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RESEARCH AT THE BANK OF ITALY
DIRECTORATE GENERAL FOR ECONOMICS, STATISTICS AND RESEARCH
NEWSLETTER

Contents

Highlights

Workshop on "Unconventional monetary policy: Effectiveness and risks"

(Rome, 29-30 March 2016)

On 29-30 March 2016 the Bank of Italy hosted the Fourth Economic Outlook and Monetary Policy Directorate Internal Workshop, which this year addressed the theme "Unconventional monetary policy: Effectiveness and risks."

The event featured fourteen presentations (all with discussion), distributed over six sessions. The works presented in the first session focused on the effectiveness of the recent unconventional monetary policy measures; the second session explored their redistributive consequences; the third session was devoted to analyzing the portfolio rebalancing effect, both within the area and in the broader international context; the papers presented in the fourth session proposed different methods to detect asset overvaluation and the possible emergence of bubbles due to the impact of the unconventional measures on asset prices; the fifth session assessed the market response to the announcements of unconventional measures, distinguishing between positive and negative surprises; the papers presented in the last session focused on the effects of exiting prematurely from unconventional policies. Overall, the contributions of the workshop highlighted the effectiveness of the measures recently adopted in the euro area in affecting the yields of financial assets and inducing a portfolio rebalancing, thus leading to an improvement in the growth and inflation outlook, with no undesirable redistributive consequences nor clear risks of asset price bubbles. The effectiveness of the measures is nonetheless conditional on the purchase programme having appropriate size and duration.

Some of the papers presented in the workshop will soon be circulated as Working Papers (Temi di Discussione) of the Bank of Italy, following the regular refereeing process.

The programme is available here.

"Workshop on "Current issues in fiscal policy"

(Rome, 31 March - 1 April 2016)

From 31 March to 2 April, the Bank of Italy hosted its 18th Workshop on Public Finance, which this year focused on "Current issues in fiscal policy".

The event featured nineteen presentations (all with discussion), distributed over six sessions, and three short speeches delivered by well-known European and American fiscal experts. The works presented in the first session focused on sovereign default events and the subsequent recovery of market access. The second session explored the issue of debt sustainability. The third session was devoted to

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proposals aimed at completing and improving the EMU institutional framework.

The papers presented in the fourth session assessed the link between taxation, regulation and economic growth. The fifth session discussed the institutional roots and the economic consequences of subnational budgetary policies, while the papers presented in the last session focused on macroeconomic estimates of the effects of fiscal policies.

Overall, the studies presented to the workshop, showing a wide variety of methodologies, contributed to shed further light on some of the most relevant issues currently debated in the domain of fiscal policy. In the tradition of previous editions, great attention was devoted to institutional design and recent policy developments.

Most of the papers presented in the workshop will soon be available on a dedicated corner of the Banca d'Italia website.

"Central banking in the XXI century: never say never". Speech by Fabio Panetta

(Milan, 14 April 2016)

Fabio Panetta, Deputy Governor of the Bank of Italy, gave a speech entitled **"Central banking in the XXI century: never say never"** at the SUERF/Baffi Carefin Conference "Central banking and monetary policy: Which will be the new normal?" held in Milan.

The speech is available here.

Forthcoming events

First Rome Junior Finance Conference

(Rome, 6-7 June 2016)

On 6-7 June 2016, EIEF will host and organize the "**First Rome Junior Finance Conference**". The conference will bring together junior researchers active in empirical and theoretical finance. Participants will receive an invitation from the organizing committee.

Further information will be available here.

Sixth Bank of Italy/CEPR Conference on Money, Banking and Finance "Monetary policy after the crisis: new views, open questions"

(Rome, 9-10 June 2016)

On 9-10 June 2016 the Bank of Italy will host the Sixth Bank of Italy/CEPR Conference on Money, Banking and Finance which this year will be devoted to the theme of "Monetary policy after the crisis: new views, open questions".

The conference will focus on the role played by monetary policy in an environment of weak growth and low inflation, exploring new transmission channels that influence the redistributive effects of monetary policy, the impact of monetary policy on portfolio allocation and the influence this has on the propensity to risk of investors.

The organizing committee is composed of the following members: Nobuhiro Kiyotaki (Princeton University and CEPR), Paolo Surico (London Business School and CEPR), Stefano Neri (Bank of Italy), Giuseppe Ferrero (Bank of Italy) and Piergiorgio Alessandri (Bank of Italy). The deadline for the submission of papers is 5 February 2016 .

The call for papers is available here.

Forthcoming events

First Rome Junior Conference on Applied Microeconomics

(Rome, 23-24 June 2016)

On 23-24 June 2016, EIEF will host and organize the "**First Rome Junior Conference on Applied Microeconomics**". The conference will foster interaction among researchers active in different areas of applied microeconomics. The selection of invited presenters will give preference to economists at the early stages of their career.

Further information will be available here.

Fifth Rome Conference on Macroeconomics

(Rome, 27-28 June 2016)

On 27-28 June 2016, EIEF will host and organize the "**Fifth Rome Conference on Macroeconomics**". The conference will bring together junior "high-flier" economists from around the world with a strong interest in macroeconomics.

Further information will be available here.

Second Summer Workshop in Political Economy

(Rome, 4-5July 2016)

On 4-5 July 2016, EIEF will host the "**Second Summer Workshop in Political Economy**". The workshop will focus on research at the intersection of political economy, public finance, and macroeconomics.

Further information will be available here.

CSEF-EIEF-SITE Conference on Finance and Labor

(Rome, 8-9 September 2016)

The Centre for Studies in Economics and Finance (CSEF), EIEF and the Stanford Institute for Theoretical Economics (SITE) invite paper submissions on the relationships between finance and labour. The submission deadline is 30 April 2016.

The call for papers is available here.

12th DYNARE Conference

(Rome, 29-30 September 2016)

The Bank of Italy, together with Banque de France, DSGE-net, and the Dynare project at CEPREMAP, is organizing the "**12th Annual DYNARE Conference**". The conference will be held in Rome on September 29-30, 2016. It will bring together leading scholars in dynamic macroeconomic modelling as well as researchers working in this field from leading policymaking Institutions. Pierpaolo Benigno (LUISS Guido Carli University and EIEF) and Raf Wouters (National Bank of Belgium) will be the plenary speakers.

