20

SPILLOVERS

BANCO DE PORTUGAL
EUROSYSTEM

Research in Economics at Banco de Portugal • Biannual • Year XI • July 2023

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This newsletter describes research activities of Banco de Portugal. More information is available at Banco de Portugal. The opinions expressed are those of the authors and do not necessarily coincide with those of Banco de Portugal or the Eurosystem.

Overview

It is often stated that research is too much detached from reality to be of practical use. In economics and finance published work can sometimes be very complex. Theoretical arguments and convoluted quantitative methods can often lead one to believe that their practical application will be unlikely. Yet, this number of Spillovers presents various instances where such preconceptions are soundly rejected.

Take the paper by António Rua and Nuno Lourenço, forthcoming in Empirical Economics. To characterize business cycles, they use circular statistics, a discipline that a random observer would more easily associate with signal theory and telecomunications – as it relies on the cyclic characteristics of signals – than with economics. In this case, the objects under study are time series rather than telecommunication signals. The fact that one can have a rough real-time idea of the current state of the business cycle by use of a non-econometric, non-structural model is surprising and useful.

Two other examples are papers presented at the Banco de Portugal Conference on Monetary Economics, which took place last June in Alcobaça, Portugal. George-Marios Angeletos argued that under certain circumstances deficits can finance themselves. Nominal rigidities and the very prosaic notion that people have finite lives can be potent diluters of the real debt value. The argument is completely theoretical and may or may not be convincing to those who trade sovereign debt instruments; but the notion that deficit shocks may not require a tax response is still unexpected.

My third example comes from a paper more closely related to real economies. The paper presented by Elena Pastorino uses contributions from economics, mathematical analysis and game theory to analyze the impact of changes in the minimum wage on income, both in the short and the long run. Their results for an economy resembling that of the US in key dimensions point to a short-run positive effect of a large increase in the minimum wage on labor income, and a negative impact over the long run. This is not surprising, and in the model an earned income tax credit is a superior policy. But the most important conclusion is that, due to the local monopsony power of employers, a moderate level of the minimum wage coupled with an earned income tax credit is even better, as the minimum wage mitigates the monopsony distortion.

These three examples make the case that research in economics and finance is the bedrock of good policymaking, even if real world policies are difficult to enact and implement. German psychologist Kurt Lewin once said, "there is nothing more practical than a good theory"; we agree, and thus strive to produce high quality scholarship. This edition of Spillovers contains a particularly rich set of contributions published in top academic journals and in our own outlets. We invite the reader to explore and enjoy them, and perhaps come up with a new idea for real world use. That would certainly help make this effort worthwhile.

António Antunes
Deputy Head of the Economics and Research Department

Talks with our researchers

Talks with our researchers introduces work developed by researchers of the Economics and Research Department of Banco de Portugal. The talk that follows, with João Quelhas and Sara Serra, focuses on their recent paper on "The inflation process in Portugal: the role of price spillovers". Interview by Paulo M.M. Rodrigues

Paulo: João and Sara, tell us how you first started working on this project?

João: We have started working on this topic in 2022, when the inflation surge was peaking in Portugal. As initially the hike in prices was restricted to a limited number of items, in particular in the energy and food items, the relative price changes resulting from supply and demand imbalances seemed short-lived and reversible movements in the inflation rate. However, during the year of 2022, we observed a generalization of inflationary pressures, with almost half of the items included in the consumption basket with prices growing at a pace faster than 6%. This suggested that the greater dynamism of the prices of more volatile items, affected by the large shocks, was extended to the typically more stable components, which was visible in an increase of the underlying inflation measures. Our first task was, thus, to assess whether the transmission of inflationary pressures across components of the HICP had increased after the pandemic and what was the relevance of these spillovers to the variation of prices over time.

Paulo: So, Sara, please guide us through the main takeaways of the paper you have published in the April edition of *Banco de Portugal Economic Studies*.

