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RESEARCH AT THE BANK OF ITALY

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NEWSLETTER

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Highlights

Riccardo Faini Memorial Conference 'Italy's lost productivity and how to get it back'

(Rome, 13 January 2017)

On January 13, 2017, the Bank of Italy hosted a conference – organized together with the Associazione Marco Fanno and the Centro Studi Luca d'Agliano – in honour of Professor Riccardo Faini, who passed away 10 years ago. The conference, entitled 'Italy's lost productivity and how to get it back', dealt with the long standing issue of sluggish Italian productivity. Starting from the mid-2000s debate on Italy's economic decline, to which Riccardo Faini offered a lively contribution, Governor I. Visco covered the main weaknesses of the Italian economy in his introductory remarks and highlighted the importance of continuing the wide-ranging reform effort that started in 2011.

Five presentations followed: G. Toniolo (LUISS) on the evolution of productivity since Italy's unification in 1861; F. Daveri (Cattolica University) on the possible determinants of productivity growth since the mid-70s; G.I.P. Ottaviano (LSE and CEPR) on the misallocation of resources; D. Taglioni (World Bank) on the recovery of Italian exports since 2013; and G. Barba Navaretti (University of Milan) on the importance of firms' heterogeneity for export performance. The presentations highlighted the possibility of better understanding the causes of low productivity growth thanks to the increasing availability of historical data since Italy's unification on one hand, and of microeconomic databases that make it possible to analyse the contribution of individual sectors, regions, and firms to aggregate growth on the other. The debate on policy issues was the focus of the panel's discussion which saw the participation of T. Boeri (INPS), G.P. Galli (Member of Parliament), L. Paolazzi (Confindustria), and S. Rossi (Bank of Italy).

The Minister of Economy and Finance P.C. Padoan concluded.

The programme and the papers presented in the conference are available here.

15th Workshop on 'Macroeconomic Dynamics: Theory and Applications'

(Rome, 21 December 2016)

The workshop, held at the Bank of Italy's Headquarters in Rome, aimed to (i) bring together economists working at the forefront of economic knowledge, (ii) offer participants, in particular junior economists, an opportunity to present and discuss research on modern dynamic macroeconomics and (iii) encourage the creation of

Highlights

networks of economists working in closely related fields and topics. The list of participants included several talented economists from the most prestigious research and policy institutions. The workshop included two sessions. The first focused on monetary theory and policy, with contributions by Roberto Robatto (University of Wisconsin-Madison), Alessandro Mennuni (University of Southampton) and Nils Gornemann (Federal Reserve Board). In the second session, the presentations by Andrea Caggese (Univ. Pompeu Fabra, CREI and Barcelona GSE), Alex Clymo (University of Amsterdam) and Giammario Impullitti (University of Nottingham) analysed topics related to financial frictions and firm dynamics.

The workshop programme and papers are available here.

Workshop on 'Understanding the roots of productivity dynamics'

(Rome, 19-20 December 2016)

On December 19-20, 2016, the Bank of Italy hosted a workshop on '**Understanding the roots of productivity dynamics**'. The workshop focused on theoretical, empirical, and methodological papers that contribute to an understanding of the microeconomic channels affecting productivity dynamics, and hence growth, with a particular focus on the policy implications. Since, as pointed out by Salvatore Rossi (Senior Deputy Governor) in his opening remarks '...the long-term decline in productivity growth is affecting all the developed countries', understanding the determinants of productivity dynamics is of primary importance for both scholars and policy-makers. It is particularly important in the case of Italy whose productivity has been sluggish for more than a decade. In his keynote speech Jan De Loecker (Princeton, KU Leuven and NBER) underlined how the most common measures of productivity can be biased if demand and competition are not taken into account. A session of three papers on resource misallocation followed, focusing on the differences between manufacturing and services, on the interplay between misallocation and financial crises, and on the distribution of allocative distortions. A second keynote lecture by Gianmarco Ottaviano (LSE and CEPR) addressed the idea of measuring reallocation at the firm level, considering changes in the product mix and documented how such a mechanism may be important for productivity growth. In the subsequent session, measurement issues were discussed, with a particular focus on markups and costs. In the last session, various determinants of productivity, namely R&D, ICT and tax evasion, were analysed and discussed.

The workshop programme and papers are available here and will soon be available on a dedicated page of the Bank of Italy's website.

Workshop on 'Urban development, agglomerations and economic growth'

(Rome, 13 December 2016)

On December 13, 2016, the second edition of the workshop on '**Urban development, agglomerations and economic growth**' was held at the Bank of Italy. The workshop was based on the presentation of a set of results on the mechanisms of urban agglomerations and the link to economic growth, as part of the Bank of Italy's research project on 'Urban development, agglomerations and economic growth'.

