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Lending, Investments and the Financial Crisis

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Preface and Acknowledgements

Lending, Investments and the Financial Crisis provides contemporary studies on how the financial crisis affected the banks' ability to lend money as well as the emergence of alternative methods of firms' financing (including crowdfunding, financing via firms' networks and venture capital). The volume also addresses issues related to investment strategies of institutional investors in the light of the financial crisis. The focus is mainly on the European financial system (including Central and Eastern Europe), although attention is also devoted to the Chinese context. These chapters were originally presented as papers at the annual conference of the European Association of University Teachers of Banking and Finance (Wolpertinger 2014), which was held during 3–6 September 2014 at Università Cattolica del Sacro Cuore in Milan, Italy.

In Chapter 1, Paola Bongini, Arturo Patarnello, Matteo Pelagatti and Monica Rossolini analyse the development of bank long-term funding in Europe, the US and Japan over the period 2006–12. They document the impact of the subprime crisis and the subsequent sovereign crisis on the volume, frequency of issuance, nature of instrument and cost of bank bonds. Systemic crises deeply impacted on the cost and availability of bank long-term funding, with different effects depending on the issue's main features and the issuing bank's main business model characteristics. The macro conditions of the country in which banks operate have begun to become relevant since 2011, at the onset of the EU sovereign debt crisis, though differences among nationalities were appreciated by the market even before. Indeed, markets did not fully appreciate the evaluation of credit risk made by rating agencies and did not price the bonds accordingly to their rating class.

In Chapter 2, Daniele Previati, Giuseppe Galloppo and Andrea Salustri investigate the linkages between the standard lines of credit (financial intermediaries, public sector, private investors) and the recent development of the crowdfunding phenomenon. They believe that crowdfunding activities, even if yet not significant in terms of volume, might play a major role in the future, complementing the traditional activities of financial intermediation. In support of their beliefs, they notice the establishment of several crowdfunding platforms operating at the global level, particularly in the USA and in the EU, and the relevance assigned to crowdfunding procedures in President Obama's JOBS Act of

2012 and in a consultation on crowdfunding launched at the end of 2013 by the European Commission. At the national level, they recognize several peculiarities of crowdfunding activities, mostly related to donation and reward-based schemes, but also the disposals of the so-called Growth Decree 2.0 on the equity-based crowdfunding and the on-line consultation subsequently implemented by the Italian Securities and Markets Autorithy CONSOB. The chapter aims to single out the (potentially) main determinants of the crowdfunding demand of funds. By using the available data at the European level, the authors develop a Crowdfunding Attractiveness Index (CFA), with the aim to rank the crowfunding potential of different European countries.

Chapter 3, by Elisa Giaretta and Giusy Chesini, provides evidence on how firms' networks are becoming increasingly important for searching technological innovation, growing in foreign markets, optimizing know-how, sharing R&D and achieving organizational synergies, allowing firms to join without losing their autonomy. In this chapter the authors focus on the Italian context where the network contract has been recently introduced in the domestic legislation (article 3 of Italian Legislative Decree no. 5/2009). After a description of the main aspects of the network contract, Chapter 3 aims to check whether or not firms that belong to networks present better financing conditions and better profitability. For this purpose, they create a database of 4,391 Italian firms that have signed a network contract in the period 2009–12, comparing them with a control sample of non-networked firms using a statistical Probit model. Then they investigate the characteristics of network contracts that involve the best performance for networked firms using an OLS regression model. They document that network contracts have a positive effect on the financial characteristics and profitability of the firms. In particular, firms belonging to small networks present better characteristics.

In Chapter 4, Ewa Miklaszewska and Katarzyna Mikołajczyk show that, as a major consequence of the 2007–09 global financial crisis, banks operating in Central and Eastern Europe (CEE), both global corporations and domestically-owned banks, have become increasingly risk-averse, which may negatively influence their credit policies, particularly towards corporations and SMEs. In the long run, this may also adversely affect investment policies and economic growth in CEE countries. Consequently, the main research question analyzed in this chapter is whether the CEE banking sector has been efficient in providing loans to the enterprise sector, comprising both large and small companies, in the pre- and post-crisis period. In the empirical section, the chapter analyzes factors influencing corporate loans in CEE, using a database covering the period of 2004–13, aiming at researching whether loan dynamics and structure have a long-term impact on economic growth in CEE countries.

In Chapter 5, René W.H. van der Linden investigates the reappearance of substantial debt after 2008 and at the same time a rapid proliferation of shadow banking in China associated with increasing financial risks, whereby the authorities fear the arrival of a new financial crisis. This chapter analyzes the rationale behind some worrying recent developments in China's unstable financial system due to more financial liberalization which has accompanied the growth of the shadow banking predominantly represented by wealth management and trust products. The rationale and several pros and cons of China's shadow banking are described including its main features in comparison with its Western peers. This chapter explains the possible reasons for the increase in credit dependency of the Chinese economy and investigates the types of risks the shadow banks pose to the financial system. It also gives several policy options to utilize the services of shadow banks in order to prevent a possible credit crunch in the future.

Chapter 6, by Pierluigi Morelli, Giovanni B. Pittaluga and Elena Seghezza, aims at constructing a measure of liquidity creation that takes account, besides, as usual, the objective characteristics of assets and liabilities, also the type of bank holders. Using this new indicator, they show the evolution of liquidity creation by Eurozone banking systems during the recent crises and how the ECB faced the liquidity risk.

In Chapter 7, Luisa Anderloni and Alessandra Tanda examine the performance of European venture capital backed firms operating in the life science and technology industries at the IPO and in the long run. Their empirical evidence shows that venture capital backed companies have a lower underpricing and suggests the important role of venture capitalists in softening asymmetries of information at IPO. The differences in performance of venture capital backed firms tend to disappear in the long run, as confirmed by the analysis performed considering various specification of return and risk, as well as employing a three-factor market model approach.

Chapter 8, by Alberto Dreassi, Stefano Miani and Andrea Paltrinieri, aims to assess the investment strategies and portfolios of two types of institutional investors. The crisis induced severe adverse effects on profitability, growth and stability of the financial sector. At the same time, Sovereign Wealth Funds (SWFs) have increased in numbers and in the global role of their investment activities, despite within a highly heterogeneous sector. Based on a sample of 12 Sovereign Pension Reserve Funds (SPRFs) and Social Security Reserve Funds (SSRFs), they analyze the effects of size, operational model, country development, fund's experience and quality of disclosures on the strategic asset allocation for the period 2007–12. Moreover, they investigate the impact of the sovereign debt crisis and the relevance of the 'home-bias' issue for both groups. Their results suggest a more aggressive asset allocation for SPRFs, where funding relies on fiscal transfers and involves less external scrutiny, and a lower level of home investments, despite these entities may express other domestic strategic goals than retirement. Finally, they do not document major recent shifts in asset allocation induced by the crisis, whereas a reduced amount of home-country investments emerges after the triggering of the sovereign debt crisis.

As editors we would like to thank all the authors for their contributions. We are also grateful to all the referees who acted as reviewers for the chapters published in this volume. We thank all the conference participants for their active and constructive discussions during the presentations.

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