BANCA D'ITALIA
EUROSISTEMA

New Research at the Bank of Italy

Number 15 – September 2009

Bank of Italy – Economics, Research and International Relations

Number 15
September 2009

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Highlights

On 10-11 September 2009 the Bank of Italy hosted the Conference "An Ocean Apart? Comparing Transatlantic Responses to the Financial Crisis" at its headquarters in Rome.

The conference was jointly organized by the Bank of Italy, Bruegel and the Peterson Institute for International Economics, with the support of the European Commission. The meeting invited policymakers and experts from central banks, academia and research centers in Europe and United States to share their views and insights on the current crisis in global financial markets, its impact on the real economy and the policy response confronting both sides of the Atlantic. This occasion also offered the opportunity to present ongoing research on these topics at the Bank of Italy.

The keynote address was delivered by Fabrizio Saccomanni, Director General of the Bank of Italy, who offered a historical perspective of transatlantic cooperation in crisis management. He emphasized the great history of dialogue and cooperation between Americans and Europeans, especially in time of crisis, despite the different institutional and economic settings and the rhetoric which highlights their diversity. (*see the article on page 2 of this newsletter*)

On 30 June - 1 July 2009 the Bank of Italy organized its second conference on "Macro modelling in the policy environment".

This year's topic was: *Economic policy design in times of global crisis*. The conference was convened to provide a forum to discuss a wide range of theoretical and empirical issues relating to the development of macro models with a focus on applications for current policy issues. The conference brought together academics and colleagues from central banks and other research centres. Ten papers were presented, divided up into three sessions.

The first session, with the title *Fiscal policy*, included three papers concerning the macroeconomic effects of fiscal policy measures. The first paper analysed the effects of investment tax incentives, such as expense allowances, in a general equilibrium model. (*see the article on page 3 of this newsletter*)

On 19-20 January 2010 the Bank of Italy will host the Second International Conference in memory of Carlo Giannini, "Time series econometrics and macroeconomic forecasting in a policy environment".

The deadline for submitting a paper is 30 October 2009. More details are available here.

November 27, 2009 is the application deadline for 4 Research Fellowships offered by the Bank of Italy to young economists (*see the notice on Bank of Italy internet web site for more information*)

(continued from page one) The first session (presentations by Gian Maria Milesi-Ferretti and Charles Steindel, discussions by Paolo Pesenti and Angel Ubide) focused on the underlying forces behind the crisis, its channels of transmission and its impact on the real economy and potential growth. Although global imbalances may have played a role, the initial transmission of the crisis came from and spread through financial sector linkages, which were also crucial in subsequent phases when the crisis extended to the real economy.

The second session (presentations by Joseph Gagnon, Mark Horton and Douglas Laxton, discussions by Stefan Gerlach, Heinz Herrmann and Roberto Perotti) dealt with monetary and fiscal policy responses as crisis management tools. During the crisis, central banks have pushed policy interest rates to historically low levels and implemented both traditional and nontraditional measures aimed at restoring liquidity to normal levels. The contribution of these actions in easing the economic and financial outlook was discussed thoroughly. The application of empirical policy rules à la Taylor seems to suggest that monetary policy is still too tight given the forecasts on GDP and a further monetary stimulus could be appropriate, especially in the euro area and Japan, where the approach has been less aggressive so far in pursuing nontraditional monetary policy to reduce longer-term rates. However, alternative indicators of the level of activity may provide different policy implications. The fiscal policy response has been sizeable, especially in the US and the UK, and is having an impact on fiscal positions in the G20 countries. Stimulus packages were larger in the U.S. and Germany, while the UK was more reliant on tax measures, which are expected to be reversed in 2010. Other countries gave a greater role to automatic stabilizers. In order for fiscal policy to return to a more sustainable path, an exit strategy needs to be planned ahead, but participants agreed that the time is not yet ripe for its implementation since economies are not yet out of recession.

