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NEWSLETTER

Contents

Highlights

Banca d'Italia - CEPR Conference'Closing the Gaps: The Future of Stabilisation Policies After the COVID-19 Pandemic'

(17-18 June 2021, Rome)

On 17 and 18 June 2021, the Bank of Italy hosted the Eighth BI-CEPR Conference on Money, Banking and Finance, titled '**Closing the Gaps: The Future of Stabilisation Policies After the COVID-19 Pandemic**'. The conference brought together leading economists from academia and central banks to join the debate on the implications for monetary policy and the other stabilization policies, of the prolonged period of low interest rates, low growth, and low inflation in the major advanced economies, also taking into account the economic effects of the ongoing pandemic crisis. The four sessions focused on labour market heterogeneity and monetary policy effectiveness; the bank lending channel during the pandemic; stabilization policies in the wake of the pandemic; and the interaction of fiscal and monetary policies.

Ricardo Reis (London School of Economics and CEPR) and Marco Del Negro (Federal Reserve Bank of New York and CEPR) gave keynote speeches.

The programme for the workshop can be found here.

Forthcoming events

Special session at the European Finance Association 2021 Annual Meeting

(25 - 28 August 2021, Milan)

Bank of Italy is sponsoring a **special session at the European Finance Association 2021 Annual Meeting** that this year is being organized by Bocconi University and will be held on August 25-28. The focus of the special session is on 'Macro-financial feedbacks and their policy implications after the Covid-19 crisis' and the topics of interest include the changing nature of the linkages between the real economy and the financial sector in an environment of rising corporate indebtedness, the pricing and mispricing of systemic risks in financial markets, and the financial stability implications of safe asset shortages. The papers for the special session will be chosen from the pool submitted to the conference.

Additional information on the conference can be found here.

Forthcoming events

Fourth Bank of Italy – CEPR Labour Workshop

(9 - 10 September 2021, Rome)

The aim of the workshop is to bring together leading and emerging labour economists to discuss micro level analyses that provide insights into advanced economies' growth and resilience. The keynote speakers will be Oriana Bandiera (London School of Economics), Stephane Bonhomme (University of Chicago), Emi Nakamura (University of California Berkeley) and Gianluca Violante (Princeton University).

The preliminary programme is available here.

2nd Joint Bank of England - Banque de France - IMF - OECD - Banca d'Italia Workshop

(25 October 2021, Paris)

The Bank of Italy is organising the second workshop on '**International capital flows and financial policies'**, in collaboration with the Bank of England, the Banque de France, the IMF and the OECD. The event will take place in Paris on 25 October 2021, health conditions permitting.

The aim of the conference is to foster the debate on the evolution of capital flows during the recent pandemic, the effectiveness of the policy measures adopted to mitigate the volatility of capital flows, the role of non-bank financial intermediation in the propagation of global shocks. In addition, relevant topics, such as the implications of digital currencies for international capital flows and the link between financial account liberalization and inequality, will be discussed.

Proposals should be submitted by June 30, 2021, according to the call for papers .

International research conference on: 'New challenges facing firms in the post-Covid world'

(9 - 10 December 2021, Rome)

Banque de France, Banca d'Italia, Sciences Po and EIEF, in cooperation with the CEPR, are organizing their fourth joint research conference on trends in firm financing, firm organization and firm dynamics, to be held in Rome on 9-10 December 2021.

The conference aims to create a forum for discussion on issues related to the recent patterns of firms' activity, the organization of production and financing decision, as well as their determinants, consequences and implications for policymaking. This year's issue of the conference particularly welcomes contributions highlighting and investigating new challenges facing firms in the post-Covid world, including the need to adapt to climate change risks, as well as assessing the cost and benefits of policies targeted at firms during the pandemic.

The conference will feature two keynote lectures by Antoinette Schoar (MIT) and Ralf Martin (Imperial College).

Interested authors should submit a detailed extended abstract or, preferably, a complete paper in PDF format accessing https://editorialexpress.com/conference/FirmOrgDyn by August 22, 2021. Decisions of acceptance by the program committee will be announced by the end of September.

Depending on sanitary constraints at the time of the meeting, the conference may be held partly or entirely online.

For more information see the call for papers .

