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RESEARCH AT THE BANK OF ITALY
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NEWSLETTER

Contents

Highlights

17th Central Bank Macroeconomic Modelling Workshop on "New Perspectives on Models for Policy Analysis"

(Rome, 20-21 October 2014)

On 20 and 21 October 2014 the Bank of Italy hosted the 17th annual "Central Bank Macroeconomic Modelling Workshop". The workshop brings together policy-makers and academics to discuss critical issues related to the class of models used for policy analysis. This year's edition, entitled "New Perspectives on Models for Policy Analysis", focused on the need to enrich structural models in order to account in particular for the (possibly non-linear) interaction between the financial sector and the real economy (in closed and open economies and under low and high uncertainty) and for systemic risk .

60th Economic Policy Panel

(Rome, 24-25 October 2014)

On 24 and 25 October, the Einaudi Institute for Economics and Finance hosted the "**60th Economic Policy Panel**". The meeting was jointly organized by the editors of Economic Policy, CEPR and the Bank of Italy. Papers commissioned for the journal were presented and discussed by the members of the Panel.

The programme is available here.

Conference on "Competition, Markets and Growth in Italy: the Long Term"

(Rome , 29-30 October 2014)

What does history teach us about the relationship between competition and growth? How has competition helped shape the Italian economy? These issues were dealt with at the conference "Competition, Markets and Growth in Italy: the Long Term", held at the Bank of Italy in Rome on 29 and 30 October. After a description of the European framework and competition measures, the participants focused on Italy, examining a number of areas, including cultural questions. The evolution of competition in Italy was investigated at both aggregate and sectoral level, in order to provide a point of departure for policy analysis, which was the topic of the concluding discussion.

The programme and the papers are available here.

Highlights

Conference on "The impact of the crisis on potential output and households' expenditure in Italy "

(Rome, 5 December 2014)

On 5 December 2014 the Bank of Italy hosted a conference entitled "The impact of the crisis on potential output and households' expenditure in Italy", presenting the findings of a research project carried out by economists at the Directorate General for Economics, Statistics and Research. The papers describe the impact of the crisis on key macroeconomic variables and seek to determine whether the cyclical downturn has caused structural changes in the behaviour of households and firms. This knowledge is crucial to projecting the timing and strength of the recovery and to policy design. A first set of studies analyzed the repercussions of the crisis in terms of loss in potential output and lower capacity utilization, at aggregate and sectoral level. Two other papers documented the dismal performance of consumption in the last few years and explored how far this may represent a fall in permanent income. Fresh empirical evidence on how the crisis has affected firms' price-setting policies and on the increased sensitivity of consumer inflation to cyclical slackness was presented. Lastly, a paper assessed whether the sharp cyclical deterioration of the labour market has generated structural unemployment. In a concluding roundtable, the panelists moved from the evidence provided to debate the macroeconomic and structural policies that are needed to foster a gradual recovery towards faster growth

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Workshop on Macroeconomic Dynamics: Theory and Applications

(Rome, 19 December 2014)

On 19 December the Einaudi Institute for Economics and Finance hosted the 13th edition of the "Workshop on Macroeconomic Dynamics: Theory and Applications". Researchers working on issues in theoretical and applied dynamic macroeconomics discussed pioneering papers and research projects.

The programme is available here.

Forthcoming events

4nations cup

(Rome, 8 May 2015)

The next edition of the "**4nations cup**" will be held on 8 May 2015 at the Einaudi Institute for Economics and Finance. The cup is a one-day contest among the most promising young scholars in four countries in the field of financial economics. It consists in a series of 40-minute "short seminars". In the 2015 edition, the contestants will come from universities in Denmark, Italy, Sweden and the United Kingdom

Further information is available here.

SEMINARS AT THE BANK OF ITALY

SEMINARS AT EIEF

Latest working papers

No. 997: **Macroeconomic effects of simultaneous implementation of reforms after the crisis** (November 2014)

Andrea Gerali, Alessandro Notarpietro and Massimiliano Pisani

This paper evaluates the macroeconomic effects of simultaneously implementing fiscal consolidation and competition-friendly reforms in a country of the euro area by simulating a large-scale dynamic general equilibrium model. We find, first, that the joint implementation of reforms has additional expansionary effects on long-run economic activity. Increasing competition in the service sector favors a higher income tax base. Given the targeted public debt-to-GDP ratio, labor and capital income tax rates can be reduced more than with fiscal consolidation alone. Second, fiscal consolidation has non-negligible medium-run costs; however, they are reduced by joint implementation with the services reform. The results are robust to alternative assumptions that capture the impact of financial crisis on the financing conditions of households.

