The flow of companies in and out of the Milan stock exchange. Does the political orientation of the government matter?

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Dissertation written under the supervision of
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Abstract

Over the past few years, the Italian political instability resulting from short governments and frequent changes in key positions within the Council of Ministers, has been a significant influencing factor in the Italian market economy. Among the different effects, its impact on the stock market has not yet been fully investigated. To address this issue, this work has explored whether both the government's orientation and the policy-related instability influence the evolution of the Italian capital market and companies' decision to delist from the Italian stock exchange. Using a set of regression models based on data from 2000 to 2022, this work has established that a government categorized as independent is often associated with greater economic policy uncertainty as measured by the EPU index. Furthermore, we provide evidence that when compared to an independent government, both left- and right- wing governments have a positive effect on the number of listed large companies and a negative one in the case of listed small companies. Importantly, although its impact trended oppositely between large and small companies, the government's orientation does not have a significant effect on the total number of listed companies. Lastly, we extended our results on the delisting decision by showing that the Italian government's political orientation does not directly influence companies' willingness to exit the stock market. Taken together, these findings suggest that political instability, i.e., a factor of great impact in recent Italian history, drastically reduces the possibility of the Italian government to effectively impact its national stock market.

Keywords: government orientation, Milan stock exchange, listing, delisting, EPU index, political instability, stock market evolution

O fluxo de empresas que entram e saem da Bolsa de Milão. A orientação política do governo é relevante?

Elena Marino

Outubro 2023

Supervisor: Geraldo Manuel Alves Cerqueiro

Resumo

A instabilidade política italiana, resultante de governos curtos e de mudanças frequentes nas posições-chave do Conselho de Ministros, tem sido um fator de influência significativa na economia de mercado italiana. Entre os diferentes efeitos, o seu impacto no mercado de acções ainda não foi totalmente investigado. Para abordar esta questão, o presente trabalho procurou determinar se a orientação do governo e a instabilidade política influenciam a evolução do mercado de capitais italiano e a decisão das empresas de se retirarem do mercado bolsista italiano. Utilizando alguns modelos de regressão baseados em dados de 2000 a 2022, este trabalho estabeleceu que um governo classificado como independente está associado a uma maior incerteza da política económica, medida pelo índice EPU. Além disso, fornecemos provas de que, quando comparados com um governo independente, tanto os governos de esquerda como os de direita têm um efeito positivo sobre o número de grandes empresas cotadas e um efeito negativo no caso das pequenas empresas cotadas. É importante notar que, embora o seu impacto tenha uma tendência oposta entre as grandes e as pequenas empresas, a orientação do governo não tem um efeito significativo no número total de empresas cotadas. Por último, alargámos os nossos resultados sobre a decisão de exclusão da bolsa, mostrando que a orientação política do governo italiano não influencia diretamente a vontade das empresas de saírem da bolsa. Estas conclusões sugerem que a instabilidade política reduz drasticamente a possibilidade de o governo italiano ter um impacto efetivo no seu mercado bolsista nacional.

Palavras-chave: orientação governamental, bolsa de Milão, admissão à cotação, exclusão da cotação, índice EPU, instabilidade política, evolução do mercado bolsista

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Introduction

Capital market plays a crucial role in corporate financing in modern economies. In the current post–pandemic European scenario, the stock market should emerge as a critical resource in developing the Next Generation EU. It should support the implementation of investments in digitalization, innovation, and sustainability needed to achieve the goals outlined in the National Recovery and Resilience Plan (NRRP) while ensuring that their effects translate into permanent, sustainable economic growth.

Importantly, the rapid recovery of international financial marketplaces (e.g., United States, China, and Hong Kong) in the post-pandemic era highlights the weaknesses of the European context characterized by a strong market fragmentation and regulatory heterogeneity. A favourable listing environment, i.e., flexible market access and simplified company law, is therefore necessary to compete with the major international marketplaces. Not surprisingly, and thanks to their international vocation, the Netherlands and Sweden are the most active among the European exchanges.

In this context, the Italian capital market shows a further competitive disadvantage over its neighbouring European markets. As highlighted by the OECD Capital Market Review of Italy 2020, over the last ten years the Italian market capitalization of domestic companies (as per cent of GDP) has been below its European peers. This limited market size is strongly influencing both investors and entrepreneurs toward foreign markets.

Italian government has recently tried to strength the competitiveness of the stock market by targeting programs such as the individual savings plans (PIR), the ELITE programme and by introducing minibonds. However, and despite these strategies, the Italian market still struggles to catch up with the competitiveness of European marketplaces.

In an era when the capital market is hereby discussed as an essential tool to help post-pandemic recovery, the delisting waves demand urgent consideration of (for implementing) the competitiveness of capital markets and the legal and regulatory environment.

In early 2022, the Milan Stock Exchange reached a record value of 407 companies listed. Nevertheless, this outcome resulted from two different trends: i) the decreasing number of listed companies in the main regulated market (i.e., MTA, Mercato Telematico Azionario, and today EXM) over the last 15 years; ii) the strong growth of the unregulated market (i.e., AIM, Alternative Investment Market, and today EGM) characterized by less stringent requirements. As noted by the analysis carried out by Intermonte Partners in collaboration with the Politecnico di Milano in "Sliding doors: il flusso di listing e delisting sul mercato azionario di Borsa Italiana

(2002-2021)", the exit from the Italian market of medium-sized companies resulted in a loss of over €55 billion in capitalization, capturing a quarter of the share price growth over the past five years (2022).

As stated by the Committee on the Global Financial System, providers and users of capital operate in a well-defined framework, which results from a wide range of institutional and regulatory factors (Acharya *et al.*, 2019). Policymakers and their governments are responsible for setting the rules defining how transactions between different economic actors occur while minimizing the uncertainty and information asymmetry inherent in these transactions. Notably, the adequacy of the regulatory framework is not the only determinant of the proper functioning of the market economy. In addition to clear rules, financial markets need to rely on efficient and effective judicial and administrative enforcement systems (MEF, 2022).

In the light of the above, the present work explores whether the Italian government's political orientation influences the inbound and outbound flow of companies from the Milan stock exchange – a topic that has not yet been fully investigated.

More specifically, the current thesis tries to understand whether the political orientation of the government has a significant impact on the evolution of the Italian capital market and on companies' decision to delist from the Italian stock exchange.

To this purpose, it tests as key explanatory variables both the three political orientations of the government, i.e., independent, left-wing, and right-wing, and the indicator of economic policy uncertainty, measured by the EPU index. This latter might be potentially related to the stock market evolution.

To obtain a comprehensive understanding of the phenomenon, this work further explores three possible areas of influence over which the political orientation of the Italian government could have an impact.

First, it tests the impact of the government's orientation on the country's level of political instability (Chapter 3). In fact, according to our empirical analysis, an "independent" government, i.e., composed of technicians or people who do not belong to the political sphere, is often associated with greater political uncertainty, as measured by the EPU index.

Second, it explores whether the government's orientation influences the stock market evolution with regard to the number of listed companies (Chapter 4). The empirical analysis is conducted by introducing a one-quarter and two-quarters lag in the government orientation with respect to the dependent variable (i.e., the number of listed companies). As extensively covered in this chapter, the results vary depending on the specification of the dependent variable. In particular, both left- and right-wing government negatively influence the number of large-sized listed

companies, while for small-sized companies, the effect of a political government is positive. However, when considering the overall number of domestic companies listed on the Milan stock exchange, the government's political orientation does not have a statistically significant impact.

Lastly, it addresses the impact of government's orientation on the voluntary decision of companies to exit the stock market (Chapter 5). Based on our empirical analysis, the Italian government, whether left- or right-wing oriented, appears not to directly influence the companies' delisting decision. Furthermore, focusing on the voluntary delisting performed by the controlling shareholder, the analysis of the ownership structure suggests that in the thirty per cent of the cases, a family is the majority shareholder. In addition, an industrial investor triggers the target company delisting in more than sixty per cent of the cases of voluntary delisting undertaken by an external entity.

To consistently explore the issues outlined above, this thesis is organized into different chapters. Chapter 1 presents the relevant academic literature needed to picture the current state-of-the-art. Chapter 2 goes into a detailed description of the Italian capital market evolution and the delisting phenomenon. Chapter 3 discusses the relations between the Italian government's orientation and the economic policy uncertainty (EPU) index. Chapter 4 examines the possible influences of the Italian government's orientation on capital market evolution. Chapter 5 relates the Italian government's orientation on the companies' delisting decision. In addition, it includes a description of the ownership structure in place when the intention to delist the company is made public. Finally, Chapter 6 presents the general discussion and the following conclusions.

Chapter 1. Literature Review

Political uncertainty has been a prominent feature of the market economy in recent years. Decisions made by politicians and regulatory bodies constantly change the environment in which businesses operate. Motivated by the literature on how political uncertainty affects firm decisions, this work analyses whether the government's orientation and the policy-related instability have a significant impact on the evolution of the Italian capital market and companies' voluntary delisting.

This paper contributes to the current literature by focusing on the Italian case. First, it participates in the growing debate on political uncertainty, trying to understand whether the Italian government's political orientation affects the policy-related instability of the country. Second, it explores the impact of the government's political orientation and the policy related uncertainty on the evolution of the Italian stock market in the last twenty-three years (2000 – 2022). In particular, the work contributes to the literature on voluntary delisting by relating the decision of firms to go private to the government's political orientation. Moreover, the analysis also completes the literature on the role played by controlling shareholders in delisting decision.

This chapter explores the academic work done so far on the impact of policy related uncertainty on the real economy and the traditional cost-benefit trade-off approach of being a listed company.

1.1. The Impact of Political Uncertainty on Real Economy

A growing debate has been developed around how policy-related uncertainty and instability affect real corporate decisions. Some authors have focused on the relationship between political uncertainty and macroeconomic measures such as capital flows (Hermes & Lensink, 2001) and country growth (Baker and Bloom, 2013). Barro shows a negative relationship between political instability and economic growth (1992). According to Carrière-Swallow and Céspedes (2013), this relationship appears stronger in developing countries with less sophisticated financial systems than in the US.

Other authors have analysed the implications of uncertainty on firm real investment level (e.g., (Bernanke, 1983), (Bloom, Bond, and Van Reenen, 2007)). Recently, Julio and Yook (2012), (2016), and Jens (2017) find evidence that political instability reduces fixed investment level, using election periods as a driver of uncertainty. Given the impact of election results on industry regulation, trade policies and taxation, firms reduce investment spending on average by 4.8% during election periods compared to non-election years (Julio and Yook, 2012). Moreover,

Amore and Minichilli provide relevant insights in “Local Political Uncertainty, Family Control and Investment Behavior”. Investment resilience is more significant for firms managed by family members or those operating in industries relying on government spending (Amore and Minichilli, 2018). Family control neutralizes the negative effect that political uncertainty has on firm investment level. In addition, Francis, Hasan and Zhu (2014) show that political uncertainty also affects the firm's private borrowing cost: the greater the idiosyncratic political exposure of the firm, the higher the cost of debt.

A relevant contribution to the political uncertainty debate can be found in Kelly, Pástor and Veronesi's “The Price of Political Uncertainty: Theory and Evidence from the Option Market” (2016). In this paper, the authors try to understand the role of political risk in pricing financial assets. As predicted by the theory, the option market prices political uncertainty. Hence, before political events, such as elections and summits, option protection against price, variance and tail risk increase in value (Kelly, Pástor, and Veronesi, 2016). Moreover, the higher the political uncertainty and the weaker the economy, the higher the option price.

The assessment of policy uncertainty is the main challenge faced in this research area. This problem is addressed by Baker, Bloom and Davis (2016) who create the Economic Policy Uncertainty (EPU) index as a weighted average of three elements: the count of newspaper articles containing keywords related to policy uncertainty; the dollar impact of future changes to tax code provisions; and the dispersion of government spending and Consumer Price Index (CPI) forecasts to account for fiscal and monetary policy uncertainty. Nevertheless, it is challenging to claim exogenous variation in this uncertainty. The index may also reflect macroeconomic uncertainty about economic fundamentals and not only government-related uncertainty (Kelly, Pástor, and Veronesi 2016).

Another line of study tries to relate government policies and stock market performance. Santa-Clara and Valkanov (2003) provide an important contribution. Using US data since 1927, they find that under Democratic presidencies, as opposed to Republican ones, the average excess return on the stock market is 9 per cent higher for the value-weighted portfolio and 16 per cent higher for the equal-weighted portfolio. The difference is statistically significant and is explained neither by business-cycle variables nor by differences in the level of risk. Following this direction, Belo, Gala, and Li (2013) show that variations in cash flows and stock returns can be reliably forecasted over political cycles. According to the approach Alesina (1987) adopted, different political parties show different preferences in terms of economic policies. Republicans and Democrats differ about government spending allocation, social benefits, and tax policies, thus impacting stock market returns. Government actions can influence both

expected firm cash flows and future discount rates depending on the policies' impact uncertainty. As shown by Belo, Gala and Li (2013), during Democratic presidencies, firms operating in sectors with high exposure to government spending outperform firms with low government exposure by 6.1% per annum, experiencing higher cash flows and stock returns. The opposite is true; during Republican presidencies, firms with greater government exposure underperform by 4.8%.

1.2. Listing and Delisting

Compared to the literature on the decision of firms to go public, relatively few studies have been conducted on firms exiting the stock market. The delisting phenomenon shows a high degree of heterogeneity: therefore, it is necessary to identify the boundaries existing between voluntary and involuntary delisting. The critical element of distinction is whether the decision is undertaken by the firm or directly by the stock market authorities. Nonetheless, while in the case of involuntary delisting, the definition is relatively straightforward (the firm no longer meets the regulator's requirements - whatever type they are), the voluntary one encompasses a wide range of complex and differentiated cases. This work will focus on voluntary delisting.

As Mehran and Peristiani (2010) point out, in the 1980s, leveraged buyouts (LBO) and going-private activities emerged as essential restructuring tools to turn low-growth public companies into more efficient private companies. However, the need for going private transactions declined in the following decades due to several trends. Among the reasons, there was the greater reliance on corporate governance mechanisms, such as the increasing involvement of the board of directors and active monitoring by institutional investors (Holmstrom and Kaplan, 2001), together with the increasing proportion of managers' compensation linked to stock performance (Murphy, 1999). Despite these improvements, delisting waves have become a relevant trend in major developed countries over the last two decades, resulting in the so-called "listing gap"[1]. Regarding the IPO market, Doidge, Karolyi and Stulz write: "*The law and finance literature predicts theoretically that differences in countries' laws, governance, disclosure, and enforcement standards* […] *that protect minority shareholders can explain differences in IPO activity across countries*" (2013, p.547). A significant contribution is provided by Shleifer and Wolfenzon (2002), who try to understand how national laws and

[1] In their working paper, Ewens and Farre-Mensa try to identify the shifts in capital supply and demand forces that have changed the US finance market: on the one hand, the reduced number of listed firms, on the other, the increased capital flow to the private markets fueled by Venture Capital (VC) funds, Private Equity (PE) funds, mutual funds, and hedge funds. Ewens, M., & Farre-Mensa, J. (2022). Private or public equity? The evolving entrepreneurial finance landscape. *Annual Review of Financial Economics*, *14*, 271-293.

regulations influence a company's decision to go public in a specific country. They conclude that firms prefer to list in countries with stronger institutions. The underlying reason is that the higher the quality of the institutional framework, the lower the possibility for the controlling shareholders to extract private benefits at the expense of minority shareholders. Moreover, financial globalization and the free capital flow worldwide further reinforce this process, as companies domiciled in weaker institutional settings may simply choose to list in a foreign country (Stulz, 2009). As in the case of IPO activity, the delisting phenomenon is strongly influenced by institutional factors and regulations specific to each country.

So far, the literature around the firms' decision to exit the public market has focused on a trade-off approach between the benefits and costs of remaining public. Whenever the benefits of being listed are lower than the costs, companies delist from the stock exchange (Bharath and Dittmar, 2010). Among the benefits of listings, there is the possibility to finance growth through direct access to funds (e.g., (Carpenter and Petersen, 2002), (Bancel and Mittoo, 2009)), the enhanced credibility and reputation towards the clients and the providers of capital (Stoughton and Zechner, 1998) and the possibility to use stocks to fund acquisition financing (Celikyurt, Sevilir, and Shivdasani, 2010). Listed firms lower the cost of credit thanks to the increased bargaining power with banks (e.g., (Saunders and Steffen, 2011), (Pagano, Panetta, and Zingales, 1998)). Moreover, there is an increased ability to attract talented managers and motivate employees through stock option plans with a liquid market (Draho, 2004). Lastly, as shown by Lowry (2003), market sentiment plays a significant role: when investor sentiment and valuations are high, the IPO volume increases too.

Despite the benefits, being listed sharply increases costs too. The firm must cover registration costs and underwriting fees during the IPO stage. Besides these, there are ongoing costs, such as the trading costs and the annual listing fees imposed by the stock exchange. However, indirect costs are the most relevant ones. Listed firms show a sharp increase in structure costs (Renneboog, Simons, and Wright, 2007) due to internal reorganization (e.g., Investor Relations and Management Control functions) and the implementation of corporate governance mechanisms (e.g., independent board of directors). Compliance costs include the ongoing burden of reporting and disclosure, including the mandatory certification of financial statements by an external company, and the disclosure of Non-Financial Reporting on sustainability[2].

[2] "*EU law requires all large companies and all listed companies (except listed micro-enterprises) to publish regular reports on the social and environmental risks they face, and on how their activities impact people and the environment*. […] *This help investors, civil society organisations, consumers and other stakeholders to evaluate the sustainability performance of companies, as part of the European green deal*." European Commission. "Corporate sustainability reporting".

Moreover, the Internal Dealing and the Market Abuse Regulation impose stringent rules on how material information can be disclosed to investors: the objective is to ensure that all investors have access to the same information set. Furthermore, given a large amount of information released, on the one hand, there is the risk of disclosing valuable information from which unlisted competitors could benefit (Maksimovic and Pichler, 2001); on the other hand, there is the impossibility of undertaking major restructuring without communicating it to the market. Finally, listed firms are subject to market sentiment and the implied volatility that follows (e.g., (Weir, Laing, and Wright, 2005), (Bharath and Dittmar, 2010)).

Focusing on the voluntary delisting cases, Martinez and Serve (2017) provide a comprehensive literature review on the topic (US and international evidence), trying to answer the following question: "*Why would a firm be delisted from a stock exchange during its lifetime?*" (2017, p.736).

According to the cost-benefit trade-off view, cost saving is the main reason for delisting through LBOs (Lehn and Poulsen, 1989). When policymakers increase the costs and complexity of complying with the regulation, as in the case of the SOX Act (2002) in the US, companies may choose to delist or shift into a market characterized by lower requirements (Marosi and Massoud, 2007). Given that listing costs are subject to economies of scale, firms' size influences the ability to amortize fixed costs: smaller firms with lower liquidity are more likely to get negatively affected by increased compliance costs (e.g., (Engel, Hayes, and Wang, 2007), (Leuz, Triantis, and Wang, 2008)). Subsequent studies test the operating profitability (ROA) hypothesis with inconsistent results. There is no evidence of a relationship between poorer accounting performance and the likelihood of delisting (e.g., (Weir, Laing, and Wright, 2005), (Thomsen and Vinten, 2014)). Another line of study focuses on financial visibility[3]: the lower the analysts' coverage, the greater the likelihood of going private (Mehran and Peristiani, 2010). The liquidity of the stock, proxied by turnover, can be another method to measure the level of investor interest: again, the lower the stock turnover, the lower the benefits of being listed (Boot, Gopalan, and Thakor, 2006).