The call for papers is available here.

SEMINARS AT THE BANK OF ITALY

SEMINARS AT EIEF

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No. 1065: **How excessive is banks' maturity transformation?** (April 2016)

Anatoli Segura and Javier Suarez

We quantify the gains from regulating banks' maturity transformation in an infinite horizon model of banks which finance long-term assets with non-tradable debt. Banks choose the amount and maturity of their debt trading off investors' preference for short maturities with the risk of systemic crises. As in Stein (2012), pecuniary externalities make unregulated debt maturities inefficiently short. The assessment is based on the calibration of the model to Eurozone banking data for 2006. Lengthening the average maturity of wholesale debt from its 2.8 months to 3.3 months would produce welfare gains with a present value of euro 105 billion. Full text (pdf)

No. 1064: **EAGLE-FLI. A macroeconomic model of banking and financial interdependence in the euro area** (April 2016)

Nikola Bokan, Andrea Gerali, Sandra Gomes, Pascal Jacquinot and Massimiliano Pisani

Banks, DSGE models, econometric models, financial frictions, open-economy macroeconomics, policy analysis

Abstract: We incorporate financial linkages in EAGLE, a New Keynesian multi-country dynamic general equilibrium model of the euro area (EA) by including financial frictions and country-specific banking sectors. In this new version, termed EAGLE-FLI (Euro Area and GLobal Economy with Financial LInkages), banks collect deposits from domestic households and cross-country interbank market and raise capital to finance loans issued to domestic households and firms. In order to borrow from local (regional) banks, households use domestic real estate whereas firmsuse both domestic real estate and physical capital as a collateral. These features – together with the full characterization of trade balance and real exchange rate dynamics and with a rich array of financial shocks – allow to properly assess domestic and cross-country macroeconomic effects of financial shocks. Our results support the views that (1) the business cycles in the EA can be driven not only by real shocks, but also by financial shocks, (2) the financial sector could amplify the transmission of (real) shocks, and (3) the financial/banking shocks and the banking sectors can be sources of business cycle asymmetries and spillovers across countries in a monetary union. Full text (pdf)

No. 1063: **Informational contagion in the laboratory** (April 2016)

Marco Vacirca, Antonio Guarino, Giovanni Guazzarotti, Federico Tagliati and Sven Fischer

We study the informational channel of financial contagion under laboratory conditions. In our experiment, two markets with correlated fundamentals open sequentially and in both of them subjects receive private information. Subjects in the market opening second also observe the history of trades and prices in the first market. We find that although in both markets private information is only imperfectly aggregated, subjects are able to make correct inferences based on the public information coming from the market that opens first. We thus observe financial contagion under laboratory conditions: the correlation between asset prices is very close to that predicted by the theory. Moreover, as the theory predicts, there is no contagion when asset fundamentals are independent: in other words, subjects only react to the history of prices and trades in the first market when it is rational to do so because they convey information. Full text (pdf)

No. 1062: **Market timing and performance attribution in the ECB reserve management framework** (April 2016)

Francesco Potente and Antonio Scalia

We study the performance of a group of foreign exchange reserve managers that are responsible for investing the ECB's official reserves in US dollars, for a value of around $43 billion, using a new dataset which includes detailed portfolio holdings from 2006 to 2010. The ECB reserve managers display a positive ability at security selection overall. Two portfolio managers show market timing ability after adjusting for the non-linearity of the benchmark returns. For one portfolio manager, market timing ability is significantly related to the efficient use of public information. To pin down market timing, we develop a performance attribution model which identifies the contribution of the key portfolio managers' strategies (duration, curve, and spread). We find that, among the active layers, the

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spread contribution seems the most significant; curve and duration bets, with some exceptions, have generally provided little value added. Our analysis supports the view that portfolio managers adopt diversified investment styles. This may explain the non-negligible result of the aggregate reserve portfolio, averaging 10 basis points on an annual basis, net of transaction costs. The more diversified the investment styles are, the more likely it is that portfolio managers make independent bets, which in turn may positively affect the risk-adjusted return of the aggregate portfolio. Full text (pdf)

No. 1061: **An evaluation of the policies on repayment of Government's trade debt in Italy** (April 2016)

Leandro D'Aurizio and Domenico Depalo

Since 2012 the Italian Government has taken several steps to repay its commercial debts. Using a composite dataset, we evaluate the effects of these policies on the financial performance of a representative sample of Italian firms. We distinguish between the firms that were beneficiaries of these repayments, those that were not repaid, though they had a legitimate claim, and those that had no commercial ties with the general government. We find that receiving money had a significant positive impact on firms' financial position. Full text (pdf)

No. 1060: **Intergenerational mobility in the very long run: Florence 1427-2011** (April 2016)

Guglielmo Barone and Sauro Mocetti

We examine intergenerational mobility in the very long run, across generations that are six centuries apart. We exploit a unique dataset containing detailed information at the individual level for all people living in the Italian city of Florence in 1427. These individuals have been associated, using their surnames, with their pseudo-descendants living in Florence in 2011. We find that earnings elasticity is about 0.04, much higher than predicted by traditional models of intergenerational mobility. We also find an even stronger role for real wealth inheritance and evidence of persistence in belonging to certain elite professions. Our results are confirmed when we account for the quality of the pseudo-links and when we address the potential selectivity bias due to the differential survival rates across surnames. We argue that the quasi-immobility of pre-industrial society and the positional advantages in the access to certain professions might explain (in part) the long-lasting effects of ancestors' socioeconomic status. Full text (pdf)

No. 1059: **Estimating the money market microstructure with negative and zero interest rates** (February 2016)

Edoardo Rainone and Francesco Vacirca

Money market microstructure is fundamental to studying bank behaviour, to evaluating monetary policy and to assessing the financial stability of the system. Given the lack of granular data on interbank loans, Furfine (1999) proposed an algorithm to estimate the microstructure using data from the payment system. We propose an econometric methodology to assess and improve the quality of the money market microstructure estimated by the Furfine algorithm in the presence of zero and negative rates, exploiting information coming from market regularities. We first extend the standard Furfine algorithm to include negative rates and verify the presence of significant noise at a specific rate. Secondly, we propose an inferential procedure that enriches and corrects the standard algorithm based on the economic likelihood of loans. Market regularities observed in this decentralized market are used to increase the reliability of the estimated interbank network. Thirdly, the methodology is applied to TARGET2, the European wholesale payment system. The main impacts of recent monetary policy decisions on key interest rates are studied, comparing the standard algorithm with the new econometric procedure. Full text (pdf)

