Research in Economics at Banco de Portugal • n.º 2 • year I • spring 2014

Overview

Being this the second issue of Spillovers this is the first number since I took the leadership of the Economics and Research Department. So let me begin by saying that I strongly believe in the importance of research for the success of the main activities of any central bank, and namely in a national central bank in the Eurosystem. Banco de Portugal has had a very successful path in research not only compared to other national banks but also compared to top academic institutions in Europe. It is our aim to face the challenges ahead and to maintain that path. Spillovers is instrumental in the strategy to promote the interaction within the community of researchers in the bank as well as between the Banco de Portugal, the Eurosystem and the academic community as a whole. Every central bank should strive to produce high-quality research, but in the difficult times we live on, the reputation for excellence is even more important. The need to influence expectations and improve confidence gives a premium to credibility. Having research capacity promotes the credibility of policymakers and the policies they implement. Moreover, competitive forces encourage innovative thinking at any national bank when integrated in a monetary union. The communication role of Spillovers clearly helps in that competitive environment. This issue of Spillovers begins with an interview to Lucy White, who gave a course at Banco de Portugal in November on the subject Banks and Bank Regulation. This is a key topic that not only helps develop research ideas and the needs of economic analysis at any central bank nowadays, but is also of interest across different departments of Banco de Portugal. Another important component of successful research is accountability for the time and resources that are given to researchers to do their work. Let me stress here two measures we want to use, and therefore display in this newsletter: the list of academic papers published in academic journals and the list of articles written for the publications of Banco de Portugal. In the present issue Francisco Veloso, Dean of Catolica Lisbon School of Business and Economics was invited to select one work of each type and to defend his choice. This is an example of the way Spillovers promotes the interaction between the Banco de Portugal research community and the outside community. Last, but may be the most important guiding principle at this phase in Banco de Portugal, is the openness of the research agendas of our economists. This openness is essential for the interaction that fosters success in creativity and therefore research. Spillovers performs this role in the section Meet our Researchers, which is complementary with Exchange, a forum created to provide every Thursday a time for open discussion on research projects that are being developed by our economists.

Isabel Horta Correia

Head of the Economics and Research Department (DEE)

Also in this issue

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Interview

Lucy White joined the finance group at Harvard Business School in 2002. She currently teaches the M.B.A. course "Corporate Financial Management." Professor White received her B.A. in Philosophy, Politics and Economics, and her M.Phil. in Economics, from the University of Oxford; and a D.E.E.Q.A. (European Diploma in Economics) from the University of Toulouse. She gained a doctorate in economics from the University of Oxford in 1999 for her research on Strategic Behaviour under Uncertainty; and a doctorate in finance from the University of Toulouse in 2001 for her Essais en Finance d'Entreprise.

Professor White's research interests include auctions, bargaining, industrial organisation, banking and corporate finance. Her work has been published in top finance and economics journals, such as the Journal of Finance, Econometrica, American Economic Review and the RAND Journal of Economics.

Lucy White gave a course at Banco de Portugal in November on the subject Banks and Bank Regulation.

- *The global financial crisis has illustrated how a well functioning banking system can be vital for the economy. Which do you think could be the main lessons from this crisis for economic research in general and for banking theory in particular? Where is the contribution of research in central banks most needed?*

One of the problems with the academic literature is that it just argues that banks need to hold "capital" against their risky assets, without being very specific about exactly what that capital ought to be. I think academics assumed that this capital would be made up by equity issuance, but if you look at the securities issued by banks, certainly prior to the financial crisis, there were many securities issued that were counted as capital but which looked a lot more like perpetual debt. Capital needs not only to be loss-absorbing, but also needs to provide banks with good incentives: to avoid debt-overhang and risk-shifting behavior. These qualities are associated with common equity capital, but not with preferred stock, for example.

Now Basel III is tightening up on what can be counted as tier 1 capital, but we still have the problem that the academic literature does not spend much time on the specifics of what is good and bad capital. For example, the Swiss and UK regulators have encouraged banks to issue contingent convertible bonds ("co-cos") as a way of increasing their capital buffer and facilitating the rehabilitation of troubled banks. So far, more than $70bn of such bonds have been issued, with surely many more issues to come. But with co-cos, the incentives that the bond creates can be vastly different depending on the terms of the bond (how and at what rate it converts, for example), and the academic literature has so far done relatively little to help regulators make rules to discriminate between "good co-cos" and "bad co-cos".

In a similar way, Basel III is now introducing liquidity regulation; and academics have started to write papers explaining why liquidity regulation might be desirable; but we don't help regulators very much in deciding which assets should be considered liquid. And, as we learned in the last crisis, the "devil is really in the detail" of how the regulations are put into practice.

All this leaves a role for the research

departments of central banks to bridge the gap in thinking about how to reconcile the general principles that academics point out in abstract models, and the very practical decisions that regulators have to take.

- There is a lack of data that constrains our ability to test the effectiveness of macro-prudential tools but we seem to use this toolbox to prevent a relapse of the financial crisis. What in your opinion are the challenges that economists face going ahead with the implementation?

