



June 2008

Welcome to the first issue of the FINESS electronic newsletter!

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We are glad to inform you on the start of the new European collaborative research project

**“FINANCIAL SYSTEMS, EFFICIENCY AND STIMULATION OF SUSTAINABLE GROWTH”
(FINESS)**



The project is funded by the 7th Framework Programme of the European Commission within the Activity 8.1 “Growth, Employment and Competitiveness in a Knowledge Society – The European Case”.

It was launched on February 22, 2008 with a kick-off meeting at the German Institute for Economic Research in Berlin.

The main purpose of [FINESS](#) is to get a clear understanding of the implications of ongoing financial market integration in Europe on economic growth, employment and competitiveness, to identify likely future paths of the development and to draw policy relevant conclusions. Several main breakthroughs will be achieved throughout the project. On the macroeconomic level, the role of financial systems and their transmission channels on growth will be explored by innovative and tailor made econometric techniques, taken dynamic interactions between financial, product and labour markets into account. A range of indicators to measure the degree of financial integration will be constructed, and their development in time will be addressed. Moreover, insights into the working of financial institutions will be provided for the microeconomic level from the perspective of heterogeneous agents. Empirical analysis will be done using elaborated econometric methods.

The comparative approach undertaken by FINESS is especially useful to uncover catalysts and bottlenecks in the architecture of financial systems. By investigating unique datasets, the role of the financial structure, i.e. the banking sector, markets for private equity and venture capital, for improving efficiency and sustainable expansion of start ups and established firms is studied. Moreover, the impacts of different degrees of financial integration on the portfolio decisions of households are explored. Other topics are related to the transition period of the New Member States as well as to the gender dimension in turning impulses from the financial system into efficiency and growth. By fulfilling its goals, FINESS will provide in-depth knowledge on the relationship between financial systems and sustainable economic growth in a changing economic environment.

Project participants

The project team comprises 26 researchers from eight European partner institutions:

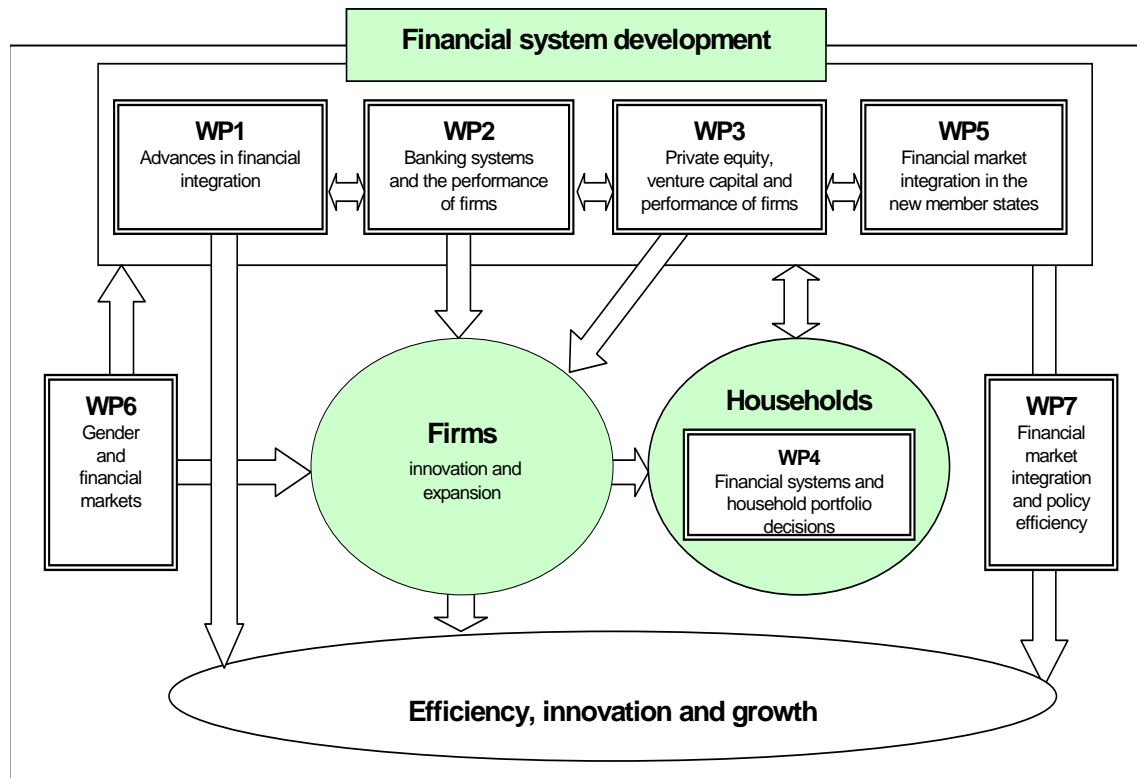
 <p>DIW Berlin</p>	<p><u>German Institute for Economic Research, Germany</u> Coordinator</p>
 <p>CEPII</p>	<p><u>Centre d'Etudes Prospectives et d'Informations Internationales, France</u></p>
 <p>UNIVERSITY OF CAMBRIDGE</p>	<p><u>University of Cambridge, UK</u></p>
 <p>ifo</p>	<p><u>Ifo Institute Munich, Germany</u></p>
 <p>UNIVERSITEIT GENT</p>	<p><u>Ghent University, Belgium</u></p>
 <p>UNIVERSITÄT TUEBINGEN</p>	<p><u>University of Tuebingen, Germany</u></p>
 <p>ICEG EUROPEAN CENTER</p>	<p><u>ICEG European Center, Hungary</u></p>
 <p>IME Institute for Market Economics</p>	<p><u>Institute for Market Economics, Bulgaria</u></p>

The project’s Advisory Committee consists of Prof. Alfred Steinherr (*Chairman*), Prof. Giovanni Urga (*Cass Business School*), Prof. Wendy Carlin (*University College London*), Prof. Doris Neuberger (*University of Rostock*), Prof. Eric Girardin (*Université de la Méditerranée, Aix-Marseille II*) and Prof. Anindya Banerjee (*Birmingham University*). Observers from DG RTD, DG ECFIN, DG MARKT and DG ENTERPRISE of the European Commission will help establishing a continuous dialog between the research team and the European policymakers on the policy relevant findings and conclusions.

