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Highlights

Conference on “Microdata for economic research; the contribution of the Bank of Italy”

(Rome, 12 July 2016)

On 12 July 2016, the Bank of Italy hosted a conference entitled "**Microdata for economic research; the contribution of the Bank of Italy**". The aim of the conference was to present some of the firm microdata held by the Bank of Italy and research based on these data. The main topics covered included the determinants of FDI location attractiveness, the relationship between foreign ownership and performance, the relevant characteristics of firms involved in FDI and the import/export of services, the relationship between bank credit and the service exports of Italian firms during the sovereign debt crisis, the main balance-sheet characteristics of MNEs, the financial structure of MNEs and their relationship with domestic banks, the cyclical and predictive properties of the indicators derived from the Inflation and Growth Expectations survey, the main features of housing sector microdata drawn from the Bank of Italy's survey of real estate agents and the role of credit conditions on housing sector performance, and matching business survey data with auxiliary sources to evaluate the quality of survey estimates.

The programme will soon be available on a dedicated corner of the Banca d'Italia website.

First Rome Junior Conference on Applied Microeconomics

(Rome, 23-24 June 2016)

On 23-24 June 2016, EIEF organized and hosted the "**First Rome Junior Conference on Applied Microeconomics**". The conference provided a forum for researchers active in different areas of applied microeconomics to exchange ideas. In selecting the presenters, preference was given to economists in the early stages of their careers.

The programme is available [here](#).

Fifth Rome Conference on Macroeconomics

(Rome, 27-28 June 2016)

On 27-28 June 2016, EIEF organized and hosted the "**Fifth Rome Conference on Macroeconomics**". The conference brought together junior "high-flier" economists with a strong interest in macroeconomics, creating a friendly and highly interactive

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environment, both during the presentations and informally before and after. Speakers were selected and invited by the organizing committee.

The programme is available [here](#).

Second Summer Workshop in Political Economy

(Rome, 4-5 July 2016)

On 4-5 July 2016, EIEF organized and hosted the “**Second Summer Workshop in Political Economy**”. The workshop focused on research on issues at the intersection of political economy, public finance, and macroeconomics. The topics analysed related to the institutional underpinning of fiscal policies and included: the political determination of public policies, the effects of political reforms and the impact of budgeting rules.

The programme is available [here](#).

First Rome Junior Finance Conference

(Rome, 6-7 June 2016)

On 6-7 July 2016, EIEF hosted the “**1st Rome Junior Finance Conference**”. The goal of the conference was to bring together junior researchers active in empirical and theoretical finance and create an opportunity for informal discussions and other academic-related activities. The members of the organizing committee are: Marco Di Maggio (Columbia Business School), Sergei Kovbasyuk (EIEF), Andrey Malenko (MIT Sloan), Nadya Malenko (BC Carroll), Adrien Matray (Princeton), Anton Tsoy (EIEF), Boris Vallee (HBS).

The programme is available [here](#).

Forthcoming events

CEPR European Conference on “Household Finance”

(Paris, 9-10 September 2016)

The CEPR, Copenhagen Business School, the Einaudi Institute for Economics and Finance (EIEF), HEC Paris, the Observatoire de l'Épargne Européenne (OEE), and the Swedish House of Finance (SHoF) at the Stockholm School of Economics are organizing the 2016 “**CEPR European Conference on Household Finance**”, which will take place on 9-10 September in Paris.

Further information will be available [here](#).

SEMINARS AT THE BANK OF ITALY

SEMINARS AT EIEF

Latest working papers

No. 1077: A “reverse Robin Hood”? The distributional implications of non-standard monetary policy for Italian households (July 2016)

Marco Casiraghi, Eugenio Gaiotti, Lisa Rodano and Alessandro Secchi

We study empirically the distributional implications of a non-standard monetary policy expansion, considering the measures implemented by the Eurosystem in 2011-2012 and exploiting a rich micro dataset on Italian households' income and wealth, in order to take contemporaneously into account a number of income- and wealth-related channels. Our results do not support the claim that an unconventional monetary loosening acts as a “reverse Robin Hood”. Larger benefits accrue to households at the bottom of the income scale, as the effects via the stimulus to economic activity and employment outweigh those via financial variables. The response of net wealth is U-shaped: less wealthy households take advantage of their leveraged positions, wealthier households of their larger share of financial assets. Overall, the effects on inequality are negligible. The results also suggest that the risk of an “expropriation of savers” is not likely to materialize, as the decrease in the remuneration of savings is compensated by support to labour income and by capital gains.

