BANCA D'ITALIA
EUROSISTEMA

NUMBER 67
JULY 2022

RESEARCH AT THE BANK OF ITALY
DIRECTORATE GENERAL FOR ECONOMICS, STATISTICS AND RESEARCH
NEWSLETTER

Contents

Highlights

Conference on 'The North-South gap: economic development and public intervention'

(Rome, 20 June 2022)

On 20 June 2022 the Bank of Italy hosted the conference **'The North-South gap: economic development and public intervention'**, during which the Bank of Italy's researchers presented the results of a research project. The presentations covered a wide range of issues relating to the economic development of Southern Italy and suggested the main priorities for public intervention.

The meeting was opened by Ignazio Visco, Governor of the Bank of Italy, and Mara Carfagna, Minister for Southern Italy and Territorial Cohesion. The conference ended with a roundtable, chaired by Senior Deputy Governor Luigi Federico Signorini, where experts and policymakers discussed the key findings and recommendations of the project.

The programme and material are available here.

Events organized by the Seminar Committee

The Seminar Committee organizes numerous events led by speakers mostly from Italian and foreign universities, international organizations, and other central banks.

The seminars offer an excellent opportunity for researchers and economists to keep abreast of recent developments and share their professional knowledge with international experts on issues related to the institutional tasks and research carried out by Bank of Italy.

The list of the events, together with the papers and slides, whenever available, can be found here.

Forthcoming events

5th edition of the Bank of Italy-CEPR Labour workshop: Labour market policies and institutions

(Rome, 15-16 September 2022)

The fifth edition of the **Bank of Italy-CEPR Labour workshop: Labour market policies and institutions** will take place in Rome on September 15-16, 2022. The workshop aims at providing leading and emerging researchers in the field of labour economics an opportunity to present their work relevant for understanding the role of policies and institutions in shaping labour supply and demand, as well as in matching workers to jobs.

The keynote lectures will be given by Hilary Hoynes (UC Berkeley) and Attila Lindner (UCL and CEPR).

The scientific committee is composed by Gaetano Basso (Bank of Italy), Barbara Biasi (Yale School of Management, EIEF and CEPR), Marta De Philippis (Bank of Italy), Marco Manacorda (Queen Mary University of London and CEPR) and Claudio Michelacci (EIEF and CEPR)

For registration to attend the conference and for any other enquiry please send an email to bdicepr_conf@bancaditalia.it.

The programme can be found here.

The effects of climate change on the Italian economy

(Rome, 3-4 October 2022)

The Bank of Italy is organizing a workshop to present the findings of research projects on **'The effects of climate change on the Italian economy'**, which includes papers on its physical impact on sectors, markets and socio-economic outcomes, as well as studies on the effectiveness of environmental policies.

The event will take place in hybrid form on 3-4 October 2022 and will feature a high-level policy panel on the options and the obstacles ahead for the decarbonization process.

The programme will soon be available here.

Latest Working Papers

No. 1380: **An analysis of objective inflation expectations and inflation risk premia** (July 2022)

Sara Cecchetti, Adriana Grasso and Marcello Pericoli

The work uses a factor model, applied to inflation swaps and inflation options with different maturities, to study expected inflation and the inflation risk premium in the euro area. Compared to the existing literature, the model introduces the hypothesis that both long-term inflation and its volatility are variable over time and the estimate of expected inflation is anchored to forecasts based on surveys conducted by the ECB.

Expected medium-term risk-adjusted inflation was close to the ECB's target from 2010 to mid-2014; subsequently it showed a decrease, contained by unconventional monetary policy, which reached a low when the pandemic broke out in 2020; it has increased since mid-2021, reaching just over 2 per cent at the end of the year. The medium-term inflation risk premium was positive until 2014, negative since 2015, almost nil towards the end of 2021.

Full text

No. 1379: **The impact of Covid-19 on the European short-term rental market** (July 2022)

Sabrina Di Addario, Patrick Kline, Raffaele Saggio and Mikkel Sølvsten

The spread of the Covid-19 pandemic and the related containment measures have had a very strong impact on tourist flows, which were practically halted for prolonged periods. Leveraging Airbnb's public data, which include major European tourist destinations, the work provides an in-depth analysis of the phenomenon up to early 2021, focusing on the short-term rental market.