Full text (pdf)

No. 996: **Current account "core-periphery dualism" in the EMU** (November 2014)

Tatiana Cesaroni and Roberta De Santis

Current account (CA) dispersion within European Union (EU) member states has been increasing progressively since the 1990s. Interestingly, the persistent deficits in many peripheral countries have not been accompanied by a significant growth process able to stimulate a log run rebalancing as neoclassical theory predicts. To shed light on the issue this paper investigates the determinants of Eurozone CA imbalances, focusing on the role played by financial integration. The analysis considers two samples of 22 OECD and 15 EU countries, three time horizons corresponding to various steps in European integration, different control variables and several panel econometric methods. The results suggest that within the OECD and EU groups financial integration contributed to explain CA deterioration in the peripheral countries especially in the post-EMU period. The business cycle seems to have played a growing role over time, whereas the role of competiveness seems to have diminished with respect to the past. Full text (pdf)

No. 995: **Dynasties in professions: the role of rents** (November 2014)

Sauro Mocetti

The correlation between the socio-economic status of parents and their offspring has emerged as one of the stylized facts in economics, though cross-country and cross-occupation variation is remarkable. However, part of the underlying mechanism behind intergenerational persistence remains to be explained. This paper contributes to the existing literature by providing evidence on the role of rents – (unfair) economic benefits that individuals obtain as adults because of their parents' professional position. Several identification strategies, including the exploitation of discontinuities in regulation, suggest that rents significantly affect children's propensity to follow their parents' professional career paths. From a policy perspective, the removal of anti-competitive regulation and other positional advantages may increase both social fluidity and labor market efficiency.

Full text (pdf)

No. 994: **Trade Liberalization and Domestic Suppliers: Evidence from Chile** (November 2014)

Andrea Linarello

I examine the effect of reducing export tariffs on the productivity of domestic suppliers of exporting firms. Using a panel of Chilean firms during a period of trade liberalization with the European Union, the United States, and the Republic of Korea, I show that the average reduction in the export tariff of downstream industries (1.1 percentage points) increases the productivity of intermediate input suppliers by 1.5 percent. The increase in productivity among domestic suppliers accounts for 22.5 percent of aggregate productivity gains. I find that tariff cuts induce firms to acquire new machinery and pay higher wages to skilled workers. These findings are consistent with a simple model in which lower export tariffs increase the sales of exporting firms and increase the derived demand for intermediates through input-output linkages.

Full text (pdf)

Latest working papers

No. 993: **Optimal monetary policy rules and house prices: the role of financial frictions** (October 2014)

Alessandro Notarpietro and Stefano Siviero

We probe the scope for reacting to house prices in simple and implementable monetary policy rules, using a New Keynesian model with a housing sector and financial frictions on the household side. We show that the social welfare maximizing monetary policy rule features a reaction to house price variations, when the latter are generated by housing demand or financial shocks. The sign and size of the reaction crucially depend on the degree of financial frictions in the economy. When the share of constrained agents is relatively small, the optimal reaction is negative, implying that the central bank must move the policy rate in the opposite direction with respect to house prices. However, when the economy is characterized by a sufficiently high average loan-to-value ratio, then it becomes optimal to counter house price increases by raising the policy rate.

Full text (pdf)

No. 992: **Informed trading and stock market efficiency** (October 2014)

Taneli Mäkinen

The information content of stock prices is analysed without imposing strong restrictions on traders' preferences and the distribution of dividends. Noise in the information contained in equilibrium prices arises from endogenous asset supply, which offsets price movements due to informed trading. The informativeness of stock prices increases with the wealth of the informed traders and decreases with the risk-free rate, as stock prices respond more strongly to information held by informed traders when they take larger positions in stocks.

Full text (pdf)

No. 991: **The scapegoat theory of exchange rates: the first tests** (October 2014)

Marcel Fratzscher, Dagfinn Rime, Lucio Sarno and Gabriele Zinna

The scapegoat theory of exchange rates (Bacchetta and van Wincoop 2004, 2013) suggests that market participants may attach excessive weight to individual economic fundamentals, which are picked as scapegoats to rationalize observed currency fluctuations at times when exchange rates are driven by unobservable shocks. Using novel survey data that directly measure foreign exchange scapegoats for 12 exchange rates, we find empirical evidence that supports the scapegoat theory. The resulting models explain a large fraction of the variation and directional changes in exchange rates in sample, although their out-of-sample forecasting performance is mixed.

Full text (pdf)

No. 990: **How much of bank credit risk is sovereign risk? Evidence from the Eurozone** (October 2014)

Junye Li and Gabriele Zinna

We develop a multivariate credit risk model for the term structures of sovereign and bank credit default swaps. First, we separate the probability of joint defaults of large Eurozone sovereigns (systemic risk) from that of sovereign-specific defaults (country risk). Then, we quantify individual banks' exposures to each type of sovereign risk, as well as bank-specific credit risk. Banks' sovereign risk exposures vary with banks' size, their holdings of sovereign debt, and expected government support. On average, 45% of French and Spanish banks' credit risk consists in sovereign risk, compared with only 30% for Italian and 23% for German banks. Furthermore, short- to medium-term contracts are particularly informative on sovereign systemic risk.

