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NEWSLETTER

Contents

Highlights	1
Forthcoming events	2
Latest Working Papers	4
Latest Occasional Papers	8
Selection of Journal articles and books	15
Useful links	19

Highlights

Third Rome Junior Finance Conference

(Rome, 5-6 June 2018)

On 5-6 June 2018, EIEF organized and hosted the '**Third Rome Junior Finance Conference**'. The conference brought together junior researchers active in empirical and theoretical finance and provided an opportunity for informal discussions and other academic activities.

The programme is available here.

Seventh Rome Conference on Macroeconomics

(Rome, 11-12 June 2018)

On 11-12 June 2018, EIEF organized and hosted the '**Seventh Rome Conference on Macroeconomics**', a.k.a. Pizzanomics. The conference brought together leading economists with a strong interest in macroeconomics and created a friendly environment with intensive interaction, both during the presentations and also informally before and afterwards.

The programme is available here.

Third Rome Junior Conference on Applied Microeconomics

(Rome, 21-22 June 2018)

On 21-22 June 2018, EIEF organized and hosted the '**Third Rome Junior Conference on Applied Microeconomics'**. The conference fostered interaction among researchers active in different areas of applied microeconomics. In selecting speakers, priority was given to economists at the early stages of their career .

The programme is available here.

Highlights

Sixth CEPR Economic History Symposium

(Rome, 22-24 June 2018)

The Bank of Italy hosted the '**sixth CEPR Economic History Symposium**'. The event brought together leading scholars in the field. The first two sessions focused on monetary policy and central banking: topics included the hypothetical effects of an extended large-scale asset purchase programme during the Great Depression, and moral hazard in last resort lending. The third session covered inequality in Europe and tax compliance in medieval Paris. The role of human capital in the Industrial Revolution and in Revolutionary France was explored in the fourth session. Capital markets were the focus of the fifth session: an estimate of the aggregate real rate of return (equity, housing, bonds and bills) in the long run, and a paper on the information content of grain prices were discussed. In the sixth session papers were presented on the relationship between economic growth and well-being, on the effects of demographic changes on inflation in Italy, and on how international trade networks determined the choice of exchange rate regimes in the 19th century. The last two sessions – devoted to financial crises and regime changes – included works on the Panic of 1907 in the US, on the relationship between inequality, productivity and financial crises, and on the rationales at the heart of Britain's return to the gold standard after the Napoleonic Wars.

The programme and the papers are available here.

Conference on 'Investment in the New Monetary and Financial Environment'

(Paris, 5-6 July 2018)

The Bank of Italy, together with the Banque de France and Sciences Po, organized a research conference on '**Investment in the New Monetary and Financial Environment**'. The conference aimed to create a forum for discussion among academic and central bank researchers on issues related to firms' productive investment and its funding in the post-crisis economic, monetary and financial environment, combining both theoretical and empirical research in macro and microeconomics. The conference was held in Paris on July 5-6 2018, and covered several topics, including the determinants and consequences of firms' investment decisions, their interplay with uncertainty, financial frictions and firms' financial conditions.

The full program is available here.

Forthcoming events

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.

Forthcoming events

CEPR European Conference on Household Finance

(Ortygia Business School, Sicily, 5-6 October 2018)

The CEPR Network on Household Finance, the Einaudi Institute for Economics and Finance and the Center for Studies in Economics and Finance, with the support of the Think Forward Initiative (TFI), the EDHEC PhD in Finance Programme and the National University of Singapore Business School are organizing the **2018 CEPR European Conference on Household Finance**. The objective is to present state-of-the-art empirical and theoretical research on household financial behaviour and on how it is influenced by other choices, government policies, and the overall economic environment.

Further information is available here.

StaTalk on 'New Challenges in Official Statistics'

(Rome, 9 November 2018)

On 9 November 2018 the Bank of Italy, together with the y–SIS Group, will organize and host a StaTalk on '**New Challenges in Official Statistics**'. StaTalks are one-day, informal seminars for young statisticians, undergraduate and graduate students. The programme will include presentations by researchers from the Bank of Italy and Istat, and by academic scholars. A round table will conclude the conference.

Further information will be available in the following weeks.

1st Bank of Italy - World Bank International Research Workshop on 'Building Human Capital for 21st Century Jobs'

(Rome, 15-16 November 2018)

The Bank of Italy is pleased to announce the first Bank of Italy-World Bank workshop on '**Building Human Capital for 21st Century Jobs**' to be held on 15-16 November 2018.