[Full text \(pdf\)](#)

No. 1076: Intergovernmental transfers and expenditure arrears (July 2016)

Paolo Chiades, Luciano Greco, Vanni Mengotto, Luigi Moretti and Paola Valbonesi

Local governments may increase expenditure arrears to relax the financial constraints induced by intergovernmental transfer cuts. We assess this hypothesis using information from accounting and financial reports from Italian municipalities for the period 2003-2010. By exploiting the long-lasting effect of the 1977-1978 structural reform of Italian local public finance, we employ an instrumental variable approach to address endogeneity concerns. We find robust empirical evidence that the lower the intergovernmental grants, the larger the use of arrears in public investment expenditures by municipalities. We argue that, when local governments are not subject to effective controls on the formation of arrears but fiscal rules impose

binding budget constraints, a cut in intergovernmental transfers can partially diminish the effectiveness of fiscal consolidation at local level.

[Full text \(pdf\)](#)

No. 1075: Quantifying the productivity effects of global sourcing (July 2016)

Sara Formai and Filippo Vergara Caffarelli

This work analyses the effect of the global sourcing of intermediate goods on productivity growth. To identify the impact of global sourcing, we employ the methodology proposed in a different context by Rajan and Zingales (1998). In particular we interact the length and the width of sectoral production chains with a measure of the intensity of countries' intermediate imports. We find evidence indicating that off-shoring significantly increases labour productivity and total factor productivity at the sector level in countries that rely on global sourcing. The driver of total factor productivity growth depends on the structure of the global value chain that intermediates are sourced from: long chains trigger technology improvements while wide chains cause a reallocation of resources towards more productive firms within the same sector.

[Full text \(pdf\)](#)

No. 1074: Macroeconomic effectiveness of non-standard monetary policy and early exit. A model-based evaluation (July 2016)

Lorenzo Burlon, Andrea Gerali, Alessandro Notarpietro and Massimiliano Pisani

This paper evaluates the macroeconomic effects of the Eurosystem's expanded Asset Purchase Programme (APP) under alternative strategies as regards (i) the unwinding of asset positions accumulated under the APP and (ii) communication of current and future paths of the policy rate (forward guidance). To this purpose, we simulate a New Keynesian model of the euro area. Our results are as follows. First, as the monetary authority brings forward the selling of long-term sovereign bonds, the stimulus from the APP on inflation and economic activity is correspondingly reduced. In particular, if the bonds are sold immediately after purchases end, the impact on inflation is negligible. Second, if the monetary authority communicates that it will hold the policy rate constant for one year instead of

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two, the APP is less effective, and the inflation increase is halved. Third, the subdued impact of the APP associated with an early exit from the programme delays the return to a standard monetary policy regime.

[Full text \(pdf\)](#)

No. 1073: Search costs and the severity of adverse selection (July 2016)

Francesco Palazzo

In view of some recent empirical evidence, I suggest a relationship between the magnitude of search costs and the severity of adverse selection in the context of a dynamic model with asymmetric information. In markets with small search costs sellers with low quality products misrepresent their quality and demand a high price. If instead search costs are not negligible and buyers receive sufficiently precise signals, sellers' price offers are truthful and all product qualities are traded over time. In markets with small search costs, a budget balanced mechanism can avoid to exacerbate adverse selection: sellers should pay a per period market participation tax and receive a rebate after trading.

[Full text \(pdf\)](#)

No. 1072: Bank quality, judicial efficiency and borrower runs: loan repayment delays in Italy (July 2016)

Fabio Schiantarelli, Massimiliano Stacchini ad Philip Strahan

Exposure to liquidity risk makes banks vulnerable to runs from both depositors and from wholesale, short-term investors. This paper shows empirically that banks are also vulnerable to run-like behaviour from borrowers who delay their loan repayments (default). Firms in Italy defaulted more against banks with high levels of past losses. We control for borrower fundamentals with firm-quarter fixed effects; thus, identification comes from a firm's choice to default against one bank versus another, depending on their health. This 'selective' default increases where legal enforcement is weak. Poor enforcement can therefore create a systematic loan risk by encouraging borrowers to default en masse once the continuation value of their bank relationships comes into doubt.

