BANCA D'ITALIA
EUROSISTEMA

New Research at the Bank of Italy

Number 30 – April 2013

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Seminars at the Bank of Italy

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The real time indicator of the euro-area economy

Highlights

Seminar on "The Chinese Economy. Recent Trends and Policy Issues"

(Rome, 27 February 2013).

Organized by the Bank of Italy, the workshop coincided with the launch of the book recently published with Springer-Verlag "The Chinese Economy. Recent Trends and Policy Issues", edited by Giorgio Gomel, Daniela Marconi, Ignazio Musu and Beniamino Quintieri.

Distinguished speakers discussed recent developments in the Chinese economy, reporting on a range of topics, including: medium-term prospects and potential growth (Richard Herd - OECD), environmental and energy policy (Ignazio Musu - Università Ca' Foscari di Venezia), the internationalization of the renminbi (Guonan Ma - BIS), and financial sector reform (Papa N'Diaye - IMF).

15th Public FinanceWorkshop on "Fiscal Policy and Macroeconomic Imbalances"

(Perugia, 4-6 April 2013).

Organized by the Bank of Italy, the Workshop brought together experts from central banks, finance ministries, international and governmental institutions, and universities to provide an overview of the recent theoretical and empirical work on the link between fiscal policy and macroeconomic imbalances. The Workshop had four sessions. The first session focused on the interaction between fiscal policy and macroeconomic imbalances. The second session examined the specific problems of the euro area, where insufficient attention to macroeconomic developments has contributed, together with lax fiscal policy, to increased fiscal and financial tensions. It also examined proposals for new rules and procedures. The third session was devoted to specific problems of emerging market economies and of countries which can rely on important natural resources. The fourth session focused on how countries coped or are currently coping with macroeconomic imbalances: what reforms are under way, what indicators have been developed and how policy trade-offs have been tackled. The papers and discussions will be collected in a volume to be published next year.

4th Public Islamic Financial Services Forum: the European Challenge

(Rome, 9 April 2013).

Organized by the Islamic Financial Services Board and hosted by the Bank of Italy, the Forum's objective was to provide market players and authorities with an overview of the Islamic financial landscape and of the relevant prudential regulations. Structured in four sessions, the seminar analyzed recent developments in the Islamic financial industry, particularly in Europe, the legal, regulatory and institutional challenges facing the sector in the post-crisis climate, and issues related to the provision of Islamic financial services in the euro area. Particular attention was paid to the role of sukuk (Islamic bonds).

Conference on "The Italian and Southern Industry in the Years of Crisis"

(Naples, 11 April 2013).

The conference, organized by the Bank of Italy and hosted by the University of Naples Federico II, focused on developments in industry during the crisis. Two reports, respectively on Italian and on Southern industry, prepared by economists of the Bank of Italy, were presented and discussed with academics and the Confederation of Italian Industry's director for the South.

The conference programme is available here.

Forthcoming events

On 17-18 June 2013, the EIEF will host the second "Rome Junior Conference on Macroeconomics". The conference will bring together junior economists from around the world with a strong interest in macroeconomics.

Further information is available here.

On 20 June 2013, the EIEF will host the fourth "Carlo Giannini Ph.D. Workshop in Econometrics" organized with the "Carlo Giannini Association".

Further information is available here.

On 1-3 July 2013, the EIEF will host the 13th Doctoral Workshop in Economic Theory and Econometrics (MOOD 2013). Jointly organized with the Bank of Italy and the Collegio Carlo Alberto, with the financial support of the journal LABOUR and the Royal Economic Society, the workshop is designed to stimulate interaction between senior economists and doctoral students at an advanced stage of their dissertation.

Further information is available here.

On 20-21 September 2013, the EIEF will host a Conference on Household Finance, co-organized with the Center on Sustainable Architecture for Finance (SAFE) at Goethe University, Frankfurt, and the Swedish House of Finance (SHoF). The submission deadline is 1 June 2013.

The call for papers is available here.

