BANCA D'ITALIA
EUROSISTEMA

NUMBER 44
NOVEMBER 2016

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, 21 October 2016)

On 21 October 2016 the Bank of Italy hosted the workshop "**Unconventional monetary policy: effectiveness and risks.**"

The workshop focused on the effectiveness and possible risks of unconventional monetary policy, with special attention devoted to the asset purchase programme (APP) and other measures adopted by the Governing Council of the ECB.

The APP was launched in the autumn of 2014; its scope has since been widened and its duration has been lengthened. It will remain in place until March 2017, or beyond if necessary, and in any case until the path of inflation shows a sustained adjustment consistent with the objective of price stability.

Given the persistence of very low inflation and modest growth in the euro area, a number of commentators have raised doubts about its effectiveness. Other commentators have expressed concerns that the APP may entail undesirable side effects, mostly in terms of financial stability. The papers presented in the workshop address these issues, providing analyses and empirical evidence that may help policymakers to assess both the effectiveness of the measures adopted so far and the possible risks going forward. The workshop gathered a number of experts from the Bank and from other Italian and international policy and academic institutions.

Nine presentations (all with discussion) were distributed over four sessions. The papers presented in the first session focused on the main transmission mechanisms through which unconventional monetary policies affect macroeconomic variables, providing quantitative estimates of their effectiveness. The second session explored the reaction of asset prices to the APP and to previous unconventional measures adopted in the euro area and the United States. The third session was devoted to empirical evidence on portfolio rebalancing effects and the possible rise of asset price bubbles. The fourth session provided empirical analysis of the role of banking intermediation in the transmission of monetary policy impulses to the real economy, in particular through credit supply.

The main messages that emerged from the presentations and the debate were the following. First, the measures adopted so far have been (very) effective; there is evidence that a major contribution came from the strong reduction in sovereign yields, which improved the financial environment and made it less uncertain. Second, there is also evidence that these effects did not come at the expense of financial stability: the paper showed that asset valuation is still in line with fundamentals and there is no general shift towards excessive risk-taking (these findings complement

Highlights

those of other studies, not included in the programme, ruling out the presence of perverse side-effects of the APP in terms of wealth and income redistribution). Third, as for the propagation channels, a crucial role is played by the effects on confidence and expectations; a related conclusion is that a premature withdrawal of monetary accommodation would not only delay a fully-fledged recovery but might also reignite financial market tensions and lead the euro area further away from price stability. Fourth, the paper showed that the measures adopted ended the financial fragmentation in the euro area, but nonetheless banks' balance-sheet impairment and weak profitability may still be a major obstacle to the transmission of monetary policy impulses to crucial sectors of the economy; such difficulties may be exacerbated by excessive tightening of the regulatory stance, which should therefore be avoided.

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

Forthcoming events

Workshop on "Human Capital"

(Rome, 29 November 2016)

On 29 November, the Bank of Italy will host a workshop on "**Human Capital**". Eight papers, authored or co-authored by economist from the Directorate General for Economics, Statistics and Research of the Bank of Italy, will be presented and discussed over four sessions.

The papers presented in the first session will focus on parental choice in children's education and its effectiveness; the second session will deal with issues relating to class composition in primary and secondary school, in terms of age and nationality; the role of teaching strategies and teaching qualities in secondary and tertiary education will be explored in the third session; and finally, the papers presented in the fourth session will discuss the role of supply and demand of human capital, and their interaction, in shaping the relatively low return to education in Italy.

The programme and most of the papers presented in the workshop will soon be available in a dedicated section of the Bank of Italy's website.

Workshop on "Understanding the roots of productivity dynamics"

(Rome, 19-20 December 2016)

The workshop will focus on theoretical, empirical and methodological papers that can contribute to an understanding of the microeconomic channels affecting productivity dynamics, and hence growth, with particular focus on the policy implications. Keynote speakers: Jan de Loecker (Princeton, KU Leuven & NBER) and Gianmarco Ottaviano (LSE & CEPR). Organizing committee: Matteo Bugamelli and Francesca Lotti (Bank of Italy); Mark Roberts (Penn State University & NBER), Fabiano Schivardi (Bocconi & EIEF), and John Van Reenen (LSE & CEPR).

Further information will be available here.