I think that to a large extent, we are fooling ourselves if we really think we can predict the next crisis. The point about crises is that they are really unpredictable; when smart and reasonable people see them coming, then the crisis is already upon us (*i.e.*, those people are already starting to sell assets). Why do we think that economists and regulators will be able to spot these things sooner than equally smart people working in the financial markets next time around? One possible reason is that macro-prudential regulators may have access to a more complete set of data than market participants. But on the other hand, market participants almost inevitably have a much sharper set of incentives and a better sense of market innovations as they happen.

Tobias Adrian has made this point in an interesting way recently – he argues that the compression of risk spreads in the run up to the crisis should be seen not as a signal that the market perceived that risks were low (which is how it was viewed at the time), but rather as the result of financial institutions building up risks, and thus compressing the pricing as a result. What this shows is that market data are very hard to interpret and act upon.

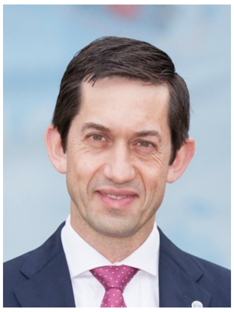
- There is an intense debate about how much capital banks need. Regulators and some academics argue that more capital is needed. Simultaneously, there is a huge pressure against this, mainly from the industry, based on the argument that more capital will undermine banks' business models and profitability. What are your views on this debate?

There are two issues here. One thing that has been pointed out is that the lobbying banks may not distinguish very well between partial and general equilibrium effects – *i.e.*, it is one thing to consider the impact on your own business of raising your cost of funding, but it is another to consider what will happen to your business if every bank in the world suffers the same increase in funding cost. The big question – and this is another topic for academic and policy oriented research – is how much business will be lost to the shadow banking sector. If the answer is: not much, then clearly capital requirements should be raised as the cost to doing so is probably not very large, and the benefits of doing so, in terms of improving the incentives and resilience of the banking sector, could be much larger.

So my view is that an increase in bank capital is likely to be a good thing. There are limits to this, however, especially to the extent that banks are also creating value on the liabilities side – if banks' profitable investment opportunities are limited, then forcing them to increase their leverage will reduce the extent to which they are interested in providing deposit services and other short term liabilities.

This interview was prepared by Diana Bonfim and Sudipto Karmakar.

In every issue, we ask an expert to briefly present and discuss two papers written by staff members. In this issue, the guest is Prof. Francisco Veloso.



Francisco Veloso is the Dean (and a Full Professor) at Católica Lisbon School of Business and Economics. He is also a Full Professor in the Department of Engineering and Public Policy at Carnegie Mellon University. As a Dean, Francisco is helping Católica - Lisbon strengthen its international outlook, developing partnerships that exploit Portugal's historic links across the Atlantic, in Africa, South America, and the USA. As a researcher, Francisco studies how firms and regions develop and leverage scientific and technological capabilities for economic growth. Francisco has published in journals such as Management Science, the Academy of Management Review, the Journal of Operation Management and Research Policy. Francisco has a PhD in Technology, Management and Policy from the Massachusetts Institute of Technology, an M.S. in Technology Management from ISEG and a Diploma in Physics Engineering from IST, both part of the Technical University of Lisbon.

Featured published paper

FDI and Institutional Reform: Evidence and an Application to Portugal

by Paulo Júlio, Ricardo Pinheiro-Alves, José Tavares
Portuguese Economic Journal, December 2013, Volume 12, Issue 3, pp 215-250

The Foreign Direct Investment (FDI) phenomenon has been gaining importance over the past decades. According to the UNCTAD, FDI increased over 30 percent of GDP between 1990 and 2010 around the world. Furthermore, FDI is also seen as bringing a variety of benefits to host countries, not only through added output and employment, but also across a range of other dimensions, from technological transfer to the development of management skills. As a result, FDI is seen as an important contributor to long-run growth and development of the nations. This article is part of a substantial body of research exploring the determinants of FDI, a natural interest given the importance of the phenomenon. It does so with a particular focus on Europe and Portugal. Given the current economic challenges of Portugal, the inflow of FDI is seen as critical for the country to enter a robust growth path. As a result, the article is quite timely and useful. The article explores two key dimensions. First, it considers the role of institutional factors in attracting FDI for the European context (in addition to relevant geographic and economic factors). Second, it estimates the expected benefits and efficiency that a set of institutional reforms corresponding to a convergence of Portuguese institutions to EU standards could generate. Several interesting conclusions emerge from the paper. First, the work clearly shows that improving home institutions is likely to have a quantitatively significant role in attracting FDI. Specifically, corruption freedom, financial freedom, investment freedom, and property rights emerge as the main drivers of inward FDI. And the results are important. For example, if corruption freedom, which considers how the prevalence of corruption affects the perceived degree of uncertainty in the economy as well as the pecuniary and non-pecuniary costs of operating a business, were to increases by 1 standard deviation, the stock of FDI would increase by 47 %. And if investment freedom, which assesses the constraints on the flow of investment capital, were to increase by the same one standard deviation, the stock of FDI would increases around 32 %. The article also concludes that investors seem to pay more attention to the country's overall institutional framework than to business regulations, which come across as less important. This is an interesting result because there is often the idea that deficient business regulations are a critical impediment to FDI. Yet, some regulations, namely those related with paying taxes, export and import activities, and property registration, do affect FDI positively, which help explain the established perceptions. The research then focuses specifically on Portuguese reforms. First, it concludes that investment freedom appears to be the most promising reform in terms of potential impact on FDI, especially given the effort required and the efficiency of the reform. Again, the magnitude is quite important: if Portugal were to reach the average of the EU-15 in this dimension, FDI would grow by 22%. Similarly, one must also think of lowering corruption as a reform with a potential high impact on FDI and a reasonable efficiency ratio. Improving financial freedom and property rights can also boost inward FDI, albeit with higher impact-effort ratios. Reforming business regulations associated with tax payments and foreign trade can also have an effect on national FDI, even though the impacts, as well as the efficiency ratio, are modest. At the end, the authors provide clear guidelines to Portuguese policymakers in terms of FDI friendly reforms, which is a very valuable dimension of the paper. In particular it suggests that reforms should focus on decreasing corruption and lessening restrictions on investment, namely those related with the transparency of the foreign investment code. Other areas to be addressed, albeit at the cost of a higher effort, are the protection of private property, the independence of the financial system, and the strength, quality, and impartiality of the bureaucracy.