Full text (pdf)

No. 989: **The determinants of household debt: a cross-country analysis** (October 2014)

Massimo Coletta, Riccardo De Bonis and Stefano Piermattei

In most countries household debt increased from the 1990s until the crisis of 2007-2008 before stabilizing due to recession and deleveraging. However, there are national differences in household debt/GDP ratios. This paper studies the determinants of household debt, using a 32-country dataset and taking both demand-side and supply-side factors into account. The econometric exercises, covering the period 1995-2011, yield two main results. First, debt is greater in countries

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with higher per capita GDP and household wealth. Second, the efficacy of bankruptcy laws is correlated with the level of household debt, while a longer time to resolve insolvencies is associated with lower debt. These two institutional variables are linked to household debt more robustly than is the quality of credit registers.
Full text (pdf)

No. 988: **The interest-rate sensitivity of the demand for sovereign debt. Evidence from OECD countries (1995-2011)** (October 2014)

Giuseppe Grande, Sergio Masciantonio and Andrea Tiseno

Public debt levels in advanced economies have increased dramatically over recent years and they could put considerable upward pressure on market yields. Using a novel identification approach based on financial accounts and focusing on panel regressions for 18 advanced economies over the period 1995–2011, this paper estimates the long-term slope of the demand function for government securities in a reduced-form setting. We find that public debt does matter: each percentage point increase in the public debt to GDP ratio raises 10-year rates by about 2 basis points. The potential drag on public debt sustainability caused by the feedback loop of public debt on higher interest rates should not therefore be overlooked.
Full text (pdf)

No. 987: **Large banks, loan rate markup and monetary policy** (October 2014)

Vincenzo Cuciniello and Federico M. Signoretti

This paper studies the implications of introducing large monopolistic banks, which can affect macroeconomic outcomes and thus the response of monetary policy to inflation, in a model with a collateral constraint linking the borrowers' credit capacity to the value of their durable assets. First, we find that strategic interaction generates a countercyclical loan spread, which amplifies the impact of monetary and technology shocks on the real economy. This type of financial accelerator adds up to the one due to financial frictions and is crucially related to the existence of non-atomistic banks. Second, the level of the spread and the degree of amplification are positively related to the level of entrepreneurs' leverage, reflecting the fact that higher leverage implies greater elasticity of the policy rate to changes in loan rates, which in turn increases banks' market power. Third, we find that amplification is stronger the more aggressive the central bank's response to inflation, as measured by the inflation coefficient in the Taylor rule.
Full text (pdf)

No. 986: **An estimated DSGE model with search and matching frictions in the credit market** (October 2014)

Danilo Liberati

Financial frictions have become fundamental for studying the business cycle and credit market dynamics. This work adds to the existing literature by introducing a search and matching scheme in the financial market into a cash in advance New Keynesian DSGE theoretical model. We provide an alternative explanation of the degree of incompleteness in the pass-through from policy rate to loan rates depending on credit market tightness, the search costs sustained by banks, and the relative powers of the agents in loan interest rate bargaining. The model is able to reproduce the countercyclical behaviour of the credit spread with respect to a positive technology shock. It also proposes a scenario in which a credit shock hits the economy. The model is estimated by using the Bayesian procedures. Finally, since there is still some disagreement about the theoretical mechanism by which the interest rate on loans is derived, we survey and compare these theoretical devices with that proposed by this paper.
Full text (pdf)

No. 985: **Dif-in-dif estimators of multiplicative treatment effects** (October 2014)

Emanuele Ciani and Paul Fisher

We consider a difference-in-differences setting with a continuous outcome, such as wages or expenditure. The standard practice is to take the logarithm of the outcome and then interpret the results as an approximation of the multiplicative treatment effect on the original outcome. We argue that a researcher should instead focus on the original outcome when discussing causal inference. Furthermore, it is preferable to use a non-linear estimator, because

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running OLS on the log-linearised model might confound distributional and mean changes. We illustrate the argument with an original empirical analysis of the impact of the UK Educational Maintenance Allowance on households' expenditure, and with a simulation exercise.
Full text (pdf)

No. 984: **Natural expectations and home equity** (October 2014)

Roberto Pancrazi and Mario Pietrunti

In this paper we show that long-run expectations about future housing prices of both households and, especially, financial intermediaries had a large impact on households' indebtedness during the recent boom in U.S. housing prices. We introduce the theory of natural expectations in a collateralized credit market model populated by households and banks and find: (1) that mild variations in long-run forecasts of housing prices result in large differences in the amount of home equity extracted during the boom; and (2) that the equilibrium level of debt and the interest rate are particularly sensitive to financial intermediaries' naturalness.
Full text (pdf)

No. 983: **Science and Technology Parks in Italy: main features and analysis of their effects on the firms** (October 2014)