Latest working papers

No. 911: **Trust and preferences: evidence from survey data** (April 2013)

Giuseppe Albanese, Guido de Blasio and Paolo Sestito

This paper considers the role of preferences in explaining trust. By using the Bank of Italy's Survey on Household Income and Wealth (SHIW), the paper shows that time preferences and risk preferences are key covariates of self-reported trust. They both predict negatively a measure of generalized trust; however, risk aversion is positively correlated with an index of particularized trusting behaviour (which refers to family and friends). Moreover, the results are robust to using a different data source to gauge the role of social preferences and personality traits. The study highlights that neglecting preferences when analysing the role of trust in explaining socio-economic outcomes might pose serious challenges in terms of omitted variables.

Full text (pdf)

No. 910: **Geography, productivity and trade: does selection explain why some locations are more productive than others?** (April 2013)

Antonio Accetturo, Valter Di Giacinto, Giacinto Micucci and Marcello Pagnini

Two main hypotheses are usually put forward to explain the productivity advantages of larger cities: agglomeration economies and firm selection. Combes et al. (2012) propose an empirical approach to disentangle these two effects and fail to find any impact of selection on local productivity differences. We theoretically show that selection effects do emerge when asymmetric trade and entry costs and different spatial scale at which agglomeration and selection may work are properly taken into account. The empirical findings confirm that agglomeration effects play a major role. However, they also show a substantial increase in the importance of the selection effect when asymmetric trade costs and a different spatial scale are taken into account. Full text (pdf)

No. 909: **Credit supply during a sovereign debt crisis** (April 2013)

Marcello Bofondi, Luisa Carpinelli and Enrico Sette

We study the effect of the increase in Italian sovereign debt risk on credit supply on a sample of 670,000 bank-firm relationships between December 2010 and December 2011, drawn from the Italian Central Credit Register. To identify a causal link, we exploit the lower impact of sovereign risk on foreign banks operating in Italy than on domestic banks. We study firms borrowing from at least two banks and include firm x period fixed effects in all regressions to controlling for unobserved firm heterogeneity. We find that Italian banks tightened credit supply: the lending of Italian banks grew by about 3 percentage points less than that of foreign banks, and their interest rates were 15-20 basis points higher, after the outbreak of the sovereign debt crisis. We test robustness by splitting foreign banks into branches and subsidiaries, and then examine whether selected bank characteristics may have amplified or mitigated the impact. We also study the extensive margin of credit, analyzing banks' propensity to terminate existing relationships and to grant new loan applications. Finally, we test whether firms were able to compensate for the reduction of credit from Italian banks by borrowing more from foreign banks. We find that this was not the case, so that the sovereign crisis had an aggregate impact on credit supply.

Full text (pdf)

No. 908: **Asking income and consumption questions in the same survey: what are the risks?** (April 2013)

Giulia Cifaldi and Andrea Neri

Sample surveys providing high quality information on both total household expenditure (consumption) and income are not commonly available. Nevertheless, surveys focusing on income usually do collect some information on expenditure data. A main drawback of this practice is that it could let some researchers think that both sets of information have similar accuracy, as they are derived from the same survey. This paper provides an empirical investigation of the consequences of such an assumption. We draw on the Survey of Household Income and Wealth (SHIW, thereafter) as a case study, since it collects information on both income and consumption. We combine this survey with the information coming from other surveys that are assumed to be more reliable than the SHIW for specific items. On average, we find that the underestimation of household income is lower than the one relating to consumption. As a consequence, in the survey saving rates are likely to be overestimated. We also find evidence that measurement error in income data is proportionally higher for high incomes. This does not appear to be the case for consumption data. Household saving is likely to be overestimated, especially for households in the low income classes. Finally, we find evidence that measurement error may bias the relationship between household savings and its determinants. Full text (pdf)

No. 907: **Public-private wage differentials in euro area countries: evidence from quantile decomposition analysis** (April 2013)

