REM Newsletter 7/2019

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The Latest REM Working Papers

The center of **Research in Economics and Mathematics** (REM) circulates research, notably by its affiliated members, as working papers intended for professional and public discussion and comment. The papers have not been peer reviewed.

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Events/News

05-06/09/2019, 09:00h. International Workshop on Differential Equations – On the Occasion of Luis Sanchez's 70th Birthday, Faculdade de Ciências, Universidade de Lisboa.

13/09/2019, 09:00h. 7th UECE Conference on Economic and Financial Adjustments, ISEG/UL – School of Economics and Management.

25-26/10/2019, 09:00h. 6th International Workshop on the Socio-Economics of Ageing, ISEG/UL – School of Economics and Management.

07-09/11/2019, 09:00h. The Lisbon Meetings in Game Theory and Applications, ISEG/UL – School of Economics and Management.

REM Young Researcher Award

REM - Research in Economics and Mathematics, launches in 2019 the REM Young Researcher Award, with a monetary value of 1000 EUR. The prize awards the best Master thesis defended at ISEG, in the period October 2018 - December 2019, and whose supervisor is a member of REM in one ISEG Master courses. To apply, the candidates should send their thesis, together with the proof of the public defense and approval, by 31 December 2019, to rem@iseg.ulisboa.pt.

REM Working Papers

1. The Role of Central Banks and the Political Environment in Financial Stability: A Literature Review Zoe Venter, *Working Paper 089-2019*

Financial instability and the subsequent credit crunches experienced by a number of countries following two decades of global structural reforms highlighted the importance of stabilizing credit supply and assigning a higher importance to financial stability. In this paper, I look at the independence of the Central

Bank, the political environment and the impact of these factors on financial stability. I substantiate the literature review discussion with a brief empirical analysis of the effect of Central Bank independence on credit growth using an existing database created by Romelli (2018). The empirical results show that fluctuations in credit growth are larger for higher levels of Central Bank Independence and hence, in periods of financial instability or ultimately financial crises, Central Bank Independence would be reined back in an effort to re-establish financial stability.

2. Some stylized facts about deindustrialization in Europe José Pedro Pontes, *Working Paper 088-2019*

This paper highlights three main trends concerning the evolution of the proportion of manufacturing in overall productive activity across European countries. Firstly, we are able to detect a non monotonic spatial pattern with deindustrialization prevailing both close to the European core and in remote areas. Secondly, industrialization appears to be faster in countries newly admitted to the European Union, whose trade costs with the European core are falling sharply. Finally, a specialization in high-tech, value added intensive sectors seems to prevent deindustrialization of core European countries but it has not the same effect on those which joined the European Union more recently.

3. Global Capital Flows and the Role of Macroprudential Policy*Sudipto Karmakar and Diogo Lima, *Working Paper 087-2019*

Can countercyclical bank capital requirements reduce the negative effects of global liquidity shocks? We use the Lehman Brothers bankruptcy as a natural experiment to document the role of the banking system as a transmission channel of global financial disturbances to domestic economies. Using granular and confidential data from the Bank of Portugal, our results suggest that in the aftermath of the Lehman collapse, domestic firms cut investment by 14% and employment by 2.3%. In order to evaluate the effectiveness of macroprudential regulation, we model an open-economy with a banking sector borrowing from domestic and international depositors. We show that, during a financial crises, in an economy with countercyclical bank capital requirements (compared with an economy with constant capital requirements): (i) gross domestic product falls 5 p.p. less and (ii) the fall in investment is 3 p.p. lower. We show that imposing countercyclical capital requirements entails a trade-off between lower volatility and lower economic activity. Overall, we find that countercyclical bank capital requirements may not be welfare improving for the Portuguese economy.