Other authors focus on the agency theory (Jensen and Meckling, 1976): delisting can be used as a mechanism to realign incentives between the principal and the agent and extract private benefits by the controlling shareholder at the expense of minority shareholders. Given the importance of corporate governance mechanisms in managing the separation between

[3] "*Financial visibility is the ability of a firm to attract an adequate level of investor interest and recognition* […]." Martinez, I., & Serve, S. (2017). Reasons for delisting and consequences: A literature review and research agenda. Journal of Economic Surveys, 31(3), p.742.

ownership and control, much of the literature focuses on the link between the board structure and the likelihood of delisting. The literature shows that the probability of going to private transactions increases in the following cases: the bigger the board size in terms of the number of directors, the lower the proportion of independent directors (Leuz, Triantis, and Wang, 2008), the presence of CEO duality[4] (Weir, Laing, and Wright, 2005), and the existence of corporate governance codes. (Thomsen and Vinten, 2014). Another line of study analyzes the impact of outside monitoring (i.e., the role of institutional shareholders). The presence of institutional investor ownership reduces the probability of voluntary delisting thanks to the disciplinary and monitoring role played by institutional investors such as PE funds, pension funds and sovereign funds (e.g., (Marosi and Massoud, 2007), (Leuz, Triantis, and Wang, 2008)). Nevertheless, in the case of LBO, the result is the opposite. Delisted firms show a higher proportion of institutional investors before delisting than the control group (Weir and Wright, 2006).

Overall, delisting is often used to compensate for the deficiencies of corporate governance mechanisms while mitigating the divergence of interests between the shareholders (principal) and the managers (agent).

Lastly, the presence of a controlling shareholder may increase the possibility of extracting private benefits. The European market is characterized by a concentrated ownership structure (Faccio and Lang, 2002). It is important to notice that when there is a controlling shareholder, the misalignment between ownership and managers decreases, whereas the conflicts between the majority and minority shareholders rise (Renneboog, Simons, and Wright, 2007). According to Croci and Del Giudice (2014), the going to private decision allows the majority shareholder to take advantage of their control position. On one side, controlling shareholders may have access to private information on the firm future expected profitability, which is still not incorporated within the stock price. For this reason, they can decide to exit the stock exchange before the performance improvement realization to not share the upside with minority shareholders (Croci and Del Giudice, 2014). Conversely, the presence of a majority shareholder reduces the likelihood of the firm being acquired by unrelated bidders, such as private equity funds (Caprio, Croci, and Del Giudice, 2011). The low competition from outsider bidders increases the bargaining power of the controlling shareholder to minority shareholders. As a result, in the going-private deals carried out by the majority shareholder, the value premium paid to minorities is low (Croci and Del Giudice, 2014).

[4] CEO duality is defined as "*the practice of a single individual serving as both CEO and board chair*." Krause, R., Semadeni, M., & Cannella Jr, A. A. (2014). CEO duality: A review and research agenda. Journal of Management, 40(1), 256-286.

Considering what has been studied on the topic so far, this paper explores a new perspective on the inflow and outflow of companies from the Milan stock exchange. The specific aim is to explore whether the government's political orientation and the associated policy uncertainty, influence the traditional cost-benefit trade-off view of being a listed company.

Chapter 2. Italian Capital Market Evolution

This chapter describes the evolution of the Italian capital market (Borsa Italiana) from 2000 to 2022. The inception starts with a general overview of the Italian stock market over the last twenty-three years. Then, it analyses the main components of this evolution: the inflow (listing) and outflow (delisting) of companies from the stock exchange. The chapter concludes defining the classification framework used in the empirical analysis of the delisting phenomenon (Chapter 5).

2.1. General Overview

On February 15, 1808, the Milan Merchandise Exchange trading activity started (Vegas *et al.,* 2011). The Borsa Italiana Group, privatized in 1998, was acquired by the Euronext[5] Group on April 29, 2021. Stéphane Boujnah, CEO and Chairman of the Managing Board of Euronext said that this acquisition is part of "*the ambition to build the backbone of the Capital Markets Union in Europe […] to create the leading pan-European market infrastructure which supports local economies across Europe by connecting them to global market*".

The number of listed companies on the Italian stock exchange has increased over the last 20 years. Figure 1 shows the total number of companies listed on the Milan Stock Exchange from 1999 to 2022, divided between domestic and foreign companies also listed on other stock exchanges.

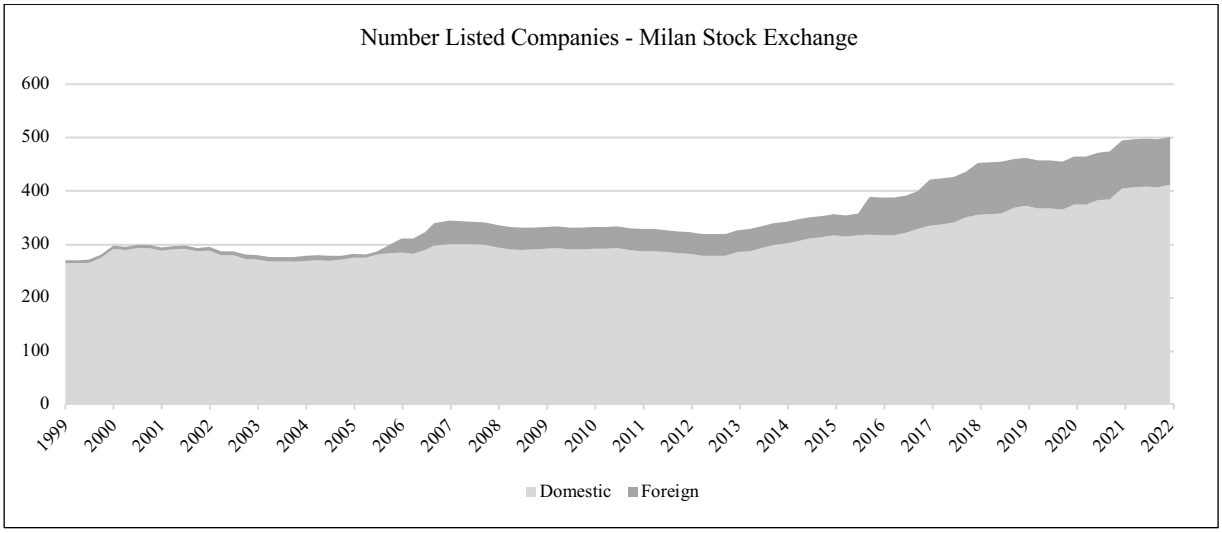

Figure 1: Number Listed Companies on the Milan Stock Exchange. Source: Borsa Italiana

[5] The Euronext Group include the regulated markets of Amsterdam, Brussels, Dublin, Lisbon, Milan, Oslo, and Paris.

In 2022, the Italian capital market reached a record number of 501 listed companies. However, by restricting the analysis to domestic companies only, it can be noticed that this growth results from two ongoing trends. Figure 2 exhibits the total number of domestic companies listed on the Milan Stock Exchange, divided between those listed on the primary regulated market EXM[6] (formerly MTA[7]), including Investment Vehicles listed on the MIV[8], and the alternative market EGM[9] (formerly AIM Italia[10] and MAC).

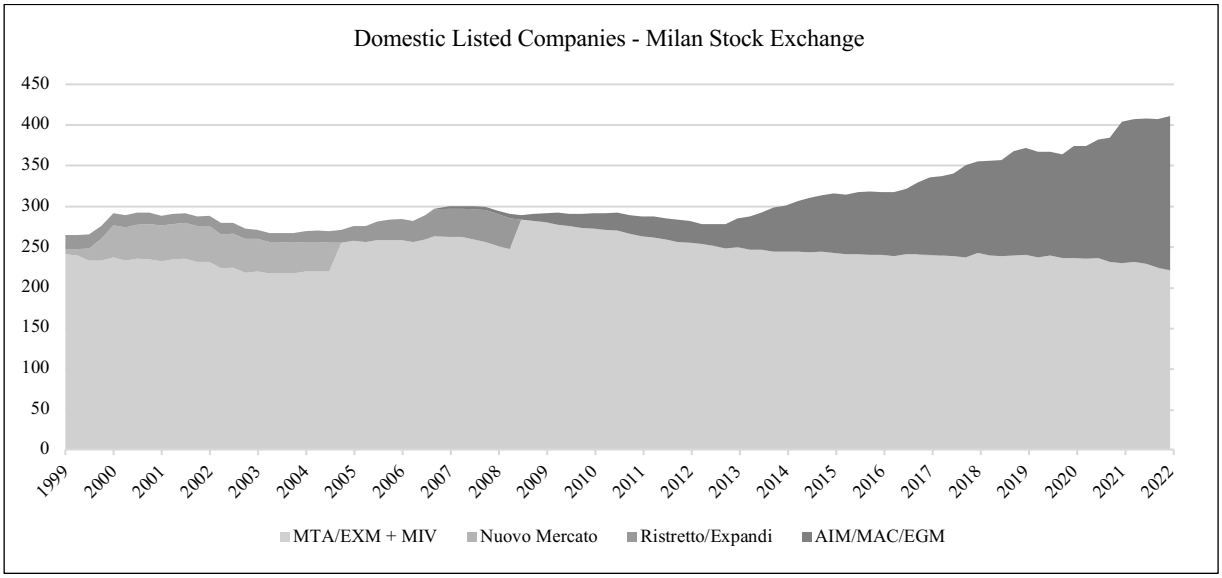

Figure 2: Number Domestic Listed Companies on the Milan Stock Exchange. Source: Borsa Italiana.

In 2003 and 2004, the market recorded the lowest number of domestic listed companies (267 and 270, respectively). Since 2007, there has been a net increase in the number of listed companies (new admissions net of delisting), reaching 411 in 2022. Nevertheless, this stems from the consistent growth of the alternative market dedicated to SMEs and the decrease in large and medium enterprises in the primary regulated market.

Figure 3 shows the domestic market capitalization in absolute terms and as a percentage of GDP. Only thirteen years later, in 2021, the Italian stock exchange reached a market capitalization comparable to the 2008 financial crisis. This was presumably due to the bullish trend that has characterized the marketplaces worldwide after the Covid–19 pandemic. Overall, the Italian market appears scarcely resilient against external shocks.

[6] "*Euronext Milan (EXM) is the regulated market, dedicated to large companies and aligned with best international practice*." Borsa Italiana. "I Mercati di Borsa Italiana".
[7] Mercato Telematico Azionario (MTA) has become Euronext Milan (EXM).
[8] "*Euronext MIV Milan is the Investment Vehicles Markets, reference for funds and vehicles that invest in instruments of real economy*." Borsa Italiana. "I Mercati di Borsa Italiana".
[9] "*Euronext Growth Milan (EGM) is dedicated to dynamic and competitive SMEs with a balanced regulatory approach.*" Borsa Italiana. "I Mercati di Borsa Italiana".
[10] AIM Italia, before AIM Italia – MAC, has become Euronext Growth Milan (EGM).

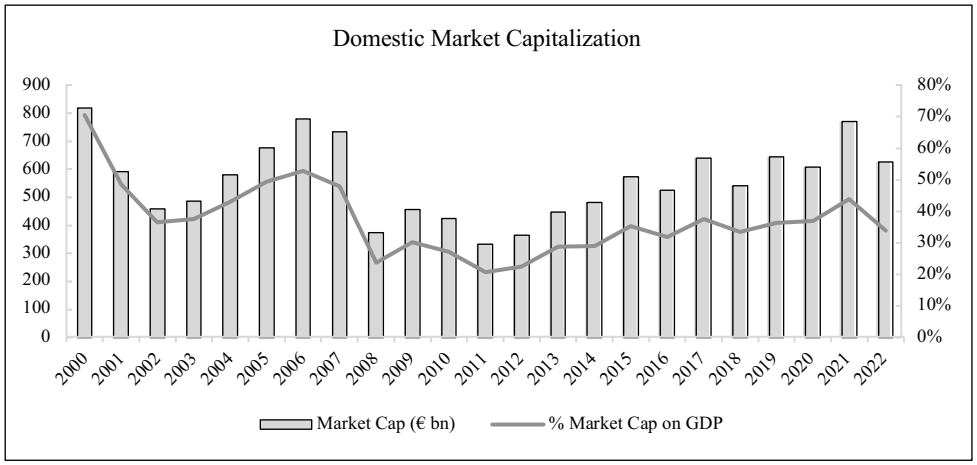

Figure 3: Milan Stock Exchange - Domestic Market Capitalisation. Source: Borsa Italiana, as of December 31.

Looking at the activity level, the stock market turnover ratio[11] reflects the stock market liquidity. Figure 4 exhibits a downward trend: the daily average turnover is stuck at the levels recorded between 2001 and 2004 against a growing market capitalization.

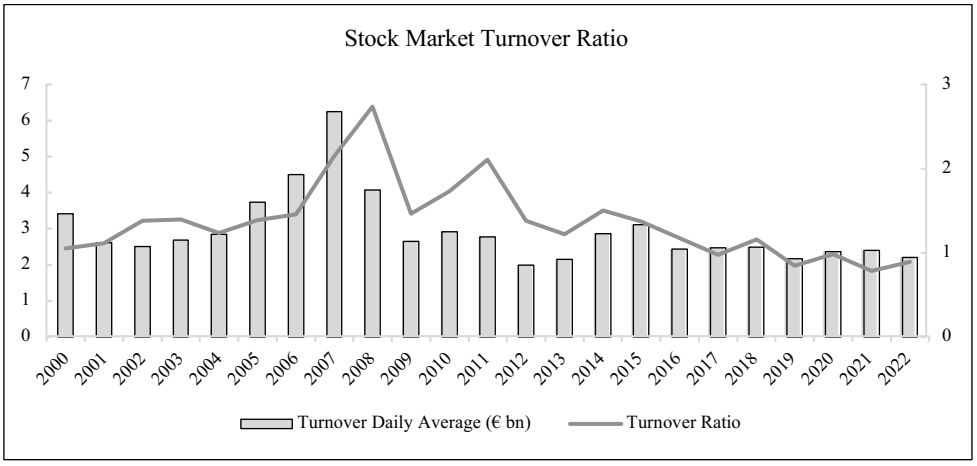

Figure 4: Stock Market Turnover Ratio – Milan Stock Exchange. Source: Borsa Italiana, as of December 31.

Companies' inward and outward movements from the stock exchange inherently determine its evolution over time. Figure 5 shows the number of new admissions, the number of delistings and the net impact in the years 2000 – 2022. The analysis excludes foreign companies belonging to the Global Equity Market (GEM, formerly MTA International), and all the movements of companies across market segments, as the net impact is null (the operation is registered simultaneously as new admission and delisting).

[11] "*Turnover ratio is the value of domestic shares traded divided by their market capitalization.*" TheGlobalEconomy.com, "Stock market turnover ratio - Country rankings." In this case, the value is annualized by multiplying the daily average by 252 (trading days in a year).

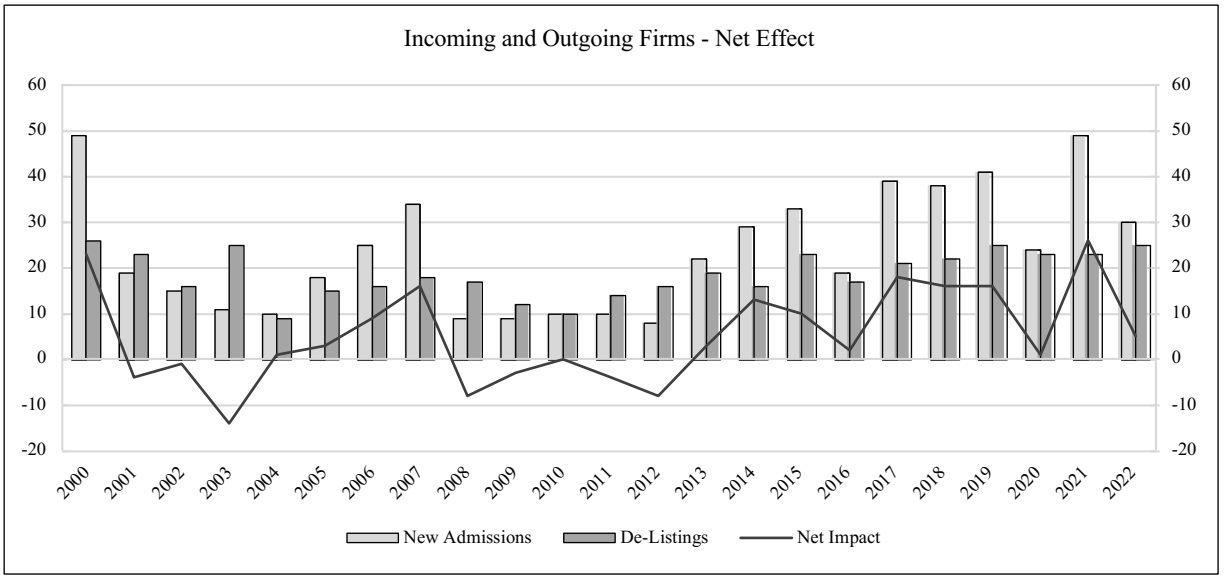

Figure 5: Incoming and Outcoming Firms on the Milan Stock Exchange - Net Effect. Source: Borsa Italiana.

The Italian stock exchange has registered a total net impact of +120 listed domestic companies (from 291 to 411) over the last twenty-three years.

2.2. Listing

The flow of companies entering the stock market (i.e., listing) is the first component analysed. Following the classification proposed by Intermonte Partners (2022) in collaboration with the Politecnico di Milano in " Sliding doors: il flusso di listing e delisting sul mercato azionario di Borsa Italiana (2002-2021)", new admissions can be divided into different categories:

a) IPO (Initial Public Offering): a private firm's first public shares issue to raise funds.
b) Spin-off: listing of an independent company resulting from the demerger of an existing business or division from a parent company already listed in the stock exchange.
c) Admitted: listing of companies that meet the free float requirements (e.g., companies with a widely spread control among the public).
d) Merge: companies that merge with other publicly traded firms.
e) Business Combination: admission follows from a reverse takeover in which a private firms merge with a previously listed Special Purpose Acquisition Company (SPAC). The delisting of the SPAC co-occurs with the admission of the private company to trading.
f) Transfer: the movement of companies from other market segments or the listing of those already traded on foreign exchanges (cross-listing).

Figure 6 shows the inflow of companies into the Milan stock exchange broken down by market segment. Numbers exclude transfers between segments and foreign companies' admission on the GEM (formerly MTA International). It is important to note that "Nuovo Mercato" was

included in the MTA's Standard Domestic segment in 2005. "Mercato Ristretto" changed its name to "Mercato Expandi" in 2004. The latter was merged into the MTA's Standard Domestic segment in 2009. From 2000 to 2022, 551 new quotations were observed, 53% of which were due to the entry of SMEs in the alternative market.

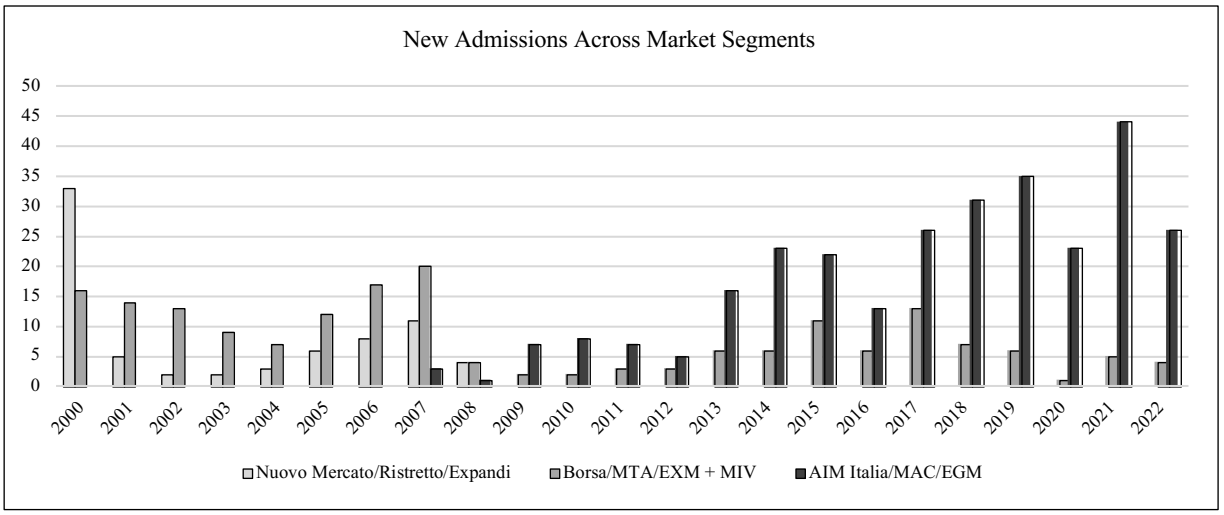

Figure 6: New Admissions on the Milan Stock Exchange by Market Segment. Source: Borsa Italiana.