Sara: The extent of price spillovers was evaluated on the basis of a BVAR model for the five main components of the HICP. Our aim was to isolate the dynamic of the interconnection among HICP components from the drivers determining the initial shocks to the system. Thus, macroeconomic determinants were included in the model as control variables. The measure of spillovers is the share of forecast error variance of each HICP component determined by the remaining, following Borio et al. (2023). From this analysis, food components emerge as the most affected by spillovers. Moreover, spillovers are found to increase in the recent inflationary period and to be more important for a longer period due to a higher transmission across sectors. In fact, the article concludes that around 25% of HICP developments between 2011 and 2019 is explained by spillovers, a percentage that increases to 30% when the sample is extended until the end of 2022.

Paulo: What are the consequences of these increased spillovers for the current inflationary phase?

Sara: If the post-pandemic period includes a stronger transmission of relative price changes across HICP categories, an idiosyncratic shock to a component can more easily become a broad-based movement in the headline inflation rate, thus extending the period inflation diverges from the monetary policy objective. To illustrate this, we develop in the article a measure of trend or underlying inflation, by estimating a dynamic factor model, similarly to Luciani (2020), and applying it to a detailed breakdown of HICP time series. This *common inflation* measure shows that in the first 20 years of this century, idiosyncratic fluctuations in prices have occurred around a relatively stable underlying inflation and therefore were not transmitted to it in a significant way. This is in stark contrast to 2021-22, during which both headline and common inflation surged above 8%, showing that although initially inflationary pressures were concentrated on some goods, spillovers led this shock to extend to a broad-based range of prices.

João: As mentioned by Sara, the recent broad-based inflation wave is currently affecting relatively less flexible components such as non-energy industrial goods and services. This inflationary trend continues to persist even as energy prices are decreasing, which can be attributed to a combination of two factors: the significant magnitude of the external shocks and the heightened interconnectedness of prices across different sectors.

In every issue, we ask experts to briefly present and discuss two papers written by staff members. In this issue, the guest is Professor Matei Demetrescu.

Matei Demetrescu is a professor in statistics and econometrics, and his main research interests are in panel and time series econometrics, financial econometrics and econometric methods. He has published peer-reviewed articles in internationally renowned scientific journals, including the Journal of Econometrics, the Journal of Applied Econometrics, the Journal of Business and Economics Statistics and Econometric Theory. His research work is centered on macroeconomic and financial forecasting, both from an applied and a methodological point of view. Among others, he has been developing methods to robustify various estimation and test procedures in econometric forecasting to stylized facts of the data such as uncertain persistence or time-varying volatility, also in higher-dimensional contexts such as large-N, large-T panel data sets. Recent research includes monitoring quantitative risk forecasts, but also the use of bootstrap methods to allow for predictability testing when the predictors are of uncertain persistence or to allow for forecast comparisons when the forecasts are noisy.

Featured published paper

Carneiro, A., Portugal, P., Raposo, P. and Rodrigues, PM.M. (2023). "The Persistence of Wages". *Journal of Econometrics*, 223(2): 596-611. JEL Codes: J31

The work of Carneiro and co-authors provides an in-depth analysis of the persistence of wages based on a wide panel of Portuguese linked employer-employee data. The data allow for an explicit consideration of the impact of the so-called matching effect, i.e. the unobserved heterogeneity beyond what is captured by individual and firm-specific effects, when fitting a dynamic panel data model. Considering matching effects comes however at the cost of having to use high-dimensional dummy variables when estimating the dynamic model assumed to have generated the data.

The use of a dummy variable for each firm-individual pair induces a downward bias in the estimate of the persistence, and the paper documents the extent of this "matching effect bias" as well as the quality of various bias-correction methods adopted and modified from the existing literature. In particular, a bootstrap-based correction appears to fare quite well in comparison with two other existing methods, one based on an analytical expression for the bias, and one based on a specific panel version of the jackknife. In light of this finding, the empirical analysis considers a bias-adjusted version of the Gelbach decomposition (which is able to pin down the contribution of a given set of explanatory variables to a particular coefficient in linear models), and it turns out that both the level of wage persistence and the contribution of the matching effect to this persistence are heavily understated when ignoring the estimation bias.