Latest Working Papers

No. 1343: **Firm-bank linkages and optimal policies in a lockdown** (July 2021)

Anatoli Segura Velez and Alonso Villacorta

The paper analyses optimal public support to firms during the COVID-19 crisis, considering its impact on economic activity and the government's maximum expenditure capability. The proposed theoretical framework accounts for the impact of an increase in firms' leverage on their riskiness and on the banking sector.
Optimal government intervention consists of the combination of transfers to firms and guarantees on new bank debt. Banks must reimburse the government fairly for the provision of such guarantees in the future, once the recovery of economic activity is sustained. This reduces the expected cost of the intervention for the government but has no adverse impact on banks during the crisis.
Full text (pdf)

No. 1342: **When the panic broke out: COVID-19 and investment funds' portfolio rebalancing around the world** (July 2021)

Massimiliano Affinito and Raffaele Santioni

This paper analyzes the portfolio choices of a large sample of mutual funds in early 2020 and documents how the global fund industry changed the composition of financial investments in response to the COVID-19 pandemic.
Mutual funds have reduced their exposure to the countries and sectors most affected by the pandemic, in different ways depending on fund category, type of instrument, performance and the extent of outflows. The results of the work also document how monetary policy measures affected the behaviour of mutual funds and therefore support the hypothesis that there is an unconventional monetary policy transmission channel operating through non-bank financial institutions.
Full text (pdf)

No. 1341: **The grocery trolley race in times of Covid-19. Evidence from Italy** (June 2021)

Emanuela Ciapanna and Gabriele Rovigatti

The paper evaluates the impact of mobility restriction measures in March and April 2020 on the Italian grocery chain stores' revenues. The identification strategy exploits the spatial-temporal differences in the enforcement of the restrictions, first imposed in the province of Lodi, then in the whole Lombardy, and finally in the rest of the country. The data allow to measure sales trends of Fast-Moving Consumer Goods by distinguishing quantities and prices in different types of outlets (supermarkets, hypermarkets, discounts, and superettes).
In the two months March-April 2020, grocery chain stores grew throughout the country, reflecting increases in both quantities and prices. The analysis shows that mobility restrictions contributed significantly to this, albeit with differences between store types. It is estimated that sales increased more in superettes than in large, more peripheral outlets. Limited to the latter, the mobility restriction measures alone, net of the risk of contagion, would have produced lower revenues of around 10%.
Full text (pdf)

No. 1340: **Information or persuasion in the mortgage market: the role of brand names** (June 2021)

Agnese Carella and Valentina Michelangeli

This paper analyses the role of brands in the mortgage market by studying the rebranding of a small subsidiary bank under the more popular parent brand. The objective is to evaluate, using both empirical techniques and a theoretical model, whether brand popularity increases households' awareness of the products offered on the market, thereby improving their ability to select the cheapest option.
A well-known brand name makes it easier to find and access information on products offered by the bank, encouraging households to select, other things being equal, cheaper mortgages among those available on the market. The model calibrated on Italian data implies an overall saving equal to 6 per cent of the initial loan amount and a roughly 10-percentage-point increase in the share of households that shift to cheaper lenders.
Full text (pdf)

Latest Working Papers

No. 1339: **Optimal robust monetary policy with parameters and output gap uncertainty** (June 2021)

Adriana Grasso and Guido Traficante

The work characterizes optimal and robust monetary policy to the joint presence of two sources of uncertainty, stemming from the imperfect measurement (i) of macroeconomic variables and (ii) of the structural parameters of the model. The optimal policy is compared with what would occur with full knowledge of both the variables and the parameters of the model, or only of the former. Previous papers have only considered the role of the two sources of uncertainty separately.

The results indicate that, in the event of 'double uncertainty', a central bank that aims to minimize fluctuations in the output gap, inflation and the interest rate should react to shocks on the natural interest rate more aggressively than in both the case of having full information, and of uncertainty over the parameters of the model alone, in contrast to the 'Brainard principle', which suggests a more cautious response.

Full text (pdf)

No. 1338: **Macroprudential policy analysis via an agent-based model of the real estate sector** (June 2021)

Gennaro Catapano, Francesco Franceschi, Michele Loberto and Valentina Michelangeli

This paper studies the effects on the Italian residential property market of the hypothetical adoption of two borrower-based measures: an 80 percent loan-to-value (LTV) cap and a 30 percent loan-service-to-income (LSTI) ratio cap. The analysis is conducted using an agent-based model that has been calibrated using machine learning algorithms.

