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NEWSLETTER

Contents

Highlights

Workshop on "Global Value Chains: new evidence and implications"

(Rome, 22 June 2015)

On 22 June the workshop on "Global Value Chains: new evidence and implications" was held at the Bank of Italy. It was divided into four sessions. The first introduced the methodology, the data, and the World Input-Output Tables (WIOD) tables, which are widely used in many of the papers. The papers presented focused on the euro-area countries, providing a picture of their participation in global value chains and a map of value added flows within the area; in the Eurozone. The second session focused on alternative indicators of countries' competitiveness to take account of their participation in GVCs. The papers proposed measures of countries' shares in global value added and metrics of competitiveness that take the activity of multinational companies into account. The papers presented in the third session evaluated the relationship between international fragmentation of production and macroeconomic performance. The fourth session included many papers analysing participation in global value chains in single countries (China, Italy, and Germany) and in the Italian regions.

Fourth Rome Junior Conference on Macroeconomics

(Rome, 22-23 June 2015)

On 22-23 June 2015, EIEF hosted and organized the fourth "Rome **Junior Conference on Macroeconomics**". The conference brought together junior "high-flier" economists from around the world with a strong interest in macroeconomics.

The programme is available here.

Workshop on "Global Banks and Macroprudential Policy"

(Rome, 25-26 June 2015)

On 25 and 26 June the International Banking Research Network (IBRN) workshop was held at the Bank of Italy. The IBRN brings together researchers from central banks (currently more than 20) and from international organizations to analyse issues pertaining to global banks. A common underlying theme of research conducted by the IBRN is the use of micro-level data to better understand the consequences of global banking. Country teams work on the same topic in parallel, bringing their distinct, bank-level data sets to bear on the development of comparable cross-country evidence. The workshop was divided into three sessions focusing on (i) the transmission of liquidity shocks through international banks; (ii) the impact of macroprudential regulation on the activity of global banks; and (iii) cross-border recovery and resolution. As part of

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the workshop, a panel session open to external participants was organized on the topic of macroprudential policy and lending behaviour.

Conference on "Labour and Finance"

(Rome, 28-30 August 2015)

On 28-30 August 2015, EIEF hosted a major conference on "**Labor and Finance**", co-organized with CSEF and SITE. The conference brought together researchers from financial economics and labor economics to discuss the topic from the point of view of both disciplines.

The programme and photos of the event are available here.

European Conference on "Household Finance"

(Frankfurt, 11-12 September 2015)

EIEF, the Center on Sustainable Architecture for Finance (SAFE) at Goethe University Frankfurt, the Copenhagen Business School, HEC Paris and the Swedish House of Finance (SHoF) organized the 2015 European Conference of the CEPR Network on "**Household Finance**", which took place on 11-12 September at the Goethe University in Frankfurt.

The programme is available here.

Workshop on "Low inflation and its implication for monetary policy"

(Rome, 5 October 2015)

On 5 October 2015 the Bank of Italy hosted the workshop on "Low inflation and its implications for monetary policy". It was open to researchers and economists from other central banks, international institutions and universities. The main topics for discussion were the determinants of inflation, the risks of de-anchoring of inflation expectations, and their macroeconomic implications. It was divided into three sessions: the first examined the determinants of a protracted period of low inflation, focusing on potentially non-linear relationships between the inflation rate and the business cycle. The second analyzed inflation expectations inferred from financial instruments and macroeconomic models at the zero lower bound. The papers presented in the third session evaluated the macroeconomic impact of a low level of inflation and the implications for monetary policy

Forthcoming events

Conference on "The Bank of Italy's Analysis of Household Finances"

(Rome, 3-4 December 2015)

The Bank of Italy is organizing a conference to celebrate the fiftieth anniversary of the Survey on Household Income and Wealth and of the Financial Accounts. The conference, entitled 'The Bank of Italy's Analysis of Household Finances', will be held in Rome from 3-4 of December, 2015. It will offer the opportunity to unite policy makers and researchers from both the Bank and academia to discuss relevant topics such as the distribution of household income and wealth, household financial vulnerability, public pensions and house prices.

The conference is open to the general public.