[Full text \(pdf\)](#)

No. 1071: Boulevard of broken dreams. The end of the EU funding (1997: Abruzzi, Italy) (July 2016)

Guglielmo Barone, Francesco David and Guido de Blasio

EU regional policies aim to push regions into self-sustaining growth. Successful interventions would imply a higher growth rate, not only during the treatment (when the region benefits from the transfers), but also after the expiry of the program (when the financing terminates). We investigate to what extent this happened in the case of Italy's Abruzzi region, which entered into the Objective 1 (Convergence) program in 1989 and exited it in 1996 (without a transitional regime). More specifically we focus upon the post expiry period by implementing a synthetic control approach. Our results indicate that exiting the program had a negative effect on regional per-capita GDP growth. This result is a confirmation of the widespread evidence that during their implementation EU regional policies help boost the economic performance of the treated regions. However, additional evidence suggests that the permanent effect of the treatment is negligible: the policies fail to transfer the treated regions to a permanently higher GDP growth path.

[Full text \(pdf\)](#)

No. 1070: Some reflections on the social welfare bases of the measurement of global income inequality (July 2016)

Andrea Brandolini and Francesca Carta

This paper examines the social welfare bases of the measurement of income inequality among the inhabitants of the world. We develop a general family of global inequality indices which encompasses different concepts of global equity, from the cosmopolitan to the nationalist view. The analysis also provides an interpretation of the EU-wide inequality measures adopted in European statistics.

[Full text \(pdf\)](#)

No. 1069: Individual trust: does quality of public services matter? (June 2016)

Silvia Camussi and Anna Laura Mancini

This paper contributes to the literature on the determinants of social capital by investigating

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how the quality of local services influences individual's generalized trust and trust in local government. Using data from the Italian National Statistic Office survey "Aspetti della vita quotidiana", after building a measure for local services' quality, we study its effect on individual's social capital using linear regressions techniques. Our results suggest that good local public services affect positively individual's social capital, the effect being stronger for trust in local institutions. To deal with possible endogeneity issues, the robustness of our results is tested using two-step GMM estimation, while the procedure proposed by Altonji et al. (2005) is used to study the sensitivity to omitted variables. Finally, the paper extends the analysis to further social capital measures (family ties, network social capital and trust in central government) and to alternative quality measures. We also test the existence of age related differences in the influence of public services' quality on individual trust measures.

[Full text \(pdf\)](#)

No. 1068: The labor market channel of macroeconomic uncertainty
(June 2016)

Elisa Guglielminetti

Uncertainty has recently become a major concern for policymakers and academics. Spikes in uncertainty are often associated with recessions and have detrimental effects on the aggregate economy. This paper analyzes the effects of uncertainty on firms' hiring and investment decisions, both empirically and theoretically. Empirically, VAR estimates show the negative effects of uncertainty on economic performance and in particular on the labor market. Counterfactual experiments highlight the significant role of hiring decisions as a transmission channel for uncertainty. The empirical findings are rationalized through a DSGE model with search and matching frictions in the labor market and stochastic volatility. The model is able to replicate the observed co-movement among consumption, investment, output and labor market outcomes generated by an uncertainty shock. Price stickiness greatly amplifies the reaction of the economy. Simulations show that monetary policy can mitigate the adverse effects of uncertainty by adopting a strong anti-inflationary policy.

[Full text \(pdf\)](#)

No. 1067: Productivity effects of eco-innovations using data on eco-patents
(June 2016)

Giovanni Marin and Francesca Lotti

We investigate the productivity effects of eco-innovations at the firm level using a modified version of the CDM model (Crepon et al., 1998). The distinctive nature of environmental innovations, especially as regards the need for government intervention to create market opportunities, is likely to affect the way they are pursued and their effect on productivity. The analysis is based on an unbalanced panel sample of Italian manufacturing firms merged with data on patent applications and balance sheet information. When looking at innovation's return on productivity, we observe that eco-innovations exhibit a generally lower return relative to other innovations, at least in the short run. This differential effect is more pronounced for polluting firms, which are likely to face higher compliance costs for environmental regulations than other firms. This result holds for both the extensive (probability of patenting) and intensive (patent count) margin.