The workshop will draw on state-of-the-art economic research and discuss new evidence on how the pace of technological innovation and progressive automation of job tasks is rapidly reshaping the traditional contractual arrangements between workers and firms and the overall demand for skills. These trends will also ask for a renewed emphasis on human capital accumulation and possible reorganization of the traditional functioning of the education systems. The resulting need to re-think the traditional labor, fiscal and welfare policies will be further stressed by the migratory pressures stemming from differences in demographic balances across different areas of the world, as well as by the increase in longevity and the related lengthening of working life, impacting upon traditional work career patterns.

While the workshop is aiming at state-of-the-art research papers, the policy implications of the research conducted and the analysis of concrete policy responses in the fields of education, labor and fiscal, and social protection systems will be particularly appreciated. A special focus will be also dedicated to the differences and similarities, in the issues to be tackled and in the policy responses to be undertaken, between developed and developing countries.

Interested authors should submit their papers through the following website.

Further information will be available here.

SEMINARS AT THE BANK OF ITALY

SEMINARS AT EIEF

Latest Working Papers

No. 1186: **Fiscal buffers, private debt and recession: the good, the bad and the ugly** (July 2018)

Nicoletta Batini, Giovanni Melina and Stefania Villa

Focusing on Euro-Area countries, we show empirically that higher private debt leads to deeper recessions while higher public debt does not, unless its level is especially high. We then build a general equilibrium model that replicates these dynamics and use it to design a policy that can mitigate the recessionary consequences of private deleveraging. In the model, in the aftermath of financial shocks, recessions are milder and public debt is more contained when the government lends directly to those households and firms that face binding borrowing constraints. As a consequence, large fiscal buffers are critical to enhance macroeconomic resilience to financial shocks.

Full text (pdf)

No. 1185: **Macroeconomic effects of an open-ended Asset Purchase Programme** (July 2018)

Lorenzo Burlo, Alessandro Notarpietro and Massimiliano Pisani

In this paper we evaluate the effectiveness of an open-ended Asset Purchase Programme (APP) for the euro area. To this purpose, we build on the large-scale New Keynesian dynamic general equilibrium model calibrated to the euro area and the rest of the world developed in Burlon et al. (2017), but, different from that contribution, we assume that the central bank does not announce the ending date of the programme, while leaving open the possibility of extending it in future periods conditionally on inflation developments. We assume that agents form their expectations about possible additional purchases beyond the horizon of the announcement by the central bank according to a rule linking them to the expected inflation gap. It is showed that the open-ended APP is more effective in immediately stimulating macroeconomic conditions than committing ex ante to an ending date. Importantly, the open-ended dimension provides a hedge against the materialization of negative euro-area aggregate demand shocks that pushes inflation away from its path towards the target. The effectiveness is further reinforced by a forward guidance on monetary policy rates.

Full text (pdf)

No. 1184: **Capital controls spillovers** (July 2018)

Valerio Nispi Landi

I built a three-country business cycle model with one AE and two EMEs to analyze the spillover effects arising from capital controls. I find that, following a push-factor shock from the AE, if one EME tightens capital controls, the other EME experiences an additional wave of foreign investments. In addition, the spillover effects are economically meaningful and can be sizable under specific conditions. Moreover, my findings point out that, in the presence of international financial frictions, moderate capital controls may be useful to EMEs to affect the interest rate at which they trade international bonds. Finally, based on my results, coordination among EMEs in setting capital controls seems to deliver relatively small welfare gains compared with the Nash equilibrium.

Full text (pdf)

No. 1183: **Why do banks securitise their assets? Bank-level evidence from over one hundred countries in the pre-crisis period** (July 2018)

Fabio Panetta and Alberto Franco Pozzolo

We investigate the causes and consequences of securitisations using a large data set of banks from over 100 world countries between 1991 and 2007, when the financial crisis caused the market to collapse. Our results show that banks were more likely to securitise their assets when they faced binding capital requirements and when the direct and indirect costs of these operations were lower (e.g., administrative expenses or the loss implied in the sale of opaque assets in an imperfect information environment). We also find evidence that banks securitised their assets to contain credit risk and reduce the exposure to liquidity shocks. The ex-post effects of securitisations are consistent with these ex-ante determinants. After the securitisation, banks improved their capital ratios and did not increase their riskiness. More important, they

Latest Working Papers

increased their credit supply. These results suggest that if properly used, these techniques can provide additional flexibility in managing banks' activities and risk, and can foster credit supply. But, as the crisis has made well clear, provisions must be taken to avoid that some banks may use these new techniques in a way that increases individual and especially systemic risk.
Full text (pdf)

No. 1182: **Knocking on parents' doors: regulation and intergenerational mobility** (July 2018)