SEMINARS AT THE BANK OF ITALY

SEMINARS AT EIEF

Latest working papers

No. 1036: **Domestic and international macroeconomic effects of the Eurosystem expanded asset purchase programme** (September 2015)

Pietro Cova, Patrizio Pagano and Massimiliano Pisani

This paper evaluates the domestic and international macroeconomic effects of purchases of domestic long-term sovereign bonds by the Eurosystem. To this end, we calibrate a five-country dynamic general equilibrium model of the world economy. According to our results, the sovereign bond purchases would generate an increase in economic activity and in inflation in the euro area of about one percentage point in the first two years by inducing a fall in the long-term interest rates and an increase in liquidity. International spillovers may be nontrivial and expansionary, depending on the monetary policy stance of the partner countries and on the response of international relative prices.
Full text (pdf)

No. 1035: **The time varying effect of oil price shocks on euro-area exports** (September 2015)

Marianna Riggi and Fabrizio Venditti

In this paper we provide novel evidence on changes in the relationship between the real price of oil and real exports in the euro area. By combining robust predictions on the sign of the impulse responses obtained from a theoretical model with restrictions on the slope of the oil demand and oil supply curves, we identify oil supply and foreign productivity shocks in a time varying VAR with stochastic volatility. We find that from the 1980s onwards the relationship between oil prices and euro area exports has become less negative conditional on oil supply shortfalls and more positive conditional on foreign productivity shocks. Using the theoretical model we show that our empirical findings can be accounted for by (i) stronger trade relationship between the euro area and emerging economies (ii) a decrease in the share of oil in production and (iii) increased competitive pressures in the product market.
Full text (pdf)

No. 1034: **Procyclicality of credit rating systems: how to manage it** (September 2015)

Tatiana Cesaroni

This paper evaluates the characteristics of a Point in Time (PiT) rating approach for the estimation of firms' credit risk in terms of procyclicality. To this end I first estimate a logit model for the probability default (PD) of a set of Italian non-financial firms during the period 2006-2012, then, in order to address the issue of rating stability (hedging against rating changes) during the financial crisis, I study the effectiveness of ex post smoothing of PDs in terms of obligors' migration among rating risk grades. As a by-product I further discuss and analyse the role played by the choice of rating scale in producing ratings stability. The results show that ex post PD smoothing is able to remove business cycle effects on the credit risk estimates and to produce a mitigation of obligors' migration among risk grades over time. The rating scale choice also has a significant impact on rating stability. These findings have important policy implications in banking sector practices in terms of the stability of the financial system.
Full text (pdf)

No. 1033: **Does trend inflation make a difference?** (September 2015)

Michele Loberto and Chiara Perricone

Although the average inflation rate of developed countries in the postwar period has been greater than zero, much of the extensive literature on monetary policy has employed models that assume zero steady-state inflation. In comparing four estimated medium-scale NK DSGE models with real and nominal frictions, we seek to shed light on the quantitative implications of omitting trend inflation, that is, positive steady-state inflation. We compare certain population characteristics and the IRFs for the four models by applying two loss functions based on a point distance criterion and on a distribution distance criterion, respectively. Finally, we compare the RMSE forecasts. We repeat the analysis for three sub-periods: the Great Inflation, the Great Moderation and the union of the two periods. We do not find clear evidence for always preferring a model that uses trend inflation.
Full text (pdf)

Latest working papers

No. 1032: **Sovereign debt exposure and the bank lending channel: impact on credit supply and the real economy** (September 2015)

Margherita Bottero, Simone Lenzu and Filippo Mezzanotti

We study the impact of sovereign market tensions on the real economy through the bank lending channel. Using a large matched bank-firm panel data set that tracks credit relations in Italy over the period 2009-2011, we show that the Greek bailout in the spring of 2010 had a negative impact on the riskiness of government securities held in the portfolio of financial intermediaries, which in turn led to a tightening in credit supply to firms. Firms, especially riskier ones, were unable to smooth out the credit shortage. We estimate that the shock to sovereign bonds led, via the lending channel, to a drop in aggregate bank lending to corporations of almost 2 percent over the subsequent year which translated in a reduction of investment by smaller firms.
Full text (pdf)