Danilo Liberati, Marco Marinucci and Giulia Martina Tanzi

We analyse the results of a survey conducted by the Bank of Italy in the spring of 2012 on Italian science and technology parks. First we describe the main features of science parks in Italy. Then we investigate whether they have been effective in improving the economic performance and innovative capacity of the firms located within them. We find a pronounced heterogeneity between science and technology parks, whose cooperation with public research institutions is characterized by physical proximity. Although the business situation of firms located in science and technology parks tends on average to be better than that of similar "non-park" firms, a difference-in-differences estimation shows that entering a science and technology park did not generally improve firms' business performance and their propensity to innovate compared with external counterparts.
Full text (pdf)

No. 982: **Informational effects of monetary policy** (October 2014)

Giuseppe Ferrero, Marcello Miccoli and Sergio Santoro

We analyse a simplified New-Keynesian model with an unobserved aggregate cost-push shock in which firms and the central bank have different information about the shock. We consider a linear policy rule where a pure inflation targeting central bank decides how much to react to the shock given its information. In this framework we show that monetary policy performs both an allocational and an informational role, the latter due to firms extracting information on the aggregate shock from the monetary policy tool. When the informational role is present, optimal monetary policy is more cautious, that is, it responds less to the shock than the perfect information benchmark. A more cautious reaction to the shock implies that firms make more effective use of their private information and the endogenous information coming from the aggregate price in order to make inferences about the shock.
Full text (pdf)

No. 981: **The academic and labor market returns of university professors** (October 2014)

Michele Braga, Marco Paccagnella and Michele Pellizzari

This paper estimates the impact of university teachers on their students' academic achievement and labor market outcomes using administrative data from Bocconi University matched with Italian tax records. The estimation exploits the random allocation of students to teachers in a fixed sequence of compulsory courses. We find that the academic and labor market returns of teachers are only mildly positively correlated and that the professors who are best at improving the academic achievement of their best students are not always also the ones who boost their students' earnings the most, especially for the least able students.
Full text (pdf)

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No. 980: **Sharing information on lending decisions: an empirical assessment** (October 2014)

Ugo Albertazzi, Margherita Bottero and Gabriele Sene

We present the first empirical study of information spillover and signalling on loan search and its outcomes in a setting where a bank observes whether a loan applicant has already been rejected by other lenders. We do so by taking advantage of the fact that Italy's Central Credit Register discloses such information. The results show that disclosing information on past rejections negatively affects the probability of continuing a loan search. At the same time, the information on former rejections is associated with a higher probability of being funded for borrowers who are not discouraged and continue the search, provided they are not opaque. With the aid of a theoretical model, we show that banks interpret the information on previous rejections as a signal of unobservable quality for the average borrower but not for more opaque borrowers, whose past rejections negatively affect the outcome of later applications. We also show that banks differ in the extent to which they rely on this information, in a way that at least partly reflects the different informational content that this signal carries for them.

Full text (pdf)

No. 979: **Quantile aggregation of density forecasts** (October 2014)

Fabio Busetti

Quantile aggregation (or 'Vincentization') is a simple and intuitive way of combining probability distributions, originally proposed by S. B. Vincent in 1912. In certain cases, such as under Gaussianity, the Vincentized distribution belongs to the same family as that of the individual distributions and can be obtained by averaging the individual parameters. This paper compares the properties of quantile aggregation with those of the forecast combination schemes normally adopted in the econometric forecasting literature, based on linear or logarithmic averages of the individual densities. In general we find that: (i) larger differences among the combination schemes occur when there are biases in the individual forecasts, in which case quantile aggregation seems preferable overall; (ii) the choice of the combination weights is important in determining the performance of the various methods. Monte Carlo simulation experiments indicate that the properties of quantile aggregation fall between those of the linear and the logarithmic pool, and that quantile averaging is particularly useful for combining forecast distributions with large differences in location. An empirical illustration is provided with density forecasts from time series and econometric models for Italian GDP.

Full text (pdf)

No. 978: **Does issuing equities help R&D activity? Evidence from unlisted Italian high-tech manufacturing firms** (October 2014)

Silvia Magri

This paper evaluates the causal effect of issuing equities on the probability that a firm will engage in R&D activity. Equity is a preferable source of external finance for innovation than debt. It does not require collateral, does not exacerbate moral hazard problems connected with the substitution of high-risk for low-risk projects, quite common when using debt, and, unlike debt, does not increase the probability of bankruptcy; equity also allows investors to reap the entire benefit of returns on successful innovative projects. The paper focuses on high-tech firms for which asymmetric information problems are more pervasive. Implementing an instrumental variable estimation, we find that issuing equity increases the probability of the firm making R&D expenditure by 30-40 per cent. We detect considerable heterogeneity across firms: the impact of issuing equity is significant only for small, young, and more highly leveraged firms. We also find interesting evidence that issuing equity increases R&D expenditure in relation to sales.