The workshop focused mainly on preliminary evidence on i) the analysis of gaps in wages, innovativeness and productivity between urban workers and firms with respect to non-urban ones, and on ii) the relationship between the trends of real estate prices and credit access on the one hand and the elasticity of real estate supply on the other. Urban firms pay higher wages on average with respect to non -urban ones, once observable and unobservable characteristics of workers have been controlled for; have higher levels of labour productivity and a greater propensity to patent their innovations. Moreover the elasticity of housing supply is an important determinant of local growth, in that differences in the elasticity of housing supply determine the extent to which a demand shock translates into higher economic growth or into more expensive houses.

The research project will be finalized by Spring 2017.

The workshop programme is available here.

Highlights

Workshop on 'Human Capital'

(Rome, 29 November 2016)

On November 29th, the Bank of Italy hosted a four-session workshop on '**Human Capital**' organized by R. Torrini (Bank of Italy). The works presented in the first session focused on the impact of children's time allocation between home and school, finding that: (i) early schooling, namely pre-kindergarten for two-year-olds, increases mothers' labour market participation while not compromising toddlers' cognitive skills; (ii) school-age children, especially those at the bottom of the distribution of cognitive test scores, benefit from spending more time in class. Session 2 dealt with class composition while session 3 discussed the role of teaching. In particular one paper found that higher research incentives have a positive effect on both teaching and research quality: on the one hand they increase college professors' efforts in their research, on the other hand they bring lower ability researchers to quit their jobs. Since teaching and research ability are positively correlated, this implies that bad teachers also tend to leave university. Finally session 4 studied the relatively low return on tertiary education observed in Italy, focusing on both demand and supply factors. All the papers were discussed by prominent experts in the field: Giacomo de Giorgi (University of Geneva and Columbia University), Marco Leonardi (University of Milan), Lorenzo Cappellari (Bocconi University) and Gordon Dahl (University of San Diego).

The papers are available here.

Forthcoming events

Conference on 'Rethinking Competitiveness, Structural Reforms, and Macro Policy'. Call for papers

(Rome, 5-6 October 2017)

The conference, organized by the Bank of Italy, CEPR, and CEBRA's International Trade and Macroeconomics Program, will focus on recent challenges for macroeconomic policies and structural reform design, with an emphasis on micro-macro linkages. Issues of particular interest include the links between international trade and competitiveness, the implications of dispersed productivity growth, and the role of macroeconomic imbalances. Both theoretical and empirical contributions are welcome. Keynote speakers will be Thomas Chaney (Sciences Po) and Giancarlo Corsetti (University of Cambridge).

The Call for papers is available here. Papers (drafts or extended abstracts) should be submitted through Conference Maker® no later than Sunday April 30, 2017.

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Latest working papers

No. 1104: **A tale of fragmentation: corporate funding in the euro-area bond market** (February 2017)

Andrea Zaghini

Corporations of different euro-area countries faced noticeably different costs of funding in the bond market during the prolonged period of financial instability that started in 2007. We identify the determinants of corporate bond yield spreads in order to isolate country-specific effects as indicators of market fragmentation. Our evidence hints at a disorderly process of reassessment of corporate credit risk since 2007, with country-specific spreads vis-à-vis Germany becoming strongly positive for issuers located in other euro-area countries (Ireland, Italy, Portugal and Spain, in particular). After the introduction of the non-conventional monetary policy tool named OMT, the spreads declined considerably, but fragmentation disappeared only in the most recent period characterized by expectations and the actual deployment of ECB quantitative easing.

Full text (pdf)

No. 1103: **An indicator of inflation expectations anchoring** (February 2017)

Filippo Natoli and Laura Sigalotti

We compare the degree of anchoring of inflation expectations in the euro area, the United States and the United Kingdom, focusing on the post-crisis period. First of all, we estimate a set of measures of average and tail correlation using inflation swaps and options, as proposed by Natoli and Sigalotti (2016). To quantify the degree of anchoring, we also propose a new indicator based on the results of a logistic regression, obtained by measuring the odds that strong negative shocks to short-term expectations are connected to large declines in long-term expectations. The results reveal an increase in the risk of de-anchoring during the last quarter of 2014 for the euro area. While showing a significant reduction after the peak, our de-anchoring indicator remains high and volatile for 2015 and 2016. Inflation expectations in the US and the UK are instead found to be firmly anchored.

Full text (pdf)

No. 1102: **Monetary policy surprises over time** (February 2017)

Marcello Pericoli and Giovanni Veronese

We document how the impact of monetary surprises in the euro area and the US on financial markets has changed since 1999. We use a definition of monetary policy surprises that singles out movements in the long end of the yield curve, rather than those that change nearby futures on the central bank reference rates. By focusing only on this component of monetary policy our results are more comparable over time. We find a hump-shaped response of the yield curve to monetary policy surprises, both in the pre-crisis period and since 2013. During the crisis years, Fed path-surprises, largely through their effect on term premia, account for the impact on interest rates, which is found to be increasing in tenor. In the euro area, the path-surprises reflect shifts in sovereign spreads and have a large impact on the entire constellation of interest rates, exchange rates and equity markets.

