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RESEARCH AT THE BANK OF ITALY
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NEWSLETTER

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Highlights

Thirteenth Paolo Baffi Lecture on Money and Finance: 'The liquidity of capital markets under new banking regulations'

(Rome, 15 September 2017)

The Paolo Baffi Lecture was instituted by the Bank of Italy to promote original contributions by eminent scholars on the issues of money and finance. On 15 September 2017, Darrell Duffie (Graduate School of Business, Stanford University) delivered the **Thirteenth Paolo Baffi Lecture**, in which he addressed the implications of the capital structure of dealer banks for the liquidity of financial markets. Professor Duffie argued that post-crisis regulatory reforms have shrunk the balance sheet capacity of dealers, thereby reducing the supply of market-making services and liquidity. In particular, the regulatory leverage ratio has compressed the profitability of market-making into low-risk fixed-income instruments. According to Duffie, an improvement in market liquidity could be achieved at no cost to financial stability by changing the system of capital requirements, with a different balance between risk-based and non-risk-based measures. A different – possibly complementary – way to improve market liquidity would be to accelerate reforms with the aim of enhancing competition and price transparency. In the euro area, repo markets have experienced fewer pronounced adverse liquidity effects than in the United States thanks to several mitigating factors, including the lower regulatory leverage ratio for European banks, the widespread diffusion of active electronic platform trading markets and greater recourse to central clearing.

The video and slides of the Thirteenth Paolo Baffi Lecture are available here.

Bank of Italy workshop on 'Secular Stagnation and Financial Cycles'

(Rome, 28 September 2017)

The decline in growth and interest rates in many advanced economies has spurred a debate on the drivers behind those developments. The workshop focused on the identification of those drivers, and issues of fundamental relevance for monetary policy, financial stability and regulation. In his opening lecture, Thomas Laubach, Director of the Federal Reserve Board's Division of Monetary Affairs, reviewed the literature and concluded that the natural interest rate has declined to historically low levels in all the main economies, but shows signs of recovery in the US. The workshop included eight papers presented in three sessions. The first session aimed at identifying the drivers behind the decline in interest rates, exploring the impact of developments in real and financial variables and the role of the risk premium; the

Highlights

evidence suggests that the decline in interest rates will not be reversed any time soon. The second session examined the relationship between demographics, inflation and real interest rates. The third session explored how the interaction between the real and the financial sides of the economy may magnify the impact of shocks. As to the effectiveness of monetary policy in a low interest rate environment, the prevailing opinion was that the evidence does not suggest a decline in monetary policy effectiveness, but rather an increase in the headwinds set in motion by the global financial crisis.

The programme is available here.

Conference on 'Rethinking Competitiveness, Structural Reforms, and Macro Policy'

(Rome, 5-6 October 2017)

The Bank of Italy hosted the CEBRA's (Central Bank Research Association) 2017 Annual Conference of the International Trade and Macroeconomics Program on 'Rethinking Competitiveness, Structural Reforms and Macro Policy'. The conference, organized by the Bank of Italy, CEPR and CEBRA, was held in Rome on October 5 and 6, 2017. The papers, addressing recent challenges for macroeconomic policies and structural reforms, with a particular emphasis on micro-macro linkages, covered topics such as productivity and misallocation, the impact on growth of labour market reforms and financial structures, the welfare effects of offshoring and immigration of low-skilled workers, the effects of competitive devaluations and exchange rate shocks, and the macroeconomic effects of trade policy.

The workshop programme, with links to the papers and discussions, will soon be available here.

Forthcoming events

New Developments in Econometrics and Time Series 2017

(Rome, 16-17 November 2017)

The EIEF (Einaudi Institute for Economics and Finance) will host the 2017 edition of the annual workshop on 'New Developments in Econometrics and Time Series'. The topics include time series, high dimensional statistics, quantiles, statistical depth functions and their applications in economics. To register, please send an e-mail to info@eief.it by October 31, 2017.

The programme is available here.

How Financial Systems Work: Evidence from Financial Accounts

(Rome, 30 November-1 December 2017)

The purpose of this conference is to show how financial accounts may be used in a wide range of fields. Financial accounts, produced for Italy by the Banca d'Italia, cover all financial transactions and financial balance sheet positions of households, non-financial corporations, financial corporations and general government, as well as their relations with the rest of the world. Financial accounts can be used to study issues such as the composition of households' savings and wealth, the quantity and composition of funds raised by enterprises and general government, and the evolution of financial structures with respect to real wealth and national income. Topics for the workshop will include firms' surpluses and deficits; investment financing; capital measurement; the use of financial accounts for monetary policy and financial stability; household wealth; macroeconometric models based on the accounts; and advances in statistical methodology. Keynote lectures will be given by Prof. John Muellbauer (Nuffield College, Oxford), Gabriel Quiros (IMF) and Peter van de Ven (OECD). Participants will include academics as well as members of central banks and international institutions.

The programme is available here.

Forthcoming events

7th EIEF-UNIBO-IGIER Bocconi Workshop on Industrial Organization

(Bologna, 21-22 December 2017)

The University of Bologna will host the "7th EIEF-UNIBO-IGIER Bocconi Workshop on Industrial Organization". The event is a joint initiative of the Bologna Centre for Law and Economics (BCLE - University of Bologna), the Einaudi Institute for Economics and Finance (EIEF) and IGIER-Bocconi. Contributions on both theoretical and empirical IO are equally welcome; the submission of work in progress is particularly encouraged. The submission deadline is October 29, 2017.