[Full text \(pdf\)](#)

No. 1066: The heterogeneous response of domestic sales and exports to bank credit shocks
(June 2016)

Ines Buono and Sara Formai

This paper analyzes the role of bank credit in firms' export performance. We use Italian bank-firm matched data and contribute to the existing literature by focusing on the link between bank-credit and exports in 'normal times' (1997-2008) and measuring access to credit with hard data on the credit actually extended to firms by the banking system. We also establish the causal link that goes from bank credit to exports, exploiting bank mergers and acquisitions as a source of bank credit supply shocks. We find that short-run shocks to the supply of bank credit induce exporters to decrease their export flows, without affecting their domestic sales. On the other hand, non-exporters react by reducing their domestic sales.

[Full text \(pdf\)](#)

Other recent working papers

April 2016

- No. 1065: Contagion and fire sales in banking networks
Sara Cecchetti, Marco Rocco and Laura Sigalotti
- No. 1064: Debt maturity and the liquidity of secondary debt markets
Max Bruche and Anatoli Segura
- No. 1063: Heterogeneous peer effects in education
Eleonora Patacchini, Edoardo Rainone and Yves Zenou
- No. 1062: A new method for the correction of test scores manipulation
Santiago Pereda Fernández
- No. 1061: Carry trades and exchange rate volatility: a TVAR approach
Alessio Anzuini e Francesca Brusa
- No. 1060: Optimal inflation weights in the euro area
Daniela Bragoli, Massimiliano Rigon and Francesco Zanetti

February 2016

- No. 1059: The supply side of household finance
Gabriele Foà, Leonardo Gambacorta, Luigi Guiso and Paolo Emilio Mistrulli
- No. 1058: Exposure to media and corruption perceptions
Lucia Rizzica and Marco Tonello
- No. 1057: Multitask agents and incentives: the case of teaching and research for university professors
Marta De Philippis
- No. 1056: The use of fixed-term contracts and the (adverse) selection of public sector workers
Lucia Rizzica
- No. 1055: The macroeconomic effects of low and falling inflation at the zero lower bound
Stefano Neri and Alessandro Notarpietro
- No. 1054: Shoe-leather costs in the euro area and the foreign demand for euro banknotes
Alessandro Calza and Andrea Zaghini
- No. 1053: Young adults living with their parents and the influence of peers
Effrosyni Adamopoulou and Ezgi Kaya
- No. 1052: Deconstructing the gains from trade: selection of industries vs. reallocation of workers
Stefano Bolatto and Massimo Sbracia
- No. 1051: Deconstructing the gains from trade: selection of industries vs. reallocation of workers
Stefano Bolatto and Massimo Sbracia

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No. 347: **Leverage ratio, central bank operations and repo market** (July 2016)

Annalisa Bucalossi and Antonio Scalia

Using estimates of the Basel III leverage ratio, we show the rapid convergence of banks in the euro area towards levels well above the preliminary 3 per cent threshold. Contrary to predictions that the new requirement might interfere with the conduct of monetary policy and its transmission via the money market, throughout 2014 we find that leverage-constrained banks have decreased neither Eurosystem refinancing nor trading volume on repo markets. We measure the extent to which banks in the euro area have until now benefited from improvements in their regulatory capital, the low reporting frequency of the leverage ratio, and the favourable treatment of repo and derivatives trades with central counterparties in calculating the ratio, achieving an average of 5 per cent at end-June 2015. This level is likely to fall to around 4.5 per cent by March 2017, as a consequence of the Eurosystem Asset Purchase Programme, which causes an expansion of banks' balance sheets and, therefore, an increase in the denominator of the leverage ratio. [Full text \(pdf\)](#)

No. 346: **Adjusting the external adjustment: cyclical factors and the Italian current account** (July 2016)