Full text (pdf)

No. 1101: **The effects of tax on bank liability structure** (February 2017)

Leonardo Gambacorta, Giacomo Ricotti, Suresh Sundaresan and Zhenyu Wang

This paper examines the effects of taxation on the liability structure of banks. We derive testable predictions from a dynamic model of optimal bank liability structure that incorporates bank runs, regulatory closure and endogenous default. Using the supervisory data provided by the Bank of Italy, we empirically test these predictions by exploiting exogenous variations of the Italian tax rates on productive activities (IRAP) across regions and over time (especially since the global financial crisis). We show that banks endogenously respond to a reduction in tax rates by reducing non-deposit liabilities more than deposits in addition to lowering leverage. The response on the asset side depends on the financial strength of the bank: well-capitalized banks respond to a reduction in tax rates by increasing their assets, but poorly-capitalized banks respond by cleaning up their balance sheet.

Full text (pdf)

Latest working papers

No. 1100: **Why did sponsor banks rescue their SIVs?** (February 2017)

Anatoli Segura Velez

At the beginning of the recent financial crisis, sponsoring banks rescued their structured investment vehicles (SIVs) despite having no contractual obligation to do so. I show that this outcome may arise as the equilibrium of a signaling game between banks and their debt investors when a negative shock affects the correlated asset returns of a fraction of banks and their sponsored vehicles. A rescue is interpreted as a good signal and reduces the refinancing costs of the sponsoring bank. If banks leverage is high or the negative shock is sizeable enough, the equilibrium is a pooling one in which all banks rescue. When the aggregate financial sector is close to insolvency, banks expected net worth would increase if rescues were banned. The model can be extended to discuss the circumstances in which all banks collapse after rescuing their vehicles.

Full text (pdf)

No. 1099: **Informal loans, liquidity constraints and local credit supply: Evidence from Italy** (February 2017)

Michele Benvenuti, Luca Casolaro and Emanuele Ciani

Using data from the Italian Survey on Household Income and Wealth from 1995 to 2014, we study the relation between informal credit (loans from relatives and friends) and a household's access to bank credit. While most of the literature has focused on the substitutability channel, we highlight that even households with full access to the formal credit market are more likely to be indebted to relatives or friends when compared to those not interested in formal loans. This complementarity is stronger for households who have problems paying back their loans, suggesting the presence of a caretaker effect on the part of relatives and friends towards distressed families. Finally, we estimate the overall impact of an expansion of local credit supply on the diffusion of informal loans, using an IV approach. The results suggest that the complementarity effect prevails, but the positive effect on informal loans is economically very small.

Full text (pdf)

No. 1098: **Using the payment system data to forecast the Italian GDP** (February 2017)

Valentina Aprigliano, Guerino Ardizzi and Libero Monteforte

Payment systems track economic transactions and therefore could be considered important indicators of economic activity. This paper describes the available monthly data on the retail settlement system for Italy and selects some of them for short-term forecasting. Using a mixed frequency factor model to predict Italian GDP, we find that payment system flows stand out when compared to other standard business cycle indicators.

Full text (pdf)

No. 1097: **Banks, firms, and jobs** (February 2017)

Fabio Berton, Sauro Mocetti, Andrea F. Presbitero and Matteo Richiardi

Unemployment is one of the most visible effects of financial crises. We contribute to the empirical literature on the employment effects of a decline in bank credit, investigating individual heterogeneity across firms, workers and jobs in response to a financial shock. We use a rich data set of over 1.5 million individual job contracts in an Italian region, which is matched with the universe of firms and their lending banks. To isolate the effect of the financial shock we construct a firm-specific time-varying measure of credit supply. Our findings indicate that a 10 percent supply-driven credit contraction reduces employment by 2.5 percent. The effect is mostly concentrated among relatively less-educated and less-skilled workers with temporary contracts, and is consistent with the presence of a "dual" labor market and a skill-upgrade strategy adopted by firms in response to the financial shock.