The third session (presentations by Randall Kroszner and Jean Pisani-Ferry, discussion by Thomas Glaessner) focused on banking issues and financial stability. Despite the different institutional settings and economic structures in the US and Europe, policy responses on financial stability issues have so far been informed by pragmatism and have shown more commonalities than usually acknowledged. Traditional financial crisis tools for central bank policy such as open market operations and discount lending aimed at short-term financial support to banks were not sufficient at this juncture, and needed to be supplemented by nontraditional initiatives by expanding the type of counterparty receiving financial support, broadening the collateral required to receive financial support and lengthening its maturity. Dealing with banking crises turned out to be, not surprisingly, a challenging task, even more difficult in the European Union where responsibility is fragmented across the member states and the policy system is still evolving. Weak coordination among supervisory authorities, no explicit mandate to the ECB as lender of last resort and no EU competence for dealing with cross-border restructuring have all been shortcomings that contributed to the difficulties of national authorities in designing a consistent strategy.

The fourth session (presentations by Garry Schinasi and Paolo Angelini, discussions by Peter Garber, Hans-Helmut Kotz, Klaus Regling) looked into the adequacy of the existing system of regulation and supervision and its weaknesses, identified the lessons that can be drawn from supervisory and regulatory failures and discussed how European and American proposals of a new policy framework for the future compare in achieving the goal of providing greater resilience to the global financial system. The second paper in the session provided a general framework to analyse more comprehensively the allegedly larger pro-cyclicality effect of the capital regulation induced by Basel II compared with Basel I (finding an incremental but modest effect) and how higher capital requirements could help in smoothing out the cyclical effects of credit on GDP, consumption and investment. The macroeconomic costs of alternative countercyclical policy options were also assessed.

The conference concluded with a roundtable, chaired by Jean Pisani-Ferry, where Caroline Atkinson, Lorenzo Bini Smaghi, Marco Buti, Edwin Truman and Dave Ramsden built on the themes developed during the previous presentations and discussed the policy options and the challenges ahead for monetary policy and for reforms of the regulatory and supervisory framework of the financial system. (Francesco Lovecchio)

The conference programme and papers are available here

(*continued from page one*) The results suggest that expense allowances are a useful tool in supporting private investment and that, more generally, are more effective than alternative measures such as reductions in capital tax rates. The second paper presented estimates of fiscal multipliers using a calibrated general equilibrium model for the US and for the euro area. Based on the results, the size of the GDP multipliers appears to be significant, ranging from 0.5 per cent for temporary cuts in labour income taxes, to 1.4 per cent for temporary investment incentives. Finally, the third paper reconsidered the effect of fiscal policy on the trade balance and on the macro economy in an estimated open economy general equilibrium model for the euro area. The estimates suggest that both increases in spending and tax cuts have a negative effect on the trade balance, while fiscal multipliers on GDP appear to be between zero and 0.8 per cent for most fiscal shocks.

The second session, *Economic policy under zero lower bound*, included three papers addressing the issue of the implementation of policies and the effect of shocks when nominal interest rates are close to zero and cannot be further reduced. The first paper focused on the issue of the effectiveness of fiscal policy when the nominal interest rate has reached the zero bound. The results suggest that fiscal spending multipliers can be substantially higher in a liquidity trap relative to a normal situation, but only if a set of conditions on the way the fiscal policy is implemented are satisfied. A second paper assessed the effect on the US economy of external demand shocks when nominal short-term rates hit the zero bound. It showed that the inability of the monetary authority to further reduce the policy rate greatly amplifies the effect of the shock compared with situations where policy rates can be freely adjusted. A third paper dealt with the issue of whether monetary policy design would be affected by the possibility of reaching the zero bound. The paper argued that risk-premium shocks have been very significant in the past and can drive the nominal rate to zero and therefore the possibility of hitting the zero bound should be taken into account in shaping the design of a monetary policy strategy.