No. 1031: **The predictive content of business survey indicators: evidence from SIGE** (September 2015)

Tatiana Cesaroni and Stefano Iezzi

Business survey indicators represent an important tool in economic analysis and forecasting practices. While there is wide consensus on the coincident properties of such data, there is mixed evidence on their ability to predict macroeconomic developments in the short term. In this study we extend the previous research on the predictive content of business surveys by examining the leading properties of the main business survey indicators of the Italian Survey on Inflation and Growth Expectations (SIGE). To this end, we provide a complete characterization of the business cycle properties of survey data (volatility, stationarity, turning points etc.) and we compare them with the national accounts reference series. We further analyse the ability of SIGE indicators to detect turning points using both discrete and continuous dynamic single equation models as compared with their benchmark (B)ARIMA models. Overall, the results indicate that SIGE business indicators are able to make detect early the turning points of their corresponding national account reference series. These findings are very important from a policy-making point of view.
Full text (pdf)

No. 1030: **Female employment and pre-kindergarten: on the uninteded effects of an Italian reform** (September 2015)

Francesca Carta and Lucia Rizzica

We theoretically show that when mothers need to buy childcare services not only if they work but also if they want to search actively for a job, a reduction in the price of childcare will increase their likelihood of searching but may decrease their willingness to accept a job offer and therefore lower employment. We test these predictions empirically by means of a Regression Discontinuity design and find that the introduction in Italy of pre-kindergarten, a much cheaper alternative to day care for 2-year-old children, increased both participation in the labour market and employment of mothers of eligible children. This effect was driven largely by a significant decrease in the stated reservation wage.
Full text (pdf)

No. 1029: **European structural funds during the crisis: evidence from Southern Italy** (September 2015)

Emanuele Ciani and Guido de Blasio

We investigate the effectiveness of European Structural Funds on employment, population and house prices in 325 Local Labor Markets (LLM) located in Southern Italy. We exploit the variability in disbursements between 2007 and 2013 and estimate the impact of the interventions by allowing for LLM-specific fixed features and LLM-specific time trends. We find that the ability of these funds to offset the negative consequences of the economic crisis seems to have been limited.
Full text (pdf)

Latest working papers

No. 1028: **The impact of CCPs' margin policies on Repo markets** (September 2015)

Arianna Miglietta, Cristina Picillo and Mario Pietrunti

This paper quantifies the impact on the cost of funding in repo markets of the initial margins applied by central clearing counterparties (CCPs). We have used contract-level data for the general collateral (GC) segment of Italy's MTS Repo market between January 2011 and April 2014. The analysis shows that the initial margins, paid by all participants, had a positive and significant effect on the cost of funding. Such an impact is consistent across different model specifications and data subsamples.

Full text (pdf)

No. 1027: **On the conditional distribution of euro area inflation forecast** (July 2015)

Fabio Busetti, Michele Caivano and Lisa Rodano

The paper uses dynamic quantile regressions to estimate and forecast the conditional distribution of euro-area inflation. As in a Phillips curve relationship we assume that inflation quantiles depend on past inflation, the output gap, and other determinants, namely oil prices and the exchange rate. We find significant time variation in the shape of the distribution. Overall, the quantile regression approach describes the distribution of inflation better than a benchmark univariate trend-cycle model with stochastic volatility, which is known to perform very well in forecasting inflation. In an out-of-sample prediction exercise, the quantile regression approach provides forecasts of the conditional distribution of inflation that are superior, overall, to those produced by the benchmark model. Averaging the distribution forecasts of the different models improves robustness and in some cases results in the greatest accuracy of distributional forecasts.