Featured bulletin article

Segmenting Wages

by Mário Centeno, Álvaro A. Novo
Banco de Portugal Economic Bulletin, Winter 2013

This article furthers our understanding of why and how changes in the levels of protection offered to workers can influence salaries. This is an important issue because labor reform, in particular the facilitation of employee dismissal, is a perennial issue in policy discussions. For example, an important dimension of the Portuguese adjustment program has been precisely a push to simplify and lower the cost of employee dismissal.

The research is also interesting methodologically. It shows how an investigator can make clever use of policy decisions that affect some segments but not others in a target population to create a quasi-experiment environment that is difficult to establish in social sciences research. These empirical settings lend much stronger causal strength to any results that emerge from the empirics.

The research makes use of a 2004 labor code reform that increased employment protection for permanent contracts in a subset of firms (the treatment group), leaving it unchanged for other companies (the control group). In a previous paper, the same authors had already analyzed how this legal change affected worker job rotation. This piece looks at how labor law change affected the salaries of the employees.

The analysis shows there is a reduction of 0.3 percentage points (pp) in the wages of firms in the treatment group relative to companies in the control group, which is attributable to the increased employment protection. Therefore, apparently, the increase in protection in does reduce wages. Interestingly, the conclusion is different from that of previous work by Martins (2009), which studied reduction in employment protection in an equivalent setting back in 1989. He found that companies reduced wages as a result of the decrease in protection. The authors suggest that the difference in results might arise from the segmentation of the labor market, which is far stronger nowadays than it was in 1990.

In fact, the segmentation of the labor market is the critical element that helps understand the current results of the article, with different adjustment margins leading to results that vary with the degree of job protection. The study demonstrates that the salary reduction noted above is concentrated on new permanent contracts (up to -0.9 pp), saving most workers with permanent contracts and greater seniority in the company. Moreover, the legislation also has an important effect on workers on fixed-term contracts, which see their salaries reduced by 0.5 to 0.7 percentage points. The authors estimate that these reductions in wages cover a significant part of the extra expected costs that are generated through the tightening of the labor laws.

Overall, the results suggest that firms adjust wages through the flow of new workers, both new permanent jobs and term contracts (which is the arrangement for the vast majority of the new jobs offers), while leaving the earnings of existing workers intact. The sharp difference in impacts is probably one of the most relevant findings of the research, which highlight the inequality of the Portuguese job market between those that have stable established jobs and those that are searching for these.

Recently published

Our economists publish in a wide range of economic and finance journals, and scholarly books.

Mathematical and Quantitative Methods

Haavio, Markus, Caterina Mendicino, and Maria Teresa Punzi. 2014. "Financial and Economic Downturns in OECD Countries." Applied Economic Letters, 21(6): 407-412.

Forthcoming

Ferreira, F., P. M.M. Rodrigues, S. P. Santos, and R. Spahr. "How to Create Indices for Bank Branch Financial Performance Measurement Using MCDA Techniques: An Illustrative Example." Journal of Business Economics and Management.

Ferreira, F., P. M.M. Rodrigues, S. P. Santos, and R. Spahr. "Evaluating Retail Banking Service Quality and Convenience with MCDA Techniques: A Case Study at the Bank Branch Level." Journal of Business Economics and Management.

Nunes, L. C., P. M.M. Rodrigues, and Sobreira, N.. "Characterizing Economic Growth Paths Based on New Structural Change Tests." Economic Inquiry.

Macroeconomics and Monetary Economics

Almeida, Vanda, Gabriela Castro, Ricardo Mourinho Félix and José R. Maria. 2013. "Fiscal Consolidation in a Small Euro-Area Economy." International Journal of Central Banking, 9(4): 1-38.

Forthcoming

Adão, Bernardino, Isabel Correia, and Pedro Teles. "Short and Long Interest Rate Targets." Journal of Monetary Economics.

Antunes, António, Tiago Cavalcanti and Anne Villamil. "The Effects of Credit Subsidies on Development" Economic Theory.

International Economics

Júlio, Paulo, Ricardo Pinheiro-Alves, and José Tavares. 2013. "Foreign Direct Investment and Institutional Reform: Evidence and an Application to Portugal." Portuguese Economic Journal, 12(3): 215-250.