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Latest working papers

No. 1090: **Does credit scoring improve the selection of borrowers and credit quality?** (October 2016)

Giorgio Albareto, Roberto Felici and Enrico Sette

This paper studies the effect of credit scoring by banks on bank lending to small businesses by addressing the following questions: does credit scoring increase or decrease the propensity of banks to grant credit? Does it improve the selection of borrowers? Does credit scoring improve or reduce the likelihood that a borrower defaults on its loan? We answer these questions using a unique dataset that collects data from both a targeted survey on credit scoring models and the Central Credit Register. We rely on instrumental variables to control for the potential endogeneity of credit scoring. We find that credit scoring does not change the propensity of banks to grant loans to the generality of borrowers but helps them select borrowers. We also find that credit scoring reduces the likelihood that a borrower defaults, in particular for smaller borrowers and for banks that declare to use credit scoring mainly as a tool to monitor borrowers. These results are homogeneous across bank characteristics such as size, capital, and profitability. Overall our results suggest that credit scoring has a positive effect on the selection of borrowers and on credit performance.

Full text (pdf)

No. 1089: **Non-standard monetary policy, asset prices and macroprudential policy in a monetary union** (October 2016)

Lorenzo Burlon, Andrea Gerali, Alessandro Notarpietro ad Massimiliano Pisani

This paper evaluates the macroeconomic and financial effects of the Eurosystem's Asset Purchase Programme (APP) and its interaction with a member country's macroprudential policy. We assume that some households in a euro-area (EA) country are subject to a borrowing constraint, and that their local real estate acts as the collateral. In order to highlight the interaction between the APP and region-specific macroprudential policies, we simulate a situation in which, as the APP is carried out, households in one EA region develop overly optimistic expectations about local real estate prices. We report four main findings. First, a relatively large loan-to-value (LTV) ratio in one region can greatly amplify the expansionary effect of the union-wide non-standard monetary policy measures on domestic households' borrowing. Second, while the APP is being implemented, an increase in households' borrowing in one region can be further magnified by the combination of a high LTV ratio and overly optimistic expectations. Third, region-specific macroprudential measures can stabilize private sector borrowing with limited negative effects on economic activity. Fourth, our results hold also in the case of area-wide overly optimistic expectations.

Full text (pdf)

No. 1088: **Peer monitoring via loss mutualization** (October 2016)

Francesco Palazzo

After the 2008 financial crisis, the allocation of losses resulting from a bank bankruptcy has been one of the main policy issues. Several new regulatory provisions increased the burden of losses endured by the rest of the financial industry. For example, bank resolution schemes and mandatory clearing through Central Counterparties (CCPs) introduce mechanisms to share losses among surviving banks, with an emphasis on ensuring a sufficient loss absorption capacity. Without understating this relevant concern, this article suggests that a loss mutualization scheme may also foster market discipline by other banks (peers) if combined with an appropriate design of the relevant metrics used to allocate losses among surviving banks. The optimal design should impose higher contributions on banks with closer interlinkages with the defaulter. In this respect, the results highlight how the allocation of losses beyond the defaulter's initial contribution plays a considerable role on peer monitoring incentives.

Full text (pdf)

No. 1087: **Housing and credit markets in Italy in times of crisis** (October 2016)

Michele Loberto and Francesco Zollino

We investigate the determinants of Italian house prices and residential investments in a structural model with possible disequilibria in the market for lending to both households and

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firms in the building sector. Based on a structural approach that takes into account the multifold relationships between demand and supply within the housing and the credit markets, we find that, while house prices react mostly to disposable income and demographic pressures, lending conditions also exert a significant impact. During the recent crises the contribution of declining bank rates to household lending was limited, due to the greater deleveraging needs of Italian banks. Conventional monetary policy has supported house prices, albeit with declining intensity as policy rates have gradually approached the lower bound. At the same time, unconventional monetary policy measures have sustained house prices via their effect on Italian sovereign spreads, which have shrunk by a sizeable amount since they peaked in the period between late 2011 and early 2013. Finally, we find that house price developments stayed in line with the fundamentals, during both the global financial and sovereign debt crisis, with only minor and occasional discrepancies.
Full text (pdf)

No. 1086: **Should I stay or should I go? Firms' mobility across banks in the aftermath of financial turmoil** (October 2016)

Davide Arnaudo, Giacinto Micucci, Massimiliano Rigon and Paola Rossi

We study the mobility of Italian firms across different lending banks in the aftermath of Lehman Brothers' collapse, when 40 per cent of the firms analysed changed their pool of lending banks. Using a unique dataset on a sample of about 3,000 Italian firms that encompasses financial and economic records, information on the existence of credit constraints and data on lending relationships with banks, we provide evidence that mobility within the credit market helped to ease credit constraints. Firms that started new banking relationships were able to maintain or even increase their outstanding loans. These firms were generally large and credit-rationed. At the same time, access to new credit lines was more difficult for small and more opaque firms, for which a long-term relationship with their main bank has been the most effective way of overcoming financial constraints. Geographical proximity is also important in affecting credit constraints: the closer the firms are to the lending banks, the lower is the probability of their closing an existing credit relationship and start a new one.
Full text (pdf)