For further details, see the Call for Papers on the EIEF website.

Labour market participation: Forces at work and policy challenges

(Rome, 15-16 March 2018)

The Bank of Italy and the CEPR are organizing a conference on "Labour market participation: Forces at work and policy challenges". The event will take place on March 15-16, 2018 at the Bank of Italy headquarters in Rome. The patterns of labour market participation have recently started to diverge across advanced economies, reflecting structural and demographic factors as well as the long term legacies of the Great Recession, whose impact has been felt differently across countries. A full understanding of labour supply determinants is key to gauge the cyclical response of labour markets to shocks, but also to anticipate the growth prospects of each country, and the degree of its social inclusiveness. The conference aims to provide researchers with an opportunity to present theoretical and empirical research related to these issues.

The deadline for the submission of papers is 24 November, 2017.

For further details, see the Call for Papers.

Bank of Italy and Bocconi University conference on 'Financial Stability and Regulation'

(Rome, 5-6 April 2018)

The Bank of Italy and Bocconi University – BAFFI CAREFIN are organizing the first biennial conference on 'Financial stability and Regulation'. The event will take place on April 5-6, 2018 at the headquarters of the Bank of Italy in Rome. The conference aims to bring together leading world scholars and policy-makers to discuss topics related to financial stability and regulation, such as the interaction between micro and macroprudential policies, the assessment and calibration of macroprudential policies, the optimal design and the real effects of bank interventions and the modelling techniques for stress tests.

The deadline for the submission of papers is 1 December, 2017.

For further details, see the Call for Papers.

SEMINARS AT THE BANK OF ITALY

SEMINARS AT EIEF

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No. 1148: **Investment decisions by European firms and financing constraints** (October 2017)

Andrea Mercatanti, Taneli Mäkinen and Andrea Silvestrini

We reinvestigate the question of whether corporate investment during the financial crisis depended to a significant extent, and differently than in the pre-crisis period, on firms' short-term liquidity and indebtedness. Using data on listed firms in the euro area and the United Kingdom, we employ a correlated random coefficient panel data model estimated with instrumental variables in order to address potential endogeneity concerns. First, we find that to attain plausible identification, we must allow for the possibility that the unobserved firm-specific component of investment changed with the onset of the financial crisis. Second, our results suggest that neither cash reserves nor short-term debt, considered separately, were significant determinants of investment. However, we do find evidence of a negative conditional dependence between corporate investment and short-term debt net of cash reserves.
Full text (pdf)

No. 1147: **Consistent inference in fixed-effects stochastic frontier models** (October 2017)

Federico Belotti and Giuseppe Ilardi

The classical stochastic frontier panel data models provide no mechanism for disentangling individual time-invariant unobserved heterogeneity from inefficiency. Greene (2005a, b) proposed the 'true' fixed-effects specification, which distinguishes these two latent components while allowing for time-variant inefficiency. However, due to the incidental parameters problem, the maximum likelihood estimator proposed by Greene may lead to biased variance estimates. We propose two alternative estimation procedures that, by relying on a first-difference data transformation, achieve consistency when n goes to infinity with fixed T. Furthermore, we extend the approach of Chen et al. (2014) by providing a computationally feasible solution for estimating models in which inefficiency can be heteroskedastic and may follow a first-order autoregressive process. We investigate the finite sample behavior of the proposed estimators through a set of Monte Carlo experiments. Our results show good finite sample properties, especially in small samples. We illustrate the usefulness of the new approach by applying it to the technical efficiency of hospitals.
Full text (pdf)

No. 1146: **Internal capital markets in times of crisis: the benefit of group affiliation in Italy** (October 2017)

Raffaele Santioni, Fabio Schiantarelli and Philip E. Strahan

Italy's economic and banking systems have been under stress in the wake of the global financial crisis and the euro crisis. Our results suggest that firms in business groups have been more likely to survive in this challenging environment than unaffiliated firms. Better performance stems from access to an internal capital market, and the survival value of groups increases, inter alia, with group-wide cash flow. We show that actual internal capital transfers increase during the crisis, and these transfers move funds from cash-rich to cash-poor firms and also to those with more favourable investment opportunities. The ability to borrow externally provides the internal capital market with additional funds, but sharing external capital becomes less important during a crisis. Our overall results highlight the benefits of internal capital markets when external capital markets are tight or distressed.
Full text (pdf)

No. 1145: **A Financial Conditions Index for the CEE economies** (October 2017)

Simone Auer

Financial Conditions Indexes (FCIs) are analytical tools devised to synthesize the information contained in a set of financial variables in order to identify how financial conditions affect economic activity. In this paper, for each of the three main Central and Eastern EU member states outside the euro area (Hungary, Poland and the Czech Republic) an FCI is constructed as an unobserved factor estimated using the EM algorithm. After having assessed their performance in providing information about future economic activity (both in-sample and out-of-sample), these FCIs are used to describe the

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evolution of financial conditions in the three economies between 2001 and 2016. The overall findings of this study support a narrative whereby all three economies, after their integration into the EU, enjoyed very accommodative financial conditions until 2008; the Czech Republic and Hungary subsequently turned out to have been more exposed than Poland to the spillover effects from both the global financial crisis and euro sovereign debt crisis.
Full text (pdf)

No. 1144: **Leaving your mamma: why so late in Italy?** (October 2017)
Enrica Di Stefano