The third session, devoted to *Credit frictions*, focused on the issue of frictions in financial markets and their role in the propagation of shocks at the macroeconomic level. Four papers were presented, the first of which introduced collateralized lending in an otherwise standard Real Business Cycle model in order to support the relative importance of real and financial shocks. It concluded that the data actually confirm the important role of credit shocks in partly explaining the last three US recessions. The second paper addressed the issue of the optimal design of policy in the presence of sudden stops, that is sudden and large reversals in private international capital flows to emerging economies. It showed that the optimal policy outside the crisis period should be non-interventionist, while policymakers should intervene aggressively to stimulate output when the reversal occurs. The third paper introduced a banking sector in a standard general equilibrium model and explained how accounting explicitly for the balance sheet position of banks in this type of model is important for aggregate fluctuations. Finally, the last paper analysed how firms' borrowing constraints - that can become binding in an uncertain world - would affect the investment decisions of firms and hence aggregate investment. The paper argued that firms adjust the composition of investment towards less risky projects so as to avoid becoming credit constrained. (Lorenzo Forni)

The Conference programme, papers, presentations and discussions are available here

Latest working papers

No. 714: The retail activity of foreign banks in Italy: effects on credit supply to households and firms

Luigi Infante and Paola Rossi

This paper investigates the effects of the increasing activity of foreign banks in Italy, distinguishing between credit granted to households and firms. Foreign banks display a differentiated degree of business expansion across the provinces, we exploit this variability to measure how foreign banks affect competition and test it with reference to: i) a market share instability index ; ii) interest rates; iii) the collateral requested. Our results, over the period 1997-2006, show that an increase in foreign intermediaries' market share leads to a less stable market share index. As for mortgage loans to households, this enhanced competitive pressure implies a reduction in the average interest rate applied and an increase in the loans granted with respect to collateral. We do not find a significant impact on the average interest rate conditions applied to firms, although, in the most recent period, a reduction in the collateral on loans with longer maturity has emerged. (full pdf text - only in Italian)

No. 715: Firm heterogeneity and comparative advantage: the response of French firms to the entry of Turkey in the European Customs Union

Ines Buono

I analyse the effects of a reduction in the tariffs of a trading partner on the exports of domestic firms. More precisely, I focus on how cross-industry differences in factor intensities and within-industry differences in firm productivities shape the response of the extensive (decision to export) and the intensive (exported volumes per firm) margins of exports. I examine the response of French firms to the reduction of Turkish import tariffs that followed the entry of Turkey into the European Customs Union in 1996. A reduction in tariffs increases the probability to export and, surprisingly, the effect is stronger in comparatively disadvantaged sectors. I provide a possible explanation using a partial equilibrium model which includes firm-level heterogeneity and sector-level comparative advantage. In this model, as trade partner tariffs fall, the productivity threshold separating exporters from non-exporters decreases more in comparatively disadvantaged sectors. This occurs because, even if the productivity threshold to enter the export market falls in the same proportion as tariffs in all sectors, its level was initially higher in comparatively disadvantaged ones. (full pdf text)

No. 716: The euro and firm restructuring

Matteo Bugamelli, Fabiano Schivardi and Roberta Zizza

We test whether and how the adoption of the euro, narrowly defined as the end of competitive devaluations, has affected member states' productive structures, distinguishing between within and across sector reallocation. We find evidence that the euro has been accompanied by a reallocation of activity within rather than across sectors. Since its adoption, productivity growth has been relatively stronger in country-sectors that once relied more on competitive devaluations to regain price competitiveness. This effect is robust to potential omitted-variable bias and correlated effects. Firm-level evidence from Italian manufacturing confirms that low-tech businesses, which arguably benefited most from devaluations, have been restructuring more since the adoption of the euro. Restructuring has entailed a shift of business focus from production to upstream and downstream activities, such as product design, advertising, marketing and distribution, and a corresponding reduction in the share of blue collar workers. (full pdf text)

No. 717: When the highest bidder loses the auction: theory and evidence from public procurement

