BANCA D'ITALIA
EUROSISTEMA

NUMBER 41
JANUARY 2016

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

Contents

Highlights

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

(Rome, 5 October 2015)

On 5 October 2015 the Bank of Italy hosted a workshop on "Low inflation and its implications for monetary policy". The event was organized in three sessions and featured nine presentations in total, six of which by economists of the Economics and Statistics Directorate of the Bank of Italy and three by economists of other central banks (Banque de France, Bundesbank and U.S. Federal Reserve Board). The works presented in the first session focused on the economic determinants of the low inflation environment; the second session analysed the risks associated with a de-anchoring of long-term inflation expectations; the third session explored the theoretical and empirical implications for monetary policy when inflation is decreasing or is in negative territory. The workshop was attended by Italian academics and researchers from Italian and international institutions.

Regarding the first session, the main empirical results can be summarized as follows. Since the end of 2011, when inflation started to decline in the euro area, forecasts made by professional forecasters as well as those implicit in financial derivatives have systematically overestimated the actual inflation rate. As in other advanced economies, recent inflation dynamics in the euro area have mainly reflected aggregate demand shocks and, to a lesser extent, the negative contribution of oil prices. However, second-round effects of declining oil prices have affected core inflation more substantially during the last two years than during the global financial crisis in 2008-09. The decrease in inflation may have also reflected the monetary policy stance, which arguably was not sufficiently expansionary. On the one hand, conventional monetary policy had limited leeway to offset deflationary shocks and thus prevent a real interest rate hike. On the other hand, the contribution stemming from unconventional monetary policies – proxied by the shadow interest rate – reveals that from 2009 to 2013 the monetary stance was extremely expansionary in the United States, but not very much so in the euro area; only in 2014 did the monetary stance start to be more accommodative in the euro area.

The second session discussed issues related to the measurement and the possible de-anchoring of long-term inflation expectations. The inflation process appears to be more persistent when the inflation rate is in the lowest region if its distribution; therefore, it may be harder for monetary policy to counter negative shocks by pushing inflation below its conditional mean than it is to counter positive ones. Moreover, measures of a de-anchoring based on the pass-through of changes to short -term expectations – due for instance to transitory shocks – onto long-term expectations, show that the risk of a de-anchoring increased sharply in the euro area between October 2014 and mid-January 2015, on the eve of the extension of the

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Asset Purchase Programme to public sector securities; it decreased markedly afterwards, though it remained volatile. No such increases were recorded in the United States or the United Kingdom in that period.

The third session highlighted the key role played by the mechanism behind the formation of inflation expectations in the implementation of monetary policy. If agents form their beliefs according to a learning process, a sequence of negative shocks could imply a larger drop in inflation than under rational expectations, determining a higher risk of a de-anchoring. Against this background, the purchase of long-term securities by the monetary authority may trigger a rebound in consumption and investment and thus push up inflation expectations. Furthermore, an improved economic outlook and a positive inflation rate enable households to decrease their leverage and, eventually, loosen the financial constraints.

In conclusion, the empirical and theoretical results presented during the workshop suggest that the unconventional monetary policies adopted by the Eurosystem were well-suited to address the declining pattern of inflation – which is due not only to oil prices but also to a weak economic outlook - and to prevent a de-anchoring of long-term inflation expectations, thus preserving the credibility of the monetary authority.

Workshop on "Public Administration and Economy"

(Rome, 4 November 2015)

On 4 November 2015 the Bank of Italy hosted the workshop on "Public Administration and the Economy" . The workshop mainly focused on the importance of an efficient public administration for the competitiveness and growth of the economy and on some of the weaknesses in the management of human resources in the Italian public administration. The workshop was divided into two sessions.

The papers in the first session presented new measures of local government performance and its determinants and evaluated the impact of cutting the red tape involved in regulations for doing business on firm demographics in Italy. It also assessed the impact of new measures of public sector efficiency on firm productivity.

The second session discussed some critical aspects of the management of human resources in the Italian public administration such as: i) the impact of job instability in the public sector on workers' distribution between the private and the public sector, ii) the weaknesses in the structure of Italian public managers' incentives and the main guiding principles of the reform currently under way; iii) the presence of imbalances in the distribution of human resources between administrations and the effectiveness of the available legislative instruments in allowing a more efficient allocation.

The programme is available here.