No. 1058: **The quantity of corporate credit rationing with matched bank-firm data** (February 2016)

Lorenzo Burlon, Davide Fantino, Andrea Nobili and Gabriele Sene

This paper provides measures of credit rationing in the market of term loans to Italian non-financial firms. We identify non-price allocations of credit by exploiting a unique bank-firm dataset of more than 5 million observations, which matches the quantity and the cost of credit available from the Credit Register with a number

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of bank- and firm-specific characteristics from different sources of microdata. We propose an approach that endogenously identifies all the bank -firm transactions subject to credit rationing, thus circumventing aggregation biases stemming from the use of less detailed information. The estimates suggest that in the Italian case, rationing mostly reflected an increase in non-performing loans in banks' portfolios and a decline in available collateral. Borrowers' characteristics played a minor role, although banks did switch their supply of funds in favour of firms with greater creditworthiness after the outbreak of the sovereign debt crisis. Full text (pdf)

No. 1057: **The real effects of credit crunch in the Great Recession: evidence from Italian provinces** (February 2016)

Guglielmo Barone, Guido de Blasio and Sauro Mocetti

The paper estimates the effects on the real economy of the sharp reduction in the supply of credit following the 2008 financial crisis. We develop a measure of local credit supply that is based on the market shares of the banks that serve a local economy and the national change in each bank's lending that is attributable to supply factors (i.e. purged of local demand factors). The decrease in our credit supply indicator, which is strongly correlated to the growth of outstanding loans, accounts for 13 per cent of the contraction in real value added with respect to the pre-crisis period. The negative effects also concern employment, although to a lesser extent. The real effects of the credit crunch are concentrated on small firms and in the areas that are more dependent upon external finance. Finally, credit supply shocks affected lending but not real outcomes in the pre-crisis period. Full text (pdf)

No. 1056: **Retirement, pension eligibility and home production** (February 2016)

Emanuele Ciani

I estimate the effect of retirement on housework by exploiting the discontinuity in pension eligibility generated by the Italian social security rules. Using microdata from the 2007 wave of the Survey on Income and Living Conditions (SILC), I show that women increase their time spent on home production by more than 400 minutes per week. For men, there is on average no evidence of a significant change, which differs from the results of studies in other countries. However, estimates are heterogeneous by marital status, suggesting that married men do not increase time spent on household production because they can rely on their spouses. I also discuss other possible explanations, in particular men dedicating their time to 'semi-leisure chores' that do not fall under the definition of housework used in SILC. Overall, results suggest that retirement does not lead to a more equal distribution of 'core' household chores between genders. Full text (pdf)

No. 1055: **Bank internationalization and firm exports: evidence from matched firm-bank data** (February 2016)

Raffaello Bronzini and Alessio D'Ignazio

In this paper we investigate whether new exporter firms have a higher probability of starting to export to the countries where their financing banks have already established their branches. The underlying mechanism we hypothesize is based on the transmission of foreign market knowledge from banks to firms, so as to cut down information barriers to international trade. In those countries where such information is arguably more precious to the firm, we found a significant positive relationship between a firm's probability of beginning to export to one market, and the presence in the same market of a branch of the firm's financing bank. Coherently with the mechanism hypothesized, we find a stronger effect for closer firm-bank relationships, and when banks have established their branches abroad over a longer time period. Full text (pdf)

No. 1054: **Labor force participation, wage rigidities, and inflation** (February 2016)

Francesco Nucci and Marianna Riggi

The fall in US labor force participation during the Great Recession stands in sharp contrast with its parallel increase in the euro area. In addition to structural forces, cyclical factors are shown to account for this phenomenon, with the participation rate being procyclical in the US from the inception of the crisis and countercyclical in

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the euro area. We rationalize these diverging dynamics by using a general equilibrium business cycle model, which nests the endogenous participation decisions into a search and matching model. We show that the "added worker" effect might outweigh the "discouragement effect" if real wage rigidities are allowed for and/or habit in consumer preferences is sufficiently strong. We then draw the implications of variable labor force participation rates for inflation and establish the following result: if endogenous movements in labor market participation are envisaged, then the degree of real wage rigidities becomes almost irrelevant for price dynamics. Indeed, during recessions, the upward pressures on inflation stemming from the lack of a downward adjustment in real wages are offset by an opposite influence from the additional looseness in the labor market, due to the higher participation rate associated with wage rigidities. Full text (pdf)

No. 1053: **Estimation of counterfactual distributions with a continuous endogenous treatment** (February 2016)

Santiago Pereda Fernández

Policy makers are often interested in the distributional effects that a policy would have. In this paper I propose a method to estimate such effects when the treatment variable is endogenous, continuous, and has a heterogeneous effect. I consider a triangular system of equations in which the unobservables are related by a copula that captures the endogeneity of the model. The copula is nonparametrically identified by inverting the quantile processes conditional on a vector of covariates. I estimate both conditional quantile processes using existing quantile regression methods, and propose a parametric and a nonparametric estimator of the copula, showing the asymptotic properties of the estimators. I consider three kinds of counterfactual experiments: changing the distribution of the treatment, changing the distribution of the instrument, and changing the determination of the treatment, discussing the estimation for each counterfactual. I illustrate these methods by estimating several counterfactuals that affect the distribution of the share of food consumption. Full text (pdf)

No. 1052: **Adaptive models and heavy tails** (February 2016)