In Italy, the adoption of LTV and LSTI caps will likely lead to a modest and short-lived reduction both in house prices and in the number of house sales. The reduction in mortgage defaults is also found to be relatively modest. These results reflect the high degree of financial soundness of Italian households and the already low LTV and LSTI ratios in the Italian mortgage market.

Full text (pdf)

No. 1337: **A liquidity risk early warning indicator for Italian banks: a machine learning approach** (June 2021)

Maria Ludovica Drudi and Stefano Nobili

The paper develops an early warning model to identify liquidity crises for Italian banks by comparing the predictive performance of three machine learning methods (logistic LASSO, random forest and Extreme Gradient Boosting). Using an innovative dataset, built using data from the Bank of Italy's Emergency Liquidity Assistance (ELA) operations, carried out to fund banks facing temporary liquidity shortages, our early warning models' signals are calibrated using an optimization method based on preferences between type I error (missing a crisis) and type II error (false alarm).

The three estimation methods used show an excellent predictive performance, which improves when they are combined by computing a simple or weighted average. The combined models achieve a low percentage of missed crises (false negatives), while at the same time limiting the number of false alarms (false positives).

Full text (pdf)

No. 1336: **Volatility bursts: a discrete-time option model with multiple volatility components** (June 2021)

Francesca Lilla

Asset price dynamics reflect unexpected events or shock announcements, commonly modelled in the literature as discontinuities in price trajectories or jumps. Using intraday data, it has nonetheless been observed that sharp movements of asset prices over short periods of time have often been attributed to jumps rather than to periods of high volatility. This paper proposes a new option pricing model in which jumps are replaced with volatility bursts in the dynamics of the underlying asset.

When estimated on Standard&Poor 500 index options and returns, the comparison with a number of alternative methods shows that the volatility burst component is an important and necessary ingredient for a more accurate option pricing and modelling of the implied volatility surface, with respect to both moneyness and the time to maturity.

Full text (pdf)

Other recent Working Papers

March 2021 — April 2021

No. 1335: Managerial talent and managerial practices: are they complements?
Audinga Baltrunaite, Giulia Bovini and Sauro Mocetti

No. 1334: What drives investors to chase returns?
Jonathan Huntley, Valentina Michelangeli and Felix Reichling

No. 1333: Population aging, relative prices and capital flows across the globe
Andrea Papetti

No. 1332: Dating the euro area business cycle: an evaluation
Claudia Pacella

No. 1331: The catalytic role of IMF programs
Claudia Maurini and Alessandro Schiavone

No. 1330: (In)Efficient separations, firing costs and temporary contracts
Andrea Gerali, Elisa Guglielminetti and Danilo Liberati

No. 1329: Can internet banking affect households' participation in financial markets and financial awareness?
Valentina Michelangeli and Eliana Viviano

No. 1328: Board composition and performance of state-owned enterprises: quasi experimental evidence
Audinga Baltrunaite, Mario Cannella, Sauro Mocetti and Giacomo Roma

No. 1327: Foreign investors and target firms' financial structure: cavalry or lucusts?
Lorenzo Bencivelli and Beniamino Pisicoli

No. 1326: Financial structure and bank relationships of Italian multinational firms
Raffaello Bronzini, Alessio D'Ignazio and Davide Revelli

No. 1325: Foreclosures and house prices
Michele Loberto

No. 1324: Modelling and forecasting macroeconomic downside risk
Davide Delle Monache, Andrea De Polis and Ivan Petrella

No. 1323: Unconventional monetary policies and expectations on economic variables
Alessio Anzuini and Luca Rossi

No. 1322: Judicial efficiency and bank credit to firms
Giacomo Rodano

No. 1321: The power of text-based indicators in forecasting the Italian economic activity
Valentina Aprigliano, Simone Emiliozzi, Gabriele Guaitoli, Andrea Luciani, Juri Marcucci and Libero Monteforte

Latest Occasional Papers

No. 636: **A new universal child allowance in Italy: equity and efficiency concerns** (July 2021)

Nicola Curci and Marco Savegnago

The paper evaluates a possible scheme for a new universal child allowance (assegno *unico e universale per i figli, AUU*), aimed at favouring low and medium income households (equity) without increasing their financial disincentives to work (efficiency). The AUU assumed in this paper decreases with respect to the ISEE (Equivalent Economic Situation Indicator) and features an in-work benefit. The analysis is based on the Banca d'Italia tax-benefit microsimulation model, BIMic.