Featured article from *Banco de Portugal Economic Studies*

Quelhas, João and Serra, Sara (2023), "The inflation process in Portugal: the role of price spillovers", *Banco de Portugal Economic Studies*, Vol. IX, No. 2, 29-48

With inflation spreading across the economy, a good understanding of the drivers and the spillover patterns across different sectors helps identify the underlying causes of inflation and ultimately implement effective monetary policy measures. Motivated by the surge in inflation following the Covid-crisis and the shock of the Ukraine war, the work by Quelhas and Serra aims to analyze the specific inflationary process observed in Portugal since mid 2021 and to understand how inflation propagated through the economy. To do so, they first resort to a Bayesian vector autoregression model for disaggregated HICP price levels (concretely, unprocessed food, processed food, energy goods, non-energy industrial goods, and services), seasonally adjusted, augmented by a set of exogenous variables capturing macroeconomic shocks which would affect all HICP components at the same time (concretely, the short-term interest rate, oil prices, the import deflator excluding energy goods, the year-on-year growth rate of hourly wages and an estimate of the unemployment gap), and dummy variables capturing changes in the VAT rate that differed across sectors. The contemporaneous spillovers are quantified using the Diebold and Yilmaz (2009, 2012) methodology relying on generalized impulse responses.

Quelhas and Serra find the main drivers of inflation to be food and energy, but, as inflation increased, other sectors exhibited increased impact. Also, spillovers have had an increasingly large impact in the most recent periods. Various robustness checks, e.g. additionally considering producer price indices, provide a similar take on the data. To interpret the data from a different perspective, a dynamic factor model is used to provide estimates of the so-called common inflation, such that one may distinguish between the extent to which a change in prices is caused by shocks that affect "most sectors", as opposed to changes that are specific to individual items or errors in measurement. The common component is fairly strong in the recent data, supporting the view that the impact caused by large external shocks translated fast into strong inflationary pressures across most sectors.

Recently published

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

Mathematical and Quantitative Methods

Forthcoming

- Lourenço, N., and Rua, A. (2023). "Business cycle clocks: Time to get circular." *Empirical Economics.* JEL Codes: C30, C55, E32.
- Nicolau, J., Rodrigues, P.M.M., Stoykov, M.Z. (2023). "Tail index estimation in the presence of covariates: Stock returns' tail risk dynamics". *Journal of Econometrics*. JEL Codes: C22 C58 G12.
- Rodrigues, P.M.M. (2023). "Persistence Change and Segmented Cointegration Testing". *Oxford Research Encyclopedia of Economics and Finance*. JEL Codes: C12, C22.

Macroeconomics and Monetary Economics

- Blattner, L., Farinha, L. and Rebelo, F. (2023). "When Losses Turn into Loans: The Cost of Weak Banks", *American Economic Review*, Vol. 113, Nº 6: 1600-1641. JEL Codes: E23, E32, G21, G28, G32, G38.

International Economics

- Amador, J., Gouveia, C.M., and Pimenta, A.C. (2023). "COVID-19, lockdowns and international trade: evidence from firm-level data." *Empirical Economics*. JEL Codes: F14.

Forthcoming

- Amador, J., Alves, T., Gonçalves, F. (2023). "Assessing the scoreboard of the EU macroeconomic imbalances procedure: (machine) learning from decisions". *Economics Bulletin*. JEL Codes: O JEL é: F15, C40.

Financial Economics

- Bonfim, D., Custódio, C., and Raposo, C. (2023). "Supporting small firms through recessions and recoveries". *Journal of Financial Economics*, Vol. 147, Issue 3, 658-688. JEL Codes: G30, G38.
- Bonfim, D., Cerqueiro, G., Degryse, H., and Ongena, S. (2023). "On-site inspecting zombie lending". *Management Science*, Vol. 69, Issue 5, 2547-3155. JEL Codes: G21 G32.

Forthcoming

- Bonfim, D. and Santos, J.A.C. (2023). "The Importance of Deposit Insurance Credibility". *Journal of Banking and Finance*. JEL Codes: G01, G21, G28.