Financial Economics

Forthcoming

Mattana, Elena and Ettore Panetti. 2014. "Bank Liquidity, Stock Market Participation, and Economic Growth" Journal of Banking & Finance.

Urban, Rural, Regional, Real Estate, and Transportation Economics

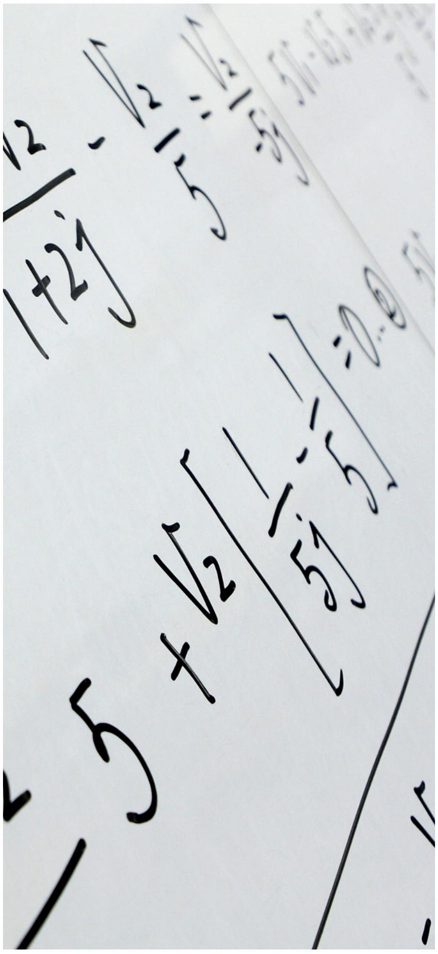
Guerreiro J., P. M.M. Rodrigues, and J. Romão. 2013. "Regional Tourism Development: Culture, Nature, Life Cycle and Attractiveness" Current Issues in Tourism, 16(6): 517-534.

Serra, J., A. Correia, P. M.M. Rodrigues. 2014. "A Comparative Analysis of Tourism Destination Demand in Portugal." Journal of Destination Marketing and Management 2(4): 221-227.

Labour and Demographic Economics

Forthcoming

Cabral, Sónia and Cláudia Duarte. 2014. "Nominal and Real Wage Rigidity: Does Nationality Matter?" IZA Journal of European Labor Studies.



New titles in the working papers series

Technical working papers intended for publication in leading finance and economics journals.
Find here the complete list of working papers.

Mathematical and Quantitative Methods

Has US Household Deleveraging Ended? A Model-Based Estimate of Equilibrium Debt • by Bruno Albuquerque, Ursel Baumann and Georgi Krustev - BP WP 4/2014

We provide estimates of the US household equilibrium debt-to-income ratio employing an error correction framework and using state-level data over 1999-2012. We find that, despite significant progress in balance-sheet repair, household deleveraging in the US still had some way to go in 2012.

Autoregressive Augmentation of Midas Regressions • by Cláudia Duarte - BP WP 1/2014

Focusing on MI(xed) DA(ta) S(ampling) regressions for handling different sampling frequencies, alternative techniques for the autoregressive augmentation are discussed. Alternatives to common-factor MIDAS regressions with autoregressive terms are in some cases the best performing regressions.

Characterizing Economic Growth Paths Based on New Structural Change Tests • by Luis C. Nunes, Paulo M.M. Rodrigues, Nuno Sobreira - BP WP 13/2013

One of the prevalent topics in the economic growth literature is the debate between neoclassical, semi-endogenous, and endogenous growth theories. In this paper, we apply a new methodology to historical per capita GDP for an extensive list of countries and observe that the results support the three growth theories for different sets of countries.

Persistence in the Banking Industry: Fractional Integration and Breaks in Memory • by Uwe Hassler, Paulo M.M. Rodrigues, Antonio Rubia - BP WP 6/2014

In this paper, we analyze whether international and sectoral bank equity index returns are fractionally integrated and whether the memory parameters have changed. We provide evidence that the financial crises and the Euro area sovereign debt crisis had differing international effects on persistence.

Macroeconomics and Monetary Economics

Inside PESSOA - A Detailed Description of the Model • by Vanda Almeida, Gabriela Castro, Ricardo M. Félix, Paulo Júlio, José R. Maria - BP WP 16/2013

This article describes the Portuguese Economy Structural Small Open Analytical model (PESSOA). This general equilibrium model has been calibrated to match Portuguese data and used to illustrate key macroeconomic issues, ranging from the effects of structural reforms to alternative fiscal policies.

The Risk-Taking Channel of Monetary Policy-Exploring all Avenues • by Diana Bonfim, Carla Soares - BP WP 2/2014

We use bank loan level data and different methodologies to test the existence of the risk-taking channel of monetary policy, i.e., whether banks assume more credit risk when monetary policy interest rates are lower. Our results provide evidence in favor of this channel through different angles.

Output Effects of a Measure of Tax Shocks Based on Changes in Legislation for Portugal • by Manuel Coutinho Pereira, Lara Wemans - BP WP 15/2013

This paper develops a new measure of quarterly discretionary tax shocks for Portugal resulting from changes in legislation. It was based on an analysis of tax policy measures from 1996 to 2012. The findings point to strongly negative and persistent effects of tax increases on GDP and private consumption.