Francesco Decarolis

In this paper I study two methods often used in public procurement to deal with the risk that the winning bidder may default on his bid: augmenting the standard first price auction with an ex-post verification of the responsiveness of the bids and using an average bid auction. I show that when penalties for defaulting are asymmetric across bidders and when their valuations are characterized by a predominant common component, the average bid auction is preferred over the standard first price by an auctioneer when the costs due to the winner's bankruptcy are high enough. Depending on the cost of the ex-post verification, the average bid auction can be dominated by the first price with monitoring. I use a new dataset of Italian public procurement auctions, run alternately using a form of the average bid auction or the augmented first price, to structurally estimate the bids' verification cost, the firms' mark up and the inefficiency generated by the average bid auctions. (full pdf text)

No. 718: Innovation and productivity in SMEs. Empirical evidence for Italy

Bronwyn H. Hall, Francesca Lotti and Jacques Mairesse

Innovation in SMEs exhibits some peculiar features that most traditional indicators of innovation activity do not capture. Therefore, in this paper, we develop a structural model of innovation which incorporates information on innovation success from firm surveys along with the usual R&D expenditures and productivity measures. We then apply the model to data on Italian SMEs from the "Survey on Manufacturing Firms" conducted by Mediocredito-Capitalia covering the period 1995-2003. The model is estimated in steps, following the logic of firms' decisions and outcomes. We find that international competition fosters R&D intensity, especially for high-tech firms. Firm size, R&D intensity, along with investment in equipment enhances the likelihood of having both process and product innovation. Both these kinds of innovation have a positive impact on firm's productivity, especially process innovation. Among SMEs, larger and older firms seem to be less productive. (full pdf text)

No. 719: Household wealth and entrepreneurship: is there a link?

Silvia Magri

In the absence of any correlation between wealth and entrepreneurial talent, initial net wealth should have an explanatory power in the decision to become an entrepreneur only for households that are financially constrained; further, its importance should decrease with wealth. I test these theoretical predictions for the Italian case, using the Survey of Household Income and Wealth. The evidence is that household's initial wealth is indeed important in the decision to become an entrepreneur and its effect is lower for the richest households. When net wealth is instrumented, the results are similar. Furthermore, the effect of net wealth is stronger when legal enforcement of the loan contract is weaker, as also predicted by the model. Finally, conditional on becoming entrepreneurs, initial household wealth does not significantly affect the size of the business. In summary, it seems that imperfections in capital markets can induce people to accumulate assets in order to facilitate the decision to become entrepreneurs. (full pdf text)

No. 720: The announcement of monetary policy intentions

Giuseppe Ferrero and Alessandro Secchi

Whether a central bank should share with the public its views about the future evolution of short term interest rates is an unresolved issue. The disclosure of this information might allow a more precise control of market expectations and a more effective achievement of the ultimate goals of the monetary authority. However, if the public does not understand the conditional nature of this announcement, it could also undermine the credibility of the central bank. We provide new evidence on the effects of this type of announcement on private expectations about future short term interest rates. Our results suggest that the communication of policy intentions, either in its qualitative or quantitative form, tends to be associated with a greater predictability of monetary policy decisions. Moreover, analyzing the experience of New Zealand, we find that market expectations show a significant and persistent reaction to the unexpected component of the interest rate projections released by the central bank. Finally, it turns out that the predicted component of these projections is large, an evidence which suggests that market operators understand their conditionality. (full pdf text)

No. 721: Trust and regulation: addressing a cultural bias

Paolo Pinotti

Cultural traits shape both the scope and the consequences of government intervention. Failing to account for cultural differences may therefore bias the estimated effects of regulation. This paper investigates the direction and the magnitude of this bias, from both a theoretical and an empirical point of view. It presents a simple model in which agents differ in terms of trust and trustworthiness, and average trust predicts average trustworthiness across countries. Entrepreneurial activity by the untrustworthy imposes negative externalities on the whole economy and burdensome entry regulations may lower these externalities at the cost of limiting economic activity by all agents. The model delivers two main predictions: within each country, preferences for regulations depend negatively on individual trust; across countries, lower trustworthiness drives higher levels of unofficial activity, negative externalities and government regulation, thus inducing a positive spurious correlation between all these variables. Evidence from individual level and cross-country data is consistent with these implications of the model. In particular, it suggests that a large part of the previously estimated negative effects of regulation can be attributed to omitted variation in cultural traits. (full pdf text)