After the financial crisis of 2008 and the years that followed, the number of new listings dropped dramatically. In the previous page, Figure 5 shows a negative net effect on the market from 2008 to 2013. After that, the market growth was mainly supported by SMEs. In the last ten years, only 65 companies have listed on the regulated market (compared to 259 new quotations in the alternative market).

Figure 7 represents new listing admissions broken down by category from 2000 to 2022. In most cases, these are IPOs (86%). On average, there are 20 IPOs per year, with a record high of 49 in 2021 and a minimum of 4 in 2003. The first business combination took place in 2012, following the listing of the first SPAC[12] in Italy in 2011.

[12] A Special Purpose Acquisition Company (SPAC) is an investment vehicle created to raise fund through an initial public offering with the goal of acquiring (or merging) with an existing private company within two years. SPACs became popular in the United States starting from the 1980s. In Italy, the first SPAC "Italy 1 Investment S.A." was listed in 2011 within the MIV segment.

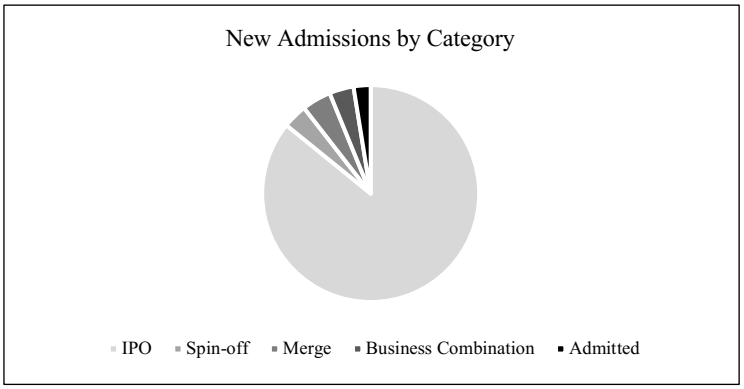

Figure 7: New Admissions on the Milan Stock Exchange by Category. Source: Borsa Italiana.

The comparison between the Milan stock exchange evolution and the neighboring European marketplaces reveals the gap that intrinsically characterizes the Italian stock market. As highlighted by the OECD Capital Market Review of Italy 2020, the Italian market capitalization of domestic companies as percent of GDP has been below its European peers over the last ten years (Table 1).

	Euronext Venues							**Other Venues**			
€Tn	**Amsterdam**	**Brussel**	**Dublin**	**Frankfurt**	**Lisbon**	**Milan**	**Oslo**	**London**	**Luxemburg**	**Madrid**	**Zurich**
Total Mkt Cap	1.42	0.36	0.15	2.64	0.08	0.82	0.39	4.58	0.12	1.00	3.43
Nominal GDP	0.85	0.50	0.44	3.57	0.44	1.78	0.38	2.76	0.07	1.20	0.71
Ratio	**1.7x**	**0.7x**	**0.4x**	**0.7x**	**0.4x**	**0.5x**	**1.0x**	**1.7x**	**1.7x**	**0.8x**	**4.8x**

Table 1: Market Capitalization over Nominal GDP for different venues. Freely taken from MEF, (2022), Libro Verde su La competitività dei mercati finanziari italiani a supporto della crescita, Dipartimento del Tesoro, p.9.

This limited market size leads both investors and entrepreneurs to prefer foreign markets. The low weighting of Italian stocks in main indices (e.g., 3.6% of the MSCI Europe Index) leads indexed institutional funds prefer to invest elsewhere, thus limiting the potential equity capital inflows. In 2017, Italian institutional investors allocated only 7% of their portfolios to securities issued by Italian firms in the home market; while in 2018, more than 90% of Italian corporate bonds were listed in foreign exchange (OECD 2020).

In addition, London, Paris and Frankfurt stock exchanges have experienced more IPOs in the last five years than the Italian market. Despite the strong rebound in global IPO activity[13] in 2021, the Italian stock market seems unable to attract large companies. Figure 8 compares the number of IPOs and the money raised in the primary regulated market by location.

[13] The global IPO activity has been fueled by the large availability of liquidity in the market, investors' search for yield and strong market sentiment. In 2021, 3,022 new listings were announced, up 88% increase in volume and 87% in value compared to 2020. In total, US$601.2 billion was raised. Bressman, S., et al. (2022, March 30). "Global IPOs reached new highs".

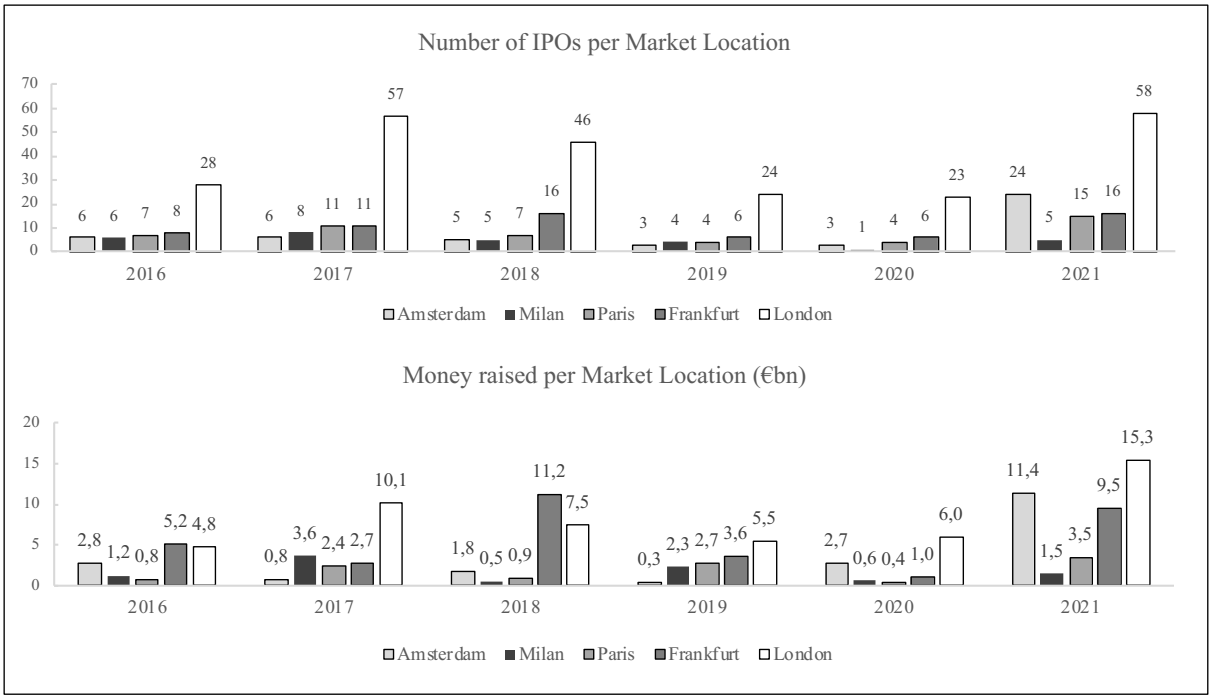

Figure 8: Number of IPOs and Money Raised per Market Location. Freely taken from MEF, (2022), Libro Verde su La competitività dei mercati finanziari italiani a supporto della crescita, Dipartimento del Tesoro, p.10.

2.3. Delisting

The flow of companies exiting the stock market (i.e., delisting) is the second component analysed. The complexity of this phenomenon emerges from the heterogeneity of the individual cases. The company's exit from the capital market can take place for one of the following reasons:

a) Cessation of ordinary business activities (liquidation): it includes the case of insolvency, bankruptcy, or receivership. It also applies if the SPAC does not complete the business combination within the agreed time limit.
b) Absence of listing requirements: the delisting takes place under Borsa Italiana's regulation. Most cases include irregular trading activity, the inability to maintain a regular market, failure to comply with disclosure requirements obligations, the wiping out of share capital, and the absence of key figures (e.g., Nomad, Specialist).
c) Segment change: the movement of companies between market segments.
d) Shares conversion: saving shares are converted into ordinary shares. In this case, the company remains listed on the market while increasing the number of existing ordinary shares.
e) Business combination: the net impact of this transaction is null since the delisting of the SPAC is followed by the listing of the target company subject to a reverse takeover.

f) Intercompany transaction: the company is first delisted and then merged into the parent company to streamline the ownership structure. From a practical standpoint, if the parent is listed on the Milan stock exchange, the delisted company is still listed, but as a division of the parent company and no longer as an autonomous entity.

g) Controlling shareholder decision: it reflects the majority shareholder's strategic choice. The delisting can take place in several ways, such as a voluntary request to exit the stock market, a merger into a private company or a tender offer performed by a special purpose vehicle. In both cases, under the control of the same shareholders.

h) Acquisition by an external entity[14] (characterized by a different controlling group compared to the target): in this case, the target company is delisted either because it is merged into the bidder or because the latter does not restore sufficient floating capital after the tender offer[15].

Table 2 shows the outflow of companies from the Milan stock exchange broken down by category. Numbers exclude foreign companies delisted from the GEM (formerly MTA International).

The categories "Intercompany Transaction" and "Controlling Shareholder Acquisition" are the most frequent, accounting for 21% and 20%, respectively.

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	**Total**	**(%) of total**
Liquidation	-	-	-	-	3	3	1	2	-	-	3	4	2	4	4	5	-	1	-	-	7	-	-	**39**	**8%**
Missing Requirement	4	1	2	1	-	1	-	2	1	1	-	2	1	6	-	2	5	7	3	3	3	-	2	**47**	**9%**
Segment Change	1	-	-	1	-	-	-	-	-	39	-	-	2	11	-	1	1	1	6	4	5	3	1	**76**	**15%**
Share Conversion	4	1	1	2	2	2	-	2	-	-	-	-	2	1	4	3	2	-	2	2	1	4	-	**35**	**7%**
Business Combination	-	-	-	-	-	-	-	-	-	-	-	-	1	1	-	1	1	4	5	5	1	-	1	**20**	**4%**
Intercompany Transaction	6	12	5	6	2	2	5	6	5	2	2	2	2	-	2	5	6	3	6	5	5	9	9	**107**	**21%**
External Entity Acquisition	11	7	6	10	-	2	7	4	3	3	-	1	4	3	5	4	1	3	2	4	3	-	-	**83**	**16%**
Controlling Shareholder Decision	1	2	2	6	2	5	3	2	8	6	5	5	4	4	1	3	2	3	4	6	3	10	13	**100**	**20%**
Total	**27**	**23**	**16**	**26**	**9**	**15**	**16**	**18**	**17**	**51**	**10**	**14**	**18**	**30**	**16**	**24**	**18**	**22**	**28**	**29**	**28**	**26**	**26**	**507**	**100%**

Table 2: Delistings by Category. Data: Borsa Italiana, CONSOB, and Companies' websites.
Note: The categories "Intercompany Operation", "External Entity Acquisition", and "Controlling Shareholder Acquisition" were reclassified by analyzing each case individually.

[14] The bidder can get the control of the company in two ways. I) Two steps transaction: the buyer acquires an interest exceeding the threshold by 30% (or has voting rights exceeding 30% of the same) through a private negotiated agreement. Then, it is obliged to launch a mandatory tender offer by law that cannot be subject to any conditions. II) One step transaction: the bidder launches a voluntary tender offer. In this case, the offer can be subject to any conditions which do not depend on the mere will of the offeror and the price can be negotiated.

[15] Under the Italian law, it is not possible to delist a company on a voluntary basis as a protection for minority shareholders. However, delisting after a takeover is possible whenever: a) conditions for a sell-our right exist and the bidder declares the willingness to not restore a minimum floating; b) conditions for a squeeze-out right exist. In this case, the shares are suspended in consideration of the timing for exercise of the right. In the absence of (a) or (b), delisting is possible only through a merger of a listed company into a private one.

Excluding the "Segment Change" category (the operation is registered simultaneously as new admission and delisting), on average, there are 19 delistings per year, with a record high of 26 in 2000 and a minimum of 9 in 2004. The delisting phenomenon shows a smaller variation over the period analysed than the flow of companies entering the stock market (Figure 6), with a standard deviation of 5 and 13, respectively.

Intermonte Partners (2022) in collaboration with the Politecnico di Milano analyse the net effect of inflows and outflows of companies on the capitalization of the Italian stock exchange from 2002 and 2021 (Figure 9).

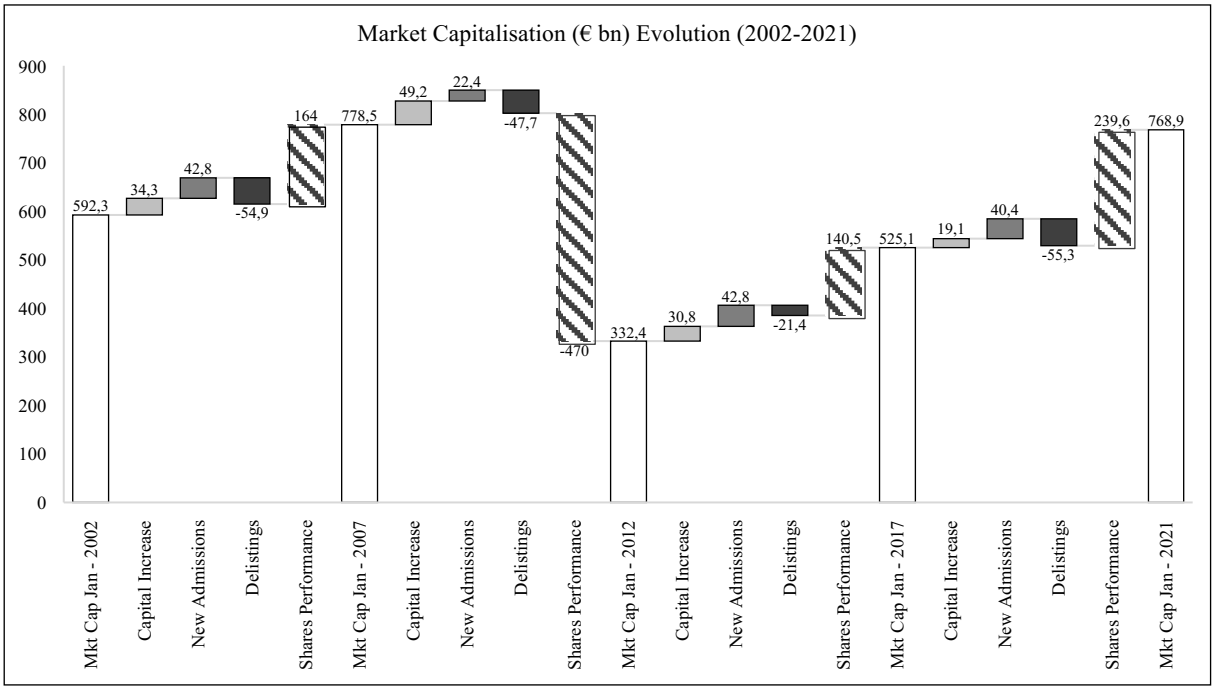

Figure 9: Market Capitalization (€ bn) Italian Stock Exchange Evolution from 2002 to 2021. Freely taken from Intermonte Partners and Politecnico di Milano, (2022), Sliding doors: il flusso di listing e delisting sul mercato azionario di Borsa Italiana (2002-2021), Quaderni di ricerca Intermonte, 6, p.15.

The change in market size results from the capital increase of already-listed companies, the listing of new firms[16], the value of delisted companies[17] and the appreciation or depreciation of shares value[18] during the period.

Between 2002 and 2007, companies' exit from the Italian stock exchange captured more than one-third of the shares' performance. After the financial crisis of 2008, the stock market lost 60% of its capitalization as of January 2007 due to the sharp decrease in shares value. The net effect between new admissions and delistings is positive only in the five years 2012-2016. Between 2017 and 2021, the delisting wave captured a quarter of the stock market performance.

[16] Closing price at the end of the first trading day.
[17] Market capitalization the day before the delisting announcement.
[18] As measured by the annual index performance.

2.4. Delistings Classification in the Empirical Analysis

The empirical analysis aims to understand whether the Italian political government's orientation influences the delisting phenomenon. Specifically, the aim is to analyse all cases in which companies judged the Italian capital market as inadequate and, therefore, the costs of being listed outweighed the benefits. For this purpose, delisting cases were first classified into fourteen groups (Figure 10) and then into three main categories (Figure 11):

a) Involuntary: whenever the decision is undertaken by stock market authorities (i.e., Liquidation and Missing Requirements).
b) Net null effect: all cases in which the company is still listed in the Italian stock market from a practical point of view, either in another market segment (Segment Change), with a different type of shares (Share Conversion), or as a division of its Italian listed parent company (Intercompany transaction – IT Listed), or as a division of an Italian listed bidder (External Acquisition – IT Listed), and no longer as an autonomous entity, and following a business combination (Business Combination).
c) Voluntary: all cases in which the controlling shareholder or the external bidder decides to exit the Italian stock market, recognizing a greater benefit in operating as a private company. This category is the objective of this analysis, given that it results from a strategic choice performed by shareholders.

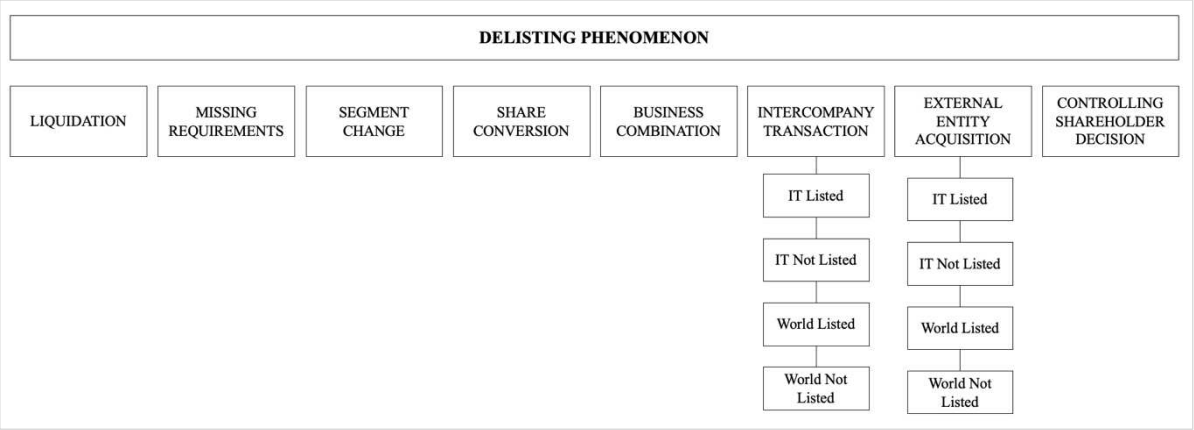

Figure 10: Delisting Phenomenon – Reasons Overview.