The AUU assumed in this work would lead to a substantial decrease of inequality and absolute poverty, especially for minors. This result reflects the relevant budgetary cost of the measure and the marked progressive profile assumed in the paper. Moreover, the in-work benefit would limit the financial disincentives to work, especially within households characterized by low-to-middle ISEE. Therefore, the assumed AUU strikes a good balance in the equity-efficiency trade-off.

Full text (pdf) in Italian only

No. 635: **Infrastructure gaps in Italy: a case-by-case measurement** (July 2021)

Mauro Bucci, Elena Gennari, Giorgio Ivaldi, Giovanna Messina and Luca Moller

This paper presents a methodological contribution to the measurement of the adequacy of infrastructure in a territory. The method of measurement is adapted to the type of infrastructure considered and its function. The analysis is carried out with a high level of territorial detail and on a wide range of infrastructures, both economic (road and rail transport networks; ports and airports; electricity, water and telecommunications networks) and social (hospitals and waste disposal facilities).

The results point to significant differences in the infrastructural endowment of the different areas of Italy, highlighting more often than not a situation of disadvantage in the South and the Islands.

Full text (pdf) in Italian only

No. 634: **Main challenges and prospects for the European banking sector: a critical review of the ongoing debate** (July 2021)

Salvatore Cardillo, Raffaele Gallo and Francesco Guarino

The paper discusses the changes that may occur in the medium term, according to the academic literature and market operators, as regards the business model of European banks in response to the main factors to emerge in recent years, such as low interest rates, tighter financial regulation, technological innovation, growing competition from non-banking intermediaries, and the effects of the pandemic.

In the medium term, banks' activities will still be affected by the changes that were already under way before the health emergency and by the consequences of the pandemic. To successfully compete, banks will likely try to fully exploit the benefits of digital innovation and the growth of the sustainable finance market. The possibility of banks to compete effectively on the market will also depend on their capacity to achieve economies of scale and scope.

Full text (pdf)

No. 633: **The impact of complex financial instruments on banks' vulnerability: empirical evidence on SSM banks** (July 2021)

Tommaso Perez, Francesco Potente (Coordinators), Andrea Carboni, Alberto Di Iorio and Jacopo Raponi

International accounting principles define a hierarchy for fair valued instruments according to the availability of market data. Financial instruments classified as 'Level 2' and 'Level 3' (L2 and L3) are subject to a certain degree of valuation uncertainty. This paper investigates the correlation between the amount of L2, L3 and non-performing loans held by banks, on the one hand, and selected financial vulnerability indicators (CDSs, Z-scores and Price-to-Book ratios), on the other hand.

The research, carried out across a large sample of Significant Institutions, shows that an increase in asset and liabilities classified as L2 or L3, or in non-performing loans, tends to be associated

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with worse financial vulnerability indicators. It detects a positive correlation between L2 and CDS spreads; L3 and non-performing loans show positive correlations with default risk (as measured by Z-scores) and negative correlations with Price-to-Book ratios.
Full text (pdf)

No. 632: **The market notices published by the Italian Stock Exchange: a machine learning approach for the selection of the relevant ones** (July 2021)

Marta Bernardini, Paolo Massaro, Francesca Pepe and Francesco Tocco

Bank of Italy data managers regularly check the Market Notices published daily by the Italian Stock Exchange (Borsa Italiana) and select those of interest in order to update the Bank of Italy's Securities Database. This activity is very time-consuming. In this paper, we describe the application of a supervised machine learning approach to obtain a model for the automatic selection of the market notices.
The proposed model allows to replace the manual selection of Italian Stock Exchange Market Notices by returning results which outperform the manual activity as well as reducing the execution time.
Full text (pdf)

No. 631: **Application of classification algorithms for the assessment of confirmation to quality remarks** (July 2021)