No. 722: **The effects of privatization and consolidation on bank productivity: comparative evidence from Italy and Germany**

Elisabetta Fiorentino, Alessio De Vincenzo, Frank Heid, Alexander Karmann and Michael Koetter

The Italian and German banking systems shared similar characteristics early in the 1990s but have evolved in different directions since then: Italy privatized its publicly-owned banks while Germany has maintained a large share of state-owned savings banks. Contemporaneously, banks in both markets engaged heavily in mergers and acquisitions. We analyze how these activities have affected banks' productivity in the period 1994-2004, differentiating between technical change, efficiency change and scale economies. We find that privatized banks experienced a significant increase in productivity, especially if they subsequently merged with other banks. German banks were still able to increase their productivity through consolidation. (full pdf text)

No. 723: **Comparing forecast accuracy: a Monte Carlo investigation**

Fabio Busetti, Juri Marcucci and Giovanni Veronese

The size and power properties of several tests of equal Mean Square Prediction Error (MSPE) and of Forecast Encompassing (FE) are evaluated, using Monte Carlo simulations, in the context of dynamic regressions. For nested models, the F-type test of forecast encompassing proposed by Clark and McCracken (2001) displays overall the best properties. However its power advantage tends to become smaller as the prediction sample increases and for multi-step ahead predictions; in these cases a standard FE test based on Gaussian critical values becomes relatively more attractive. The ranking among the tests remains broadly unaltered for one-step and multi-step ahead predictions, for partially misspecified models and for highly persistent data. A similar setup is then used to analyze the case of non-nested models. Again it is found that FE tests have a significantly better performance than tests of equal MSPE for discriminating between correct and misspecified models. An empirical application evaluates the predictive ability of nested and non-nested models for GDP in Italy and the euro-area. (full pdf text)

Forthcoming working papers

Angelini P., A, Nobili and C. Picillo
The interbank market after August 2007: what has changed, and why?

Ascari G. and T. Ropele
Disinflation in a DSGE perspective: sacrifice ratio or welfare gain ratio?

Fiaschi D. and M. Romanelli
Nonlinear dynamics in welfare and the evolution of world inequality

Finicelli A., P. Pagano and M. Sbracia
The selection effect of international competition

Sørensen C. K., D. Marqués Ibáñez and C. Rossi
Modelling loans to non-financial corporations in the euro area

Pinotti P.
Financial development and the demand for Pay-As-You-Go social security

Sette E.
Competition and opportunistic advice of financial analysts: theory and evidence

Vergara Caffarelli F.
Networks with decreasing returns to linking

Recently published working papers

No. 708: Guido Ascari and Tiziano Ropele, *Trend inflation, Taylor principle and indeterminacy* (May 2009)

No. 709: Federico Cingano and Paolo Pinotti, *Politicians at work. The private returns and social costs of political connections* (May 2009)

No. 710: Silvio Colarossi and Andrea Zaghini, *Gradualism, transparency and the improved operational framework: a look at the overnight volatility transmission* (May 2009)

No. 711: Michele Manna and Carmela Iazzetta, *The topology of the interbank market: developments in Italy since 1990* (May 2009)

No. 712: Yener Altunbas, Leonardo Gambacorta and David Marques-Ibanez, *Bank risk and monetary po*licy (May 2009)

No. 713: Andrea Nobili, *Composite indicators for monetary analysis* (May 2009)