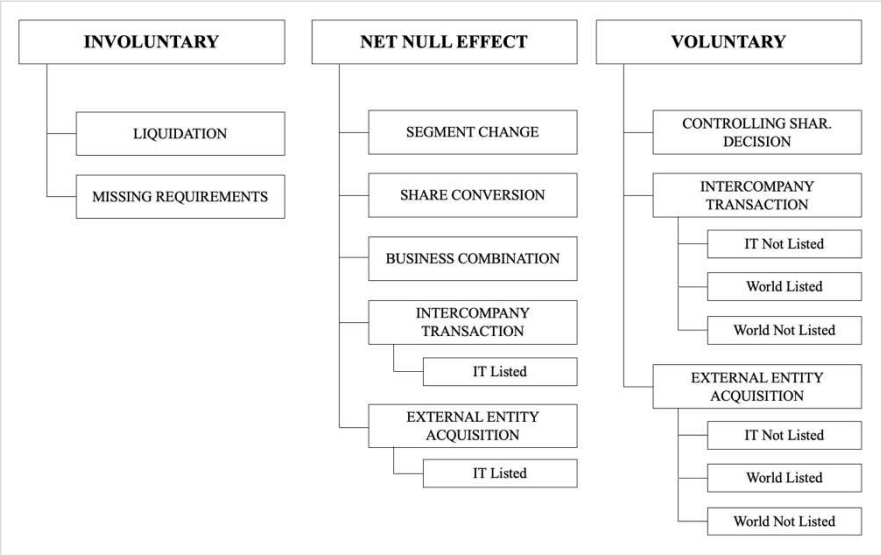

Figure 11: Delisting Categories used in the Empirical Analysis.

Figure 12 shows the percentage of delisting cases over 2000-2022 according to the above macro-categories: involuntary, net null effect and voluntary. The latter represents the core of the empirical analysis and accounts for 35%, with a total number of 178 cases.

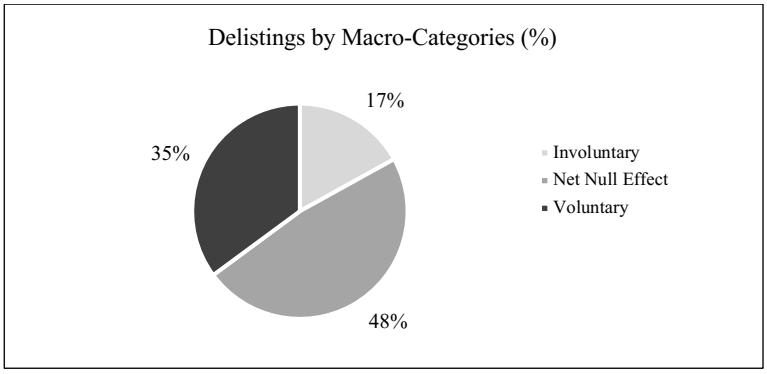

Figure 12: Delistings (%) by Macro-Categories used in the Empirical Analysis. Data: Borsa Italiana.

Figure 13 takes the analysis one step further by showing the percentage of each group within the main category. In the case of Involuntary delisting (Figure 13.1), more than 50 per cent of the cases are attributable to the absence of listing requirements.

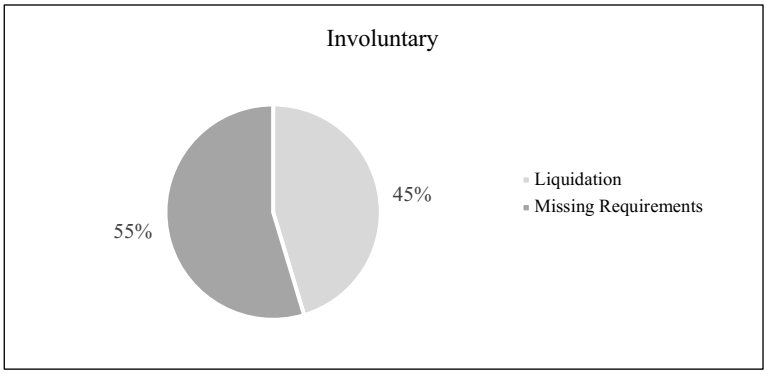

Figure 13.1: Involuntary Delistings (%) by Subgroups. Data: Borsa Italiana.

Regarding the category Net Null Effect (Figure 13.2), the groups “Segment Change” and “Intercompany Transaction – IT Listed” are the most frequent, accounting for 31% and 28%, respectively. The latter is driven in most cases by the parent company’s willingness to reorganize the group by simplifying the ownership structure.

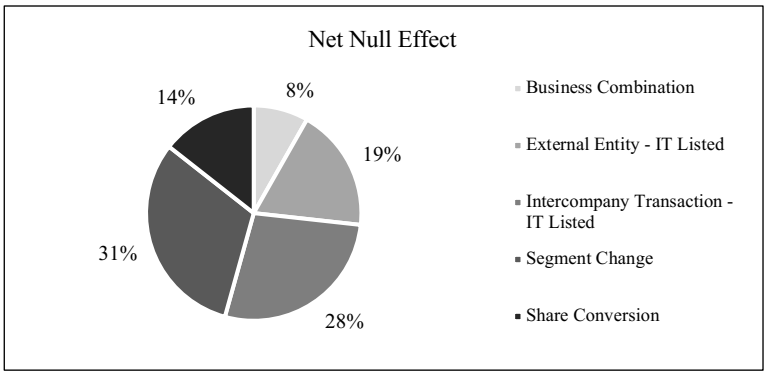

Figure 13.2: Net Null Effect Delistings (%) by Subgroups. Data: Borsa Italiana.

The category Voluntary (Figure 13.3) includes all cases where delisting is the mean by which either the party controlling the company (majority shareholder; parent company) or the bidder (external entity) realizes a strategic choice.

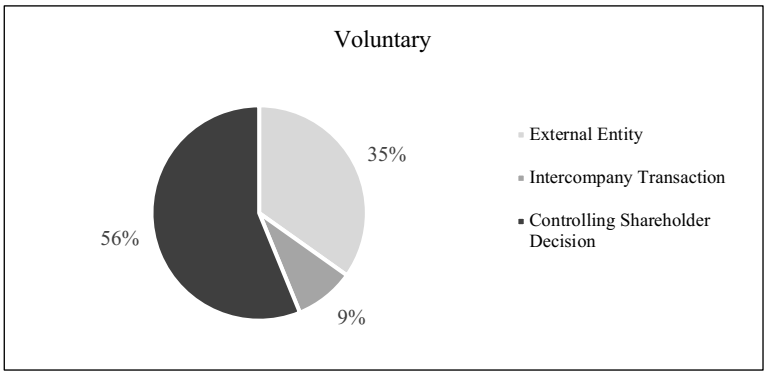

Figure 13.3: Voluntary Delistings (%) by Subgroups. Data: Borsa Italiana.

More than 50 per cent of the cases refer to the “Controlling Shareholder Decision”. The delisting can occur through a voluntary request, a takeover bid (tender offer) launched by a corporate vehicle controlled by the majority shareholder or by a merger into an Italian unlisted or foreign-listed company. The “External Entity Acquisition” category is the second most frequent, accounting for 35%. The bidder may be a private Italian or foreign company (listed or unlisted). The “Intercompany Transaction” group represents 8% of the voluntary cases. The parent company may be a private Italian company or a foreign company (listed or unlisted).

Chapter 3. Italian Government's Orientation and the Economic Policy Uncertainty

This chapter contributes to the current literature on political uncertainty by focusing on the Italian case. The aim is to understand whether the Italian government's political orientation affects the country's economic policy uncertainty.

This chapter begins with an overview of the Italian government's evolution from 2000 to 2022, followed by a description of the data collection and methodology used. It concludes with a commentary on the results.

3.1. Italian Government Overview

The Italian State is a democratic parliamentary Republic founded on labour, as established by the Constitution promulgated on January 1, 1948. This resulted from abolishing the monarchy through a popular referendum on June 2, 1946.

The President of the Italian Republic is the highest office of the State, representing its unity and ensuring compliance with the Constitution. It is appointed by an electoral college composed of both chambers of the Italian Parliament.

The Parliament has a bicameral system and holds legislative power: the Chamber of Deputies (400 members) and the Senate of the Republic (200 members) perform the same function separately. The Parliament is elected by the Italian people exercising their right to vote.

The government has the executive power, providing a significant political guidance and coordination function. It comprises the President of the Council (Prime Minister, head of the government) and the Ministers who constitute the Council of Ministers (the Italian cabinet). The President of the Italian Republic appoints ministers based on the proposals made by the Prime Minister. The Council must receive the confidence of the Parliament. Ministers are individually responsible for their ministries, but they are jointly liable for the decisions and actions taken by the Council.[19]

Table 3 shows the evolution of the Italian Government from 2000 to 2022. The percentages on the political orientation of the Council of Ministers are calculated as follows:

a) % Right: ministers belonging to right-wing parties (including moderate centre-right parties) over the total number of ministers.

[19] Sources of the above information: European Commission. "Italy - Political, social and economic background and trends". and Italian Government Presidency of the Council of Ministers. "The Government: bodies and functions".

b) % Left: ministers belonging to left-wing parties (including moderate centre-left parties) over the total number of ministers.
c) % Independent: ministers not belonging to any political party over the total number of ministers.

The last column shows the political orientation of the Minister of Economy according to the party to which he belongs.

Government	Legislature	Period	Council of Ministers				
			% Right	% Left	% Indipendent	N. Ministers	M. of Economy
D'Alema II	XIII Legislature	Dec/99 - Apr/00	0%	96%	4%	26	L
Amato II	XIII Legislature	Apr/00 - Jun/01	0%	88%	12%	25	L
Berlusconi II	XIV Legislature	Jun/01 - Apr/05	96%	0%	4%	24	R
Berlusconi III	XIV Legislature	Apr/05 - May/06	96%	0%	4%	24	R
Prodi II	XV Legislature	May/06 - May/08	0%	93%	7%	28	I
Berlusconi IV	XVI Legislature	May/08 - Nov/11	96%	0%	4%	24	R
Monti	XVI Legislature	Nov/11 - Apr/13	0%	0%	100%	19	I
Letta	XVII Legislature	Apr/13 - Feb/14	33%	43%	24%	21	I
Renzi	XVII Legislature	Feb/14 - Dec/16	18%	76%	6%	17	L
Gentiloni	XVII Legislature	Dec/16 - Jun/18	12%	88%	0%	17	L
Conte	XVIII Legislature	Jun/18 - Sep/19	26%	53%	21%	19	I
Conte II	XVIII Legislature	Sep/19 - Feb/21	0%	91%	9%	23	L
Mario Draghi	XVIII Legislature	Feb/21 - Oct/22	25%	38%	38%	24	I
Meloni	XIX Legislature	Oct/22 -	80%	0%	20%	28	R

Table 3: The Italian Government from 2000 to 2022.
Data: Governo Italiano Presidenza del Consiglio dei Ministri, last access 15/02/2023.

In seventy-five years of the Republic (from 1948 to 2023), Italy was supposed to have 15 legislatures, each lasting five years. However, the Republican period recorded 19 legislatures with an average duration of three years and eight months.

The weakness of political bodies is further intensified in the case of the executive, characterized by short-lived governments. The Meloni government (October 2022 - today) is the 68th executive of the Italian Republic. Since the first post–monarchical government (De Gasperi II, 1948), the average duration has been around thirteen months.

Nevertheless, behind the turnover of the political bodies, there has also been a substantial "political continuity", often due to the presence of the same person in the office of the Prime Minister. The reason is that the President of the Italian Republic formally appoints the Council of Ministers. Therefore, the Prime Minister must resign to reshuffle the cabinet. (The Economist, 2022). For example, Silvio Berlusconi held a stable position in government from 2001 to 2006. However, from a formal point of view, he had two consecutive governments as he changed the ministers.

As Spadaro (2019) points out, the Italian situation can be described as "*unstable stability*", an oxymoron in which the positive side prevails. At least until Gentiloni (December 2016 – June 2018), governments were characterized by a political continuity on the most relevant policy choices such as EU membership, loyalty to the US ally and NATO, the maintenance of a welfare state and the respect for the rule of law (Spadaro, 2019). Conte government (June 2018 – September 2019) born from the agreement between Lega and MS5 and with a Prime Minister who does not come from the political world, marks a clear break with continuity, both in terms of the procedures followed in forming the government and the political objectives of the executive.

The seventy years of Italian Republican history can be divided into three phases, the so-called three Republics, characterized by changes in the most critical components: the electoral law and the party system.

The electoral system was purely proportional in the first phase (1948 to 1992). The parties were the same as during the constituent assembly. The State had a predominant presence in the real economy, and the electoral body could not choose or even influence the formation of the executive body. The parties had no responsibilities with respect to the electoral body: they formed alliances in the Parliament after the elections, trying to find compromises on various issues. This political instability resulted in numerous extra-parliamentary crises and short-lived governments, nine months on average. (Spadaro, 2019)

A majoritarian electoral system characterized the second phase (1992 to 2017). New parties emerged on the political scene (e.g., Alleanza Nazionale, Forza Italia/Popolo delle libertà (PDL), Lega Nord, Partito Democratico (PD), Verdi, et al.). The political bipolarity was marked but did not turn into bipartisanship (Spadaro, 2019). As Diamanti (2007) points out, this phase was characterized by the evolution of both centre-right and centre-left coalitions, following the model created by Silvio Berlusconi in 1994. However, the differences between the two were marked. On the one hand, the figure of Silvio Berlusconi as a leader was the main unifying force of the centre-right. On the other, Romani Prodi sought to create a single political party. Diamanti defines the division: "*On the centre-right, between the President and the parties; on the centre-left, between the Party and the parties*". (2007, p.733)

Three electoral systems[20] followed one another from 1992 to 2017. They were designed to introduce a fair representation of the different political perspectives (i.e., proportional rule) while ensuring stability in governing (i.e., majority prize).

a) *Mattarellum* (laws no. 276-277/1993): mixed system in which seats are allocated 75% according to a plurality rule in single-member districts and 25% under a proportional rule.[21]
b) *Porcellum* (law no. 270/2005): proportional system with majority prize, later amended by the Constitutional Court (ruling no. 1/2014). All the seats were allocated using a proportional rule. However, a majority prize was awarded to the party or coalition that received the highest votes at the national level (Chamber of Deputies) or the regional level (Senate). In the Chamber, the prize would secure the majority in the Parliament. The problem was the absence of a minimum threshold of votes received by the winner to assign the prize. (Chiaramonte and D'Alimonte, 2018)
c) *Italicum* (law no. 52/2015): proportional system with majority prize. In the Chamber of Deputies, all the seats were assigned using a proportional formula. However, a majority prize was awarded to the party (not the coalition) with at least 40% of the votes. If the threshold was not reached, the two parties receiving the highest number of votes would face a run-off. Consequently, the two branches of the Parliament had two different voting systems: on the one hand, the Senate with a single-round proportional system; on the other, the Chamber of Deputies with a two-round and majority-assuring system. (Chiaramonte and D'Alimonte, 2018).

The third phase (starting in 2017) saw a renewal of the political scene with the rise of parties characterized by a more radical ideology (e.g., Movimento 5 Stelle (MS5), Fratelli d'Italia (FDI), Lega). The *Rosatellum* (law no. 165/2017) was the electoral system in place, further encouraging the creation of fragile coalitions, as shown by the number of governments that have succeeded (Pouzadoux, 2022).

Given the unconstitutionality of the run-off provided by the *Italicum* (ruling no. 35/2017), the *Rosatellum* is a mixed system which does not assure the majority. Regarding the Chamber of

[20] The electoral systems' description is based on the following paper: Chiaramonte, A., & D'Alimonte, R. (2018). The new Italian electoral system and its effects on strategic coordination and disproportionality. Italian Political Science, 13(1), 8-18.

[21] The national territory is divided into 475 constituencies for the Chamber of Deputies, and 232 for the Senate. Each constituency elected only on representative, and the candidate who received the highest number of votes would win the seat. The law did not provide for runoffs in individual constituencies. The remaining 25% of the seats were allocated through proportional representation, where the number of seats won by each party was determined by the overall proportion of votes it receives across the entire country. SMDs are used to provide greater representation for smaller geographic areas and encourages candidates to cultivate ties with their own territory. Palazzotto, M. (2016, December 19). "Come funziona il Mattarellum".

Deputies, the majority prize allows 54% of the seats only if the party reaches the 40% threshold of votes. However, if no party obtains 40% of the votes, the seats are assigned using a proportional formula. The electoral system also includes a 3% threshold for parties to enter the Parliament (later reduced to 1.5%). The Senate is elected solely through proportional rule.

Article 55 of the Italian Constitution assigns the same power to the two branches of the Parliament, thus establishing the so-called "perfect bicameralism". Consequently, different voting systems might lead to uncertainty and possibly different results. Moreover, as Chiaramonte and D'Alimonte (2018) point out, pre-electoral coalitions play a crucial role in the government formation process in the Italian system. In a purely proportional context, parties could establish alliances after the election's results. On the contrary, in Italy, parties present pre-electoral coalitions as potential government alternatives, thus strongly influencing post-election agreements. Parties want to avoid breaking promises made to voters in the pre-election phase (Chiaramonte and D'Alimonte, 2018). Concerning coalitions, Diamanti underlines that "*they are founded on wide and heterogenous alliances, personalization, and marketing. Put together to win elections, the coalitions are inadequate to govern, because they are strained by tensions between parties and by profound differences in their parties' electoral bases*." (2007, p.733)

To conclude, the electoral systems designed over the years result from a trade-off between introducing a fair representation of the different political perspectives (i.e., proportional rule) while ensuring stability in the act of government (i.e., majority prize). Nonetheless, the electoral system does not seem to guarantee the country's governability, thus leading to growing policy uncertainty. Therefore, the empirical analysis aims to understand the relationship between the government's political orientation and the country's policy uncertainty as measured by the EPU index.

3.2. Data Collection

The data used in this section includes IT-EPU (news-based index), information on the Italian government, Italy's GDP growth rate, the yield to maturity on ten years BTP, and the World Bank Governance Index. The dataset covers the period from 2000 to 2022 and includes 92 observations based on quarterly data.

Data on EPU come from the Economic Policy Uncertainty website. Information on the composition of the Council of Ministers is hand-collected from the Italian Government Presidency of the Council of Ministers website. In addition, data on the GDP growth rate are gathered from the Euro Area Statistics website (Eurostat), while information on interest rates is from the Statistical Database of the Bank of Italy.

3.3. Variables Definition and Descriptive Statistics

Economic Policy Uncertainty is a monthly index created by Baker, Bloom and Davis, based on news coverage about policy-related economic uncertainty specific to each country. The index derives from a scaled measure of the raw count of newspaper articles containing keywords related to policy uncertainty. In the case of Italy, "Corriere Della Sera" and "La Stampa" are the newspapers analysed. The dollar impact of future changes to tax code provisions and the dispersion of government spending and Consumer Price Index (CPI) forecasts are the other two components considered to include fiscal and monetary policy uncertainty.

GDP data show the growth rate (%) over one year on a quarterly basis. They represent the gross domestic product at market prices, seasonally and working days adjusted. It is calculated using domestic currency and may include amounts converted to the current currency at a fixed rate. Interest rate data are reported monthly. They represent the yield on the Italian 10-year BTP.

In this section, variables with monthly observations (i.e., the EPU index and interest rates) are transformed into quarterly data based on the average of the same month and the previous two months. For example, the first quarter data Q1-XXXX[22] results from the average of the monthly observations in January, February, and March XXXX.

Kaufmann and Kraay created the Worldwide Governance Indicators (WGI) that show individual governance indicators for over 200 countries between 1996 and 2021. The dimensions of governance reported are Voice and Accountability ($voice\_acc$), Political Stability and Absence of Violence/Terrorism (pol_stab), Government Effectiveness (gov_eff), Regulatory Quality (reg_qual), Rule of Law ($rule\_law$), and Control of Corruption ($control\_cor$). The indicators result from thirty data sources, including surveys of households and firms, commercial business information providers, non-governmental organizations, and public sector organizations. For each country, the authors report the indicators in their standard normal units (from -2.5 to 2.5) and in percentile rank terms (from 0 to 100). In both cases, higher values correspond to better governance.