No. 1085: **Foreign ownership and performance: evidence from a panel of Italian firms** (October 2016)

Chiara Bentivogli and Litterio Mirenda

The paper studies the impact of foreign ownership on a firm's economic performance. We use a unique panel dataset to test the foreign ownership premium by comparing our sample of firms based in Italy and owned by a foreign subject with a sample of purely domestic firms that, in order to have a proper counterfactual, were selected using propensity score matching. Our difference-in-differences results show the existence of a premium for the size, profitability and financial soundness of the foreign-owned companies. The premium increases with time, is concentrated in the service sector, and disappears if the foreign investor is based in a fiscal haven.
Full text (pdf)

No. 1084: **Women at work: the impact of welfare and fiscal policies in a dynamic labor supply model** (September 2016)

Maria Rosaria Marino, Marzia Romanelli and Martino Tasso

We build and estimate a structural dynamic life-cycle model of household labor supply, fertility, and consumption behavior. The model features several sources of heterogeneity in household members' characteristics and it incorporates most of the fiscal rules that affect household net income. The parameters of the model are estimated using Italian longitudinal data for the period 2004-12 in order to investigate the causes of the relatively low labor supply by married women in this country. The model matches many characteristics of the data quite well. We use the estimated model to simulate a few counterfactual fiscal and welfare policies: some of them are effective in decreasing poverty rates while increasing labor supply.
Full text (pdf)

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No. 1083: **BTP futures and cash relationships: a high frequency data analysis** (September 2016)

Onofrio Panzarino, Francesco Potente and Alfonso Puorro

The paper analyses the interactions between the 'cash' market (MTS Cash) and the futures market (Eurex) of Italian government bonds in terms of liquidity, price correlation and volatility. Based on daily data, the growth of the Eurex market seems to support the tightening of the bid-ask spread of MTS Cash, all things being equal, thus confirming a healthy and efficient link between cash and futures markets. Against this backdrop, a high frequency analysis highlights some episodes of partial divergence between price developments of futures and cash markets, which might be related to differences in the microstructures of the two markets. The futures market is order driven while the cash market is quote driven; furthermore different types of participants are active in each market. At higher frequencies, episodes of unidirectional propagation of volatility shocks from BTP futures to the MTS Cash market materialize, with potential spillovers on cash market liquidity conditions. In this regard, it is also important to consider the role played by High Frequency Traders, whose activity in futures markets may well contribute to explaining the peculiarities in price dynamics highlighted by high frequency data.

Full text (pdf)

No. 1082: **Price dispersion and consumer inattention: evidence from the market of bank accounts** (September 2016)

Nicola Branzoli

This paper analyzes consumer inattention in the market of checking accounts. I examine the behavior of consumers who keep account tariffs that are dominated, i.e. that charge higher costs for any amount of bank services consumed through the account, by tariffs available at the same bank and introduced after the account was opened. I show that the probability of observing an inattentive consumer decreases with the dispersion of prices across tariffs of her bank. Moreover, consumers using services with the most dispersed prices across tariffs of their bank are less likely to be inattentive, while consumers using only services with the least dispersed prices are more likely to be inattentive. These results are consistent with decision-theoretic models in which consumers focus their attention on attributes which differ more across options and can be useful to improve consumer choice in this market.

Full text (pdf)

No. 1081: **Dealing with student heterogeneity: curriculum implementation strategies and student achievement** (September 2016)

Rosario Maria Ballatore and Paolo Sestito

In this study we investigate the relationship between student achievement and a crucial aspect of teaching: curriculum implementation strategies. More specifically, we consider three strategies representing teachers' approach in dealing with heterogeneous classes: i) spending time on the same topic until everyone understands, ii) moving on to another topic even if part of the class does not understand the previous one, and iii) spending time to revise concepts and topics already studied in the previous year. We exploit the within-student between-subjects variation in the frequency with which different teachers adopt each of the three strategies to control for constant student and class traits and for the possibility that teachers may adapt their strategies to class composition. Our findings show that spending time on the same topic until everyone understands is not associated with a better performance of less able students. On the contrary, it produces substantial achievement losses for the most able ones. Spending time revising topics studied in the previous year increases the achievement of less able students without lowering the performance of the most able ones.

