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NEWSLETTER

## Contents



# Highlights

### Workshop on Microsimulation and Fiscal Policy

(Rome, 23 February 2018 )

On 23 February 2018, Banca d'Italia hosted the international '**Workshop on Microsimulation and Fiscal Policy**'. The topics covered included methodological issues and concrete applications of microsimulation techniques for fiscal policy evaluation. The attendants came from other central banks, research institutes and universities (both Italian and European). The works were opened by professor Olivier Bargain (Bordeaux University, France), who spoke on 'Microsimulation and welfare analysis: present and future'. The workshop provided an opportunity to present BIMic, the new tax and benefit microsimulation model developed at Banca d'Italia. External speakers introduced applications of other models to both Italy and other countries, including from a comparative perspective. The discussions were very useful for exchanging new ideas and comparing the methodological choices operated for different models .

For further information see here.

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### 20th Workshop on Public Finance

(Rome, 21-23 March 2018)

On 21-23 March 2018, Banca d'Italia hosted its '**20th Workshop on Public Finance**' in Rome. The workshop focused on three main areas. First, the effects of tax benefit systems on equity and efficiency. Second, the linkages between public and private finance. Third, the reform of the euro-area institutional architecture, including the improvement of the current fiscal rules, the strengthening of the European Stability Mechanism, and the possible introduction of sovereign debt restructuring mechanisms. The last topic was also the subject of two panel discussions .

For further information about the workshop, please see here.

# Highlights

### Workshop on 'Harnessing Big Data & Machine Learning Technology for Central Banks'

(Rome, 26-27 March 2018)

On 26 and 27 March 2018, the Bank of Italy hosted a workshop on '**Harnessing Big Data & Machine Learning Technology for Central Banks**' at the Carlo Azeglio Ciampi Centre for Monetary and Financial Education in Rome. The programme included ten presentations by the Bank of Italy internal team on Big Data, a panel discussion, and two keynote speeches. In some of the papers, unstructured textual data from social media (in particular Twitter) were exploited to, among other things: compute inflation expectations; gauge a measure of retail depositors' trust; evaluate customers' sentiment towards specific companies; estimate the reaction of consumer expenditure to economic policy uncertainty and to news about debit card scams. Other large and unstructured databases were also used; for instance, data from online real estate ads allowed the microstructure of the real estate market in Italy to be analysed.

The workshop documentation can be found here.

### Conference on 'Financial Stability and Regulation'

(Rome, 5-6 April 2018 )

The Bank of Italy and Bocconi University-BAFFI CAREFIN launched a series of biennial conferences on '**Financial Stability and Regulation**'. The first event took place on 5-6 April 2018, at the Carlo Azeglio Ciampi Centre for Monetary and Financial Education in Rome. The conference brought together world-leading scholars and policy makers to discuss topics related to financial stability, financial sector regulation, and the use of macroprudential policies. The conference featured keynote lectures by Itay Goldstein (Wharton School, University of Pennsylvania) and Atif Mian (Princeton University) and the presentation of ten research papers. The conference concluded with a policy roundtable on 'Banking crises' with Franklin Allen (Imperial College), Gert Jan Koopman (European Commission), Fernando Restoy (BIS) and Luigi Federico Signorini (Banca d'Italia). Prof. Elena Carletti (Bocconi University) moderated.

The programme is available here.

### Conference on 'Recent Developments in Macroeconomics'

(Rome, 6-7 April 2018 )

On 6-7 April, EIEF hosted and organized the conference '**Recent Developments in Macroeconomics**'. The conference was funded by the ERC Advanced Grant awarded to Francesco Lippi for his research on 'The Macroeconomic Effects of Microeconomic Inaction' (N° 324008—MEF).

The programme is available here.

### 3rd Annual Workshop on Economics of Platforms

(Rome, 12-13 April 2018 )

On 12-13 April, EIEF hosted the '**3rd Annual Workshop on Economics of Platforms**'. The emphasis was on business models, competitive strategies, and antitrust and regulation issues related to platforms' business practices.