Labor and Demographic Economics

- Addison, John T., Portugal, P. and Vilares, H. (2023). "Union Density Membership and Wages: The Role of Worker, Firm, and Job Title Heterogeneity". *Journal of Econometrics*, 223(2): 612-632. JEL Codes: J31.
- Carneiro, A., Portugal, P., Raposo, P. and Rodrigues, PM.M. (2023) . "The Persistence of Wages". *Journal of Econometrics*, 223(2): 596-611. JEL Codes: J31.

Industrial Organization

Forthcoming

- Caires, F. B., Reis, H. and Rodrigues, P. M. M. (2023). "Survival of the fittest: tourism exposure and firm survival". *Applied Economics*. JEL Codes: L25; L83; C23; C55.

New titles in the *Occasional Papers* series

Occasional paper on Stablecoins • Banco de Portugal working group on crypto-assets

Although the terminology used to define stablecoins is currently ambiguous, they can be broadly defined as a specific type of crypto-asset that aims to maintain a stable value relative to a specified currency, asset, or pool of currencies/assets. This paper characterises different types of stablecoins according to the stabilisation mechanism used and analyses the current stablecoins' market. It also describes the regulatory framework applicable to stablecoins in a few selected jurisdictions. The main focus of the paper is the identification of the main risks associated with stablecoins, particularly the so-called global stablecoins, i.e., those stablecoins with a potential to be adopted across different jurisdictions and achieve a substantial volume. Finally, the paper concludes that continuous monitoring of the stablecoins' market should be pursued, given their increasing relevance and potential impact on the financial sector.

New titles in the *Working Papers* series

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

The impact of ICT adoption on productivity: Evidence from Portuguese firm-level data • João Amador, Cátia Silva

In this paper we study the impact of ICT adoption on the level of labour productivity and TFP of Portuguese firms in the period 2004-2018. For this purpose we combine firm-level annual survey data for different dimensions of ICT adoption and balance sheet variables that allow for the computation of productivity and control for several dimensions of heterogeneity. The paper uses a Bartik (1991) shift-share type instrumental variable and results state that there is a positive and sizeable impact from ICT adoption on TFP and labour productivity. One standard deviation increase in the first principal component that captures overall ICT adoption by the firm leads to an increase of 25 percent in TFP and an increase of 58 percent in labour productivity. When the analysis is made separately, online sales and the creation of a website stand out as the most relevant dimensions for productivity gains.

Tail index estimation in the presence of covariates: Stock returns' tail risk dynamics • Paulo M.M. Rodrigues, Marian Z. Stoykov, João Nicolau

This paper provides novel theoretical results for the estimation of the conditional tail index of Pareto and Pareto-type distributions in a time series context. We show that both the estimators and relevant test statistics are normally distributed in the limit, when independent and identically distributed or dependent data are considered. Simulation results provide support for the theoretical findings and highlight the good finite sample properties of the approach in a time series context. The proposed methodology is then used to analyze stock returns' tail risk dynamics. Two empirical applications are provided. The first consists in testing whether the time-varying tail exponents across firms follow Kelly and Jiang's (2014) assumption of common firm level tail dynamics. The results obtained from our sample seem not to favour this hypothesis. The second application, consists of the evaluation of the impact of two market risk indicators, VIX and Expected Shortfall (ES) and two firm specific covariates, capitalization and market-to-book on stocks tail risk dynamics. Although all variables seem important drivers of firms' tail risk dynamics, it is found that overall ES and firms' capitalization seem to have overall wider impact.

Does green transition promote green innovation and technological acquisitions? • Maria Martinez Cillero, Wildmer Daniel Gregori, Udichibarna Bose

This analysis explores the implications of technological shifts towards greener and sustainable innovations on acquisition propensity between firms with different technological capacities. Using a dataset of completed control acquisition deals over the period of 2009-2020 from 23 OECD countries, we find that innovative firms are more likely to acquire innovative target companies. We also find that green acquirors (i.e. firms with green patents) are more inclined to enter into acquisition deals with green firms, possibly due to their technological proximity and informational advantages which further enhances their post-acquisition green innovation performances. Our results also show an increase in green acquisitions after the Paris Agreement by non-green acquiror firms, and these are more pronounced for acquirors in climate policyrelevant sectors and countries with low environmental standards than their counterparts. However, green acquisitions after the Paris Agreement do not show any significant impact on their post-acquisition innovation performances, raising concerns related to greenwashing behaviour by investing firms.