Full text (pdf)

No. 1080: **Self-fulfilling deflations** (September 2016)

Roberto Piazza

What types of monetary and fiscal policy rules produce self-fulfilling deflationary paths that are monotonic and empirically relevant? This

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paper presents simple theoretical conditions that guarantee the existence of these paths in a general equilibrium model with sticky prices. These sufficient conditions are weak enough to be satisfied by most monetary and fiscal policy rules. A quantification of the model which combines a real shock à la Hayashi and Prescott (2002) with a simultaneous sunspot that deanchors inflation expectations matches the main empirical features of the Japanese deflationary process during the "lost decade". The results also highlight the key role of the assumption about the anchoring of inflation expectations for the size of fiscal multipliers and, in general, for any policy analysis.
Full text (pdf)

No. 1079: **Parents, schools and human capital differences across countries** (September 2016)

Guglielmo Barone, Marta De Philippis and Federico Rossi

Results from international standardized tests show large cross-country differences in students' performances. Where do these gaps come from? This paper argues that differences in cultural environments and parental inputs may be of great importance. We show that the school performance of second-generation immigrants is similar to that of native students in their parents' countries of origin. This holds true even after accounting for different family background characteristics, schools attended and selection into immigration. We quantify the overall contribution of various parental inputs to the observed cross-country differences in PISA test performance and show that they account for between 12% and 30% of the total variation and for most of the gap between East Asia and other regions. This pattern calls into questions whether PISA scores should be interpreted only as a quality measure for a country's educational system, since they actually contain an important intergenerational and cultural component .
Full text (pdf)

No. 1078: **Global macroeconomic effects of exiting from unconventional monetary policy** (September 2016)

Pietro Cova, Patrizio Pagano and Massimiliano Pisani

This paper evaluates the international macroeconomic spillovers from the Eurosystem's expanded Asset Purchase Programme (APP) under alternative assumptions as regards (i) the unwinding of the asset positions accumulated under the APP and (ii) the normalization of the US monetary policy stance. We simulate a dynamic general equilibrium model of the world economy, calibrated to the Euro area (EA), the US, China, Japan, and the 'rest of the world' (RW). Our results are as follows. First, APP expansionary spillovers are dampened if the Eurosystem brings forward the unwinding of its bond holdings because of the lower increase in EA aggregate demand and, therefore, EA imports. The RW is the region most affected because it has the greatest trade integration with the EA. Second, if the US monetary authority announces that it will hold the policy rate constant for a shorter period of time – which dampens the increase in US aggregate demand and, therefore, US imports from the EA – then US spillovers to the EA, while still expansionary, as in the case of a slower normalization of the monetary policy stance, are more modest.
Full text (pdf)

Other recent working papers

July 2016

No. 1077: A "reverse Robin Hood"? The distributional implications of non-standard monetary policy for Italian households
Marco Casiraghi, Eugenio Gaiotti, Lisa Rodano and Alessandro Secchi

No. 1076: Intergovernmental transfers and expenditure arrears
Paolo Chiades, Luciano Greco, Vanni Mengotto, Luigi Moretti and Paola Valbonesi

No. 1075: Quantifying the productivity effects of global sourcing
Sara Formai and Filippo Vergara Caffarelli

No. 1074: Macroeconomic effectiveness of non-standard monetary policy and early exit. A model-based evaluation
Lorenzo Burlon, Andrea Gerali, Alessandro Notarpietro and Massimiliano Pisani

No. 1073: Search costs and the severity of adverse selection
Francesco Palazzo

No. 1072: Bank quality, judicial efficiency and borrower runs: loan repayment delays in Italy
Fabio Schiantarelli, Massimiliano Stacchini ad Philiph Strahan

No. 1071: Boulevard of broken dreams. The end of the EU funding (1997: Abruzzi, Italy)
Guglielmo Barone, Francesco David and Guido de Blasio

No. 1070: Some reflections on the social welfare bases of the measurement of global income inequality
Andrea Brandolini and Francesca Carta

June 2016

No. 1069: Individual trust: does quality of public services matter?
Silvia Camussi and Anna Laura Mancini

No. 1068: The labor market channel of macroeconomic uncertainty
Elisa Guglielminetti

No. 1067: Productivity effects of eco-innovations using data on eco-patents
Giovanni Marin and Francesca Lotti

No. 1066: The heterogeneous response of domestic sales and exports to bank credit shocks
Ines Buono and Sara Formai

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No. 364: **An inquiry into the determinants of the profitability of Italian banks** (October 2016)

Ugo Albertazzi, Alessandro Notarpietro and Stefano Siviero

This paper examines the history and the determinants of bank profits in Italy from 2005-15. We first identify a number of key stylized facts by comparing the income statement of Italian lenders with that of banks in other European countries. The comparison suggests that the profitability gap of Italian banks is partly related to a business model characterized by a more conservative positioning along the risk-return frontier. We then use the Bank of Italy's Quarterly Model of the Italian Economy to provide quantitative estimates of the impact of four factors (the economic activity growth rate, taxation of bank income, dynamics of operating costs and dividend policy) on profits, regulatory capital and bad debt. Our counterfactual simulations suggest that the weak growth of the Italian economy is responsible for a sizeable share of the profitability gap of Italian banks, being by far the main driver of the increase in bad debts in the last decade; nonetheless, the impact of the other factors on their profitability (and capitalization) is far from negligible.
Full text (pdf)