Latest occasional papers

No. 46 The main recessions in Italy: a retrospective comparison

Antonio Bassanetti, Martina Cecioni, Andrea Nobili and Giordano Zevi

This paper proposes a comparative analysis of the main macroeconomic aggregates (both real and credit aggregates), and the monetary policy response during the most severe recessions experienced by the Italian economy. This descriptive study focuses mainly on the last forty years, a period for which there is ample and detailed information available. In particular, the paper contrasts the data on the current deep recession with those in 1974-75 and 1992-93, at the times of the oil crisis and the currency crisis respectively. For a selected list of variables, a comparison is made with the dynamics of the recession of the 1930s. (full pdf text - only in Italian)

No. 47: An assessment of financial sector rescue programmes

Fabio Panetta, Thomas Faeh, Giuseppe Grande, Corinne Ho, Michael King, Aviram Levy, Federico M. Signoretti, Marco Taboga and Andrea Zaghini

We analyse the wide array of rescue programmes adopted in several countries, following Lehman Brothers' default in September 2008, in order to support banks and other financial institutions. We first provide an overview of the programmes, comparing their characteristics, magnitudes and participation rates across countries. We then consider the effects of the programmes on banks' risk and valuation, looking at the behaviour of CDS premia and stock prices. We then proceed to analyse the issuance of government guaranteed bonds by banks, examining their impact on banks' funding and highlighting undesired effects and distortions. Finally, we briefly review the recent evolution of bank lending to the private sector. We draw policy implications, in particular as regards the way of mitigating the distortions implied by such programmes and the need for an exit strategy. (full pdf text)

No. 48 Computerization, accounting transparency and competitiveness of public administration: a regional analysis

Carlo Maria Arpaia, Raffaele Doronzo and Pasquale Ferro

The aim of this work is to provide information of use in evaluating Italian local public entities from two angles. 1) computerization and supply of web-services; 2) "accounting transparency" and use of accounting information for internal control and benchmarking. The analysis is based on data gathered periodically by the Bank of Italy. In order to give a broader view of the quality of Italian public administration, the outcome of the analysis is compared with the Formez research on business activity policies, employment policies and territorial competitiveness policies. The computerization index shows a better performance by northern regions. The "accounting transparency" index, based on SIOPE data, instead reveals that geographical location is not a crucial determinant of the performance gap between Italian regions. (full pdf text - only in Italian)

No. 49 Consumer price levels in Northern and Southern Italy

Luigi Cannari and Giovanni Iuzzolino

This paper provides a detailed insight into the magnitude of price-level differentials among Italian regions, supplementing the data collected by Istat with information on house prices and rentals collected by Agenzia del Territorio and by the Bank of Italy and with estimates from other sources. Results show that prices are lower in southern Italy than in other areas. The most reliable estimate gives a differential of 16/17 per cent. This spread is due mainly (i.e. more than two-thirds) to different levels of house prices, which include imputed rentals. If only effective rentals are considered, the spread decreases to 10 per cent. Noteworthy differentials can be also found within macro-areas, although on a smaller scale, signalling the potential relevance of regional and local factors in determining the price level of some goods and services. (full pdf text - only in Italian)

No. 50 What policies do we need for Southern Italy? The role of national and regional policies in the last decade

Luigi Cannari, Marco Magnani and Guido Pellegrini

In this paper we examine the Italian regional policies launched in the second half of the 1990s and aimed at promoting the development of Southern Italy. Ten years on, the goals have not been reached, either in terms of social and economic development, or of the performance of firms receiving government aid. In evaluating the discrepancy between targets and results we argue that the failure of regional policies is a facet of the more general failure of Italian economic policies in the last fifteen years, clearly witnessed by the stagnation of growth and productivity both in the North and Centre and in the South. Two main aspects are highlighted: the effectiveness of regional policies has been affected by national legal rules that have had different effects across regions and have usually allowed a lower quality of public expenditure in the South; the effectiveness of regional policies has been diminished also by attributing importance to regional governments as control centres of public intervention. (full pdf text - only in Italian)