The programme is available here.

# Forthcoming events

### Third Rome Junior Finance Conference

(Rome, 5-6 June 2018)

On 5-6 June 2018, EIEF will host and organize the '**Third Rome Junior Finance Conference**'. The conference will bring together junior researchers active in empirical and theoretical finance. Participants will receive an invitation from the organizing committee.

Further information will be available here.

### Seventh Rome Conference on Macroeconomics

(Rome, 11-12 June 2018 )

On 11-12 June 2018, EIEF will host and organize the '**Seventh Rome Conference on Macroeconomics**'. The conference will bring together leading economists from around the world with a strong interest in macroeconomics. The participants will receive an invitation from the organizing committee.

Further information will be available here.

### Third Rome Junior Conference on Applied Microeconomics

(Rome, 21-22 June 2018 )

On 21-22 June 2017, EIEF will host and organize the '**Third Rome Junior Conference on Applied Microeconomics**'. The conference will foster interaction among researchers in different areas of applied microeconomics. The participants will receive an invitation from the organizing committee.

Further information will be available here.

### Conference on 'Low Inflation and Wage Dynamics: Implications for Monetary Policy and Financial Stability'

(Rome, 20-21 September 2018 )

The broad recovery in advanced economies in recent years has been accompanied by persistently weak nominal wage and price dynamics. The aim of the conference is to foster the debate on a number of related issues. Has a structural break occurred in the relationships between cyclical conditions, wage dynamics and inflation? If a break has occurred, what factors, be they domestic or global, are responsible for it? Does the observed low wage dynamic signal a decline in the NAIRU or does it reflect the inadequacy of standard measures of unemployment to fully capture the current labour market slack? To what extent is the effectiveness of monetary policy affected by structural changes in the relationship between inflation and economic slack? Are changes in the monetary policy framework warranted, given the risks to price and financial stability posed by persistently low inflation and the presence of an effective lower bound on the policy rates?

Further information will be available here.

SEMINARS AT THE BANK OF ITALY

SEMINARS AT EIEF

# Latest Working Papers

*No. 1174*: **How can the government spending multiplier be small at the zero lower bound?** (April 2018)

*Valerio Ercolani and João Valle e Azevedo*

Some recent empirical evidence questions the typically large size of government spending multipliers when the nominal interest rate is stuck at zero, finding output multipliers of around 1 or even lower, with an upper bound of around 1.5 in some circumstances. In this paper, we use a recent estimate of the degree of substitutability between private and government consumption in an otherwise standard New Keynesian model to show that this channel significantly reduces the size of government spending multipliers obtained when the nominal interest rate is at zero. All else being equal, the relationship of substitutability makes a government spending shock crowd out private consumption while being less inflationary, thus limiting the typically expansionary effect of the fall in the real interest rate. Subject to the nominal interest rate being constrained at zero, the model generates output multipliers ranging from 0.8 to 1.6.

Full text (pdf )

*No. 1173*: **Firms' investments during two crises** (April 2018)

*Antonio De Socio and Enrico Sette*

We study the drivers of investment in Italy during the global financial crisis and the sovereign debt crisis. We focus on the effect of leverage while controlling for the role of other drivers: expected demand, profitability, access to credit and uncertainty. As firm-level leverage may be correlated with its unobservable characteristics, we employ instrumental variables estimation, using the median leverage of firms in the same industry and size decile as an instrument. We find that an increase in leverage equal to the interquartile range (about 30 percentage points) is associated with a lower investment rate of 1.9 and 1.4 percentage points (36 and 41 per cent of its mean) during each crisis. We also find that expected demand growth has a strong positive association with investments, whereas this relation holds for profitability only during the sovereign debt crisis. In contrast, credit rationing and uncertainty have a negative, although more limited, effect. Overall, ex-ante high firm indebtedness has been an important driver of the lower investment rate over the last decade.