Domenico Depalo, Raffaela Giordano and Evangelia Papapetrou

We evaluate the public-private wage differential in ten euro area countries for men in the period 2004-2007. Using the most recent methodologies on a Mincerian equation, we assess how much of the pay differential between public and private sector workers depends on differences in endowments and how much on differences in the remuneration of such skills. For the first time, we look at the contribution of specific covariates at different quantiles of the wage distribution and decompose the variance into an explained and an unexplained component. We find that the pay gap is often decreasing over the distribution, and it is mostly determined by higher endowments in the upper tail of the wage distribution and by higher returns of such endowments at the low tail, with considerable heterogeneity across countries. We further find that the wage distribution in the public sector is more compressed than in the private sector in some countries but not in all countries. This is the results, for all countries, of more dispersed distributions of endowments in the public sector and of returns in the private sector. Full text (pdf)

No. 906: **Price discovery in the Italian sovereign bonds market: the role of order flow** (April 2013)

Alessandro Girardi and Claudio Impenna

This paper analyses the price discovery process and the informational role of trading in the Italian wholesale secondary markets for Treasury bonds: the B2B MTS cash and the B2C BondVision trading venues. Using daily data for a representative set of fixed rate government bonds over the period January 2007 - February 2012, we find that the B2C dealer-to-customer market contributes to the process of price formation to a greater extent than the B2B interdealer platform. The informational role of trading is found to be considerable: order flow is a key variable in the process of price formation and appears to continuously act on a cross market basis. Moreover, the explanatory role of order flow turns out to be stronger when liquidity conditions are poorer. Full text (pdf)

No. 905: **Family firms and the Great Recession: out of sight, out of mind?** (April 2013)

Leandro D'Aurizio and Livio Romano

This paper studies how family firms reacted to the 2008 economic crisis by adjusting employment. In particular, we look at how the geographical distribution of the workforce may have led to divergencies between family and non-family firms. Using a difference-in-difference approach, we provide empirical evidence that paths of adjustment did diverge, with family firms systematically preferring to safeguard workplaces close to headquarters. We offer a new theoretical framework, the social recognition motive, that is consistent with this finding; it is based on contributions in the literature on corporate governance that stress the importance of the non-pecuniary benefits of the owner's control of the family firm. The social recognition motive originates from the psychological relation linking the family-firm owner with his or her community. The theory also offers a clear set of predictions that are all confirmed by the data. Alternative explanations, although theoretically plausible, seem to be ruled out in our setting. Full text (pdf)

No. 904: **Pure or wake-up-call contagion? Another look at the EMU sovereign debt crisis** (April 2013)

Raffaela Giordano, Marcello Pericoli and Pietro Tommasino

We test whether the sharp increase in sovereign spreads of euro area countries with respect to Germany after the explosion of the Greek crisis was due to deteriorating macroeconomic and fiscal fundamentals or to some form of financial contagion. Our analysis includes indicators of domestic and external imbalances which were mostly disregarded by previous studies, and distinguishes between investors' increased attention to the variables which ultimately determine the creditworthiness of a sovereign borrower (wake-up-call contagion) and behaviour not linked to fundamentals (pure contagion). We find evidence of wake-up-call contagion but not of pure contagion.
Full text (pdf)

No. 903: **Limited credit records and market outcomes** (February 2013)

Margherita Bottero and Giancarlo Spagnolo

Credit registers collect, store and share information regarding borrowers' past and current credit relations. Interestingly, such data is typically erased from the public records after a number of years, in accordance with privacy protection laws, which aim at providing individuals with a fresh start from past events. In order to secure credit-worthy but unlucky borrowers with a new beginning, however, these provisions end up removing all of the public information, including that possibly still relevant for screening purposes. This paper assesses such trade-off, by studying the impact of limited records on borrowers' behavior and market outcomes in a stylized credit market for unsecured loans. In this setup, limited records endogenously give rise to beneficial reputation effects in the form of higher equilibrium effort, which alleviate, rather than worsen, the distortions caused by asymmetric information. Further, we demonstrate that when moral hazard is high, 1-period records can achieve higher welfare and lead to a lower default rate than records that show all, or nothing, of the past history.
Full text (pdf)

No. 902: **Evaluating the efficacy of European regional funds for R&D** (February 2013)