No. 51 German reunification and convergence policies

Juan Carlos Martinez Oliva

This paper examines German reunification from its inception. It shows that after the rapid expansion of the early years, former East Germany entered a phase of slow growth that made it impossible to bridge the gap with West Germany. Unemployment remains high, low growth rates appear ingrained, and persistent regional unbalances affect the social and economic prospects of the area. The long-term outlook is threatened by adverse demographic trends and by the need for fiscal consolidation. A comparison between eastern Germany and the Italian Mezzogiorno shows that both rely heavily on government intervention. This dependency is perpetuated by the evident difficulty of setting an autonomous growth process in motion. By contrast, unlike the Mezzogiorno, the eastern German regions enjoy a high level of infrastructural endowment, a legal system that is both efficient and effective, and excellent human capital, partly inherited from the former DDR. (full pdf text - only in Italian)

No. 52 Weak institutions and credit availability: the impact of crime on bank loans

Emilia Bonaccorsi di Patti

This paper analyzes the relationship between the terms on bank loans and local crime rates, employing a sample of over 300,000 bank-firm relationships. Controlling for firm, market and bank characteristics the results show that where the crime rate is higher borrowers pay higher interest rates, pledge more collateral, and resort less to asset-backed loans and more to revolving credit lines than borrowers in low-crime areas. The evidence also suggests that access to credit is adversely affected by crime. The offenses that affect the loan market are those that exogenously increase firm fragility (extortion, organized crime) and raise loss given default (fraud, fraudulent bankruptcy).(full pdf text)

No. 53 The private and social return to schooling in Italy

Federico Cingano and Piero Cipollone

We estimate the private (individual) and social return to schooling in Italy and its macro regions. Our estimates take into account the effects of schooling on employment and wages, as well as the key features of the Italian tax and social security system. We find that the individual return to schooling compares favourably with the return to financial assets (especially in the South). At the social level, the available infrastructure-capital data indicates that the return to schooling exceeds that to infrastructures in the South. Recent evidence on peer effects and the consequences of increased education for health and crime suggest the overall social effects of schooling could be even greater. (full pdf text - only in Italian)

No. 54 The reform of IMF quotas: the way towards the 2008 resolution

Andrea Colabella, Enrica Di Stefano and Claudia Maurini

In April 2008 the International Monetary Fund approved a resolution which modified its quotas and voting power . The goal was to realign, at least in part, the voting power of IMF member countries with their relative weight and role in the world economy, while ensuring better representation for the poorest ones. This paper guides the reader through the complicated process that led to the final outcome, exploring both the technical aspects of the reform and the underlying political motivations. In particular, we discuss the functions of IMF quotas and their evolution in an historical perspective. We talk about the inadequacy of the former distribution of voting power and, therefore, the need for the reform. We also analyze several technical aspects debated during the negotiations. Finally, we assess the effectiveness of the resolution in achieving the proposed goals. We conclude that the approved outcome represents a first step in the right direction. Nevertheless, some issues remain unresolved and will need to be addressed in the future. (full pdf text)

No. 55 Real effects of banking crises: a survey of the literature

Luisa Carpinelli

The literature is unanimous in highlighting that banking crises have a negative impact on GDP, usually more pronounced in developing economies. The magnitude of the losses is more controversial: the quantitative results of studies on the repercussions of banking crises on economic activity, in fact, are quite uneven. Estimates on the correlation between financial variables and GDP indicate output losses generally greater than ten percentage points of pre-crisis output and exhibit high variability, as a result of the large number of different methodologies adopted to measure real costs. The very high values thus obtained often reflect a problem in identifying the causal nexus between banking crises and real output fluctuations. The most recent literature, which examines the relevance of specific channels of transmission based on individual data, tends to produce a lower estimate of the direct causal effects of banking crises, which are rarely found to cause an output loss exceeding 2 per cent. (full pdf text - only in Italian)

Forthcoming occasional papers

Caprara D., A. Carmignani and A. D'Ignazio
Public incentives for firms: micro-level evidence

Casadio P.
Firm level wage bargaining and territorial wage differentials: evidence from the Bank of Italy survey on firms

Giorgiantonio C.
Infrastructure and Project Financing in Italy: the (Possible) Role of the Regulation

Druant M., S. Fabiani, G. Kezdi, A. Lamo, F. Martins and R. Sabbatini
How are firms' wages and prices linked: survey evidence in Europe

Fiaschi D. and M. Romanelli,
The evolution of wages in Italy between 1986 and 2004: evidence from the Working Histories Italian Panel

Giordano R.
The public sector pay gap in Italy

Marconi D.
Environmental regulation and revealed comparative advantages in Europe: is China a pollution haven?