Silvia Fabiani, Stefano Federico and Alberto Felettigh

We investigate the role of cyclical factors in the adjustment of Italy's external balance from 2010, developing a model that infers the potential levels of domestic demand and of imports and exports from an exogenous measure of potential output, in an internally coherent fashion and also taking composition effects into account. According to our results, in 2015 Italy's cyclically-adjusted current account surplus came to about 0.5 percentage points of GDP; the overall external rebalancing of the Italian economy has largely been of a non-cyclical nature, with a positive contribution from the decline in the prices of energy commodities. By applying our methodology to the other major euro-area countries, we find that current account imbalances over the recent period are amplified when assessed in cyclically-adjusted terms. [Full text \(pdf\)](#)

No. 345: **The distribution of public employees in Italy: role and functions of mobility** (July 2016)

Francesco D'Amuri and Cristina Giorgiantonio

Several studies have demonstrated the presence of significant asymmetries in the distribution of public employees in Italy. An econometric analysis of the civil registry services of Italian municipalities confirms this result, indicating the existence of significant deviations from the average ratio between input and output in the delivery of such services: specifically, municipalities with larger staff are located in the Centre-South and in areas where the unemployment level is higher. Therefore, there appears to be considerable room to achieve efficiency gains through an appropriate reallocation of public employees. However, a number of institutional factors, including, in particular, the lack of objective criteria for determining actual staffing needs, the high segmentation of public entities and the uncertainties flowing from different systems for classifying public employees, appear to hinder mobility flows, which are extremely low. [Full text \(pdf\) in Italian only](#)

No. 344: **Economic governance in the euro area: balancing risk reduction and risk sharing** (July 2016)

Fabrizio Balassone, Sara Cecchetti, Martina Cecioni, Marika Cioffi, Wanda Cornacchia, Flavia Corneli and Gabriele Semeraro

The unchecked build-up of imbalances during the 2000s exposed the euro area to the risk of sudden stops. Such risk materialized in 2009-10 and its consequences were amplified by the absence of adequate institutions. Europe embarked on a thorough process of reforming its economic governance. We review the measures taken concerning sovereigns and banks since 2010 and discuss possible ways forward on both fronts. We argue that, while significant progress has been achieved, a lot of ground remains to be covered. In general, reforms have favoured risk reduction over risk sharing. As a result, in the face of exceptional circumstances, the euro area is not equipped with the fiscal tools necessary for macroeconomic stabilization; moreover, banking union lacks common financial backstops. Only further risk

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(and sovereignty) sharing can avoid harmful pro-cyclical excesses.

[Full text \(pdf\)](#)

No. 343: Why go public? A study of the individual determinants of public sector employment choice
(July 2016)

Lucia Rizzica

This paper investigates why workers choose the public versus the private sector to understand which aspects of public sector labour contracts should be improved to attract more high-skilled individuals. Using data from the 2014 wave of the Survey of Household Income and Wealth (SHIW), the paper finds that the public sector is generally chosen for its non-pecuniary aspects, and that for highly educated workers it presents a greater disadvantage in terms of salaries, career prospects and transparency of selection procedures, and a greater advantage in terms of work-life balance and job content, both in terms of social utility and closer relation to the field of study. For high-ability individuals, moreover, the public sector disadvantage deepens for career prospects while the advantage in terms of holding employment closer to the field of study increases. Estimates on actual sorting provide evidence that high-ability individuals are more likely to start a job in the private sector when the wage distribution in the public sector is more skewed, i.e. when the career prospects are less dynamic.

[Full text \(pdf\)](#)

No. 342: Incentives and selection in public employment (July 2016)

Cristina Giorgiantonio, Tommaso Orlando, Giuliana Palumbo and Lucia Rizzica

The effectiveness of the Public administration depends on its ability to attract and select skilled individuals and encourage them to exert effort. Recruitment and career policies affect the composition of the pool of applicants who take part in the selection procedures. The process by which these are managed determines who, among the self-selected candidates, accesses public employment and, consequently, the distribution of individual characteristics across the public workforce. Such distribution, in turn, sets the environment in which incentive schemes are

designed. This work provides an overview of the interactions among these dimensions and studies some critical aspects of the Italian context: the decreased selectivity and increased instability in recruitment, pay and career policies that insufficiently compensate education and skills, rigid selection procedures slanted towards generalist knowledge, the uniform application of incentive schemes to the entire Public administration without structural rearrangements. Furthermore, this work provides a critical comparison between these considerations and the direction taken by the recent reforms of public employment.