In Italy, young adults tend to postpone their transition to adulthood and live with their parents until very late compared with other countries. A dynamic discrete choice model is proposed in which agents choose residential arrangements, together with labor supply and marital status, conditional on the economic and institutional framework and on other agents' choices. The model is structurally estimated with the Simulated Method of Moments for non-student high-school graduate males and then used to assess, through a variety of counterfactual experiments, the relative importance of factors that are claimed to influence the choice to leave home in the existing literature: labor market conditions, parental resources, housing market conditions and social interaction. Results suggest that Italians choose to remain with their parents due to a combination of poor labor market conditions and high housing costs. The relatively high income of parents could contribute to the patterns observed by acting as an insurance against unemployment. Finally, estimates indicate that individuals tend to conform to a social norm that is influenced by external conditions.
Full text (pdf)

No. 1143: **Capital misallocation and financial development: a sector-level analysis** (October 2017)
Daniela Marconi and Christian Upper

This study investigates how financial development affects capital allocation across industries in a panel of countries at different stages of development (China, India, Mexico, Korea, Japan and the US) over the period 1980-2014. Following the approach proposed by Chari et al (2007) and Aoki (2012), we compute wedges for capital and labour inputs for 26 industrial sectors in the six countries and add them up to economy-wide measures of capital and labour misallocation. We find that more developed financial systems allocate capital investment more efficiently than less developed ones. If financial development is low, faster capital accumulation is associated with a worsening of allocative efficiency. This effect reverses for higher levels of financial development. Sectors with high R&D expenditures or high capital investment benefit most from financial development. These effects are not only statistically significant, they are also large in economic terms. For example, our results suggest that bringing Mexico's level of financial development in line with that of the United States would almost entirely eliminate the gap in the efficiency of capital allocation between the two countries. China and India would also make significant gains.
Full text (pdf)

No. 1142: **Monetary policy in times of debt** (October 2017)
Mario Pietrunti and Federico M. Signoretti

We model an economy with long-term mortgages and show that some characteristics of mortgage contracts – such as the type of interest rate (adjustable versus fixed) and the loan-to-value ratio – matter for the transmission of monetary policy impulses, both conventional and unconventional. A conventional monetary policy shock has a stronger impact on output and inflation with adjustable-rate mortgages, also reflecting the higher sensitivity of installments to changes in the short-term rate. When households borrow at a fixed rate, unconventional monetary policy can stimulate the economy mainly through a redistribution of income from savers to borrowers, who have a higher marginal propensity to consume. The impact of monetary policy – both conventional and unconventional – is stronger when the level of households' mortgage debt is high relative to housing wealth.
Full text (pdf)

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No. 1141: **A quantitative analysis of risk premia in the corporate bond market** (October 2017)

Sara Cecchetti

We propose an econometric model to decompose corporate bond spreads into compensation required by investors for unpredictable future changes in the credit environment and for expected default losses. We use the model to understand whether the significant reduction in corporate bond spreads observed since the launch of the CSPP (Corporate Sector Purchase Programme) is attributable more to the fact that expansionary monetary policy measures tend to increase the risk appetite of investors and compress risk premia, or to the ability of unconventional measures to reduce expected default losses by improving investors' expectations about the economic and financial conditions of issuers.
Full text (pdf)

No. 1140: **Natural rates across the Atlantic** (September 2017)

Andrea Gerali and Stefano Neri

The paper estimates a closed-economy medium -scale model for the United States and the euro area to assess the current level of the natural rate of interest and shed light on its drivers. The dynamics of the model are driven by permanent and transitory shocks that bear some connection to the explanations put forward in the literature to explain the secular downward trend in interest rates. The analysis shows that the natural rate has declined, contributing to a lowering of nominal and real rates. Risk premium shocks, a short-cut for changes in agents' preference for safe assets, have been the main driver in the euro area; in the United States, shocks to the risk premium and to the efficiency of investment, which proxy the functioning of the financial sector, have played a major role. These differences in the importance of the shocks underscore the need to adopt a structural model with a rich stochastic structure, featuring permanent and transitory shocks.
Full text (pdf)

No. 1139: **Credit misallocation during the European financial crisis** (September 2017)

Fabiano Schivardi, Enrico Sette and Guido Tabellini

Do banks with low capital extend excessive credit to weak firms, and does this matter for aggregate efficiency? Using a unique dataset that covers almost all bank-firm relationships in Italy in the period 2004-2013, we find that during the Eurozone financial crisis (i) under-capitalized banks were less likely to cut credit to non-viable firms; (ii) credit misallocation increased the failure rate of healthy firms and reduced the failure rate of non-viable firms; and (iii) nevertheless, the adverse effects of credit misallocation on the growth rate of healthier firms were negligible, as were the effects on TFP dispersion. This goes against previous influential findings, which, we argue, face serious identification problems. Thus, while banks with low capital can be an important source of aggregate inefficiency in the long run, their contribution to the severity of the great recession via capital misallocation was modest.
Full text (pdf)

No. 1138: **Tony Atkinson and his legacy** (September 2017)

Rolf Aaberge, François Bourguignon, Andrea Brandolini, Francisco H. G. Ferreira, Janet C. Gornick, John Hills, Markus Jäntti, Stephen P. Jenkins, Eric Marlier, John Micklewright, Brian Nolan, Thomas Piketty, Walter J. Radermacher, Timothy M. Smeeding, Nicholas H. Stern, Joseph Stiglitz and Holly Sutherland

Tony Atkinson is universally celebrated for his outstanding contributions to the measurement and analysis of inequality, but he never saw the study of inequality as a separate branch of economics. He was an economist in the classical sense, rejecting any sub-field labelling of his interests and expertise, and he made contributions right across economics. His death on 1 January 2017 deprived the world of both an intellectual giant and a deeply committed public servant in the broadest sense of the term. This collective tribute highlights the range, depth and importance of Tony's enormous legacy, the