The work shows that the outbreak of the pandemic has drastically reduced both the supply and demand for rental apartments. The accommodation structures most exposed to foreign tourism were the most affected and reacted by reducing prices. Given a similar spread of the infection, these trends were more intense the more stringent the containment measures imposed by governments were.

Full text

No. 1378: **Firm liquidity and the transmission of monetary policy** (July 2022)

Margherita Bottero and Stefano Schiaffi

The paper empirically studies whether the liquidity of Italian companies, which in recent years has reached very high levels, affects the supply of bank loans and the transmission of monetary policy. From a theoretical point of view, it is not clear that more liquid companies enjoy better access to credit, as ample liquidity can reveal both positive (e.g. high profitability) and negative (e.g. greater shock exposure) information on the firm.

The results indicate that banks look favourably on the liquidity held by their borrowers. In fact, liquidity is associated with the granting of less expensive loans, in terms of both interest rates and commissions, and a larger share of long-term and unsecured loans. Furthermore, greater liquidity is linked to a lower transmission of short-term policy rate hikes due to monetary policy choices.

Full text

No. 1377: **“Green” fiscal policy measures and non-standard monetary policy in the euro area** (July 2022)

Anna Bartocci, Alessandro Notarpietro and Massimiliano Pisani

The paper evaluates the macroeconomic effects of increasing taxation on fossil sources of energy (carbon tax) in the euro area by simulating a New Keynesian model where the tax revenues finance higher subsidies for renewable sources and reduce labour taxes. It is assumed that the increase in the carbon tax is gradual, announced by the authorities, and therefore expected by households and firms; these features make it different from a sudden and unexpected rise in the international prices of fossil fuels.

A carbon tax increase has recessionary effects, which can be offset almost entirely by using the carbon tax revenues to increase subsidies for renewable sources and to reduce labour taxes. If the monetary policy rate is at its lower bound, then the net recessionary effects can be offset by reducing the long-term interest rates through sovereign bonds purchases by the central bank for monetary policy purposes.

Full text

Latest Working Papers

No. 1376: **Connecting to power: political connections, innovation, and firm dynamics** (July 2022)

Ufuk Akcigit, Salomé Baslandze and Francesca Lotti

The paper assesses to understand whether the political connections of some firms, in addition to bringing advantages for the companies that exploit them, by alleviating some regulatory or bureaucratic constraints (for example, by reducing the time to obtain a licence), negatively affect other companies, the degree of competition in the markets, innovative capacity and productivity trends in the economy as a whole.
The results document a 'leadership paradox': market leaders are much more likely to be politically connected, but also less likely to innovate, a finding in contrast to the literature on the Schumpeterian growth model, according to which leading companies are also the most innovative. The presence of connections is associated, at company level, with greater survival rates, growth in employment and in revenues, but not with productivity gains. Using a theoretical model, it is shown how the advantages of political connections for the companies that implement them do not compensate offset the aggregate losses associated with lower growth in overall productivity and a poor ability to reallocate resources between firms.
Full text

No. 1375: **New facts on consumer price rigidity in the euro area** (July 2022)

Erwan Gautier, Cristina Conflitti, Riemer P. Faber, Brian Fabo, Ludmila Fadejeva,Valentin Jouvanceau, Jan-Oliver Menz, Teresa Messner, Pavlos Petroulas, Pau Roldan-Blanco, Fabio Rumler, Sergio Santoro, Elisabeth Wieland and Hélène Zimmer

The study, carried out within the Eurosystem's research network Prisma (Price-setting Microdata Analysis Network), provides new evidence on the frequency and extent of changes in consumer prices in the euro area, obtained on the basis of granular data underlying the official consumer price index. These data, provided by the national statistical institutes, are available for 11 countries in the area.
On average, more than 12% of prices change over a given month. Differences between countries are relatively small, while sectoral heterogeneity is much more pronounced: prices vary more frequently for unprocessed food products (31%, on average, every month) but much less for services (6%). The change in the price is typically quite large: the median increase is 9.6%, the median decrease 13% (7% and 10%, respectively, excluding end-of-season sales). The median variation, in both directions, is smaller for services than it is for other products.
Full text

No. 1374: **It ain't where you're from, it's where you're at: hiring origins, firm heterogeneity, and wages** (June 2022)