[Full text \(pdf\) in Italian only](#)

No. 341: Currency co-movements in Asia-Pacific: the regional role of the renminbi (July 2016)

Daniela Marconi

The economic and political influence of China in the Asia-Pacific region is growing and the internationalization of the Chinese currency, the renminbi (RMB), is adding an additional channel of influence. This paper assesses the evolution of exchange rate co-movements against the US dollar within the region and finds that the RMB is exerting a growing influence. The degree of influence varies considerably across currencies. On the one hand, the Indonesian rupiah, the Korean won, the Malaysian ringgit, the Singaporean dollar, and the Taiwanese dollar show very strong co-movements with the RMB, while on the other hand, the Australian and the New Zealand dollars are not affected. Furthermore, the study confirms that Asian currencies move as if driven by the aim of stabilizing the effective exchange rate, thereby avoiding excessive appreciation against the USD.

[Full text \(pdf\)](#)

No. 340: Allocative efficiency and aggregate wage dynamics in Italy (July 2016)

Effrosyni Adamopoulou, Emanuele Bobbio, Marta De Philippis and Federico Giorgi

Aggregate wages display little cyclicity compared with what a standard model would predict. Wage rigidities are an obvious candidate, but a recent strand of the literature has emphasized the need to take into account the

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growing importance of worker composition effects during downturns. With reference to the Italian case we document that firm composition effects also matter increasingly in explaining aggregate wage dynamics, i.e. aggregate wage growth has been raised by the increase in the employment weight of high-wage firms. To the extent that this reallocation occurs towards more productive firms, the composition effects may also reflect an efficiency enhancing mechanism. We use a newly available dataset based on social security records covering the universe of Italian employers from 1990 to 2013 and employ a standard measure of allocative efficiency on wages paid across firms. We show that this measure has improved progressively since before the recent downturn, being aligned at the sectoral level with measures of productivity growth and market openness to competition. We then focus on the recent downturn and find that large firms were able to adjust wages more than small firms and that small firms instead adjusted employment to a larger extent. Finally, we document that the continued improvement in the measure of allocative efficiency over this period correlates positively with measures of economic activity (evolution of employment and value added) across sectors.

[Full text \(pdf\)](#)

No. 339: **Innovative start-ups in Italy: their special features and the effects of the 2012 law** (July 2016)

Paolo Finaldi Russo, Silvia Magri and Cristiana Rampazzi

In 2012 the Italian Parliament introduced into Italian law a special section in the Companies Register and a large number of financial incentives to create a favorable environment for the development of 'innovative start-ups' (ISUPs). In this paper we compare ISUPs with other start-ups. In accordance with the eligibility criteria established by law, ISUPs show a striking capacity for innovation apparent in a higher incidence of intangible assets and the longer time it takes to begin selling their products. ISUPs also report higher investment rates and stronger growth in sales and assets, while their financial structures are characterized by higher capitalization and greater availability of liquid assets. Based on propensity score matching, we also highlight some

direct effects of the 2012 law on their financial structures, almost exclusively on ISUPs operating in the service sectors: their external funding, either debt or equity, increases more than for other similar firms; higher investment rates are specifically associated with a stronger upsurge in their capital.

[Full text \(pdf\)](#)

No. 338: **Wage rigidities and business cycle fluctuations: A linked employer-employee analysis** (July 2016)

Effrosyni Adamopoulou, Emanuele Bobbio, Marta De Philippis and Federico Giorgi

This paper analyses wage dynamics in Italy in the last 25 years with special focus on the recent recession. Using linked employer-employee data we document the presence of a trade-off between wage and employment adjustments: firms experiencing more wage rigidities exhibit more employment adjustments. Over time, the average amount of nominal wage rigidities was subdued during the recession years. Most of the adjustments took place through the part of wages that is not negotiated at the national level. In a rather rigid institutional context, a larger share of temporary workers, whose contractual relationship may be terminated without cost and whose wages are more frequently renegotiated, served instead as a significant flexibility enhancing margin. More broadly, we find that larger firms, with a greater share of blue-collar workers or belonging to a sector in which firm bonuses represent a large part of annual earnings, were the ones displaying a higher level of wage flexibility.