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product of over fifty years' work.
Full text (pdf)

No. 1137: **On secular stagnation and low interest rates: demography matters** (September 2017)

Giuseppe Ferrero, Marco Gross and Stefano Neri

Nominal and real interest rates in advanced economies have been decreasing since the mid-1980s and reached historical lows in the aftermath of the global financial crisis. Understanding why interest rates have fallen is essential for both monetary policy and financial stability. This paper focuses on one of the factors put forward in the literature within the secular stagnation view: adverse demographic developments. The main conclusion that we draw from the empirical analysis is that these developments have exerted downward pressure on real short- and long-term interest rates in the euro area over the past decade. Moreover, building on the European Commission's projections for dependency ratios until 2025, we illustrate that the foreseen changes in the age structure of the population may dampen economic growth and continue exerting downward pressure on real interest rates in the future.
Full text (pdf)

No. 1136: **Macroeconomic effects of non-standard monetary policy measures in the euro area: the role of corporate bond purchases** (September 2017)

Anna Bartocci, Lorenzo Burlon, Alessandro Notarpietro and Massimiliano Pisani

This paper evaluates the macroeconomic effects of the corporate sector purchase programme (CSPP) implemented in the euro area by the Eurosystem. For this purpose we calibrate and simulate a monetary-union dynamic general equilibrium model. We assume that entrepreneurs can finance their spending by issuing bonds in the domestic corporate bond market and by borrowing from domestic banks. We found that the March 2016 CSPP boosts euro-area GDP by around 0.3% in the second year (peak level). Inflation rises too but by a smaller amount. Second, taking into account the programme's extension in December 2016, its overall impact on GDP amounts to 0.6%. Third, the CSPP also stimulates banking activity, because the improvement in macroeconomic conditions leads to higher demand for loans from households and entrepreneurs. Fourth, an early exit from the CSPP negatively impacts its macroeconomic effectiveness, while forward guidance on monetary policy rate enhances it.
Full text (pdf)

No. 1135: **Legislators' behaviour and electoral rules: evidence from an Italian reform** (September 2017)

Giuseppe Albanese, Marika Cioffi and Pietro Tommasino

We explore how electoral rules and cultural traits (namely, the degree of civicness) interact in shaping elected officials' behaviour. We use a dataset that includes the expenditure proposals sponsored by members of the Italian Senate from 1993 to 2012 (as well as other individual and district characteristics) and exploit the 2005 electoral reform that transformed a mainly majoritarian system into a proportional one. As a first step, we can confirm previous empirical findings: legislators elected in first-past-the-post districts show a higher propensity to sponsor locally-oriented bills and to put effort into legislative activity than those elected with a closed -list proportional system. More importantly, however, we find that the effects of the change in the electoral rules are muted in areas with a high degree of civicness. We also propose a simple theoretical probabilistic voting model with altruistic preferences that is able to rationalize this finding.
Full text (pdf)

No. 1134: **Credit demand and supply: a two-way feedback relation** (September 2017)

Ugo Albertazzi and Lucia Esposito

The model developed in this paper extends the framework of self-fulfilling credit market freezes proposed by Bebchuk and Goldstein (2011) by endogenizing firms' investments decisions. The existence of an aggregate investment threshold below which individual

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investment projects are unsuccessful creates a coordination failure not only among banks but also among firms and, crucially, between the two sides of the market. Because of the resulting strategic complementarities between firms and banks, low credit demand expectations reduce credit supply and viceversa. This two-way feedback loop explains why a severe slump in aggregate demand may be associated with a disruption in lending caused by a financial crisis. Replies to the euro area Bank Lending Survey by individual Italian banks provide support to the model's conclusions.
Full text (pdf)

No. 1133: **The real effects of relationship lending** (September 2017)

Ryan Banerjee , Leonardo Gambacorta and Enrico Sette

This paper studies the real consequences of relationship lending on firm activity in Italy following Lehman Brothers' default shock and Europe's sovereign debt crisis. We use a large data set that merges the comprehensive Italian Credit and Firm Registers. We find that following Lehman's default, banks offered more favourable continuation lending terms to firms with which they had stronger relationships. Such favourable conditions enabled firms to maintain higher levels of investment and employment. The insulation effects of tighter bank-firm relationships was still present during the European sovereign debt crisis, especially for firms tied to well capitalised banks.
Full text (pdf)

No. 1132: **Low frequency drivers of the real interest rate: a band spectrum regression approach** (September 2017)

Fabio Busetti and Michele Caivano

This paper presents an empirical analysis of the underlying drivers of the real interest rate in advanced economies over the last 35 years. We adopt a band spectrum regression approach, which allows to study the link between the real interest rate and its determinants only over low frequencies, leaving aside business cycle fluctuations and high frequency noise. Spectral regressions are pooled across countries, allowing for country fixed effects. Our findings indicate that most of the long-term movements of real interest rates are explained by the evolution of total factor productivity (with a specific role for human capital accumulation) and demographic trends. Monetary policy developments and changes in income inequality, instead, appear to play a limited part. According to our estimates, over recent years the natural rate of interest remained positive in the US and UK, but fell below zero in the euro area and Japan. Finally, the paper provides an empirical contribution to the debate on secular stagnation, suggesting that supply-side mechanisms were one of the most significant factors behind the fall in income growth in the advanced economies over the last two decades.
Full text (pdf)