The political orientation of the government is computed using the following procedure. For each government in office from Q1-2000 to Q4-2022, the Council of Ministers is analysed. Each minister is assigned to one of the following categories based on the orientation of the political party to which he or she belongs: right, left, or independent (if the minister is not affiliated with any party). Right-wing cases also include ministers who belong to centre-right parties. The same applies to left-wing cases. Then, the percentages on the political orientation

[22] Q1: first quarter; Q2: second quarter; Q3: third quarter; Q4: fourth quarter.

of the Council of Ministers are calculated as shown in Table 3 (i.e., ministers assigned to the category over the total number of ministers).

The threshold value that allows categorizing the government's political orientation is the percentage of ministers in one category equal to 37%. Based on this value, a categorical variable with three levels (right, left, and independent) determines the government's political orientation. If the % of right-wing ministers is equal to or greater than 37%, the government has a right-wing orientation (gov_R). The same applies to the left-wing orientation (gov_L) and the independent case (gov_I). In no case the percentage of right-wing and left-wing ministers assume the same value. In the case of parity with the percentage of independent ministers, the independent orientation is assumed to prevail, and the government is categorized as independent (gov_I).

Table 4 displays some descriptive statistics for some variables from 2000 to 2022. The number of observations in the sample is 92 (quarterly data). P25 and P75 refer to the 25th and 75th percentiles, respectively.

Variable	Mean	Standard Deviation	P25	Median	P75
pol_unc	113.03	34.54	89.95	107.50	203.50
int (%)	3.59	1.50	2.22	4.06	6.61
gdp (%)	0.43	3.66	-0.15	0.82	16.69
voice_acc	80.15	3.43	77.61	79.60	86.54
pol_stab	62.76	6.24	59.05	62.32	78.31
gov_eff	68.80	4.44	65.87	68.27	77.05
reg_qual	75.64	3.25	74.04	75.68	81.09
rule_law	64.61	3.92	61.72	63.94	73.63
control_cor	66.04	4.75	62.50	65.88	75.00

Table 4: Summary Statistics. Quarterly observations, sample period from 2000 to 2022.

It is important to note that WGIs show low variability from one year to the next because governance evolution inherently occurs over a more extended period. For this reason, the empirical analysis will focus on the EPU index, understanding whether the policy orientation of the Italian government (independent variable) influences the level of economic policy uncertainty (dependent variable) as measured by the EPU. The annual GDP growth rate is used as a control variable to increase the accuracy of the regression model, thus reducing potentially confounding factors that could affect the relationship between the independent and dependent variables.

It is important to note that the empirical analysis estimates a series of regression models. Each model includes different lagged independent variables such as the previous quarter (or the previous two) government's political orientation, to capture the time-delayed effects of the independent variable on the dependent one. The lagged independent variable in each model represents the value of the independent variable at a specific time in the past, which is assumed to have a delayed effect on the dependent variable at the current period (Wikipedia contributors, 2023).

Table 5 lists the variables used in the empirical analysis (Chapter 3.4).

Variable	Definition
pol_unc	EPU index, quarterly data based on the average of monthly data: Q1(Jan-Mar), Q2(Apr-Jun), Q3(Jul-Sept), Q4(Oct-Dec).
gov_I	Categorical variable, it takes 1 if the % of independent ministers over the total number of ministers >= 37%; 0 otherwise.
gov_L	Categorical variable, it takes 1 if the % of left-wing ministers over the total number of ministers >= 37%; 0 otherwise.
gov_R	Categorical variable, it takes 1 if the % of right-wing ministers over the total number of ministers >= 37%; 0 otherwise.
gdp	Gross domestic product annual growth rate as percentage, quarterly data.

Table 5: Definition of variables used in the Empirical Analysis (Chapter 3.4).

In the case of models with lagged effects, the variables' definition is the same as shown in Table 5. However, by introducing one lag in the independent variables, the data will refer to the previous quarter compared to the dependent variable. Similarly, if two lags are introduced in the independent variable, the data will refer to two quarters earlier than the dependent variable. The use of different lags in the independent variables allow to understand the phenomenon in a more comprehensive way. For example, if the dependent variable is measured in Q4-2000, the independent variable data in a one lag model will refer to Q3-2000. In the two-lag model, the independent variable data will refer to Q2-2000.

Figure 14 shows the evolution of the Economic Policy Uncertainty index and Italy's GDP annual growth rate from 2000 to 2022. The index shows an average value of 113, with a minimum of 51 in March 2007 and a record high of 203 in December 2011. Starting in 2011, Italy faced increasing difficulties in servicing its public debt, which led to concerns about Italy's ability to repay its debts and sparked a crisis of confidence in the country's economy. The escalation of the debt crisis and the possibility of Italy being downgraded in its debt rating, together with the weakening of the government to Berlusconi's resignation and the establishment of the Monti government. The crisis was part of a wider sovereign debt crisis in the Eurozone, affecting other countries such as Greece, Portugal, Ireland, and Spain. The spread stood at 173 points on January 4, 2011, increasing by 355 points to 528 on December 30, 2011. Italian fragility, as measured by the difference between BTPs and their German Bunds counterparts, is also reflected by the period high reached by the EPU index (Schacchioli, 2014).

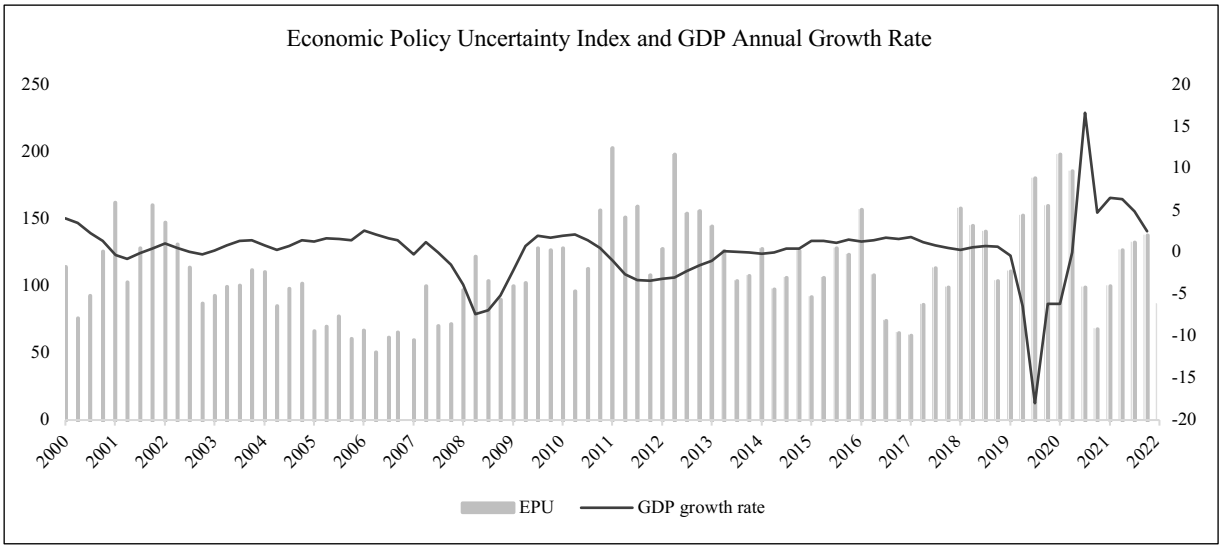

Figure 14: Evolution of Economic Policy Uncertainty Index and GDP Annual Growth Rate in Italy from 2000 to 2022. Data: Economic Policy Uncertainty website and Eurostat.

The EPU index and the GDP growth rate show a negative correlation of -0.396, significant at the 1% level.

Table 6 shows the correlation matrix based on Pearson Correlation Coefficients.

Correlation Matrix								
Variables	**pol_unc**	**voice_acc**	**pol_stab**	**gov_eff**	**reg_qual**	**rule_law**	**control_cor**	**gdp**
pol_unc		-0.3382 **	0.008	0.0941	-0.4416 **	-0.1274	-0.1601	-0.3960 **
voice_acc			-0.2017	-0.2635 *	0.0216	-0.2374	0.2594 *	0.1885
pol_stab				0.3997 **	-0.0559	0.6104 **	0.6299 **	0.2662 *
gov_eff					0.1337	0.7882 **	0.2389 *	0.1223
reg_qual						0.3591 **	0.1922	0.020
rule_law							0.3798 **	0.1668
control_cor								0.2195 *
gdp								

Table 6: Correlation Matrix based on Pearson Correlation Coefficients.
**, *, indicate significance at the 1% and 5% levels, respectively.

The correlation matrix is used to understand the relationship between the Worldwide Governance Indicators and the EPU index during the period analysed (2000 – 2022).

Looking at the correlation coefficients (Table 6), the EPU index is negatively correlated with the "Voice and Accountability" ($voice\_acc$) indicator. The coefficient is – 0.338, significant at the 1% level. In the case of the indicator "Regulatory Quality" (reg_qual), the negative relationship with the EPU index is even stronger. The coefficient is – 0.442, significant at the 1% level.

According to the definition provided by the WGI website, the voice and accountability indicator measures "*the extent to which citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media*" (Kaufmann, Kraay, and Mastruzzi, 2011, p.223). Citizens are more likely to engage in their countries' public affairs and governance when there is a greater sense of voice and accountability. Consequently, this can lead to greater predictability in economic policy, thereby reducing the level of economic policy uncertainty experienced.

The regulatory quality indicator is defined as "*the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development*" (Kaufmann, Kraay, and Mastruzzi, 2011, p.223). This includes factors such as the regulatory framework's quality, the regulatory process's transparency, and the government bureaucracy's efficiency. With high regulatory quality, economic actors (such as businesses and investors) increase their confidence in the government's ability to create a stable and predictable economic environment in which entrepreneurial activity is fostered. This reduces economic policy uncertainty experienced while encouraging more significant investments.

The correlation between the EPU index and the indicators "Political Stability", "Government Effectiveness", "Rule of Law", and "Control of Corruption", taken individually, is not significantly different from zero at the 5% level.

3.4. Methodology

The model examines the influence of the Italian government's orientation on the policy-related instability of the country as measured by the EPU index.

$$(1) \quad pol\_unc_t = \alpha + \beta_1(gov_t = L) + \beta_2(gov_t = R) + \gamma gdp_t + \varepsilon_t$$

where *t* indexes time, political uncertainty (pol_unc) is the dependent variable, and government orientation (gov) is a categorical variable with three levels (independent, left and right). The independent case is the reference category included in the intercept. The annual GDP growth rate (gdp) is used as a control variable.

The intercept (α) includes the effect of an independent government ($gov_t = I$), which is the base category in this model. The coefficients β_1 ($gov_t = L$) and β_2 ($gov_t = R$) indicate the difference in the level of political uncertainty between the "gov_L" and "gov_I" categories and between the "gov_R" and "gov_I" categories, respectively.

Model 2 introduces a one-quarter lag in the independent variable with respect to the dependent variable.

$$(2) \quad pol\_unc_t = \alpha + \beta_1(gov_{t-1} = L) + \beta_2(gov_{t-1} = R) + \gamma gdp_{t-1} + \varepsilon_t$$

Similarly, model 3 introduces two quarters lag in the independent variables.

$$(3) \quad pol\_unc_t = \alpha + \beta_1(gov_{t-2} = L) + \beta_2(gov_{t-2} = R) + \gamma gdp_{t-2} + \varepsilon_t$$

Table 7 shows the estimation results. Standard errors are calculated using the Newey – West estimator, which is robust to both autocorrelation and heteroscedasticity of the error term. Serial correlation occurs when the residuals are not independent of each other but exhibit a trend over time. Heteroscedasticity, instead, occurs when the variance of the errors is not constant for all levels of the independent variable. In both cases, a violation of the iid hypothesis (independent and identically distributed errors) occurs, leading to biased and incorrect standard errors. Therefore, the Newey – West estimator is widely used in time series, where violation of this assumption is a common problem. The standard error is adjusted by adding a correction term to the usual estimator of the variance-covariance matrix of the regression coefficients.

OSL Regressions			
Variables	**(1) pol_unc**	**(2) pol_unc**	**(3) pol_unc**
(Intercept)	139.05 **	138.11 **	141.86 **
	(5.53)	(5.64)	(6.13)
govL	- 26.85 **		
	(9.07)		
govR	- 27.62 **		
	(10.05)		
gdp	- 4.25 **		
	(0.85)		
gov_lag1L		- 25.70 **	
		(8.44)	
gov_lag1R		- 26.24 *	
		(10.52)	
gdp_lag1		- 4.20 **	
		(0.95)	
gov_lag2L			- 29.59 **
			(9.49)
gov_lag2R			- 30.21 *
			(13.55)
gdp_lag2			- 3.49 **
			(1.12)
Adj.R2	0.19	0.19	0.15
F.Stat	8.19	7.96	6.03
N.Obs	91	91	90

Table 7: OSL Regression. Policy Uncertainty. Estimated coefficients in columns (1), (2) and (3) are from least square regressions. Sample period is from 2000 to 2022. In columns (2) and (3), the independent variables have one quarter and two quarters lag, respectively. Standard errors shown in brackets are calculated using the Newey – West estimator. **, *, indicate significance at the 1% and 5% levels, respectively.

In Model 1, the intercept represents the expected value of the EPU index when the government is independent, and all other variables are equal to zero. It is statistically significant at the 1% level. The coefficients ($govL$) and ($govR$) represent the difference in policy uncertainty with left- and right-wing governments, respectively, compared to the case of an independent government. The reduction in political uncertainty equals – 26.85 units in the left-wing government compared to the independent one, statistically significant at the 1% level. In the case of a right-wing government, there is a reduction of – 27.62 units compared to the independent case, statistically significant at the 1% level. The annual GDP growth rate has a significant negative effect on policy uncertainty, which means that a higher GDP growth is associated with decreased uncertainty.

Model 2 and Model 3 include lagged independent variables (one quarter and two quarters, respectively). If a left-oriented government characterizes the previous quarter (gov_lag1L), there is a reduction in political uncertainty of – 25.70 in the following three months, compared to the independent case. Similarly, the inclusion of a two-period lag in the government variable decreases political uncertainty by an average of – 29.59 during a left-wing government (gov_lag2L). The coefficients are statistically significant at the 1% level in both models. In case of a right-oriented government, there is a negative effect on political uncertainty compared to the independent case using both one-quarter (gov_lag1R) and two-quarters lag (gov_lag2R). The results are similar in size to the case of a left-wing government and statically significant at the 5% level.

Looking at the adjusted R-squared of the models, the independent variables explain only a tiny proportion of the variance of the dependent variable. The F-statistics are all significant, which means that at least one independent variable is statistically different from zero.

3.5. Results

The data suggest that a government categorised as “independent” is associated with greater economic policy uncertainty, as measured by the EPU index. In contrast, regardless of the government’s political orientation (i.e., left- or right-wing), there is a consistent reduction in the economic policy uncertainty compared to the case of an independent government, including controlling for different quarter lags.

An explanation would appear to be that independent governments are generally created in times of crisis, characterized by the need for immediate actions and the lack of consensus among political parties. In these critical times, the government, made up of technicians or people that do not belong to the political sphere as such, they may implement “necessary” policies that are

not in line with the electorate's preferences. Thus, leading to an increase in the population's uncertainty about the direction of economic policy.

Second, an independent government may not find substantial public support, creating a lack of confidence in the government's ability to address economic challenges. In addition, these governments are neither supported by a political party, increasing possible delays and uncertainty in the policies' implementation.

Lastly, independent governments are often put in place as a temporary solution, exacerbating the uncertainty about long-term policy outcomes.

In conclusion, whatever the government's political orientation, i.e., left- or right-wing oriented, the data records a reduction in economic policy uncertainty compared to the independent case. Political parties extensively campaign on agendas, providing a predictable roadmap for future policy decisions. Therefore, it is easier for the public to anticipate possible policy outcomes, thus reducing uncertainty. Conversely, an independent government lack an *ex-ante* policy agenda. Policy outcomes are often unpredictable because they result from *ad hoc* decisions responding to specific contingencies in all matters that affect the country.

Chapter 4. Italian Government's Orientation and the Capital Market Evolution

This chapter contributes to the current literature on factors shaping the stock market evolution, by focusing on the Italian case. The objective is to identify the possible influences of the Italian government's political orientation on capital market development over the last twenty-three years (2000 – 2022). Specifically, the research analyses whether the effect differs between large and medium-sized versus small-sized companies. Furthermore, the analysis focuses on the impact of periods characterised by higher-than-average political instability, as measured by the EPU index. The evolution of the stock market is extensively analysed in Chapter 2.1 and 2.2 of this paper. Chapter 4 presents the description of the data collection and the methodology used for the empirical analysis. It concludes with a commentary on the results.

4.1. Data Collection

The data used in this section include the number of domestic companies listed on the Milan stock exchange, information on the Italian government, the IT-EPU (news-based index) and the yield to maturity on ten years BTP. The dataset covers the period from 2000 to 2022 and includes 92 observations based on quarterly data.

Data on the number of domestic listed companies are hand-collected from the Borsa Italiana website. Information on the composition of the Council of Ministers is hand-collected from the Italian Government Presidency of the Council of Ministers website. In addition, data on EPU come from the Economic Policy Uncertainty website, while information on interest rates is from the Statistical Database of the Bank of Italy.

4.2. Variables Definition

The total number of domestic companies listed on the Milan Stock Exchange includes those listed on the primary regulated market EXM (formerly MTA), the Investment Vehicles listed on the MIV, and the alternative market EGM (formerly AIM Italia and MAC). The analysis excludes foreign companies belonging to the Global Equity Market (GEM, formerly MTA International).

The division between large- and small- capitalisation companies is based on the legislator's reclassification of the market segments. In this section, the category of large capitalisation companies includes the following segments: Borsa, Nuovo Mercato, Mercato Expandi, MTA (Blue Chip, Star, Standard), Investment Vehicles, and EXM. On the other hand, the category of small capitalisation companies includes the following segments: MAC, AIM Italia and EGM.

Figure 15 shows the evolution of the number of domestic companies listed on the Italian stock market, divided into the main components analysed: companies with large vs small capitalisation.