[Full text \(pdf\)](#)

No. 337: **Economic reforms in China and India: past and future challenges** (July 2016)

Alessandro Borin and Enrica Di Stefano

In China and India broad economic reforms since the 1980s progressively opened to private initiative and international trade and were key contributors to their formidable growth patterns. Today, the positive effects of past liberalizations are fading and the two

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countries have reached a level of development and complexity that requires a “new generation” of reforms, qualitatively more complex and politically less palatable. This paper identifies the turning points in China’s and India’s long phases of fast growth. It then turns to the open issues that need government action to support a sustainable and lasting growth process. In China, the priorities are to foster new growth engines by boosting domestic consumption and improving quality and efficiency on the supply side. In India, the reforms proposed by the government aim at facilitating investment, fostering innovation, protecting intellectual property, and building top-class manufacturing infrastructure. Broad reforms of financial and labor markets are also on the agenda. To make progress in these reforms both countries will require overcoming the resistance of vested interests and short term implementation costs. [Full text \(pdf\)](#)

No. 336: Market shares in manufacturing value-added: is the picture different? (July 2016)

Alberto Felettigh and Giacomo Oddo

Using an extension of the methodology proposed by Koopman, Wang and Wei (2014) for quantifying the domestic value added in a country’s exports of manufactures, this paper provides calculations of the market shares in value-added for a number of countries and compares them with the standard shares in global gross exports. The data show different levels and dynamics between advanced and developing countries, with 2004 apparently marking a watershed. Focusing on the four main euro-area countries, the paper offers a sectoral interpretation for the falling intensity of the domestic value added in exports. [Full text \(pdf\)](#)

No. 335: Financial literacy of Italian teens and family’s background: evidence from PISA 2012 (July 2016)

Pasqualino Montanaro and Angela Romagnoli

PISA 2012 is the first large-scale international survey that has ever assessed the financial

literacy (FL) of 15-year-olds. For Italy, the picture that emerges is negative, with average FL scores that are about 7 per cent lower than the OECD average. After controlling for a number of factors usually used to explain the students’ performance – such as gender, immigration status, school type and socio-economic status – Italy’s gap remains wide. The FL score is positively correlated with math and reading as well. However, the relationship between FL and basic skills is weaker in Italy than elsewhere, and it declines more markedly moving from low- to high-performers. For Italians, the direct impact on FL of a family’s socio-economic and cultural conditions is also weaker. Indeed, a significant proportion (about 40 per cent) of Italy’s gap is attributable to students who, despite coming from relatively affluent families, are characterized by moderate FL levels. Based on students’ responses, this gap may also be traced back to a lack of involvement of Italian students in money and financial matters. [Full text \(pdf\) in Italian only](#)

No. 334: Offshore RMB markets in Europe: prospects for greater financial integration between Europe and China (July 2016)

Daniela Marconi, Lorenzo Bencivelli, Anna Marra, Alessandro Schiavone and Raffaele Tartaglia-Polcini

China’s financial integration with the rest of the world lags far behind its trade integration, owing to long-standing capital controls and underdeveloped capital markets. Since 2009 Chinese policymakers have actively promoted the internationalization of the renminbi (RMB) and its use abroad, leading to gradual but greater capital account liberalization. This paper offers an overview of recent developments in the process of RMB internationalization. Offshore RMB markets are playing an important role in stimulating China’s financial integration and promoting the use of the RMB outside the country. In Europe, as elsewhere, offshore RMB centers are flourishing in response to increased demand for RMB-denominated financial services and strong political support from both sides. These developments have implications for currency

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trading, trade financing and banking activity in general, and strengthen the financial links between Europe and China. Capital account opening in China is expected to remain gradual. Recent episodes of instability on the Chinese financial and exchange rate markets have shown that the road to liberalization may be bumpy and international spillovers large.