Davide Fantino and Giusy Cannone

This paper provides some empirical evidence of the impact of two policy measures designed to support innovation in small and medium firms in an Italian region, both financed using the European Structural Funds but managed at regional level. The first measure was a concessional loan to promote the introduction of innovative plant, machinery and equipment, while the second was a free grant to stimulate research activity by firms. The programmes were effective in stimulating targeted investments (respectively tangible and intangible), but the benefits were short-lived, although to different degrees. The impact was stronger for the smallest firms and, in the case of the second measure, for firms with a low credit rating.
Full text (pdf)

No. 901: **Banking consolidation and bank-firm credit relationships: the role of geographical features and relationship characteristics** (February 2013)

Enrico Beretta and Silvia Del Prete

Using data on single credit relationships, the paper shows that after a merger or an acquisition, involving two or more banks which had previously jointly financed the same firm, the share of credit granted to the client by the consolidated intermediaries moderately decreases over three years. This does not necessarily imply a reduction of the overall credit granted to the firm, because after consolidations involving its lending banks, the probability of diversifying the mix of lenders increases. Some of the features of credit relationships or the characteristics of borrowing firms, which reduce information asymmetries and the cost of soft information, seem to partially offset the decrease in the share of credit provided by consolidated banks. Indeed, if the company is geographically close to a branch of its financing bank, or if it belongs to an industrial district, the more exclusive credit relationships between the parties seem to mitigate or offset the diversification of credit relationships generated by M&As. By contrast, if a firm is in financial distress or located in the South of

Italy - a geographical area with greater negative context externalities - diversification is significantly enhanced.
Full text (pdf)

No. 900: **The causal effect of credit guarantees for SMEs: evidence from Italy** (February 2013)

Alessio D'Ignazio and Carlo Menon

We evaluate the effectiveness of a partial credit guarantee program implemented in a large Italian region using unique microdata from a broad set of firms. Our results show that the policy was effective to the extent that it resulted in an improved financial condition for the beneficiary firms. While the total amount of bank debt was unaffected, firms showed a significant increase in the long-term component. Furthermore, targeted firms benefited from a substantial decrease in interest rates. On the other hand, there is some evidence that the probability of default increases as a consequence of the treatment, although the effect is only marginally significant. There are, instead, no effects on the real outcomes.
Full text (pdf)

Other recent working papers

January 2013

No. 899: A spatial competitive analysis: the carbon leakage effect on the cement industry under the European Emissions Trading Scheme
Elisabetta Allevi, Giorgia Oggioni, Rossana Riccardi and Marco Rocco

No. 898: Firm size and judicial efficiency: evidence from the neighbour's Court
Silvia Giacomelli and Carlo Menon

No. 897: Collective action clauses: how do they weigh on sovereigns?
Alfredo Bardozzetti and Davide Dottori

No. 896: Short-term GDP forecasting with a mixed frequency dynamic factor model with stochastic volatility
Massimiliano Marcellino, Mario Porqueddu and Fabrizio Venditti

No. 895: What is a prime bank? A Euribor – OIS spread perspective
Marco Taboga

No. 894: Incentives through the cycle: microfounded macroprudential regulation
Giovanni di Iasio and Mario Quagliariello

November 2012

No. 893: Externalities in interbank network: results from a dynamic simulation model
Michele Manna and Alessandro Schiavone

No. 892: A dynamic default dependence model
Sara Cecchetti and Giovanna Nappo

No. 891: The predictive power of Google searches in forecasting unemployment
Francesco D'Amuri and Juri Marcucci

No. 890: Start-up banks' default and the role of capital
Massimo Libertucci and Francesco Piersante

No. 889: Does corporate taxation affect cross-country firm leverage?
Antonio De Socio and Valentina Nigro

Latest occasional papers

No. 162: **Micro-enterprises in Italy: a first analysis of economic and financial conditions** (April 2013)

Stefania De Mitri, Antonio De Socio, Paolo Finaldi Russo and Valentina Nigro

Italy is the European country where firms with fewer than 10 employees account for the largest share of value added and employment. On the basis of data from the company balance sheets and the Central Credit Register during the period 2003-2010, this work contributes to the analysis of these companies describing their economic and financial conditions and their relations with banks based on a sample of about 500,000 companies, of which more than 400,000 are classified as micro-enterprises. On average, they have lower profitability and higher debt, largely bank debt, than the other size classes. The proportion of loans made by the partners and shareholders is significant, a feature that can mitigate some of the risks associated with their weaker financial conditions. Econometric estimates indicate that micro-enterprises must provide more guarantees and pay higher rates of interest. In all aspects investigated in our work, the heterogeneity of micro-enterprises is much higher than for the other size classes, which suggests broad scope for future research. Full text (pdf), in Italian only