Full text (pdf )

*No. 1172*: **ECB monetary policy and the euro exchange rate** (April 2018)

*Martina Cecioni*

The paper provides empirical evidence on the effects of ECB conventional and unconventional monetary policy on the euro exchange rate, focusing on the period from January 2013 to September 2017. Innovations to conventional and unconventional monetary policies are identified through changes in, respectively, short- and long-term interest rates immediately after Governing Council meetings. Both types of measures contributed to the depreciation of the euro from mid-2014; surprises associated with conventional measures had a stronger and more persistent effect than those associated with unconventional ones. Time-varying estimates of the effects of conventional surprises since 1999 show that the responsiveness of exchange rates to monetary news increased markedly from 2013. State-dependence analysis finds that the exchange rate became more sensitive to monetary policy when the ECB adopted a policy of negative interest rates and when conventional and unconventional monetary surprises moved in the same direction.

Full text (pdf )

*No. 1171*: **The potential of big housing data: an application to the Italian real-estate market** (April 2018)

*Michele Loberto, Andrea Luciani and Marco Pangallo*

We present a new dataset of housing sales advertisements (ads) taken from Immobiliare.it, a popular online portal for real estate services in Italy. This dataset fills a big gap in Italian housing market statistics, namely the absence of detailed physical characteristics for houses sold. The granularity of online data also makes possible timely analyses at a very detailed geographical level. We first address the main problem of the dataset, i.e. the mismatch between ads and actual housing units - agencies have incentives for posting multiple ads for the same

# Latest Working Papers

unit. We correct this distortion by using machine learning tools and provide evidence about its quantitative relevance. We then show that the information from this dataset is consistent with existing official statistical sources. Finally, we present some unique applications for these data. For example, we provide first evidence at the Italian level that online interest in a particular area is a leading indicator of prices. Our work is a concrete example of the potential of large user-generated online databases for institutional applications.
[Full text (pdf )]

*No. 1170*: **The global component of inflation volatility** (April 2018)

*Andrea Carriero, Francesco Corsello and Massimiliano Marcellino*

Global developments play an important role in domestic inflation rates. Previous literature has found that a substantial amount of the variation in a large set of national inflation rates can be explained by a single global factor. However, inflation volatility has been typically neglected, while it is clearly relevant both from a policy point of view and for structural analysis and forecasting purposes. We study the evolution of inflation rates in several countries, using a novel model that allows for commonality in both levels and volatilities, in addition to country-specific components. We find that inflation stochastic volatility is indeed important, and a substantial share of it can be attributed to a global factor that also drives the levels and persistence of inflation. While various phenomena may contribute to global inflation dynamics, it turns out that since the early 1990s, the estimated global factor is correlated with China's PPI and with oil inflation levels and volatilities. The extent of commonality among core inflation rates and volatilities is substantially smaller than for overall inflation, which leaves scope for national monetary policies.
[Full text (pdf )]

*No. 1169*: **Consumption volatility risk and the inversion of the yield curve** (March 2018)

*Adriana Grasso and Filippo Natoli*

We propose a consumption-based model that allows for an inverted term structure of real and nominal risk-free rates. In our framework the agent is subject to time-varying macroeconomic risk, and interest rates at all maturities depend on her risk perception, which shapes saving propensities over time. In bad times, when risk is perceived to be higher in the short- than in the long-term, the agent would prefer to hedge against low realizations of consumption in the near future by investing in long-term securities. In equilibrium, this leads to the inversion of the yield curve. Pricing time-varying consumption volatility risk is essential in order to obtain the inversion of the real curve and allows the average level and the slope of the nominal level to be priced.
[Full text (pdf )]

*No. 1168*: **Credit supply and productivity growth** (March 2018)