No. 1131: **Venture capitalists at work: what are the effects on the firms they finance?** (September 2017)

Raffaello Bronzini, Giampaolo Caramellino and Silvia Magri

Italian startups financed by venture capitalists (VCs) experience a faster growth in size and become more innovative compared with other startups. VC-backed firms also show a much larger increase in equity and a reduction in their leverage. This evidence is obtained by comparing a representative sample of firms financed by private VCs in the period 2004-2014 with a sample of firms rejected by VC at the very last stage of the screening process or in the due diligence phase. These firms narrowly lost the contest and before VC financing have very similar observable and unobservable characteristics to the VC-backed firms; self-selection is specifically taken into account. The effects on firms' size and innovation are not exclusively explained by equity financing. The results hold when we restrict the comparison to firms in the control group that also increase their equity from investors other than VCs: this suggests that VC effects can also be linked to their managerial expertise and network connection. Finally, the results are exclusively driven by independent VC investors compared with captive VCs.
Full text (pdf)

Other recent Working Papers

July 2017

No. 1130: The Bank of Italy econometric model: an update of the main equations and model elasticities
Guido Bulligan, Fabio Busetti, Michele Caivano, Pietro Cova, Davide Fantino, Alberto Locarno and Lisa Rodano

No. 1129: The effects of central bank's verbal guidance: evidence from the ECB
Maddalena Galardo and Cinzia Guerrieri

No. 1128: The double bind of asymmetric information in over-the-counter markets
Taneli Mäkinen and Francesco Palazzo

No. 1127: Human capital and urban growth in Italy, 1981-2001
Francesco Giffoni, Matteo Gomellini and Dario Pellegrino

No. 1126: The cyclicality of the income elasticity of trade
Alessandro Borin, Virginia Di Nino, Michele Mancini and Massimo Sbracia

No. 1125: The consequences of public employment: evidence from Italian municipalities
Marta Auricchio, Emanuele Ciani, Alberto Dalmazzo and Guido de Blasio

No. 1124: Law enforcement and political participation: Italy, 1861-65
Antonio Accetturo, Matteo Bugamelli and Andrea Lamorgese

June 2017

No. 1123: Multiple lending, credit lines, and financial contagion
Giuseppe Cappelletti and Paolo Emilio Mistrulli

No. 1122: Large time-varying parameter VARs: a non-parametric approach
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No. 1121: The financial stability dark side of monetary policy
Piergiorgio Alessandri, Antonio Maria Conti and Fabrizio Venditti

No. 1120: Medium and long term implications of financial integration without financial development
Flavia Corneli

No. 1119: The collateral channel of unconventional monetary policy
Giuseppe Ferrero, Michele Loberto and Marcello Miccoli

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Massimiliano Affinito and Alberto Franco Pozzolo

No. 1117: No free lunch, Buddy: past housing transfers and informal care later in life
Emanuele Ciani and Claudio Deiana

No. 1116: Measurement errors in consumption surveys and the estimation of poverty and inequality indices
Giovanni D'Alessio

No. 1115: Social ties and the demand for financial services
Eleonora Patacchini and Edoardo Rainone

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No. 404: **A new measure of households' energy poverty** (October 2017)

Ivan Faiella, Luciano Lavecchia and Marco Borgarello

We calculate the demand for heating at the household level by integrating the technological data on the heating needs of different types of buildings with the information available in Istat's Household Budget Survey. This new dataset is used to estimate a measure of energy poverty (EP) that is not conditioned by household preferences. The new measure identifies households suffering from EP as those that become "poor" – according to Istat's relative poverty measure – after purchasing a minimum basket of energy services. Given the high granularity of the information used, the proposed threshold could be used as part of Istat's revised absolute poverty measure. This also contributes to the monitoring and implementation of the policies that each EU member state should set up against EP as required under the Energy Union.
Full text (pdf) in Italian only

No. 403: **A critical review of the statistics on the size and riskiness of the securitization market: evidence from Italy and other euro-area countries** (October 2017)

Giorgio Nuzzo

The paper provides a critical analysis of the indicators most widely used at international level to measure the size and risk of the securitization market and its contribution to shadow banking. The analysis outlines the reasons why measuring the size of the market on the basis of the total assets of Financial Vehicle Corporations (FVCs) is likely to result in an overestimation of the phenomenon. An alternative measure is proposed, based on the stock of securities issued by FVCs, net of those repurchased by the banks. The paper argues against an approach to measuring the risk of shadow banking by applying the same measures for different non-bank financial intermediaries. In particular, it is suggested that some of them, such as leverage, interconnection with the banking system and credit intermediation, may be misleading if they are applied to the securitization market and assessed through the FVCs' balance sheet. The analysis, however, highlights the degree of opacity/complexity of a specific area for the analysis of risks from securitizations and proposes two new indicators. According to the proposed indicators, at the end of 2016, the Italian securitization market is smaller and less risky than that of other euro-area countries.
Full text (pdf)

No. 402: **Corruption and personnel selection and allocation in the public sector** (October 2017)

Sauro Mocetti and Tommaso Orlando

We construct local-level statistical indicators of corruption based on the number of reported crimes, on citizens' trust in local public institutions, on perceptions of administrations' integrity and on the quality of public expenditure and we examine the impact that the presence of corruption, as measured by these indicators, has on personnel selection and allocation in the public sector. Using a difference-in-differences estimation strategy on Italian data, we find that the selection of public employees in terms of human capital worsens in comparison to that of their private sector counterparts in areas with higher levels of our corruption indicators. This effect is mainly observed among managers and highly qualified professionals. Moreover, corruption indicators are associated with the misallocation of human resources and, in particular, with an increase in the rate of under-qualification among public sector employees compared with the private sector. These results are robust to various indicators of corruption and to several robustness checks, including IV estimation that uses historical factors as an exogenous source of variation for current corruption.
Full text (pdf)