Davide Delle Monache and Ivan Petrella

This paper introduces an adaptive algorithm for time-varying autoregressive models in the presence of heavy tails. The evolution of the parameters is determined by the score of the conditional distribution. The resulting model is observation-driven and is estimated by classical methods. Meaningful restrictions are imposed on the model parameters so as to attain local stationarity and bounded mean values. In particular, we consider time variation in both coefficients and volatility, emphasizing how the two interact. Moreover, we show how the proposed approach generalizes the various adaptive algorithms used in the literature. The model is applied to the analysis of inflation dynamics. Allowing for heavy tails leads to significant improvements in terms of fit and forecast. The adoption of the Student's-t distribution proves to be crucial in order to obtain well-calibrated density forecasts. These results are obtained using the US CPI inflation rate and are confirmed by other inflation indicators as well as the CPI of the other G7 countries.
Full text (pdf)

No. 1051: **How does bank capital affect the supply of mortgages? Evidence from a randomized experiment** (February 2016)

Valentina Michelangeli and Enrico Sette

We study the effect of bank capital on the supply of mortgages. We fully control for endogenous matching between borrowers, loan contracts, and banks by submitting randomized mortgage applications to the major online mortgage broker in Italy. We find that: higher bank capital is associated with a higher likelihood of application acceptance and lower offered interest rates; banks with lower capital reject applications by riskier borrowers and offer lower rates to safer ones. Finally, nonparametric estimates of the probability of acceptance and of the offered rate show that the effect of bank capital is stronger when capital is low.
Full text (pdf)

Other recent working papers

January 2016

No. 1050: Contagion and fire sales in banking networks
Sara Cecchetti, Marco Rocco and Laura Sigalotti

No. 1049: Debt maturity and the liquidity of secondary debt markets
Max Bruche and Anatoli Segura

No. 1048: Heterogeneous peer effects in education
Eleonora Patacchini , Edoardo Rainone and Yves Zenou

No. 1047: A new method for the correction of test scores manipulation
Santiago Pereda Fernández

No. 1046: Carry trades and exchange rate volatility: a TVAR approach
Alessio Anzuini e Francesca Brusa

No. 1045: Optimal inflation weights in the euro area
Daniela Bragoli , Massimiliano Rigon and Francesco Zanetti

December 2015

No. 1044: The supply side of household finance
Gabriele Foà, Leonardo Gambacorta, Luigi Guiso and Paolo Emilio Mistrulli

No. 1043: Exposure to media and corruption perceptions
Lucia Rizzica and Marco Tonello

No. 1042: Multitask agents and incentives: the case of teaching and research for university professors
Marta De Philippis

No. 1041: The use of fixed-term contracts and the (adverse) selection of public sector workers
Lucia Rizzica

No. 1040: The macroeconomic effects of low and falling inflation at the zero lower bound
Stefano Neri and Alessandro Notarpietro

No. 1039: Shoe-leather costs in the euro area and the foreign demand for euro banknotes
Alessandro Calza and Andrea Zaghini

No. 1038: Young adults living with their parents and the influence of peers
Effrosyni Adamopoulou and Ezgi Kaya

No. 1037: Deconstructing the gains from trade: selection of industries vs. reallocation of workers
Stefano Bolatto and Massimo Sbracia

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No. 329: **Using external sources to understand sample survey bias: the case of the Invind survey** (April 2016)

Leandro D'Aurizio and Giuseppina Papadia

We look at two sources of bias in survey estimates of the Bank of Italy's Survey of Industrial and Services Firms conducted yearly on a panel of enterprises: 1) the bias owing to panel attrition caused by the differences between units entering and exiting the sample and those participating more regularly in the survey; 2) the bias created by delays in the distributional data on the reference population, needed for computing the survey weights. By comparing an array of performance indicators (available in an integrated database) for the firms regularly participating against those participating more erratically, we find that panel attrition has a limited effect on the official aggregate estimates, since they are determined by larger firms, which tend to participate regularly in the survey. Smaller firms' erratic participation, the comparatively worse performance of the units exiting the sample and the higher-than-average age of the firms in the sample call for a careful assessment of the estimates that are not influenced by firm size. Finally, for the less recent years we measure the extent to which the estimates vary if we use the revised information on the reference population, and we find that the delays in updating significantly bias the aggregate estimates only when the population size is highly unstable, with negligible effects on the estimates less dependent on firm size.
Full text (pdf) in Italian only

No. 328: **Monetary aggregates in Italy since 1861: evidence from a new dataset** (April 2016)

Federico Barbiellini Amidei, Riccardo De Bonis, Miria Rocchelli, Alessandra Salvio, Massimiliano Stacchini

The paper builds annual time series of Italian monetary aggregates. While previous contributions focused on certain periods in Italy's economic history, our work covers the years 1861-2014 uninterruptedly; we improve the quality of the existing time series and provide further details on the components of aggregates. The paper also documents the sources and methods used for the estimates. Finally, we discuss the key trends of the aggregates since 1861 and present an econometric analysis of money demand.
Full text (pdf) in Italian only

No. 327: **Foreign direct investment and international trade in services: an analysis based on balance of payments microdata** (April 2016)

Chiara Bentivogli, Francesco Bripi, Andrea Carboni, Luca Cherubini, Eleonora Laurenza, Andrea Locatelli, Paola Monti, Elisabetta Nencioni, Valeria Pellegrini and Diego Scalise

This paper presents some analyses of FDI and international trade in services based on microdata used to produce balance of payments statistics. The microdata reveal and mitigate some informative limitations of official statistics, which no longer satisfy the growing need for internationalization data. The analysis shows that both FDI and trade in services are highly concentrated by size and geographic location; moreover, international trade in services also involves firms in the manufacturing industry, while FDI microdata indicate a significant presence of large companies and holdings. Indeed, the microdata show that internationalization often affects individual firms in different ways and is therefore suited to being studied from a number of perspectives; this opens up new possibilities for the empirical analysis of internationalization.
Full text (pdf) in Italian only

No. 326: **Easier said than done? Reforming the prudential treatment of banks' sovereign exposures** (April 2016)

Michele Lanotte, Giacomo Manzelli, Anna Maria Rinaldi, Marco Taboga and Pietro Tommasino

In the aftermath of the euro-area sovereign debt crisis, several commentators have questioned the favourable treatment of banks' sovereign exposures allowed by the current prudential rules. In this paper, we assess the overall desirability of reforming these rules. We conclude that the microeconomic and macroeconomic costs of a reform could be sizeable, while the benefits are uncertain. Furthermore, we highlight considerable