Workshop on "Investment financing "

(Rome, 13 November 2015)

On 13 November 2015 the Bank of Italy hosted an internal workshop on "Investment financing". The main topics were the effect of financing conditions on corporate investment, the contribution of bank and non-bank lending to firm growth, and the financing of infrastructure projects. All the papers presented were Bank of Italy ongoing research projects and were discussed by invited experts from academia and research centres. The workshop was divided into three sessions. The first focused on the effects of a tightening of lending standards, credit rationing and firm internal financing conditions on corporate investment. The second session analysed the effectiveness of venture capital and public policy tools such as loan guarantee schemes in promoting firm growth. The contribution of the shadow banking system was also studied. The papers presented in the third session examined the role of private capital in the development of infrastructure projects as well as the existing links between investment and investment financing.

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Conference on "The Bank of Italy's Analysis of Household Finances: Fifty Years of the Survey on Household Income and Wealth and the Financial Accounts"

(Rome, 3-4 December 2015)

On 3-4 December 2015 the Bank of Italy hosted a Conference on "The Bank of Italy's Analysis of Household Finances: Fifty Years of the Survey on Household Income and Wealth and the Financial Accounts". The Conference was opened by a keynote speech by Deputy Governor Luigi Federico Signorini , who showed how the survey and the financial accounts have evolved over time to face the needs of policy makers. The conference was divided into six sessions. The first session was devoted to the analysis of income shocks and their effects on consumption. The second session analysed the role played by public pensions schemes and house prices in affecting household wealth. A cross-country analysis of household indebtedness and the measurement of over-indebtedness and financial vulnerability were the topics of the third session. The fourth session tackled the problem of measuring unobserved economic activities (i.e. irregular work, tax evasion) and household wealth held abroad in tax havens. The fifth session was devoted to the discussion of income and wealth inequality, both in a cross-sectional and an intergenerational perspective. The President of Istat and the Governor of the Bank of Italy closed the Conference discussing the past and the future of the household surveys conducted by the two organizations. On the occasion of the conference, the section of the Bank of Italy's website devoted to household surveys was completely revamped and enriched with new content. In particular, the following features were made available to the public for the first time: a) statistical tables containing the main results of the surveys from 1977 to 2014 (Excel files); b) the Italian data for the Eurosystem's Household Finance and Consumption Survey (HFCS), including the estimates of gross income); c) statistical tables from the surveys conducted from 1965 to 1975 and other historical material.

The conference program is available here.

Workshop on "Urban development, agglomeration and economic growth"

(Rome, 16 December 2015)

On 16 December 2015 the Bank of Italy hosted a workshop on "Urban development, agglomeration and economic growth". The workshop dealt with the first wave of papers of the Bank of Italy's research project on "Urban development, agglomeration and economic growth".

The workshop mainly focused on preliminary evidence of the role of cities as catalyzers of economic growth. Three main works were discussed. The first provided a taxonomy of Italian municipalities, dividing them into urban areas and non-urban areas based on population density (in the same spirit of Eurostat's Urban Audit). The second session documented the primacy of urban areas in terms of population growth, employment, income, and value added. The third work, in a preliminary attempt to correlate growth performance to structural characteristics, provided a description of the structural features of Italian urban areas in terms of size, human capital endowment, real estate prices, access to credit and GDP sector composition, particularly with regard to the location of knowledge intensive (business) services. A special focus was given to the determinants of heterogeneity of real estate prices within cities.

The research project will be finalized by spring 2017 and intermediate results on the mechanisms of urban agglomeration and the link to economic growth will be presented in an intermediate workshop by the end of 2016.

The conference program is available here.

Highlights

5th EIEF-UNIBO-IGIER Bocconi Workshop on Industrial Organization

(Rome, 17-18 December 2015)

On 17-18 December 2015 EIEF hosted the "5th EIEF-UNIBO-IGIER Bocconi Workshop on Industrial Organization", jointly organized with the Bologna Center for Law and Economics (BCLE - University of Bologna) and IGIER-Bocconi. The workshop aims to strengthen the relationship between Italian economists working in the field of Industrial Organization, both in Italy and abroad. The workshop featured a limited number of papers, presented in a plenary session, so that ample time was left for discussion and informal interaction. Contributions on theoretical and empirical IO were equally represented.

The workshop programme and related material are available here.

Forthcoming events

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 ia available here.

SEMINARS AT THE BANK OF ITALY

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Latest working papers

No. 1050: **Contagion and fire sales in banking networks** (January 2016)

Sara Cecchetti, Marco Rocco and Laura Sigalotti

The paper develops a theoretical framework to analyze the connection between the structure of banking networks and their resilience to systemic shocks. We base our analysis on the model of interbank contagion proposed by Cifuentes, Ferrucci and Shin (2005), which accounts for the impact of illiquid assets' fire sales. We develop this model along three main lines: (i) analytically proving, in a general setting, the existence of an equilibrium and the convergence of the algorithm that can be used to compute it; (ii) extending the scope of the simulations (e.g., including an assessment of the resilience of different stylized network topologies and a sensitivity analysis); (iii) generalizing the model to deal with the case where more than one illiquid asset is available on the market.