[Full text \(pdf\)](#)

No. 333: **House prices in Italy, 1927-2012** (June 2016)

Luigi Cannari, Giovanni D'Alessio and Giovanni Vecchi

In this paper we evaluate the trend in house prices and residential land prices from 1927 to 2012. In this period real house prices increased more than threefold, while they quintupled in big cities. The increase was much greater than that of the real construction costs, which doubled. More than two-thirds of the increase in house prices that occurred between 1950 and 2012 was attributable to the increase in residential land prices. The increase in the wealth-to-GDP ratio observed in Italy since the middle of the last century was largely due to the rise in real house prices; although increasing house prices can make buying a home more difficult for non-homeowners, our results mitigate the concerns about the distributive tensions that may arise from the growth in the wealth-to-GDP ratio.

[Full text \(pdf\) in Italian only](#)

No. 332: **Remittances of foreign workers in Italy: an estimation of invisible flows in the "informal channel"** (June 2016)

Giacomo Oddo, Maurizio Magnani, Riccardo Settimo and Simonetta Zappa

This paper examines the determinants of outgoing remittances from Italy and presents a methodology for quantifying the share of remittances not sent via official intermediaries (money transfer operators, banks, post offices) but transferred through informal channels and hence not measured and not included in official data. The existence of invisible flows can be inferred from the positive and statistically

significant empirical relation between distance of the recipient country and average per capita remittance, after controlling for all other relevant explanatory variables. Such a relation should be null or non-significant if flows were observed in their entirety. Exploiting this empirical relation and relying on the detailed geographical breakdown of the data collected by the Bank of Italy, our proposed methodology estimates the informal channel to account for between 10 and 30 per cent of total outflows, mostly directed to countries closer to Italy. Our analysis shows a reduction in the share of informal remittances on total outflows: over the ten-year observation period it has shrunk by about 20 per cent.

[Full text \(pdf\) in Italian only](#)

No. 331: **Is corruption efficiency-enhancing? A case study of nine Central and Eastern European countries** (June 2016)

Elisa Gamberoni, Christine Gartner, Claire Giordano and Paloma Lopez-Garcia

We investigate the role of corruption in the business environment in explaining the efficiency of within-sector production factor allocation across firms in nine Central and Eastern European (CEE) countries in 2003-2012. Using a conditional convergence model, we find evidence of a positive relationship between corruption growth and both labour and capital misallocation dynamics, once country framework conditions are controlled for: this link is larger the smaller the country, the lower the degree of political stability and civil liberties, and the weaker the quality of its regulations. As input misallocation is one of the determinants of productivity growth, we further show that the correlation between changes in corruption and TFP growth is indeed negative. Our results also hold when we tackle a possible omitted variable bias by instrumenting corruption with two instrumental variables (the percentage of women in Parliament and freedom of the press). In conclusion, targeted action against corruption in the CEE region would be efficiency-enhancing.

[Full text \(pdf\)](#)

Latest occasional papers

No. 330: Purchases of sovereign debt securities by Italian banks during the crisis: the role of balance-sheet conditions (June 2016)

Massimiliano Affinito, Giorgio Albareto and Raffaele Santioni

This paper analyses the main microeconomic determinants of Italian banks' purchases of sovereign debt securities from 2007 to 2013, with special reference to their balance-sheet conditions. The analysis distinguishes two phases of the crisis – the period following the Lehman Brothers collapse and the sovereign debt crisis – and different types of banks (large and small). Results show that banks' specific characteristics and balance-sheet features do matter and that banks use government securities purchases to support their financial and economic conditions. The influence of the balance-sheet conditions differs according to the phase of the crisis and the type of bank.

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Other recent occasional papers

April 2016

No. 329: Using external sources to understand sample survey bias: the case of the Invind survey

Leandro D'Aurizio and Giuseppina Papadia

No. 328: Monetary aggregates in Italy since 1861: evidence from a new dataset

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

No. 327: Foreign direct investment and international trade in services: an analysis based on balance of payments microdata
Chiara Bentivogli, Francesco Bripi, Andrea Carboni, Luca Cherubini, Eleonora Laurenza, Andrea Locatelli, Paola Monti, Elisabetta Nencioni, Valeria Pellegrini and Diego Scalise

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

March 2016

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Paolo Sestito and Eliana Viviano

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