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Highlights

On 29-30 June 2010, the second High-Level Eurosystem Seminar with Central Banks and Monetary Agencies of the Gulf Cooperation Council, jointly organised by the Bank of Italy and the European Central Bank, was held at the Bank of Italy's headquarters in Rome. The seminar was attended by Governors and high-level representatives of the Eurosystem and the central banks and monetary agencies of the GCC countries, as well as representatives of the European Commission and the GCC Secretariat. (see the article on page 2 of this newsletter).

On 18 June 2010, at its headquarters in Rome the Bank of Italy hosted the second annual workshop of the EFIGE project ("European Firms in the Global Economy: Internal Policies for External Competitiveness"). This concluded a three-day conference on international trade that began with the European Research Workshop in International Trade held at the Einaudi Institute for Economics and Finance on 16 June and at the Bank of Italy on 17 June. (see the article on page 2 of this newsletter).

On 24 March 2010, the Bank of Italy and the Paolo Baffi Centre of Università Bocconi jointly organized a conference on "Banks, local credit markets and credit supply". The papers presented in the two sessions of the conference analyse issues concerning the organization of banks and their lending to small and medium enterprises. (see the article on page 3 of this newsletter).

On 30 September – 1 October 2010, the Einaudi Institute for Economics and Finance (EIEF) will host the Conference on "The Future of Monetary Policy", co-organized by the Banca d'Italia, the Banque de France and the EIEF.

More details will be available here.

(*continued from page one*) It was an occasion for furthering the dialogue between the Eurosystem and its GCC counterparts. The main issues addressed were recent economic and financial developments in the GCC countries and the euro area and the lessons for financial stability and monetary policy to be drawn from the global financial crisis.

In welcoming the seminar participants, ECB President Jean-Claude Trichet emphasised the relatively good economic performance of the GCC countries during the global financial crisis and recession, especially when compared with the advanced economies and many other emerging markets. In his opening remarks, Governor Mario Draghi of the Bank of Italy observed that the GCC has emerged as a major player in international financial markets and is involved in the international community's efforts to reform the global framework for financial stability and banking supervision.

In the first session, chaired by ECB Board member Lorenzo Bini Smaghi, the participants reviewed economic developments in the GCC countries in the wake of the global financial crisis, which caused a sharp fall in oil prices and a slowdown in growth in the region. Forceful counter-cyclical fiscal policies helped to cushion the impact on the GCC economies by supporting non-oil economic activity. The seminar participants exchanged views on the sources of inflationary pressures in GCC countries in the years before the global crisis and on the outlook for price developments.

The second session, chaired by Erkki Liikanen, Governor of the Bank of Finland, was devoted to a discussion of the implications of the crisis for financial stability and banking supervision. The participants agreed that the key lesson is the need to make financial systems more resilient. The core of financial sector reform must be strengthening capital and liquidity and discouraging excessive leverage. They exchanged views on international initiatives to make banking and financial regulation and supervision more effective and enhance international cooperation in this sphere. They also discussed the main measures being pursued to enhance financial stability and banking supervision in the EU and the GCC countries, noting that an upgrading of tools for macro-prudential analysis is essential to complement the monitoring of financial risks at the micro level.

The third session, chaired by Ignazio Visco, Deputy Director General of the Bank of Italy, bore on the current challenges for GCC monetary and exchange rate policies. The global financial crisis has sharpened the focus of the GCC central banks on financial stability and macro-prudential policies. Their countries' experiences with fixed-peg exchange rate regimes were reviewed, and the progress in monetary integration among the GCC countries was assessed.

(*continued from page one*) The EFIGE project is funded by the European Union under the Commission's 7th Framework Programme and by the Unicredit Group. It is coordinated by Bruegel in partnership with a number of European research institutes. The Bank of Italy and other European national central banks participate in the project as associate partners. The scientific coordinator is Gianmarco Ottaviano (Bocconi University, Milan).

The workshop opened with introductory remarks by Mario Draghi, the Governor of the Bank of Italy, who recalled the growth-enhancing role of international trade and underscored the importance of the supra-national and in particular the European perspective in research and analysis.

The first presentation, by John Romalis (University of Chicago), dealt in particular with how the channels through which the recent financial crisis was transmitted after the Lehman Brothers failure had caused an exceptionally sharp contraction in world trade.