Full text (pdf)

No. 1096: **A goodness-of-fit test for Generalized Error Distribution** (February 2017)

Daniele Coin

The Generalized Error Distribution is a widely used flexible family of symmetric probability distribution. Thanks to its properties, it is

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becoming more and more popular in many fields of science, and therefore it is important to determine whether a sample is drawn from a GED, usually done using a graphical approach. In this paper we present a new goodness-of-fit test for GED that performs well in detecting non-GED distribution when the alternative distribution is either skewed or a mixture. A comparison between well-known tests and this new procedure is performed through a simulation study. We have developed a function that performs the analysis described in this paper in the R environment. The computational time required to compute this procedure is negligible.
Full text (pdf)

No. 1095: **Household debt and income inequality: evidence from Italian survey data** (December 2016)

David Loschiavo

Does regional income inequality affect a household's likelihood of being indebted? This question is addressed by using survey data on Italian households. The analysis shows that inequality in the regional income distribution has a negative effect on the probability of being indebted. In addition, richer households living in regions with greater income inequality have a greater likelihood of being indebted than similarly rich households residing in regions with low income inequality (and vice versa for poorer households). The study suggests that supply factors are more important than demand factors in explaining this result. These findings are consistent with the latest survey-based evidence drawn from US data which suggests that banks may use local income inequality and a household's position in the income distribution to make inferences about an applicant's underlying default risk. These results hold after controlling for socio-demographic differences, different types of debt, unobserved household heterogeneity using panel data and a number of robustness checks.
Full text (pdf)

No. 1094: **The bank lending channel of conventional and unconventional monetary policy** (December 2016)

Ugo Albertazzi, Andrea Nobili and Federico Maria Signoretti

Using a new monthly dataset on bank-level lending rates, we study the transmission of conventional and unconventional monetary policy in the euro area via shifts in the supply of credit. We find that a bank lending channel is operational for both types of measures, though its functioning differs: for standard operations the transmission is weaker for banks with more capital and a more solid funding structure, in line with an important role of asymmetric information. However, in response to non-standard measures lending supply expands by more at banks with stronger capital and funding positions, suggesting a crucial role for regulatory and economic constraints. We also find that the transmission of unconventional measures is attenuated by their negative effect on future bank's capital position via the net interest income (reverse bank capital channel). Finally, we find that large sovereign exposures mute the response of lending rates to conventional policy, but amplify the transmission of unconventional measures.
Full text (pdf)

No. 1093: **Structural transformation and allocation efficiency in China and India** (December 2016)

Enrica Di Stefano and Daniela Marconi

Market frictions prevent the efficient allocation of factors of production, slow down structural transformation and lead to costs in terms of lower output and aggregate total factor productivity (TFP). We use a theoretical framework developed by Aoki (2012) featuring sector-specific frictions on capital and labor à la Chari, Kehoe and McGrattan (2007), and compute capital and labor misallocations in China and India using data for 26 sectors over the period 1980-2010. Our findings show that large factor misallocations exist in the two countries. We estimate the potential gains in terms of aggregate TFP stemming from an efficient allocation of factors to range from 25% to 35% in China and from 35% to 40% in India. Finally, we discuss the

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implications for structural transformation and the relationship between the observed allocation inefficiencies and the evolution of the business environment in the two countries.
Full text (pdf)

No. 1092: **Copula-based random effects models for clustered data** (December 2016)

Santiago Pereda Fernández

Sorting and spillovers can create correlation in individual outcomes. In this situation, standard discrete choice estimators cannot consistently estimate the probability of joint and conditional events, and alternative estimators can yield incoherent statistical models or intractable estimators. I propose a random effects estimator that models the dependence among the unobserved heterogeneity of individuals in the same cluster using a parametric copula. This estimator makes it possible to compute joint and conditional probabilities of the outcome variable, and is statistically coherent. I describe its properties, establishing its efficiency relative to standard random effects estimators, and propose a specification test for the copula. The likelihood function for each cluster is an integral whose dimension equals the size of the cluster, which may require high-dimensional numerical integration. To overcome the curse of dimensionality from which methods like Monte Carlo integration suffer, I propose an algorithm that works for Archimedean copulas. I illustrate this approach by analysing labour supply in married couples.
Full text (pdf)

No. 1091: **Asymmetric information and the securitization of SME loans** (December 2016)

Ugo Albertazzi, Margherita Bottero, Leonardo Gambacorta and Steven Ongena

Using credit register data for loans to Italian firms we test for the presence of asymmetric information in the securitization market by looking at the correlation between the securitization (risk-transfer) and the default (accident) probability. We can disentangle the adverse selection from the moral hazard component for the many firms with multiple bank relationships. We find that adverse selection is widespread but that moral hazard is confined to weak relationships, indicating that a strong relationship is a credible enough commitment to monitor after securitization. Importantly, the selection of which loans to securitize based on observables is such that it largely offsets the (negative) effects of asymmetric information, rendering the overall unconditional quality of securitized loans significantly better than that of non-securitized ones. Thus, despite the presence of asymmetric information, our results are not in line with the view that credit-risk transfer leads to lax credit standards.
Full text (pdf)

Other recent working papers

October 2016

No. 1090: Does credit scoring improve the selection of borrowers and credit quality?
Giorgio Albareto, Roberto Felici and Enrico Sette