Full text (pdf)

No. 1026: **Follow the value added: bilateral gross export accounting** (July 2015)

Alessandro Borin and Michele Mancini

The diffusion of international production networks has challenged the capability of traditional trade statistics to provide an adequate representation of supply and demand linkages among the economies. To address this issue, new statistical tools (the Inter-Country Input-Output tables) and new analytical frameworks have been developed. Koopman, Wang and Wei propose an accounting methodology to decompose a country's total gross exports by source and final destination of their embedded value added. We develop this approach further by deriving a fully consistent counterpart for bilateral trade flows, refining the original framework. Along with other contributions, our methodology completes the bridge between traditional trade statistics and the systems of national accounts and provides new tools for investigating global value chains. Here we present two empirical applications of two different versions of our decomposition of bilateral trade flows: one explores the forward linkages of Italian exports; the second derives a measure of the share of value-chain-related trade and assesses how its evolution since the mid-1990s has affected the relationship between world trade and income.

Full text (pdf)

No. 1025: **Tail comovement in option-implied inflation expectations as an indicator of anchoring** (July 2015)

Sara Cecchetti, Filippo Natoli and Laura Sigalotti

We analyse the degree of anchoring of inflation expectations in the euro area. Using a new estimation technique, we look at the tail co-movement between the moments of short- and long-term distributions of inflation expectations, where those distributions are estimated from daily quotes of inflation derivatives. We find that, since mid-2014, negative tail events impacting short-term inflation expectations have been increasingly channelled to long-term views, igniting both downward revisions in expectations and upward changes in uncertainty; instead, positive short-term tail

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events have left long-term moments mostly unaffected. This asymmetric behaviour may signal a disanchoring from below of long-term inflation expectations.
Full text (pdf)

No. 1024: **Accessorizing. The effect of union contract renewals on consumption** (July 2015)

Effrosyni Adamopoulou and Roberta Zizza

In this paper we use information on monthly wage increases set by collective agreements in Italy and exploit their variation across sectors and over time in order to examine how household consumption responds to different types of positive income shocks (regular tranches versus lump-sum payments).
Focusing on single-earner households, we find that the Permanent-Income Hypothesis holds empirically, since total and food consumption do not exhibit excess sensitivity to anticipated income shocks. Consumption does not respond at the date of the announcement of income increases either, as these are known to compensate workers for the overall loss in their wages' purchasing power. We also find, in line with the Permanent-Income Hypothesis, that consumption responds, but only a little, to transitory and less anticipated shocks, as the expenditures on clothing & shoes increase upon the receipt of the lump-sum payments. This finding can be interpreted as a "signaling-by-consuming" behaviour given that these goods represent conspicuous consumption. There is also some weak evidence of the existence of liquidity constraints regarding expenditures on strictly durables. Full text (pdf)

No. 1023: **Understanding policy rates at the zero lower bound: insights from a Bayesian shadow rate model** (July 2015)

Marcello Pericoli and Marco Taboga

Term structure models are routinely used by central banks to assess the impact of their communication on market participants' views of future interest rate developments. However, recent studies have pointed out that traditional term structure models can provide misleading indications when policy rates are at the zero lower bound (ZLB). One of the main drawbacks is that they are unable to reproduce the stylized fact that policy rates tend to remain at the ZLB for prolonged periods of time once they reach it. A consensus has recently emerged that shadow rate models, first introduced by Black (1995), are apt to solve this problem. The main idea is that the shadow rate (i.e., the short-term interest rate that would prevail in the absence of the ZLB) can move in negative territory for long time spans even when the actual rate remains close to the ZLB. Due to their high nonlinearity, shadow rate models are particularly difficult to estimate and have been so far only estimated with approximate methods.
We propose an exact Bayesian method for their estimation. We use it to study developments in euro and US dollar yield curves since the end of the '90s. Our estimates confirm - and provide a quantitative assessment of - the fact that there has been a significant divergence of monetary policies in the euro area and in the US over the past years: between 2009 and 2013, the shadow rate was much lower in the US than in the euro area, while the opposite has been true since 2014; furthermore, at the end of our sample (January 2015), the most likely date of the the first increase in policy rates was estimated to be around mid-2015 in the US and around 2020 in the euro area.
Full text (pdf)

No. 1022: **Testing information diffusion in the decentralized unsecured market for euro funds** (July 2015)