Fabio Zambuto, Simona Arcuti, Roberto Sabatini and Daniele Zambuto

In the context of the data quality management of supervisory banking data, the Bank of Italy receives a significant number of data reports at various intervals from Italian banks to which, if necessary, it responds with remarks on the quality of the data. This process can lead to a bank confirming or revising the data previously transmitted. This paper proposes an innovative methodology, based on text mining and machine learning techniques, for the automatic processing of banks' confirmations of their data.
A classification model is employed to predict whether data confirmations received from banks should be accepted or rejected based on the reasons given by the reporting banks, the characteristics of the validation quality checks, and reporting behaviour across the banking system. The empirical findings show that the methodology predicts the correct decisions on recurrent data confirmations; the performance of the proposed model is comparable to that of data managers currently engaged in data analysis.
Full text (pdf)

No. 630: **The economic effects of firm-level uncertainty: evidence using subjective expectations** (July 2021)

Giuseppe Fiori and Filippo Scoccianti

This paper provides new evidence for Italy about the interaction between the degree of uncertainty perceived by the managers of a company and its investment choices and demand for labour, factor utilization and liquidity holdings.
An increase in perceived uncertainty leads to a simultaneous reduction in the utilization of labour and capital and to an increase in liquidity holdings, and to a subsequent reduction in investment in the following years. The source of uncertainty matters, with firms responding only to downside uncertainty, that is, uncertainty about future adverse outcomes.
Full text (pdf)

No. 629: **Principled data access: building public-private data partnerships for better official statistics** (July 2021)

Claudia Biancotti, Oscar Borgogno and Giovanni Veronese

Official statistics serve as an important compass for policymakers due to their impartiality and transparency. This is especially

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true in the current post-pandemic environment of great uncertainty and widespread disinformation. Access to privately held "big data" would improve the quality of official statistics. We propose a set of principles under which the public and the private sector can form partnerships to leverage the potential of new-generation data in the public interest.
The principles, compatible with a variety of legal frameworks, aim at establishing trust between data collectors, data subjects, and statistical authorities, while also ensuring the technical usability of the data and the sustainability of partnerships over time. They are driven by a logic of incentive compatibility and burden sharing.
Full text (pdf)

No. 628: **Interchange fee regulation and card payments: a cross-country analysis** (July 2021)

Guerino Ardizzi, Diego Scalise and Gabriele Sene.

We study the relationship between interchange fees and the number of per capita card transactions by means of a panel estimation covering a large number of countries worldwide, and assess the impact of the Interchange Fee Regulation, introduced in 2015, by comparing the dynamics of card usage in EU with those observed in a control group of countries using a difference-in-difference approach. This paper takes advantage of a newly assembled dataset covering almost 50 countries in the last decade.
We document a significant negative relationship between the level of interchange fees and payment cards usage; moreover, we find a strong and relevant one-off impact of the Interchange Fee Regulation immediately after its introduction and considerable propagation effect in the following years. Overall, we support the view that policy actions aiming at containing interchange fees can significantly contribute to the diffusion of electronic payments.
Full text (pdf)

No. 627: **Living on my own: the impact of the Covid-19 pandemic on housing preferences** (June 2021)

Elisa Guglielminetti, Michele Loberto, Giordano Zevi and Roberta Zizza

The Covid-19 pandemic has affected Italian households' behaviour in many ways. Some changes could be long-lasting and affect households' housing preferences long term together with the dynamics of the real estate market. Using data from the Italian Housing Market Survey and the sales advertisements taken from the portal Immobiliare.it, the paper analyses the changes in housing demand in 2020.
Based on an econometric analysis that considers a broad set of housing characteristics, both physical and relating to the location of the dwelling, the paper shows that the recovery in housing demand recorded in the second half of 2020 was significantly stronger for larger properties, for single-family ones and for those with outdoor spaces. There is also a demand shift towards houses located in areas with a lower population density, implying a reversal of the trend compared with previous years.
Full text (pdf)

No. 626: **Measuring the impact of a bank failure on the real economy. An EU -wide analytical framework** (June 2021)

V. P. Vacca, F. Bichlmeier, P. Biraschi, N. Boschi, A. J. Bravo Alvarez, L. Di Primio, A. Ebner, S. Hoeretzeder, E. Llorente Ballesteros, C. Miani, G. Ricci, R. Santioni, S. Schellererf and H. Westmanh

