Preface

A liquidity shortage, beginning in late 2007, sparked a series of events that resulted in the collapse of large financial institutions and dramatic downturns in key stock markets. The crisis played a significant role in determining extensive failures of economic activities, declines in consumer demand and wealth, and a severe recession in many areas of the globalised world.

Even more depressing consequences were avoided owing to exceptional interventions by monetary authorities and governments, which directly supported the financial markets with bailout policies and massive injections of liquidity. These interventions resulted in further important consequences, with the ex ante distortion of incentives—leading intermediaries to choose arrangements with excessive illiquidity and thereby increasing financial fragility—being the most important.

The European sovereign-debt crisis that spread out later in time is a further result of the global financial crisis. This second wave of crisis hit government bond markets and triggered a further slowdown in economic growth in Eurozone countries, especially those struggling with structural weaknesses such as high public debt and low rates of growth.

From the financial industry perspective, the worsening of sovereign ratings heavily affected banks’ balance sheets. Risks linked to bank funding rose systematically, leading to heavy restrictions in credit supply (credit crunch). In addition to the worsening of credit access conditions, firms’ less-than-expected returns put pressure on credit quality, implying a sudden increase in impaired loans. The banks’ financial structure was deeply stressed and subject to substantial adjustments.

Along with the evolution of the global financial crisis, the recognition of bank fragility has led to several structural regulatory reforms aimed at reducing the bank risk profile and probability of future systemic bank failure.

To discuss these issues, a conference was held in Cagliari in July 2014 that brought contributions from leading scholars in the field. This book, organised into four parts, collects some of the papers selected for the conference.
The first part of the book, *Genesis and Evolution of the Global Financial Crisis*, presents two points of view regarding the economic background behind the origin and the late developments of the crisis. According to Hieronymi, the absence of a global rule-based international monetary order since the early 1970s has led to the growing domination of short-term market-driven “global finance” in the world economy and to recurring major financial crises, including the near worldwide financial collapse in 2008. This absence was also largely responsible for the gradual slowdown of economic growth in the OECD countries during the last 40 years.

Moro argues that the cause of the European financial crisis is rooted in the imbalances of European Monetary Union (EMU) countries’ balance of payments, where the TARGET2 payment system became crucial. Additionally, the interactions between sovereign problems and banking distress, which led to the severe economic slowdown in Europe, are also regarded as the main source of the fragmentation of Eurozone financial markets.

The second part of this book, *Bank Opportunistic Behaviour and Structural Reforms*, investigates whether policies implemented by governments and monetary authorities to counteract the most negative effects of the financial crisis have produced opportunistic conduct (moral hazard) or changes in banks’ behaviour. Additionally, some structural reforms and regulatory measures are also debated in this section. Mattana and Rossi devise an empirical model to investigate the extent to which large banks may have taken advantage of moral hazard behaviour in the form of *too big to fail*, during the first wave of the global financial crisis (2007–2009). The authors, by employing a large sample of European banks, are able to detect a form of opportunistic conduct in the European banking system. Duran and Lozano-Vivas examine the moral hazard problem in the form of risk shifting that emerged in relation to the safety net and regulation for the European and the US banking systems. The authors provide a synthesis of the incentive scheme underlying risk shifting and discuss a method to study this form of moral hazard empirically. Several main questions are addressed in the paper. Do banks engage in risk shifting? What is the type of risk shifting present in a banking system, if any? What are the variables that incentivise or create disincentives for risk shifting? The results seem to support the presence of moral hazard behaviour in both the European and US banking systems. Molyneux offers an interesting point of view on the measures able to reduce the likelihood of systemic bank failure. The author provides a description of the European banking system’s features along with a brief analysis of structural regulatory reforms aimed at reducing the negative effects of opportunistic conduct (too-big-to-fail guarantees) and other forms of taxpayer support for the banking system. Finally, the issue of banks turning into public utilities is discussed.

The third part of this book, *Bank Regulation, Credit Access and Bank Performance*, collects papers that address the effects of the change in bank regulation on bank lending, bank risk, and bank profit profile throughout the global financial crisis. Moreover, the issues of the formal credit access of female and male firms, as well as the quality of management on bank performance, are also investigated in this section. Within this context, Mascia, Keasey, and Vallascas aim to verify
whether throughout this period of financial distress banks implementing Basel II reduced corporate lending growth more than banks adopting the first of the Basel Accords. Furthermore, the paper also tests whether Basel II affects the growth of corporate credit differently according to bank size. Brogi and Langone provide further empirical evidence on the relevant topic of bank regulation. The authors investigate the effects of the Basel III regulation on banks’ equity risk for a sample of large European listed banks (those under ECB supervision) for the period 2007–2013. Their findings indicate that better capitalised banks are perceived as less risky by the market and therefore shareholders require a lower return on equity. Galli and Rossi, following some critical issues of the credit access literature, discuss whether there is gender discrimination in formal credit markets in 11 European countries over the period 2009–2013. They also consider in the analysis some banking features as well as social and institutional indicators that may affect women’s access to credit. Nguyen, Hagendorff, and Eshraghi conclude this section by offering an interesting perspective on the performance of credit institutions by looking at the value of human capital in the banking industry. This chapter provides insights on policymakers charged with ensuring the competency of executives in banking.

The fourth part of this book, Credit Crunch: Regional Issues, aims to investigate the dynamic features of the credit demand and supply during the 2008–2013 crisis and the modifications in the financial structures of small and medium firms. In this regard, the Italian and regional Sardinian cases are discussed. Malavasi investigates the financial structure of the Italian firms that unlike those of other European countries are characterised by a peculiar fragility due to their lower capitalisation and higher leverage. In particular, the chapter provides readers with some answers to two crucial questions: what are the best solutions to rebalance the financial structure of Italian firms, and how should banks refinance firms providing them with the necessary period to settle finances? Lo Cascio and Aliano empirically address the issue of the credit crunch at regional level, by defining the potential demand for credit in certain sectors of the regional Sardinian economy along with the actual credit supply. The analysis, based on macro and micro data for the period 2002–2013, employs different statistical approaches and provides some empirical evidence for bank credit strategies. In the last chapter of this part, Riccio analyses the credit crunch issue by examining the effects of changes in civil and fiscal law made in Italy since 2012 with the aim to facilitate direct access to the debt capital market by unlisted companies in Italy.

Acknowledgements

The papers collected in this book have been discussed in several seminars and presented at the International Workshop “Financial crisis and Credit crunch: micro and macroeconomic implications” held at the Department of Economics and Business, University of Cagliari, Italy, on 4 July 2014. The conference was
organised at the end of the first year of the research project “The Global Financial crisis and the credit crunch—Policy implications”. We gratefully acknowledge research grants from the Autonomous Region of Sardinia, *Legge Regionale 2007, N. 7* [Grant Number CRP-59890, year 2012]. In addition to the authors of the book chapters, we thank Danilo V. Mascia and Paolo Mattana for their contribution to the research project. A special thanks goes to Vincenzo Rundeddu for assistance in the preparation of this book.

Cagliari

Spring 2015

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Roberto Malavasi
Financial Crisis, Bank Behaviour and Credit Crunch
Rossi, S.P.S.; Malavasi, R. (Eds.)
2016, XII, 193 p. 44 illus., 38 illus. in color., Hardcover
ISBN: 978-3-319-17412-9