Mortgage Borrowing Caps: Leverage, Default, and Welfare • Leonor Queiró, João G. Oliveira

We explore the transmission channels of macroprudential policy in the form of caps on household mortgage borrowing. We employ an overlapping generations model with uninsurable labor income risk, housing, and long-term defaultable loans to measure the long-run economic impact of loan-to-value (LTV) and debt payment-to-income (PTI) caps on mortgage contracts in an economy without aggregate risk. We calibrate the model to Portugal, which implemented a 90 percent LTV cap and a 50 percent PTI cap. We find that the leverage cap can lower mortgage debt to output by one-third and eliminate the default rate. However, this comes at the cost of a 2 percent reduction in household welfare, chiefly among income and wealthpoor agents. PTI limits reduce default by limiting debt service but increase indebtedness and household leverage. This mechanism stems from the interaction between labor market risk and the payment-to-income cap: Households fear future adverse income shocks may constrain their access to credit markets and borrow earlier with lower down payments. Finally, we find that the policymaker can achieve similar cuts in default relative to the policy with a smaller welfare cost by setting a less stringent LTV cap or a more restrictive PTI cap.

A macroprudential look into the risk-return framework of banks' profitability • Ana Pereira, Joana Passinhas

Ensuring the resilience of the financial system implies managing a trade-off between expected bank profitability and tail risk in bank returns. To describe this trade-off, we estimate a dynamic quantile regression model using bank-level data for Portugal that links future bank profitability to the current cyclical systemic risk environment net of the prevailing level of capital-based resilience (residual cyclical systemic risk). We find that an increase in residual cyclical systemic risk negatively affects the conditional distribution of bank profitability at the medium-term projection horizons, confirming the findings in the literature. We propose a novel calibration rule for the countercyclical capital buffer (CCyB), which is flexible enough to accommodate different preferences of the policymaker and factors in the prevailing levels of cyclical systemic risk and capital-based resilience. We illustrate the operationalisation of this rule under different assumptions for the policymaker preferences and show how tightening capital requirements alters the risk-return relationship of future profitability in the banking sector. We find evidence that increasing the CCyB rate improves the outlook for medium-term downside risk in bank profitability and worsens the outlook for short-term expected profitability, stressing the tradeoff faced by the policymaker when deploying policy instruments and the misalignment in the horizons at which costs and benefits take place.

Price elasticity of demand and risk-bearing capacity in sovereign bond auctions • José Miguel Cardoso da Costa, José Afonso Faias, Rui Albuquerque

The paper uses bids submitted by primary dealer banks at auctions of sovereign bonds to quantify the price elasticity of demand. The price elasticity of demand correlates strongly with the volatility of returns of the same bonds traded in the secondary market but only weakly with their bid-ask spread. The price elasticity of demand predicts same-bond post-auction returns in the secondary market, even after controlling for pre-auction volatility. The evidence suggests that the price elasticity of demand is associated with the magnitude of price pressure in the secondary market around auction days, and proxies for primary dealer risk-bearing capacity.

A single monetary policy for heterogeneous labour markets: the case of the euro area • Sandra Gomes, Matija Lozej, Pascal Jacquinot

Differences in labour market institutions and regulations between countries of the monetary union can cause divergent responses even to a common shock. We augment a multi-country model of the euro area with search and matching framework that differs across Ricardian and hand-to-mouth households. In this setting, we investigate the implications of crosscountry heterogeneity in labour market institutions for the conduct of monetary policy in a monetary union. We compute responses to an expansionary demand shock and to an inflationary supply shock under the Taylor rule, asymmetric unemployment targeting, and average inflation targeting. For each rule we distinguish between cases with zero weight on the unemployment gap and a negative response to rising unemployment Across all rules, responding to unemployment leads to lower losses of employment and higher inflation. Responding to unemployment reduces cross-country differences within the monetary union and the differences in consumption levels of rich and poor households.