Sabrina Di Addario, Patrick Kline, Raffaele Saggio and Mikkel Sølvsten

The study analyses gender inequality in hiring wages when starting a new job by using INPS data (1990-2015), which allow us to follow the working life of the individuals who were employed at some point by a firm sampled by the Bank of Italy's Survey of Industrial and Service Firms. The research develops an empirical model that makes it possible to estimate the impact on gender inequality of the employment state from before the worker was hired and the characteristics of both the 'destination' firm hiring the worker and the employee.
The estimated gender differential in firm hiring wages is 35 per cent. Only 0.7 per cent of the variance in the hiring wages of individuals who change occupation is explained by origin effects, while destination effects account for about 24 per cent and individual effects for 29 per cent. The contribution of each of these effects is similar for women and men. Overall, 10 per cent of the variance in hiring wages reflects gender differentials.
Full text

No. 1373: **Voluntary support and ring-fencing in cross-border banks** (June 2022)

Gyoengyi Loranth, Anatoli Segura and Jing Zeng

The paper analyses the possible introduction by national supervisory authorities of limits to

Latest Working Papers

capital mobility between subsidiaries of cross-border banking groups following the realization of losses in one subsidiary. The work also analyses the effects of the establishment of a supranational supervisory authority on capital mobility within cross-border banking groups and on risk-taking in loan issuance.
When the correlation between the returns on loans issued by subsidiaries of a cross-border banking group is positive, it is optimal for national supervisory authorities to impose limits on capital mobility towards impaired subsidiaries. In such a case, the establishment of a supranational authority instead of national authorities would facilitate mutual support across subsidiaries of a banking group and lead to a reduction in the dispersion of loan risks across banking groups.
Full text

No. 1372: **Higher capital requirements and credit supply: evidence from Italy** (June 2022)

Maddalena Galardo and Valerio Paolo Vacca

The paper investigates the short-term impact on credit supply of the higher risk-based capital requirements implemented in 2014 with Basel III reforms, using a granular dataset on bank loans to Italian firms matched to information on firms' and banks' characteristics. The study focuses on the relationship between banks' capital positions before the reform and their lending supply in the early years after the reform, while the steady-state impact of higher capital requirements is not addressed.
In the early years after the reform, higher requirements are associated with credit tightening, especially towards risky firms. The tightening is stronger for banks that, before the reform, had a capital buffer below the first quartile of its distribution but not for banks with extremely weak capital positions (below the first decile); the latter tightened credit to a lesser extent, since they benefitted the most from the forced safety effect due to Basel III.
Full text

No. 1371: **Mutual fund trading and ESG stock resilience during the Covid-19 stock market crash** (June 2022)

Rui Albuquerque, Yrjö Koskinen and Raffaele Santioni

This paper analyses whether the trading behaviour of actively managed US equity mutual funds contributed to the resilience of ESG firms' securities during the market crash of February and March 2020, after the outbreak of the Covid-19 pandemic.
Environmental, Social, and Governance funds, and to a lesser extent non-ESG funds, contributed to the documented resilience of ESG stocks by buying them aggressively, conditional on the same level of inflows. Surprisingly, we find that both ESG and non-ESG funds sold their non-ESG stocks more aggressively during the crash, for the same level of outflows, thus also contributing to the relatively better performance of ESG stocks during the crash.
Full text

No. 1370: **The effects of local demand and supply restrictions on markup** (June 2022)

Antonio Acconcia and Elisa Scarinzi.

We investigate the causal response of markup to a contraction in local demand and supply by comparing the response to these shocks across sectors characterized by different degrees of local competition. We exploit firm-level data and a natural experiment framework based on the implications of Italian anti-mafia legislation that allows us to consider episodes of unanticipated city-council dismissal as a contraction in demand and of firm seizure as a contraction in supply.
The results show that a contraction in demand tends to shrink the markups of differentiated manufacturing goods, transport and business services that are not affected by strong local competition, whereas it reduces labour costs for the retail, wholesale, accommodation and food (more competitive sectors), without any effect on markups. A contraction in supply boosts markups heterogeneously among firms.
Full text

Other recent Working Papers

March 2022 — April 2022

No. 1369: Public guarantees and credit additionality during the Covid-19 pandemic
Giuseppe Cascarino, Raffaele Gallo, Francesco Palazzo and Enrico Sette

No. 1368: Exchange rate pass-through in small, open, commodity-exporting economies: lessons from Canada
Marco Flaccadoro