The paper presents a framework for quantifying the possible impact of a sudden failure of a bank on the real economy. Focusing on the consequences of a temporary credit shortage affecting the borrowers of an ailing bank, our methodology entails two steps: i) estimating the potential credit shortfall due to a bank's liquidation; ii) estimating the impact of such a shortfall on real economy variables (GDP, value added, and employment).
The paper concludes that it is possible to construct a framework quantifying the impacts of a sudden liquidation of a bank on the real

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economy by leveraging on harmonized data sources at Banking Union level. The methodology is applicable to banks of heterogeneous size and significance. In particular, for medium-sized ('grey area') banks, the outcome of the quantitative analysis provides useful elements to reduce the uncertainty about the financial stability risks stemming from their liquidation.
Full text (pdf)

No. 625: **The economics of non-bank financial intermediation: why do we need to fill the regulation gap?** (June 2021)

Maurizio Trapanese

This paper presents an overall analysis of the economics of non-bank financial intermediation, and argues that the financial stability concerns stemming from this sector support the need to fill the regulation gap that exists with respect to other segments (banks, market infrastructures). It examines the structure of markets, the economic incentives of the agents involved and the institutional aspects characterizing this form of intermediation as compared with that performed by banks.
The analysis underlines that financial regulators should pay attention not only to the stability of the individual entities in the non-bank financial sector, but also to the effects that the collective behaviour and activities of these intermediaries may have on the overall financial system and the real economy. It is stressed that the effectiveness of micro-prudential tools is strengthened if they are accompanied by a framework containing policy measures to address systemic risk.
Full text (pdf)

No. 624: **De-anchored long-term inflation expectations in a low growth, low rate environment** (June 2021)

Guido Bulligan, Francesco Corsello, Stefano Neri and Alex Tagliabracci

The de-anchoring of long-term inflation expectations (the gap between inflation expectations and the central bank's target) represents a challenge for monetary policy, since it restrains its policy space. This work, which uses data from the ECB Survey of Professional Forecasters, examines the anchoring of long-term inflation expectations in the euro area in light of the expected macroeconomic environment characterized by low growth and low inflation in the long-term.
Using both time series and panel data methods, this work shows that the level of long-term inflation expectations registered two significant declines in 2013 and 2019, moving away from the ECB's inflation aim. Empirical evidence shows that the decrease in inflation expectations has recently been associated with a progressive reduction in the long-term expectations of real GDP growth.
Full text (pdf)

No. 623: **Policy mix during a pandemic crisis: a review of the debate on monetary and fiscal responses and the legacy for the future** (June 2021)

Giuseppe Ferrero, Massimiliano Pisani and Martino Tasso

The paper reviews the recent literature on the macroeconomic effects of the Covid-19 shock and on the main policy responses of governments and central banks in the main advanced countries.
Monetary and fiscal measures avoided a liquidity crisis and limited the drop in demand. After the pandemic crisis is over, they should be withdrawn gradually. An accommodative monetary policy (consistent with price stability) and government budgets oriented towards investment are necessary. Once the recovery is firmly under way, those governments facing a large public debt should implement, gradually, plans to achieve primary budget surpluses. Expansionary measures in countries with more fiscal space will be able to promote the recovery.
Full text (pdf)

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No. 622: **An assessment on the potential impact of Covid-19 on the Italian demographic structure** (June 2021)

Giacomo Caracciolo, Salvatore Lo Bello and Dario Pellegrino

This paper analyses the potential consequences of the Covid-19 crisis on the demographic structure of the Italian population, and consequently on GDP, between 2020 and 2065. After discussing the potential effects of the pandemic from a historical perspective, the analysis focuses on uncertainty and worsening economic conditions, captured by the unemployment rate, and on how these may influence fertility decisions and migration flows. We build several scenarios regarding developments in demographic and economic variables following the Covid-19 pandemic, and we compare them with simulations based on pre-crisis Istat demographic projections.
Worsening economic conditions caused by the pandemic, if not countered with adequate policies for economic recovery, may accelerate the demographic decline of the population, causing a further reduction in the working-age population (aged 15-64) compared with the pre -pandemic Istat projections. Such further reduction is estimated at between 1.6 million and 3.4 million in 2065. The consequent potential loss of output, which does not include the possible effects of growth enhancing policies (such as the National Recovery and Resilience Plan), is estimated at between 4 and 16 percentage points in 2065.
Full text (pdf) in Italian only

No. 621: **Inflation expectations and the ECB's perceived inflation objective: novel evidence from firm-level data** (June 2021)