From the *Banco de Portugal Economic Studies*

Banco de Portugal *Economic Studies* aims to publish theoretical and applied studies prepared by economists at Banco de Portugal, often co-authored with external researchers. All articles are signed and are of the sole responsibility of their respective authors. The articles aim to contribute to an informed and high-quality debate on the Portuguese economy. The journal intends to be a reference publication in that debate, and is directed to a relatively specialized public on economic issues.

January 2023

Volume IX – No 1

European structural funds and the performance of Portuguese firms • Sónia Cabral, Maria Manuel Campos

Markup premium of Portuguese exporters • Ana Cristina Soares, Rita Sousa

A novel decomposition of national central banks' profits in the euro area: application to the case of Banco de Portugal • José Miguel Cardoso da Costa, Nuno Silva

April 2023

Volume IX – No 2

The M Model: a macroeconomic model for the Portuguese economy • Gabriela Castro, Cláudia Duarte

The inflation process in Portugal: the role of price spillovers • João Quelhas, Sara Serra

Monetary policy and the recent inflation surge • Bruno Freitas, Pedro Teles

Seminars

2023

Feb 24 **Making Sovereign Debt Safe with a Financial Stability Fund** • Ramon Marimon (Universitat Pompeu Fabra and Barcelona School of Economics)

Mar 1 **Housing Inequality and Mortgage Market Stimulus** • Neeltje van Horen (Bank of England and University of Amsterdam)

8 **Dynamic Heterogeneous Distribution Regression Panel Models, with an Application to Labor Income Processes** • Ivan Fernandez-Val (Boston University)

13 **Adoption of Foreign Products and Information Externalities Across Domestic Networks** • David Argente (Penn State)

15 **Difference-in-differences estimators for treatments continuously distributed at every period** • Xavier D'Haultfoeuille (CREST-ENSAE)

22 **Knowledge teams, careers, and gender** • Çağatay Bircan (EBRD)

24 **Mussa Meets Backus-Smith: The Role of Primary Commodities** • Juan Pablo Nicolini (Universidad Torcuato Di Tella)

Apr 3 **Neoclassical Growth Transition Dynamics with One-Sided Commitment** • Harald Uhlig (The University of Chicago)

18 **The Anatomy of Sorting – Evidence from Danish Data** • Jean-Marc Robin (Sciences Po)

26 **Skewed Business Cycles** • Fatih Guvenen (University of Minnesota)

Mai 3 **Until the IRS Do Us Part: (Optimal) Taxation of Families** • Dirk Krueger (University of Pennsylvania)

8 **The Macroeconomics of Trade Credit** • Luigi Bocola (Stanford University)

10 **The Stench of Failure: How Perception Affects House Prices** • Kristle Romero Cortés (UNSW Business School)

17 **To Have or Not to Have: Understanding Wealth Inequality** • Moritz Kuhn (University of Bonn)

18 **Local Recessions: Evidence from Bank Liquidity Squeezes** • Rajkamal Iyer (Imperial College London)

24 **How Do Investors Value ESG?** • Mark Egan (Harvard Business School)

31 **The Geography of Job Creation and Job** • Iourii Manovskii - University of Pennsylvania

Jun 7 **Is the Electricity Sector a Weak Link in Development?** • David Lagakos (Boston University)

14 **Nonlinear Pricing and Misallocation** • Gideon Bornstein (University of Pennsylvania)

Jul 5 **Remote Work, Foreign Residents, and the Future of Global Cities** • Sérgio Rebelo (Kellogg School of Management)

10 **Effort Requirements, Job Search, and Optimal Unemployment Contracts** • Cezar Santos (Inter-American Development Bank)

Courses

2023

8-10 Mai **Housing and the Macroeconomy**

Euro Area Business Cycle Network Training School by Professor David Berger (Duke University) hosted by Banco de Portugal.

The focus of the course is on the economic forces driving housing and mortgage markets, and their interactions with the wider macro economy. Housing markets are addressed both theoretically and empirically with a goal of introducing participants to standard modelling and empirical approaches. In the first day, there is an introduction to housing markets and models of housing markets, with a discussion on what drives housing prices at the macro and local levels, what drove house price dynamics during the Great Recession and housing wealth effects. The second day includes a discussion of mortgage types and pricing mortgages, the drivers behind default in housing markets and the role of governmental interventions. The third day addresses housing and monetary policy, the role of refinancing and prepayment, and fiscal policy and government involvement in the housing markets.