Gianmarco Ottaviano then described the EFIGE project, which studies the patterns of internationalization of European firms, gauges the effects of internationalization on firms and countries, and derives policy implications. The project will be using new firm-level data gathered through uniform questionnaires in seven European countries (Austria, France, Germany, Hungary, Italy, Spain, and the United Kingdom). Giorgio Barba Navaretti (University of Milan) presented the Policy Report of the EFIGE project, "The Global

Operations of European Firms", which he co-authored with Matteo Bugamelli (Bank of Italy) and Fabiano Schivardi (University of Cagliari). Using the new firm-level data, the Report shows how patterns of internationalization and world market success depend more on the firms' characteristics than on their location or sectoral specialization. Firms that export more or own foreign plants tend to be larger, more productive and innovative, and endowed with a more highly skilled workforce. In other words, the differences between countries in export and internationalization performance are mostly due to national industrial structures. As a consequence, policymakers should focus on structural reforms to boost competitiveness through innovation and corporate growth.

The results of the Report were then discussed in a policy roundtable chaired by Fabrizio Saccomanni, Director General of the Bank of Italy, and including Alessandro Profumo (CEO, UniCredit Group), Giuseppe Recchi (CEO, General Electric for South Europe), Giorgio Squinzi (CEO, Mapei) and Tony Venables (University of Oxford). Concluding remarks were delivered by Michel Barnier, European Commissioner for Internal Market and Services.

In the afternoon session, five papers from the EFIGE project were presented. Andrea Finicelli (Bank of Italy) set out a theoretical model of the relationship between trade and productivity. Laszlo Halpern (Hungarian Academy of Sciences) gave an empirical analysis of why export prices at the firm level differ between different outlet markets. Florian Mayneris (Université Catholique de Louvain) tested for the presence of local export spillovers in France. Carlo Altomonte (Bocconi University, Milan) reported on his theoretical and empirical studies of the role of asymmetric product varieties in international trade. Finally, Enrico Sette (Bank of Italy) estimated the impact of Chinese competition on Italian firms' pricing strategies.

(*continued from page one*) The opening address by Salvatore Messina, Director of the Milan branch of the Bank of Italy, underlined the importance of an in-depth assessment of the issues concerning the organization of the banking system. In his welcome remarks, Angelo Porta, President of the Paolo Baffi Centre, emphasized that the debate among institutions, academics, bankers and the general public is highly valuable to improve the quality of research and should be encouraged.

The morning session, chaired by Donato Masciandaro (Director of the Paolo Baffi Centre), focused on new lending technologies and banking organization. Luigi Cannari highlighted the main findings of the research overall: mergers and acquisitions in banking and more intensive use of ICT do not imply, per se, neglect of the needs of SMEs; the vocation for "local banking" does not necessarily depend on bank size but does require organizational arrangements suited to that purpose. The studies presented during the conference rely on a special survey, carried out in 2007, of more than 300 Italian banks and presented in the paper by Giorgio Albareto, Michele Benvenuti, Sauro Mocetti, Marcello Pagnini and Paola Rossi. The survey gathered information on such factors as the geographical and hierarchical distance between the headquarters of the bank and its branch network, the decision-making powers delegated to branch managers as well as their incentives and tenure in office, the adoption of credit scoring techniques and the type of data used for them, the actual use of these procedures in the loan process. In their paper, Sauro Mocetti, Marcello Pagnini and Enrico Sette examined whether the increasing use of ICT has altered the delegation of credit power to branch managers. The new technologies can either reduce or increase the degree of decision-making centralization within a bank, depending on whether or not they enhance the capacity of the centre to monitor the branches and lower the cost of communication between branch and head office. They found that the banks relying most heavily on ICT have generally delegated more power to branch managers. Enrico Beretta and Silvia Del Prete examined the changes in the distribution of lending power together with turnover among branch managers subsequent to acquisitions. After a takeover, the size of the loan that branch managers or CEOs can grant on their own authority tends to increase, while the average term of office of branch managers diminishes. The increase in decision-making independence in the target bank is more pronounced when the takeover involves banks located in the same local areas as the branch network and head office.The floor discussion on the papers presented in the morning section was opened by comments from Elena Beccalli (Università Cattolica and London School of Economics) and Barbara Chizzolini (Università Bocconi).