No. 363: **Foreign holders of Italian government debt securities: new evidence** (October 2016)

Valerio Della Corte and Stefano Federico

Drawing on data from the Eurosystem's recent Securities Holdings Statistics (SHS) and the IMF's Coordinated Portfolio Investment Survey (CPIS), the paper provides a detailed breakdown of foreign holders of Italian government securities by sector and geographical area. We estimate that euro-area investors held more than 60 per cent of the Italian general government securities held by non-residents at the end of 2015; the sector in the euro area holding the largest share was 'other financial intermediaries' (predominantly non-money market funds), followed by banks and the insurance industry and pension funds. We also show that foreign demand for Italian government debt was mainly driven by euro-area countries in 2014, while in 2015 it mostly reflected purchases made by investors outside the euro area.
Full text (pdf)

No. 362: **An anatomy of Italian cities: evidence from firm-level data** (October 2016)

Andrea Lamorgese and Andrea Petrella

Economic activity is concentrated in urban areas and during the 20th century the urban population grew at a faster rate than the national average in many countries. Why is this the case? In this paper we focus on the urban premium in firms' productivity. We run two exercises. First, we document an urban premium in the level of firms' productivity and we inspect its determinants among both firm and city characteristics. Second, we corroborate the evidence on the determinants of the urban productivity gap, studying the heterogeneity in productivity across urban and non-urban areas by means of a Blinder–Oaxaca decomposition. The results point to a sizable urban productivity premium, mostly explained by firm size and by some characteristics of urban areas, in particular the average levels of educational attainment and labor market participation.
Full text (pdf)

No. 361: **Regulation, tax and capital structure: evidence from administrative data on Italian banks** (October 2016)

Steve Bond, Kyung Yeon Ham, Giorgia Maffini, Andrea Nobili and Giacomo Ricotti

This paper explores the effect of taxation on the capital structure of banks. For identification, we exploit exogenous regional variations in the rate of the Italian tax on productive activities (IRAP) using administrative, confidential data on regional banks provided by the Bank of Italy (1998-2011). We find that IRAP rate changes do not always lead to a change in banks' leverage: banks close to the regulatory constraints do not change their leverage when tax rates change. This holds true for both tax cuts and tax hikes. Among less constrained entities, the leverage of smaller banks is more responsive to changes in tax rates than that of larger banks. Overall, the tax system has little effect on the capital structure of banks, especially for larger and possibly more

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systemically important institutions; regulatory constraints instead seem to be a first-order determinant. Our findings cast doubt on the role of the tax system as a cause or tool for addressing the negative externalities of excessive leverage in the banking system.
Full text (pdf)

No. 360: **Integrating stress tests within the Basel III capital framework: a macroprudentially coherent approach** (October 2016)

Pierluigi Bologna and Anatoli Segura

In the post-crisis era banks' capital adequacy is established by the Basel III capital standards and, in many jurisdictions, also by supervisory stress tests. In this paper we first describe the ways in which supervisory stress tests can supplement the risk-based capital framework of Basel III and how this could be codified with a stress test buffer. We then argue that in order to ensure coherence with the macroprudential objectives of Basel III, the severity of supervisory stress tests should be procyclical. In addition, to increase the transparency and predictability of the overall capital framework, severity choices should follow a constrained discretion approach based on a simple rule. Finally, we analyze supervisory stress testing practices across some jurisdictions and find that while the United States and the UK frameworks are in line with some of the elements of our proposal, including most notably the need for procyclical severity, this is not the case in the euro area.
Full text (pdf)

No. 359: **Bank bonds in Italian households' portfolios** (October 2016)

Massimo Coletta and Raffaele Santioni

The paper analyses the dynamics and main features of bank bonds held by Italian households and presents an estimate of the gross yield to maturity of the bonds purchased at issue. Since 1950 the share of these assets in households' portfolios has shown wide fluctuations, primarily reflecting the issuance policies of banks and changes in the tax treatment of securities, as well as changes in preferences. The share of bonds in the financial wealth of households reached a peak of 11 percent in 1973 and 2011. Since 2012 investment in bonds has started to decrease: by March 2016 the share of bank bonds in the financial wealth of households had returned to below 5 percent. The gross yield at issue of bank bonds placed with Italian households increased during the sovereign debt crisis but has now fallen back to the levels reached in the years preceding 2011. The yield spread with respect to five-year BTPs, which was mostly negative between 2009 and 2012, has been positive since the end of 2013.
Full text (pdf) in Italian only