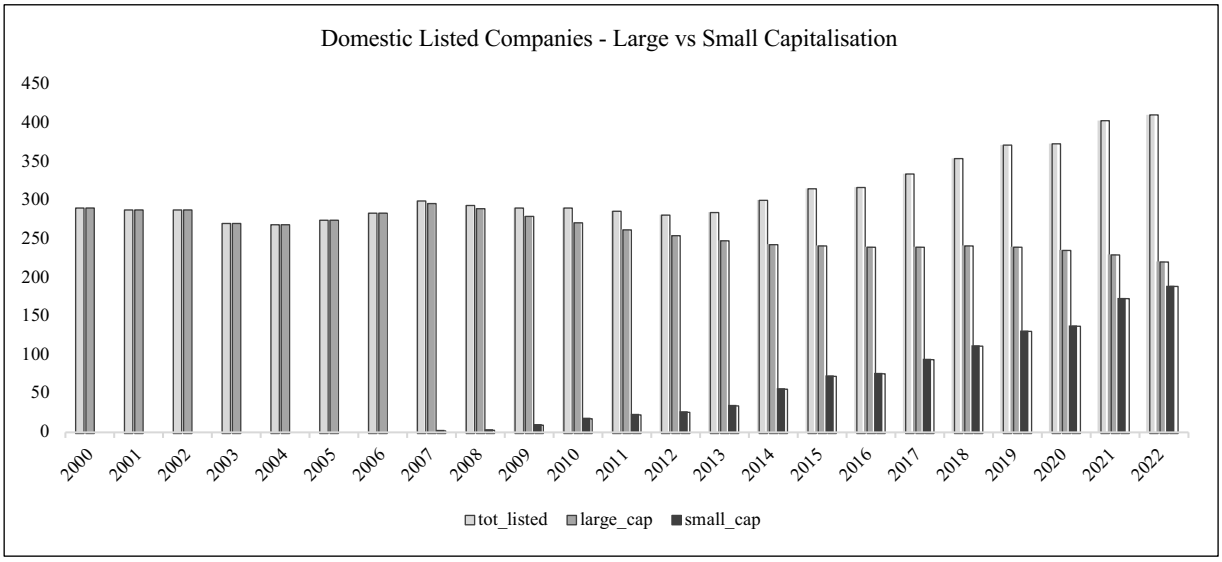

Figure 15: Number of Listed Domestic Companies – Large vs Small Capitalisation Companies.
Data: Borsa Italiana

It is important to note that this reclassification is dictated by the way the legislator changes and reclassifies companies into different segments during the analysed period. Specifically, it is not possible to trace the number of companies with small capitalisation before the creation of the MAC segment in 2007, followed by AIM Italia in 2009. An approximation would be to use "Nuovo Mercato" and "Mercato Expandi" (previously, "Mercato Ristretto") as a proxy for small capitalisation companies. However, this approach is not feasible as the "Mercato Expandi" has been included in the MTA's Standard Domestic segment in 2009 instead of being included in the alternative segment dedicated to small companies (i.e., MAC – Aim Italia).

The political orientation of the government is computed using the procedure explained in Chapter 3. Moreover, variables with monthly observations (i.e., the EPU index and interest rates) are transformed into quarterly data based on the average of the same month and the two previous ones (details in Section 3).

In this section, the focus is on the effect of above-average political instability on the evolution of the Italian stock market. For this reason, the variable (pol_unc) is defined as a dummy variable that takes the value of one, if the policy uncertainty recorded in the quarter is greater than the average of the EPU index in the period analysed (2000 – 2022), and zero otherwise.

Table 8 lists the variables used in the empirical analysis (Chapter 4.3).

Variable	Definition
tot_listed	Total number of domestic listed companies on the Milan Stock Exchange (quartely data).
large_cap	Total number of domestic listed companies with large and medium capitalisation (quarterly data). Segments included: Borsa, Nuovo Mercato, Mercato Expandi, MTA (Blue Chip, Star, Standard), MIV, EXM.
small_cap	Total number of domestic listed companies with small capitalisation (quarterly data). Segments included: MAC, AIM Italia, EGM.
gov_I	Categorical variable, it takes 1 if the % of independent ministers over the total number of ministers >= 37%; 0 otherwise.
gov_L	Categorical variable, it takes 1 if the % of left-wing ministers over the total number of ministers >= 37%; 0 otherwise.
gov_R	Categorical variable, it takes 1 if the % of right-wing ministers over the total number of ministers >= 37%; 0 otherwise.
int	Yield on the Italian 10 year BTP, quarterly data based on the average of monthly data: Q1(Jan-Mar), Q2(Apr-Jun), Q3(Jul-Sept), Q4(Oct-Dec).
pol_unc	Dummy variable, it takes 1 if the EPU index (as quarterly data based on the average of monthly data) is higher than the average of the EPU index measured from 2000 to 2022; 0 otherwise.

Table 8: Definition of variables used in the Empirical Analysis (Chapter 4.3).

In the empirical analysis proposed in Chapter 4.3, it is necessary to assume a lag between the explanatory variables and the dependent variable, i.e., tol_list, $large\_cap$, and $small\_cap$, measuring the evolution of the Italian stock market. The decision of firms to list on the market cannot be simultaneous with the change in the government's political orientation or the political uncertainty experienced. For this reason, the models use different lags in the independent variables to account for the time elapsed between their occurrence, the firm's decision to list and the time when the actual listing takes place. Despite the introduced lags, the definition of the variables remains unchanged from that shown in Table 8. Specifically, by introducing one lag in the independent variables, the data will refer to the previous quarter compared to the dependent variable. Similarly, if two lags are introduced in the independent variable, the data will refer to two quarters earlier than the dependent variable (details in Chapter 3.3).

4.3. Methodology

The analysis examines the influence of the Italian government's orientation and the impact of periods characterised by higher-than-average political instability on the Milan stock exchange evolution. To this end, three model specifications are used to analyse both the effect of each variable separately (government orientation and policy related instability) and their combined effect on the stock market evolution.

In the first step, the objective is to understand whether the effect differs between large and mid-capitalisation companies compared to those with small capitalisation. It is indeed reasonable to assume that the impact differs depending on the size of the company, as it is subject to different factors in terms of costs and benefits. For this reason, the analysis is performed by separating listed companies according to their market capitalisation. The impact is computed controlling

for both one-quarter and two quarter-lags in the independent variables with respect to the dependent variable.

Since the reclassification of companies into the two groups is dictated by the legislator's criteria, the same analysis will be carried out on the total number of listed domestic companies as a mean of control.

4.3.1. Large Capitalisation Listed Companies

Models 1, 2, and 3 introduce one quarter lag in the independent variables with respect to the dependent variable.

Model 1 examines the influence of the Italian government's orientation on the number of large capitalisation companies listed on the Milan stock exchange.

$$(1) \quad large\_cap_t = \alpha + \beta_1(gov_{t-1} = L) + \beta_2(gov_{t-1} = R) + \gamma int_{t-1} + \varepsilon_t$$

where *t* indexes time, the number of large capitalisation companies ($large\_cap$) is the dependent variable, and the government orientation (gov) is a categorical variable with three levels (independent, left and right). The independent case is the reference category included in the intercept. The interest rate (int) is used as a control variable.

The intercept (α) includes the effect of an independent government ($gov_t = I$), which is the base category in this model. The coefficients β_1 ($gov_t = L$) and β_2 ($gov_t = R$) indicate the difference in the number of large-cap companies between the "gov_L" and "gov_I" categories and between the "gov_R" and "gov_I" categories, respectively.

Model 2 examines the influence of periods characterized by above-average political instability on the number of large capitalisation companies listed on the Milan stock exchange.

$$(2) \quad large\_cap_t = \alpha + \beta pol\_unc_{t-1} + \gamma int_{t-1} + \varepsilon_t$$

where *t* indexes time, the number of large-cap companies ($large\_cap$) is the dependent variable, and the political uncertainty (pol_unc) is a dummy variable that takes one if the policy related instability recorded in the previous quarter is higher than the average of the EPU index over the sample period considered (2000 – 2022). The interest rate (int) is used as a control variable.

Model 3 examines the combined effect of these variables on the number of large capitalisation companies listed on the Milan stock exchange.

$$(3) \quad large\_cap_t = \alpha + \beta_1(gov_{t-1} = L) + \beta_2(gov_{t-1} = R) + \gamma pol\_unc_{t-1} + \delta int_{t-1} + \varepsilon_t$$

Models 4, 5, and 6 introduce two quarters lag in the independent variables with respect to the dependent variable.

$$(4) \quad large\_cap_t = \alpha + \beta_1(gov_{t-2} = L) + \beta_2(gov_{t-2} = R) + \gamma int_{t-2} + \varepsilon_t$$

$$(5) \quad large\_cap_t = \alpha + \beta pol\_unc_{t-2} + \gamma int_{t-2} + \varepsilon_t$$

$$(6) \quad large\_cap_t = \alpha + \beta_1(gov_{t-2} = L) + \beta_2(gov_{t-2} = R) + \gamma pol\_unc_{t-2} + \delta int_{t-2} + \varepsilon_t$$

Table 9 shows the estimation results. Standard errors are calculated using the Newey – West estimator, which is robust to both autocorrelation and heteroscedasticity of the error term.

In Models 1 and 3, the intercept represents the expected value of the number of listed large capitalisation companies when the government in office in the previous quarter is categorized as independent, and all other variables are equal to zero. Models 4 and 6 refer to the government in office in two previous quarters. In all cases, the intercept is statistically significant at the 1% level.

The coefficients (gov_lag1L) and (gov_lag1R) represent the difference in the number of large capitalisation companies with left- and right-wing governments in the previous quarter, respectively, compared to the case of an independent government.

OSL Regressions						
Panel A: Large- and Mid- Capitalisation Domestic Listed Companies						
Variables	**(1) large_cap**	**(2) large_cap**	**(3) large_cap**	**(4) large_cap**	**(5) large_cap**	**(6) large_cap**
(Intercept)	207.82 **	227.54 **	213.81 **	206.40 **	227.17 **	212.48 **
	(7.80)	(5.77)	(6.98)	(7.96)	(6.53)	(7.14)
gov_lag1L	18.63 **		16.59 **			
	(6.02)		(4.26)			
gov_lag1R	26.49 **		24.19 **			
	(1.97)		(2.22)			
int_lag1	9.49 **	10.82 **	9.52 **			
	(2.28)	(1.78)	(1.90)			
pol_unc_lag1		-11.61 *	-9.57 *			
		(5.34)	(4.31)			
gov_lag2L				19.19 **		17.37 **
				(6.90)		(4.65)
gov_lag2R				24.89 **		22.80 **
				(3.85)		(2.62)
int_lag2				9.91 **	10.93 **	9.94 **
				(2.42)	(2.01)	(1.95)
pol_unc_lag2					-11.86 *	-10.29 *
					(5.64)	(4.46)
Adj.R2	0.69	0.63	0.74	0.68	0.65	0.73
F.Stat	67.62	78.32	63.57	63.41	82.09	61.50
N.Obs	91	91	91	90	90	90

Table 9: OSL Regression - Panel A: Large- and Mid- Capitalisation Domestic Listed Companies. Estimated coefficients are from least square regressions. Sample period is from 2000 to 2022. The dependent variable is the total number of large and mid capitalisation domestic companies listed on the Milan stock exchange. In columns (1), (2) and (3), the independent variables have one quarter lag. In columns (4), (5) and (6), the independent variables have two quarters lag. Standard errors shown in brackets are calculated using the Newey – West estimator. **, *, indicate significance at the 1% and 5% levels, respectively.

Overall, it is possible to say that both left- and right-wing government positively affect the number of large-cap listed on the market with respect to the independent case. The effect is consistent in controlling for both one quarter and two-quarters lag compared to the dependent variable. All the coefficients are statistically significant at the 1% level. Moreover, data shows that this effect is larger in the case of right-wing government. For example, focusing on Model 1, the increase in large capitalisation companies is + 18.63 units on average if the previous quarter is characterised by a left-wing government compared to an independent one. In the case of a right-wing government, there is an average increase of + 26.49 units compared to the independent case.

The interest rate has a significant positive effect on the number of listed large companies. The impact is consistent across all the models and statistically significant at the 1% level.

Models 2, 3, 5, and 6 introduce the impact of above-average political uncertainty as additional explanatory variables. Generally, the effect is negative and statistically significant at the 5% confidence level in all model specifications. During periods marked by above-average political instability, the number of listed large companies decreases on average.

Looking at the adjusted R-squared of the models, the independent variables explain a large part of the variance of the dependent variable. The F-statistics are all significant, which means that at least one independent variable is statistically different from zero.

4.3.2. Small Capitalisation Listed Companies

The same analysis is carried out for the small-cap group of listed companies. In this case, there are only 64 observations. Considering the legislator's criteria in reclassifying market segments, the first observation is recorded in the first quarter of 2007. The model specifications are the same as shows for the previous set of regressions (Table 9). In Panel B, the dependent variable is the number of small capitalisation companies ($small\_cap$) listed on the Milan stock exchange.

Table 10 shows the estimation results. Standard errors are calculated using the Newey – West estimator.

OSL Regressions						
Panel B: Small Capitalisation Domestic Listed Companies						
Variables	**(1) small_cap**	**(2) small_cap**	**(3) small_cap**	**(4) small_cap**	**(5) small_cap**	**(6) small_cap**
(Intercept)	205.02 **	145.44 **	194.44 **	205.14 **	151.45 **	195.35 **
	(21.18)	(20.65)	(17.08)	(22.00)	(20.72)	(18.93)
gov_lag1L	-56.05 *		-53.35 *			
	(21.81)		(21.00)			
gov_lag1R	-57.82 *		-54.09 *			
	(24.43)		(24.21)			
int_lag1	-28.63 **	-28.37 **	-29.06 **			
	(3.39)	(4.97)	(3.07)			
pol_unc_lag1		23.82 **	18.9 **			
		(8.66)	(7.23)			
gov_lag2L				-50.01 **		-47.76 *
				(18.79)		(19.08)
gov_lag2R				-49.86 **		-47.19 *
				(18.69)		(19.92)
int_lag2				-30.06 **	-29.65 **	-30.31 **
				(3.95)	(5.19)	(3.35)
pol_unc_lag2					21.08 **	17.71 *
					(6.87)	(7.04)
Adj.R2	0.73	0.63	0.75	0.76	0.69	0.78
F.Stat	57.3	54.55	49.17	65.79	70.35	56.02
N.Obs	64	64	64	64	64	64

Table 10: OSL Regression. Panel B: Small Capitalisation Domestic Listed Companies. Estimated coefficients are from least square regressions. Sample period is from 2000 to 2022. The dependent variable is the total number of small companies listed in the Milan stock exchange. In columns (1), (2) and (3), the independent variables have one quarter lag. In columns (4), (5) and (6), the independent variables have two quarters lag. Standard errors shown in brackets are calculated using the Newey – West estimator. **, *, indicate significance at the 1% and 5% levels, respectively.

The intercept represents the expected value of the number of listed small sized companies when all other variables are equal to zero. It is statistically significant at the 1% confidence level in all model specifications. However, in contrast to the case of large capitalisation companies, both left- and right-wing government have a negative effect of the number of small-caps listed on the market with respect to the independent case. The effect is consistent in controlling for both one quarter and two-quarters lag compared to the dependent variable. The coefficients are statistically significant at least at the 5% level. Moreover, the effect is similar in the magnitude irrespective of the government orientation. For example, focusing on Model 1, the reduction of listed small-cap companies is on average – 56.05 units in the case of a left-wing government in the previous quarter (gov_lag1L) compared to an independent one. If the previous quarter is characterised by a right-wing government (gov_lag1R), there is an average reduction of – 57.82 units compared to the independent one.

The interest rate has a significant negative effect on the number of listed small companies on the stock exchange. The impact is consistent across all the models and statistically significant at the 1% level.

Periods characterised by above-average political uncertainty in the previous quarter (Models 2 and 3) or in the previous two quarters (Model 5 and 6) show positive and statistically significant

coefficients at least at the 5% level. On average, if the previous quarter (pol_unc_lag1) or the previous two quarters pol_unc_lag2) are characterised by greater political instability, the number of listed small companies increases.

Looking at the adjusted R-squared of the models, the independent variables explain a big proportion of the variance of the dependent variable. The F-statistics are all significant.

4.3.3. Total Domestic Listed Companies

Comparing the results shown in Table 9 and Table 10, it emerges there is a marked divergence in the signs of the coefficients. A possible concern is that the results are strongly influenced by the way the legislator build and reclassifies market segments over the period, rather than by a real impact of the explanatory variables used. For this reason, the same analysis is carried out on the total number of domestic companies listed on the Milano stock exchange as a control instrument.

The model specifications are the same as shows for the previous set of regressions (Table 9). In Panel C, the dependent variable is the total number of domestic companies (tot_listed) listed on the Italian stock market from 2000 to 2022.

Table 11 shows the estimation results. Standard errors are calculated using the Newey – West estimator.

OSL Regressions						
Panel C: Total Domestic Listed Companies						
Variables	**(1) tot_listed**	**(2) tot_listed**	**(3) tot_listed**	**(4) tot_listed**	**(5) tot_listed**	**(6) tot_listed**
(Intercept)	405.67 **	371.07 **	400.01 **	402.78 **	376.14 **	398.49 **
	(26.84)	(20.04)	(24.43)	(28.25)	(21.44)	(27.09)
gov_lag1L	-36.10		-34.17			
	(20.00)		(21.57)			
gov_lag1R	-46.87		-44.70			
	(24.83)		(24.88)			
int_lag1	-17.03 **	-18.98 **	-17.06 **			
	(3.46)	(4.38)	(3.68)			
pol_unc_lag1		12.94	9.04			
		(6.72)	(5.74)			
gov_lag2L				-28.46		-27.18
				(19.76)		(21.05)
gov_lag2R				-42.15		-40.68
				(23.33)		(23.76)
int_lag2				-17.56 **	-19.87 **	-17.58 **
				(3.86)	(4.72)	(3.97)
pol_unc_lag2					9.96 *	7.27
					(4.91)	(4.98)
Adj.R2	0.66	0.56	0.67	0.69	0.61	0.69
F.Stat	58.72	57.89	46.22	66.37	70.16	51.25
N.Obs	91	91	91	90	90	90

Table 11: OSL Regression. Panel C: Total Domestic Listed Companies. Estimated coefficients are from least square regressions. Sample period is from 2000 to 2022. The dependent variable is the total number of domestic companies listed on the Milan stock exchange. In columns (1), (2) and (3), the independent variables have one quarter lag. In columns (4), (5) and (6), the independent variables have two quarters lag. Standard errors shown in brackets are calculated using the Newey – West estimator. **, *, indicate significance at the 1% and 5% levels, respectively.

The intercept represents the expected value of the total number of listed companies when all other variables are equal to zero. It is significant at the 1% confidence level in all model specifications. In Models 1 and 3, the intercept refers to the expected value of the total number of listed companies when the previous quarter government is independent (base category). Models 4 and 6 refer to the government in office in the previous two quarter. However, contrary to the results shown in Table 9 and 10, the political orientation of the government has non-statistically significant effect. The null hypothesis $[\beta_1(gov_{t-1} = L) = 0]$ and $[\beta_2(gov_{t-1} = R) = 0]$ cannot be rejected at the 5% level. It is not possible to say that the coefficients (gov_lag1L) and (gov_lag1R) are different from zero at the 5% level. Consequently, their results cannot be interpreted. The lack of statistical significance of the government' orientation is consistent with the introduction of both one quarter and two quarters lag with respect to the dependent variable.

Focusing on the role played by periods marked by above-average political uncertainty in the previous (pol_unc_lag1) or in the previous two quarters (pol_unc_lag2), the effect is not statistically significant for all model specifications, except for Model 5. The latter uses the political uncertainty and the interest rate as explanatory variables, with two quarters lag with respect to the dependent variable. In this case, if the political uncertainty recorded using two quarters lag is higher than the average political uncertainty, there is an average increase of + 9.96 listed companies. The effect is significant at the 5% level.

Consistently the results shown in Table 10 $(small\_cap)$, the interest rate has a negative impact on the number of companies listed on the market. The effect is statistically significant at the 1% level in controlling for both one quarter and two-quarters lag compared to the dependent variable.

Looking at the adjusted R-squared of the models, the independent variables explain more than fifty per cent of the variation in the dependent variable. The F-statistics are all significant, which means that at least one independent variable is statistically different from zero.

4.4. Results

In general, the data suggests a mixed effect of the government's political orientation and the impact on periods marked by greater policy related instability on the evolution of the Italian capital market.

Focusing on the large sized companies, both a left- and a right-wing government have a positive effect on the number of listed companies on the stock exchange compared to the independent case. An explanation would appear to be that political governments have a broader public

support and well-defined *ex-ante* agenda. They can easily introduce policies which enhance investor confidence while ensuring a greater stability in the economy. These are key factors in determining the market' attractiveness for large capitalisation companies, and thus leading to a positive effect on the number of listed large companies. Moreover, this effect is greater in the case of a right-wing government, probably due to its emphasis on market-oriented reforms such as deregulation, privatization efforts and tax cuts. These reforms promote a business-friendly environment while reducing bureaucratic burdens for listed companies.