Sauro Mocetti, Giacomo Roma and Enrico Rubolino

We exploited two major reforms in the regulation of professional services implemented in Italy since the 2000s in order to examine the impact on the intergenerational transmission of occupations. We built an OECD-style indicator of strictness of regulation for 14 occupations and three different cohorts (i.e. before and after each reform). Then, using a difference-in-differences strategy, we exploited the differential effect of regulation on the occupations considered compared with employees in similar occupations, before and after each reform. We found that the progressive liberalization of professional services affected the allocation of individuals across occupations, leading to a substantial decrease in the propensity to follow the same career as one's parents. The impact of regulation on the likelihood of being employed in the same occupation as one's parents is greater in soft sciences and in areas where the demand for professional services is higher; at individual level, it is greater for less able individuals.
Full text (pdf)

No. 1181: **Always look on the bright side? Central counterparties and interbank markets during the financial crisis** (July 2018)

Massimiliano Affinito and Matteo Piazza

This paper joins the debate on the growing use of CCPs in interbank markets by analysing a scarcely explored source of risk. Namely, that central clearing may provide riskier banks that are cut off from the bilateral segment with another means of accessing the interbank market, thereby eluding market discipline and potentially increasing the risks borne by the financial system. We investigate this issue using monthly granular data on Italian banks from January 2004 to June 2013, and find that during the global financial crisis riskier banks increased the share of their interbank funding obtained via CCPs due to both the impact of general market uncertainty and heightened attention to counterparty risk in the bilateral segment of the market. More tellingly, we show that, for riskier banks only, this increase was accompanied by a decline in the duration of bilateral relationships, indicating that longer-standing counterparts, typically the most informed ones, withdrew from these relationships. This suggests that, compared with banks operating in the bilateral segment, on average banks working with CCPs may be riskier, confirming the importance of ongoing efforts to ensure that CCPs have a proper risk management framework.
Full text (pdf)

No. 1180: **On the unintended effects of public transfers: evidence from EU funding to Southern Italy** (June 2018)

Ilaria De Angelis, Guido de Blasio and Lucia Rizzica

We study the relationship between the accrual of large financial transfers from a central level of government and the incidence of white collar crimes against public administration and public faith at the local level. We analyse the case of EU funding to Southern Italy and make use of within-municipality variation in the flow of funds between 2007 and 2014. We find a statistically significant effect of transfers on white collar crimes: our estimates suggest that in the absence of EU funding disbursements, the annual number of white collar crimes in Southern Italy would have been 4 per cent lower. We acknowledge that the evidence we provide cannot be taken as fully conclusive given the possible simultaneity of criminal activities and funding assignments and disbursements. Nevertheless, we provide evidence that the correlations we estimated between transfers and white collar crimes are unlikely to be spurious or due to confounding effects.
Full text (pdf)

Latest Working Papers

No. 1179: **Labor market and financial shocks: a time varying analysis** (June 2018)

Francesco Corsello and Valerio Nispi Landi

Motivated by the events of the Great Recession, we estimate a time-varying structural VAR model to analyze the effects of a financial shock on the labor market, focusing on the US. Our results indicate that a tightening of financial conditions is highly detrimental to the labor market. Moreover, we show that financial shocks have affected the unemployment rate asymmetrically in the last three decades, an implication that a standard VAR cannot capture: while negative financial shocks have been responsible for increases in unemployment, our model does not find significant contributions of financial shocks during periods of expansion. The source of this asymmetry is the time-varying standard deviation of the identified shock, which is higher in times of financial distress; on the other hand, we find the transmission mechanism is almost constant over time.

Full text (pdf)

No. 1178: **Discretion and supplier selection in public procurement** (June 2018)

Audinga Baltrunaite, Cristina Giorgiantonio, Sauro Mocetti and Tommaso Orlando

Public procurement outcomes depend on the ability of the procuring agency to select high-performing suppliers. Should public administrations be granted more or less discretion in their decision making? Using Italian data on municipal public works tendered in the period 2009-2013, we study how a reform extending the scope of bureaucrat discretion affects supplier selection. We find that the share of contracts awarded to firms having a local politician among its administrators or shareholders increases, while the (ex-ante) labor productivity of the winning firms decreases, thus suggesting a potential misallocation of public funds. These effects are concentrated among lower quality procurement agencies.