Full text (pdf)

No. 1049: **Debt maturity and the liquidity of secondary debt markets** (January 2016)

Max Bruche and Anatoli Segura

We develop an equilibrium model of the debt maturity choice of firms, in the presence of fixed issuance costs in the primary debt market, and search frictions in the secondary debt market. Liquidity in the secondary market is related to the ratio of buyers to sellers, which is determined in equilibrium via the free entry of buyers. Short maturities improve the bargaining position of sellers in the secondary debt market and hence reduce the interest rate firms need to offer in the primary market. Long maturities reduce re-issuance costs. The optimally chosen maturity trades off both considerations. We find that the laissez-faire equilibrium exhibits inefficiently short maturity choices because an individual firm does not internalize that choosing a longer maturity increases the expected gains from trade in the secondary market, which attracts more buyers, and hence also facilitates the sale of debt issued by other firms.

Full text (pdf)

No. 1048: **Heterogeneous peer effects in education** (January 2016)

Eleonora Patacchini , Edoardo Rainone and Yves Zenou

We investigate whether, how, and why individual education attainment depends on the educational attainment of schoolmates. Specifically, using longitudinal data on students and their friends during the school years in a nationally representative set of US schools, we consider the impact of different types of peers on education outcomes. We find that there are strong and persistent peer effects in education, but peers tend to be influential in the long run only when their friendships last more than one year. This evidence is consistent with a network model where convergence of preferences and the emergence of social norms among peers require long-term interactions.

Full text (pdf)

No. 1047: **A new method for the correction of test scores manipulation** (January 2016)

Santiago Pereda Fernández

I propose a method to correct for test scores manipulation and apply it to a natural experiment in the Italian education system consisting in the random assignment of external monitors to classrooms. The empirical strategy is based on a likelihood approach, using nonlinear panel data methods to obtain clean estimates of cheating controlling for unobserved heterogeneity. The likelihood of each classroom's scores is later used to correct them for cheating. The results show frequent manipulation, which is not associated with an increase in the correlation of the answers after we control for mean test scores. The manipulation is concentrated in the South and Islands, and it tends to favor female students, and immigrants in Italian tests. Finally, the negative correlation between the amount of manipulation and the number of missing answers in the difference between open ended and multiple choice questions suggest that teachers are more responsible for the manipulation than students. A simulation shows how the manipulation reduces the accuracy of an exam in reflecting students' knowledge, and the correction proposed in this paper makes up for about a half of this loss.

Full text (pdf)

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No. 1046: **Carry trades and exchange rate volatility: a TVAR approach** (January 2016)

Alessio Anzuini e Francesca Brusa

Recent empirical studies have established that deviations from the Uncovered Interest Parity (UIP) condition may be different across macroeconomic regimes. We extend this work to account for possible nonlinearities and endogeneity by estimating a Threshold Vector Autoregression (TVAR) model. Using carry trade proxies as in Brunnermeier et al. (2009) alongside a measure of realized exchange rate volatility, we endogenously identify two volatility regimes: low and high. Simulating an incentive to open a carry-trade position through an orthogonal shock to the interest rate differential, we find that carry trade performance varies across different regimes. This suggests that UIP deviations are more pronounced in the low volatility state and non-linearities play a role in explaining the forward bias.
Full text (pdf)

No. 1045: **Optimal inflation weights in the euro area** (January 2016)

Daniela Bragoli , Massimiliano Rigon and Francesco Zanetti

This study investigates the appropriate measure of inflation in the euro area that the central bank should adopt in order to minimize social welfare losses stemming from volatility in the output gap, inflation and relative prices. We use a model that accounts for both the heterogeneity observed in the degree of price rigidity across regions and sectors, and the asymmetry of real disturbances in relative prices. Our work shows that the optimal weights to assign to each region or economic sector depend on complex interactions between the degree of price stickiness, a country's economic size and the distribution of shocks across regions. Moreover, the optimal system of weights is primarily affected by the distribution of real shocks across countries. It follows that there is no simple rule of thumb for establishing the optimal weights for each region or economic sector.
Full text (pdf)

No. 1044: **The supply side of household finance** (December 2015)

