INTRODUCTION TO THE SPECIAL ISSUE: 26TH SYMPOSIUM ON MONEY, BANKING AND FINANCE

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For the second time, a special issue of *Brussels Economic Review* is devoted to a selection of papers presented at the *Annual Symposium on Money Banking and Finance* run by the European research group (Groupement De Recherche Européen) *GDRE Money, Banking and Finance*[1]. This research group has been funded by the French National Center of Scientific Research (CNRS) for four years (2007-2010).

After Rennes (2007) and Luxembourg (2008) and before Bordeaux (2010), the 26th *Annual Symposium on Money Banking and Finance* took place in Orléans, 25th and 26th of june, 2009. It was organized by a local committee belonging to the Laboratoire d'Economie d'Orléans (LEO) and chaired by S. Galanti and G. Levieuge[2].

GDRE *Money, Banking and Finance* includes European members such as the *Money Macro and Finance Research Group* of the United Kingdom, the *Université Libre de Bruxelles*, the *University Tor Vergata of Roma*, the *Goethe University of Francfort* and the *University of Luxembourg*, as well as researchers in the field of Money Banking and Finance from many other institutions in France and abroad. The directors of GDRE Money, Banking and Finance are Jean-Bernard Chatelain (Centre d'Economie de la Sorbonne (CES), University Paris I Panthéon Sorbonne) and Raphaëlle Bellando (Laboratoire d'Economie d'Orléans (LEO), University of Orléans). They are in charge of the coordination of the program committee of the annual conference, among other scientific and administrative matters.

The field of research of the Annual Symposium of the GDRE *Money, Banking and Finance* is vast, as it for instance covers macroeconomic policies, monetary theory, pensions, prices, banking risks and stability, banking industry, credit, asset prices, economic cycles, corporate finance and governance, exchange rates, market finance, financial crisis, funds, insurance, monetary and financial history, etc… Regarding the number of participants, it constitutes the most important annual symposium in France for these topics. About 150 economists from universities, central banks and other financial institutions attended the symposium in Orléans. As usual, a large proportion of presentations was done by doctoral students.

Besides parallel sessions including a hundred presentations, we had the honour to greet Charles Goodhart (Financial Market Group, London School of Economics) and Florencio Lopez de Silanes Molina (Edhec) as keynote speakers for two plenary sessions, respectively devoted to "*Regulation, Moral Hazard and the Future of the Banking System*", and "*The Financial Crisis and Government Ownership of Banks*". Finally, a round table about the subprime mortgage crisis was held, with the participation of P. Artus (Natixis), B. Cadrillac (Bank of France), A. Cartapanis

[1] Special issue: 24th symposium on Money, Banking and Finance, (Rennes (2007)) *Cahiers Economiques de Bruxelles*, (2008) 51, P.G. Méon, R. Bellando and J.-B. Chatelain, coordinators.

[2] The full programme can be found at http://www.univ-orleans.fr/gdre09/ while the GDRE website is : http://www.univ-orleans.fr/deg/GDRecomofi/

(University of Aix-Marseille), C. Chavagneux (Alternatives Economiques) and J-P. Pollin (University of Orléans).

This special issue is a selection of seven articles that have been presented during this symposium. They are representative of the diversity and the quality of the communications submitted for the GDRE Annual Symposium. Although they deal with a variety of topics, these contributions can be divided into two large fields. The first three articles deal with Monetary Economics and Macroeconomics. The other four papers are related to Banking and Finance.

E. Carré's article contributes to the debate on the New Keynesian Philips Curve (NKPC), by asking whether the Phillips Curve in the Euro Area is purely forward-looking, or includes a backward-looking component. The author recalls the *ins and outs* of this problematic, in terms of theoretical knowledge, price dynamics, and monetary policy strategies. Moreover, he suggests an original approach, based on the meta-analysis technique, which consists in examining the earlier results of 88 comparable empirical estimates stemming from 21 articles. Such a method leads the author to conclude that the Phillips Curve is without doubt forward-looking in the Euro Area, but the backward-looking component is far from being insignificant. Finally, his analysis allows highlighting the methodological and factual factors that explain the diverging results obtained in the literature.