Full text (pdf)

No. 1177: **Short term forecasts of economic activity: are fortnightly factors useful?** (June 2018)

Libero Monteforte and Valentina Raponi

A short term mixed-frequency model is proposed to estimate and forecast the Italian economic activity fortnightly. Building on Frale et al. (2011), we introduce a dynamic factor model with three frequencies (quarterly, monthly and fortnightly), by selecting indicators that show significant coincident and leading properties and are representative of both demand and supply. We find that high-frequency indicators improve the real time forecasts of Italian GDP. Moreover, the model provides a new fortnightly indicator of GDP, consistent with the official quarterly series. Our results emphasize the potential benefit of the high frequency series, providing forecasting gains beyond those based on monthly variables alone.

Full text (pdf)

No. 1176: **Fixed rate versus adjustable rate mortgages: evidence from euro area banks** (June 2018)

Ugo Albertazzi, Fulvia Fringuellotti and Steven Ongena

Why do some residential mortgages carry a fixed interest rate and others an adjustable rate? To answer this question we studied unique data from 103 banks belonging to 73 different banking groups across twelve countries in the euro area. To explain the large cross-country and time variations observed, we distinguished between the conditions that determine the local demand for credit and the characteristics of banks that supply credit. As bank funding mostly occurs at the group level, we disentangled these two sets of factors by comparing the outcomes observed for the same banking group across the different countries. Local demand conditions dominate. In particular we find that the share of new loans with a fixed rate is larger when: (1) the historical volatility of inflation is lower, (2) the correlation between unemployment and the short-term interest rate is higher, (3) households' financial literacy is lower, and (4) the use of local mortgages to back covered bonds and of mortgage-backed securities is more widespread.

Full text (pdf)

Latest Working Papers

No. 1175: **Asset price volatility in EU-6 economies: how large is the role played by the ECB?** (June 2018)

Alessio Ciarlone and Andrea Colabella

In this paper we provide evidence that the effects of the different waves of asset purchase programmes implemented by the ECB from 2009 onwards have spilled over into asset price volatility developments of a group of six Central and Eastern European economies belonging to the EU but not to the euro area. This has partly shielded their financial markets from the negative shocks that have influenced international investors' degree of risk aversion in recent years. By means of a dynamic conditional correlation multivariate GARCH model, and by resorting to three different proxies to describe the functioning and measure the impact of the ECB's asset purchase programmes, we show that such non-standard monetary measures have played a significant role in dampening volatility spikes in the financial markets of the countries at stake. This probably reflects how both a 'risk taking' and a 'liquidity' channel of transmission actually work. The results are generally robust to an extensive series of tests, and to changes made in the estimation methodology.

Full text (pdf)

Other recent Working Papers

February 2018— April 2018

No. 1174: How can the government spending multiplier be small at the zero lower bound?
Valerio Ercolani and João Valle e Azevedo

No. 1173: Firms' investments during two crises
Antonio De Socio and Enrico Sette

No. 1172: ECB monetary policy and the euro exchange rate
Martina Cecioni

No. 1171: The potential of big housing data: an application to the Italian real-estate market
Michele Loberto, Andrea Luciani and Marco Pangallo

No. 1170: The global component of inflation volatility
Andrea Carriero, Francesco Corsello and Massimiliano Marcellino

No. 1169: Consumption volatility risk and the inversion of the yield curve
Adriana Grasso and Filippo Natoli

No. 1168: Credit supply and productivity growth
Francesco Manaresi and Nicola Pierri

No. 1167: Firms' and households' investment in Italy: the role of credit constraints and other macro factors
Claire Giordano, Marco Marinucci and Andrea Silvestrini

No. 1166: Banks' holdings of and trading in government bonds
Michele Manna and Stefano Nobili

No. 1165: Listening to the buzz: social media sentiment and retail depositors' trust
Matteo Accornero and Mirko Moscatelli

Latest Occasional Papers

No. 452: **Is there strength in unity? Some preliminary evidence on inter-municipal cooperation in Italy** (July 2018)

Stefano Manestra, Giovanna Messina and Anna Peta

This paper focuses on municipal unions, the most structured form of inter-municipal cooperation in Italy. Using information from multiple sources, we have built up an administrative database covering more than 500 municipal unions over the period 1998-2015. By cross-checking the information on the municipalities participating in each union with the figures from their financial statements, we have been able to follow the trend in their expenditure both before and after joining the union, acknowledging that time is needed for the effects of the cooperation to manifest themselves. We have replicated this analysis for single municipal functions in order to detect potential heterogeneity in the resulting economies of scale. The results show that belonging to a union has led to a reduction in expenditure only for some municipal functions (such as general administration, local police, roads and traffic) and over a certain time period. The main contribution of our work is that we have studied the effects of inter-municipal cooperation from a temporal perspective largely unexplored in previous studies of the Italian case.

