

Discussion of

**Is credit access still local for Italian firms?
Evidence from a structural spatial-VAR model**

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This Paper

- ▶ **Question**: how does **bank branch presence** affect **credit availability** to firms in Italy?
- ▶ **Methodology**: spatial panel-VAR, to capture geographic (LLMAs) spillover effects
- ▶ **Main Findings**:
 - * Elasticity of credit to branch density shows a significant structural break
 - + 1998-2012: ~ 0.10 , while 2013-2023: ~ 0.03
 - * Reduction in elasticity is more moderate for SMEs
 - * No significant spatial spillovers effects
- ▶ **Potential explanations**: i) Digitalization in the last decade, ii) regulatory changes after GFC

Comments

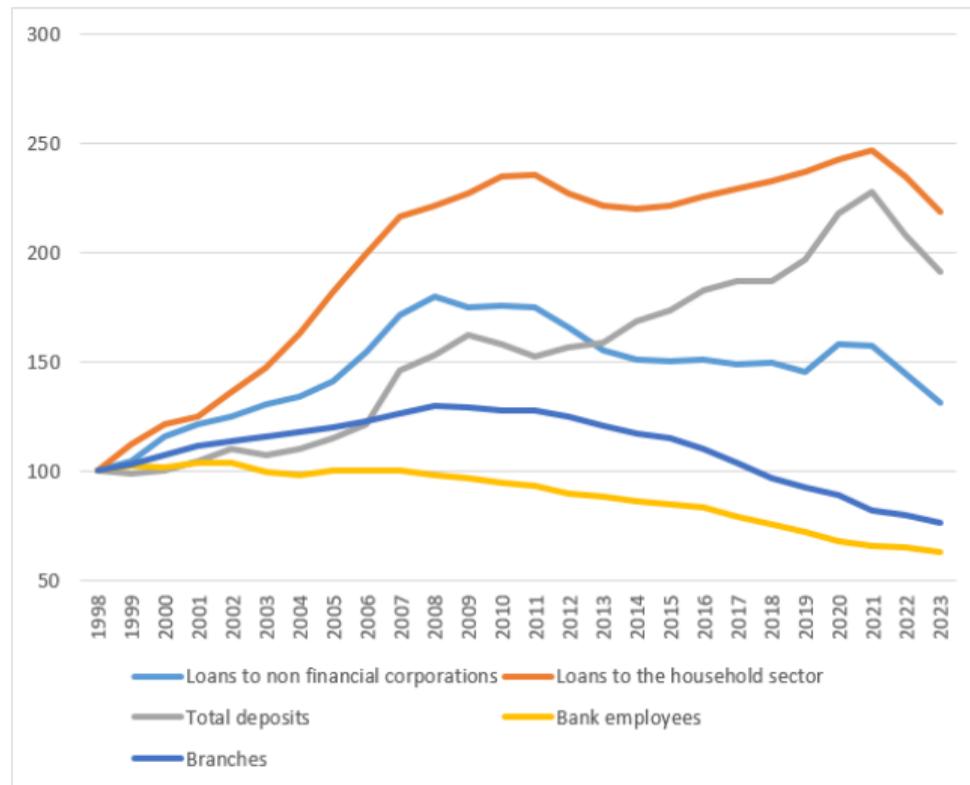
1. **Structural break**
2. **Specification of the panel-VAR**
3. **Policy implications**

Comment # 1: Structural break

- ▶ Structural break in **branches** and in **loans** to firms, but in the **branches-loans relation**?
 - * Both increase until 2008, and decrease afterwards.

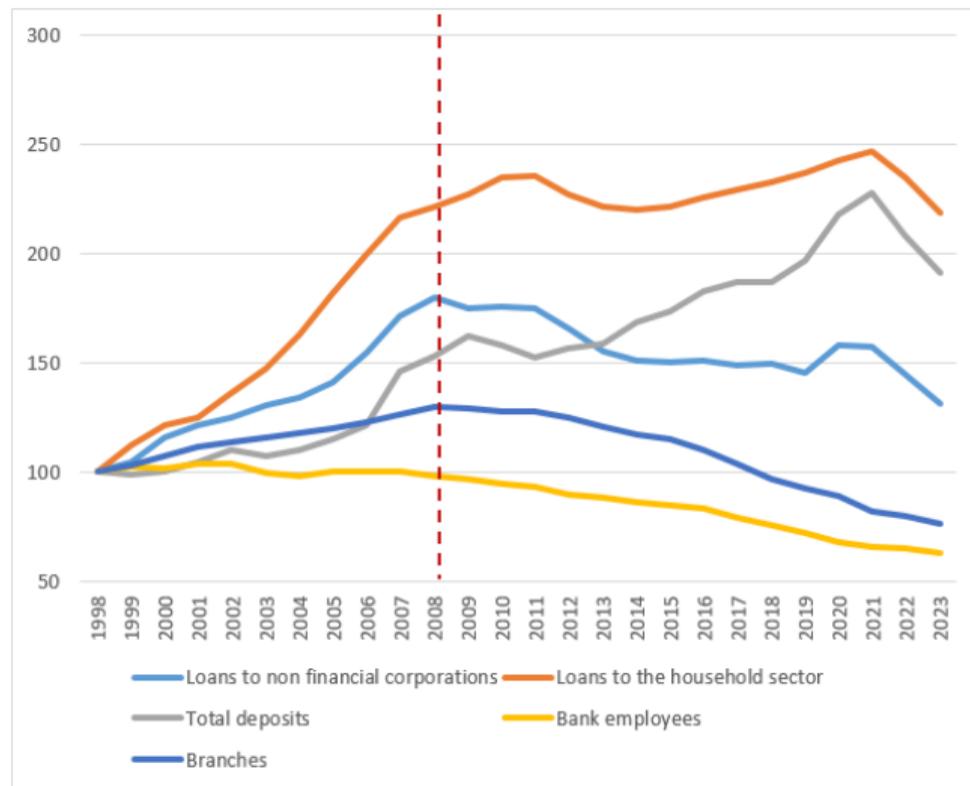
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Figure 1: Bank branches, employees, and lending to the private sectors (index: 1998=100)