In the afternoon session, Luigi Infante and Paola Rossi investigated how the increasing presence of foreign banks in Italy affects competition among different classes of borrowers (households vs. firms) and regional areas. Competition by foreign players is stronger when products are standardized and information asymmetries less important: an increase in the activity of foreign banks leads to greater customer mobility, both for households and firms; it reduces interest rates and the collateral required from households, while no impact on interest rates and only a slight reduction in collateral are detected for firms. Two papers consider the effects of organizational variables on credit supply. Michele Benvenuti, Luca Casolaro, Silvia Del Prete and Paolo Mistrulli showed how the branch loan officer's authority has a key role in explaining bank specialization in small business lending: banks which delegate more decision-making power to their branch managers, assign greater importance to soft information and have slower manager turnover are more willing to lend to small firms than other banks. Banking organization also influences the decision to intervene in favour of troubled firms. The paper by Giacinto Micucci and Paola Rossi showed that the probability of debt restructuring is higher when the bank is geographically closer to borrowing firms, relies more on soft than hard information, and adopts a decentralized structure with more power allocated to local managers. However there are important complementarities among organizational variables: the adoption of credit scoring increases the likelihood of restructuring if banks also use these techniques systematically in the monitoring process and if they adopt more decentralized structures. The papers presented in the afternoon section were discussed by Angelo Baglioni (Università Cattolica) and Paola Bongini (University of Milano-Bicocca).

A panel session ended the conference proceedings. It was chaired by Salvatore Rossi (Managing Director of the Bank of Italy for Economics, Research and International Economics). The panelists were Franco Bruni, (Università Bocconi and Paolo Baffi Centre), Alberto Barcella (President of Confindustria Lombardia), Gregorio De Felice (Chief economist of Intesa Sanpaolo) and Francesco Giordano (Unicredit Group-Corporate and Investment Banking).

The Proceedings of the workshop will be available shortly at:
http://www.bancaditalia.it/studiricerche/convegni/atti

Latest working papers

No. 759: Financial innovation and risk: the role of information

Roberto Piazza

Financial innovation has increased opportunities for diversification and lowered investment costs, but has not reduced the relative cost of active (informed) investment strategies compared with passive (less informed) strategies. What are the consequences? I have studied an economy with linear production technologies, some more risky than others. Investors can use low quality public information or collect high quality, but costly, private information. Information helps in avoiding excessively risky investments. Financial innovation lowers the incentives for private information collection and causes a deterioration in public information: the economy more often invests in excessively risky technologies. This changes the properties of the business cycle and can reduce welfare by increasing the likelihood of “liquidation crises".
(full pdf text)

No. 760: Switching costs in local credit markets

Guglielmo Barone, Roberto Felici and Marcello Pagnini

Switching costs are a key determinant of market performance. This paper tests their existence in the corporate loan market in which they are likely to play a central role because of the complexity of contracts and informational problems. Using very detailed data at bank-firm level on four Italian local credit markets we empirically show that firms tend to iterate their choice of the main bank over time. This inertia is not related to unobserved and time invariant preferences of firms across banks and can be attributed to the existence of switching costs. We also offer evidence that banks price discriminate between new and old borrowers by charging lower interest rates to the former in order to cover part of the switching costs. The discount is about 44 basis points, equal to 7 per cent of the average interest rate. These results prove robust to a number of other potential identification drawbacks. (full pdf text)

No. 761: The determinants of teacher mobility. Evidence from a panel of Italian teachers

Gianna Barbieri, Claudio Rossetti and Paolo Sestito

In the Italian system teachers are allocated to schools according to a seniority-based centralized system with no role of individual schools in attracting, selecting and retaining teachers. Largely because of the rather limited pay scale, seniority-based rights to move to a particular school and geographical location represent one of the main career opportunities for tenured teachers. This paper examines the main drivers of the resulting (voluntary) mobility of Italian teachers. We find that the teachers' place of birth (after securing a tenured position, teachers try find work near their place of birth) and several features related to the student mix and the social context of the school are very important. Teachers systematically try to move away from schools where teaching is likely to be more difficult, for example where the students come from a lower socio-economic background and have poorer educational abilities even though teachers could have a more important role in boosting students' human capital accumulation. The centralized allocation system does not appear to equalize opportunities among different school environments. Furthermore, the absence of any criteria other than seniority in regulating teachers' locational preferences produces high staff turnover and a widespread lack of motivation among teachers who, all too often, are simply waiting in one school until they can move on to another. (full pdf text)