By António Rua

Conferences and Other Events

2023

12-13 Jun **11th Conference on Monetary Economics**

https://www.bportugal.pt/evento/11th-conference-monetary-economics

The 11th Banco de Portugal Conference on Monetary Economics was held in June in Alcobaça at the site of the old library of the 12th century Cistercian monastery.

In the first day of the conference Vasco Carvalho (U. Cambridge) presented Short and Variable Lags on the real effects of monetary policy in the very short run. In Inflation Distorts Relative Prices: Theory and Evidence, Klaus Adam (U. Mannheim) argued that relative price distortions due to moderate inflation are sizable. Ivan Werning (MIT) argued that inflation could be driven by disagreement on relative prices in Inflation is Conflict. Oliver Wang (NYU) stressed the role of the low passthrough of the policy rates to deposit rates in the balanced sheet of banks exposed to interest rate risk on their assets (Banking on Uninsured Deposits). In Can Deficits Finance Themselves?, George-Marios Angeletos (Northwestern U.) showed that it is possible to have an increase in government spending that generates an increase in revenue that finances it.

The papers presented on the second day were on the Mussa and Backus-Smith puzzles in International Macro (Juan Pablo Nicolini from the Minneapolis Fed); on the intertemporal effects of the minimum wage by Elena Pastorino (Stanford U.) and Patrick Kehoe (Stanford U.), on distributional effects of asset price movements by Matthieu Gomez (Columbia U.), on the effects of unemployment insurance policies by Kurt Mitman (Stockholm U.) and on the effects of strategic investments on market structure by Jan Eeckhout (UPF). The discussants were Andrew Atkeson (UCLA), Robert Hall (Stanford), John Leahy (U. Michigan), Simon Mongey (FRB Minneapolis), Gideon Bornstein (Penn), V. V. Chari (U. Minnesota), Pablo Kurlat (U. Southern California), Marco Bassetto (FRB Minneapolis), Hassan Afrouzi (Columbia U.), Oreste Tristani (ECB).

By Pedro Teles

5-7 Jul CEBRA Annual Meeting

For the first time, Banco de Portugal organized a session at the CEBRA Annual Meeting. CEBRA is the Central Bank Research Association. The mission of CEBRA is to encourage applied and theoretical research on topics relevant to central banks, financial regulators, international financial institutions, and fiscal authorities, as well as to connect the research staff of these institutions with academia. The 2023 CEBRA Annual Meeting was held in New York, on July 5-7.

Banco de Portugal organized a session, jointly with Nova SBE, on Financial Intermediation and Monetary Policy. The session received a total of 207 submissions. Three papers were selected by the session committee (Diana Bonfim and André C. Silva). The first paper, "How Abundant Are Reserves? Evidence from the Wholesale Payment System", was presented by Gara Afonso, from the NY Fed and is co-authored with Darrell Duffie, Lorenzo Rigon, and Hyun Song Shin. The authors show that banks' outgoing payments remain very sensitive to incoming payments, even in the era of large central bank balance sheets. The paper was discussed by Dejanir H. Silva, from Purdue University.

The second paper, "Quantitative Easing, Bank Lending, and Macroprudential Regulation", was presented by Rodney Ramcharan (Marshall School of Business) and is co-authored with Andrea Orame, Roberto Robatto. The paper was discussed by Enrico Sette, from Banca d'Italia, and shows that while historical cost accounting of sovereign assets can mitigate the effects of financial distress on banks' balance sheets, it impairs the effectiveness of monetary policy transmission.

Finally, the third paper, "Liquidity Dependence and the Waxing and Waning of Central Bank Balance Sheets", was presented by Sascha Steffen (Frankfurt School of Finance and Management) and is co-authored with Viral Acharya, Raghuram Rajan, Rahul Chauhan. The authors show that the expansion and shrinkage of central bank balance sheets involves tradeoffs between monetary policy and financial stability. The paper was discussed by Miguel Iraola (Miami Herbert Business School).