Torrini R.
The long-run evolution of factor shares in Italy

Recently published occasional papers

No. 44: Fabio Panetta and Paolo Angelini (coordinators), Ugo Albertazzi, Francesco Columba, Wanda Cornacchia, Antonio Di Cesare, Andrea Pilati, Carmelo Salleo and Giovanni Santini,
Financial sector pro-cyclicality: lessons from the crisis
(April 2009)

No. 45: Andrea Brandolini and Matteo Bugamelli (coordinators), Guglielmo Barone, Antonio Bassanetti, Magda Bianco, Emanuele Breda, Emanuela Ciapanna, Federico Cingano, Francesco D'Amuri, Leandro D'Aurizio, Virginia Di Nino, Stefano Federico, Andrea Generale, Federica Lagna, Francesca Lotti, Giuliana Palumbo, Enrico Sette, Bruna Szego, Alessandra Staderini, Roberto Torrini, Roberta Zizza, Francesco Zollino and Stefania Zotteri, *Report on trends in the Italian productive system* (April 2009)

Selection of recent journal articles and books by Bank of Italy's staff

(full list since 1990)

Forthcoming

Altunbas Y., **L. Gambacorta** and D. Marqués, *Securitisation and the bank lending channel*, European Economic Review (WP No. 653)

Iacoviello M. and **S. Neri**, *Housing market spillovers: evidence from an estimated DSGE model,* American Economic Journal: Macroeconomics (WP No. 659)

2009

Affinito M. and **F. Farabullini**, *Does the law of one price hold in euro-area retail banking?,* International Journal of Central Banking, v. 5, 1, pp. 5-37

Forni L., L. Monteforte and **L. Sessa**, *The general equilibrium effects of fiscal policy: estimates for the euro area,* Journal of Public Economics, v. 93, 3-4, pp. 559-585 (WP No. 652)

Lippi F. and **A. Secchi**, *Technological change and the households' demand for currency ,* Journal of Monetary Economics 56, 2, 222-230, (WP No. 697)

Pagano P. and **M. Pisani**, *Risk-adjusted forecasts of oil prices, The B.E. Journal of Macroeconomics, v. 9, 1, Article 24* (WP No. 585)

Panetta F., F. Schivardi and M. Shum, *Do mergers improve information? Evidence from the loan market,* Journal of Money, Credit, and Banking, v. 41, 4, pp. 673-709 (WP No. 521)

2008

Angelini P., P. Del Giovane, S. Siviero and **D. Terlizzese**, *Monetary policy in a monetary union: What role for regional information?,* International Journal of Central Banking, 4, 3, 1-28 (WP No. 457)

Angelini P. and **A. Generale**, *On the evolution of firm size distributions,* American Economic Review 98, 1, 426-438, (WP No. 549)

Busetti F. and A. Harvey, *Testing for trend,* Econometric Theory, 24, 1, 72-87 (WP No. 614)

Cesarano F., *Money and monetary systems: selected essays of Filippo Cesarano*, Cheltenham, Elgar

Casolaro L., D. Focarelli and A. Pozzolo, *The pricing effect of certification on syndicated loans*, Journal of Monetary Economics, 55, 2, 335-349

De Bonis R., *La Banca,* Carocci, Roma

Del Giovane P. and **R. Sabbatini** (eds.), *The euro, inflation and consumers' perceptions. Lessons from Italy*, Springer, Berlin-Heidelberg

Gambacorta L., *How do banks set interest rates?*, European Economic Review, 52, 5, 792-819 (WP No. 542)

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