
REM Newsletter 19/2021

March 12, 2021



<https://twitter.com/ResearchRem>
<https://www.linkedin.com/company/researchrem>
<https://www.facebook.com/researchrem/>

Editors: António Afonso, Isabel Proença, Joana Pais

<https://rem.rc.iseg.ulisboa.pt/>

Contacts: Phone: +351 213 925 912. e-mail: rem@iseg.ulisboa.pt

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 The papers have not been peer reviewed.

Table of contents

- [1. Does road accessibility to cities support rural population growth? Evidence for Portugal for the 1991-2011 period](#) Patrícia C. Melo, Conceição Rego, Paulo Rui Anciães, Nuno Guiomar, José Muñoz-Rojas, *Working Paper 0165-2021*
- [2. Corruption and economic growth: does the size of the government matter?](#) António Afonso, Eduardo de Sá Fortes Leitão Rodrigues, *Working Paper 0164-2021*
- [3. Honing in on Housing](#) Zoë Venter, *Working Paper 0163-2021*
- [4. The Role of Fiscal Policies for External Imbalances: Evidence from the European Union](#) António Afonso, José Carlos Coelho, *Working Paper 0162-2021*
- [5. Explainable models of credit losses](#) João A. Bastos, Sara M. Matos, *Working Paper 0161-2021*

Events

ISEG's Masters linked to REM were present in the **ISEG Master's Open Week** that took place virtually on 8-12 February 2021: <https://www.instagram.com/isegmasters/>



For your 2021 calendar:

[9th UECE Conference on Economic and Financial Adjustments](#), ISEG/UL – Lisbon School of Economics and Management/University of Lisbon, **July 30, 2021**. Submissions until **15 June 2021**, to rem@iseg.ulisboa.pt

INFER 2021, 23rd Annual Conference, ISEG/UL – Lisbon School of Economics and Management/University of Lisbon, **September 8-10, 2021**. Submissions until **31 July 2021**, via Conference Maker: <https://editorialexpress.com/conference/INFER2021>.

Announcements

[Call for applications for PhD Research Grants 2021](#)

Closing date: 31/05/2021

REM [Working Papers](#)

[Does road accessibility to cities support rural population growth? Evidence for Portugal for the 1991-2011 period](#) Patrícia C. Melo, Conceição Rego, Paulo Rui Anciães, Nuno Guiomar, José Muñoz-Rojas, *Working Paper 0165-2021*

Transport investment is frequently advocated as having the double virtue of achieving both economic growth and territorial cohesion. The idea is that improving the accessibility of lagging regions to cities, increases the attractiveness of those regions for people and businesses. However, transport is only one of the factors affecting local development and there is no consensus on its net effect on population growth. The large scale of public funding allocated to motorway investment since the country joined the European Union in 1986 makes Portugal an ideal case study to examine the potential effect of improved road accessibility on the development of lagging rural areas. In this paper, we investigate the relationship between rural population change and road accessibility to the urban hierarchy (i.e. cities of different sizes) between 1991 and 2011. Regression analyses show that rural population growth is negatively associated with road distance and road travel time to the urban hierarchy, notably to medium-sized cities (i.e. 20,000-99,999 inhabitants). This suggests that medium-size cities play an important role in supporting population growth in their rural hinterlands. Robustness tests confirmed the validity of these findings. There is no evidence of nonlinearities in the magnitude of the effect between accessible and remote rural areas, which may be partially related to the relatively small size of the country.

[Corruption and economic growth: does the size of the government matter?](#) António Afonso, Eduardo de Sá Fortes Leitão Rodrigues, *Working Paper 0164-2021*

Corruption is often a source of contentious debate, covering different areas of knowledge, such as philosophy and sociology. In this paper we assess the effects of corruption on economic activity and highlight the relevance of the size of the government. We use dynamic models and the Generalized Method of Moments (GMM) approach for a panel of 48 countries, from 2012 to 2019. We find an adverse effect of corruption on the level and growth of GDP per capita, but that large governments benefit less from reducing corruption. Furthermore, developing economies, regardless of government size, benefit less from reducing corruption, while government size is not sufficient to explain the influence of corruption on economic activity, although the level of effectiveness of public services is crucial. Finally, our findings suggest that private investment is a potential transmission channel for corruption.

[Honing in on Housing](#) Zoë Venter, *Working Paper 0163-2021*

Using a six variable SVAR model, we study the transmission mechanism of monetary policy to the housing market over the period between 1996:Q1 and 2019:Q4. The SVAR is repeated for two measures of fiscal policy namely, tax revenue and government spending as well as for three measures of the housing market namely, residential prices, the price-to-rent ratio and the price-to-income ratio. Our main results show that monetary policy shocks do not have an impact on residential prices however, when running our model using fiscal policy shocks instead of monetary policy shocks, the results become statistically significant. Further, our results show that the response of housing prices to fiscal policy shocks differs between Portugal and Spain. We conclude that the difference in the housing markets in these two countries can be attributed to the variation in the fiscal policy mandates adopted while the common monetary policy framework implemented by the ECB does not play a role.

[The Role of Fiscal Policies for External Imbalances: Evidence from the European Union](#) António Afonso, José Carlos Coelho, *Working Paper 0162-2021*

We revisit the relation between budget deficits and current account deficits for 28 European Union countries from 1996 to 2019. We find that an increase in budget deficit of 1 pp of GDP results in a

deterioration of the current account deficit of 0.318 pp of GDP, which supports the Twin Deficits Hypothesis. On the other hand, dynamic panel estimates partially corroborate the Equivalence Ricardian Hypothesis in the presence of a fiscal rules index. In addition: i) the relation between the two deficits is asymmetric and the negative impact of the recent Eurozone banking and sovereign debt crisis on the current account balance is observed; ii) after 2010, the budget balance positively affects the current account balance; and iii) the positive impact of the budget balance on the current account balance is higher in the cases of non-Eurozone countries, high budget deficit countries, and low exports countries, whereas it is lower in the cases of Eurozone countries, low budget deficit countries, and high exports countries.

[Explainable models of credit losses](#) João A. Bastos, Sara M. Matos, *Working Paper 0161-2021*

Credit risk management is an area where regulators expect banks to have transparent and auditable risk models, which would preclude the use of more accurate black-box models. Furthermore, the opaqueness of these models may hide unknown biases that may lead to unfair lending decisions. In this study, we show that banks do not have to sacrifice prediction accuracy at the cost of model transparency to be compliant with regulatory requirements. We illustrate this by showing that the predictions of credit losses given by a black-box model can be easily explained in terms of their inputs. Because black-box models are better at uncovering complex patterns in the data, banks should consider the determinants of credit losses suggested by these models in lending decisions and pricing of credit exposures.