In the case of small sized companies, the effect of a political government is the opposite compared to large companies. Whether the government is left- or right-wing oriented, leads to a reduction in the number of small capitalisation companies listed on the stock exchange compared to an independent government.

Overall, based on the data analysed, it is possible to conclude that an independent government has negative effect on the number of large capitalisation companies whereas it has positive impact on the small ones. The results are consistent in controlling for both one quarter and two-quarters lag compared to the dependent variable.

An independent government is generally less subject to the influence of large corporations. Therefore, it gives rise to the opportunity to focus on creating of a level playing field, fostering entrepreneurship and fair competition while providing incentives for the growth of small businesses. At the same time, an independent government can support financial inclusion by promoting alternative financing mechanisms for small businesses, such as venture capital investment. All these initiatives may encourage small capitalisation companies to pursue a listing on the stock exchange. On the other hand, given the unpredictability of policy outcomes, large capitalisation companies perceive a higher degree of regulatory uncertainty in times characterised by independent governments, thus discouraging stock market listing.

Focusing on the impact of periods characterised by above-average political uncertainty, the effect is consistent with the findings emerging from the analysis in Chapter 3. Specifically, an independent government is associated with a greater recorded political instability compared to a political government (i.e., left- or right-wing). The effect is consistent in controlling for zero lag, one quarter and two-quarters lag compared to the dependent variable. Consequently, periods marked by a higher political uncertainty are associated with an increase in the number of listed small capitalisation companies. These results are consistent from the presence of an independent government, typically in office during periods of high political uncertainty.

Looking at the cost of financing, an increase in the interest rate has a positive effect on the number of large capitalisation companies, while the opposite is true for small companies. The

effect is consistent in controlling for both one quarter and two-quarters lag. Periods of rising interest rate signal more restrictive monetary policies by the central bank. In this context, fixed-income investments such as government bonds increase their appeal compared to equity investments. Nevertheless, large capitalisation companies can still be considered an attractive option from an investor's point of view to satisfy the equity portion of its portfolio. Large companies are indeed characterised by a more stable performance and a reliable dividend history than small companies. Moreover, large companies have greater bargaining power vis-à-vis lenders due to their size and established relationships. Overall, large companies have a competitive advantage in facing a rising interest rate environment compared to the small capitalisation companies. During these periods, the latter face higher volatility and liquidity risks, given their greater reliance on borrowing to fund both their working capital needs and growth initiatives. As a result, investors are reluctant to buy small companies in a rising interest rate environment, leading to a decline in the prices of small capitalisation companies. This, in turn, determines the negative effect on the number of listed small companies when interest rates rise.

A concern when conducting this analysis is that the results are only driven by the legislator's criteria in reclassifying market segments over the time span considered rather than a real effect of the explanatory variables used. In this respect, the same analysis is also carried out on the total number of companies listed on the market. The findings seem to support the above concern.

Focusing on the total number of listed companies as dependent variable, the government's orientation does not have a significant impact on the development of the Italian stock market. Moreover, the absence of significance is also confirmed by including periods of high policy related uncertainty as explanatory variable. On the other hand, a rising interest rate environment has a significant negative effect on the number of listed companies. The results are consistent in controlling for both one quarter and two-quarters lag.

These findings seem reasonable for the following reasons. First, as extensively analysed in Chapter 3, the electoral system in Italy does not seem to guarantee a stable majority. Consequently, the Italian government is generally characterised by short – lived terms, with frequent changes in the key Ministers who constitute the Council of Ministers, thus undermining its capacity to implement reforms that can effectively influence the stock market development. The inability of a political government, whether left- or right-wing oriented, to influence the stock market evolution is evident from the lack of statistical significance in the regression analysis.

Second, it is reasonable to assume that a rising interest rate environment leads to a reduced number of listed companies on the stock exchange. As implied by the Capital Asset Pricing Model (CAPM), an increase in the risk-free rate determines a rising expected returns for investors, implying discounted equity valuation. As a result, the attractiveness of going public in a rising interest rate environment sharply decreases. Moreover, the increased price volatility implied is an undesirable outcome for many companies.

This empirical analysis reaches an important conclusion about the impact of the government' political orientation on the evolution of the Italian stock exchange.

Further analysis needs to be considered to understand whether the effect differs among large sized versus small sized companies. It is necessary to associate each company to its specific size group (e.g., large, medium, or small capitalisation) using the actual market capitalisation at the end of each quarter. Greater accuracy may define the limits of belonging to each size category considering the average increase in stock market capitalisation over the period analysed. The legislator's criteria in reclassifying market segments introduces some distortions in the analysis and prevents a holistic understanding of the phenomenon.

Chapter 5. Italian Government's Orientation and the Companies' Decision to Delist

This chapter contributes to the current literature on voluntary delisting by relating the decision of firms to go private to the government's political orientation, by focusing on the Italian case. The objective is to identify the possible impact of the Italian government's political orientation on the delisting phenomenon from 2000 to 2022. Specifically, the aim is to analyse the delistings classified as "voluntary", in which the companies judged the Italian capital market as inadequate. Furthermore, the research analyses whether the effect differs depending on the subject that undertakes the decision: namely, the controlling shareholder or an external bidder. The delisting phenomenon and the classification used in the empirical analysis is presented in Chapter 2.3 and 2.4 of this paper. Chapter 5 presents the description of the data collection and the methodology used for the empirical analysis. In addition, it shows some descriptive statistics on the type of majority shareholder that on average decides to exit the stock market in the case of voluntary delisting performed by the controlling shareholder. On the other hand, it analyses the type of investor (strategic or financial) that on average undertakes the choice in the case of voluntary delisting following an external acquisition. The chapter concludes with a commentary on the results.

5.1. Data Collection

The data used in this section include the number of voluntary delistings from the Milan stock exchange, information on the Italian government, the IT-EPU (news-based index) and the yield to maturity of the ten years BTP. The dataset covers the period from 2000 to 2022 and includes 92 observations based on quarterly data.

Data on delistings are initially hand-collected from the Borsa Italiana website. However, Borsa Italiana's delisting list contains all the delistings that occurred during the analysed period. Therefore, to obtain the necessary information for the purposes of this analysis, the following steps are performed. First, based on the macro-categorisation carried out by Borsa Italiana, all delisting cases not relevant for the scope of the analysis are eliminated from the count. In particular, the following categories are excluded: liquidation, absence of listing requirements, change of segment, shares conversion and business combinations. After the first screening, the remaining delistings relate to one of the following categories: intercompany transaction, external entity acquisition and controlling shareholder decision. However, to achieve this categorisation, it is necessary to analyse the tender offer document and the last published

shareholding structure before the decision to delist. Both documents are gathered from the Consob website. In this way, it can be understood whether the acquiring entity refers to an external entity or is the controlling shareholder itself. In addition, it is necessary to eliminate all cases in which the company is still listed in the Italian stock market from a practical point of view. More specifically, either it is listed as a division of the parent company (Intercompany transaction – IT Listed) or as a division of its offeror (External Acquisition – IT Listed). Figure 11 represents the delisting categories used in the analysis. Details are given in Chapter 2.4.

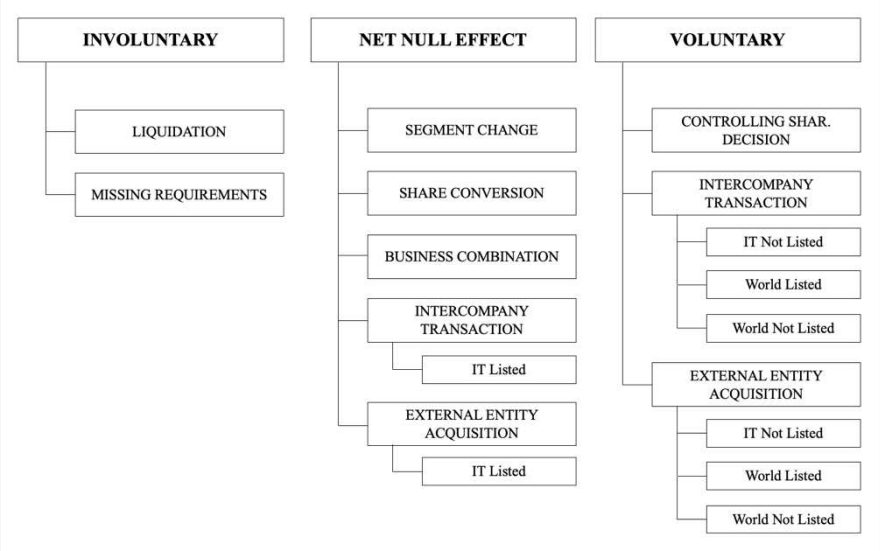

Figure 11: Delisting Categories used in the Empirical Analysis.

5.2. Variables Definition and Descriptive Statistics

The voluntary delistings analysed include the following categories: controlling shareholder decision, intercompany transaction (IT not listed, world listed, and world not listed), and acquisition by an external entity (IT not listed, world listed, and world not listed).

The distinction between transactions undertaken by an external entity and those performed by the controlling shareholder is based on the analysis of each individual delisting document. The category "External Bidder" (ext_bid) includes all the cases where the offeror is characterised by a different control group compared to the one of the target company. In these cases, the target company is delisted through a merger with the bidder or because the latter decides not to restore sufficient free float capital after the takeover bid. The category "Controlling Shareholder" ($contr\_shar$), on the other hand, includes all cases that reflect the majority shareholder's strategic choice. The controlling shareholder can be an individual, a family, a financial or strategic investor, or the parent company itself. The key point is that the acquiring entity is characterised by the same control group as the target company.

Figure 16 shows the evolution of the number of voluntary delistings from the Italian stock market, divided between those performed by an external bidder and those undertaken by the controlling shareholder.

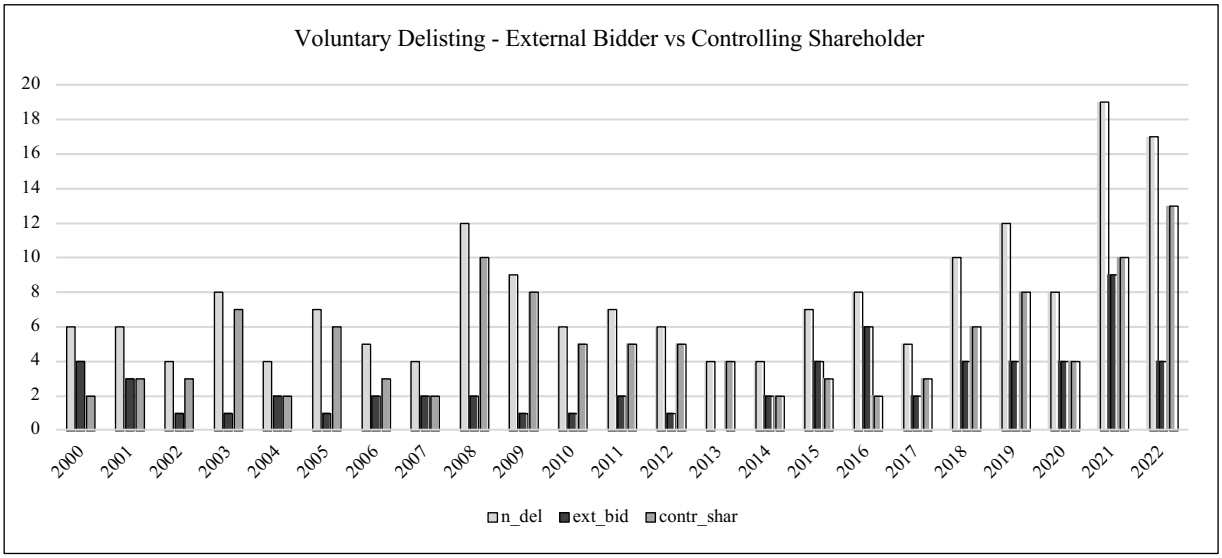

Figure 16: Number of Voluntary Delistings – External Bidder vs Controlling Shareholder. Data: Borsa Italiana, CONSOB. Note: The categories "External Bidder", and "Controlling Shareholder" were reclassified by analysing each case individually.

The graph shows that starting from 2017, the number of delistings undertaken by the majority shareholders is increasing, from three in 2017 to thirteen delistings in 2022. As shown by table 12, on average, there are 8 voluntary delistings per year, with a record high of 19 in 2021.

Variable	Mean	Standard Deviation	P25	Median	P75
n_del	8	4	4	7	19
ext_bid	3	2	0	2	9
contr_shar	5	3	2	4	13

Table 12: Voluntary delistings summary statistics. Yearly observations, sample period from 2000 to 2022.

The political orientation of the government is computed using the procedure explained in Chapter 3. Moreover, variables with monthly observations (i.e., the EPU index and interest rates) are transformed into quarterly data based on the average of the same month and the two previous ones (details in Chapter 3).

In this section, the focus is on the effect of above-average political instability on the evolution of the Italian stock market. For this reason, the variable (pol_unc) is defined as a dummy variable that takes the value of one, if the policy uncertainty recorded in the quarter is greater than the average of the EPU index in the period analysed (2000 – 2022), and zero otherwise.

Table 13 lists the variables used in the empirical analysis (Chapter 5.3).

Variable	Definition
n_del	Total number of voluntary delistings from the Milan Stock Exchange (quarterly data). Categories included: controlling shareholder decision, intercompany transaction (excluding IT listed) and external entity acquisition (excluding IT listed).
ext_bid	Total total number of voluntary delistings performed by an external entity (quarterly data). Categories included: external entity acquisition (excluding IT listed).
contr_shar	Total total number of voluntary delistings performed by the controlling shareholder (quarterly data). Categories included: controlling shareholder decision, intercompany transaction (excluding IT listed).
gov_I	Categorical variable, it takes 1 if the % of independent ministers over the total number of ministers >= 37%; 0 otherwise.
gov_L	Categorical variable, it takes 1 if the % of left-wing ministers over the total number of ministers >= 37%; 0 otherwise.
gov_R	Categorical variable, it takes 1 if the % of right-wing ministers over the total number of ministers >= 37%; 0 otherwise.
int	Yield on the Italian 10 year BTP, quarterly data based on the average of monthly data: Q1(Jan-Mar), Q2(Apr-Jun), Q3(Jul-Sept), Q4(Oct-Dec).
pol_unc	Dummy variable, it takes 1 if the EPU index (as quarterly data based on the average of monthly data) is higher than the average of the EPU index measured from 2000 to 2022; 0 otherwise.

Table 13: Definition of variables used in the Empirical Analysis (Chapter 5.3).

In the empirical analysis proposed in Chapter 5.3, it is necessary to assume a time lag between the explanatory variables and the dependent variable (i.e., n_del, ext_bid, and $contr\_shar$) measuring the number of delistings from the Milan stock exchange.

In the sample analysed, the average time between the first public manifestation of the willingness to delist the company from the market and the actual delisting is 171 days. The signing of the investment agreement and the bidder's approval of the promotion of the offer is considered the first public manifestation of the intention to delist the company from the stock exchange. For this reason, the models use different lags in the independent variables to account for the time elapsed between the public intention to delist the firm and the actual delisting. Despite the introduced lags, the definition of the variables remains unchanged from that shown in Table 13. Specifically, by introducing one lag in the independent variables, the data will refer to the previous quarter compared to the dependent variable. Similarly, if two lags are introduced in the independent variable, the data will refer to two quarters earlier than the dependent variable (details in Chapter 3.3).

5.3. Methodology

The analysis examines the influence of the Italian government's orientation and the impact of periods characterised by higher-than-average political instability on the voluntary decision of firms to delist from the Milan stock exchange. Similarly to the empirical analysis in Chapter 4.3, three model specifications are used to analyse both the effect of each variable separately (government orientation and policy related instability) and their combined effect on the delisting phenomenon.

First, the analysis is carried out on the total number of voluntary delistings occurred over the sample period (Table 14, Panel A). Second, the analysis tries to understand whether the effect

differs between delistings undertaken by an external entity (Table 15, Panel B) compared to those performed by the controlling shareholder (Table 16, Panel C). Given the above considerations on the timing passing between the intention to delist the company from the stock market and the effective delisting, the impact is computed introducing both one-quarter and two quarter-lags in the independent variables with respect to the dependent variable.

5.3.1. Voluntary Delistings

Models 1, 2, and 3 introduce one quarter lag in the independent variables with respect to the dependent variable.

Model 1 examines the influence of the Italian government's orientation on the total number of voluntary delistings occurred over the sample period.

$$(1) \quad n\_del_t = \alpha + \beta_1(gov_{t-1} = L) + \beta_2(gov_{t-1} = R) + \gamma int_{t-1} + \varepsilon_t$$

where *t* indexes time, the number of voluntary delisting (n_del) is the dependent variable, and the government orientation (gov) is a categorical variable with three levels (independent, left and right). The independent case is the reference category included in the intercept. The interest rate (int) is used as a control variable.

The intercept (α) includes the effect of an independent government ($gov_t = I$) category, which is the base category in this model. The coefficients fβ_1 ($gov_t = L$) and β_2 ($gov_t = R$) indicate the difference in the number of large-cap companies between the "gov_R" and "gov_I" categories and between the "gov_L" and "gov_I" categories, respectively.

Model 2 examines the influence of periods characterized by above-average political instability on the total number of voluntary delistings occurred over the sample period.

$$(2) \quad n\_del_t = \alpha + \beta pol\_unc_{t-1} + \gamma int_{t-1} + \varepsilon_t$$

where *t* indexes time, the total number of voluntary delisting (n_del) is the dependent variable, and the political uncertainty (pol_unc) is a dummy variable that takes one if the policy related instability recorded is higher than the average of the EPU index over the sample period considered (2000 – 2022). The interest rate (int) is used as a control variable.

Model 3 examines the combined effect of these variables on the total number of voluntary delistings occurred over the sample period.

$$(3) \quad n\_del_t = \alpha + \beta gov_{t-1} + \gamma pol\_unc_{t-1} + \delta int_{t-1} + \varepsilon_t$$

Models 4, 5, and 6 introduce two quarters lag in the independent variables with respect to the dependent variable.

$$(4) \quad n\_del_t = \alpha + \beta_1(gov_{t-2} = L) + \beta_2(gov_{t-2} = R) + \gamma int_{t-2} + \varepsilon_t$$

$$(5) \quad n\_del_t = \alpha + \beta pol\_unc_{t-2} + \gamma int_{t-2} + \varepsilon_t$$

$$(6) \quad n\_del_t = \alpha + \beta_1(gov_{t-2} = L) + \beta_2(gov_{t-2} = R) + \gamma pol\_unc_{t-2} + \delta int_{t-2} + \varepsilon_t$$

Table 14 shows the estimation results. Standard errors are calculated using the Newey – West estimator, which is robust to both autocorrelation and heteroscedasticity of the error term.

In Models 1 and 3, the intercept represents the expected value of the number of voluntary delistings when the government in office in the previous quarter is independent, and all other variables are equal to zero. Models 4 and 6 refer to the government in office in the previous two quarters. In all cases, the intercept is statistically significant at the 1% level.

The coefficients for (gov_lag1L) and (gov_lag1R) represent the difference in the number of voluntary delistings with left- and right-wing governments in the previous quarter, respectively, compared to the case of an independent government.