No. 358: **The financial systems in Russia and Turkey: recent developments and challenges** (October 2016)

Simone Auer, Emidio Cocozza and Andrea Colabella

Following the severe financial crises of the 1990s and early 2000s, substantial efforts have been undertaken in Russia and Turkey to diversify and deepen the financial systems. However, despite unquestionable improvements, financial deepening in Russia and Turkey has taken place at a slower pace than in other major emerging economies. Our paper highlights that this is in part a consequence of a highly volatile economic environment and deep-seated institutional and structural bottlenecks. Though authorities in both countries have committed to sounder economic policies and have implemented important structural reforms to improve the institutional environment and overcome structural weaknesses, over time reform fatigue has gradually taken hold. As a consequence significant gaps and weaknesses in the institutional and business environments still characterize, to a different degree, Russia and Turkey. These factors have not only slowed the development of the financial system as a whole, but have also contributed to the build-up of key vulnerabilities, which have come to the fore more recently in the context of a less supportive external environment.
Full text (pdf)

No. 357: **Tax evasion, firm dynamics and growth** (September 2016)

Emmanuele Bobbio

Italy's growth performance has been lacklustre in the last two decades. The economy has a low R&D intensity; firms are smaller and less likely to

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grow or exit than firms in other advanced countries; the shadow economy is large. I show how these features arise simultaneously in a Schumpeterian growth model with heterogeneous firms where the tax auditing probability increases with firm size. Tax evasion confers a cost advantage over competitors. In equilibrium, small firms invest less in innovation because growing entails a (shadow) cost of fiscal regularization. Unfair competition forces other firms to lower the mark-up they charge for their new products, reducing the incentive to innovate. Market selection is hampered, further lowering the aggregate growth rate along the extensive margin. I calibrate the model on Italian firm-level data for the period 1995-2006 and find that enforcing taxes would have increased the long-run growth rate from 0.9% to 1.1%. The market share of high type firms would have been 8 percentage points higher and average firm size 25% higher. Also, I find that lowering the tax burden can have a significant impact on growth when the shadow economy is large, while the effect is negligible when taxes are enforced.
Full text (pdf)

No. 356: **Collateral in Italy: a legal and economic analysis of privileges, pledges and mortgages** (September 2016)

Elisa Brodi

The work presents a legal and economic analysis of how collateral works in Italy. Specific attention is focused on privileges, pledges and mortgages, because of the prominent role they play in banking relationships. The paper highlights the critical issues in the current legislative framework and discusses some recent regulatory changes. It argues in favour of a simplification of privileges, reserving them for involuntary or unsophisticated creditors. At the same time, it analyses the rationale of the recent modernization of pledges, which, among other things, allows debtors to retain control over an asset and to use it within the production process. The new repossession mechanisms are an important alternative to judicial foreclosure for liquidating collateral. However, fine-tuning them, along with creating appropriate safeguards tailored for debtors in difficulty, would make them more effective.
Full text (pdf) in Italian only

No. 355: **Has the wage Phillips curve changed in the euro area?** (September 2016)

Guido Bulligan and Eliana Viviano

Increasing evidence shows that after a flattening occurred in the immediate aftermath of the global financial crisis, the relationship between price inflation and economic slack became stronger in the euro area. By contrast, there is no clear evidence of a strong(er) relationship between wage inflation and unemployment. In this paper we estimate a standard Phillips curve with time-varying coefficients separately for Italy, Spain, Germany and France. We find that, with the exception of Germany, after the global financial crisis the sensitivity of hourly wage changes to labour market slack increased. Second, using administrative microdata available only for Italy, we relate daily wage changes to the local unemployment rate. The results confirm the steepening of the Phillips curve after 2008, also when controlling for composition effects.
Full text (pdf)

No. 354: **Academic enrolment, careers and student mobility in Italy** (September 2016)

Ilaria De Angelis, Vincenzo Mariani, Francesca Modena and Pasqualino Montanaro

Italy has fewer graduates than most OECD countries, because of both a lower university enrolment rate and a modest completion rate. During the last decade, enrolment in tertiary education in Italy has fallen, despite a slight recovery over the last two years. The decline is partly due to the fading of the effects of the Bologna Process, which had led to a temporary increase in the number of students with prior work experience. The reduction in enrolment has also involved younger students, mainly as a consequence of weak demographic dynamics, only partly offset by an increase in immigrants, whose enrolment rates are however very low. Regardless of demographic trends, many students have decided not to enroll in tertiary education for reasons also related to the economic recession, including the sharp drop in household income, the