[Full text (pdf) in Italian only]

No. 451: **Managing sovereign debt restructurings in the euro zone. A note on old and current debates** (July 2018)

Marco Committeri and Pietro Tommasino

European economic governance is again under the spotlight. Several reform proposals have been put forward in recent years, including new arrangements for the management and resolution of sovereign debt crises. This note purports to: (a) critically review earlier debates on the reform of the international financial architecture, identifying those elements that could be still relevant for Europe today; (b) discuss recent proposals to establish a restructuring scheme in the euro area, drawing some tentative considerations on possible ways forward.

[Full text (pdf)]

No. 450: **Missing Investors in the Italian Corporate Bond Market** (July 2018)

Matteo Accornero, Paolo Finaldi Russo, Giovanni Guazzarotti and Valentina Nigro

We study the allocation of Italian corporate bonds among investors using a unique dataset that matches, for each security, information on the holding sectors with those of the bond and the issuer. Our main findings are the following: i) large companies issue bonds mainly on international markets, whereas smaller firms mainly target domestic markets; ii) in Italy, differently than in economies with more developed bond markets, the role of domestic institutional investors is limited, especially for SMEs' securities, while domestic households hold larger shares of these issues; iii) Italian households hold bonds of financially sounder firms, whereas foreign investors concentrate their holdings in riskier ones; for the other Italian investors we do not find evidence of a significant risk taking attitude. Even if in recent years institutional investors have significantly increased their holdings of Italian SMEs bonds, our findings suggest that the development of this market is still hampered by the limited presence of intermediaries specialized in the subscription of financial instruments issued by smaller, unlisted and riskier firms.

[Full text (pdf)]

No. 449: **The financial structure of Italian start-ups, in good and bad times** (July 2018)

Emilia Bonaccorsi di Patti and Valentina Nigro

We analyse the financing sources of over 360,000 Italian start-ups registered between 2003 and 2010. The data show that, before the Global Financial Crisis, 50 per cent of start-ups borrowed from banks when they were one year old, and that bank loans covered 16 per cent of total assets on average. In the post-crisis period we find that the frequency of borrowing by one-year-old start-ups declines by 5 percentage points, and the difference does not disappear as firms become older. We also document that the post-crisis decline in borrowing from banks is more marked than that observed for older firms, controlling for business characteristics.

[Full text (pdf)]

Latest Occasional Papers

No. 448: **Real estate foreclosures: their functioning and the effects of recent reforms** (July 2018)

Silvia Giacomelli, Tommaso Orlando and Giacomo Rodano

Lengthy in-court debt recovery procedures may adversely affect the economic and financial system, for example in the management of non-performing loans. This paper analyses the characteristics of real estate foreclosures in Italy and the determinants of their length. A decomposition of procedures into phases shows that the phases preceding and following the actual sale also contribute significantly to the total length of the procedure. The length also turns out to be influenced by both observable and unobservable court characteristics. We also find a reduction in the length of the procedures following recent reforms: new regulations are helping to reduce the length of the 'pre-sale' phase and, above all, of the sale phase.

Full text (pdf) in Italian only

No. 447: **Rethinking prices and markets underlying price-competitiveness indicators** (July 2018)

Alberto Felettigh and Claire Giordano

A comprehensive analysis of price and cost competitiveness warrants an assessment of a range of alternately deflated nominal effective exchange rates. Here, we focus solely on the price-competitiveness indicator currently published by the Bank of Italy (Felettigh et al., 2015), which is based on the producer prices of domestically-sold manufactures, and we refine its measurement. First, we update the data sources for the producer price index. Revisions mainly refer to non-euro area countries, yet also affect relative prices and therefore the price-competitiveness trends of the four main euro-area economies. These countries have performed better according to the revised indicators, in particular since 2010. Second, we present a novel three-market view of price-competitiveness indicators by splitting destination markets. The overall indicator encompassing competitive pressures on both the import and the export side can indeed be broken down into three components: the domestic market, where local producers are rivalled by foreign competitors with their import penetration; euro-area markets, where all countries compete; and non-euro-area markets, where, similarly, all countries compete. Whereas France and Germany have displayed similar price-competitiveness developments in both the euro and non-euro area markets over the entire period since 1999, Italy and Spain have performed better in the non-euro area than in the euro-area markets. Competitiveness in the domestic market and that in non-euro area markets are the main, equally important, drivers of overall developments since 1999 in Italy and in Germany.