No. 1367: The role of non-bank financial institutions in the intermediation of capital flows to emerging markets
Alessandro Moro and Alessandro Schiavone

No. 1366: Monetary policy in the open economy with digital currencies
Pietro Cova, Alessandro Notarpietro, Patrizio Pagano and Massimiliano Pisani

No. 1365: Foreign monetary policy and domestic inflation in emerging markets
Marco Flaccadoro and Valerio Nispi Landi

No. 1364: Making subsidies work: rules vs. discretion
Federico Cingano, Filippo Palomba, Paolo Pinotti and Enrico Rettore

Latest Occasional Papers

No. 710: **The territorial gaps in the access of Italian firms to credit** (July 2022)

Carlo Bottoni, Michele Cascarano, Iconio Garrì, Litterio Mirenda, Paolo Emilio Mistrulli, Dalia Maria Pizzillo, Davide Revelli and Tiziano Ropele

The issue of territorial divides in access to credit for firms has long been debated in Italy. This work contributes to that debate by providing an updated and enriched analysis of the indicators used, which aims to assess whether in the South, where some negative externalities are more marked than in the North, firms face greater difficulties in access to credit than in the rest of the country.

The study shows that, after controlling for firm and lending bank characteristics, in the period 2010-19, southern firms paid a higher cost for credit (by about 70 basis points, on average) and provided collateral more frequently than in the Centre and North. The negative externalities, which are more marked in the South of Italy (such as lower efficiency of civil justice, greater prevalence of crime, lack of social capital), contribute to the less favourable conditions of access to credit, which in turn lead to a lower propensity of southern firms to apply for new loans .

Full text in Italian only

No. 709: **The features of equity capital increases by Italian corporates** (July 2022)

Francesco Columba, Tommaso Orlando, Francesco Palazzo and Fabio Parlapiano

The paper analyzes capital increases by Italian corporates between 2008 and 2020. It studies the characteristics of firms that more frequently resort to such operations and the effects of capital strengthening on their financial conditions and economic performance.

About 1 percent of corporates resorted to capital increases in the analyzed period. Firm size and riskiness affect both the likelihood of retrieving new capital and the destination of the new funds. Fragile firms use new equity mostly to rebalance their financial structure, thus lowering their market exit and insolvency rates. On the other hand, financially sound firms direct the funds to new investments, which foster revenues growth.

Full text

No. 708: **Weaknesses and perspectives of municipal finance in southern Italy on the eve of Covid-19** (July 2022)

Alfredo Bardozzetti, Paolo Chiades, Anna Laura Mancini, Vanni Mengotto and Giacomo Ziglio

The aim of the paper is to analyse the economic and financial conditions of Southern Italian municipalities, as compared with the rest of the country. The paper also looks at their future prospects in the aftermath of Covid-19 and at the rebooting of the equalization system.

Over the last decade the southern municipalities have suffered from structural weaknesses that have worsened their financial condition. Therefore, they have been less able, with respect to the rest of the country, to provide public services and to invest. Looking ahead, the difficulties facing southern municipalities can be overcome through the completion of the federalist reform (equalization system and essential level of public services), better enforcement of tax collection and more efficient spending procedures.

Full text in Italian only

No. 707: **Temporary contracts: an analysis of the North-South gap in Italy** (July 2022)

Silvia Camussi, Fabrizio Colonna and Francesca Modena

In Italy the share of temporary employment in the non-farm private sector is significantly higher in the South. Our analysis aims to investigate the determinants of the gap between the two macro-regions of the Centre and North, and the South: after assessing how much can be explained by the composition of both labour demand and supply, we focus on the role played by job creation and job destruction dynamics. In particular, we study the differences between the two areas in hiring strategies and in the evolution and duration of employment contracts.

More than half of the Centre North-South gap in the use of temporary contracts is explained by the differences in sectoral and occupational composition. A large part is associated with differences in the age profile of temporary workers. According to flow data, the larger share of fixed-term contracts in the South reflects the

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lower probability that they will eventually be converted into permanent ones and the shorter duration of permanent positions.
Full text

No. 706: **Bank exposure to climate-related physical risk in Italy: an assessment based on AnaCredit data on loans to non-financial corporates** (July 2022)