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increase in the tuition fees-to-income ratio and the reduction in grants. Enrolment has fallen more noticeably in Southern universities, also reflecting a greater propensity to migrate to the North. Nevertheless, on-time graduations have increased throughout the country and time-to-degree has decreased.
Full text (pdf) in Italian only

No. 353: **Productivity and reallocation: evidence from the universe of Italian firms** (September 2016)

Andrea Linarello and Andrea Petrella

This paper investigates the contribution of allocative efficiency to aggregate labor productivity growth in Italy between 2005 and 2013. Exploiting a unique dataset that covers the universe of active firms, we find that allocative efficiency accounted for 35 per cent of aggregate productivity in 2005 and its weight increased by almost 7 percentage points during the period of observation. We show that the dynamics of aggregate labor productivity benefited from the reallocation of resources among continuing firms and from the net effect of business demography. Among industries, we find that reallocation has been stronger in industries that are more exposed to import competition from developing countries. Moreover, we document that the observed adjustments have not evenly affected all firms across the productivity distribution: selection has become tougher for firms belonging to the lower tail, forcing the exit of the least productive firms and favoring the reallocation of the workforce to the best performing firms.
Full text (pdf)

No. 352: **Determinants of exports: firm heterogeneity and local context** (September 2016)

Pietro de Matteis, Filomena Pietrovito and Alberto Franco Pozzolo

It is frequently argued that the geographical context in which firms operate can have a crucial impact on their propensity to internationalize. In this paper, we present the results of an empirical analysis that examines the determinants of export performance for a sample including more than 4,300 Italian manufacturing firms over the period 2000-2013, focusing on the role of provincial context, after controlling for firm-level characteristics. To this end, we first adopt a cluster analysis methodology to classify each Italian province in terms of context variables, such as: the distance to foreign markets, the level of human and social capital and the degree of efficiency of the public administration. Second, we estimate a set of binomial choice and linear models to assess the impact of the economic and social environment on the extensive and intensive margins of trade. The results, after confirming that firm-specific factors (size, experience, productivity, capital intensity, innovation, geographical agglomeration and, to some extent, credit constraints) affect both the intensive and the extensive margins of exports, show that context characteristics at the province level have an additional (statistically and economically) significant impact on the export performances of firms.
Full text (pdf)

No. 351: **Spillovers of the ECB's non-standard monetary policy into CESEE economies** (September 2016)

Alessio Ciarlone and Andrea Colabella

In this paper we provide evidence that the effects of the ECB's asset purchase programmes spill over into CESEE countries, contributing to easing their financial conditions both in the short and in the long term through different transmission channels. In the short term, a number of variables in CESEE financial markets appear to respond to news related to the ECB's non-standard policies by moving in the expected direction. Over a longer-term horizon, we found that cross-border portfolio and banking capital flows towards CESEE economies have been affected by both the announcement and the actual implementation of the ECB's asset purchase programmes, pointing to the existence of a portfolio rebalancing and a banking liquidity channel.
Full text (pdf)

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No. 350: **The evolution of bad debts in Italy during the global financial crisis and the sovereign debt crisis: a counterfactual analysis)** (September 2016)

Alessandro Notarpietro and Lisa Rodano

This paper presents the results of a counterfactual exercise that aims at quantifying the contribution to the evolution of bad debts made by the two recessions that have hit the Italian economy since 2008. The counterfactual simulations are performed using the Bank of Italy's Quarterly Model (BIQM). A 'no-crises scenario' is built for the period 2008-2015. The counterfactual dynamics of the main macroeconomic and financial variables are used to feed a simple model, in which the new bad debt rate depends on macroeconomic conditions and borrowing costs. The analysis suggests that, in the absence of the two recessions – and of the economic policy decisions that were taken to combat their effects – non-financial corporations' bad debts at the end of 2015 would have reached €52 billion, instead of €143 billion. The ratio of bad debts to the total amount of loans to non-financial corporations would have reached 5%, a value in line with the pre-crisis period.
Full text (pdf)

No. 349: **Capital and labour (mis)allocation in the euro area: some stylized facts and determinants** (September 2016)