Full text (pdf)

No. 977: **Financial indicators and density forecasts for US output and inflation** (October 2014)

Piergiorgio Alessandri and Haroon Mumtaz

When do financial markets help in predicting economic activity? With incomplete markets, the link between financial and real economy is state-dependent and financial

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indicators may turn out to be useful particularly in forecasting "tail" macroeconomic events. We examine this conjecture by studying Bayesian predictive distributions for output growth and inflation in the US between 1983 and 2012, comparing linear and nonlinear VAR models. We find that financial indicators significantly improve the accuracy of the distributions. Regime-switching models perform better than linear models thanks to their ability to capture changes in the transmission mechanism of financial shocks between good and bad times. Such models could have sent a credible advance warning ahead of the Great Recession. Furthermore, the discrepancies between models are themselves predictable, which allows the forecaster to formulate reasonable real-time guesses on which model is likely to be more accurate in the next future.

Full text (pdf)

Other recent working papers

September 2014

No. 976: Multidimensional poverty and inequality
Rolf Aaberge and Andrea Brandolini

No. 975: Hedonic value of Italian tourism supply: comparing environmental and cultural attractiveness
Valter di Giacinto and Giacinto Micucci

No. 974: Identification and estimation of outcome response with heterogeneous treatment externalities
Tiziano Arduini, Eleonora Patacchini and Edoardo Rainone

No. 973: Inequality and trust: new evidence from panel data
Guglielmo Barone and Sauro Mocetti

No. 972: Are sovereign wealth funds contrarian investors?
Alessio Ciarlone and Valeria Miceli

No. 971: Random switching exponential smoothing and inventory forecasting
Giacomo Sbrana and Andrea Silvestrini

No. 970: Academic performance and the great recession
Effrosyni Adamopoulou and Giulia Martina Tanzi

No. 969: Stock market efficiency in China: evidence from the split-share reform
Andrea Beltratti, Bernardo Bortolotti and Marianna Caccavaio

July 2014

No. 968: Price pressures in the UK index-linked market: an empirical investigation
Gabriele Zinna

No. 967: Measuring spatial effects in presence of institutional constraints: the case of Italian Local Health Authority expenditure
Vincenzo Atella, Federico Belotti, Domenico Depalo and Andrea Piano Mortari

No. 966: Bank bonds: size, systemic relevance and the sovereign
Andrea Zaghini

No. 965: Behind and beyond the (headcount) employment rate
Andrea Brandolini and Eliana Viviano

No. 964: Foreign exchange reserve diversification and the "exorbitant privilege"
Pietro Cova, Patrizio Pagano and Massimiliano Pisani

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No. 254: **A feasible unemployment-based shock absorber for the euro area** (November 2014)

Andrea Brandolini, Francesca Carta and Francesco D'Amuri

This paper contributes to the debate on the design of a centralised fiscal tool absorbing country-specific negative shocks in the euro area. Based on theoretical insights, it identifies the broad characteristics that a shock absorber based on unemployment should have in order to be incentive-compatible and politically feasible. It then derives empirically the combination of activation thresholds, experience rating, eligibility criteria, and benefit generosity which define the systems offering the highest stabilisation for given levels of redistribution, accounting for the large variation in benefit take-up rates across European countries. The analysis suggests that the shock absorber should: i) give rise to macro cross-national transfers, mimicking those that would be generated by a notional euro-wide unemployment benefit scheme of minimal coverage and generosity; ii) be activated by a trigger; and iii) feature partial experience rating. The simulation results, confirmed by robustness checks, show that even systems that do not redistribute resources between countries can have a considerable stabilisation impact in the medium run. Low benefit take-up in Southern Europe substantially reduces the stabilisation properties and the size of the scheme. Full text (pdf)

No. 253: **Accounting for total work** (November 2014)

Andrea Brandolini and Eliana Viviano

The purpose of this paper is to assess the effects of a sequence of deflationary shocks, such as those that hit the euro area in 2013-14, on expected/realized inflation and output. We consider a simple New Keynesian model where agents, rather than being endowed with rational expectations, have incomplete information about the working of the economy and form expectations through an adaptive learning process. The main findings are the followings: (i) under learning, price dynamics in 2015-16 are on average 0.6 percentage points lower than in the case of fully rational agents, as inflation expectations are strongly affected by repeated deflationary shocks; (ii) the learning process implies a (data-driven) de-anchoring of inflation expectations from the Central Bank target, which would be perceived by economic agents to fall to 0.8% at the end of 2016; (iii) output expectations would also be lower in the case of learning, resulting in a slower recovery of economic activity. Full text (pdf)

No. 252: **Deflationary shocks and de-anchoring of inflation expectations** (November 2014)