No. 1089: Non-standard monetary policy, asset prices and macroprudential policy in a monetary union
Lorenzo Burlon, Andrea Gerali, Alessandro Notarpietro ad Massimiliano Pisani

No. 1088: Peer monitoring via loss mutualization
Francesco Palazzo

No. 1087: Housing and credit markets in Italy in times of crisis
Michele Loberto and Francesco Zollino

No. 1086: Should I stay or should I go? Firms' mobility across banks in the aftermath of financial turmoil
Davide Arnaudo, Giacinto Micucci, Massimiliano Rigon and Paola Rossi

No. 1085: Foreign ownership and performance: evidence from a panel of Italian firms
Chiara Bentivogli and Litterio Mirenda

September 2016

No. 1084: Women at work: the impact of welfare and fiscal policies in a dynamic labor supply model
Maria Rosaria Marino, Marzia Romanelli and Martino Tasso

No. 1083: BTP futures and cash relationships: a high frequency data analysis
Onofrio Panzarino, Francesco Potente and Alfonso Puorro

No. 1082: Price dispersion and consumer inattention: evidence from the market of bank accounts
Nicola Branzoli

No. 1081: Dealing with student heterogeneity: curriculum implementation strategies and student achievement
Rosario Maria Ballatore and Paolo Sestito

No. 1080: Self-fulfilling deflations
Roberto Piazza

No. 1079: Parents, schools and human capital differences across countries
Marta De Philippis and Federico Rossi

No. 1078: Global macroeconomic effects of exiting from unconventional monetary policy
Pietro Cova, Patrizio Pagano and Massimiliano Pisani

Latest occasional papers

No. 373: **Cyber attacks: preliminary evidence from the Bank of Italy's business surveys** (February 2017)

Claudia Biancotti

This paper presents preliminary evidence on cyber risk in the Italian private sector based on the Bank of Italy's annual surveys of Italian industrial and service firms. The information collected, albeit only covering the incidence of cyber attacks and some aspects of security governance, is the first of its kind for Italy. The results are striking: even though a mere 1.5 per cent of businesses do not deploy any cybersecurity measures, 30.3 per cent – corresponding to 35.6 per cent of total employees – report at least some damage from a cyber attack between September 2015 and September 2016. Once data are corrected to account for unwillingness to report or inability to detect attacks on the part of some respondents, these figures climb to 45.2 and 56 per cent respectively, with large, high-tech and internationally exposed businesses faring worse than average. The economy-wide risk level is likely to be higher still; the financial sector, healthcare, education and social care are excluded from the sample, but they are known from other sources to be particularly appealing to attackers. Further research is needed on the correlation between firm-level vulnerability and investment in cyber defence, and on the cost of cyber breaches.
Full text (pdf)

No. 372: **Shadow banking out of the shadows: non-bank intermediation and the Italian regulatory framework** (February 2017)

Carlo Gola, Marco Burroni, Francesco Columba, Antonio Ilari, Giorgio Nuzzo and Onofrio Panzarino

Shadow banking is the creation or transfer – by banks and non-bank intermediaries – of bank-like risks outside the banking system. In Italy the shadow banking system is fully regulated, mostly following the principle of same business-same rules or 'bank-equivalent regulation'. After an overview of the topic, we describe the Italian shadow banking system and the related regulatory and supervisory framework in place before the financial crisis and the subsequent enhancements. A quantitative representation of Italian shadow banking is also provided. The paper argues that through a wide and consistent regulatory perimeter, based on the principle of 'bank-equivalent regulation', it is possible to setup a well-balanced prudential framework, where both bank and non-bank regulation contribute to reducing systemic risks and regulatory arbitrage.
Full text (pdf)

No. 371: **Firms' financial fragility and credit allocation** (February 2017)

Emilia Bonaccorsi di Patti and Paolo Finaldi Russo

In 2015 bank lending to larger firms expanded whereas it continued to contract for smaller ones; this gap is also observed for companies belonging to the same sector of economic activity or with similar budgetary conditions. Econometric estimates confirm that, taking into account a large number of firms' characteristics (profitability, liquidity, sales dynamics, capital expenditure, economic sector and geographical area), the contraction in lending was especially pronounced for micro-firms and for riskier companies. The greater financial fragility of micro-firms, particularly due to their higher indebtedness, accounts for more than 70 per cent of the difference in the annual growth rate of loans to large companies and about 40 of that to small and medium-sized enterprises. A non-negligible proportion of these gaps is not explained by the firms' characteristics considered in the analysis; it may instead reflect supply factors associated with a lower propensity on the part of some banks to finance small firms.
Full text (pdf) in Italian only

No. 370: **The IMF Safety Net and Emerging Markets' Sovereign Spreads** (February 2017)