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Comment # 1: Structural break

- ▶ Structural break in **branches** and in **loans** to firms, but in the **branches-loans relation**?
 - * Both increase until 2008, and decrease afterwards.
- ▶ 2008 seems like a **better candidate** for any structural break, rather than 2012
 - * Robustness checks helped
- ▶ Why not let the data speak? Tests to **formally identify structural breaks** in the model:
 - * Wald Test, Bai-Perron (1998), Ditzen et al. (2021), etc.
 - * Implementation can be challenging...

Comment # 2: Specification of the panel-VAR

- ▶ Baseline panel-VAR:

$$B_{it} = \mu_{Bi} + \gamma_{Bi}t + \delta_{Br_{it}} + \psi'_B \mathbf{X}_{it} + \phi_1 Y_{it-1} + \lambda_1 B_{it-1} + \alpha_{it}$$

$$Y_{it} = \mu_{Yi} + \gamma_{Yi}t + \delta_{Yr_{it}} + \psi'_Y \mathbf{X}_{it} + \alpha_1 Y_{it-1} + \beta_0 B_{it} + \beta_1 B_{it-1} + u_{it}$$

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Supply ↔ Demand

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1. **Credit supply vs demand:** intuitive to think that credit demand drives branch presence B_{it} .
 - * Can we disentangle them from Y_{it-1} ?
 - * Granular approach à la [Amiti & Weinstein \(2018\)](#): *bank-region* instead of *bank-firm* data

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Supply ↔ Demand

Anticipated changes

1. **Credit supply vs demand:** intuitive to think that credit demand drives branch presence B_{it} .
 - * Can we disentangle them from Y_{it-1} ?
 - * Granular approach à la [Amiti & Weinstein \(2018\)](#): *bank-region* instead of *bank-firm* data
2. **Anticipation of branch changes:** can market participants adjust their behavior ex-ante?
i.e. *after* the announcement but *before* the physical implementation?
 - * Impact of $E_t[B_{it+k}]$ on Y_{it} might be significant → potentially biased β_0

Comment # 3: Policy implications

- ▶ **Key result:** SMEs are still largely exposed to branch closures. Digitalization seems to facilitate banking activities and mitigate these effects.

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1. Digital Infrastructure Investment

- * Support the development of digital banking infrastructure (less urbanized areas).
- * Promote digital literacy programs for small business owners.

2. Small Business Support

- * Specialized programs to maintain credit access for SMEs in areas affected by branch closures.

3. Banking Sector Policies

- * Monitor branch closure patterns to prevent the creation of “banking deserts”.
- * Encourage hybrid models that combine digital services with physical presence.

Other comments/questions

► **Digitalization**. Shouldn't it be captured either by:

- * the deterministic trends at the LLMA level, $\gamma_{B_i}t$ and $\gamma_{Y_i}t$ (long-term tendencies), or...
- * ... by the fixed time-effects for each region, $\delta_{Y_{r_i}t}$ and $\delta_{B_{r_i}t}$?

► Interesting to see if **non-linearities** play a role

$$Y_{it} = \mu_{Y_i} + \gamma_{Y_i}t + \delta_{Y_{r_i}t} + \psi'_Y \mathbf{X}_{it} + \alpha_1 Y_{it-1} + \beta_0 B_{it} + b_0 B_{it}^2 + \beta_1 B_{it-1} + u_{it}$$

► What is included in \mathbf{X}_{it} ?

- * Details would help dissipate concerns about correlated a_{it} and u_{it}

In sum

- ▶ Really nice paper! Novel methodology, rich database
- ▶ Scope to refine and robustify the identification approach
- ▶ Relevant results. Interesting to explore more about the potential explanations