Fabio Busetti, Giuseppe Ferrero, Andrea Gerali and Alberto Locarno

A prolonged period of low inflation can heighten the risk of inflation expectations de-anchoring from the central bank's objective, particularly when monetary policy rates are near the zero lower bound. This paper investigates the effects of a sequence of deflationary shocks on expected/realized inflation and output. To do so we consider a simple New Keynesian model where agents have incomplete information about the working of the economy and form expectations through an adaptive learning process (in the sense that they behave like econometricians, using regressions to anticipate the future value of the variables of interest). The model is simulated with euro area data over the period 2014-16 under assumptions of both rational expectations and learning. The main findings are the following: (i) under learning, price dynamics in 2015-16 is 0.6 percentage points lower on average than in the case of fully rational agents, as inflation expectations are strongly affected by repeated deflationary shocks; (ii) the learning process implies a (data-driven) de-anchoring of inflation expectations from the central bank's target, which would be perceived by economic agents to fall to 0.8 per cent at the end of 2016; (iii) output expectations would also be lower in the case of learning, resulting in a slower recovery of economic activity. Full text (pdf)

No. 251: **Do firm-bank relationships affect firms' internationalization?** (November 2014)

Riccardo De Bonis, Giovanni Ferri and Zeno Rotondi

The goal of this paper is to investigate the link between the length of a firm-bank relationship and firm's internationalization. The analysis is carried out on matched firm-bank micro-data from

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a survey of Italian enterprises from 1998 to 2003. We obtain two main results. First, a longer relationship with the main bank fosters firms' foreign direct investment (FDI) while it does not affect the export status of the enterprises not engaging in FDI. Second, the probability of a firm undertaking FDI further increases if its main bank is itself internationalized by holding foreign subsidiaries. Full text (pdf)

No. 250: **Beyond the acronyms: local property taxation in Italy** (November 2014)

Giovanna Messina and Marco Savegnago

The paper traces recent developments in local real estate taxation in Italy. We exploit a rich dataset at both aggregate and individual level to estimate the variation in local taxes on first homes in the last three years and the redistributive impact of the adoption of the tax on indivisible services in 2014. Local property taxes on first homes average one fifth lower in 2014 than in 2012; including waste disposal taxes, the overall local fiscal burden remains broadly stable. However, taxation bears more heavily on lower-income households, owing to decreased allowance for tax deductions. To conclude, the paper examines possible future local property tax reform measures (keeping total revenue constant) to enhance transparency and equity. Full text (pdf) in Italian only

No. 249: **The World Bank's procurement competition and the Italian construction industry** (November 2014)

Michele Benvenuti, Luca Casolaro, Tindaro Paganini and Umberto Viviani

The World Bank's procurement sector performs yearly operations ranging from $20 to $40 billion, half of which financing civil works. The share of contracts assigned to Italian firms peaked at 4 per cent in 2007-2012 (6 per cent in the civil works sector), significantly improving the level of the previous 2001-2006 period; Italy ranked as the fourth country in overall value. These projects are carried out by a small number of firms, are large in size, situated in relatively close markets (Eastern Europe and Central Asia) and mainly related to transportation. The World Bank's procurement procedures are currently under revision. Both opportunities and risks may arise for Italian firms. Projects will be assessed by looking beyond the initial bid price: quality and life-cycle profitability will be more relevant, representing a potential advantage to Italian firms used to managing large, complex projects. On the other hand, a more widespread use of national procurement procedures could result in a comparative disadvantage for non-local firms.
Full text (pdf) in Italian only

No. 248: **Domestic and foreign sales: complements or substitutes?** (November 2014)

Matteo Bugamelli, Eugenio Gaiotti and Eliana Viviano

How are the dynamics of foreign and domestic sales correlated at the firm level? The question is relevant in that the sign of the correlation shapes the international transmission of shocks and the effects of policy measures. From a theoretical perspective, the correlation could be either zero, as assumed by standard international trade models, or negative if firms are capacity constrained, or positive if liquidity constraints dominate. The empirical evidence, however, is rather mixed. Using a sample of Italian manufacturing firms in the period 2001-12, we show that: i) the sign of the correlation changes over the business cycle, being negative in the first part of the past decade and positive after the 2008 crisis; ii) all the channels suggested by the literature are involved and they may explain the time-varying correlation; iii) the drop in domestic sales by Italian firms in 2012, contributed negatively to firms' exports, and together with liquidity constraints, the fall reduced the growth rate of exports by an average of 0.6 percentage points. Full text (pdf)

No. 247: **How the labour market evaluates Italian universities** (November 2014)

Emanuele Ciani and Vincenzo Mariani

We analyse how the labour market implicitly evaluates Italy's higher education system by estimating differences in employment and earnings across universities. We use our estimates to produce three rankings of universities based, respectively, on employment, earnings and employment-weighted earnings. By controlling for a large set of covariates, we isolate each university

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effect on employment and earnings from additional components influencing graduates' labour market outcomes, namely the university's field of specialization, the graduates' observable characteristics and their local labour markets. To account for the latter, we include graduates' employment rate in the region of residence among the covariates but we instrument it with prior residence in order to correct for endogenous sorting. We discuss pros and cons of our methodology and compare our results with other available university rankings. Full text (pdf)

No. 246: **Regional policies to foster firms' innovation activity** (November 2014)