*Francesco Manaresi and Nicola Pierri*

We study the impact of bank credit supply on firm output and productivity. By exploiting a matched firm-bank database which covers all the credit relationships of Italian corporations over more than a decade, we measure idiosyncratic supply-side shocks to firms' credit availability. We use our data to estimate a production model augmented with financial frictions and show that an expansion in credit supply leads firms to increase both their inputs and their output (value added and revenues) for a given level of inputs. Our estimates imply that a credit crunch will be followed by a productivity slowdown, as experienced by most OECD countries after the Great Recession. Quantitatively, the credit contraction between 2007 and 2009 could account for about a quarter of the observed decline in Italy's total factor productivity growth. The results are robust to an alternative measurement of credit supply shocks that uses the 2007-08 interbank market freeze as a natural experiment to control for assortative matching between borrowers and lenders. Finally, we investigate possible channels: access to credit fosters IT-adoption, innovation, exporting, and the adoption of superior management practices.
[Full text (pdf )]

# Latest Working Papers

## *No. 1167*: **Firms' and households' investment in Italy: the role of credit constraints and other macro factors** (March 2018)

*Claire Giordano, Marco Marinucci and Andrea Silvestrini*

Using significantly under-exploited data from institutional sector accounts, we assess the main drivers of both firms' and households' investment in Italy over the past two decades. We estimate a vector error correction model separately for firms and for households. Our findings support the existence in both institutional sectors of a long-run equilibrium relationship between investment, income and the user cost of capital, as predicted by the flexible neoclassical model, as well as adjustment dynamics towards the equilibrium level. Moreover, we find evidence that an increase in uncertainty and a decline in economic sentiment have a dampening effect on investment. Furthermore, high indebtedness, measured by financial accounts data, and tight credit constraints, based on survey data for firms, are found to have significantly hindered both firms' and households' capital accumulation, again in the short run. This leads us to conclude that studies that disregard the role of debt or financing constraints are unable to fully explain investment dynamics in Italy, especially in the most recent years of sharp contraction.
Full text (pdf )

## *No. 1166*: **Banks' holdings of and trading in government bonds** (March 2018)

*Michele Manna and Stefano Nobili*

In this paper we examine the holdings of government securities by domestic banks along with those of five other sectors: foreign banks, foreign non-banks, the official foreign sector, the domestic central bank and domestic non-banks. We use data for 21 advanced economies from 2004 Q1 to 2016 Q2. The results offer four main insights. First, banks are reluctant to undertake major changes in their holdings of domestic bonds but do accept frequent changes of more intermediate size. Second, the foreign official sector emerges as the clearest example of a contrarian investor, buying when prices fall and selling when prices rise. Third, the greater the holdings by domestic and foreign banks, the lower the yields tend to be on 10-year benchmark sovereign bonds. Finally, in all countries included in the sample we find a positive home bias in banks' sovereign holdings while foreign banks hold fewer bonds than predicted by a neutral portfolio measure. These results suggest that banks regard domestic government bonds as a special asset class (hence the positive bias and avoidance of major changes in inventories) which they manage in a flexible manner (hence the frequent intermediate changes and lack of systematic timing of transactions), in all likelihood to meet requests from their customers. All in all, this behaviour by domestic banks provides a positive contribution to the liquidity of the market.
Full text (pdf )

## *No. 1165*: **Listening to the buzz: social media sentiment and retail depositors' trust** (February 2018)

*Matteo Accornero and Mirko Moscatelli*

We investigate the relationship between the rumours on Twitter regarding banks and deposits growth. The sentiment expressed in tweets is analysed and employed for the nowcasting of retail deposits. We show that a Twitter-based indicator of sentiment improves the predictions of a standard benchmark model of depositor discipline based on financial data. We further improve the power of the model introducing a Twitter-based indicator of perceived interconnection, that takes into account spillover effects across banks.
Full text (pdf )

# Other recent Working Papers

**November 2017— January 2018**

No. 1164: Are lenders using risk-based pricing in the consumer loan market? The effects of the 2008 crisis
*Silvia Magri*