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implementation issues. Specifically, it is widely agreed that credit ratings of sovereigns issued by rating agencies present important drawbacks, but sound alternatives still need to be found; we argue that consideration could be given to the use of quantitative indicators of fiscal sustainability, similar to those provided by international bodies such as the IMF or the European Commission.
Full text (pdf)

No. 325: **Hiring incentives and/or firing cost reduction? Evaluating the impact of the 2015 policies on the Italian labour market** (March 2016)

Paolo Sestito and Eliana Viviano

In 2015 Italy adopted two different policies aimed at reducing labour market dualism and fostering employment: a generous permanent hiring subsidy and new regulations lowering firing costs and making them less uncertain. Using microdata for Veneto and exploiting some differences in the design of the policies, we evaluate the impact of each measure. Both contributed to double the monthly rate of conversion of fixed-term jobs into permanent positions. Moreover, around 40 per cent of new total gross hires with permanent job contracts occurred because of the incentives, whereas 5 per cent can be attributed to the new firing regulations. The new firing rules also made firms less reluctant to offer permanent job positions to yet untested workers. The possibility of benefitting from the incentives in case of a conversion also boosted temporary hiring, as it allowed firms to test for the quality of a job match.
Full text (pdf)

No. 324: **When local banks lend to local communities: evidence from Italy (2007-2014)** (March 2016)

Maria Lucia Stefani, Valerio Vacca (coordinators), Daniele Coin, Silvia Del Prete, Cristina Demma, Maddalena Galardo, Iconio Garrì, Sauro Mocetti, Dario Pellegrino

During the period 2007-2014, when the Italian financial system was hit by two severe crises, Italian local banks increased their presence on local markets, expanding their branch network while other bank networks shrank, and bolstered their market share of loans to households and firms. At the same time, the quality of their credit worsened markedly, especially for those banks that at the onset of the crisis had substantial exposures to non-traditional customers (in particular large firms) and the real estate sector. The rise in loans' riskiness, which affected the balance sheet equilibria of these local banks, with a growing number of them becoming distressed, and the larger deterioration of loans' quality in southern regions show that local banks' lending activity is prone to risks, which, if not adequately tackled, may ultimately outweigh the benefits of customer proximity.
Full text (pdf) in Italian only

No. 323: **Assessing financial stability risks arising from the real estate market in Italy** (March 2016)

Federica Ciocchetta, Wanda Cornacchia, Roberto Felici and Michele Loberto

We provide an analytical framework for assessing financial stability risks arising from the real estate sector in Italy. This framework consists of two blocks: three complementary early warning models (EWMs) and a broad set of indicators related to the real estate market, to credit and to households. We focus separately on households and on firms engaged in construction, management and investment services in the real estate sector. Since in Italy there have been no real estate-related systemic banking crises, as vulnerability indicator we consider a continuous indicator represented by the ratio between the annual flow of bad debts related to the real estate sector and banks' capital and reserves. We contribute to the recent literature on EWMs by implementing a Bayesian Model Averaging (BMA) based on linear regression models with a continuous dependent variable of vulnerability and an ordered logit model with a discrete dependent variable of vulnerability classes. Both models exhibit good predictive abilities. Based on the BMA projections for the period from the third quarter of 2015 to the second quarter of 2016, banking vulnerability related to the real estate sector is expected to gradually decline.
Full text (pdf)

Latest occasional papers

No. 322: Stitching together the global financial safety net (March 2016)

Edd Denbee, Carsten Jung and Francesco Paternò

Financial globalisation brings a number of benefits but can also increase the risk of financial crisis. In recent years, to reduce these risks to stability, countries have reformed financial regulation, enhanced frameworks for central bank liquidity provision and developed new elements, and increased the resources of the global financial safety net (GFSN). The traditional GFSN consisted of countries' own foreign exchange reserves with the IMF acting as a backstop. But since the global financial crisis there have been a number of new arrangements added to the GFSN, in particular the expansion of swap lines between central banks and regional financing arrangements (RFAs). The new look GFSN is more fragmented than in the past, with multiple types of liquidity insurance and individual countries and regions having access to different size and types of financial safety nets. This paper finds that the components of the GFSN are not fully substitutable. We argue that while swap lines and RFAs can play an important role in the GFSN they are not a substitute for having a strong, well resourced, IMF at the centre of it. By running a series of stress scenarios we find that for all but the most severe crisis scenarios, the current resources of the GFSN are likely to be sufficient. However, this finding relies upon the IMF's overall level of resources (including both permanent and temporary) being maintained at their current level.
Full text (pdf)

No. 321: The evolution of the anchoring of inflation expectations (March 2016)

Ines Buono and Sara Formai

We investigate the degree of anchoring in inflation expectations for different advanced economies using data from professional forecasters' surveys. We define expectations as anchored when movements in short-run expectations do not trigger movements in expectations at longer horizons. Using time-varying parameter regressions, we provide evidence that anchoring has varied noticeably across economies and over time. In particular, we find that starting from the second half of 2008, inflation expectations in the euro area, unlike in the US and in the UK, have shown signs of a de-anchoring.
Full text (pdf)

No. 320: Short-term employment forecasts based on administrative data on hirings and terminations (March 2016)

Sabrina Ferretti, Andrea Filippone and Giacinto Micucci

This study focuses on the discrepancies in the data on employment trends that have recently emerged between that on hirings and terminations provided by the Ministry of Labour and Social Policies , and workforce survey data, released by Istat . Since January 2015 the former has recorded a substantial increase in hirings, mostly of permanent employees, while according to the latter, employment remained substantially stable in the first months of the year and only started to increase in the second quarter. This is partly explained by the differences in the types of statistics. New jobs starting at the beginning of March, for example, are included among the hirings for the first quarter in the administrative data, but only contribute by one third to the increase in average employment in the period; these contracts, if they continue over time, are not included in the average data until the second quarter. This study proposes to use this temporal correlation to create a simple statistical model that explains the aforementioned discrepancies, and forecasts a year-on-year growth of payroll employees of 1.2 and 1.8 per cent in the third and fourth quarters of this year compared with the same period of 2014.
Full text (pdf) in Italian only

No. 319: Over-indebtedness in Italy: how widespread and persistent is it? (March 2016)