International Economics

Global Value Chains: Surveying Drivers, Measures and Impacts • by João Amador and Sónia Cabral - BP WP 3/2014

The paper reviews the empirical literature on global value chains (GVCs), starting with a discussion of their main drivers. Next, it surveys the measures of GVCs, accounting for their different scopes and required datasets. Finally, the impacts on trade flows, productivity, the labour market, and some policy implications are discussed.

Financial Economics

Macroprudential Regulation and Macroeconomic Activity • by Sudipto Karmakar - BP WP 17/2013

I develop a DSGE model to examine the impact of macroprudential regulation on the banks financial decisions and the implications for the real sector. I show that higher capital requirements and countercyclical capital requirements can reduce volatility and raise welfare of the economy.

Bank Capital and Lending: an Analysis of Commercial Banks in the United States • by Sudipto Karmakar and Junghwan Mok - BP WP 18/2013

This paper evaluates the impact of bank capital on lending patterns of commercial banks in the US. Using two different measures of capital and data over 60 quarters, we find a moderate relationship between bank equity and lending.

Survey Evidence on Price and Wage Rigidities in Portugal • by Fernando Martins - BP WP 12/2013

This paper analyses the patterns of price and wage adjustments and the extent of nominal rigidities in Portugal. It shows *inter alia* that the frequency of price changes depends on the intensity of competition and the share of labour costs, whereas the ability of firms to adjust wages downwards depends on the skill composition of their workforce as well as on the share of the flexible wage components.

Labour and Demographic Economics

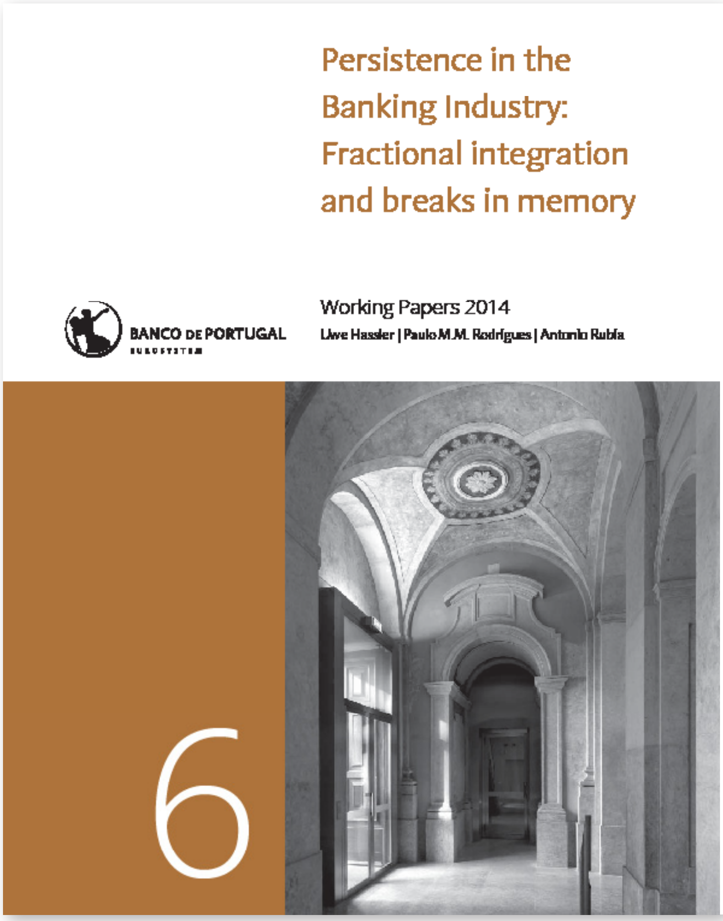
Catastrophic Job Destruction • by Anabela Carneiro, Pedro Portugal, José Varejão - BP WP 14/2013

In this article we study the resilience of the Portuguese labor market, in terms of job flows, employment and wage developments, in the context of the great recession. We explore three different channels that may have amplified the employment response to the great recession: the credit channel, the wage rigidity channel, and the labor market segmentation channel.

Microeconomics

The Weather Effect: Estimating the Effect of Voter Turnout on Electoral Outcome in Italy. • by Alessandro Sforza - BP WP 5/2014

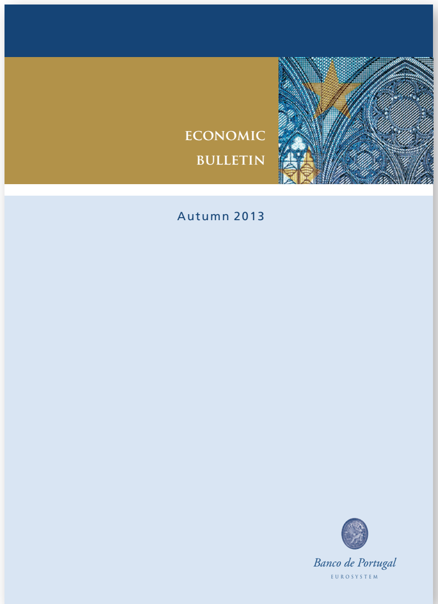
The paper examines the effect of variation in voter turnout to electoral outcome. Using an instrumental variable approach, I find that higher turnout goes against Democrats and favors protest parties.



