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LIBERA UNIVERSITÀ INTERNAZIONALE DEGLI STUDI SOCIALI

PhD THESIS ABSTRACT

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Abstract

The Global Financial Crisis has been one of the most significant economic shocks since the Great Depression. As the Crisis intensified, there was a large fall in markets' capacity to accept risk. The result was a situation of tight credit conditions and in some cases dysfunctional markets, accompanied by a general loss of confidence. This dissertation explores some of the forces that have been working to mitigate the negative effects in the aftermath of the Crisis.

The first chapter analyses the role played by central bank forward-looking communication in shaping markets' expectation. To this aim, we propose a new index of central bank's verbal guidance, which measures the communication about future based on the frequency of future verbs in monetary policy statements. The purpose is to test whether and the extent to which verbal guidance might be considered an additional policy instrument. We consider the case of the European Central Bank (ECB) and follow a two-steps procedure. First, we analyze the main determinants of our index and estimate the unexpected component. Second, we investigate the effects of the identified innovation of verbal guidance on daily changes of forward money markets rates between September 2007 and December 2015. Our results show that financial markets' expectations on future short-term interest rates react to a shock of communication about future: the effect is negative and larger for higher horizons, after controlling for the standard policy rate shock and the announcement of unconventional monetary policies. This suggests that the verbal guidance may be considered an additional policy instrument.

The second chapter provides evidence about the tightening credit conditions faced by the private sector in Italy in the aftermath of the Global Crisis and analyses the role played by social capital. Since social capital is a key determinant of trust, it should positively affects the supply of credit, in particular during crises when confidence is under stress, as it was for the financial turmoil of 2008. To investigate whether and the extent to which social capital mitigated the credit rationing following the Crisis, we compare the probability of approving a loan requests lodged by over half a million Italian non-financial corporations before and after the default of Lehman Brothers (from January 2007 to June 2010). We find that firms headquartered in high-social capital provinces suffered less: while during the Crisis the probability of loan approval declined for all firms, for those ones headquartered in high-social-capital areas the decline was half that of low-social-capital areas, indicating that social capital smoothed the impact of the shock. Moreover, consistent with theory, we find that social capital conveys its mitigating effect on credit rationing in cases in which the reciprocal trust, because of the lack of information, matters more.