Claudia Maurini

This paper assesses empirically the effectiveness of the IMF as a component of the Global Financial Safety Net by running a panel regression on a sample of emerging market countries' sovereign spreads. In particular, we check if the size of the Fund's lending capacity and the introduction of the new precautionary facilities play a role in explaining emerging market countries' spreads,

Latest occasional papers

after controlling for the traditional determinants of the spreads reported in the literature. From a policy perspective, the empirical evidence presented in this paper can provide a basis for assessing the potential gains from a stronger role of the IMF and of the GFSN in general, an important issue in the current international debate. We find that what appears to matter most are the overall resources avail- able for lending by the IMF, rather than the channels through which such resources can be accessed by members.
Full text (pdf)

No. 369: **Indicators of financial vulnerability: a household level study** (December 2016)

Valentina Michelangeli and Cristiana Rampazzi

This paper compares two indicators of household vulnerability using the Bank of Italy's Survey on Household Income and Wealth (2008-2014). According to the first indicator, a household is considered vulnerable if its debt service-to-income ratio exceeds 30 per cent and its income is below the median of the population. According to the second, a household is defined vulnerable if the sum of its income and liquid financial assets is not sufficient to cover debt payments and basic living costs for four months. While providing similar information on the proportion of households deemed vulnerable, the two indicators capture different aspects of the sector's financial fragility: vulnerable households according to the first indicator have, on average, higher income, liquid assets and debt than those identified by the second indicator. Moreover, while the first indicator shows a lower correlation with payment arrears, its simplicity, timeliness and less arbitrary components make it better suited for cross-country comparisons.
Full text (pdf)

No. 368: **Fifty years of household income and wealth surveys: history, methods and future prospects** (December 2016)

Alberto Baffigi, Luigi Cannari and Giovanni D'Alessio

The paper describes the evolution of the Survey of Household Income and Wealth from the early sixties until today. It shows how the innovations that have taken place over time have improved the quality of the data collected and expanded the possibilities for analysis. The work also examines in detail how the survey data compare to those drawn from other sources (national accounts, tax data, censuses, other sample surveys and so on), summarizing the main results of several works on this subject. The conclusion recalls the survey's main developments, which highlight the need to pursue greater integration with other surveys at international level, sample and administrative sources in Italy and aggregate statistics.
Full text (pdf) in Italian only

No. 367: **What do external statistics tell us about undeclared assets held abroad and tax evasion?** (November 2016)

Valeria Pellegrini, Alessandra Sanelli and Enrico Tosti

The analysis of international investment position and balance of payments statistics suggests that foreign assets held abroad are greatly underestimated. This paper has three main goals. First, it examines the role played by tax havens in tax evasion. Second, it estimates unreported capital to range globally between \$6 trillion and \$7 trillion at end-2013, on the basis of mirror statistics on portfolio securities and on cross-border deposits of non-banks. Third, it estimates the portion of tax evasion connected to the underreporting of foreign assets to range between \$20 billion and \$42 billion a year over the period 2001-2013 for capital income tax, and between \$2.1 trillion and \$2.8 trillion at end-2013 for personal income tax. The estimate for personal income tax is based on the assumption that the entire stock of unreported capital outstanding at end-2013 was made up of income that had escaped income tax. Finally, the paper gives a critical assessment of the strengths and weaknesses of the recent policy responses to international tax evasion.
Full text (pdf)

Latest occasional papers

No. 366: **The generation gap: a cohort analysis of earnings levels, dispersion and initial labor market conditions in Italy, 1974-2014** (November 2016)

Alfonso Rosolia ad Roberto Torrini

We discuss entry wages, career patterns and inequality developments of successive cohorts who have entered the Italian labour market between 1974 and 2014. We find that entry wages started to decline around the mid-1990s; the drop continued at least until the onset of the global financial crisis, seemingly slowing down thereafter. This pattern cannot be explained by changes in observable job characteristics. Falling entry wages have not been accompanied by faster subsequent career paths; rather, subsequent career paths have increasingly featured rising earnings dispersion due to both increased workers heterogeneity and greater temporary earnings instability. We relate such developments to the changes in labour market institutions that took place between the early 1990s and the mid-2000s.
Full text (pdf)

No. 365: **Measuring the aggregate effects of simplifying firm creation in Italy** (November 2016)

Guzmán González-Torres

A series of reforms passed in Italy in 2010 reduced the expected duration of registration and startup procedures for new businesses. Previous research has found that procedural simplifications of this nature have a positive impact on the selection of firm entry in the short run and consequently on their productive outcomes. These studies, based on natural policy experiments and lacking precise estimates for the duration of the startup process in Italy, are not designed to predict both the long run effects and the aggregate implications of such reforms. Using a general equilibrium framework with heterogeneous firms and households, and micro-level data on Italian households, I provide an estimate for the average startup times in Italy and find that further reforms of similar nature could produce a significant increase in aggregate firm productivity and output—qualitatively in line with previous findings.
Full text (pdf)