No. 1163: What will Brexit mean for the British and euro area economies? A model -based assessment of trade regimes
*Massimiliano Pisani and Filippo Vergara Caffarelli*

No. 1162: Real exchange rate misalignments in the euro area
*Michael Fidora, Claire Giordano and Martin Schmitz*

No. 1161: Please in my back yard: the private and public benefits of a new tram line in Florence
*Valeriia Budiakivska and Luca Casolaro*

No. 1160: Pairwise trading in the money market during the European sovereign debt crisis
*Edoardo Rainone*

No. 1159: Banks' maturity transformation: risk, reward, and policy
*Pierluigi Bologna*

No. 1158: Targeting policy-compliers with machine learning: an application to a tax rebate programme in Italy
*Monica Andini, Emanuele Ciani, Guido de Blasio, Alessio D'Ignazio and Viola Salvestrini*

No. 1157: The CSPP at work: yield heterogeneity and the portfolio rebalancing channel
*Andrea Zaghini*

No. 1156: Secular stagnation, R&D, public investment and monetary policy: a global-model perspective
*Pietro Cova, Patrizio Pagano, Alessandro Notarpietro and Massimiliano Pisani*

No. 1155: Optimal monetary policy and fiscal interactions in a non-Ricardian economy
*Massimiliano Rigon and Francesco Zanetti*

No. 1154: Capital controls, macroprudential measures and monetary policy interactions in an emerging economy
*Valerio Nispi Landi*

No. 1153: Systemic risk and systemic importance measures during the crisis
*Sergio Masciantonio and Andrea Zaghini*

No. 1152: International financial flows and the risk-taking channel
*Pietro Cova and Filippo Natoli*

No. 1151: Fiscal policy uncertainty and the business cycle: time series evidence from Italy
*Alessio Anzuini, Luca Rossi and Pietro Tommasino*

No. 1150: Public investment and monetary policy stance in the euro area
*Lorenzo Burlon, Alberto Locarno, Alessandro Notarpietro and Massimiliano Pisani*

No. 1149: Looking behind the financial cycle: the neglected role of demographics
*Alessandro Ferrari*

# Latest Occasional Papers

*No. 433*: **Gender wealth gap in Italy** (March 2018)

*Giovanni D'Alessio*

The paper, using data from the Bank of Italy's Survey of Household Income and Wealth, estimates the intrahousehold distribution of wealth. On the basis of reconstructed data, a large gap between men and women emerges, greater for financial assets than for real assets and in particular for real estate. This gap, smaller among young people, increases with age; it is decreasing over time, but has remained significant in recent years. Gini concentration indices computed on individual net wealth are far greater than those calculated on household wealth or per capita wealth, which shares wealth equally among household members. The trend in concentration indices, however, does not significantly change. Some regressions suggest that the observed gaps are largely attributable to gender differences in terms of age, educational qualifications, employment and income.
Full text (pdf )

*No. 432*: **Italian banks and market-based corporate financing** (March 2018)

*Giorgio Albareto and Giuseppe Marinelli*

The recent financial crisis has induced firms to turn increasingly to financing sources other than bank credit, and banks to boost their income from non-lending services. This paper provides some evidence concerning possibility and convenience for Italian banks to expand the supply of financial services to firms by examining the placement market for Italian corporate securities and its relationship with the credit market in the period 2000-2016. The paper shows that when firms entered the stock and bond markets, bank credit was partially crowded-out and interest rates dropped for both first-time issuers and risky firms. However, when banks also played a major role both in placing corporate issues and in financing the issuers, lending relationships did not weaken.
Full text (pdf )

*No. 431*: **The contribution of demography to Italy's economic growth: a two-hundred-year-long story** (March 2018)