Marco Bottone, Alex Tagliabracci and Giordano Zevi

This paper analyses how an 'information treatment' administered in the Inflation and Growth Expectations Survey, which consists of communicating the ECB's inflation target to a subset of the participating firms, affects their inflation expectations relative to the control group formed by those firms that did not receive this information. It also investigates the quantitative perception that companies have of the ECB's objective, whose formulation - an inflation rate 'below, but close to, 2 per cent' - leaves space for heterogeneous interpretations.
The inflation expectations of firms to which the ECB's target is communicated are on average about 25 basis points higher than those of the control group formed by companies that did not receive this information. Most firms interpret the statement 'below, but close to, 2 per cent' as equivalent to an inflation rate between 1.0 and 1.5 per cent, only a few between 1.7 and 1.9 per cent. Overall, the information on the target stabilizes firms' inflation expectations, but reduces their correspondence with inflation observed ex post, especially on short-term horizons.
Full text (pdf)

No. 620: **Consumption and saving patterns in Italy during Covid-19** (June 2021)

Elisa Guglielminetti and Concetta Rondinelli

This paper analyses the contraction in consumption (and increase in the propensity to save) of Italian households during the COVID-19 pandemic; the analysis is conducted at the macroeconomic and microeconomic level, using data from the Special Survey on Italian Households conducted by the Bank of Italy.
At the macroeconomic level, in 2020 the decline in aggregate consumption was much higher than estimated using the traditional determinants, due to the measures to contain the spread of the virus, the fear of infection, and greater uncertainty about the future. A microeconometric analysis shows that apart from any economic reasons, which predominate in households whose head is unemployed, the fear of infection and uncertainty play an important role, especially for self-employed workers.
Full text (pdf)

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No. 619: **Firms' inflation expectations and pricing strategies during Covid-19** (June 2021)

Marco Bottone, Cristina Conflitti, Marianna Riggi and Alex Tagliabracci

This paper analyzes the effects of the pandemic on the expected changes in firms' own product prices and on their inflation expectations, based on the quarterly survey conducted by the Bank of Italy on a panel of more than one thousand firms. Starting from the March 2020 wave, the questionnaire included specific questions on the channels of transmission of the pandemic for firms'activities and on the expected duration of these effects on firms' businesses and on the aggregate economy. The more persistent firms consider the impact of the crisis on their own level of activity will be, the lower their expected selling prices. Competitive pressures also attenuate the dynamics of firms' own product prices. Their inflation expectations at one-year, two-year and between three- to five-year horizons are negatively affected by the expected duration of the pandemic's effects on the general economic situation. During the pandemic, pricing strategies were not affected by firms' liquidity and financial conditions, likely benefiting from the fiscal and monetary measures implemented to support economic activity.

Full text (pdf)

Other recent Occasional Papers

March 2021 — April 2021

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Enrica Di Stefano

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Valerio Della Corte and Claire Giordano

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Davide Fantino, Sara Formai and Alessandro Mistretta

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Valerio Ercolani

No. 612: Inflation expectations in the euro area: indicators, analyses and models used at Banca d'Italia
Sara Cecchetti, Davide Fantino, Alessandro Notarpietro, Marianna Riggi, Alex Tagliabracci, Andrea Tiseno and Roberta Zizza

No. 611: Learning from revisions: a tool for detecting potential errors in banks' balance sheet statistical reporting
Francesco Cusano, Giuseppe Marinelli and Stefano Piermattei

No. 610: Local and global agglomeration patterns in the banking sector: The calm in the mid of a storm?
Valter Di Giacinto and Marcello Pagnini

No. 609: Exploiting payments to track Italian economic activity: the experience at Banca d'Italia
Valentina Aprigliano, Guerino Ardizzi, Alessia Cassetta, Alessandro Cavallero, Simone Emiliozzi, Alessandro Gambini, Nazzareno Renzi and Roberta Zizza

No. 608: Central banks, climate risks and sustainable finance
Enrico Bernardini, Ivan Faiella, Luciano Lavecchia, Alessandro Mistretta and Filippo Natoli

No. 607: What do Italians think about tax evasion?
Giovanni D'Alessio

Covid-19 Notes

La risposta della politica di bilancio degli Stati Uniti al COVID-19 e un confronto con quella dell'area dell'euro (June 2021)