No. 161: **Main results of the household finance and consumption survey: Italy in the international context** (April 2013)

Romina Gambacorta, Giuseppe Ilardi, Andrea Locatelli, Raffaella Pico and Cristiana Rampazzi

The paper presents the main results of the Eurosystem's Household Finance and Consumption Survey (HFCS) with an emphasis on the data for Italy in the international context. The paper examines households' socio-demographic characteristics, assets and income distribution, participation in real and financial assets and indebtedness levels. The results for Italy reveal a mean household gross income below the euro-area average. The concentration of income in Italy is roughly positioned at a median position, while the index of relative poverty is comparatively high. Among the main countries of the euro area, Italy shows the same average level of net worth per capita of Spain and slightly higher levels than those of France and Germany, in line with the high savings rates that characterized Italian households over the last few decades, although this trend has decreased in recent years. Finally, Italy shows the lowest percentage of indebted households.
Full text (pdf), in Italian only

No. 160: **Household aggregate wealth in the main OECD countries from 1980 to 2011: what do the data tell us?** (April 2013)

Riccardo De Bonis, Daniele Fano and Teresa Sbano

This paper analyses aggregate household wealth in Canada, France, Germany, Italy, Japan, Spain, the UK and the US. Building on a new data set for the time span 1980-2011, we discuss the trends in household financial assets in the last thirty years, the reasons for differences across countries, the tendency towards convergence, the economic interpretation of breaks in time series and the effects of the recent financial crisis. We also comment on the evolution of household debt and real assets. In discussing the empirical evidence, the paper summarises some of the recent literature on household wealth. Full text (pdf)

No. 159: **Basel 2.5: potential benefits and unintended consequences** (April 2013)

Giovanni Pepe

Since 1996 the Basel risk-weighting regime has been based on the distinction between the trading and the banking book. For a long time credit items have been weighted less strictly if held in the trading book, on the assumption that they are easy to hedge or sell. The Great Financial Crisis made evident that banks declared a trading intent on positions that proved difficult or impossible to sell quickly. The Basel 2.5 package was developed in 2009 to better align trading and banking books' capital treatments. Working on a number of hypothetical portfolios I show that the new rules fell short of reaching their target and instead merely reversed the incentives. A model bank can now achieve a material capital saving by allocating its credit securities to the banking book, irrespective of its real intention or capability of holding them until maturity. The advantage of doing so is particularly pronounced when the incremental investment increases the concentration profile of the trading book, as usually happens for exposures towards banks' home government. Moreover, in these cases trading book requirements are exposed to powerful cliff-edge effects triggered by rating changes. Full text (pdf)

No. 158: **Italian mutual banks and the challenge of Basel III** (April 2013)

Francesco Cannata, Giorgio d'Acunto (coordinators), Alessandro Allegri, Marco Bevilacqua, Gaetano Chionsini, Tiziana Lentini, Francesco Marino and Gianluca Trevisan

After a decade of deep transformation, which influenced both lending policies and risk management, Italy's mutual banks are faced with the upcoming Basel III reform. Economic trends continue to exert pressure on the traditional bank business model. The entry into force of Basel III provides an opportunity to assess the changes under way, and identify potential problems. A simulation exercise conducted on June 2012 data evaluates the position of both mutual banks and central institutions relative to the new rules on capital and liquidity. The exercise paints a picture of broad compliance with the prudential targets, although some elements warrant greater attention. On the one hand, although the banks' capital endowment is of better quality and higher than the future minimum regulatory requirements, persistent low profitability and the increasing credit risk in the balance sheets might pose a problem in the future; on the other hand, a more efficient allocation of liquidity present in the system seems necessary, including via the introduction of new coordination measures.
Full text (pdf), in Italian only