Gabriele Foà, Leonardo Gambacorta, Luigi Guiso and Paolo Emilio Mistrulli

We propose a new, data-based test for the presence of biased financial advice when households choose between fixed and adjustable rate mortgages. If households are wary, the relative cost of the two types should be a sufficient statistic for a household contract choice: the attributes of the bank that makes the loan should play no role. If households rely on banks' advice to guide their choice, banks may be tempted to bias their counsel to their own advantage. In this case bank-specific supply characteristics will play a role in the household's choice above any role they play through relative prices. Testing this hypothesis on a sample of 1.6 million mortgages originated in Italy between 2004 and 2010, we find that the choice between adjustable and fixed rates is significantly affected by change in banks' supply factors, especially in periods during which banks do not change the relative price of the two mortgage types. This supports the view that banks are able to affect customers' mortgage choices not only by pricing but also through an advice channel.
Full text (pdf)

No. 1043: **Exposure to media and corruption perceptions** (December 2015)

Lucia Rizzica and Marco Tonello

We analyse the impact of exposure to corruption news on individuals' perceptions about the extent of the phenomenon. To this purpose, we take information on individuals' perceptions of the likelihood that corruption events may occur in everyday life and combine it with a dataset containing the number of news items related to corruption that appeared on the homepages of the websites of the 30 most widely read national and local newspapers on the day on which the individual was interviewed. Results show that increasing potential exposure to corruption news by one standard deviation causes an increase in corruption perception of about 3.5 per cent and a decrease in trust in justice effectiveness of about 5.2 per cent. We suggest

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that these effects are mainly driven by a persuasive mechanism rather than by a learning process so that individuals' perceptions about corruption appear to be biased by media content.
Full text (pdf)

No. 1042: **Multitask agents and incentives: the case of teaching and research for university professors** (December 2015)

Marta De Philippis

This paper evaluates the behavioural responses of multitask agents to the provision of incentives skewed towards one task only. It studies the effects of significant research incentives for university professors on the way university faculty members allocate their efforts between teaching and research and on the way they select different types of universities. I first obtain different individual-level measures of teaching and research performance. Then, I estimate a difference in differences model, exploiting a natural experiment that took place at Bocconi University, which significantly strengthened incentives towards research. I find evidence that teaching and research efforts are substitute inputs in the professors' cost function: the impact of research incentives is positive on research activity and negative on teaching performance. The effects are driven by career concerns rather than by monetary incentives. Moreover, under the new incentive regime, lower ability researchers tend to leave universities and since teaching and research ability are positively correlated, this implies that bad teachers also tend to leave universities.
Full text (pdf)

No. 1041: **The use of fixed-term contracts and the (adverse) selection of public sector workers** (December 2015)

Lucia Rizzica

The paper seeks to investigate the relationship between job (in)security in the public sector and workers' self-selection between the private and public sector. Using data from the Italian Labour Force Survey for the years 2005-13, I show that a higher incidence of fixed-term contracts in the public sector has significant adverse selection effects in that it lowers the likelihood of workers of higher ability entering the public sector. Moreover, at least in some areas of the country, a lower relative probability of obtaining an open-ended position in the public sector decreases the likelihood that higher-ability, fixed-term workers remain in the public sector.
Full text (pdf)

No. 1040: **The macroeconomic effects of low and falling inflation at the zero lower bound** (December 2015)

Stefano Neri and Alessandro Notarpietro

This paper assesses the macroeconomic consequences of a prolonged period of low and falling inflation when monetary policy is constrained by the zero lower bound (ZLB) on short-term nominal interest rates, the private sector is indebted in nominal terms (debt deflation mechanism) and nominal wages are downward rigid. Cost-push shocks that in normal circumstances would reduce inflation and stimulate output have contractionary effects on economic activity, once the ZLB interacts with the debt deflation mechanism. The contractionary effects are larger and more persistent when nominal wages cannot be reduced and when the private sector is highly indebted.
Full text (pdf)

No. 1039: **Shoe-leather costs in the euro area and the foreign demand for euro banknotes** (December 2015)

Alessandro Calza and Andrea Zaghini

We estimate the shoe leather costs of inflation in the euro area by using monetary data adjusted for holdings of euro banknotes abroad. While we find evidence of marginally negative shoe leather costs for very low nominal interest rates, our estimates suggest that these costs are non-negligible even for relatively moderate levels of anticipated inflation. We conclude that, despite the increased circulation of euro banknotes abroad, inflation tax is still predominantly borne by domestic agents in the euro area, with transfers of resources from abroad remaining small.
Full text (pdf)