Giovanni D'Alessio and Stefano Iezzi

The purpose of this paper is to examine the measures of over-indebtedness proposed in

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the literature and to apply them to the Italian case from 2008 to 2014 by using the wide array of information available from the Bank of Italy's survey on households. The numerous measures of over-indebtedness are critically analysed from both a cross-sectional and a historical perspective. The panel also enables us to analyse the transition into and out of over-indebtedness. Moreover, by using the Eurosystem's Household Finance and Consumption Survey (HFCS), we can compare the over-indebtedness of Italian households with that of other euro-area countries. The paper also addresses the issue of the measurement errors that could bias both the level of over-indebtedness and estimates of the transition into and out of it.
Full text (pdf)

No. 318: **Labour, profit and housing rent shares in Italian GDP: long-run trends and recent patterns** (March 2016)

Roberto Torrini

The share of labour increased in the first half of the 1970s, declined slowly to its 1960s level in 2001, and since then has been rising. Between 1975 and 2001, the decline in the labour share was due in part to the recovery in profits, and in part to a steady increase in housing rents on GDP, to 13 per cent of value added (5% in 1975). Net of housing rents, the share of profits fell to a historical low during the great recession. In the business sector net of housing, recovery of the labour share, magnified by the recent recession, was evident in manufacturing and industries other than regulated sectors (energy, transport, communications and finance), where privatizations and changes to regulation provoked a marked drop in the labour share in the late 1990s. I tentatively explain the trend reversal in the labour share as due to a compression in the mark-ups on marginal costs and the difficulty experienced by Italian firms to be rewarded for their innovation efforts in a more competitive environment.
Full text (pdf)

No. 317: **Firms that went out of business during the crisis** (March 2016)

Sabrina Ferretti, Andrea Filippone and Giacinto Micucci

This paper analyses the Italian companies that filed for bankruptcy or underwent voluntary liquidation between 2008 and 2012 and identifies the main characteristics of this phenomenon. The econometric analysis based on firms' balance sheet data suggests that the probability of going out of business was greater for smaller and younger companies. Other characteristics being equal, such as size, sector and geographical location, the likelihood of a firm initiating bankruptcy proceedings was more strongly correlated with imbalances in its financial structure such as a high leverage ratio, while a firm's likelihood of opting for voluntary liquidation was influenced to a greater extent by low profitability.
Full text (pdf) in Italian only

No. 316: **The 'concordato preventivo' in Italian corporate bankruptcy law: a policy evaluation** (March 2016)

Claudio Castelli, Giacinto Micucci, Giacomo Rodano and Guido Romano

From 2005 to 2013 Italian corporate bankruptcy law underwent a series of reforms. One of the goals was to improve the in-court restructuring proceedings (concordato preventivo), mainly as a way to promote the continuity of distressed but still viable companies. The reforms have succeeded in broadening the use of restructuring proceedings, even taking into account the effects of the economic crisis. The increase has been particularly large since the introduction of the concordato in bianco, which allows the firms to postpone the presentation of their recovery plan. The reforms have thus improved the likelihood of survival of distressed but still viable companies. Nevertheless, only a small proportion of companies (approximately 4.5 per cent) is still active after restructuring, the main purpose of which remains to provide an alternative form of liquidation, entailing a

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reduced role for courts, with respect to bankruptcy. The use of restructuring procedures is due to the length of bankruptcy proceedings in the courts, as well as to the structural characteristics of companies (larger proportion of fixed assets) and their credit relations (smaller proportion of collateralized loans).
Full text (pdf) in Italian only

No. 315: **With (more than) a little help from my bank. Loan-to-value ratios and access to mortgages in Italy** (February 2016)

Danilo Liberati and Valerio Vacca

This paper provides a framework to look at the affordability both of the regular repayment of housing debt (an income constraint) and of the initial deposit (a budget constraint). Analysis of the microdata on Italian households in the period 2006-2012 indicates that the improved capability of households to maintain their mortgage repayments was counterbalanced by tighter budget constraints. The framework can be employed as a tool to assess the impact of macroprudential policies, such as caps on loan-to-value ratios (LTVs), on the pool of households who can access mortgage loans without running into financial distress: the level and the slope of the 'mortgage affordability curve', the curve that shows the share of eligible households at different LTVs provided by the banks, change over time and depend on the definition of household wealth. The 2008-09 crisis lowered the share of eligible families at high LTVs and slightly increased it at lower LTVs. Moreover, we find that mortgage capability worsened more for the middle class and that the decline in Italian LTVs across the period was mainly supply driven, whereas household preferences barely changed. Finally, alternative policies affecting mortgage affordability display heterogeneous effects both in increasing households' market participation and in fostering safer lending policies.
Full text (pdf)

No. 314: **The tax burden on banks over the period 2006-2014** (February 2016)

Giacomo Ricotti, Marco Burroni, Vincenzo Cuciniello, Elena Padovani, Elena Pisano and Stefania Zotteri

Following the establishment of the Single Supervisory Mechanism (SSM), concerns about having a level playing field become more important due to the heterogeneity in bank taxation rules across Europe: measuring the tax burden can provide a first rough measure of the extent of heterogeneity across countries. After a review of the main differences in banks taxation between Italy, France, Germany, Spain and the UK, the paper provides estimates for the tax burden and deferred tax assets in these countries over the years 2006-2014; the impact of differences in taxation on bank profitability is also examined. Moreover, the paper carries out a more in-depth analysis of Italian banks by considering both individual balance sheet data and aggregate tax return data. The impact of tax measures on financial stability and on profitability is further analysed. The comparative analysis points to a wide heterogeneity across countries in the tax treatment of the banking sector. This suggests that it would be advantageous to explore possible ways to make the tax systems of the countries participating in the SSM more homogeneous; a first step could be to harmonize tax bases.
Full text (pdf)

No. 313: **Local policies for innovation: the case of technology districts in Italy** (February 2016)

Federica Bertamino, Raffaello Bronzini, Marco De Maggio and Davide Revelli

In this paper we study a policy tool called technology districts, implemented in Italy over the last decade to foster local innovation activity. First, we examine the characteristics of technology districts and those of the firms within them. Next, we assess the performance of district firms. We find that in the southern regions technology districts are more numerous but smaller than those located in the Centre-North, are poorly diversified from a sectorial point of view and more distant from the economic structure of the area. We find that the firms that did join a district had