No. 157: **Looking ahead to Basel 3: Italian banks on the move** (April 2013)

Francesco Cannata, Marco Bevilacqua, Simone Casellina, Luca Serafini e Gianluca Trevisan

In December 2010 the Basel Committee on Banking Supervision published a set of new regulations for banks in response to the financial crisis. This paper aims at evaluating the possible effects of the new framework on banks' available regulatory capital and risk-weighted assets and assessing their positioning with respect to future leverage and liquidity constraints. The evidence, based on the data collected from a representative sample of 13 Italian banking groups updated to 30 June 2012, show that capital and liquidity positions with respect to the Basel 3 targets have improved considerably over the last two years. Furthermore, compared to banks in other jurisdictions, Italian intermediaries are likely to be less affected by the reform, due to a business model more focused on credit intermediation. Importantly, the estimates cannot be interpreted as a forecast of capital and liquidity needs as they do not incorporate any assumption about future balance-sheet items or banks' reactions to the changing regulatory and economic environment.
Full text (pdf)

No. 156: **The portfolio allocation strategies of sovereign wealth funds and the financial crisis** (April 2013)

Alessio Ciarlone and Valeria Miceli

This paper analyzes the investment choices of sovereign wealth funds (SWFs) by country and industry in the last twenty years. Assets under management increased from $500 billion in 1995 to $4.7 trillion at end-2011. Based on a specially constructed data set, comprising 2,740 equity deals concluded by twenty-nine SWFs during the period 1990-2010 ($565 billion worth of acquisitions and $191 billion worth of divestments), we analyze sovereign fund investments by sector and geographical allocation and the impact of the global crisis. The study shows that notwithstanding the crisis the advanced economies are and continue to be the main destination for SWF investments. The sector of choice is the financial one, although since the crisis interest has surged in other sectors such as energy and commodities. Overall, the financial crisis did have an impact on SWF investment activity, although less than that on other important categories of investor.
Full text (pdf), in Italian only

No. 155: **Does financial education at school work? Evidence from Italy** (April 2013)

Angela Romagnoli and Maurizio Trifilidis

In the 2008-09 school year the Bank of Italy and the Italian Ministry of Education started an experimental program to incorporate financial education into school curricula. This paper describes the experience since then. According to the program, teachers receive training from the Bank on financial topics and then move on to classroom teaching. The effect of classroom teaching on pupils' financial knowledge is measured by tests. The empirical evidence shows that the program proved successful in increasing the financial knowledge of pupils, for longer than one year.
Full text (pdf)

No. 154: **Getting organized to lend in a period of crisis: findings from a survey of Italian banks** (April 2013)

Silvia Del Prete, Marcello Pagnini, Paola Rossi and Valerio Vacca

This paper analyses how banks organize their lending activity by using the results of two surveys carried out in 2006 and in 2009. During this period, the use of rating and scoring methodologies became more widespread even among the smaller banks. Larger banks used these techniques more frequently when pricing their loans, while the importance of ratings in deciding whether to grant a loan in the first place declined. Smaller banks continued to use ratings in a flexible way. In the wake of the crisis banks gave more importance to both hard and soft types of information and increased their guarantee requirements. The trend towards decentralizing decision-making seems to have halted and the average tenure of branch managers has shortened. These managers have mandates that are frequently correlated with the ratings, while pay incentives have not changed substantially. In brief, the 2008-09 recession in some cases contributed to the acceleration of reorganization processes already under way, in others however it altered their direction.
Full text (pdf), in Italian only

No. 153: **Exports from the European regions during the crisis and in the long run** (February 2013)

Chiara Bentivogli, Paolo Chiades, Cristina Fabrizi, Elena Mattevi and Andrea Petrella

This paper compares the return to pre-crisis levels and the long-term performance of exports in the main Italian regions compared with some European regions with a similar production structure. The results show that the intensity and timing of recovery in the cyclical component of exports were similar across the regions of the cluster. In the short run, Italian exporters adapted satisfactorily to changes in demand but the long-run trend has grown at a slower rate compared with European competitors, especially Germany. Italian regions began to lag behind in the first half of the decade 2000-2010. The slower long-term growth is due to the insufficient strengthening of trade relations in dynamic markets outside Europe, largely due to the small size of exporting firms, as well as the pattern of specialization that in some regions is still biased towards traditional products with a lower technological content.
Full text (pdf), in Italian only