No. 762: A public guarantee of a minimum return to defined contribution pension scheme members

Giuseppe Grande and Ignazio Visco

The recent financial crisis has clearly demonstrated the exposure of defined contribution (DC) pension scheme members to extreme financial market risks. This paper argues that the government might offer DC plan members a minimum return guarantee, funded by risk based premia. Option pricing formulas show that the guarantee could be quite expensive, but public provision could reduce the costs borne by workers. Such an arrangement would be sustainable for the government and would give workers an acceptable benefit/contribution ratio in worst-case scenarios, while still allowing them to reap the advantages of occupational or individual funded pension schemes. (full pdf text)

No. 763: Debt restructuring and the role of lending technologies

Giacinto Micucci and Paola Rossi

The literature on debt restructuring usually assumes that banks behave in a uniform way towards firms in distress. Using a recent survey of Italian banks, we show that banks follow different strategies when they decide whether to take part in the workout process, in that some of them do restructure their debt claims towards small and medium-sized enterprises in distress, while others do not. We explain this heterogeneity by considering the role of banks' internal organization and lending technologies, which the literature has shown to be strictly tied to the type of relationship developed with the borrower (transactional versus relationship lending). We find that the probability of debt restructuring is higher when the bank: i) is geographically closer to borrowing firms; ii) relies more on soft than hard information; and iii) adopts a decentralized structure with more power allocated to local managers. However there are important complementarities among organizational variables: the adoption of credit scoring increases the likelihood of restructuring if banks also use these techniques systematically in the monitoring process and if they adopt more decentralized structures. Bank size per se is not able to fully explain this heterogeneous behaviour, as organizational forms and lending technologies may also have important consequences on bank decisions. (full pdf text)

No. 764: Disentangling demand and supply in credit developments: a survey-based analysis for Italy

Paolo Del Giovane, Ginette Eramo and Andrea Nobili

This paper combines qualitative information from the Eurosystem Bank Lending Survey with micro-data on loan prices and quantities for the participating Italian banks to assess the role of supply and demand factors in credit developments, with a focus on the sharp slowdown of 2008-09. Both demand and supply have played a relevant role, especially for lending to enterprises, in the whole sample period and during the financial crisis. A counterfactual exercise shows that the effect of supply factors on the growth of lending to firms was strongest after the Lehman collapse. On average, over the crisis period (2007q3-2009q4) the negative effect on the annualized quarter-on-quarter growth rate of the panel banks' lending to enterprises can be estimated in a range of 2.2 to 3.1 percentage points, depending on the specification. About one fourth of the total supply effect can be attributed to costs related to the banks' balance sheet position, the rest to their perception of credit risk.
(full pdf text)

No. 765: Information uncertainty and the reaction of stock prices to news

Paolo Angelini and Giovanni Guazzarotti

Recent theoretical papers suggest that high uncertainty about firms' economic prospects can explain delays in the adjustment of their stock prices to economic news. Using analyst forecast revisions and earnings announcements as proxies of news, we find mixed evidence in support of this hypothesis. We confirm that stocks of firms whose prospects are highly uncertain display a relatively large delayed price reaction (so-called continuation) after the release of news, but we argue that this evidence does not necessarily imply a slower adjustment speed. Indeed, for these stocks the immediate reaction to news is also relatively strong. In fact, the magnitude of the delayed price reaction (the price continuation) depends both on the degree of price sluggishness and on the "scale" of the news hitting the stock. We therefore consider both the delayed and immediate responses, and compute measures of adjustment speed that do not depend on the "scale" of the news. We then compare these measures across portfolios of stocks characterized by different degrees of uncertainty.