Francesca Lotti and Maria Lucia Stefani

Following the constitutional reform of 2001, which gave increased autonomy Italian regions, and the new European guidelines from the Lisbon Agenda, there has been an upturn in regional legislative activity concerning innovation, leading to a critical review of the instruments adopted, mainly towards greater selectivity. Regional intervention tends to be highly fragmented, focusing on the funding of applied research and using grants as the preferred policy tool. In terms of sources of funds, structural funds have gained importance since the 2007-13 programming cycle, partly due to the economic crisis, and in the southern regions account for nearly all the resources devoted to fostering innovation. This paper presents a summary indicator, consisting of three "sub-indicators" approximating, respectively, the input of the innovation process, innovation output, and a quantitative measure of regional policies for innovation. Full text (pdf) in Italian only

No. 245: **Just round the corner? Pros, cons, and implementation issues of a fiscal union for the euro area** (November 2014)

Fabrizio Balassone, Sandro Momigliano, Marzia Romanelli and Pietro Tommasino

The experience of other successful monetary unions and economic theory suggest that the euro area would benefit from the establishment of a supranational fiscal capacity. Institutional reforms prompted by the crisis (e.g., the European Stability Mechanism and the banking union) are introducing – though to a limited extent – elements of cross-country risk sharing. Nevertheless, further steps are probably needed. Proposals to create a sort of rainy-day fund present major practical difficulties – associated, inter alia, to the uncertainty characterizing the identification of shocks in real time. A more appropriate solution, consistent with how risk sharing operates in existing federations, may be centralizing specific public functions (for instance, by introducing a common unemployment benefit scheme). We argue that consideration could also be given to the creation of a euro-wide, notional defined-contribution pension scheme. Full text (pdf)

No. 244: **The role of leverage in firm solvency: evidence from bank loans** (October 2014)

Emilia Bonaccorsi di Patti, Alessio D'Ignazio, Marco Gallo and Giacinto Micucci

The two recessions that have hit Italy since the end of 2008 have raised the share of non-performing loans to businesses in banks' portfolios substantially. In this paper we evaluate to what extent the deterioration of credit quality was due not only to the decline in firms' sales during the contraction of economic activity, but also to the level of firms' financial debt at the onset of the first recession. Our results show that, other things being equal, a ten percentage point increase in leverage is associated with a higher probability of default of almost one percentage point. Moreover, the adverse impact of a fall in sales on a firm's solvency is almost four times greater for firms in the highest quartile of the leverage distribution than for firms in the first quartile. These findings confirm that firms' financial structure can be a powerful amplifier of macroeconomic shocks. A higher level of leverage reduces firms' resilience during a recession, and this in turn weakens the balance-sheets of banks and thus their ability to provide credit. Full text (pdf)

No. 243: **Foreign direct investment and multinational firms** (October 2014)

Alessandro Borin and Riccardo Cristadoro

Since the early 1990s internationalization has moved forward very rapidly. With the reorganization of production processes on a global

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scale, the average growth rate of foreign direct investment (FDI) has exceeded that of GDP and trade, and its geographical and sectoral distribution has changed. In 2012, for the first time FDI flows to developing countries outpaced those to developed countries. Italy lags behind as a destination for FDI inflows and also as an originator of FDI outflows. The expansion of Italian multinationals in the '90s was largely driven by investment in traditional industries and in Eastern European economies. During the last decade a larger share of Italian FDI has been directed towards the most dynamic markets and innovative sectors. Italy's industrial structure, which largely consists of small firms, is a factor in Italy's delay in pursuing stable internationalization strategies. Compared with Germany and France, Italian firms show a significantly higher propensity to make use of arm's length and sub-contracting agreements rather than establishing production facilities abroad.
Full text (pdf) in Italian only

No. 242: **Inflation, debt and the zero lower bound** (October 2014)

Stefano Neri and Alessandro Notarpietro

This paper analyses the macroeconomic effects of a protracted period of low and falling inflation rates when monetary policy is constrained by the zero lower bound (ZLB) on nominal interest rates and the private sector is indebted in nominal terms (debt-deflation channel). In this scenario, even cost-push shocks that in normal circumstances would reduce inflation and stimulate output are found to have contractionary effects on economic activity, especially when the interplay of ZLB and debt deflation is considered. Full text (pdf)

No. 241: **The household credit market after five years of crisis: evidence from the survey on income and wealth** (October 2014)

Silvia Magri and Raffaella Pico

Half a decade of crisis has had a substantial impact on the market for credit to Italian households. From 2008 through 2012 the share of indebted households decreased by 4 percentage points, to 23 per cent; among young households it fell by 12 points. The decline involved consumer credit and occurred between 2010 and 2012. Overall, the share of households with mortgage loans did not change; however, it fell among low-income households and increased among those in the third quartile of income. The demand for loans decreased sharply except among young households. The reduction in indebtedness was due to the drastic tightening of credit supply conditions in the period. The indicators of debt sustainability, in particular the ratio of debt to income, began to worsen in 2010; for mortgage credit the decline has involved households headed by self-employed workers and those in the third income quartile. For these households, repayment arrears have increased; arrears are more frequent for mortgages granted before the crisis. The share of households with high debt service and below-median income is about the same as in 2008, and our simulations suggest that it will change only slightly in 2014-2015.
Full text (pdf) in Italian only