OSL Regressions						
PANEL A: Voluntary Delistings						
Variables	**(1) n_del**	**(2) n_del**	**(3) n_del**	**(4) n_del**	**(5) n_del**	**(6) n_del**
(Intercept)	4.55 **	2.95 **	4.46 **	3.96 **	3.19 **	3.99 **
	(0.63)	(0.51)	(0.65)	(0.64)	(0.46)	(0.60)
gov_lag1L	-1.66 **		-1.63 **			
	(0.55)		(0.56)			
gov_lag1R	-1.13		-1.09			
	(0.60)		(0.60)			
int_lag1	-0.38 **	-0.31 **	-0.38 **			
	(0.11)	(0.12)	(0.11)			
pol_unc_lag1		0.27	0.14			
		(0.35)	(0.31)			
gov_lag2L				-0.86		-0.87
				(0.54)		(0.53)
gov_lag2R				-0.66		-0.67
				(0.54)		(0.53)
int_lag2				-0.37 **	-0.35 **	-0.37 **
				(0.12)	(0.12)	(0.12)
pol_unc_lag2					0.02	-0.04
					(0.3)	(0.29)
Adj.R2	0.19	0.09	0.18	0.13	0.11	0.12
F.Stat	8.11	5.23	6.09	5.27	6.27	3.91
N.Obs	91	91	91	90	90	90

Table 14: OSL Regression. Panel A: Voluntary Delistings. Estimated coefficients are from least square regressions. Sample period is from 2000 to 2022. The dependent variable is the total number of voluntary delistings from the Milan stock exchange. In columns (1), (2) and (3), the independent variables have one quarter lag. In columns (4), (5) and (6), the independent variables have two quarters lag. Standard errors shown in brackets are calculated using the Newey – West estimator. **, *, indicate significance at the 1% and 5% levels, respectively.

Overall, it is possible to say that left-wing government have a negative effect of the number of voluntary delistings with respect to the independent case, only controlling for one quarter lag (gov_lag1L, Models 1 and 3), statistically significant at the 1% level. For example, focusing on Model 1, if the government in office in the previous quarter is left-wing oriented, the number of voluntary delistings decreases on average by – 1.66 units, compared to the case of an independent government.

In all the other model specifications, both a left- and a right-wing government (both in controlling for one and two quarters lag) do not show a statistically significant effect on the number of voluntary delisting. The result is consistent in controlling for both one quarter and two quarters lag.

The interest rate has a significant positive negative effect on the number of voluntary delistings. The impact is consistent across all the models and statistically significant at the 1% level. Nevertheless, the coefficient estimates are below the unit. Therefore, the interest rate variable has a minor influence on the variable object of study.

Models 2, 3, 5, and 6 introduce the impact of above-average political uncertainty as additional explanatory variables. However, the variable measuring the impact of political instability does not have a statistically significant effect in any of the models.

Looking at the adjusted R-squared of the models, the independent variables explain a tiny portion of the variance of the dependent variable. The F-statistics are all statistically significant, which means that at least one independent variable is statistically different from zero.

5.3.2. Voluntary Delisting Performed by an External Entity

The same analysis is carried out separately for the delistings undertaken by an external entity and for those performed by the controlling shareholder.

The model specifications are the same as shows for the previous set of regressions (Table 14). In Panel B, the dependent variable is the number of voluntary delistings undertaken by an external entity (ext_bid), in which the offeror has a different control group compared to the one of the target company.

Table 15 shows the estimation results for Panel B. Standard errors are calculated using the Newey – West estimator.

OSL Regressions						
PANEL B: Voluntary Delistings Performed by an External Bidder						
Variables	**(1) ext_bid**	**(2) ext_bid**	**(3) ext_bid**	**(4) ext_bid**	**(5) ext_bid**	**(6) ext_bid**
(Intercept)	1.72 **	1.51 **	1.75 **	1.48 **	1.52 **	1.43 **
	(0.47)	(0.29)	(0.50)	(0.33)	(0.27)	(0.34)
gov_lag1L	-0.27		-0.28			
	(0.34)		(0.35)			
gov_lag1R	-0.39		-0.40			
	(0.29)		(0.30)			
int_lag1	-0.21 **	-0.23 **	-0.21 **			
	(0.07)	(0.07)	(0.07)			
pol_unc_lag1		-0.01	-0.04			
		(0.15)	(0.16)			
gov_lag2L				0.06		0.08
				(0.22)		(0.23)
gov_lag2R				-0.10		-0.08
				(0.20)		(0.21)
int_lag2				-0.22 **	-0.25 **	-0.22 **
				(0.07)	(0.06)	(0.07)
pol_unc_lag2					0.08	0.08
					(0.15)	(0.16)
Adj.R2	0.18	0.16	0.17	0.19	0.19	0.18
F.Stat	7.47	9.99	5.56	7.92	11.68	5.95
N.Obs	92	92	92	92	92	92

Table 15: OSL Regression. Panel B: Voluntary Delistings Performed by an External Bidder. Estimated coefficients are from least square regressions. Sample period is from 2000 to 2022. The dependent variable is the total number of voluntary delistings performed by an External Bidder from the Milan stock exchange. In columns (1), (2) and (3), the independent variables have one quarter lag. In columns (4), (5) and (6), the independent variables have two quarters lag. Standard errors shown in brackets are calculated using the Newey – West estimator. **, *, indicate significance at the 1% and 5% levels, respectively.

The intercept represents the expected value of the number of voluntary delistings made by an external bidder when all other variables are equal to zero. It is statistically significant at the 1% confidence level in all model specifications.

However, neither the government's political orientation nor the period of above-average political uncertainty has a statistically significant impact on the dependent variable in any of the model specifications. The result is consistent in controlling for both one quarter and two quarters lag.

The interest rate is the only statistically significant explanatory variable, with a negative impact on the number of delisting undertaken by an external entity. The effect is the same both introducing one quarter and two quarter lags in the independent variable.

Looking at the adjusted R-squared of the models, the explanatory variables account for approximately 20% of the variation of the dependent variable. The F-statistics are all statistically significant.

5.3.3. Voluntary Delisting Performed by the Controlling Shareholder

In Panel C (Table 16), the dependent variable is the number of voluntary delisting undertaken by the controlling shareholder ($contr\_shar$) from 2000 to 2022.

OSL Regressions						
PANEL C: Voluntary Delistings Performed by the Controlling Shareholder						
Variables	**(1) contr_shar**	**(2) contr_shar**	**(3) contr_shar**	**(4) contr_shar**	**(5) contr_shar**	**(6) contr_shar**
(Intercept)	2.83 **	1.44 **	2.71 **	2.35 **	1.68 **	2.45 **
	(0.49)	(0.36)	(0.43)	(0.70)	(0.42)	(0.66)
gov_lag1L	-1.39 **		-1.35 **			
	(0.47)		(0.45)			
gov_lag1R	-0.76		-0.71			
	(0.50)		(0.48)			
int_lag1	-0.17 *	-0.08	-0.17 *			
	(0.08)	(0.09)	(0.08)			
pol_unc_lag1		0.29	0.2			
		(0.28)	(0.24)			
gov_lag2L				-0.78		-0.81
				(0.57)		(0.57)
gov_lag2R				-0.37		-0.42
				(0.52)		(0.52)
int_lag2				-0.16	-0.1	-0.16
				(0.10)	(0.11)	(0.10)
pol_unc_lag2					-0.11	-0.16
					(0.26)	(0.26)
Adj.R2	0.13	0.01	0.13	0.04	0.00	0.03
F.Stat	5.65	1.23	4.4	2.12	0.91	1.69
N.Obs	92	92	92	92	92	92

Table 16: OSL Regression. Panel C: Voluntary Delistings Performed by the Controlling Shareholder. Estimated coefficients are from least square regressions. Sample period is from 2000 to 2022. The dependent variable is the total number of voluntary delistings performed by the Controlling Shareholder from the Milan stock exchange. In columns (1), (2) and (3), the independent variables have one quarter lag. In columns (4), (5) and (6), the independent variables have two quarters lag. Standard errors shown in brackets are calculated using the Newey – West estimator. **, *, indicate significance at the 1% and 5% levels,

The model specifications are the same as shows for the previous set of regressions (Table 14). Standard errors are calculated using the Newey – West estimator.

The intercept represents the expected value of the number of voluntary delistings performed by the controlling shareholder when all other variables are equal to zero. It is statistically significant at the 1% confidence level in all model specifications.

Regarding Models 1 and 3, if the government in office in the previous quarter is a left-wing oriented (gov_lag1L), the number of delistings recorded decreases compared to the case of an independent government. The impact is statistically significant at the 1% level. On the contrary, a right-wing government (gov_lag1R) does not have a statistically significant impact in both Models 1 and 3.

In all the model specifications, a period characterised by greater political instability does not have any effect on the dependent variable.

By introducing two lags in the independent variable compared to the dependent one, none of the coefficients are statistically significant.

Looking at models 2, 4, 5, and 6, the adjusted R-squared is almost zero, suggesting that these models have almost no explanatory power. In addition, F-statistics are not statistically

significant at the 5% level, which means that it is not possible to say that the coefficients are not equal to zero. Consequently, only models 1 and 3 can be interpreted.

5.4. Descriptive Statistics on Ownership Structure

Table 17 shows some statistics on the type of controlling shareholder triggering the decision to exit the market. Table 17 refers exclusively to cases of delisting undertaken by the controlling shareholder, i.e., the majority shareholder prior to delisting is the same one who controls the company once it has exited the market.

The mean market refers to the average per cent of free-floating capital reported in the half-yearly report closest to the first public manifestation of the intention to exit the stock exchange. The controlling family determines the decision to exit the market in thirty per cent of the cases. The "Individual/s" category accounts for the twenty per cent and includes all cases where the controlling shareholder is either a single individual (natural person) or multiple individuals belonging to different families. The "Parent Company" category accounts for the fifteen per cent of the total and includes all the cases reclassified as Intercompany Transaction in the previous steps.

In some cases, control is attributable to a strategic investor together with a financial investor (e.g., "Individual & Financial Investor, etc.). Generally, each party retains fifty per cent of the ownership after the going-to-private transaction.

Voluntary Delistings Performed by the Controlling Shareholder

	Total			MTA/EXM			AIM ITALIA/MAC/EGM		
Type	**N**	**%**	**Mean Market**	**N**	**%**	**Mean Market**	**N**	**%**	**Mean Market**
Family	34	29.3%	29.4%	32	29.9%	29.7%	2	22.2%	21.4%
Individual/s	23	19.8%	30.4%	19	17.8%	31.2%	4	44.4%	22.5%
Parent Company	17	14.7%	33.0%	17	15.9%	33.0%	0	-	-
Financial Investor	15	12.9%	32.1%	15	14.0%	32.1%	0	-	-
Corporate	11	9.5%	21.7%	8	7.5%	25.3%	3	33.3%	3.7%
Individual & Financial Investor	8	6.9%	31.4%	8	7.5%	31.4%	0	-	-
Family & Financial Investor	3	2.6%	23.4%	3	2.8%	23.4%	0	-	-
Corporate & Financial Investor	3	2.6%	31.9%	3	2.8%	31.9%	0	-	-
Government	2	1.7%	7.6%	2	1.9%	7.6%	0	-	-
Total	116	100%	-	107	100%	-	9	100%	-
Missing Observations			9			4			5

Table 17: Descriptive Statistics on Voluntary Delistings Performed by the Controlling Shareholder. Data: Borsa Italiana, CONSOB, tender offer document for each case. Note: Mean Market refers to the average (%) of free-floating capital reported in the half-yearly report closest to the first public manifestation of the intention to exit the stock exchange. Missing Observations refers to the number of companies for which it has not been possible to collect the percentage of free-floating capital.

Table 18 shows some statistics on the type of investor, strategic or financial, that perform the delisting in the cases reclassified as external acquisition. In these cases, the bidder's controlling shareholder differs from the target's majority shareholder prior to delisting. A strategic (industrial) investor is typically a company that acquire another business to create potential synergies while realizing competitive advantages. On the other hand, a financial investor primarily focuses on financial return generation.

Voluntary Delistings Performed by an External Bidder									
	Total			MTA/EXM			AIM ITALIA/MAC/EGM		
Type	N	%	Mean Market	N	%	Mean Market	N	%	Mean Market
Industrial Investor	41	66.1%	33.4%	30	62.5%	34.4%	11	78.6%	30.8%
Financial Investor	19	30.6%	42.3%	16	33.3%	46.6%	3	21.4%	22.3%
Industrial & Financial Investor	2	3.2%	25.9%	2	4.2%	25.9%	0	0.0%	0.0%
Total	62	100%	-	48	100%	-	14	100%	-
Missing Obs			10			8			2

Table 18: Descriptive Statistics on Voluntary Delistings Performed by an External Bidder. Data: Borsa Italiana, CONSOB, tender offer document for each case. Note: Mean Market refers to the average (%) of free-floating capital reported in the half-yearly report closest to the first public manifestation of the intention to delist the company. Missing Observations refers to the number of companies for which it has not been possible to collect the percentage of free-floating capital.

An industrial investor triggers the target company acquisition and subsequent delisting in more than sixty per cent of the cases. In the alternative market, it is responsible for about eighty per cent of delistings undertaken by an external bidder.

5.5. Results

In general, the government's orientation and periods of above-average political uncertainty are not significant in explaining the variation in the number of delisting recorded over the period. The result is consistent in controlling for both one quarter and two quarters lag in the independent variables.

In some cases, a left-wing government determines a reduction in the number of delistings considering as a dependent variable both the total number of voluntary delisting and those undertaken by the controlling shareholder. The effect is statistically significant only including one period lag in the independent variable with respect to the dependent one.

Periods characterized by above-average political instability are not significant in any of the model specifications. Moreover, the inclusion of the political uncertainty as explanatory variable leads to a sharp decrease in the adjusted R-squared of the model. In some cases, the F-statistic is not significant at the 5% level, meaning that it is not possible to say that any of the coefficient is not different from zero.

The interest rate variable has a significant negative effect on the number of delisting, both introducing one quarter and two quarters lag with respect to the dependent variable. Nevertheless, this effect is not consistent across all model specifications when two quarters lag are included in the interest rate variable.

Overall, the Italian government, whether left- or right-wing oriented, appears not to directly influence the companies' delisting decision. The Italian electoral system does not ensure a stable majority due to the over reliance on coalition systems. As a result, the governments are typically short-lived, with frequent changes in the key Ministers who constitute the Council of Ministers. This in turn undermines the government ability to adopt reforms that might significantly reduce the flow of companies exiting the stock market.

Moreover, the delisting phenomenon is primarily driven by business decisions rather than government policies. Voluntary exit from the market is often a tool to undertake restructuring or major strategic shifts to the company's business model. These decisions are strongly influenced by factors that are not under the direct control of the government, such as market conditions and firm's profitability.

Furthermore, the government has a lower impact on the costs and benefits of being listed while a greater power is assigned to the stock exchange regulators (i.e., Borsa Italiana and CONSOB). These financial institutions, in fact, have the possibility to operate with a reasonable level of independence from the government. The independence is a key requirement for the proper functioning of these institutions, contributing to maintain the investors' confidence in the stock market integrity, credibility, and transparency.

Finally, delisting decisions can be very complex given the number of stakeholders involved. They frequently involve long term discussions and negotiation before finding an agreement. Long-term decisions made by companies regarding their listing status are generally based on business strategy consideration, the company's financial performance and the general market conditions (e.g., cost of funding, investors' sentiment). These elements tend to go beyond the mere change in the government orientation or policies.

To conclude, considering the points discussed above, it is reasonable that the Italian government's political orientation does not show a direct and immediate impact on the delisting phenomenon. Nevertheless, government can still indirectly influence the stock market through its policies and regulations affecting the general economy, the business and investment climate.

Conclusion

The present thesis has investigated how the Italian government's political orientation affects the stock market evolution and the companies' decision to delist from the Italian stock exchange. Although far from being conclusive, several important results have been obtained. In line with the main objective, it proposed the government's political orientation as a possible explanatory variable to understand the Italian stock market evolution and the delisting phenomenon. In addition, it has also explored the role played by periods characterised by above-average policy related uncertainty, as measured by the Italian Economic Policy Uncertainty (EPU) index.

The Italian government's political orientation, i.e., independent, left-wing, and right-wing, and its relationship to the recorded political uncertainty in the country were explored in Chapter 3. A government categorised as "independent" is associated with greater economic policy uncertainty. In contrast, regardless of the government's political orientation (i.e., left- or right-wing oriented), there is a consistent reduction in the economic policy instability compared to the case of an independent government. On the one hand, political parties extensively campaign on agendas, thus reducing the uncertainty in possible policy outcomes. On the other hand, independent governments are generally created in time of crisis, lacking a substantial support from the political parties. Consequently, policy outcomes are often unpredictable because they stem from *ad hoc* decisions in response to country-specific contingencies.

The Italian government's political orientation and its impact on the stock exchange evolution were explored in Chapter 4. Focusing on large sized companies, both a left- and a right-wing government have a positive effect on the number of listed companies on the stock exchange compared to an independent government. Equally the data suggest a greater positive effect in the case of a right-wing government, probably due to its emphasis on market-oriented reforms, aimed at promoting a business-friendly environment while reducing bureaucratic burdens for listed companies.

A political government, i.e., left- or right-wing oriented, shows a negative impact on the number of listed small companies compared to an independent government. An explanation would appear to be the lower influence exercised by large companies on an independent government composed of technicians or people who do not belong to the political sphere. Consequently, an independent government is generally more focused on creating a level playing field while incentivising the listing of small companies.

Nonetheless, the government's orientation does not have a statistically significant effect on the total number of listed companies. This conclusion would appear to support the limitation of this

analysis, namely the categorisation of companies into the large- or small-capitalisation groups, based on the legislator's criteria in reclassifying market segments. There is a suggestion that further analysis needs to be conducted to understand whether the effect differs among large sized versus small sized companies.

The Italian government's political orientation and its impact on the voluntary decision of firms to exit from the stock market were explored in Chapter 5. Based on the regression analysis, the Italian government, whether left- or right-wing oriented, has no direct influence on the companies' willingness to exit the stock market. An explanation would appear to be the fundamental driver of the voluntary delisting decision, namely the possibility to undertake companies' restructuring or major strategic shifts in the business models, reducing the amount of information publicly shared. These decisions are strongly influenced by factors such as market conditions and firm's profitability, which are not under the direct control of the government.

Generally, the Italian government appears not to have a strong influence neither on the stock exchange evolution nor on the voluntary decision of firms to exit the stock market. The electoral system in Italy does not seem to guarantee a stable majority, thus leading to short-lived governments, with frequent changes in the key Ministers who constitute the Council of Ministers. This sharply reduces the government's capacity to implement reforms that can effectively influence the stock market.

Despite the evident inability of the Italian government to significantly affect the stock market, it is important to acknowledge the indirect impact that policies and regulations have on the general economy, business, and investment environment. Understanding how these factors are connected to the stock market is a key prerequisite for creating an environment which promote the listing and the permanence in the stock exchange.

According to the report conducted by Oxera Consulting LLP (2020), the major areas of intervention to improve the EU capital market should include the reduction of the disclosure gap between public and private firms, the use of dual-class shares, the increased engagement of institutional investors in IPOs, and a wider participation of retailer investors in financial markets (Oxera Consulting, 2020). Focusing on the Italian case and considering the recent integration of Borsa Italian into the Euronext group, a comprehensive set of reforms should be promoted, including strengthening the relationship between enterprises and the capital market. Accordingly, removing regulatory constraints to market access and encouraging the channelling of savings to companies through the market seem crucial (MEF, 2022).

In conclusion, the present thesis has contributed to the understanding of the current impact of the Italian government's orientation on the stock market. Although the evidence is showing a little impact on the stock market from a statistical point of view, the implementation of a comprehensive regulation can strongly contribute to the growth of the Milan stock exchange. Nevertheless, the instability resulting from short-lived governments and frequent changes in key positions within the Council of Minister, drastically reduce the possibility of implementing reforms with a substantial impact on the stock market.

Importantly, a broader political reform targeting the electoral system could effectively reduce existing shortcomings, while allowing for long-term reforms, including those that could have a significant impact on the stock market. If both the reform of the electoral system and the regulatory aspects of the stock market could be satisfactorily addressed, then the Milan stock exchange would be able to catch up with the competitiveness of the European marketplaces.

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