Prof. **Christian Dreger** (*DIW Berlin*) is the scientific leader of the project and Dr. **Tatjana Ribakoff** (*DIW Berlin*) – its Managing Coordinator.

Research programme

FINESS puts special emphasis on the ability of financial systems to support economic efficiency and stimulate long-term growth. The analysis is carried out both at a theoretical and an empirical level. This central goal determines the project's logical scheme:



Workpackage 1 is devoted to the development and likely future paths of financial market integration and its impact on efficiency and growth.

The next three packages explore the impulses of changing financial systems on growth. Specifically, WP2 and WP3 discuss the role of the financial structure for start-ups and firms' innovation and expansion. The main focus in WP4 is on the impact of financial systems on portfolio decisions of households within increasingly integrated financial markets.

As they are in the period of economic transition and catching up, the role of a changing financial system is analysed separately for the New Member States (WP5).

FINESS also stresses the relevance of the gender for turning impulses from the financial system into changes in the real sector. This topic is addressed in WP6. The implications of financial system development and financial market integration for the optimal design of economic policy are investigated in WP7. This WP also benefits from all other WPs, as policy relevant conclusions are obtained throughout the entire project.

FINESS homepage presenting details of its research programme is located at:

<http://www.finess-web.eu>

Upcoming project events

FINESS International Research Conference is preliminary scheduled for **March 5-6 2009 in Berlin**. It will present the latest project research results.

More information on the conference will follow in the next issue. All details will be available at the FINESS homepage.

Cooperation with other projects

FINPROP

The FINESS project has its roots in the project “Financial Integration in Europe and the Propagation of Shocks” – FINPROP - of the 6th Framework Programme (2004-2006). The results of this project are published at: <http://www.finprop.de>

At the final FINPROP policy conference in Brussels some of the sub-teams (DIW, UoT, GU) started to discuss the possibility of submitting a proposal for the 7FP and new common topics of research. Along the year 2007 we were in contact in order to define the expertise of each partner and to find a common research interest, the research lines included in each WP, and about the new teams that could cover other interesting subjects included in the 7FP Call. We therefore invited other teams (IFO, CEPII, UCAM, ICEG, IME) who are specialists in these other topics and with whom we partially already cooperated previously.

Five of the FINPROP team members are now participating in FINESS. Several other FINPROP participants and discussants (currently working at Tilburg University, NIESR, Cass Business School, Kiel University) agreed to be discussants of FINESS research papers, thus contributing to the continuity and further development of research ideas.

VICO

We established cooperation with another new 7th Framework Programme project – “Financing Entrepreneurial Ventures in Europe: Impact on innovation, employment growth and competitiveness” (VICO). We hope to benefit a lot from the complementarities of the research programme of VICO with our WP2 by organising exchange of ideas and active discussion of research results.

We invite all relevant ongoing research projects to exchange ideas with FINESS.

For any cooperation proposals, please do not hesitate to contact the project’s coordinators, [Christian Dreger](#) and [Tatjana Ribakoff](#).

Forthcoming International Conferences

<i>Website, Date, Place</i>	<i>Organiser</i>
<u>Financing of SMEs in Europe</u> 11-12 September 2008, Paris	SUERF
<u>The Evolving Financial System and the Transmission Mechanism of Monetary Policy</u> 25 September 2008, Basel	CEPR / ESI / BIS

<p><u>The 40th Money, Macro and Finance Research Group annual conference</u> 10-12 September 2008, London</p>	MMF
<p><u>Household Finances and Consumption</u> 4-5 September 2008, Frankfurt/M</p>	ECB-CFS
<p><u>Liquidity: Concepts and Risks</u> 17-18 October 2008, Munich</p>	CESifo / Deutsche Bundesbank
<p><u>The 11th conference of the ECB-CFS Research Network on "Capital Markets and Financial Integration in Europe"</u> 20-21 October 2008, Prague</p>	ECB-CFS
<p><u>European Monetary Policy and World Capital Markets - Strategic and Political Challenges</u> 5 November 2008, Hamburg</p>	German-British Forum
<p><u>Business Cycle Developments, Financial Fragility, Housing and Commodity Prices</u> 21-23 November 2008, Barcelona</p>	CREI / Universitat Pompeu Fabra
<p><u>The Chicago / London Conference on Financial Markets</u> What Went Wrong? Financial Engineering, Financial Econometrics, and the Current Stress 5-6 December 2008, London</p>	Cass Business School
<p><u>Conference on International Macroeconomics and Finance</u> 5-6 December, 2008, Paris</p>	CEPR
<p><u>The 21st Australasian Finance and Banking Conference 2008</u> 16-18 December 2008, Sydney</p>	UNSW
<p><u>6th Paris Finance International Meeting</u> 18-19 December 2008, Paris</p>	AFFI / EUROFIDAI
<p><u>Campus for Finance Research Conference 09</u> 14-15 January 2009, Vallendar</p>	CFF
<p><u>Crashes and systemic crises in financial markets: Implications for banks, investors and macroeconomic policy-makers</u> March 2009, Rotterdam</p>	Tinbergen Institute
<p><u>Forecasting and Monetary Policy</u> 23-24 March, 2009, Berlin</p>	Viessmann European Research Centre/ Deutsche Bundesbank