Other recent occasional papers

October 2016

No. 364: An inquiry into the determinants of the profitability of Italian banks
Ugo Albertazzi, Alessandro Notarpietro and Stefano Siviero

No. 363: Foreign holders of Italian government debt securities: new evidence
Valerio Della Corte and Stefano Federico

No. 362: An anatomy of Italian cities: evidence from firm-level data
Andrea Lamorgese and Andrea Petrella

No. 361: Regulation, tax and capital structure: evidence from administrative data on Italian banks
Steve Bond, Kyung Yeon Ham, Giorgia Maffini, Andrea Nobili and Giacomo Ricotti

No. 360: Integrating stress tests within the Basel III capital framework: a macroprudentially coherent approach
Pierluigi Bologna and Anatoli Segura

No. 359: Bank bonds in Italian households' portfolios
Massimo Coletta and Raffaele Santioni

No. 358: The financial systems in Russia and Turkey: recent developments and challenges
Simone Auer, Emidio Cocozza and Andrea Colabella

September 2016

No. 357: Tax evasion, firm dynamics and growth
Emmanuele Bobbio

No. 356: Collateral in Italy: a legal and economic analysis of privileges, pledges and mortgages
Elisa Brodi

No. 355: Has the wage Phillips curve changed in the euro area?
Guido Bulligan and Eliana Viviano

No. 354: Academic enrolment, careers and student mobility in Italy
Ilaria De Angelis, Vincenzo Mariani, Francesca Modena and Pasqualino Montanaro

No. 353: Productivity and reallocation: evidence from the universe of Italian firms
Andrea Linarello and Andrea Petrella

No. 352: Determinants of exports: firm heterogeneity and local context
Pietro de Matteis, Filomena Pietrovito and Alberto Franco Pozzolo

No. 351: Spillovers of the ECB's non-standard monetary policy into CESEE economies
Alessio Ciarlone and Andrea Colabella

No. 350: The evolution of bad debts in Italy during the global financial crisis and the sovereign debt crisis: a counterfactual analysis)
Alessandro Notarpietro and Lisa Rodano

No. 349: Capital and labour (mis)allocation in the euro area: some stylized facts and determinants
Elisa Gamberoni, Claire Giordano and Paloma Lopez-Garcia

No. 348: The house price gradient: evidence from Italian cities
Elisabetta Manzoli and Sauro Mocetti

Economic History working papers

No. 39: **Macroeconomic estimates of Italy's mark-ups in the long-run, 1861-2012** (February 2017)

Claire Giordano and Francesco Zollino

We explore three alternative methodologies drawn from economic history literature to compute macroeconomic total-economy estimates of Italy's mark-ups since 1861, based on the new historical national accounts presented in Baffigi (2013) and Giordano and Zollino (2015). Two key features of Italy's history stand out: a) the increase in market power under the Fascist regime and b) the strengthening of competition since 1993. We then focus on a more limited time span (1970-2012) in order to estimate sectorial mark-ups using the model developed in Bassanetti, Torrini and Zollino (2010). Employing Istat and EU-KLEMs data, we find evidence of a reduction in mark-ups after the completion of the Single Market, with an acceleration after the inception of the European Monetary Union, owing mostly to the decrease in workers' bargaining power rather than in firms' margins. Moreover, we find large heterogeneity in mark-ups across sectors, with regulated services displaying weaker competition than manufacturing and market services.

Full text (pdf)

No. 38: **Technical Change, Non-Tariff Barriers, and the Development of the Italian Locomotive Industry, 1850-1913** (November 2016)

Carlo Ciccarelli and Alessandro Nuvolari

The locomotive industry was one of the relatively sophisticated "high-tech" sectors in which Italy, a latecomer country, was successful before 1913. Using technical data on the performance of different vintages of locomotives, we construct a new industry-level index of technical change. We also study the impact of different policy instruments (import duties, non-tariff trade barriers and other discretionary interventions) in shaping the development of the industry. Our reassessment reveals the sound technological performance of Italian locomotives; the successful growth of this industry; and the critical role played by non-tariff barriers in its development.

