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**THE MANAGEMENT OF INTEREST RATE RISK
DURING THE CRISIS: EVIDENCE FROM ITALIAN BANKS**

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Abstract

We use a unique dataset to analyse how Italian banking groups managed their exposure to interest rate risk during the recent financial crisis. First of all, we document that on average the interest rate risk exposure - measured by duration gap approach - has been limited and well below the alert level enforced by regulators. Second, our econometric results indicate a relation of substitutability between banks' on-balance-sheet interest rate risk and their use of interest rate derivatives suggesting that banks used these two instruments to curb their overall interest rate risk exposure in case of an increase in interest rates. Furthermore, we also find robust evidence of a negative correlation between banks' interest rate risk and liquidity risk.

JEL Classification: E43; G21

Keywords: interest rate risk, banks, financial crisis

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