Giorgio Meucci and Francesca Rinaldi

The study provides an assessment of Italian banks' exposure to physical risk from climate change in relation to lending to non-financial corporates. A first analysis considers all types of climate risks at province level, while a second in-depth study focuses on flood and landslide risk at municipality level. The methodology takes into account both the location of the debtor firms' operating facilities and the mitigating role of collateral.
About a quarter of the value of loans to firms is granted to businesses located in highly risky provinces; 58 per cent of the value of these loans is secured, even if part of the collateral could also be impacted. The coverage rate falls to 38 per cent if only personal guarantees are considered. Based on the analysis at municipality level, the share of loans exposed to flood and landslide risk amounts to 3 and 8 per cent respectively.
Full text

No. 705: **Changes in Italy's employment structure and job quality** (July 2022)

Luciana Aimone Gigio and Silvia Anna Maria Camussi

This paper contributes to the literature on changes in the employment structure from a regional perspective. The study focuses on the job quality (measured by the mean wage associated with each combination of occupation and sector) created and destroyed in the period 2014-19 in Italy's southern regions in comparison with central and northern ones and with European regions with similar characteristics.
In the period analyzed, employment growth was not strong enough in the South of Italy to return to pre-crisis levels, contrary to that observed in the Centre-North. The gap in the average quality of jobs, already wide between the two macro areas and unfavourable for the southern regions, increased further. Indeed, in the South, employment growth mainly involved the traditional sectors, while the number of public sector workers decreased. Even compared with other lagging regions in Europe, southern Italy fared worse.
Full text in Italian only

No. 704: **Job flows and reallocation during the recovery** (July 2022)

Gaetano Basso, Domenico Depalo and Salvatore Lattanzio

The crisis caused by COVID-19 profoundly affected the dynamics of activations and terminations of labour contracts, with heterogeneous effects on workers, penalizing especially those with less stable contracts. This study uses a large random sample of Italian employees extracted from the Ministry of Labour's mandatory reporting administrative data ( ) to analyse employment dynamics from the onset of the pandemic up to December 2021.
For workers with stable contracts in the first four months of 2020, the probability of non-employment after almost two years decreased by about 2 percentage points compared with previous years. The probability of finding a new job was instead significantly lower for employees who lost their jobs right before the onset of the pandemic and for those who were searching for a job for the first time in 2020-21.
Full text

No. 703: **Tracking economic growth in real time during the pandemic: a rationale for a revision of €-coin** (June 2022)

Valentina Aprigliano, Simone Emiliozzi e Marco Lippi

This paper illustrates the changes made to the coincident indicator of euro-area economic activity, €-coin, to increase its ability to track the medium- to long-term growth component of quarterly GDP even after the outbreak of the COVID-19 pandemic. These innovations became operational starting with the release of the

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indicator for December 2020.
The changes concerned mainly the estimation sample and the composition of the dataset. They improved €-coin's ability to capture both the sudden worsening of the economic situation in the first half of 2020 and the slowdown observed in the autumn of the same year, due to the resurgence of the pandemic, without altering its ability to estimate, with stability and precision, the medium- to long-run growth component of GDP, including in the past.
Full text

No. 702: **FinTech lending and equity and debt platforms around the world and in Italy** (June 2022)

Salvatore Cardillo, Antonio Ilari, Silvia Magri, Giorgio Meucci, Mirko Moscatelli, Dario Ruzzi

This paper provides evidence on Fintech platforms operating worldwide and in Italy, in both lending and funding through debt and equity financing. The objective of the analysis is to assess the actual market footprint of these activities, describe the business processes and identify the main characteristics of customers who lend and borrow funds through these platforms.
Excluding China – where very strict regulation has drastically reduced volumes – transactions finalized by Fintech platforms have continued to grow in recent years, reaching 113 billion dollars in 2020. In Italy too, there has been marked growth in the activities of these platforms, primarily those related to business lending and invoice trading. Despite the considerable growth observed in recent years, Fintech lending still represents a small share of overall loans in all the main countries.
Full text in Italian only

No. 701: **The Performance of Italian industrial districts in and out of the Crisis** (June 2022)

Valter Di Giacinto, Andrea Sechi and Alessandro

The paper provides descriptive evidence on the productivity trends of manufacturing firms in Italy's industrial districts from 2003 to 2017, exploiting Cerved and INPS data. The comparison is conducted between companies operating in industrial districts and those established in non-district and non-urban local labour systems, controlling for firm sector, size and geographical area.
Firms located in industrial districts attain higher labour productivity levels and this advantage has increased since 2013. The productivity premium has been wider and more persistent in districts specialized in traditional sectors (fashion, luxury goods and food) and, to a lesser extent, in the mechanical industry. The relative improvement in productivity involved mainly medium-large enterprises and those not operating in the specialization sector of the district.
Full text