Our findings indicate that: (i) stock prices characterized by high uncertainty tend to adjust to bad news more sluggishly than those characterized by low uncertainty; (ii) the opposite holds true in the case of good news; (iii) stock prices characterized by high uncertainty tend to adjust to bad news more sluggishly than to good news. Previous empirical literature focuses on price continuation patterns but neglects to control for the "scale" of the news, reaching erroneous conclusions. (full pdf text)

No. 766: With a little help from abroad: the effect of low-skilled immigration on the female labor supply

Guglielmo Barone and Sauro Mocetti

In this paper we examine whether and how the inflow of female immigrants who "specialize" in household production affects the labor supply of Italian women. To identify the causal effect, we exploit the family reunification motive and the network effects - i.e. the tendency of newly arriving female immigrants to settle in places where males of the same country already live - as an instrument for the geographical distribution of female foreign workers. We find that the higher the number of immigrants who provide household services the more time native Italian women spend at work (intensive margin) without affecting their labor force participation (extensive margin). The impact is concentrated on the highly skilled women whose time has a higher opportunity cost. These results also hold after a battery of robustness checks. Some further evidence confirms that the impact passes through the substitution in household work rather than complementarities in the production sector. Finally, we show that immigration arises as a substitute to publicly provided welfare services, although this raises concerns about the fairness and the sustainability of this private and informal welfare model. (full pdf text)

No. 767 Real time forecasts of inflation: the role of financial variables

Libero Monteforte and Gianluca Moretti

We present a mixed-frequency model for daily forecasts of euro area inflation. The model combines a monthly index of core inflation with daily data from financial markets; estimates are carried out with the MIDAS regression approach. The forecasting ability of the model in real-time is compared with that of standard VARs and of daily quotes of economic derivatives on euro area inflation. We find that the inclusion of daily variables helps to reduce forecast errors with respect to models that consider only monthly variables. The mixed-frequency model also displays superior predictive performance with respect to forecasts solely based on economic derivatives. (full pdf text)

No. 768 The effect of age on portfolio choices: evidence form an Italian pension fund

Giuseppe Cappelletti, Giovanni Guazzarotti and Pietro Tommasino

Optimal Portfolio Theory prescribes that investors reduce their exposure to financial market risk as they get near to retirement. To assess the effect of ageing on portfolio choices, we study the case of an Italian defined contribution pension fund during the period 2002-08. We find that on average the willingness to hold risky assets does indeed significantly decrease with age, but we also document that inertial behaviour is quite widespread, and can be very costly.
(full pdf text)

No. 769 Does investing abroad reduce domestic activity? Evidence from Italian manufacturing firms

Raffaello Bronzini

The aim of this paper is to evaluate whether domestic and foreign activities of Italian firms are mainly substitutes or complements. We take advantage of a unique firm-level panel data set from the Bank of Italy Survey of Industrial and Service Firms, which provides information on the international activity of a representative sample of Italian enterprises. We use matching methods to compare the performance of firms that become multinationals with that of firms that had considered the possibility to invest abroad, but had not yet done so. Using a different approach, we supplement the counterfactual strategy by studying the conditional over-time correlation between domestic and foreign

employment of a sample of multinational firms. Both methods suggest that domestic and foreign activities are more likely to be complements than substitutes. The positive correlation between domestic and foreign employment is higher for the domestic highly-skilled workforce and for firms that have adopted complex strategies of internationalization.
(full pdf text)

No. 770 The EAGLE. A model for policy analysis of macroeconomic interdependence in the euro area

Sandra Gomes, Pascal Jacquinot and Massimiliano Pisani

Building on the New Area Wide Model, we develop a 4-region macroeconomic model of the euro area and the world economy. The model (EAGLE, Euro Area and GLobal Economy model) is microfounded and designed for conducting quantitative policy analysis of macroeconomic interdependence across regions belonging to the euro area and between euro area regions and the world economy. Simulation analysis shows the transmission mechanism of region-specific or common shocks, originating in the euro area and abroad.
(full pdf text)

Forthcoming working papers

Bassanetti A. M. Caivano and A. Locarno
Modelling Italian potential output and the output gap

Cecioni M.
Firm entry, competitive pressures and the U.S. inflation dynamics

Cecioni M. and S. Neri
The monetary transmission mechanism in the euro area: has it changed and why?