Full text (pdf)

No. 37: **A Historical Reconstruction of Capital and Labour in Italy, 1861-2013** (November 2016)

Claire Giordano and Francesco Zollino

In this paper we provide a detailed explanation of the methodology underlying the construction of a new labour and capital stock dataset for Italy since 1861. The existing seminal paper (Rossi, Sorgato and Toniolo 1993) only covered the period 1911-1990 for labour and 1890-1990 for capital; moreover, sectoral disaggregation was limited. The labour dataset presented here includes both headcount and full-time equivalent annual estimates and provides a ten-sector breakdown. Net capital stock annual estimates are instead disaggregated by asset type (transport equipment, machinery and equipment, and construction, in turn divided into residential and non-residential). We then analyse the key features of the structural change in the Italian economy over the more than 150 years since unification. This dataset, combined with the new historical national accounts time series published by the Bank of Italy, finally makes a sectoral analysis of Italy's long-run development possible.

Full text (pdf)

Historical series of the Bank of Italy

Competition and Growth in Italy (January 2017)

Edited by: Alfredo Gigliobianco and Gianni Toniolo
Essays by: Franco Amatori, Andrea Baldini, Federico Barbiellini Amidei, Andrea Brandolini, Filippo Cavazzuti, Elio Cerrito, Emanuela Ciapanna, Riccardo De Bonis, Daniela Felisini, Alfredo Gigliobianco, Claire Giordano, Cristina Giorgiantonio, Matteo Gomellini, Michele Grillo, Kevin Hjortshøj O'Rourke , Giuseppe Marinelli, Guido Pellegrini, Gianni Toniolo, Ivan Triglia, Francesco Vercelli, Eliana Viviano, Vera Zamagni, Francesco Zollino

Is it true that a lack of competition has marred Italy's economic growth? A group of scholars

Historical series of the Bank of Italy

explore the question from different viewpoints, framing the Italian case in history and in the international context. While the theoretical link between competition and growth seems ambiguous, empirical studies give credit to the idea that, with exceptions, more competition leads to more growth. Italy's competition deficit is measured with different techniques and, as far as possible, explained. Is it culture? Is it the strength of interest groups? Is it policy? Or is it the whole organization of society, and notably a welfare system that tends to bind workers permanently to their jobs, that conspire against competition? Case studies of relevant sectors (chemicals, retail trade, and banking) complete the book, gauging the effects of competition (or the lack of it) on sectorial price dynamics and productivity.
More information are available here

Notes on Financial Stability and Supervision

No. 7: Bad loan recovery rates (January 2017)

Federica Ciocchetta, Francesco Maria Conti, Romina De Luca, Igino Guida, Anna Rendina and Giovanni Santini

The scarcity of reliable public data on banks' track record in bad loan recovery generates market uncertainty and tends to have a negative effect on the valuation of this category of debt. This note is written in order to bridge this gap using data from the Central Credit Register. It demonstrates that the recovery rates of the Italian banking system are on average consistent with the coverage ratios reported in banks' balance sheets and that recoveries for positions closed following standard work-out procedures are significantly higher than those recorded for positions sold. The data also show that the recovery rates vary significantly among banks, confirming that they must resolutely push forward with the interventions already under way to make the management and recovery of non-performing loans more efficient.
Full text (pdf)

No. 6: Why exceptional NPLs sales should not affect the estimated LGDs of A-IRB banks (January 2017)

Massimo Gangeri, Michele Lanotte, Giuseppe Della Corte and Giovanni Rinna

The reduction of the large stock of non-performing loans (NPLs) in banks' portfolios is a supervisory priority for the European Union and the Single Supervisory Mechanism (SSM). NPLs sales – an effective and rapid way to pursue the objective – tend to have a negative impact on banks' capital ratios via direct losses, because the sale prices are typically lower than their book value. Therefore aggressive sales can cause economic losses and capital shortfalls that, especially in the current difficult market conditions and low profitability environment, banks may be unable to address. This represents a powerful disincentive for banks to sell. Banks using the advanced internal ratings-based method (A-IRB) face even stronger disincentives, as an additional impact on capital comes from the higher Loss Given Default (LGD) estimate induced by the NPLs sale.

This note has three main purposes. First, we provide an assessment of the impact of massive NPLs sales on LGD estimates and capital ratios. For a sample of Italian banks, we find that following a 12 percentage points increase in the LGD – an effect which could be triggered by an exceptional disposal of bad loans at "market prices" – the decrease of capital ratios stemming exclusively from the worsening of the LGD and from the increase of the IRB shortfall could be in the range of 90-190 bps. These estimates do not take into account the direct losses resulting from selling the loans at lower prices than their book value. Second, we argue that allowing the losses from such an exceptional sale to affect the LGD estimates is undesirable and unwarranted in the current situation, above all for macro-prudential reasons. Third, we provide some proposals on how to sterilize, or at least mitigate, the effect of NPLs sales on the LGD, in order to avoid any possible disincentive for A-IRB banks to sell. All proposals rely on the exceptionality of the sales and, thus, on the temporary nature of the sterilization mechanism.
Full text (pdf)

Selection of Journal articles and books

Authors' names in boldface: Bank of Italy

Full list since 1990

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