The contribution of N. Canry, J. Fouquau and S. Lechevalier aims at revisiting Japan's deflation from the mid-1990s to 2005. To this end, the authors provide an alternative explanation, theoretically based on an imperfect competitive framework, which focuses on the real dimension of deflation (excluding monetary policy and asset prices). Indeed, they consider that the decrease in prices can be alternatively or simultaneously explained by a decrease in the level of rents (determined on the goods market) or by a change in their distribution (determined on the labor market). It concludes by connecting changes in price dynamics to the institutional and structural changes registered on these markets, what is validated by their empirical study.

The third paper, by C. Bangake and J. Eggoh, is at the boundary of macroeconomics and finance. The authors revisit the long-debated – but still empirically ambiguous – relation between finance and growth. Like the other papers of the present issue, their contribution relies on an original empirical method, as the authors employ some recently developed panel causality and co-integration techniques for 25 OECD countries. The results lead to point out a long-run bi-directional causality between financial development and economic growth. Besides, it appears that the banking sector is a more significant driving force of economic growth than the stock market. In this respect, the authors end up underlining the need to mainly promote intermediate financing for achieving a sound long-run economic growth. In the same breath, the stock market will afterwards benefit from the economic growth.

Unsurprisingly, the financial turmoil at the time of the conference fostered new ways of answering old questions. The article of K. Elasri and N. Huchet is a theoretical attempt to model the impact of rational individual strategies on macroeconomic variables in the banking sector. They first present a model inspired from Diamond-Dybvig (1983), in which two types of banks (risky and liquid or cautious but less liquid) face an exogenous international liquidity shock. It shows that if some banks can choose their type, banks are more likely to take more risks in the boom period of the economic cycle, in order to attract more capital flows and maintain profitability. This in turns weakens the banking sector and increases the instability of financial markets. An interesting result is that a financial collapse can be possible even if "cautious" banks are dominant. Finally a dynamic version of the model, using attraction functions, allows some simulations explaining when risky equilibria are more likely to occur. The authors suggest that reducing the attraction towards risky strategies is possible with a progressive tax rate on banking profits.

In the same vein, the empirical study of Z. Saadaoui shows that, in emerging countries, the attitudes of banks towards risk are not clearly linked with their degree of capitalization. Examining 307 banks in 29 emerging countries over the 1995-2005 period with the help of a simultaneous equations model, the author uncovers the fact that many banks tend to increase their risk level, regardless of their degree of capitalization.

This seems to indicate that the implementation of the Basel Committee's recommendation about capital requirements in emerging countries should be very cautious about several specificities, in particular the sensitivity of banks to the evolution and structure of their profit margins.

Making the link with corporate finance, the empirical investigation of C. Godlewski and Y.Ziane analyses the concentration of bank lenders to European borrowers. The study encompasses 2692 loan facilities to borrowers from 12 European countries from 1998 to 2006.

With the help of a tobit regression, they find that firms tend to reduce concentration (increase the number of banks from which they obtain loans) when the borrower's quality is high (older, larger, more profitable, more liquid and more transparent firms), and when the risk of early liquidation is low. They also note that some firms seem to use guarantees and covenants to signal their quality to lenders. Another interesting result is that, when firms have a greater ownership concentration, they face a greater concentration of lenders –as if the latter wanted to restrict the discretionary power of the borrower and enhance their ability to monitor the borrower.

Turning from banks and corporate finance to market finance, the article of C. Hurlin, P. Kouontchou and B. Maillet explores an extension of the well-known Capital Asset Pricing Model. This model aims at predicting the value of financial assets. It suffers from many limitations, of which the hypothesis that asset returns are distributed according to a Normal-Gaussian law of probabilities is not the least. On the contrary, phenomena like volatility clustering (high variations of asset prices come altogether), asymmetry or skewness (positive returns are more frequent than the reverse), and an abnormally (non-gaussian) high probability of occurrence of extreme variations (or kurtosis).

The authors base their approach on the earlier works of Bollersev and Zhang (2003), which uses high frequency data (each thirty minutes) to improve the quality of asset evaluation. The "realized moments" estimation concludes that adding an asymmetry coefficient into the regression significantly improves the quality of asset price estimates.

Finally, we want to underline again our satisfaction for having contributed to the collaboration between GDRE *Money, Banking & Finance* and the *Brussels Economic Review / Cahiers Economiques de Bruxelles*; we anticipate that the papers as a group will provide an effective and useful resource to subscribers, and hope that they will benefit from reading them as much as we have.