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No. 1038: **Young adults living with their parents and the influence of peers**(December 2015)

Effrosyni Adamopoulou and Ezgi Kaya

This paper focuses on young adults in the US living with their parents and studies the role of peers. Using data from the National Longitudinal Study of Adolescent Health we analyse the influence of high school friends on the nest-leaving decision of young adults. We achieve identification by exploiting the differences in the timing of leaving the parental home among peers, the individual-specific nature of the peer groups, and by including school and grade fixed effects. Our results indicate that there are statistically significant peer effects on the decision of young adults to leave parental home. This is true even after we control for labour and housing market conditions and for a comprehensive list of individual and family-of-origin characteristics that are not usually observed by the econometrician. We discuss various mechanisms and we confirm the robustness of our results through a placebo exercise. Our findings correspond with the increasing trend of young adults living with their parents that has been observed in the US during the last 50 years.

Full text (pdf)

No. 1037: **Deconstructing the gains from trade: selection of industries vs. reallocation of workers** (December 2015)

Stefano Bolatto and Massimo Sbracia

In a Ricardian model with general distributions of industry efficiencies, the welfare gains from trade can be decomposed into a selection and a reallocation effect. The former is the change in average efficiency due to the selection of industries that survive international competition. The latter is the rise in the weight of exporting industries on total production owing to the reallocation of workers from non-exporting industries. Measuring the two effects is difficult in the general case, but the calculations become much simpler when using Fréchet-distributed efficiencies, providing easily quantifiable model-based measures of the two effects. The selection (reallocation) effect appears to be most significant when welfare gains are small (large).

Full text (pdf)

Other recent working papers

October 2015

No. 1036: Domestic and international macroeconomic effects of the Eurosystem expanded asset purchase programme
Pietro Cova, Patrizio Pagano and Massimiliano Pisani

No. 1035: The time varying effect of oil price shocks on euro-area exports
Marianna Riggi and Fabrizio Venditti

No. 1034: Procyclicality of credit rating systems: how to manage it
Tatiana Cesaroni

No. 1033: Does trend inflation make a difference?
Michele Loberto and Chiara Perricone

No. 1032: Sovereign debt exposure and the bank lending channel: impact on credit supply and the real economy
Margherita Bottero, Simone Lenzu and Filippo Mezzanotti

No. 1031: The predictive content of business survey indicators: evidence from SIGE
Tatiana Cesaroni and Stefano Iezzi

No. 1030: Female employment and pre-kindergarten: on the uninteded effects of an Italian reform
Francesca Carta and Lucia Rizzica

No. 1029: European structural funds during the crisis: evidence from Southern Italy
Emanuele Ciani and Guido de Blasio

No. 1028: The impact of CCPs' margin policies on Repo markets
Arianna Miglietta, Cristina Picillo and Mario Pietrunti

July 2015

No. 1027: On the conditional distribution of euro area inflation forecast
Fabio Busetti, Michele Caivano and Lisa Rodano

No. 1026: Follow the value added: bilateral gross export accounting
Alessandro Borin and Michele Mancini

No. 1025: Tail comovement in option-implied inflation expectations as an indicator of anchoring
Sara Cecchetti, Filippo Natoli and Laura Sigalotti

No. 1024: Accessorizing. The effect of union contract renewals on consumption
Effrosyni Adamopoulou and Roberta Zizza

No. 1023: Understanding policy rates at the zero lower bound: insights from a Bayesian shadow rate model
Marcello Pericoli and Marco Taboga

No. 1022: Testing information diffusion in the decentralized unsecured market for euro funds
Edoardo Rainone

No. 1021: Decomposing euro area sovereign spreads: credit, liquidity and convenience
Marcello Pericoli and Marco Taboga

No. 1020: Forecaster heterogeneity, surprises and financial markets
Marcello Pericoli and Giovanni Veronese

No. 1019: Why is inflation so low in the euro area?
Antonio M. Conti, Stefano Neri and Andrea Nobili

No. 1018: Statistical matching and uncertainty analysis in combining household income and expenditure data
Pier Luigi Conti, Daniela Marella and Andrea Neri

No. 1017: A note on social capital, space and growth in Europe
Luciano Lavecchia

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No. 306: **Euro area significant banks: main differences and recent performance** (January 2016)