From the *Economic Bulletin* and *Financial Stability Report*

Each issue of the *Economic Bulletin* and of the *Financial Stability Report* carries articles whose titles and abstracts are listed below.

Economic Bulletin, Autumn 2013



The Import Content of Global Demand in Portugal • by Fátima Cardoso, Paulo Esteves, António Rua

The analysis of the importance of imports in the global demand is crucial for a better understanding of the behaviour of the main macroeconomic variables. We assess the import content of global demand over the last three decades, highlighting the heterogeneity across demand components and products.

The Macroeconomic Effects of Legislated Tax Changes in Portugal • by Manuel Coutinho Pereira, Lara Wemans

The paper follows the narrative approach and develops a new measure of quarterly discretionary tax shocks for Portugal from 1996 to 2012. The shocks are dated and quantified according to a comprehensive analysis of the policy measures. The findings point to strongly negative and persistent effects of tax increases on GDP.

The Determinants of Downward Wage Rigidity: Some Methodological Considerations and New Empirical Evidence • by Daniel A. Dias, Carlos Robalo Marques, Fernando Martins

The article discusses the identification of the determinants of downward wage rigidity and illustrates empirically its importance in Europe. It is shown that the models estimated so far in the literature suffer from econometric problems that prevent the contributions of those determinants to be correctly identified or precisely estimated.

Short-term Macroeconomic Forecasts for the U.S. Economy Using Nowcasts of the Survey of Professional Forecasters • by Inês Maria Gonçalves

Nowcasts from the Survey of Professional Forecasters of the Federal Reserve Bank of Philadelphia are used as jump-offs in predicting seven U.S. macroeconomic variables. This approach leads to greater forecast accuracy as most methods used take advantage of additional and timely information.

Economic Bulletin, Winter 2013

The Price Elasticity of External Demand of Portuguese Exports: A Comparison with other Euro Area Countries • by Sónia Cabral, Cristina Manteu

We compute the price elasticity of external demand of Portuguese exports in the period 1995-2009, comparing it with other euro area countries. We found that the product and geographical specialization of Portuguese exports tends to reduce their exposure to relative price fluctuations.

Segmenting Wages • by Mário Centeno, Álvaro A. Novo

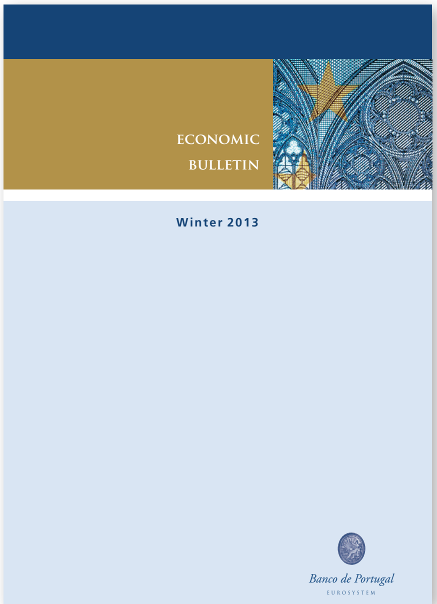
In 2004, a reform of the labor code increased employment protection for permanent contracts in a subset of firms resulting in a reduction of wages for new permanent contracts and temporary contracts and no impact on earnings of permanent workers with longer tenure.

Confidence and Economic Activity: the Case of Portugal • by Caterina Mendicino, Maria Teresa Punzi

This article estimates a structural VAR to identify the effects of confidence shocks in Portugal. Shocks to economic confidence and economic sentiment account for a non-negligible fraction of variation in economic activity. The results are robust to the use of alternative measures of economic activity and various survey indicators.

Labor Unions, Union Density and the Union Wage Premium • by Pedro Portugal, Hugo Vilares

The Portuguese labour market has experienced a steady erosion of the union density, reaching, in 2010, 11% of the private sector workforce. The union presence is important in large, when the equity is public, and in industries sheltered from competition. Unionized workers benefit from a very significant union wage premium.



Financial Stability Report, November 2013

Option Traded Volume and Volatility of Banks' Stock Return • by Rafael Barbosa, Martín Saldías

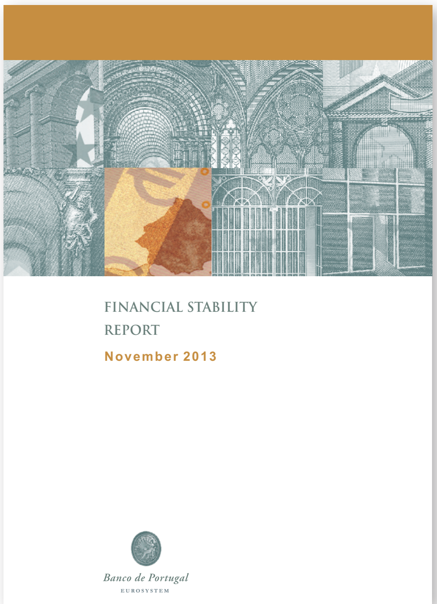
Using option and stock prices of 16 large European and US Banks between 2004 and 2008, the paper shows that option trading volume has explanatory power over the volatility of banks' stock returns. These results are robust after controlling for the increased volatility during the crisis.