D'Amuri F. and J. Marcucci
"Google it!" Forecasting the US unemployment rate with a Google job search index

De Mitri S., G. Gobbi. and E. Sette
Relationship lending in a financial turmoil

Di Addario S. and D. Vuri
Entrepreneurship and market size. The case of young college graduates in Italy

Ferrero G. and A. Secchi
Central bank's macroeconomic projections and learning

Mastrobuoni G. and P. Pinotti
Migration restrictions and criminal behavior: evidence from a natural experiment

Neri S. and T. Ropele
Imperfect information, real time data and monetary policy 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

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

Violi R.
Credit ratings in structured finance and the role of systemic risk

Recently published working papers

No.747: Lorenzo Forni, Andrea Gerali and Massimiliano Pisani,
The macroeconomics of fiscal consolidations in a monetary union: the case of Italy (March 2010)

No.748: Sauro Mocetti and Carmine Porello,
How does immigration affect native internal mobility? New evidence from Italy (March 2010)

No.749: Antonio Di Cesare and Giovanni Guazzarotti,
An analysis of the determinants of credit default swap spread changes before and during the subprime financial turmoil (March 2010)

No.750: Gianluca Moretti and Giulio Nicoletti,
Estimating DSGE models with unknown data persistence (March 2010)

No.751: Fabrizio Venditti,
Down the non-linear road from oil to consumer energy prices: no much asymmetry along the way (March 2010)

No.752: Sauro Mocetti, Marcello Pagnini and Enrico Sette,
Information technology and banking organization (March 2010)

No.753: Aviram Levy and Andrea Zaghini,
The pricing of government-guaranteed bank bonds (March 2010)

No.754: Piero Cipollone, Pasqualino Montanaro and Paolo Sestito,
Value-added measures in Italian high schools: problems and findings (March 2010)

No.755: Andrea Brandolini, Silvia Magri and Timothy M. Smeeding,
Asset-based measurement of poverty (March 2010)

No.756: Ugo Albertazzi and Domenico J. Marchetti,
Credit supply, flight to quality and evergreening: an analysis of bank-firm relationships after Lehman (April 2010)

No.757: Giuseppe Cappelletti,
A note on rationalizability and restrictions on belief (April 2010)

No.758: Claudia Miani and Stefano Siviero,
A non-parametric model-based approach to uncertainty and risk analysis of macroeconomic forecasts (April 2010)

Latest occasional papers

No. 67: Environmental regulation and revealed comparative advantages in Europe: is China a pollution haven?

Daniela Marconi

The relocation of more polluting industries in poorer countries due to gaps in environmental standards is known as the pollution haven effect, whereby the scale and the composition of output change across countries. Changes in the composition of the output mix might translate into changes of comparative advantages across countries, as revealed by trade flows. This paper focus on this issue and looks at the changes of bilateral revealed comparative advantages (RCAs) in the last decade between China and the major fourteen EU countries (EU14). Using industry level data on bilateral trade, air pollution, water pollution and several measures of environmental stringency, we find that, controlling for other factors that may have affected RCAs, such as labor costs, on average our EU14 countries have kept or improved their advantages with respect to China in both water polluting industries (such as paper and agro-based industries) and air polluting industries (such as basic metals and chemicals), while they have lost competitiveness in the more clean industries (such as machinery and fabricated metals). (full pdf text)

No. 68: The crisis and employment in Italy

Federico Cingano, Roberto Torrini and Eliana Viviano

The fall in employment and the increase in unemployment rates in Italy in 2009 were fairly modest, given the sharp drop in GDP and compared with the recession of the early 1990s. This work shows that these data should be interpreted with caution, however. Firstly, employment trends as measured by Italian labour force survey may understate the decline in total employment if, as seems plausible, a lag exists between the entry of immigrants into the country and their registration. Secondly, the rise in the unemployment rate has been curbed by extensive recourse to temporary income support schemes to reduce working hours (such as the Cassa integrazione guadagni or Wage Supplementation Fund) in the northern regions, and by the sharp drop in participation in the South (the discouragement effect). The results of the Bank of Italy's Survey of Industrial and Service Firms conducted in September 2009 show that the largest employment cuts occurred in the firms most exposed to international markets. Based on estimated labour input elasticity and on the available GDP forecast for 2010-11, we calculate that Italian employment is likely to remain well below its pre-crisis level in the coming quarters.
(full pdf text - only in Italian)