Emilia Bonaccorsi di Patti, Roberto Felici and Federico Maria Signoretti

Based on publicly available data we propose a simple taxonomy of the banks under the direct supervision of the ECB, taking into account their core business, size, and degree of internationalization. We compare the structures of the balance sheet and income statement of the eight different types of bank, and analyse their profitability between 2006 and 2013. The majority of banks are lending-oriented, exposed to their domestic market, with high credit risk exposure to nonfinancial firms and retail clients. The ratio of risk-weighted assets to total assets differs significantly across bank types, even controlling for the composition of credit risk exposures; this heterogeneity mostly reflects country-specific riskiness and the extent to which banks in each category use their internal models to determine capital requirements. Since 2010, the profitability of lending-oriented banks has declined more sharply than that of the other banks, reflecting both poorer macroeconomic conditions in countries where many of these banks are located, and a higher sensitivity of ROA to GDP growth.
Full text (pdf)

No. 305: **Determinants of the movements in the euro-dollar exchange rate during the sovereign debt crisis** (January 2016)

Alessio Anzuini, Martina Cecioni and Stefano Neri

We identify the drivers of the movements in the euro-dollar exchange rate during the sovereign debt crisis. In particular, we show that the announcement of outright monetary transactions (OMT) by the Governing Council of the ECB during the summer of 2012 played a major role in the euro's subsequent appreciation. OMT and the reform efforts undertaken by governments at national and European level saw off the risk of a euro-area break up and prompted net capital inflows. We estimate two models. The first is a reduced form high-frequency model, in which the exchange rate is explained by the differentials between interest rates in euros and dollars at both short- and long-term horizons, the sovereign spread in euro-area countries and an index of volatility. The second is a vector autoregressive (VAR) model including GDP growth differentials, short-term nominal interest rate differentials and inflation differentials between the euro area and the U.S., an average of the sovereign spreads of selected euro-area countries, the bilateral trade balance and the euro-dollar nominal exchange rate. Both approaches suggest that the evolution of the sovereign spread supported the value of the euro following the announcement of OMT in the summer of 2012.
Full text (pdf)

No. 304: **Value chains and the great recession: evidence from Italian and German firms** (January 2016)

Antonio Accetturo and Anna Giunta

Global Value Chains (GVCs) have been one of the main transmission mechanisms of 2009 the Great Trade Collapse. Our paper provides a description of the effects of the crisis from a perspective that is both country-comparative (Germany and Italy) and on firm level. Two are the main conclusions: i) intermediate firms were hit by the crisis more than final firms; ii) firms' position in GVCs and their strategies explain part of the performance gap between Italian and German firms.
Full text (pdf)

No. 303: **Heterogeneous fall in productive capacity in Italian industry during the 2008-13 double-dip recession** (January 2016)

Andrea Locatelli, Libero Monteforte and Giordano Zevi

In this paper I present evidence about the importance of demand for services in the Between 2008 and 2013 productive capacity was considerably downsized in the Italian manufacturing sector. This paper analyses the micro-data collected for the Bank of Italy surveys to identify the main drivers of the reduction in the whole 2008-13 period and in four sub-periods (pre-crisis 2001-07, first phase of the crisis 2008-09, recovery 2010-11, and second crisis 2012-13). Our main findings are that i) losses of productive capacity varied widely across manufacturing sub-sectors with differences in pre-

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crisis trends tending to persist in a few sub-sectors during the double-dip recession; ii) large firms were more successful in avoiding major capacity losses, especially in the first phase of the crisis; iii) the share of sales on foreign markets was negatively correlated with performance in 2008-09, but the correlation turned positive in 2012-13; iv) among the Italian macro-regions, the Centre weathered the long recession better; v) subsidiaries underperformed firms not belonging to any group; and vi) the negative effects on productive capacity of credit constraints, which discouraged investments, were felt by Italian firms particularly in 2012-13.
Full text (pdf)

No. 302: **An inquiry into manufacturing capacity in Italy after the double-dip recession** (January 2016)

Libero Monteforte and Giordano Zevi

This paper investigate the effects of the prolonged double-dip recession on the productive capacity of the Italian manufacturing sector, employing three methods: a production function approach, a survey-based methodology and a statistical filtering of the industrial production series. We estimate that between 2007 and 2013 capacity contracted by 11–17%, depending on the method. We also conduct an exercise to quantify the loss with respect to a counterfactual evolution of capacity in a 'no-crisis' scenario in which pre-2008 trends are extrapolated: in this case the loss is close to 20% for all methods. Finally, we identify the main sectors of activity responsible for the reduction in capacity in the baseline and counterfactual scenarios, and find that they don't always coincide, reflecting uneven dynamics across sectors before and during the recession.
Full text (pdf)

No. 301: **How does multinational production affect the measurement of competitiveness?** (January 2016)