A Macro-Prudential Policy for Financial Stability • by Rita Bessone Basto

The recent crisis motivated a reform in financial regulation and supervision, aimed at promoting a more efficient detection and prevention of risks. This article analyses the role of macro-prudential policy in the new policy framework for financial stability and the challenges related to its implementation.

The Implementation of the Countercyclical Capital Buffer: Rules versus Discretion • by Diana Bonfim, Nuno Monteiro

The calibration of the CCB will be guided by the credit-to-GDP gap. We confirm that this indicator is amongst the best in predicting crises, though other indicators also display good signalling properties. A large set of quantitative and qualitative information should be considered when setting the CCB.



Seminars

DEE regularly invites experts in various fields of economics to present their latest research. Banco de Portugal staff, as well as researchers from other central banks, Portuguese and foreign universities are invited to attend. The following is a list of the seminars that were organized up to mid April. See the seminars' webpage for a list of past and next seminars.

October 21st, 2013
The Impact of Regional and Sectoral Productivity Changes on the U.S. Economy
Lorenzo Caliendo • Yale University

October 22nd, 2013
The Macroeconomics of Microfinance
Joseph P. Kaboski • University of Notre Dame

October 29th, 2013
Paradox of Thrift Recessions
José-Víctor Ríos-Rull • University of Minnesota

November 28th, 2013
Optimal Life Cycle Unemployment Insurance
Hernán M. Ruffo • Universidad Torcuato Di Tella

December 3rd, 2013
Macro Factors and Sovereign Bond Spreads: A Quadratic No-Arbitrage Model
Oreste Tristani • European Central Bank

December 16th, 2013
News Shocks and the Term Structure of Interest Rates: Lessons for DSGE Models
Christopher Otrok • University of Missouri-Columbia

December 18th, 2013
Dividend Dynamics and the Term Structure of Dividend Strips
Frederico Belo • University of Minnesota

January 13th, 2014
The Implementation of Stabilization Policy
Olivier Loisel • CREST (ENSAE)

February 17th, 2014
Liquidity Traps and Monetary Policy: Managing a Credit Crunch
Francisco Buera • Federal Reserve Bank of Chicago

February 19th, 2014
Trading and Information Diffusion in Over-the-Counter Markets
Ana Babus • Federal Reserve Bank of Chicago

February 20th, 2014
The Federal Transfer Multiplier: Quasi-Experimental Evidence from Brazil
Paolo Surico • London Business School

March 10th, 2014
Financial Frictions, Occupational Choice and Economic Inequality
Andrés Erosa • Universidad Carlos III de Madrid

April 7th, 2014
Career Progression, Economic Downturns, and Skills
Jérôme Adda • European University Institute

Abril 11th, 2014
Lending Pro-Cyclicality and Macro-Prudential Policy: Evidence from Japanese LTV Ratios
Gregory F. Udell • Kelley School of Business, Indiana University

April 14th, 2014
Optimal Development Policies with Financial Frictions
Oleg Itskhoki • Princeton University

Courses

DEE regularly organizes Ph.D-level one week courses taught by experts on several topics in economics. Banco de Portugal staff, researchers from other central banks, and from Portuguese and foreign universities are invited to attend.

This is the course that was hosted up to December:

November 25th-29th, 2013
Banks and Bank Regulation
Lucy White • Harvard Business School

Other activities

Research grants

Alessandro Sforza (LSE), "Managers' Mobility and Knowledge Transfer", (from September 2013 to February 2014).

Visiting researchers

The Economics and Research Department (DEE) regularly hosts researchers from other institutions that collaborate, exchange ideas and expertise with internal economists. So far this year we benefited from the presence of a number of distinguished visitors, including:

John Addison (University of South Carolina), Corrado Andini (Universidade da Madeira), Lorenzo Caliendo (Yale University), Spencer Krane (Federal Reserve Bank of Chicago), Jesper L. Linde (Federal Reserve Board), Giordano Mion (University of Surrey), Ricardo Nunes (Federal Reserve Board), Massimo Rostagno (European Central Bank), Nazarii Salish (Bonn University), Oreste Tristani (European Central Bank), José Varejão (Universidade do Porto).

Meet our researchers

In every issue, we present two members of our research staff, and talk about their research agenda. The profiles and *curriculum vitae* of the other staff members are available here.

Fernando Martins is an economist at the Research Department since 1998, working currently at the Forecasting and Conjunctural Division. He is also Assistant Professor at Universidade Lusíada of Lisbon and at Instituto Superior de Contabilidade e Administração de Lisboa. His publications include articles in the Journal of the European Economic Association, International Journal of Central Banking, Labour Economics and Scandinavian Journal of Economics. In 2007, he was co-editor of the book Pricing Decisions in the Euro Area: How Firms Set Prices and Why. He has a degree in Economics and a M.A. in Monetary and Financial Economics both from ISEG/Universidade de Lisboa, the same university where he is currently completing his PhD.

Please, tell us about the research you are carrying on at DEE.