No. 152: **The network contract** (February 2013)

Chiara Bentivogli, Fabio Quintiliani and Daniele Sabbatini

This paper studies the aggregation of firms and in particular network contracts, introduced into Italian legislation in 2009. This kind of contract addresses firms' need for more flexible coordination mechanisms. However, the vague nature of the contract's contents, which the signing firms can freely define, may reduce its reliability for third parties doing business with the network. A non-binding standardization of the contract's contents, guiding firms towards more efficient models, may render it more useful. Moreover, the incentives for the contract are part of a fragmentary set of fiscal measures and may distort firms' choices. Data show that network contracts have often been signed by firms with pre-existing partnerships or by those located in areas with many Marshallian industrial districts. However, one novel aspect is that partner firms are frequently located in distant regions. Probit regressions show that the

probability of entering a network contract is positively correlated with a firm's size and growth and negatively with its profitability.
[Full text (pdf), in Italian only]

No. 151: Connect them where it hurts. The missing piece of the puzzle (February 2013)

Lorenzo Esposito

The crisis has shown that banks that are too big to fail are at the core of the international financial system. These institutions are thus at the centre of a powerful wave of re-regulation of the banking system. Overall, the proposals developed to strengthen the capacity of big banks to weather future crises, starting with Basel 3, point in the right direction, but they are missing an essential element. SIFIs have a peculiar nature. Their most salient feature is that because of their size, interconnectedness and similar strategies, a crisis of one tends to become a crisis of all. Hence, it is essential to have a mechanism in place to link them together beforehand. The paper analyzes measures that can serve this end. It then proposes a tool designed to give SIFIs a shared interest in behaving correctly, i.e. taking into account the externality implied by their very existence.
[Full text (pdf)]

No. 150: Traditional industrial districts in the face of globalization: the case of the Marche footwear district (February 2013)

Eleonora Cutrini, Giacinto Micucci and Pasqualino Montanaro

This paper studies the case of the Marche footwear districts. Statistical evidence and interviews with entrepreneurs suggest that the traditional inter-firm relationships within these districts have significantly changed during the past decade. Some leading firms have been building up more exclusive relations with their suppliers, including those abroad, along "buyer-driven" value chains. Moreover, firms have been adopting different strategies, following two main paths: the first is a "focusing-on-quality" strategy, based on upgrading the quality of the goods and investing in brands, R&D and specific distribution channels; the second is a "focusing-on-costs" strategy, which aims at minimizing the production costs of a medium-quality range of goods, including outsourcing abroad. This study shows that firms which focused on quality did better than others, both in the years before the crisis of 2008-09 and during the recession.
[Full text (pdf), in Italian only]

No. 149: Household over-indebtedness: definition and measurement with Italian data (February 2013)

Giovanni D'Alessio and Stefano Iezzi

The last decade has seen significant increases in consumer indebtedness in western countries, causing concern about its economic and social impact. In particular, over-indebtedness is attracting attention from national and international authorities because of its potential effect on both the sustainability of households' indebtedness and the stability of the financial system. From a social point of view, the excessive accumulation of debts accompanied by households' liquidity constraints causes a deterioration in households' social and economic well-being, thus leading in the long term to social exclusion and poverty. The aim of this paper is to present and analyze the main measures of over-indebtedness used in the literature. In particular, the paper uses data from the Italian Survey of Household Income and Wealth to extend the existing knowledge about the possible ways of measuring economic difficulty and over-indebtedness. The traditional and the new measures of over-indebtedness are subsequently compared with the measures of poverty in order to disentangle the relationship between the two phenomena.
[Full text (pdf)]

No. 148: Italian households' saving and wealth during the crisis (February 2013)