Stefano Federico

This work assembles a unique bilateral dataset on multinational production in the manufacturing sector, in which value added and factor incomes are broken down by location country and by ultimate owner country. Using this dataset, which covers 44 countries over the years 2004-11, we compute measures of production capabilities in which value added is allocated across countries not according to the location of the activity but according to the nationality of the firm or of the factors involved in production (Baldwin and Kimura 1998). These indicators based on the ownership of production are then compared with standard geography-based indicators. This framework is also applied to the analysis of the two modes of supply of foreign markets (exports and FDI) using a common metric based on value added (domestic value added in exports versus value added of foreign affiliates). Overall, the evidence suggests that there are significant differences between geography-based and ownership-based measures, proving that, in an increasingly integrated global economy, ownership matters for the measurement of competitiveness.
Full text (pdf)

No. 300: **Prudential policy at times of stagnation: a view from the trenches** (December 2015)

Piergiorgio Alessandri and Fabio Panetta

In the euro area, macroprudential policy can be a powerful complement to monetary policy. However, its coordination with microprudential policy is a particularly delicate task. The coexistence of two supervisory regimes that rely on similar tools to pursue different objectives may at times give rise to conflicting decisions, or create uncertainty on the logic of the prudential framework. These risks are structurally greater in bank-based economies with highly concentrated banking sectors, and may be heightened in the contractionary phase of the cycle, when policymakers face a short-run trade-off between the resilience of the financial sector and the speed of economic recovery. This makes the micro/macro coordination problem a top priority for European supervisors today. In order to address it, supervisors must agree to rank their policy objectives and examine their interventions from a general equilibrium perspective. We remain agnostic as to how much capital European banks should ultimately be required to hold. Instead we stress that, irrespective of the target, supervisors should achieve it over the appropriate

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time span, minimizing any negative spillovers on credit supply and protecting the credibility of the newly-launched countercyclical macroprudential framework with all available means
Full text (pdf)

No. 299: **Finance and creative destruction: evidence for Italy** (December 2015)

Francesca Lotti and Francesco Manaresi

In this paper we provide new evidence on the relationship between market concentration in the banking industry and firm dynamics. In Italy, in the case of a banking merger or acquisition, the antitrust authorities can require the sale of bank branches if the joint market share of the banks involved in the merger exceeds a specific threshold. We exploit this feature to carry out RDD estimates of (i) the effect of intervention by antitrust authorities on banking market concentration, and (ii) the effect of the level of bank concentration on various measures of firm dynamics. The results show that, in those areas where the authorities forced branch sales, firm's entry rates increase, reallocation of employees from incumbent to entrant firms is higher, and the survival rate of newly formed businesses increases. The overall allocative efficiency, as measured by an Olley-Pakes decomposition of labor productivity, is found to improve.
Full text (pdf)

No. 298: **Net employment growth by firm size and age in Italy** (November 2015)

Francesco Manaresi

We study how net employment growth rates differ by firm age and size. For this purpose, we exploit a long panel dataset collecting information for all Italian private firms with at least one employee. We find that firm size is not a crucial determinant of firm growth, once age is controlled for. Firms in their early years of life (up to 3 years) display higher growth rates and slightly higher exit rates than older firms. This up-or-out dynamic of Italian firms seem subdued if compared with the US, the other country for which a similar analysis is available. We also exploit the long time series to identify which types of firms are hit the most during economic downturns. Results show that older firms reduce net employment growth the most. The impact on younger firms seem partially cushioned by stronger selection at entry. Conditional on age, size turns out not to be significantly correlated with the drop in net employment growth rates during downturns.
Full text (pdf)

No. 297: **Why do firms hire on a fixed-term basis? Evidence from longitudinal data** (November 2015)

Fabrizio Colonna and Giulia Giupponi

The political and economic debate in Italy accompanying the labour market reforms of recent decades has often focused on the use of fixed-term contracts. Fears have frequently been raised about the possible use of temporary contracts not to satisfy short-term productive requirements ('buffer-stock' motive) or to screen suitable candidates for permanent positions, but rather to manage worker turnover by avoiding the higher costs associated with open-ended contracts (especially those related to dismissals). While it is very difficult to separate out the various economic rationales for using fixed-term contracts, this paper aims to assess to what extent Italian firms use fixed-term contracts to meet monthly production needs. A simple correlation analysis shows that firms in sectors with the strongest variations in monthly production levels make more extensive use of temporary contracts: almost one third of fixed-term hiring is attributable to seasonality. Using two behavioural models where firms choose whether to hire and on what contract, it is estimated that monthly production peaks account for a non-negligible share (at least 25 per cent) of fixed-term hires.
Full text (pdf)