Gabriele Bernardini and Valerio Ercolani

Full text (pdf) in Italian only

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Fears for the future: Saving dynamics after the Covid-19 outbreak (June 2021)

Valerio Ercolani, Elisa Guglielminetti and Concetta Rondinelli

Full text (pdf)

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Alcune evidenze sulla modalità di svolgimento della didattica a distanza e sugli effetti per le famiglie italiane (May 2021)

Giulia Bovini and Marta De Philippis

Full text (pdf) in Italian only

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Principali risultati della quarta edizione dell'Indagine Straordinaria sulle Famiglie italiane (May 2021)

Concetta Rondinelli and Francesca Zanichelli

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Principali risultati della terza edizione dell'Indagine Straordinaria sulle Famiglie italiane nel 2020 (March 2021)

Concetta Rondinelli and Francesca Zanichelli

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Notes on Financial Stability and Supervision

No. 25: **Areas of reform of the MMF regulatory framework: an overview and potential options** (June 2021)

Nicola Branzoli, Arianna Miglietta and Luca Zucchelli

This note summarizes the policy options examined at international and EU level to reform the regulatory framework for money market funds (MMFs) and presents some preliminary considerations. The note first discusses the main vulnerabilities of MMFs and the liquidity strains experienced during the market turmoil in March 2020. It then provides a summary of the ongoing international work to address fragilities in the MMF sector and related policy proposals. Finally, it proposes some high-level principles that could guide the discussion and the selection of potential policy reforms for addressing vulnerabilities in the MMF sector

Full text (pdf)

Workshops and Conferences series

No. 24: **The crisis management framework for banks in the EU - How can we deal with the crisis of small and medium-sized banks**
(May 2021)

The volume is a collection of the papers and contributions presented at the workshop organized by the Bank of Italy 'The crisis management framework for banks in the EU. How can we deal with the crisis of small and medium-sized banks?' held online on 15 January 2021.
The workshop provided the opportunity to reflect on the possible reform of the EU crisis management framework to increase the capacity of the authorities to manage the crises of small and medium-sized banks so as to avoid a destroying-value piecemeal liquidation and the related overall costs.
The volume contains the papers that were selected following a call for papers in September 2020, and is divided into the three workshop sessions.
The first session, preceded by a keynote speech by A. Enria (ECB), illustrates the different possible approaches to managing the crises of small and medium-sized banks: widening the scope of resolution (M. Schillig - King's College London) or introducing a harmonized regime for orderly liquidation (M. Bodellini - Queen Mary University of London). This session includes proposals on how to finance resolution or orderly liquidation and the role of deposit guarantee schemes, which is highlighted in the paper by F. Restoy, R. Walters and R. Vrbascki (Financial Stability Institute). The discussant is T. Beck (CASS Business School).
A keynote speech by E. König (Single Resolution Board) precedes the second session, in which papers are presented by experts from the following authorities: BaFin (Germany), Banco de España and the Danish Financial Supervisory Authority. Their papers illustrate the experience acquired over the first few years that the rules were applied and make proposals for possible future reform. The discussant is E. Tornese (DG FISMA, European Commission).
Lastly, in the third session, opened with a keynote speech by A.J. Murton (FDIC - Federal Deposit Insurance Corporation), two papers are presented, one by N. Veron (Bruegel and Peterson Institute), which takes the American model as a starting point for some considerations on the possible reform of EU rules, and one by L. Shibut and G. De Verges (FDIC) on the approaches taken by the FDIC in the two crises of 1980-94 and 2008-13. The discussant is E. Carletti (Bocconi University).
The volume also contains the remarks made by the participants at the concluding round table, moderated by Deputy Governor A. Perrazzelli: C.M. Buch (Deutsche Bundesbank), A. Rivera (Ministry of Economy and Finance), J. Berrigan (DG FISMA) and F. Restoy (Financial Stability Institute).
The workshop was opened by the Governor of the Bank of Italy, I. Visco, and concluded by Deputy Governor A. Perrazzelli; their speeches are also included in the volume.
It is hoped that the workshop and the volume published today can contribute to the debate on the reform of the EU framework for managing bank crises.
Full text (pdf)

Selection of Journal articles and books

Authors' names in boldface: Bank of Italy

Full list since 1990

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