Economic policy effects and financial crisis: a dynamic CGE model for Italy

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The debate on the real or financial origins of downturns and expansions of economies has been incessant since the nineteenth century. The recent global financial crises have exaggerated this debate as studies show that financial crises worsen significantly countries' fiscal position, both in terms of deficit and debt. However, the debate is still inconclusive and the extant literature goes in both directions. In this scenario it is imperative to have a framework which provides a dataset to analyze and to identify the origin and the dynamic of forces pushing towards expansion or contraction. The SAM integrates detailed data on production, income and expenditure, thereby allowing a systematic recording of economic transactions for the study of growth and its distribution in a particular country. However, in order to have a complete picture of real and financial transactions taking place in an economy, real accounts, as presented by SAM, can be complemented with financial accounts in order to derive the financial social accounting matrix (fSAM). Financial accounts form an important tool for analyzing financial flows taking place between Institutional Sectors within the economy (non-financial corporations, financial corporations, government and households), between Institutional Sectors and the Rest of the World and for assessing financial interrelationships within the economy and vis-a-vis the rest of the World at a particular moment in time. Because of their link to capital and use of income accounts, financial accounts are an important instrument to monitor the transmission process of monetary policy. The completeness of financial accounts enables the analysis of monetary aggregates as well as the analysis of longer-term financial investments and sources of finance. In this perspective, our attempt is to investigate how the monetary policy implemented by the European Central Bank influences the Italian macroeconomic variables such as real GDP, employment and prices. For this purpose we build a financial Social Accounting Matrix (fSAM) for the Italian economy for 2009. It represents the suitable database to calibrate the dynamic financial Computable General Equilibrium (fCGE) model that includes the formalisation of Institutional Sectors' behaviour with respect to financial tools.

Keywords: Financial accounts, Monetary policy, Social Accounting Matrix, dynamic CGE analysis.
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