*Federico Barbiellini Amidei, Matteo Gomellini and Paolo Piselli*

This paper examines the contribution of demography to economic growth in Italy by comparing the country's past, present and future. We use an accounting framework to decompose GDP and per capita GDP growth, and we show how changes in the age structure of the population produced a positive demographic dividend in the past. By contrast, in the last twenty-five years and arguably in the future, demography has made and will continue to make a direct negative contribution to economic growth. Expected migration flows will noticeably limit the extent of this negative contribution, but they will not be able to reverse its sign. We analyze three possible developments, potentially driven by demography itself or fostered by policy actions – longer working lives, an increase in female labour market participation and higher education levels – which could counteract the pure negative accounting effects produced by the evolution of the age structure.
Full text (pdf ) in Italian only

*No. 430*: **Bargaining tools for the resolution of distressed firms: judicial composition with creditors** (March 2018)

*Alessandro Danovi, Silvia Giacomelli, Patrizia Riva and Giacomo Rodano*

The paper provides a large set of new evidence about the workings of judicial composition with creditors (concordato preventivo) procedures based on a new dataset, specifically compiled, which constitutes the richest source of information currently available on the functioning of these procedures. Judicial composition with creditors is mainly used for the piecemeal liquidation of firms (about 70 per cent of the cases). Less than a quarter of judicial compositions with creditors fulfill the provisions of the plans. The recovery rate for secured loans is almost 100 per cent for all types of compositions, while for unsecured loans, recovery rates vary considerably:

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from 18 per cent in the case of piecemeal liquidation to 37 per cent in the case of restructuring (23 per cent for judicial composition with creditors that provides for the sale of the entire firm or of a branch). Regression analysis shows that better performance of judicial compositions with creditors is associated with a less chronic crisis at the time the judicial composition with creditors is initiated, measured as the time that passes between the earliest persistent difficulties faced by the firm in fulfilling its obligations to bank creditors and the initiation of the procedure.
Full text (pdf ) in Italian only

*No. 429*: **Estimating the contagion effect through the portfolio channel using a network approach** (March 2018)

*Alessandro Schiavone*

This work studies the contagion risk through the portfolio investment channel using network analysis and simulation on cross-country bilateral data. The importance of the portfolio channel in the transmission of financial shocks reflects the high interconnectedness of the global financial system, which diminished in the aftermath of the global financial crisis, but has resumed in recent years. The network representing cross-country portfolio investments turns out to be highly concentrated around the main financial centres, which act as global hubs connecting nodes that are not directly linked. Using a network simulation model based on the assumption that international investors rebalance their portfolios after an idiosyncratic shock, reducing investments in countries they are overexposed to, we find that contagion effects may be significant even when the shock originates in a peripheral country. In addition, the model suggests contagion risk has risen since the global financial crisis, owing to the increasing centralization of the portfolio investment network and the greater financial integration of emerging economies.
Full text (pdf )

*No. 428*: **Wealth inequality in Italy: reconstruction of 1968-75 data and comparison with recent estimates** (March 2018)

*Luigi Cannari and Giovanni D’Alessio*

This paper provides a reconstruction of the joint distribution of Italian households’ income and wealth in the years ranging from 1968 to 1975. Exploiting the information available in some historical reports recently published by the Bank of Italy, the paper reconstructs synthetic microdata compatible with the aggregate results of sample surveys carried out in those years. In this way, inequality and poverty can be estimated by using the same statistical criteria that are used today, making an intertemporal comparison of the estimates possible. The concentration of household wealth shows a downward trend in the 1970s and ’80s, an increase in the years following the 1992-93 crisis and relative stability in the new century. In the period 1968-75 the concentration of wealth turns out to be greater than in recent years. The estimates of relative poverty show a decreasing trend until the 1990s and a subsequent increase; the upward trend of these indicators in recent years is steeper than that of the concentration indices. Migration flows have contributed significantly to the recent growth in the poverty indices.
Full text (pdf )

*No. 427*: **The Italian healthcare system: the difficult balance between budget sustainability and the quality of services in Regions subject to a Financial Recovery Plan** (March 2017)