Elisa Gamberoni, Claire Giordano and Paloma Lopez-Garcia

We analyse the evolution of capital and labour (mis)allocation across firms in five euro-area countries (Belgium, France, Germany, Italy and Spain) and eight main sectors of the economy during the period 2002-2012. Three key stylized facts stand out. First, in all countries except Germany, capital allocation worsened over time whereas the efficiency of labour reallocation did not change significantly. Second, the observed increase in capital misallocation has been particularly marked in services compared with industry. Third, misallocation of both labour and capital decreased in all countries in 2009 and again for some countries/sectors in 2011-2012. We then take stock of the possible drivers of input misallocation dynamics in a standard panel regression framework. Restrictive bank lending standards and heightened demand uncertainty in certain years led to growth in capital misallocation, whereas since 2002 overall deregulation in both the product and labour markets has helped dampen input misallocation dynamics. Controlling for all variables, the Great Recession per se improved the allocative efficiency of both capital and labour.
Full text (pdf)

No. 348: **The house price gradient: evidence from Italian cities** (September 2016)

Elisabetta Manzoli and Sauro Mocetti

The paper examines the geographical variability in house prices, focusing on the gradient from the center to peripheral areas. The results reveal large price differentials in the main urban areas, even more than those between the Centre-North and South. The higher real estate prices in the centers of urban areas are affected by centripetal pressures from the demand side (also related to the local economic activities) to which supply only partially adjusts. We find that better infrastructures and lower commuting times can, however, bring the suburbs closer to the center and accordingly mitigate the cost of living centrally and the inclination of the gradient. Finally, we find a center-periphery gradient also for incomes, though this is less steep than that of house prices; it follows that the ratio between the value of houses and income is higher in the city center and lower in the periphery.
Full text (pdf) in Italian only

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No. 347: Leverage ratio, central bank operations and repo market
Annalisa Bucalossi and Antonio Scalia

No. 346: Adjusting the external adjustment: cyclical factors and the Italian current account
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No. 345: The distribution of public employees in Italy: role and functions of mobility
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No. 344: Economic governance in the euro area: balancing risk reduction and risk sharing
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No. 342: Incentives and selection in public employment
Cristina Giorgiantonio, Tommaso Orlando, Giuliana Palumbo and Lucia Rizzica

No. 341: Currency co-movements in Asia-Pacific: the regional role of the renminbi
Daniela Marconi

No. 340: Allocative efficiency and aggregate wage dynamics in Italy
Effrosyni Adamopoulou, Emanuele Bobbio, Marta De Philippis and Federico Giorgi

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Paolo Finaldi Russo, Silvia Magri and Cristiana Rampazzi

No. 338: Wage rigidities and business cycle fluctuations: A linked employer-employee analysis
Effrosyni Adamopoulou, Emanuele Bobbio, Marta De Philippis and Federico Giorgi

No. 337: Economic reforms in China and India: past and future challenges
Alessandro Borin and Enrica Di Stefano

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No. 335: Financial literacy of Italian teens and family's background: evidence from PISA 2012
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Daniela Marconi, Lorenzo Bencivelli, Anna Marra, Alessandro Schiavone and Raffaele Tartaglia-Polcini

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No. 333: House prices in Italy, 1927-2012
Luigi Cannari, Giovanni D'Alessio and Giovanni Vecchi

No. 332: Remittances of foreign workers in Italy: an estimation of invisible flows in the "informal channel"
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No. 331: Is corruption efficiency-enhancing? A case study of nine Central and Eastern European countries
Elisa Gamberoni, Christine Gartner, Claire Giordano and Paloma Lopez-Garcia

No. 330: Purchases of sovereign debt securities by Italian banks during the crisis: the role of balance-sheet conditions
Massimiliano Affinito, Giorgio Albareto and Raffaele Santioni

Notes on Financial and Stability supervision

No. 5: **Large-country bias and the limits on sovereign concentration risk** (September 2016)

Michele Manna, Federico M. Signoretti and Pietro Tommasino

Decree Law 59/2016, converted into law at the end of June, contains new measures for reducing credit recovery times, following on from the measures adopted in 2015. It introduces new mechanisms to ensure more effective protection of entities that grant loans to firms, envisages information tools to assist participants in the non-performing loan (NPL) market and amends the regulations governing judicial recovery proceedings.

Overall, the new measures promote a more effective management of NPLs by banks. They will further reduce average NPL recovery times, positively impacting the value of these assets and the development of the NPL market. Taken as a whole, the measures will ultimately translate into better lending conditions and more opportunities for firms and households to obtain financing.
Full text (pdf)

No. 4: **New measures for speeding up credit recovery: an initial analysis of Decree Law 59/2016** (September 2016)

Elisa Brodi, Silvia Giacomelli, Monica Marcucci, Alessandra Pischedda, Vincenza Profeta and Giovanni Santini

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

Authors' names in boldface: Bank of Italy

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Albertazzi U., **M. Bottero** and **G Sene**, "Information Externalities in the Credit Market and the Spell of Credit Rationing", *Journal of Financial Intermediation*. (WP No. 980)

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Tel. +390647921
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