Edoardo Rainone

Average rates in the decentralized unsecured market for euro funds, like the EONIA for the overnight maturity, are fundamental indicators of the smooth transmission of the signal rate by the central bank. Public information plays an important role in this context, as key interest rates are set by the central bank and average market rates are published daily, constituting common knowledge. Nevertheless, according to the theoretical literature on over-the-counter markets, private information may have an important role in a decentralized market. The diffusion of private information can generate prices that depend on the decentralized market structure. This is the first paper to use an ad hoc (network) version of the spatial autoregressive

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model to assess the presence of this mechanism. I propose a simple methodology to test whether the joint distribution of rates depends on the interbank network structure and to estimate information diffusion strength. The method is applied to a unique dataset collecting unsecured interbank loans and characteristics of banks operating in European central bank money. A wide time span including sovereign debt crises in the euro area is considered. I find that information diffusion played a greater role during periods dominated by strong uncertainty.
Full text (pdf)

No. 1021: **Decomposing euro area sovereign spreads: credit, liquidity and convenience** (July 2015)

Marcello Pericoli and Marco Taboga

The paper provides an empirical analysis of sovereign bond spreads for selected euro-area countries. Several methodologies are used to measure and assess the relative importance of three components of sovereign spreads: credit premiums, liquidity premiums and convenience yields. We find that, except for Germany, credit premiums explain most of both the level and the variability of spreads, while the other two factors play a limited role, although in several cases they are statistically significant and may become economically relevant during brief episodes of illiquidity.
Full text (pdf)

No. 1020: **Forecaster heterogeneity, surprises and financial markets** (July 2015)

Marcello Pericoli and Giovanni Veronese

We analyze the impact of US macroeconomic surprises and forecaster heterogeneity on the USD/EUR exchange rate and US and German long-term interest rates from 1999 to 2014. We show how a direct proxy of macroeconomic disagreement, given by the heterogeneity of beliefs among forecasters regarding the upcoming macroeconomic release, matters to explain the daily and intra-day movements. Surprises impact more strongly long-term yields and the exchange rate when forecaster heterogeneity is smaller. This result, holds for the main US macroeconomic surprises and is robust to the frequency of the data used in the estimation. However the sensitivity changes with the sample. To this end, we show how estimating the same regressions in a pre-crisis period, a crisis period, and an unconventional monetary policy period there is evidence of time variation in the responses: unconventional monetary policies attenuated the response of the exchange rate to US\ macroeconomic news, while no major change occurred for long-term interest rates in the US and in the euro area. The disagreement regimes remain relevant in determining an asymmetric response of these asset prices. Our finding underscores the importance of considering beliefs heterogeneity to describe the behavior of asset prices even at high frequency.
Full text (pdf)

No. 1019: **Why is inflation so low in the euro area?** (July 2015)

Antonio M. Conti, Stefano Neri and Andrea Nobili

Inflation in the euro area has been falling steadily since early 2013 and at the end of 2014 turned negative. Part of the decline has been due to oil prices, but the weakness of aggregate demand has also played a significant role. This paper uses a VAR model to quantify the contribution of oil supply, aggregate demand and monetary policy shocks (identified by means of sign restrictions) on inflation in the euro area. The analysis suggests that in the last two years inflation has been driven down by all three factors, as the effective lower bound to policy rates has prevented the European Central Bank from reducing the short-term rates to support economic activity and align inflation with the definition of price stability. Remarkably, the joint contribution of monetary and demand shocks is at least as important as that of oil price developments to the deviation of inflation from its baseline. Country-by-country analysis shows that both aggregate demand and oil supply shocks have driven inflation down everywhere, albeit with varying intensity. The findings stand confirmed after a series of robustness checks.
Full text (pdf)

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No. 1018: **Statistical matching and uncertainty analysis in combining household income and expenditure data** (July 2015)

Pier Luigi Conti, Daniela Marella and Andrea Neri

The availability of microdata on both income and expenditure is highly recommended if one wants to assess the distributional consequences of policy changes. In Italy, the main sources used for estimating household income and expenditure are the Bank of Italy's Survey on Household Income and Wealth and the Italian National Institute of Statistics Household Budget Survey.

However, there is no single data source containing information on both expenditure and income. The problem is generally overcome with statistical matching procedures based on the conditional independence (CIA) assumption.