Most of my recent research agenda has been devoted to the study of nominal price and wage rigidities based on microeconomic data. This has allowed me to write a number of papers over the last years in co-authorship with some remarkable economists, such as Carlos Robalo Marques, Daniel Dias, Pedro Portugal and João Santos Silva. Currently, I am enthusiastically working in two interesting projects. One is based on the information coming from the longitudinal matched employer-employee dataset known as *Quadros de Pessoal* and its purpose is to analyse the impact on firms' hirings and separations stemming from the constraint imposed by externally set wages, notably in form of collective wage agreements negotiated outside the firm. The second project which I am involved in is based on the information collected from a firm-level survey with the purpose of assessing the impact of the recent crisis on firms' practices. The main objective is to get information on how firms' operational environment was affected by the crisis by identifying the main shocks and constraints they faced (demand shortage, credit restrictions) and how they adapted their practices to such shocks.

Caterina Mendicino has been an economist at the Research Department of the Bank of Portugal since August 2008. Her major field of expertise is quantitative macroeconomics, with particular emphasis on macro-financial linkages. She graduated in economics from University of Rome III and received her PhD from the Stockholm School of Economics in 2006. Prior to joining the Bank of Portugal, Caterina was a Senior Analyst at the Department of Monetary and Financial Analysis of the Bank of Canada from 2006 to 2008.

Please, tell us about the research you are carrying on at DEE.

Recently, I have been exploring the importance of changes in expectations as sources of macroeconomic fluctuations. With the precious help of a coauthor, I am working on a paper that assesses the role of news-shock driven cycles in shaping house price dynamics in the context of a dynamic stochastic general equilibrium model. We estimate the model using US data and likelihood-based Bayesian methods. We find that news shocks account for a sizable fraction of the variability of house prices and other macroeconomic variables over the business cycle and have also contributed to the run-ups in house prices over the last three decades. In a different paper, I am also investigating the role of time variation in the macroeconomic effect of changes in expectations using survey variables and a time-varying coefficients VAR model with stochastic volatility. This approach allows us to detect significant changes in the evolution over time of the dynamic responses of current economic activity to shifts in expectations of future economic activity. My work also includes estimations of DSGE models, optimal monetary policy with credit frictions and macroeconomic models with financial instability.

Upcoming events and announcements

Seminars

Check our webpage for future seminars. If you are interested in attending the seminars please contact us at conferences@bportugal.pt

April 21th, 2014
Macroprudential Policy, Countercyclical Bank Capital Buffers and Credit Supply: Evidence from the Spanish Dynamic Provisioning Experiments
Steven Ongena • University of Zurich

April 28th, 2014
Medicaid Insurance in Old Age
Eric French • University College London

May 5th, 2014
Deposits and Bank Capital Structure
Franklin Allen • University of Pennsylvania

May 7th, 2014
Market-Specific Cost Shocks and Firm Export Behavior
Meredith Crowley • University of Cambridge, UK

May 19th, 2014
Sticky Leverage
Joao F. Gomes • University of Pennsylvania

May 20th, 2014
Optimal Government Debt Maturity
Ricardo Nunes • Federal Reserve Board

May 26th, 2014
The Buyer Margins of Firms' Exports
Gianmarco Ottaviano • London School of Economics

May 28th, 2014
Pierre-Olivier Gourinchas • University of California, Berkeley

June 2nd, 2014
Virgiliu Midrigan • New York University

June 16th, 2014
Sérgio Rebelo • Kellogg School of Management, Northwestern University

July 7th, 2014
Petra Todd • University of Pennsylvania

July 9th, 2014
Rui de Castro • Université of Montreal

September 15th, 2014
Javier Suarez • CEMFI

September 29th, 2014
Robert Kollmann • Université Libre de Bruxelles

October 2nd, 2014
Optima in Heterogeneous-agent Monetary Economies
Neil Wallace • Pennsylvania State University

November 3rd, 2014
François Gourio • Federal Reserve Bank of Chicago

November 10th, 2014
Vincenzo Quadrini • University of Southern California

December 12th, 2014
Frank Schorfeide • University of Pennsylvania

Courses

July 7th-11th, 2014
Sovereign Debt
Andrew Atkeson • UCLA

October 6th-10th, 2014
Financial Frictions in Macro
Patrick Kehoe • University of Minnesota

Events

June, 26th-27th
Household Finance and Consumption Network

September 17th-19th
Competitiveness Research Network

Conferences

September 12th-13th
Econometric Methods for Banking and Finance

November 14th
The Portuguese Economic Development in the European Context

Grants for visiting researchers

Banco de Portugal offers cash grants to support research projects in the field of Economics, with a view to promoting interchange between the scientific and academic communities and the Bank, and to contributing towards the improvement of theoretical and applied research in Portugal. Click here to apply.

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This newsletter, as well as other online information about Economic Research at Banco de Portugal is available here.

NEWSLETTER SPILLOVERS | Research in Economics at Banco de Portugal • Banco de Portugal Av. Almirante Reis, 71 | 1150-012 Lisboa • www.bportugal.pt • Edition Economics and Research Department • Design, printing, finishing and distribution Administrative Services Department | Documentation, Editing and Museum Division | Editing and Publishing Unit • Lisbon, 2014