No. 700: **Quantitative assessment of the economic impact of the trade disruptions following the Russian invasion of Ukraine** (June 2022)

Alessandro Borin, Francesco Paolo Conteduca, Enrica Di Stefano, Vanessa Gunnella, Michele Mancini and Ludovic Panon

This paper analyses the impact of the Russian invasion of Ukraine and of the resulting restrictions on foreign trade for the world's major economies. We base our simulations on two international trade models: the first assumes a high degree of substitutability between inputs and suppliers and is better suited for medium to long-term assessments; the second assumes a lower possibility of diversifying energy sources and better captures the short-term impacts of the restrictions imposed on Russia.
Using the first model, we find a sizeable gross national expenditure loss for Russia but a modest one for the sanctioning countries, even if the restrictive measures are applied to the energy sector. Using the second model, the effects on sanctioning countries of restrictions on oil and natural gas imports from Russia are larger.
Full text

No. 699: **Why is credit riskier in the South?** (June 2022)

Luca Casolaro, Marco Gallo e Iconio Garrì

This paper investigates the dynamics of the territorial divide in credit quality in the period from 2006-19. Using data on individual bank-firm credit relationships, the analysis assesses to what extent the gap is due to: a) the characteristics of the firms and banks operating in the two areas, b)

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differences in the economic cycle and c) other factors external to the credit market.
The annual deterioration rate of loans to firms in the period was around 7 per cent in the South, 1.8 percentage points higher than in the rest of the country. About 0.5 points of the gap is explained by the characteristics of the borrowing firms and 0.2 points by the mix of the lending banks, while a further 0.6 points is due to the different trends in economic activity. The residual gap vanishes when variables related to the external context are included in the model, such as organized crime, the inefficiency of the judicial system and the lack of social capital.
Full text in Italian only

No. 698: **Regulatory complexity, uncertainty, and systemic risk** (June 2022)

Maurizio Trapanese

The paper argues how a highly complex financial regulation can determine an increased systemic risk. In the first part, it outlines how the economic concepts of risk and uncertainty have shaped the main regulatory frameworks over the last two decades. Subsequently, it analyses the regulatory response to the global financial crisis of 2007-08, in order to understand whether and to what extent an excessively complex financial regulation may turn out to be costly and sub-optimal for crises prevention.
The research proposes to widen the application of the distinction between risk and uncertainty to financial regulation to achieve more simplicity, without involving less stringent rules. To this end, some options are envisaged to increase: the degree of proportionality in financial rules; the complementarity between entity- and activity-based regulations; the flexibility within the rulemaking process between the political and regulatory levels.
Full text

No. 697: **Social shock absorbers in Italy: a comparison with the main European countries** (June 2022)

Francesca Carta, Antonio Dalla Zuanna, Salvatore Lattanzio and Salvatore Lo Bello

This paper analyses the Italian system of social shock absorbers (unemployment benefit and short-time work schemes) and Active Labour Market Policies (ALMPs), in comparison with those implemented in the main euro-area economies. The analysis also includes guaranteed minimum income schemes that can act as last resort incomes when social shock absorbers are not accessible or sufficient for a household's basic needs.
The overall structure of the Italian social insurance system is fairly similar to that implemented in the main European countries. However, it is characterized by: a) lower importance being given to the ALMPs and poor coordination with the unemployment benefit and the new minimum income scheme; b) the eligibility for short-time work schemes to closing firms as well; and c) higher risk of labour supply disincentives and inequalities towards foreigners and large households (inherent in the design of the new minimum income scheme).
Full text in Italian only

No. 696: **An assessment of Italy's energy trade balance** (June 2022)

Claire Giordano and Enrico Tosti

The study analyses developments in Italy's energy trade balance since the 1970s and in comparison with the other main euro-area countries in more recent years. It furthermore examines Italy's energy imports broken down by product and by sourcing market and it assesses the impact on the cyclically-adjusted balance of payments current account balance.
The reduction in the cyclically-adjusted current account balance for Italy in 2021 was entirely due to the deterioration in the energy deficit, in turn linked to the increase in energy prices. The deficit was moderately larger than in the other main euro-area countries, but smaller than during the 1970s and 1980s oil shocks. Oil is still the main component of Italy's energy imports but its share has fallen to the advantage of natural gas. Geographical concentration remains high, as the decline in the share of OPEC members has been offset by an increase in the share of former USSR countries.
Full text