*Luciana Aimone Gigio, Demetrio Alampi, Silvia Camussi, Giuseppe Ciaccio, Paolo Guaitini, Maurizio Lozzi, Anna Laura Mancini, Eugenia Panicara and Massimiliano Paolicelli*

In this work we analyse the developments that necessitated the adoption of Financial Recovery Plans (Piani di Rientro) for the healthcare systems of some Italian regions and how these plans evolved over time. We look at the measures adopted by the eight Italian regions that were obliged to adopt a Financial Recovery Plan as well as their implications for healthcare

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infrastructures. We examine service quality and waiting times as well as patient mobility in the eight regions, including by comparison with Italy's other regions. Our results show that the plans achieved mixed economic results: they were effective in nudging Piedmont, Sicily and Campania towards a balanced budget, but Lazio, Molise and Calabria still suffer from deficits, even substantial ones. The improvement in service quality was even more mixed. While quality did improve in all the regions that adopted a plan, only Piedmont was able to guarantee the national minimum standard of service quality over time, while Calabria and Campania were never able to meet this standard.
Full text (pdf ) in Italian only

*No. 426*: **The drop in non-financial firms cost of credit: a cross-country analysis** (February 2018)

*Paolo Finaldi Russo and Fabio Parlapiano*

Following the sovereign debt crisis, bank interest rates charged to non-financial firms declined sharply in the euro area. This work explores the firms' balance-sheet channel hypothesis on the role played by firms' characteristics and risk profile in the transmission of monetary policy. Using a European firm-level survey, we find that in all countries changes in borrowers' characteristics played a non-negligible role. They account for 30 out of 267 basis points of the total interest rate drop in Italy, 36 out of 160 basis points in core European countries and less than 20 out of 306 basis points in other vulnerable economies. The key firm characteristic driving the decline in interest rates in Italy and in other vulnerable countries is the improvement in the financial situation of non-financial firms, whereas in core countries the decline is mainly due to a shift in bank credit towards relatively older and larger borrowers.
Full text (pdf )

*No. 425*: **A risk dashboard for the Italian economy** (February 2018)

*Fabrizio Venditti, Francesco Columba and Alberto Maria Sorrentino*

In this paper we describe an analytical framework to assess financial stability risks in the Italian economy. We use a large number of indicators, selected to take into account the peculiarities of the Italian economy, to monitor risks in seven areas: interlinkages, the credit markets, the macroeconomic environment, funding conditions, the financial markets, and the banking and insurance sectors. Based on thresholds selected on the basis of either expert judgment or historical distributions, we construct risk heatmaps and derive aggregate scores for each of the above risk categories. By providing timely information on the buildup of risks, the proposed dashboard usefully complements other analytical tools currently used for developing and implementing macroprudential policy.
Full text (pdf )

*No. 424*: **Financial markets effects of ECB unconventional monetary policy announcements** (February 2018)

*Guido Bulligan and Davide Delle Monache*

This paper provides empirical evidence about the announcement effects of the ECB unconventional monetary policies carried out during the period September 2014 - July 2017. The variables considered are selected looking at the various transmission channels through which unconventional measures operate. We find that monetary policy news had significant effects on the exchange rate and sovereign long term yields, especially in those countries that were most severely hit by the crisis. Unlike previous studies, we look at the impact of announcements over different sub-periods in order to identify time-varying effects possibly due to different market conditions, policy instruments and communication strategies. We find that the strongest effects on the exchange rates and on sovereign bonds occurred in the initial phase of the Asset Purchase Programme; over the more recent period a statistically significant rise of inflation expectations was instead detected.
Full text (pdf )

# Other recent Occasional Papers

**November 2017— January 2018**

No. 423: Oil price and inflation expectations
*Cristina Conflitti and Riccardo Cristadoro*

