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Risk, financial stability and banking

On August 10–12, 2016, the Central Bank of Brazil, in cooperation with the Bank of Finland, Fundação Getulio Vargas Sao Paulo School of Business, and the *Journal of Financial Stability*, organized a multi-day conference in São Paulo, Brazil. This high-level conference saw researchers, academics, regulators, and practitioners come together to discuss some of the most pressing issues in finance, banking, and the post-crisis context. The conference saw some excellent work presented, and a number of those papers were reviewed and revised to become the final versions found here in this special issue of the *Journal of Financial Stability*.

Hiebert et al. (2018), in "Contrasting financial and business cycles: Stylized facts and candidate explanations," explore the major differences between financial and business cycles and consider a wide range of questions, including main characteristics, synchronization, and economic mechanisms that could account for both properties and differences. Through a quite reliable multivariate turning point algorithm the authors determine some major differences, including that financial cycles are larger, longer, and more symmetric. The authors posit a variety of mechanisms that may be at work, and the findings are particularly notable for those who may be advocating for monetary policy as a tool against financial instability. Given that these cycles are not synchronized, other tools may be required to address the drivers of the financial cycle.

Hüser et al. (2018), in "The systemic implications of bail-in: A multi-layered network approach," utilize a network model to consider the systemic implications of bail-in, an important reform for the post-crisis moment. The authors consider the costs of bail-ins and whether there are financial consequences that could themselves speak to systemic implications for the bail-ins, which are of course designed to mitigate many of the concerns of bail-outs. The authors focus specifically on the new EU recovery and resolution framework, and use a novel model to assess the systemic implications of bail-in. In doing so, the authors arrive at a number of conclusions, including that there is no direct contagion for creditor banks but that there are measurable consequences on the different liability holders.

Silva et al. (2018) consider the best methods for incorporating the real economy in systemic risk models in "Bank lending and systemic risk: A financial-real sector network approach with feedback." The reason is simple: shocks pass from the real sector to the financial sector and thus bounce back and forth in a feedback loop, demonstrating a clear need for better models. The authors utilize a recent theoretical model with a variety of networked interdependencies and a unique dataset, and they find that not only is there evidence of a feedback effect between the financial and the real sectors, but that the absence of such a feedback effect in current models severely underestimates systemic risk.

In "Bank capital buffers around the world: Cyclical patterns and the effect of market power," Valencia and Bolaños (2018) examine the determinants of bank capital buffers on a global scale across a 12 year period, and ultimately find that the world average bank exhibits pro-cyclical behavior. This is an important consideration, as it would seem to underline the need for wider implementation of the counter-cyclical buffer tools contained in Basel III, but this may be a more significant issue for developing countries. Additionally, the authors posit some extremely interesting observations regarding developing versus developed countries, namely, that competition is associated with lower capital buffers in developing countries and with higher capital buffers in developed countries, suggesting a new perspective on the "competition-fragility" and "competition-stability" spectrum.

These papers forge new ground for a variety of issues related to risk, banking and financial stability, and we are certain they will make a positive contribution to the research and policy currently being developed by academics and regulators alike.

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