No. 401: **Civil justice in Italy: recent trends** (October 2017)

Silvia Giacomelli, Sauro Mocetti, Giuliana Palumbo and Giacomo Roma

In this paper we document the changes in the functioning of the Italian civil justice system in the current decade. We highlight that the measures undertaken in recent years have helped to reduce the number of new cases and,

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therefore, the number of pending cases. However, the number of resolved civil cases has also decreased, following the decline in new cases. This pattern does not appear to be attributable to the court system's structural features, to a decrease in the availability of resources or to an increase in the complexity of the judges' workloads. The length of proceedings remains very long, with significant differences between courts, reflecting, among other things, organizational inefficiencies. The recent geographical reorganization of the court system does not seem to have yet improved the system's efficiency, but has contributed to the decline in the new ordinary cases.
[Full text (pdf) in Italian only]

No. 400: **Public works procurement in the new code: a legal and economic assessment of the main measures** (October 2017)

Anna Peta

In the light of the economic literature, this paper provides an analysis of the main measures for public works, introduced by the new Public Contracts Code, in order to assess whether they could help to solve the problems of the Italian market, characterized by fragmented public demand and a high level of cost overruns and delays in the execution phase. The paper highlights both the progress made, also thanks to the recently approved corrective decree, and the remaining shortcomings, such as the inconsistencies in the definition of the contracting authorities' qualification requirements and firms' rating factors, as well as the uncertainties affecting the wider margins of autonomy and flexibility granted to the contracting authorities. Overcoming these problems will also depend on the ANAC as a regulatory body that supports the functioning of the system. Moreover, both before and after the execution phase of works, the legal framework still needs to be completed with the introduction of independent reviews of the projects' ex-ante appraisals and the definition of a systematic process for ex-post evaluations of finished projects.
[Full text (pdf) in Italian only]

No. 399: **Back on track? A macro-micro narrative of Italian exports** (October 2017)

Matteo Bugamelli, Silvia Fabiani, Stefano Federico, Alberto Felettigh, Claire Giordano and Andrea Linarello

We provide an in-depth analysis of Italy's export performance relative to the other main euro-area countries over the last two decades, using both macro and micro data. We argue that the relatively unsatisfactory performance of Italian goods exports until the eve of the 2008-09 crisis is the result of the interplay between the appreciation of the real effective exchange rate, the initial specialization in types of production that were particularly exposed to increasing competition from low-wage countries, and the size distribution of exporters, skewed towards small firms. Since 2010 signs of structural improvement have emerged, alongside cyclical factors, in connection with a shift in the specialization of exports towards sectors that are less exposed to competitive pressures and particularly effective in activating domestic value added. Moreover, the selection process triggered by the exceptional difficulties encountered by micro and small firms both before and during the global financial crisis might have structurally strengthened the population of Italian exporters, making it more resilient to negative shocks and more capable of keeping pace with external demand.
[Full text (pdf)]

No. 398: **Discretionary fiscal policy in the euro area: past, present, future** (October 2017)

Francesco Caprioli, Marzia Romanelli and Pietro Tommasino

The depth and the length of the recent crisis prompted a more positive re-assessment of a countercyclical fiscal stance, especially in the euro area. Against this background, we look at discretionary fiscal policy in the euro area from three different perspectives. First, we provide evidence that the discretionary fiscal policy in euro-area countries has been mostly a-cyclical even if our estimates suggest that using it counter-cyclically could have been useful, particularly during the crisis. Second, focusing

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on the short-run – i.e. taking as given the economic and institutional constraints that currently make a significant fiscal expansion quite unrealistic in Europe – we discuss some budget-neutral proposals aimed at fostering economic growth. Finally, taking a more forward-looking perspective, we discuss the issue of the appropriate fiscal stance for the euro area as a whole, and argue that the advantages of having a coordinated approach (e.g. through a centralized fiscal capacity) can be substantial.
Full text (pdf)

No. 397: **Legal enforcement and Global Value Chains: micro-evidence from Italian manufacturing firms** (October 2017)

Antonio Accetturo, Andrea Linarello and Andrea Petrella

In this paper we study the relationship between the quality of contract enforcement and firms' participation in Global Value Chains. Using new data on Italian manufacturing firms' supply of customized inputs to other firms and variations in law enforcement in courts across Italy, we find that firms located in courts with longer trial lengths are less likely to supply customized intermediate inputs to foreign firms. The effects are stronger for firms operating in contract-intensive industries. Our results are confirmed when we use a spatial regression discontinuity design that compares the probability of supplying customized inputs for firms that are located on different sides of a court border, and are therefore characterized by different trial lengths.
Full text (pdf)

No. 396: **The dynamics of the Italian labour force participation rate: determinants and implications for the employment and unemployment rate** (September 2017)

Marta De Philippis

This work analyzes the evolution of the labour force participation rate in Italy, as compared with the other main euro-area countries in the last decade. It breaks down the dynamics of the activity rate into the portion due to changes in the average socio-demographic characteristics of the population and that related to within socio-demographic group variations in the probability of participating. The results show that the main drivers of the increase in Italy's participation rate are structural and long-lasting: they are mostly related to the rise in the population's share of highly-educated individuals, who are more strongly attached to the labour market, and to the positive labour supply effects of the recent pension reforms. In the decade ahead, while socio-demographic forces are expected to stop providing a positive push to the aggregate activity rate, due to the ageing of the particularly numerous cohort of individuals born in the 1960s, the increase in the labour supply of women and of the elderly will continue to boost the overall labour force participation rate.
Full text (pdf)