All the conference sessions were recorded and can be accessed here: https://cebra.org/events/annual-meeting/

By Diana Bonfim

Meet our researchers

João Quelhas is an economist in the Monitoring and Forecasting Division at the Economics and Research Department at Banco de Portugal since 2022. He holds a M.Sc. in Economics from Nova School of Business and Economics, where he has been working as an invited teaching assistant and grader since 2021. His main interests are macroeconomics, monetary policy and history of economic thought. His work has been published in Banco de Portugal Economics Studies.

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

My areas of research are focused on macroeconomics, econometrics and monetary policy. Recently, I published a study on the role of price spillovers in the inflation process in Portugal in the April 2023 issue of Banco de Portugal Economic Studies. This research investigates how price spillover effects between sectors contributed to the generalization of inflationary pressures in the recent years. Furthermore, it develops a measure of common inflation that confirms the stronger co-movement across a broad range of prices which has been driving headline inflation.

In the realm of monetary policy, I am currently engaged in work concerning households' inflation expectations in the euro area and how these influence their consumption and saving decisions over time. Additionally, I have dedicated time to constructing an index of monetary policy uncertainty and studying its effects on the real economy using macroeconometric techniques. This project originated from my M.Sc. dissertation and leverages textual data collected from thousands of newspaper articles to assess the economic sentiment around the policies of the European Central Bank. The desire and motivation to explore new ideas and pursue rigorous research stem directly from the inspiring and stimulating environment experienced at DEE.

Rita Fradique Lourenço is an economist in the Monetary Policy division at the Economics and Research Department since 2001, having joined Banco de Portugal a decade earlier to work in the Markets and Reserve Management Department. She holds a BA in Economics from Nova School of Business and Economics and the academic part of the PhD and M.Sc. Economics Program from the same University.

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

My research focus has been primarily directed towards monetary policy, namely assessing the latest monetary and financial developments, not only in the euro area but also in major economies, for promoting informed policy advice.

My interests, however, are not solely related with monetary policy. In recent years, I have been investigating the dynamics of housing markets in Portugal from different angles, including the drivers of house prices in the past decades, house price exuberance and contagion and the role of uncertainty in better forecasting house prices. I have had the privilege to publish several studies in co-authorship with Paulo M. M. Rodrigues.

I have been at the Bank for almost 30 years, but I still feel every day is challenging professionally. One of the best things of working in the Research Department is benefitting from enriching interactions and complementary views between younger and older peers.

Visiting fellows 2023

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.

Applicants wishing to develop research projects in the Economics and Research Department must hold a Doctorate degree or be about to finalise their Doctorate degree. Preferred topics include monetary and labour economics, financial intermediation, banking, and studies on the Portuguese economy.

Application instructions are available. Applications are invited from all interested parties.

Further information may be obtained via email: conferences@bportugal.pt.

Visitors

Matei Demetrescu • Technische Universität Dortmund
Jose Garcia-Louzao • Bank of Lithuania
Luis Martins • ISCTE-IUL, Business School
Kristle Romero Cortés • UNSW Business School
Ana Maria Rodriguez Santiago • Universidad de Huelva
Ricardo Duque Gabriel • Fed Board
Alessandro Toppeta • University College London

Consultants

Miguel Portela • University of Minho

Upcoming events and announcements

Seminars 2023

7 Sep Elena Simintzi • UNC Kenan-Flagler Business School
15 Sep Johannes Boehm • Sciences Po
27 Sep Jaume Ventura • CREI, Universitat Pompeu Fabra and Barcelona School of Economics)
4 Oct Steven Ongena • University of Zürich
11 Oct Kjell G. Salvanes • Norwegian School of Economics
23 Oct François Gerard • Queen Mary, University of London
8 Nov Maarten de Ridder • London School of Economics
15 Nov Dacheng Xiu • University of Chicago, Booth School of Economics
20 Nov Luigi Paciello • Einaudi Institute for Economics and Finance
29 Nov Nicola Limodio • Bocconi University

Conferences

Dec **Workshop BPLIM**

Other events

21-22 Sep **WGEM meeting**
Nov **G4 meeting**

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

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