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previously been, on average, larger, more innovative and profitable, and also show higher leverage than the others. Our results show that overall after the birth of a district the performance of the firms that joined it did not differ significantly from that of similar firms that did not.
Full text (pdf)

No. 312: **Internal controls in the Public Administration: current problems and future challenges** (February 2016)

Anna Peta

At the beginning of the 1990s, in line with trends in other European countries, the need to increase the efficiency of administrative activity resulted in legislative initiatives to extend some of the management tools developed in the private sector to the Public Administration. Among these instruments, an important role was assigned to internal controls. Over twenty years since their introduction, the functioning of public internal controls still displays several critical aspects. Through a comparative assessment with other European models, this paper highlights the problems affecting the legal framework of Italian public internal controls, such as the lack of a clearly identified internal audit structure; the paper also points out that controls focus almost exclusively on formal rather than substantive aspects. Moreover, the results of past performance appraisal activities show that the principles of "accountability" and "transparency" are not widely applied within the Public Administration, thus undermining the effectiveness and usefulness of internal controls.
Full text (pdf) in Italian only

No. 311: **The management of non-performing loans: a survey among the main Italian banks** (February 2016)

Luisa Carpinelli, Giuseppe Cascarino, Silvia Giacomelli and Valerio Vacca

This study presents the results of a survey carried out by the Bank of Italy in 2015 on the efficiency of credit recovery procedures undertaken by the main Italian banking groups. The recovery rate for liquidations in the years 2011-2014 was slightly above 40 per cent, and the largest share of the recovery was obtained within the first five years from the start of the procedure. Four years after the debt restructurings began, almost two thirds are still underway. The average age of liquidations at the end of 2014 was twice that of debt restructurings and eight percentage points more of loans being restructured are collateralized than those being liquidated.
In 2014 the management of non-performing loans absorbed 2.8 per cent of banks' operating costs, a larger share than in previous years. The study found not only differences in the systems adopted by the banks for managing non-performing loans but also differences in the amount of information available on the topics covered by the survey.
Full text (pdf) in Italian only

No. 310: **Incentives and evaluation of public managers in Italy** (February 2016)

Roberta Occhilupo and Lucia Rizzica

We analyse the current legislation on incentives for public managers in Italy and the most recent developments in the sector. In the light of the main findings of economic theory, we identify the most critical issues affecting the design of an optimal system of incentives.
These are the existence of multi-principle agency problems involving public managers; the difficulty of observing and measuring the output of the public sector; and the excessive limitations on managers' autonomy arising from the need to respect the rule of law. Along these three lines, we analyse the public management reforms that have been introduced in Italy since the 1990s and evaluate their effectiveness by means of an empirical analysis of the premiums paid to public managers in 2012.
This reveals a substantial flattening of the premiums paid and highlights that only the age of the manager and no other individual characteristics, such as professional experience or specific skills, significantly affects the amount received. We conclude that the ineffectiveness of the current system of incentives for public managers is due mainly to the blanket application of the same rules to all organizations, to inadequately identified objectives, and to excessive limitations on managers' autonomy.
Full text (pdf) in Italian only

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No. 309: **E-Government in Italy: current issues and future perspectives** (February 2016)

Carlo Maria Arpaia, Pasquale Ferro, Walter Giuzio, Giorgio Ivaldi and Daniela Monacelli

The paper examines the development of e-Government in Italy and its critical aspects. The main obstacles lie both in citizens lagging behind in their digital skills and the fact that the public sector seems unable to fully exploit the benefits of computerization.
ICT use by the public sector is mainly directed at internal processes and less at the provision of services. Moreover, the digitalization process has often overlooked the 'networking' capability of public information systems, having effectively been left to the initiative of individual institutions in a framework of weak governance at central level. Digitalization is currently moving towards a top-down approach aiming at solutions extendable over all the public sector. It relies on "system-wide projects", which are on a national scale, have a large impact on the individual entities' applications, and fix standards for interoperability among systems. This process must be accompanied, however, by 'ownership' of the implementation by individual entities, which is essential to trigger the management and organizational changes needed to take full advantage of ICT.
Full text (pdf) in Italian only

No. 308: **The debt of Italian non-financial firms: an international comparison** (February 2016)

Antonio De Socio and Paolo Finaldi Russo

In the run-up to the financial crisis Italian firms significantly increased their debt in absolute terms and in relation to equity and GDP.
The positive gap in firms' leverage between Italy and other euro-area countries has widened in recent years, despite the outstanding debt of Italian firms has decreased since 2011. In this work we document the magnitude of this gap using both aggregate macro data and firm-level information. We find that, controlling for several firm-specific characteristics (i.e. age, profitability, asset tangibility, asset liquidity, turnover growth), the leverage of Italian firms is about 10 percentage points higher than in other euro area countries. Differences are systematically larger among micro and small firms, whereas they are small and weakly significant for firms with assets above 300 million euros.
Full text (pdf)

No. 307: **Investment and investment financing in Italy: some evidence at the macro level** (February 2016)

Claire Giordano, Marco Marinucci and Andrea Silvestrini

We analyse the developments of investment and investment financing in Italy since 1995, based on data from national accounts and the flow of funds. The exceptional fall in investment after the global financial crisis in 2007 concerned all institutional sectors and asset categories. However, appropriately deflated data highlight the more intense fall of household capital expenditure. Consistently, on the asset side, construction was one of the most hard-hit capital goods; ICT and intangible investment instead weathered the double recession better. Focusing on investment financing, the eruption of the crisis caused a major contraction in the availability of external finance for non-financial corporations and households. Long-term loans to non-financial corporations became more important, crowding out their short-term counterparts. Also the weight of debt securities increased significantly, especially after 2008.
Full text (pdf)

Other recent occasional papers

January 2016

No. 306: Euro area significant banks: main differences and recent performance
Emilia Bonaccorsi di Patti, Roberto Felici and Federico Maria Signoretti

No. 305: Determinants of the movements in the euro-dollar exchange rate during the sovereign debt crisis
Alessio Anzuini, Martina Cecioni and Stefano Neri