No. 395: **A composite index of inflation tendencies in the euro area** (September 2017)

Marcello Miccoli, Marianna Riggi, Lisa Rodano and Laura Sigalotti

Assessing underlying inflation developments is crucial for a correct calibration of the monetary policy stance. To monitor the adjustment in the path of euro area inflation towards the ECB's definition of price stability, we select a number of indicators of price dynamics in the area. We then construct a composite index summarizing the information contained in those indicators by estimating several univariate probability models. The index, which provides a synthetic measure of inflationary pressures net of the most volatile components, can be interpreted as gauging the probability of inflation returning to 1.9 per cent or over within a given time horizon. Our findings, which are based on the information available in July 2017, signal that, despite the improvement in price dynamics since the beginning of the year, the adjustment of inflation rates towards levels below, but close to, 2 per cent over the medium term is still limited and far from being sustained.
Full text (pdf)

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No. 394: **BIMic: the Bank of Italy microsimulation model for the Italian tax and benefit system** (September 2017)

Marika Cioffi, Nicola Curci and Marco Savegnago

The paper presents BIMic, a static and non-behavioural microsimulation model developed at the Bank of Italy. BIMic reproduces the main features of the Italian tax and benefit system, such as social security contributions, personal income tax, property taxes, family allowances and some other social benefits. It aims to evaluate the budgetary impact and distributive effects of tax-benefit programmes. Such programmes may be actually operating at a given point in time or may be a counterfactual set. To illustrate a potential use of BIMic, this paper discusses the distributive impact of a recently approved legislative innovation regarding the additional transfer to pensioners (known as the *quattordicesima ai pensionati*).
Full text (pdf)

No. 393: **Towards a more efficient use of multilateral development banks' capital** (September 2017)

Riccardo Settimo

The increasing financing needs of the Sustainable Development Goals (SDGs), coupled with factors likely to restrain in the near future the growth of multilateral development banks' (MDBs) own resources, call for maximizing capital efficiency. Focusing on 7 major MDBs – the IBRD, IFC, AfDB, EBRD, EIB, ADB and IADB – this paper contributes to this debate by: (a) quantifying their aggregate available lending capacity(capital resources and ratings being unchanged); (b) providing a preliminary estimate of the impact on these banks' lending capacity if rating agencies (in particular, Standard and Poor's) were to refine their methodologies to take into account 'preferred creditor status' and 'single name concentration', as suggested by other researchers. The analysis is replicated assuming that MDBs target an AA+ rating. The paper shows that appropriately refining rating procedures may indeed increase MDBs' current overall lending capacity significantly, under both 'triple-A' and 'AA+' scenarios. At the same time, it makes clear that MDBs alone cannot satisfy what are anticipated to be the very substantial financing needs of SDG-related investments.
Full text (pdf)

No. 392: **Monetary policy in a low interest rate environment** (September 2017)

Giuseppe Ferrero and Stefano Neri

The debate on the underlying causes of the decline of interest rates to historically low levels is ongoing both in academia and among policy makers. Several explanations have been put forward, ranging from those citing real and structural factors to those underscoring the importance of cyclical and financial phenomena. However, the empirical evidence regarding their relative importance is still limited. These different but complementary views can be framed around the concept of the natural rate of interest and the monetary transmission mechanism. The low interest rate environment that still characterizes advanced economies raises important questions regarding the implications for monetary policy in the medium- and long-run. Our work provides a systematic outline of the potential changes to monetary policy strategies that could ensue.
Full text (pdf)

No. 391: **The total cost of investing in mutual funds** (September 2017)

Giorgio Albareto, Giuseppe Cappelletti , Andrea Cardillo and Luca Zucchelli

The total costs of investment in an open-end fund include those that are charged on the fund and those directly attributed to subscribers (subscription and redemption fees). Subscriptions of funds characterized by the presence of costs directly attributed to investors have increased significantly in recent years. The paper presents an estimate of the Total Shareholders Cost (TSC) made using the information provided by the investment management companies in the supervisory reports. The estimates obtained show that in the period 2006-2016 the TSC was on average 1.58 per cent of the total assets of funds (1.74 per cent at the end of 2016). Subtracting direct and indirect costs borne by investors, the

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return on open-end funds is reduced from 3.5 per cent on average to 2 per cent. Based on preliminary results, the presence of subscription and redemption fees reduces the elasticity of subscriptions and redemptions with respect to returns.
Full text (pdf) in Italian only

No. 390: **Battle scars. New firms' capital, labor, and revenue growth during the double-dip recession** (September 2017)

Francesco Manaresi and Filippo Scoccianti

We study the growth dynamics of firms before and during the financial crisis. We find that firms born during the recession display lower growth over time in capital, employment and revenue, despite being more productive at entry than those born in normal times. We show that this pattern can be explained by credit market tightening, as measured by sector-level financial dependence and pre-crisis exposure to the interbank market. We argue that there may be two non-competing mechanisms that affect newborn firms during a financial crisis: firms enter with less capital and thus face tighter collateral constraints; and banks select projects that are less risky, at the expense of their future growth potential. We provide some evidence that both elements may play a role in explaining the observed pattern of firm dynamics.
Full text (pdf)

