

Judicial reform and banks credit risk exposure

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We exploit the outset of a regulation seeking to improve judicial efficiency through the rearrangement of courts' geography in Italy to provide causal evidence on the relationship between judiciary structural reforms and banks' financial stability. To this end, we apply a difference-in-differences approach on a dataset on annual proceedings handled by each court over the period 2010-2017, complemented by banks balance sheet information. Our findings yield a negative effect of the reform on both judicial efficiency and Non-Performing Loans ratio. The negative effect is mitigated where relationships rely more on reciprocity and trust, referring to the presence of cooperative banks as a proxy. Furthermore, we identify heterogeneous effects based on courts geographical location.