No. 695: **Trade debts and bank lending in years of crisis** (June 2022)

Davide Dottori, Giacinto Micucci and Laura Sigalotti

In addition to bank loans, trade debts represent an important source of finance for Italian firms, especially in the South and Islands. Using

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information on company financial statements and loans at bank-firm level, this paper examines the substitutability of bank loans and trade debts in the period 2010-15, which encompasses the sovereign debts crisis and consequent episodes of credit supply shocks.

We find a significant negative elasticity of trade debt to bank loans. This result is consistent with the pecking order theory, according to which firms prefer bank debt to (more costly) trade debt and an exogenous reduction in the former spurs the use of the latter. The substitutability of the two sources of finance allows firms to increase their resilience to credit supply shocks.

Full text

No. 694: **The reconstruction of back data for Italy's balance of payments and international investment position (1945-1969)** (June 2022)

Enrico Tosti

This paper presents a reconstruction of the data on Italy's balance of payments and international investment position between the immediate post-war period and 1969. The reconstruction, consistent with the new standards set forth in the sixth edition of the International Monetary Fund's Balance of Payments Manual, extends previous research that covered the period between 1970 and the second half of the 1990s.

In the reconstruction, the current account balance remains substantially unchanged compared with the historical data, while for the financial account the changes are significant and due primarily to the use of previously unavailable information. Overall, statistical discrepancies between real and financial flows (errors and omissions) are now more consistently concentrated in the 1960s, when the illicit transfer of capital abroad was intense, a phenomenon that induces negative errors and omissions.

Full text in Italian only

No. 693: **Statistics for economic analysis: the experience of the Bank of Italy** (June 2022)

Giovanni D'Alessio, Riccardo De Bonis, Matteo Piazza, Luigi Infante, Giorgio Nuzzo, Silvia Sabatini, Francesca Zanichelli, Romina Gambacorta, Guido de Blasio, Stefano Federico, Juri Marcucci, Laura Bartiloro and Elena San Martini

The paper provides an overview of the main statistics produced by the Bank of Italy: financial accounts, monetary statistics, balance of payments, household and business surveys. The volume discusses the problems related to the measurement of economic phenomena, how statistics can be used for policy evaluation, the challenges for official statistics posed by globalization, the digital economy and big data. Statistical production in the Bank of Italy for the purposes of economic analysis is carried on intensively. This paper illustrates its characteristics in a concise and accessible form to a wide audience of potential users. The contributions collected in this volume were also used as background readings for the students enrolled in the course 'Laboratory of Financial and Monetary Statistics' held in the 2021/22 academic year within the European Master in Official Statistics (EMOS) at the Sapienza University of Rome.

Full text

No. 692: **Textual analysis of a twitter corpus during the Covid-19 pandemics** (June 2022)

Valerio Astuti, Marta Crispino, Marco Langiulli and Juri Marcucci

This paper describes some of the most common machine learning techniques used to analyze and extract information from textual data and applies these methodologies to a large sample of posts (tweets) related to the Covid-19 pandemic that the Bank of Italy collected from Twitter. We analyze the most actively discussed topics related to the pandemic and we build a real-time indicator for the average sentiment of the users (sentiment analysis).

At the outbreak of the pandemic there is a marked spike in the number of tweets shared on the platform and a marked drop in their sentiment. Symptoms of the disease are the most relevant topic at the beginning of the pandemic waves while the economic situation and the consequences of restrictive measures become a major concern later.