No. 389: **The derivatives through the lens of the financial accounts: measurement and analysis** (September 2017)

Luigi Infante and Bianca Sorvillo

This paper studies the performance of the market value of the derivatives for Italian banks by using the financial accounts and proposing an international comparison. An estimate of the market value was also obtained for the period from the first quarter of 2001 to the third quarter of 2008 by exploiting the continuity of the notional values found in the supervisory reports. Our analysis of the performance of banking derivatives in the major countries shows that their value has significantly decreased since the financial crisis. At the end of 2015, the amount of financial derivatives reported in the assets of monetary financial institutions was 4 per cent of the total financial assets in Italy, a much lower value than in the UK, Germany and France.
Full text (pdf) in Italian only

No. 388: **Incentives to local public service provision: an evaluation of Italy's *Obiettivi di Servizio*** (September 2017)

Guglielmo Barone, Guido de Blasio, Alessio D'Ignazio and Andrea Salvati

Set up by the Italian central government and implemented in the areas of the country that are lagging behind, *Obiettivi di Servizio* is an innovative scheme designed to encourage local authorities to reach given targets for public service provision in the areas of education, childcare and elderly care, waste management, and water supply. The paper makes an econometric evaluation of the scheme's effectiveness. Our findings suggest that the program was only partially successful, with considerable differences across regions and targets. An important driver of effectiveness was local institutional quality, while some features of the scheme – such as the common targets and the distribution of the pledges – might have impacted negatively on local performance. We also find signs of displacement effects: local authorities involved in the program might have concentrated on the targets to the detriment of other local public services.
Full text (pdf)

No. 387: **Debtor-in-possession financing and credit priority: the effects of the preferential status granted by law in a composition with creditors** (September 2017)

Elisa Brodi and Luca Casolaro

The work evaluates from a legal and economic perspective a number of provisions designed to promote debtor-in-possession financing to firms involved in a composition with creditors (*concordato preventivo*). Since 2010, several reforms have progressively extended the scope of

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preferential status for such credits. The research focuses on loans granted by professional lenders to firms whose composition plans were approved by the courts between 2006 and 2014. The econometric analysis shows that the measures have reduced the credit restriction (by 2 percentage points) and lowered its cost (with interest rates falling on average by 40 basis points). This outcome is mostly due to the liquidity provided by lenders that were not previously exposed to the distressed firm. However, some legal obstacles – such as, for instance, the possibility of the preferential status being reversed if a bankruptcy proceeding is initiated – could prevent further funds from being provided.
Full text (pdf) in Italian only

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No. 386: The evolution of Italy's investment income balance
Giacomo Oddo and Enrico Tosti

No. 385: Well-being, the socio-economic context and price differences: the north-south gap
Giovanni D'Alessio

No. 384: An Integrated dataset of Italian firms: 2005-2014
Corrado C. Abbate, Maria G. Ladu and Andrea Linarello

No. 383: From few to many: product differentiation in the Italian mortgage market
Silvia Del Prete, Cristina Demma and Paola Rossi

No. 382: Real and financial cycles: estimates using unobserved component models for the Italian economy
Guido Bulligan, Lorenzo Burlon, Davide Delle Monache and Andrea Silvestrini

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No. 381: Brexit: estimating tariff costs for EU countries in a new trade regime with the UK
Rita Cappariello

No. 380: New evidence on interregional mobility of students in tertiary education: the case of Italy
Ilaria De Angelis, Vincenzo Mariani and Roberto Torrini

No. 379: Household spending out of a tax rebate: Italian "€80 tax bonus"
Andrea Neri, Concetta Rondinelli and Filippo Scoccianti

Economic History Working Papers

No. 41: **The fruits of disaggregation: the engineering industry, tariff protection, and the industrial investment cycle in Italy, 1861-1913** (August 2017)

Stefano Fenoaltea

All the extant interpretations of united Italy's early industrial development focus on the long swing in industrial investment evident in the familiar indices of the engineering industry's aggregate product. Disaggregated production series for that industry have now been compiled. The evidence they incorporate establishes that the long swing that dominates the aggregate was actually in the production of hardware, tied to investment in infrastructure.

The production of machinery followed a different path: against the extant literature it shows that tariff hikes were influential, and above all that industry's purchases of (domestic and foreign) equipment grew very steadily decade after decade. Industrial investment did not grow faster than before in the 1880s or over the belle époque, it did not follow the long swing at all: the disaggregation of the engineering-industry product series has undercut the empirical premise of sixty years of scholarship.

Full text (pdf)

No. 40: **The roots of a dual equilibrium: GDP, productivity and structural change in the Italian regions in the long-run (1871-2011)** **(**August 2017)

Emanuele Felice

This paper explores the evolution of Italy's regional inequality in the long run, from around Unification (1871) until our days (2011). To this scope, a unique and up-to-date dataset of GDP per capita, GDP per worker (productivity) and employment, at the NUTS II level and at current borders, for the whole economy and its three branches – agriculture, industry, services – is here presented and discussed.

Sigma and beta convergence are tested for GDP per capita, productivity and workers per capita (employment/population). Four phases in the history of regional inequality in post-unification Italy are confronted: mild divergence (the liberal age), strong divergence (the two world wars and Fascism), general convergence (the golden age) and the "two-Italies" polarization.

In this last period, for the first time GDP and productivity, as well as workers per capita and productivity, have been following opposite paths: the North-South divide increased in GDP, decreased in productivity.

Full text (pdf)

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Authors' names in boldface: Bank of Italy

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