Full text (pdf)

No. 446: **Unwinding external stock imbalances? The case of Italy's net international investment position** (July 2018)

Valerio Della Corte, Stefano Federico and Enrico Tosti

This paper is a case study of an (almost complete) adjustment of Italy's external stock imbalance. After reaching a peak of around 25 per cent of GDP in early 2014, Italy's net external debtor position has steadily decreased, reaching less than 7 per cent of GDP at the end of 2017. The contribution of this work is twofold. First, it reviews the main developments in Italy's net international investment position (NIIP) since 1999. Second, it reports a baseline projection of Italy's NIIP over a medium-term horizon, as implied by current account balance forecasts. Since this projection ignores the role of valuation adjustments, the study also provides an analysis of their sensitivity to a set of potential movements in exchange rates and equity or bond markets.

Full text (pdf)

No. 445: **Magic mirror in my hand.... how trade mirror statistics can help us detect illegal financial flows** (July 2018)

Mario Gara, Michele Giammatteo and Enrico Tosti

Criminals worldwide typically use misreporting tricks of different sorts to exploit the transfer of goods between different countries for money laundering purposes. The main international anti-money laundering organisations started paying

Latest Occasional Papers

attention to this phenomenon, known as trade-based money laundering, or TBML, a long time ago, but the absence of suitable analytical tools has reportedly impeded preventive action. Nonetheless, the literature has consistently shown that the analysis of discrepancies in mirrored bilateral trade data could provide some help. Based on previous studies, this work builds a model factoring in the main structural determinants of discrepancies between mirrored data concerning Italy's external trade in the period 2010-13, considered at a highly detailed (6-digit) level of goods classification for each partner country. Point estimates of freight costs are used to net the cif-fob discrepancy. The regression estimates are then used to compute TBML risk indicators at country and at (4-digit) product level. Based on these indicators, rankings of countries and product lines can be compiled and used to detect potential illegal commercial transactions.
Full text (pdf)

No. 444: **Price and cost competitiveness misalignments of the euro area and of its main economies according to a quarterly BEER model, 1999-2017** (July 2018)

Claire Giordano

This study first assesses recent misalignments of the real effective exchange rate (REER) of the euro area and of the Harmonized Competitiveness Indicators (HCIs) of its main economies, based on a quarterly Behavioural Equilibrium Exchange Rate (BEER) model. Next, it draws a comparison with comparable estimates published by the IMF and by CEPII. The BEER model here employed was first put forward by Fidora, Giordano and Schmitz (2017; 2018) and enables the assessment of the departure of actual REERs and HCIs from values consistent with underlying economic fundamentals (i.e. "equilibrium" values). The quarterly model has now been extended to cover a longer time span (1999-2017) and refined by employing new data sources, in particular relative to producer price indices, one of five alternative price/cost indicators used to derive the REERs and HCIs. There is evidence of a modest overvaluation of the euro-area REER in 2017, partly linked to the nominal appreciation of its currency in the second half of the year.
Full text (pdf)

No. 443: **Knowledge intensive business services and urban areas: an analysis of localization and productivity on Italian data** (July 2018)

Valter Di Giacinto, Giacinto Micucci and Alessandro Tosoni

We analyse the geographic localization and the productivity of knowledge-intensive business services (KIBS) in Italy, using both census data and balance-sheet data at the firm level. We find that KIBS are generally agglomerated in urban areas where they attain significantly higher labour productivity levels. Urban productivity advantages are found to be strongly associated with the local availability of human capital and to standard proxies of Marshall-Arrow-Romer and Jacobs agglomeration economies. Forward demand linkages and some factors impacting on the thickness of the local labour market also appear to be relevant. On the whole, the set of explanatory factors considered could explain the entire urban productivity premium estimated for Italian KIBS firms.
Full text (pdf)

No. 442: **Inequality amid income stagnation: Italy over the last quarter of a century** (June 2018)

Andrea Brandolini, Romina Gambacorta and Alfonso Rosolia

The paper analyses the evolution of inequality in Italy from 1989 to 2014, focusing on three business-cycle phases: the 1992 currency crisis, the moderate growth from 1993 to 2007, and the double-dip recession from 2008 to 2013. Data from the national accounts and the Bank of Italy's Survey on Household Income and Wealth are used. Results show that income inequality, as measured by the Gini coefficient, rose sharply during the recession of the early 1990s but much less during the recent double-dip recession, though the share of people at risk of poverty rose similarly during the two crises. The stability of (synthetic) distributive inequality measures is explained by the fact that the reduction in income during the double-dip recession hit the whole population. Despite this apparent stability, two changes stand out: the widening gap between the young and the elderly and the fact

Latest Occasional Papers

that the deterioration in living conditions was borne wholly by households whose primary earner was foreign born.
Full text (pdf)

No. 441: **Why do banks use derivatives? An analysis of the Italian banking system** (June 2018)