No. 69: The role of macroeconomic policies in the global crisis

Pietro Catte, Pietro Cova, Patrizio Pagano and Ignazio Visco

This paper argues that the lack of timely and decisive policy action to correct domestic and external imbalances contributed crucially to the build-up of financial excesses that led to the financial crisis and the Great Recession. We focus on 2002-07 and perform a number of counterfactual simulations to investigate two central elements of the story, namely: (a) an over-expansionary US monetary policy and the absence of effective macro-prudential supervision, which permitted a prolonged expansion of debt-financed consumer spending; (b) the decision of China and other emerging countries to pursue an export-led growth strategy supported by pegging their currencies to the US dollar, resulting in a huge build-up of their official reserves, in conjunction with sluggish domestic demand in surplus advanced economies characterized by low potential output growth. The results of the simulations lend support to the view that if substantial, globally coordinated demand rebalancing had been undertaken in a timely manner, the macroeconomic and financial imbalances would not have accumulated to the extent that they did and the financial turmoil might have had less drastic global consequences. (full pdf text)

Forthcoming occasional papers

Breda E. and R. Cappariello
A tale of two bazaar economies: an input-output analysis for Germany and Italy

Recently published occasional papers

No.63: Fabio Panetta and Federico M. Signoretti, *Credit demand and supply in Italy during the financial crisis* (April 2010)

No.64: Michele Caivano, Lisa Rodano and Stefano Siviero, *The transmission of the global financial crisis to the Italian economy. A counterfactual analysis, 2008-2010* (April 2010)

No.65: Cristina Giorgiantonio and Francesco Bripi, *Governance of Italian pension funds: problems and solutions* (April 2010)

No.66: Antonio De Socio, *The economic and financial situation of Italian non-financial corporations: an international comparison* (April 2010)

Economic history working papers

No. 3: **The policy of growth poles in the Mezzogiorno. Elements for a historical perspective**

Elio Cerrito

The paper carries out a review of the literature dealing with the Italian growth poles policy, from the 1950s to the end of the 1980s. The text is divided into three parts.
The 4th Siderurgical Center and the start of the Alfasud car plant are the objects of the first two parts; the third part summarizes the limits and successes of the Italian experience of growth poles. Whilst the Italian poles' policy limits are well known, their successes are scarcely dealt with.

Three main results of the policy emerge: many large profitable plants have been embedded in the Southern economy; growth poles have proved to be vital and able to stably attract investments; in some cases the poles have induced the start-up and the development of firms in Southern Italy, and have stimulated the local economy.
(full pdf text - only in Italian)

No. 4: **Through the magnifying glass: provincial aspects of industrial growth in post-unification Italy**

Carlo Ciccarelli and Stefano Fenoaltea

In post-Unification Italy industrialization was ever sharply sub-regional. Initially industry was largely artisanal, and located in the former political capitals; factory industry was instead attracted by the waterfalls of the subalpine Northwest. From the 1880s, as modernization accelerated, industry concentrated: in the Lombard and Piedmontese subalpine provinces with the late-nineteenth-century boom in (protected) textiles, then particularly in Turin and Milan with the engineering boom, and novel energy-transmission, of the belle époque; and in Liguria's Genoa, which captured (subsidized) civil and naval shipbuilding. The only significant diffusion came as (newly protected) beet-sugar-extraction spread throughout Emilia. (full pdf text)

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)

D'Amuri F., G. I. P. Ottaviano and G. Peri,

The labor market impact of immigration in Western Germany in the 1990's, European Economic Review (WP No. 687)

Gerali A., **S. Neri, L. Sessa** and **F. M. Signoretti**, *Credit and banking in a DSGE model of the euro area*, Journal of Money, Credit and Banking (WP No. 740)

2010

Cingano F., M. Leonardi, J. Messina and G. Pica, *The effects of employment protection legislation and financial market imperfections on investment: evidence from a firm-level panel of EU countries,* Economic Policy, v. 25, 61, pp. 117-149

Fabiani S., C. Kwapil, T. Rõõm, K. Galuscak and A. Lamo, *Wage rigidities and labor market adjustment in Europe,* Journal of the European Economic Association, v. 8, 2-3, pp. 497-505

Iacoviello M. and **S. Neri**, *Housing market spillovers: evidence from an estimated DSGE model,* American Economic Journal: Macroeconomics, v. 2, 2, pp. 125-164 (WP No. 659)

Magri S., *Debt Maturity Choice of Nonpublic Italian Firms*, Journal of Money, Credit and Banking , v.42, 2-3, pp. 443-463 (WP No. 574)

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

Ascari G. and **T. Ropele**, *Trend inflation, Taylor principle, and indeterminacy,* Journal of Money, Credit and Banking, v. 41, 8, pp. 1557-1584 (WP No. 708)

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