

Editorial

This issue contains a special issue on Political economy of financial crisis selected from the papers presented at the conference on “Financial Crisis: Institutions and Policies” held at the Mendel University in Brno, Czech Republic on November 26–27, 2009. We appreciate inputs from the whole organization team, which included also Lubor Lacina, Antonín Rusek, and Petr Rozmahel, as well as the conference participants, discussants, and referees. Given the recent developments in world economy, analysis of financial crisis gained high prominence. Despite of this there are not many journals addressing the reasons and implications of the financial crisis in Eastern and Central Europe. This issue presents three papers dealing with financial crisis from a different perspective. While the first contribution addresses the need of coordination of monetary and fiscal policy from a theoretical perspective, the latter two papers try to fill the publication gap with analysis on determinants of the financial crisis in Eastern and Central Europe.

The first article by Andrew Hughes Hallett, Jan Libich and Petr Stehlík titled ‘Welfare Improving Coordination of Fiscal and Monetary Policy’ examines the interactions between monetary and fiscal policy from a game theoretical perspective. The authors concentrate on effects of monetary and fiscal policy on the medium-term macroeconomic developments. This theoretical contribution shows that the effects are strongly related to the ability of policy tools to influence macroeconomic developments, the size of policy targets, and the degree of policy conservatism (preferences regarding the volatility of output and inflation)

The second article authored by Claudiu Albulescu titled ‘Economic and Financial Integration of CEECs: The Impact of Financial Instability’ deals with the impact of financial stability on economic as well as financial integration of Central and Eastern European countries (CEECs) with Western Europe. The article constructs the financial instability indexes. These indicators are used as an additional regressor to explain the degree of economic and financial integration between the CEECs and Western Europe. The results show that the recent financial crisis linked with the increased financial instability in most CEECs has essentially stopped the convergence of CEECs to Western Europe.

The third article by Jarko Fidrmuc and Philipp Johann Süß titled ‘The Outbreak of Russian Banking Crisis’ studies the determinants of Russian bank failures. The authors show that the Russian banks were severely hit by financial crisis and 47 of them failed. While the Russian crisis is often presented as a part of the global financial crisis, this article points at the importance of domestic vulnerability factors. In particular, it shows that the financial statements of Russian banks included signals about possible bank failures already in 2006 and 2007.

Jarko Fidrmuc and Roman Horváth, special issue editors