The aim of this paper is to present a method to combine information coming from different databases relaxing the CIA assumption. In particular we propose a method to combine household income and expenditure data under logical constraints regarding the average propensity to consume. We also propose an estimate of a plausible joint distribution function for household income and expenditure.

Full text (pdf)

No. 1017: **A note on social capital, space and growth in Europe** (July 2015)

Luciano Lavecchia

This note replicates the analysis of Tabellini (2010) on the relationship between social capital and regional economic growth in Europe, extending that work and the underlying dataset by focusing on the spatial dimension of social capital and introducing a definition of contiguity among European regions. We find a sizable and robust contribution of social capital to regional growth. We also estimate a Spatial autoregressive model with autoregressive disturbances (SARAR) and a Spatial Durbin Error model (SDEM). The results confirm the positive role of social capital, highlighting the importance of spatial spillovers, which warrants further discussion.

Full text (pdf)

Other recent working papers

June 2015

No. 1016: Short term inflation forecasting: the M.E.T.A. approach
Giacomo Sbrana, Andrea Silvestrini and Fabrizio Venditti

No. 1015: Inflation, financial conditions and non-standard monetary policy in a monetary union. A model-based evaluation
Lorenzo Burlon, Andrea Gerali, Alessandro Notarpietro and Massimiliano Pisani

No. 1014: Women as 'gold dust': gender diversity in top boards and the performance of Italian banks
Silvia Del Prete and Maria Lucia Stefani

No. 1013: Bankruptcy law and bank financing
Giacomo Rodano, Nicolas Serrano-Velarde and Emanuele Tarantino

No. 1012: Sovereign debt and reserves with liquidity and productivity crises
Flavia Corneli and Emanuele Tarantino

No. 1011: Foreign direct investment and firm performance: an empirical analysis of Italian firms
Alessandro Borin and Michele Mancini

No. 1010: Every cloud has a silver lining. The sovereign crisis and Italian potential output
Andrea Gerali, Alberto Locarno, Alessandro Notarpietro and Massimiliano Pisani

April 2015

No. 1009: Social capital and the cost of credit: evidence from a crisis
Paolo Emilio Mistrulli and Valerio Vacca

No. 1008: Rethinking the crime reducing effect of education? Mechanisms and evidence from regional divides
Ylenia Brilli and Marco Tonello

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No. 294: **Crime and public procurement, evidence from municipalities** (September 2015)

Giuseppe Albanese, Federico Antellini Russo and Roberto Zampino

The paper analyzes the link between the centralized purchasing of goods and services by municipalities and the context in which these administrations operate. While taking into account a number of factors that can lead to a greater or lesser use of Consip, the work focuses on the link between that choice and the local crime rate. The empirical analysis shows that, in low-crime areas only, an increase in crime is positively correlated with the frequency with which municipalities entrust vendor selection to a third party in order to attempt to limit the risk of inefficiency (*passive waste*) that would otherwise arise. The relationship is the inverse in high-crime areas, suggesting a growing willingness by municipalities to maintain autonomous control over purchasing, which may be linked to the possibility of extracting some of the rents produced from this activity (*active waste*). Full text (pdf) in Italian only

No. 293: **Modelling Italian firms' financial vulnerability** (September 2015)

Antonio De Socio and Valentina Michelangeli

We develop a model to assess the evolution of the Italian corporate sector's financial vulnerability. We use micro data to take into account the heterogeneity of firms and their demography and we integrate them with macroeconomic forecasts in order to estimate EBITDA, interest expense and financial debt for each individual firm over a two-year horizon. In this way we obtain a projection of the share of vulnerable firms (those with negative EBITDA or whose interest expense-to-EBITDA ratio is above 50 per cent) and of their debt well in advance of the availability of actual data. By applying the model to the 2013 individual firm data (available only in early 2015), we estimate an increase in the share of vulnerable firms in 2014, followed by a sizeable decrease in 2015, mainly due to the reduction in interest rates and the economic recovery. The model is then used to evaluate stress scenarios for interest rates and profitability.
Full text (pdf)

No. 292: **Measuring the performance of local governments: evidence from mystery calls** (September 2015)

