



**CompNet-ECB Workshop,
Vienna 19 and 20 September 2013
Follow-Up**

Dear CompNet Members,

Below you will find a brief summary of the meeting. The final program and presentations are available on our website (http://www.ecb.europa.eu/home/html/researcher_compnet.en.html).

The workshop was structured on three prominent policy sessions, namely (i) services trade in Central, Eastern and Southeastern Europe; (ii) the impact of credit constraints; (iii) the research output from CompNet work streams.

The research presented during the workshop has put forward many relevant results, among which:

1. **Service sectors play a crucial role in advanced economies.** Stronger economic growth can be achieved by service sector's reforms. First, service liberalization is associated to higher productivity and to beneficial effects on prices, quality, range and availability of services. Second, more productive service sectors induce creation of good jobs, with the positive effect of more trained human capital. Third, also the manufacturing sectors will benefit from spillovers of service sector's reform since services are an input into many manufacturing industries.
2. The analysis on the **impacts of credit constraints is twofold: from one side, it is relevant to assess what constraints firm's access to external finance and, on the other hand, to study whether financial constraints affect firm's performance.** Firm-specific characteristics such as size, age and growth performance affect positively the possibility of firms to access credit whereas high leverage or interest payment and problematic macroeconomic conditions have a negative impact. As regards firms' performances, credits constraints are detrimental for firm's productivity and this holds in particular for smaller firms and for specific sectors. Indeed, financial frictions reduce productivity from misallocation of inputs and from low entry and technology adoption. Regarding the effect on firm-level export performance, it is not materially affected by bank credit shocks since, in general, exporting firms are less sensitive to credit constraints.
3. **The resource reallocation has a central role in the on-going policy debate.** Efficient resource reallocation is crucial not only across sectors but also within sectors. Macroeconomic evidence shows that the non-tradable and tradable sectors are not at the optimal size. Micro founded results stressed the crucial role of reallocations gains for the sector-wide productivity. However, the crisis has stopped the reallocation impetus in place before 2007, particularly because of stronger labour market and capital frictions. Involvement and participation in GVC also need to be considered in the overall analysis since countries with low productivity growth have also low participation in GVC.



Discussions within the individual work-streams can be briefly summarized as follows:

- **Work-stream 1** will be now co-chaired by the ECB economist Gianni Lombardo. During the session, it was discussed the need of consolidation of on-going research as well as its integration in more structural models. It was also proposed that country teams who have not been so active to date could look at the results produced so far and draft policy briefs for their respective countries, or try to apply the methodology already developed within the WS to their own data. Besides, the three projects in the pipeline were discussed: i) Macro-diagnostic toolkit (aimed at building a coherent framework to link trade outcomes and these indicators), ii) case study of the auto sector (across workstreams), iii) Trade elasticities (augmented for example with domestic demand).

- **Work-stream 2** will be now co-chaired by the ECB economist Paloma Lopez-Garcia. WS2 session followed two venues. The first one related to the new round of the DO.File exercise. It was agreed that it will be launched next month of November. It will correct some coding mistakes, improve the efficiency of the commands and include a new, better, outlier treatment. In this latter respect, the Bank of France (Patrick) will make a proposal to be distributed among all WS2 members. Additionally the new DO.File will include, for the moment, two new modules. One will collect and compute trade related indicators at the firm level and the second one will relate to financial variables. The new trade module will be drafted by Antoine Berthou with the collaboration of the ECB team, and the financial one will be led by Annalisa Ferrando, of the ECB. The second venue of work related to concrete research projects, grouped in four broad topics: 1) trade, 2) labour markets (which include a possible collaboration with the OECD), 3) regulation and institutional factors and 4) financial conditions. Of the four broad topics, the one related to trade is the most complete and advanced. It includes 3 cross-country projects involving CompNet data and at least 4 on-going projects involving firm-level data from a reduced set of countries.

- **Work-stream 3** will now be co-chaired by the ECB economist, Frauke Skudelny. During the sessions, on-going projects were discussed. Apart from the already finished work on mapping of GVCs taking euro area perspective, the impact of trade shocks to intra euro area imbalances, explored using WIOD information, will be ready to be presented in the December or spring workshop. Additionally, there are two projects in the pipeline using output of several work-streams. The first one is the effect of shift in GVCs on assessment of competitiveness, by Woerz and Benkovskis, which involves output from WS1 and WS3. The second one would require including in the DO.File exercise of WS2 data needed to construct an indicator able to proxy the involvement of EA countries in GVC (Woerz in the lead).

Thank you again for your participation!

We are looking forward to meeting all of you in Frankfurt in December.

Filippo and the ECB CompNet team (also on behalf of Chiara, Antoine and João)