Laura Bartiloro, Cristiana Rampazzi

This paper investigates trends in Italian households' saving and wealth in the last twenty years, with a special emphasis on the period immediately following the financial crisis in 2008. The analysis is based on data from the Italian Survey on Household Income and Wealth (1991-2010). The crisis has intensified the trends already under way, as confirmed by the further decline in the saving rate and the deterioration in the financial situation of low-income households, young people and tenants. Overall inequality in wealth distribution has increased. Poverty indicators based on income and wealth summarize these developments: in 2010, nine per cent of Italian households were on a low income and in the event of job loss, had sufficient financial asset to survive at the poverty line for barely six months. This percentage increases to 15 per cent for young people and to 26 per cent for tenants. Full text (pdf), in Italian only

No. 147: **Italian households' opinions on the difficulty of saving** (February 2013)

Antonio Bassanetti and Concetta Rondinelli

The paper investigates the opinions of Italian families on the advisability and the possibility of saving. The analysis was carried out using the monthly micro-data underlying the Italian consumer survey conducted by Isae up to 2010 and by Istat thereafter. The results show that in recent years there has been a sharp increase in the proportion of households that consider it appropriate to save. This appears to be closely related to their expectations about the cyclical situation, in particular unemployment, pointing to a strengthening of the precautionary motive. By contrast, since the second half of the last decade only a small number of households state that they have actually been able to save. This also seems to be linked to the structural characteristics of the household. The growing gap between the advisability and the possibility of saving is greater for the elderly and, among young people, for those living alone, renting their accommodation and working under a fixed-term employment contract. The discrepancy is greater for households that reside in the larger municipalities. Full text (pdf), in Italian only

Other recent occasional papers

January 2013

No. 146: The housing wealth of Italian households: a comparison of administrative and survey data
Andrea Neri and Maria Teresa Monteduro

No. 145: The Eurosystem's monetary, banking and financial statistics: some reflections on results and future steps
Riccardo De Bonis

No. 144: Why are payment habits so heterogeneous across and within countries? Evidence from European countries and Italian regions
Guerino Ardizzi and Eleonora Iachini

No. 143: You never give me your money? Sovereign debt crises, collective action problems, and IMF lending
Marco Committeri and Francesco Spadafora

December 2012

No. 142: Cyclically adjusted local government balances
Eugenia Panicara, Massimiliano Rigon and Gian Maria Tomat

November 2012

No. 141: Monetary policy and fiscal dominance in Italy from the early 1970s to the adoption of the euro: a review
Eugenio Gaiotti and Alessandro Secchi

No. 140: Macroprudential, microprudential and monetary policies: conflicts, complementarities and trade-offs
Paolo Angelini, Sergio Nicoletti Altimari and Ignazio Visco

Workshops and conferences

No. 12: **The trends of Italy's international tourism** (March 2013)

The book brings together a series of research papers presented at a workshop on "The trends of Italy's international tourism", held at the Bank of Italy in Rome on 22 June 2012, on occasion of the release, on Bank of Italy's website, of microdata from the Survey on international tourism in Italy. In the first session of this workshop, a paper synthesised the main results of the Survey for the period 1997-2011 and another paper analysed the developments of tourism market shares of Italian regions. In the second session, two papers dealt with the effects of low-cost flights on tourism flows to Italy from abroad, and another paper analysed the price competitiveness of Emilia-Romagna's hotels, in comparison with hotels in other European coastal regions.

The volume is available here, in Italian only.

Economic history working papers

No. 29: **Potential output, output gap, and inflation in Italy in the long term (1861-2010): an econometric analysis** (February 2013)

Alberto Baffigi, Maria Elena Bontempi and Roberto Golinelli

We exploit the new historical national accounts data for Italy over the period 1861-2010, built by Banca d'Italia and Istat, with the collaboration of the University of Rome "Tor Vergata". In the first part of the paper, a thorough study of the new data's statistical properties is presented mainly aimed to analyse the variability of the cyclical component of constant price GDP. The GDP cyclical component, interpreted as output gap, is used, in the second part of the paper, to assess the Phillips curve's ability to explain inflation dynamics over a wide variety of circumstances, over the 150 years of the country's history. In Italy, the relation linking inflation with the cyclical situation in the economy emerged only after World War I, while in US and UK it was operating already in the mid 19th century.

Full text (pdf), in Italian only

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