Silvia Giacomelli and Marco Tonello

We analyze the mystery calls conducted over a representative sample of Italian municipalities surveying the front office services provided by the One-stop shops (OSSs) for doing business. Mystery calls are phone interviews conducted by callers who pretend to be prospective entrepreneurs wanting to start a new business in the municipality, and whose identity and purposes were not known to the OSSs respondents. The random scheduling of the interviews and the evidence collected on the days and on the number of phone calls needed by the interviewers to conduct the mystery calls make it possible to construct new objective measures of local government performance. After showing that the new indicators are well correlated with alternative measures of governments quality, we study their determinants. We find that a better performance is mainly associated with factors related to internal organization, such as a more intensive use of ICT tools and higher levels of employee expertise, while the socio-economic context does not seem to play a major role.
Full text (pdf)

No. 291: **Financial support from the family network during the crisis** (September 2015)

Laura Bartiloro and Cristiana Rampazzi

The financial support provided by family and friends has increased during the crisis, both in frequency and amount. For the beneficiaries, the extent of the support from this informal network is similar to that of consumer credit; its distribution, however, is more limited than indebtedness with financial intermediaries. The probability of exploiting the informal network is greater when the head of the household is unemployed and increases with the difficulty of meeting monthly expenses and with the use of consumer credit because the amount of the loan granted by the intermediaries is too low to cover financial needs or to pay the instalments on the debt itself. The probability diminishes as financial wealth

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increases. The analysis also highlights the fact that the relief provided by the informal network is not enough to support consumption in the event of a drop in income. In this case financial wealth, the number of income earners in the household and, to a lesser extent, consumer credit all contribute to some kind of consumption smoothing.
Full text (pdf) in Italian only

No. 290: **The growth of the service sector and demand for services** (September 2015)

Eliana Viviano

In this paper I present evidence about the importance of demand for services in the development of the service sector. By comparing developments in demand for services in Italy, France, Germany and the US, I show that the contribution of final demand by European households to growth in output is less than that made by US households. In Europe, the share of output produced by market services and utilized by the manufacturing sector is almost twice as high as the average value recorded in the US. The manufacturing sector, however, tends to consume services requiring low-skilled workers such as distribution services and inland transportation. Compared with European countries, the higher growth rate of market services in the US (and of services requiring highly-skilled workers) is then due to higher demand by US households.
Full text (pdf)

No. 289: **Wages and prices in Italy during the crisis: the firms' perspective** (September 2015)

Francesco D'Amuri, Sivlia Fabiani, Roberto Sabbatini, Raffaele Tartaglia Polcini, Fabrizio Venditti, Eliana Viviano and Roberta Zizza

Following the two surveys carried out in 2007 and 2009 on firms' price and wage setting practices, in June 2013 the ESCB's Wage Dynamics Network (WDN) conducted a third survey aimed at assessing, through a harmonised questionnaire, the most important transformations under way in the national labour markets. This paper documents the results of the survey carried out in Italy. The sovereign debt crisis severely hit the Italian economy, causing a collapse in demand, increased uncertainty and difficulties in accessing external finance. Firms responded by decreasing labour input (adjusting both the intensive and the extensive margins) more often than wages. However, wage-setting practices were also affected by the new economic landscape: the percentage of workers employed in firms enacting wage freezes or cuts has steadily increased since 2010, reaching 17% of the total workforce in the sectors considered in 2013. Furthermore, a large share of companies have adapted their pricing strategy to the new economic environment; the frequency of price adjustments has increased, mainly as a reaction to stronger competition.
Full text (pdf)

No. 288: **The statistics on poverty and the new World Bank goals of poverty eradication and shared prosperity** (September 2015)

Riccardo Settimo

Poverty data have gained importance since the adoption, in April 2013, of the new strategic targets by the World Bank (WB), namely to reduce the share of people living in extreme poverty to 3 per cent of the global population by 2030 (poverty eradication) and to increase the average incomes of the bottom 40 per cent of the population in each country (shared prosperity). The adoption of these two goals marks a significant shift for the WB, since for the first time, it commits to a specific poverty reduction target and pays explicit attention to issues related to inequality. First, the paper describes the WB approach to estimating poverty rates – amalgamating a vast amount of data collected from many different sources – and highlights the most critical aspects. It then goes on to illustrate the two WB targets. One important message is that if income inequality remains constant, the target of poverty eradication can be only be reached if there are very high growth rates, which is unrealistic for many countries. Efforts in favour of shared prosperity are therefore instrumental to eradicating poverty.
Full text (pdf) in Italian only