Luigi Infante, Stefano Piermattei, Raffaele Santioni and Bianca Sorvillo

The derivatives market has experienced quick growth all over the world in the last two decades. Banks decide to participate in the derivatives market either to hedge against unexpected movements in economic variables or for trading and broker-dealer activities. This paper analyses, by means of multivariate descriptive statistical tools, the determinants of Italian banks' use of derivatives over a long time horizon (2003-2017) by using quarterly Bank of Italy supervisory data. We find that size and being part of a banking group positively affect banks' use of derivatives. Moreover, banks mainly employ derivatives for hedging purposes, especially to hedge against interest rate and credit risks. Finally, derivatives represent a hedging alternative to capital and liquidity. Our results are robust to different specifications that take into account the classification of derivatives by purpose (hedging versus trading) and the distinction between dealer versus end-user banks.
Full text (pdf)

No. 440: **Dealing with corporate crises in a timely way. Notes on the optimal design of an «Early warning and composition system»** (June 2018)

Elisa Brodi

Since the 2005 Bankruptcy Law reform, policymakers have set the goal to detect and manage corporate crises at an early stage, in order to both improve the chances of a company restoring its economic-financial equilibrium and of limiting the dispersion of its values. However, the tools developed over the years have not fully achieved the desired outcomes. We start by surveying the economic benefits stemming from timely action. Then, by using a law and economics approach, we map the disincentives to taking action that affect debtors and creditors, looking separately at the phases of detection and management. On the basis of our findings, the paper discusses the characteristics of effective regulatory strategies, taking into account recent changes in the law. We argue in favour of both strengthening the governance of distressed companies and fine-tuning the existing restructuring and liquidation tools. These objectives are also pursued, to some extent, by the Enabling Bill for the Bankruptcy Law. We highlight the critical issues related to the new «early warning and composition proceedings», especially where they commence automatically if some economic and financial thresholds are breached.
Full text (pdf) in Italian only

No. 439: **Looking through cross-border positions in investment funds: evidence from Italy** (June 2018)

Valerio Della Corte, Stefano Federico and Alberto Felettigh

Motivated by the increasingly large weight of foreign investment funds on the portfolio of Italian residents, this paper provides an estimate of the composition, by instrument and by issuer country, of Italy's portfolio assets after "looking through" cross-border positions in investment funds. Our main findings suggest that removing the statistical opacity arising from cross-border positions in investment funds has a significant impact on the composition of Italy's portfolio investments. After "looking through" foreign funds' holdings, the share of debt securities on portfolio assets, which is equal to 40 per cent in the unadjusted data, rises to 75 per cent. The country composition of external portfolio assets also fundamentally changes in the direction of increasing its geographical diversification. The United States becomes Italy's main destination country; the shares of France, Germany, the United Kingdom and Spain also increase, while that of Luxembourg, where most of the foreign investment funds are domiciled, drastically falls.
Full text (pdf)

Latest Occasional Papers

No. 438: **TFP differentials across Italian macro-regions: an analysis of manufacturing corporations between 1995 and 2015** (June 2018)

Emanuele Ciani, Andrea Locatelli and Marcello Pagnini

In this work we study the geographical differences in total factor productivity (TFP) estimated at firm level for corporations active in the manufacturing sector between 1995 and 2015. In 2015 the average TFP in the South was between 14 and 33 per cent lower than in the North-West: the largest estimate is obtained using the number of employees as a proxy for labor input; the smallest, by using the cost of labor which better captures the skill composition and the actual work intensity. Productivity levels in the North-East were close to those in the other Northern regions; firms in the Centre were in-between. During the two decades the TFP gap between more productive and less productive firms contracted in all areas, but more so in the South; this led to a modest reduction in the North-South TFP divide, which was also driven by a more intense selection process in the Southern regions during the economic recession.

Full text (pdf) in Italian only

No. 437: **Mind the mode: lessons from a web survey on household finances** (June 2018)

Romina Gambacorta, Marina Lo Conte, Manuela Murgia, Andrea Neri, Roberta Rizzi and Francesca Zanichelli

Surveys on household income and wealth are generally carried out through personal interviews. In recent years, however, the spread of surveys using the Internet as a means of data collection has increased, both for economic reasons and for the speed with which the collected data are available. However, there are no studies on the effects of using this tool in surveys on household income and wealth. This paper contributes to fill this gap by illustrating the results of an experimental survey conducted in 2016 by the Bank of Italy in collaboration with the Italian national statistical institute (ISTAT). The quality of the information collected is assessed by comparison with tax statistics and with the aggregate evidence inferable from the interim survey conducted through personal interviews. The paper focuses on coverage, non-response and measurement errors. Overall, the results show that the web-based mode can be a valid alternative means of collecting qualitative data and of gathering information on less sensitive sources of income (such as employment and retirement income). In order to reduce the bias associated with the use of this instrument, it is essential, however, to have auxiliary information on the entire selected sample.

