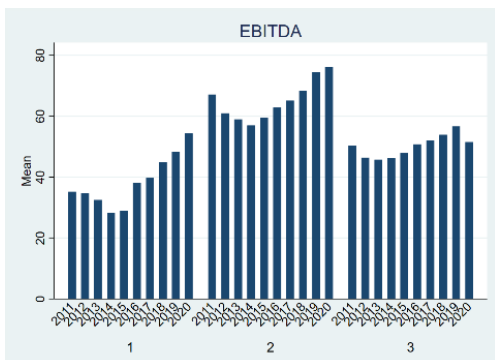
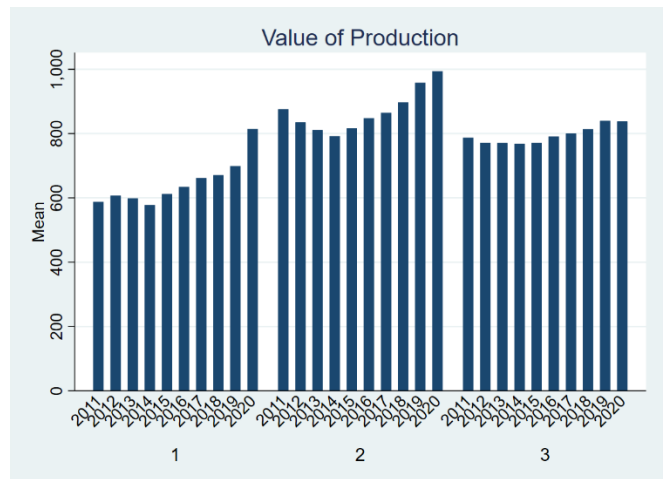
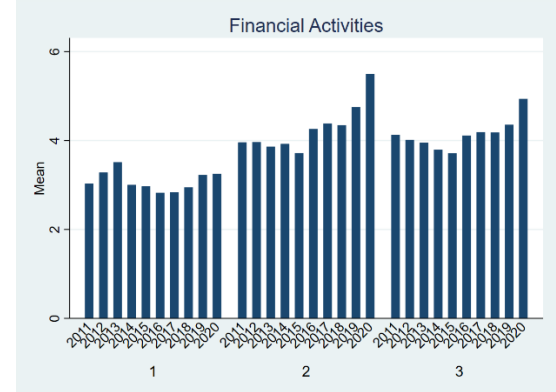
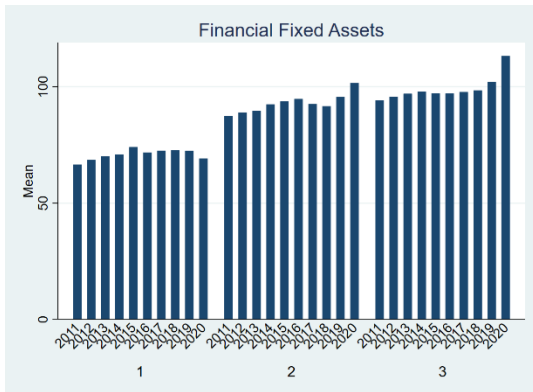
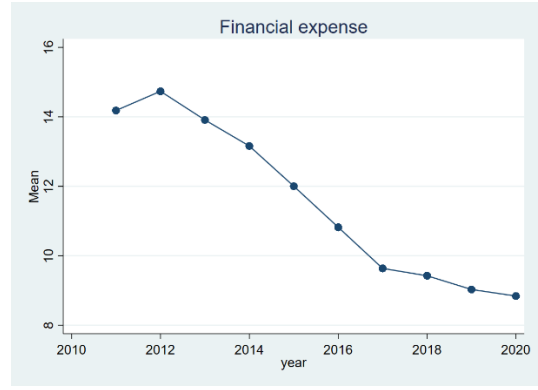
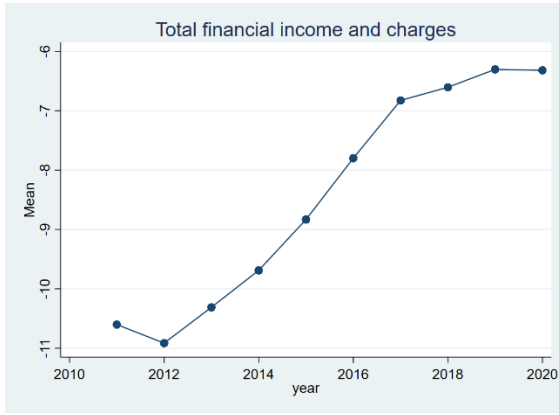


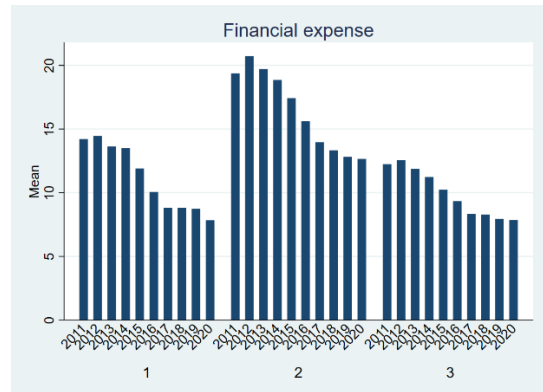
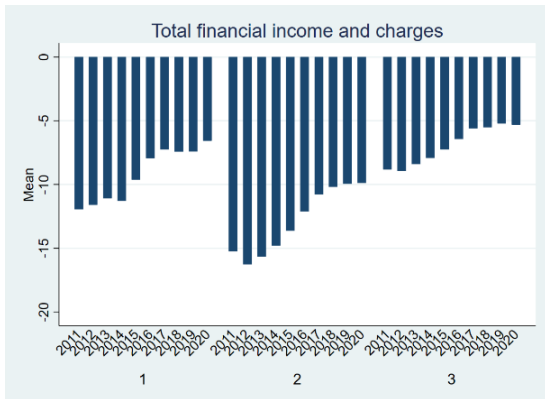
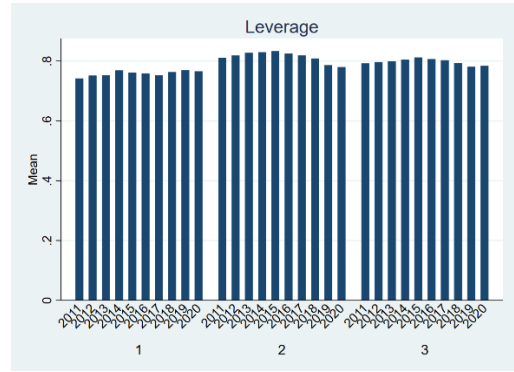
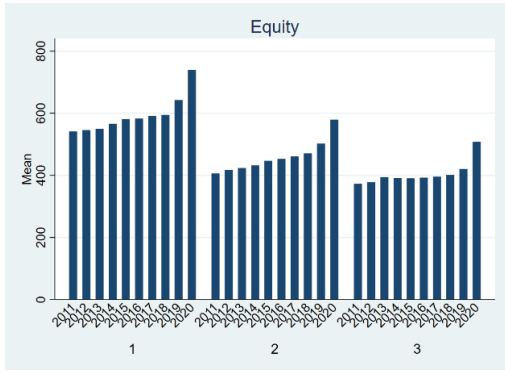


2.2 Lazio









2.3 Sicily