Latest occasional papers

No. 287: **On the response of Italian wages to the unemployment rate** (July 2015)

Alfonso Rosolia

In this paper I assess the responsiveness of Italian wage rates to labor market conditions and show that the specific wage measure considered has important consequences for the results. The cyclical response of wages measured by National Accounts is dampened by a number of measurement issues; on the other hand, both wage rate changes negotiated at the central level and salary items set at the firm level are found to respond more strongly to the evolution of unemployment. I conclude that the observed weak response of wage measures based on National Accounts does not reflect the lack of wage flexibility but rather the staggered and uncoordinated nature of wage negotiations.
Full text (pdf)

No. 286: **Risk-adjusted expectations of inflation** (July 2015)

Marco Casiraghi, Marcello Miccoli

We propose a new way to compute market-based risk-adjusted measures of inflation expectations. Borrowing from the finance literature, we study the ex-post excess return on inflation swap contracts – the difference between the swap rate at a given maturity and the realized inflation rate over the same horizon – which is an unbiased proxy of risk premia under the rational expectations hypothesis. The empirical results show that the risk premia on inflation swap rates at short-to-medium maturities can be predicted by macroeconomic variables that are present in agents' information set at the time the contract is signed, and that they vary counter-cyclically. This econometric analysis is then used to construct a measure of risk-adjusted inflation expectations so as to assess the role of risk premia in determining inflation swap rates. On this basis we find that the observed decline in inflation swap rates at short-to-medium maturities in 2014 was driven mainly by changes in inflation expectations.
Full text (pdf)

No. 285: **Red tape reduction and firm entry: evidence from an Italian reform** (July 2015)

Monica Amici, Silvia Giacomelli, Francesco Manaresi and Marco Tonello

We estimate the effects of a simplification in the bureaucratic regulation for doing business on firm demographics in Italy, where a 2011 legislation reform required all municipalities to institute a one-stop shop for doing business. We use data for all Italian firms active in private non-financial industries and exploit the staggered implementation of the policy by municipalities in order to identify its causal effect. The results indicate that the one-stop shop increased entry rates and survival probability at one year. This effect is due essentially to sole proprietorships, which are plausibly those that benefit the most from reductions in red tape.
Full text (pdf)

No. 284: **Trading processing for goods: a different view from the past on Italian trade flows?** (July 2015)

Ludovico Bracci, Silvia Fabiani and Alberto Felettigh

The new international standards for national accounts and balance of payments statistics (ESA 2010 and BPM6) introduced a new treatment of goods sent abroad for processing without changing ownership, now considered as an exchange of services. In this paper we explore to what extent this innovation affects the structural analysis of Italian trade flows, in particular along the geo-sectoral dimension. We also draw, for the first time, a detailed picture of exports and imports of processing services in order to shed light on how Italian firms participate, through this channel, in global value chains. Our findings largely validate the geo-sectoral interpretations based on the previous statistical standards. The data reveal that Italy is historically a net exporter of processing services, especially for high-technology products; flows are highly concentrated across destinations and sectors.
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Useful links

Working papers of the other euro-area central banks:

European Central Bank
Banco de España
Banco de Portugal
Bank of Estonia
Bank of Finland
Bank of Greece
Bank of Slovenia
Banque Centrale du Luxembourg
Banque de France
Banque Nationale de Belgique
Central Bank of Cyprus
Central Bank of Ireland
Central Bank of Malta
Central Bank of the Republic of Lithuania
Croatian National Bank
De Nederlandsche Bank
Deutsche Bundesbank
Národná banka Slovenska
Latvijas Banka
Oesterreichische Nationalbank

Other

BIS Central Bank Research Hub
Einaudi Institute for Economics and Finance
OECD working papers series
Research at the IMF
Research at the World Bank

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