Full text

Other recent Occasional Papers

March 2022 — April 2022

No. 691: The future of European fiscal governance: a comprehensive approach
Marzia Romanelli, Pietro Tommasino and Emilio Vadalà

No. 690: Technological progress and institutional adaptations: the case of the central bank digital currency (CBDC)
Riccardo De Bonis and Giuseppe Ferrero

No. 689: Stacking machine-learning models for anomaly detection: comparing AnaCredit to other banking datasets
Pasquale Maddaloni, Davide Nicola Continanza, Andrea del Monaco, Daniele Figoli, Marco di Lucido, Filippo Quarta and Giuseppe Turturiello

No. 688: Climate change and credit risk: the effect of carbon taxes on Italian banks' business loan default rates
Maria Alessia Aiello and Cristina Angelico

No. 687: A model of system-wide stress simulation: market-based finance and the Covid-19 event
Giovanni di Iasio, Spyridon Alogoskoufis, Simon Kordel, Dominika Kryczka, Giulio Nicoletti and Nicholas Vause

No. 686: Will the green transition be inflationary? Expectations matter
Alessandro Ferrari and Valerio Nispi Landi

No. 685: Regional inequality in Italy in the face of economic crises, recovery, and the health emergency
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Notes on Financial Stability and Supervision

No. 30: **Overlaps between minimum requirements and capital buffers: the case of Italian banks** (June 2022)

Wanda Cornacchia and Giulio Guerra

The term 'buffer usability' refers to the possibility for banks to use the capital buffers included in the Combined Buffer Requirement (CBR) without simultaneously breaching any other binding regulatory requirements; if instead some or all of the capital set aside to meet the CBR is needed to satisfy other minimum requirements as well, such an overlap would hamper the buffer usability. In this work we investigate the mechanics of the interaction between minimum requirements and buffers by developing a comprehensive methodology aimed at measuring the actual usability of the CBR. Such a methodology takes into account all four EU regulatory requirements simultaneously: the risk-weighted one (RW), the leverage ratio (LR), the riskweighted MREL (MREL-RW) and the leverage-ratio-based MREL (MREL-LR). This means that we consider not only the CBR stacked on top of the RW requirement, but also the CBR placed on top of the risk-weighted MREL. According to our methodology, the overlap between minimum requirements and capital buffers affects about one fourth of Italian banks and reduces the CBR's usability to 74 per cent of its theoretical value, compared with a mere 27 per cent if the CBR placed on top of the MREL-RW is not taken into account. When the CET1 absorbed by the MREL-RW requirement is higher than the CET1 absorbed by the RW one, the CBR may be more usable than is apparent from the approach based solely on the RW requirement. This explains why, by also considering the regulatory requirements of the resolution framework, the usability of the CBR increases. The issue of the overlap is being debated at international level by the main financial authorities and the standard setters.
Full text

No. 29: **Climate risk for Italian banks: an update based on the Regional Bank Lending Survey** (June 2022)

Cristina Angelico, Ivan Faiella and Valentina Michelangeli

This note presents recent evidence of the steps taken by Italian banks to evaluate and integrate climate risks into their asset management. According to the most recent Regional Bank Lending Survey, only a small share of banks has already undertaken evaluations of the effects of climate-related risks (physical and transition) on their credit portfolio; nevertheless, the vast majority of financial intermediaries are planning to do so in the near future. Compared with similar surveys carried out in the past, the number of banks demonstrating that they are aware of and attentive to the risks associated with climate change is growing, but the adoption of good practices for the complete integration of these risks into their corporate strategies remains insufficient.
Full text in Italian only

Economic History Working Papers

No. 49: **The Italian Banking System During the 1907 Financial Crisis and the Role of the Bank of Italy**
(June 2022)

Francesco Vercelli

This paper examines the Italian banking system during the 1907 financial crisis, from start to finish. Using bank balance sheet data from the Historical Archive of Credit in Italy, we analyse the developments of the banking system in the run-up to the crisis. We show that the four Italian mixed banks, which registered a rapid growth at the beginning of the 20th century, were little engaged in the traditional activity of bill discounting and largely involved in 'repurchase agreements' on stocks and in correspondent current accounts. Because of this business model, the mixed banks - and in particular the Società Bancaria Italiana - turned out to be fragile when the international crisis hit the country. Then we analyse the complex interactions between the major financial institutions and the government in order to face the crisis. We focus on the role of the Bank of Italy, which acted as a modern central bank for the first time since its creation.

Full text

Markets, Infrastructures, Payment Systems

No. 26: **Integrating DLTs with market infrastructures: analysis and proof-of-concept for secure DvP between TIPS and DLT platforms** (July 2022)

Rosario La Rocca, Riccardo Mancini, Marco Benedetti, Matteo Caruso, Stefano Cossu, Giuseppe Galano, Simone Mancini, Gabriele Marcelli, Piero Martella, Matteo Nardelli and Ciro Oliviero

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Giulio Gariano and Gianluca Viggiano

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