Full text (pdf) in Italian only

No. 436: **Bank profitability and macroeconomic conditions: are business models different?** (June 2017)

Emilia Bonaccorsi di Patti and Francesco Palazzo

The paper investigates the impact of macroeconomic conditions on the profitability of EU banks, by testing for differential effects according to the business model. We group banks into three business models using a hierarchical cluster analysis, and find that using clusters based on the share of assets invested in loans reveals heterogeneity in the sensitivity of bank profitability to economic growth across business models. Our main result is that GDP growth, credit growth and the risk-free yield curve influence profitability as expected, but we also find that the effect of GDP growth is only significant for banks that have a high and medium share of assets invested in loans, and not for banks that hold large portfolios of securities. This difference depends on the impact of growth on asset write downs, especially those on loans and, to a lesser extent, on revenues. The results suggest that studies relating bank profitability to macroeconomic conditions should take the heterogeneity of business models into account.

Full text (pdf)

Latest Occasional Papers

No. 435: **Measuring the financial literacy of the adult population: the experience of Banca d'Italia** (June 2018)

Antonietta di Salvatore, Francesco Franceschi, Andrea Neri and Francesca Zanichelli

At the beginning of 2017, Banca d'Italia conducted a survey to investigate financial literacy and inclusion among Italian adults. The survey is part of an OECD project to create an internationally comparable dataset on this important topic. The questionnaire was developed by the OECD International Network on Financial Education (INFE). The Italian sample consists of about 2,500 persons interviewed using two different methods: 40 per cent of them had a face-to-face interview while the others used a tablet to record their responses. Our findings show the existence of a substantial financial literacy gap between Italy and the other G20 countries, which is most evident among less educated respondents, among the elderly and among women. Compared with other countries, Italians are more aware of their limits or at least more cautious when assessing their level of financial knowledge. We also discuss some critical aspects of the OECD's methodology that should be addressed in order to improve the measurement of financial literacy and to increase cross-country comparability.

Full text (pdf)

No. 434: **The impact of the interchange fee regulation on merchants: evidence from Italy** (June 2018)

Guerino Ardizzi and Michele Savini Zangrandi

Interchange fees (IF) are fees that a cardholder's bank (issuer) receives from the merchant's bank (acquirer) when a card payment is executed. Interchange fees are an important part of the fees charged to merchants by acquirers. Because of their level and fragmentation, interchange fees can restrict competition and have thus been regulated in the EU. The Interchange Fee Regulation (IFR) came into effect for all EU member states in 2015 and sets maximum limits on interchange fees. By using a panel of Italian banks we assess the impact of introducing the IF regulation on the fees that acquiring banks charge to merchants (merchant fees), and on the merchants' acceptance of card-based payments. We find that, in line with the regulatory intent, the ceiling imposed on interchange fees has led to a sizeable drop in merchant fees and to an increase in the acceptance of card payments, measured as transactions per terminal.

Full text (pdf)

Other recent Occasional Papers

February 2018— March 2018

No. 433: Gender wealth gap in Italy
Giovanni D'Alessio

No. 432: Italian banks and market-based corporate financing
Giorgio Albareto and Giuseppe Marinelli

No. 431: The contribution of demography to Italy's economic growth: a two-hundred-year-long story
Federico Barbiellini Amidei, Matteo Gomellini and Paolo Piselli

No. 430: Bargaining tools for the resolution of distressed firms: judicial composition with creditors
Alessandro Danovi, Silvia Giacomelli, Patrizia Riva and Giacomo Rodano

No. 429: Estimating the contagion effect through the portfolio channel using a network approach
Alessandro Schiavone

No. 428: Wealth inequality in Italy: reconstruction of 1968-75 data and comparison with recent estimates
Luigi Cannari and Giovanni D'Alessio

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

No. 426: The drop in non-financial firms cost of credit: a cross-country analysis
Paolo Finaldi Russo and Fabio Parlapiano

No. 425: A risk dashboard for the Italian economy
Fabrizio Venditti, Francesco Columba and Alberto Maria Sorrentino

No. 424: Financial markets effects of ECB unconventional monetary policy announcements
Guido Bulligan and Davide Delle Monache

Selection of Journal articles and books

Authors' names in boldface: Bank of Italy

Full list since 1990

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