No. 304: Value chains and the great recession: evidence from Italian and German firms
Antonio Accetturo and Anna Giunta

No. 303: Heterogeneous fall in productive capacity in Italian industry during the 2008-13 double-dip recession
Andrea Locatelli, Libero Monteforte and Giordano Zevi

No. 302: An inquiry into manufacturing capacity in Italy after the double-dip recession
Libero Monteforte and Giordano Zevi

No. 301: How does multinational production affect the measurement of competitiveness?
Stefano Federico

December 2015

No. 300: Prudential policy at times of stagnation: a view from the trenches
Piergiorgio Alessandri and Fabio Panetta

No. 299: Finance and creative destruction: evidence for Italy
Francesca Lotti and Francesco Manaresi

November 2015

No. 298: Net employment growth by firm size and age in Italy
Francesco Manaresi

No. 297: Why do firms hire on a fixed-term basis? Evidence from longitudinal data
Fabrizio Colonna and Giulia Giupponi

Economic History working paper

No. 36: **Historical archive of credit in Italy** (January 2016)

Sandra Natoli, Paolo Piselli, Ivan Triglia and Francesco Vercelli

This paper presents the Archivio Storico del Credito in Italia (ASCI), a comprehensive database of balance sheet data for nearly 2,600 Italian banks on an annual basis for the period 1890-1973. The work draws on earlier work carried out by the Bank of Italy for the period 1890-1936 (published in 1996) and incorporates information collected by the Bank of Italy as part of its banking supervision activity from 1936 onwards. ASCI is suitable for analyzing a variety of credit phenomena, given the high representativeness of the banking system and the large amount of balance sheet data available. Based on this new dataset, we provide a sketch of the evolution of the Italian banking system between 1890 and 1973, exploring the composition of the balance sheets across bank categories, the regional distribution of banks and the degree of concentration.

Full text (pdf) in Italian only

No. 35: **Regional growth with spatial dependence: a case study on early Italian industrialization** (January 2016)

Carlo Ciccarelli and Stefano Fachin

This paper estimates a conditional β-convergence model of labor productivity growth in Italy's manufacturing industry during 1871-1911, accounting for spatial dependence. The empirical evidence is based on a recent set of data at provincial (NUTS 3) level on manufacturing value added at 1911 prices, and a new set of data on human and social capital, political participation, and infrastructures. By focusing on a country and a time when the agglomeration forces and spillover effects advocated by the new economic geography were only starting to operate, we can investigate a particularly interesting case study. Our results suggest that human capital, a cooperative culture, and initial productivity in neighboring provinces can explain much of the geographical variability of productivity growth in manufacturing in nineteenth-century Italy.

Full text (pdf)

Historical series of the Bank of Italy

GDP for Italy's History. A User's Manual (September 2015)

Alberto Baffigi

As a measure of economic growth GDP (and its components) need to be handled with care, for the interpretative fallacies to which they can lead, especially over long periods of history. The book devotes ample space to the dangers that economic historians using quantitative evidence normally face, related both to the conceptual content of the data used in their studies and to the difficulty in extracting information from old and disparate historical sources. Historical series for Italy have been reconstructed over the last 40 years by different scholars – some of them member of our research group – using heterogeneous methods and referring to different time ranges and sectors. In order to obtain new national accounts series from 1861 to the present, we had to reconcile the various available series and translate them into the language of a national accounts standard. The sources and methods used are thoroughly described in the book and are accessible, in the form of data spreadsheets, in the Historical statistics section of the website of the Bank of Italy.

Full text (pdf) in Italian only

Workshops and Conferences series

No. 21: Global value chains: new evidence and implications (March 2016)

Carlo Ciccarelli and Stefano Fachin

The workshop entitled 'Global Value Chains: new evidence and implications' was held in Rome on the 22nd of June 2015. The workshop presented the results of a research project carried out by a group of economists from the Bank's Directorate General for Economics, Statistics and Research.

The first session focuses on the structure of global value chains and how they function in the euro area economies. The second and third sessions examine the implications of global value chains on competitiveness and economic performance, respectively. The last session concentrates on specific countries, regions and firms.

Full text (pdf)

No. 20: Beyond the Austerity Dispute: New Priorities for Fiscal Policy (March 2016)

The workshop aimed at moving forward the fiscal policy debate, which in the crisis years was unavoidably focused on how to regain fiscal credibility and to implement sizable and fast consolidation plans. Four main themes have been proposed for the debate during the workshop.

First, the two-way link between fiscal consolidation and inequality, with the idea that consolidation efforts cannot be successful in the long run if they entail a socially unsustainable increase in inequality.

Second, the importance of preserving, even in contexts in which the fiscal policy stance is necessarily restrictive, growth-enhancing public investments.

Third, the challenges posed to fiscal management by a low inflation context, taking into account that a subdued price dynamics not only makes the real burden of debt heavier, but it also has subtle effects, at least in the short term, on several budgetary items. Finally, the need for a simpler and more appropriate set of rules for the governance of the EMU. The latter topic was also the object of the high-level panel at the end of the workshop. While differences in emphasis emerged among the panellists, they agreed that the current framework could be streamlined, and – more importantly – that no set of rules can work if trust and a sense of sharing a common objective is not rebuilt among the Member States.

Full text (pdf)

Selection of Journal articles and books by Bank of Italy staff

Authors' names in boldface: Bank of Italy

Full list since 1990

Forthcoming

Albanese G., G. de Blasio and **P. Sestito**, "My Parents Taught Me. Evidence on The Family Transmission of Values", *Journal of Population Economics.* (WP No. 955)

Andini M. and **G. de Blasio**, "Local Development that Money cannot Buy: Italy's Contratti di Programma", *Journal of Economic Geography.* (WP No. 915)

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Bragoli D., **M. Rigon** and F. Zanetti, "Optimal Inflation Weights in the Euro Area", *International Journal of Central Banking.*

Bripi F., "The Role of Regulation on Entry: Evidence From the Italian Provinces", *World Bank Economic Review.* (WP No. 932)

Bronzini R. and **P. Piselli**, "The Impact of R&D Subsidies on Firm Innovation", *Research Policy*. (WP No. 960)

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