No. 240: **Energy poverty in Italy** (October 2014)

Ivan Faiella and Luciano Lavecchia

Despite the existence of two targeted national programmes ("Bonus gas" and "Bonus energia") in Italy there is no official definition of energy poverty (EP). The purpose of this study is to provide the reader with a set of indicators to fill this gap. We present a range of poverty measures which estimate that between 5 and 20 per cent of households was in EP in 2012. A selection based on qualitative criteria suggests the use of a low-income/high-costs indicator modified to include the economically vulnerable households with no heating expenses. According to this statistic the proportion of households in EP during the period 1997-2012 was broadly stable at around 8 per cent. Our simulations indicate that the tools available to counter EP in Italy would have yielded a modest reduction in energy vulnerable households.
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No. 223: The survey on international merchandise transport of Italy: methods and results
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No. 222: Analysing financial vulnerability by income group
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No. 221: Diffusion and outlook of firm-level bargaining in Italy
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No. 220: International tourism in Italy
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Workshops and conferences

No. 17: **Social Capital, the Economy and Economic Policy** (November 2014)

Guglielmo Barone, Guido de Blasio and Paolo Sestito

The volume collects the essays presented at the conference "Social capital, economics and political economy" held in Rome on 27 June 2014. The first session analyzes definition and measurement issues about social capital. The second and third sessions examine its determinants and economic effects, respectively. The fourth session is devoted to the relationship between social capital and the public sector while the last session concentrates on the role of social capital in credit markets.
Full text (pdf) in Italian only

No. 16: **Fiscal policy and macroeconomic imbalances** (November 2014)

Luca Agnello, Ana María Aguilar, Fabio Balboni, Emanuele Baldacci, Sebastian Barnes, Antonio Bassanetti, Adi Brender, Anne-Marie Brook, Matteo Bugamelli, Sascha Bützer, Panagiotis Chronis, Carlos Cuerpo, Jorge Cunha, Roberta De Stefani, Elena Deryugina, Francesco D Comite, Inês Drumond, Gilles Dufrenot, Kazuhiko Ejima, Jonas Fischer, Daniele Franco, Niels Gilbert, Raffaela Giordano, Gabriele Giudice, Rauf Gönenç, Andrés González, Sanjeev Gupta, Fuad Hasanov, Sebastian Hauptmeier, David Heald, de Cos Pablo Hernández, García Carlos Herrero, Jeroen Hessel, Gonzáles Pedro Hinojo, Ida Hjortsø, Alexandr Hobza, Ana Teresa Holanda de Albuquerque, Serrano Juan Francisco Jimeno, Christina Jordan, Christophe Kamps, Ramazan Karaşahin, Christian Kastrop, Alexander Klemm, Vincent Koen, Walpurga Köhler-Töglhofer, Radoslav Krastev, Geert Langenus, Jean . Le Pavec, Nadine Leiner-Killinger, Julia Lendvai, Mirko Licchetta, Ignacio Lozano, Ranjana Madhusudhan, Rodríguez Pilar Mas, Sandro Momigliano, Daniel Monteiro, Marialuz Moreno Badia, Laurent Moulin, Atri Mukherjee, Carlos Mulas-Granados, George Palaiodimos, Lucio Pench, Marcello Pericoli, Peter Pontuch, Rafal Raciborski, Bulos Claudia Ramírez, Ernesto Rezk, Braz Cláudia Rodrigues, Oliver Röhn, Rasmus Rüffer, Roberto Sabbatini, Johannes Scheubeand, Alex Segura-Ubiergo, David Sondermann, Ricardo M. Sousa, Karsten Staehr, Livio Stracca, Teresa Ter-Minassian, Pietro Tommasino, Alessandro Turrini, Hernando Vargas, Sergey Vlasov, Francesco Zollino

The volume collects the essays presented at the 15th Workshop on Public Finance organised by Banca d'Italia in Perugia from 4 to 6 April 2013. The workshop focused on the link between fiscal policy and macroeconomic imbalances and comprised four sessions. The first session concentrated on the interaction between fiscal policy and macroeconomic imbalances. The second session dealt with the specific problems of the euro area, where insufficient attention to macroeconomic developments contributed to increase fiscal and financial tensions. The third session scrutinized fiscal policy with an eye to the inequalities of emerging economies and resource-rich countries. The last session analysed the experiences so far and the potential prescriptions about the use of fiscal tools in addressing macroeconomic problems.
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Selection of Journal articles and books by Bank of Italy staff

Authors' names in boldface: Bank of Italy

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