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Riccardo Cristadoro, Virginia Di Nino, Laura Painelli

No. 295: Trade debts of Italian general government: an unsolved problem
Leandro D'Aurizio, Domenico Depalo, Sandro Momigliano, Emilio Vadalà

No. 294: Crime and public procurement, evidence from municipalities
Giuseppe Albanese, Federico Antellini Russo and Roberto Zampino

No. 293: Modelling Italian firms' financial vulnerability
Antonio De Socio and Valentina Michelangeli

No. 292: Measuring the performance of local governments: evidence from mystery calls
Silvia Giacomelli and Marco Tonello

No. 291: Financial support from the family network during the crisis
Laura Bartiloro and Cristiana Rampazzi

No. 290: The growth of the service sector and demand for services
Eliana Viviano

No. 289: Wages and prices in Italy during the crisis: the firms' perspective
Francesco D'Amuri, Sivlia Fabiani, Roberto Sabbatini, Raffaele Tartaglia Polcini, Fabrizio Venditti, Eliana Viviano and Roberta Zizza

No. 288: The statistics on poverty and the new World Bank goals of poverty eradication and shared prosperity
Riccardo Settimo

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No. 287: On the response of Italian wages to the unemployment rate
Alfonso Rosolia

No. 286: Risk-adjusted expectations of inflation
Marco Casiraghi, Marcello Miccoli

No. 285: Red tape reduction and firm entry: evidence from an Italian reform
Monica Amici, Silvia Giacomelli, Francesco Manaresi and Marco Tonello

No. 284: Trading processing for goods: a different view from the past on Italian trade flows?
Ludovico Bracci, Silvia Fabiani and Alberto Felettigh

No. 283: Investment dynamics in Italy: financing constraints, demand and uncertainty
Steve Bond, Giacomo Rodano and Nicolas Serrano-Velarde

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A.Accetturo, L.Aimone, E.Beretta, S.Camussi, L.Cannari, D.Coin, L.Conti, R.Cullino, A.Fabbrini, C.Fabrizi, G.Iuzzolino, A.Mori, E.Olivieri, A.Orame, A.L.Mancini, E.Mattevi, P.Piselli, D.Revelli, P.Rossi, D.Scalise, A.Staderini, G.M.Tanzi, V.P.Vacca

No. 281: The phenomenal CAT: firms clawing the goods of others
Virginia Di Nino

No. 280: Reassessing price-competitiveness indicators of the four largest euro-area countries and of their main trading partners
Alberto Felettigh, Claire Giordano, Giacomo Oddo, Valentina Romano

Economic History working paper

No. 34: **Brain gain in the age of mass migration** (June 2015)

Francesco Giffoni and Matteo Gomellini

The relationship between emigration and human capital is a hotly debated issue. Nowadays discussions focus mainly on the so called brain drain, i.e. the reduction in the human capital endowment of a country due to the emigration of more skilled people. Differently, this paper investigates whether and how the Italian emigration of the early twentieth century induced a domestic increase in school attendance rates. Many historical clues suggest that this actually happened in Italy at the turn of the nineteenth century. At least three rationales lie at the heart of such a relationship: first, emigration or its prospects increase the expected return to schooling thus making education more attractive; second, return migration could fuel a rise in school attendance via monetary and non-monetary channels; third, remittances could help in relaxing the budget constraint that prevented people to invest in education. Using a new dataset at the city level and different econometric techniques, we find quantitative support that primary school attendance rates have been positively correlated with (and, arguably, partially caused by) emigration and return migration. We also find that remittances had a positive effect on schooling..

Full text (pdf)

Notes on Financial and Stability supervision

No. 2: **The changes of the Italian insolvency and foreclosure regulation adopted in 2015** (November 2014)

Monica Marcucci, Alessandra Pischedda and Vincenza Profeta

Last August the Italian Government passed important amendments to the Bankruptcy Law and the Civil Procedure Code, with the aim to increase the speed and efficiency of insolvency procedures and property foreclosures, and to promote higher recovery rates for creditors.

Preliminary estimates suggest that the average duration of bankruptcy procedures could be halved in a favorable scenario. The average duration of foreclosures might also be significantly shortened.

As the length of judiciary procedures is among the root causes of the large stock of non-performing loans (NPLs) in Italian banks' balance sheet, the reform is expected to help address the problem. It should boost the value of NPLs and foster the development of a private market for these assets.

Full text (pdf)

Selection of Journal articles and books by Bank of Italy staff

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