No. 422: Productivity growth in Italy: a tale of a slow-motion change
*Matteo Bugamelli, Francesca Lotti (eds.), Monica Amici, Emanuela Ciapanna, Fabrizio Colonna, Francesco D'Amuri, Silvia Giacomelli, Andrea Linarello, Francesco Manaresi, Giuliana Palumbo, Filippo Scoccianti, Enrico Sette*

No. 421: Internal capital markets in Italian business groups: evidence from the financial crisis
*Raffaele Santioni and Ilaria Supino*

No. 420: Corporate liquidity in Italy and its increase in the long recession
*Davide Dottori and Giacinto Micucci*

No. 419: Analyzing the structural transformation of commodity markets: financialization revisited
*Filippo Natoli*

No. 418: Interbank Payment System architecture from a Cyber Security perspective
*Antonino Fazio and Fabio Zuffranieri*

No. 417: Risks and challenges of complex financial instruments: an analysis of SSM banks
*R. Roca and F. Potente (coordinators), L. G. Ciavoliello, A. Conciarelli, G. Diprizio, L. Lodi, R. Mosca, T. Perez, J. Raponi, E. Sabatini, A. Schifino*

No. 416: Recent developments of Italy's industrial relations system
*Francesco D'Amuri and Raffaella Nizzi*

No. 415: Patterns of convergence (divergence) in the euro area: profitability versus cost and price indicators
*Monica Amici, Emmanuele Bobbio and Roberto Torrini*

No. 414: What does the heterogeneity of the inflation expectations of the Italian firms tell us?
*Laura Bartiloro, Marco Bottone and Alfonso Rosolia*

No. 413: Wage growth in the euro area: where do we stand?
*Guido Bulligan, Elisa Guglielminetti and Eliana Viviano*

No. 412: The impact of a new airport on international tourism: the case of Ragusa (Sicily)
*Francesco David and Giuseppe Saporito*

No. 411: Firms' financial surpluses in advanced economies: the role of net foreign direct investments
*Tatiana Cesaroni, Riccardo De Bonis and Luigi Infante*

No. 410: Investing in the electric utilities sector: the implications of carbon risk
*Enrico Bernardini, Johnny Di Giampaolo, Ivan Faiella and Riccardo Poli*

No. 409: Household investments through Italian asset management products
*Andrea Cardillo and Massimo Coletta*

No. 408: Municipal socialism or municipal capitalism? The performance of local public enterprises in Italy
*Nicola Curci, Domenico Depalo and Emilio Vadalà*

No. 407: The price of cyber (in)security: evidence from the Italian private sector
*Claudia Biancotti*

No. 406: Long-run trends in Italian productivity
*Claire Giordano, Gianni Toniolo and Francesco Zollino*

No. 405: Oil price pass-through into core inflation
*Cristina Conflitti and Matteo Luciani*

## Notes on Financial Stability and Supervision

*No. 12*: **Do high levels of NPLs impair banks' credit allocation?** (April 2017)

*Paolo Angelini*

Recently, various commentators have argued that high NPL stocks can limit banks' lending ability, impairing the monetary policy transmission mechanism.
This note looks at some facts on the relationship between NPLs and credit growth, and summarizes some recent empirical results, casting doubts on this thesis. In a nutshell, it seems to have no strong foundation, either on theoretical or on empirical grounds.
NPLs are relatively opaque, difficult to value, and therefore illiquid; also, they typically do not yield a steady return; thus, other things equal, banks with large NPL holdings are less profitable, and pay a risk premium on capital and liquidity markets. Indeed, the Single Supervisory Mechanism has taken various steps to foster a reduction of NPLs, with very good results. This note argues that the current debate on NPLs features many reasons to reduce the stock of NPLs in banks' balance sheets, but that not all of them are well-grounded ones.
Full text (pdf )

# Selection of Journal articles and books

**Authors' names in boldface: Bank of Italy**

Full list since 1990

## Forthcoming


**Adamopoulou E.** and E. Kaya, "Young Adults Living with their Parents and the Influence of Peers", *Oxford Bulletin of Economics and Statistics*.

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