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Guest Editor's Introduction

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One of the major economic differences between Europe and the US deals with the financial system. While financing sources through markets are dominant in the US, banking sources of financing are overall dominant in Europe. It therefore should not happen as a surprise that the banking is a major field of interest for research in economics in Europe. Given this key role of banking in the financing of the economy, we have to understand all the implications of the banking system and the sources of bank financing for the economy.

The objective of this special issue of Open Economies Review is to contribute to the understanding of banking in Europe. In this aim, eight high-quality papers from specialists of banking economics from various countries examine different aspects of banking in Europe.

Many papers are devoted to the hot topic in banking thanks to and since the global financial crisis: financial stability.

Vermeulen, Hoeberichts, Vasicek, Zigraiova, Smidkova and de Haan provide a new index for financial stress for OECD countries and analyses its relation with crises with a new database for financial crises. They stress that policymakers should use financial stress indices with caution as, even if their index is related to the occurrence of crises, its relation with the onset of a crisis is not strong.

A common approach to investigate financial stability is to consider the evolution of nonperforming loans, as they are associated with greater losses and hence failure risk for banks. It is then of importance to appraise the determinants of non-performing loans. Beck, Jakubik and Piloiu do so in their analysis on 75 countries in which they focus on the macroeconomic determinants. They find that GDP growth, the exchange rate and the lending interest rate influence nonperforming loans. Their conclusions provide foundations for regulators in the perspective of stress tests as they provide

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indications how pessimistic macroeconomic scenarios can rise nonperforming loans and hamper financial stability.

Another force influencing financial stability is bank profitability. Fall in bank profits is a signal of deteriorating financial situation which can lead to bank distress. It is therefore of importance for financial stability to also identify the factors which drive bank profitability.

Hartwell provides such analysis for transition countries with a special focus on institutions. A notable finding is the beneficial impact of investor-specific property rights on profitability. He also shows effects of political variables with some evidence of a negative but not too robust role for democracy, and a detrimental influence of left-wing governments on bank profitability.

Transition countries in Europe also raise specific issues for financial stability related to the importance of foreign ownership of banks in many of them. Namely foreign ownership can influence the transmission of shocks from one country to another.

Babin analyses how monetary policy in the home country and banking regulation exert an impact on the noncore funding for bank subsidiaries. He tends to observe that the impact of domestic monetary policy is strengthened by characteristics of parent banks, but the host banking regulation plays a weak role.

An additional contribution to the impact of banking regulation is the paper from Fidrmuc, Schreiber and Siddiqui, which investigates how capital requirements can influence access to credit. With the help of a unique dataset on firm-bank relationships in Germany, they examine industry-specific responses of loan conditions to debt ratios of banks. They conclude that the impact of tighter capital requirements on access to credit can clearly differ across industries.

The role of banks in the transmission of monetary policy is also of prime concern in Europe. Gersl, Jakubik, Kowalczyk, Ongena and Peydro Alcade contribute to this literature with an analysis of the risk-taking channel for the Czech banking industry. This channel focuses on the influence of monetary policy on bank risk-taking behaviour. Their evidence supports the view that the impact of monetary policy on risk-taking varies with bank profiles. However they find that expansionary monetary policy favours risk-taking of banks, but this general conclusion is influenced by the characteristics of the bank, the firm but also the loan.

Two papers of this special issue deal with the finance-growth nexus, which is an additional major debate in banking. The idea of this strand of banking literature is to examine how banking development can influence economic development. Whereas the vast majority of papers in this area consider this question through estimations of the link between credit ratios at the country level and growth, two papers in this issue provide new angles.

Fidrmuc, Fungacova and Weill provide a contribution to this literature with the investigation of the influence of bank liquidity creation on economic growth. The liquidity-creating role of banks is one of their major contributions to the functioning of the economy. In this aim, they compute liquidity creation measures for Russian banks over the period 2004–2012 and relate them to economic growth. Russia provides a particular framework for this analysis with its large number of banks and its cross-regional differences in economic growth. They show a beneficial influence of bank liquidity creation on economic growth, which does not change during the financial crisis. This conclusion supports the fact that financial development contributes to foster growth in Russia. But it also contributes to the understanding of the mechanisms through which the banking industry influences growth.

Finally, Coricelli and Frigerio adopt an innovative view to investigate the role of bank credit on the real economy: they investigate creditless recoveries, which can be defined by the fact after systemic crises economic output recovers without an accompanying recovery in credit. They analyze this phenomenon on a large number of countries for a long period from 1963 to 2003. They observe that creditless recoveries are not rare events and they find that this phenomenon favors the reallocation of resources away from the most dependent sectors to bank credit.

To conclude, we hope that the articles of this special issue by analyzing diverse topics on various European countries will contribute to enhance the understanding of banking issues in Europe.