EDITORS' INTRODUCTION

This special issue of the **Philippine Management Review** collects some of the papers presented in a research conference held in Manila, Philippines in August 2007 under the theme "Safety and Efficiency of the Financial System." These papers, among others, are the outcome of a project funded by the European Commission under the Asia-Link program Asialink/ASIE/B7-3010/2005/105-139* involving a group of faculty and graduate students from the University of Limoges (France), University of Poitiers (France), University of Birmingham (United Kingdom) and the University of the Philippines. The project aimed to foster collaborative research among European and Asian universities and sought to encourage and establish linkages among them. The project covered the period 2005-2007 and the eight papers published in this volume are a selection of the eighteen papers prepared for this project and presented at the conference.

Distinguin, Tarazi and Trinidad assess the usefulness of market information as an additional predictor of bank financial distress. Using stepwise logit analysis on data for eight Asian countries, they first estimate an EWS type of model using accounting information as predictor variables. They then extend the model to include stock market information and find improvements in prediction accuracy. Barry, Dacanay, Lepetit and Tarazi examine to what extent ownership structure of banks in six Asian countries affects efficiency. Using data envelopment analysis to derive relative efficiency scores, they determine that foreign-owned banks and those with minority private shareholders have higher efficiency scores. Dela Cruz and Dickinson take the standard consumption-based capital asset pricing model as a framework in examining the role of inflation risk on interest rate movements in the Philippines. A bivariate GARCH model is used to estimate inflation covariance risk. Their results show that inflation covariance risk significantly influences the interest rate process.

Yu, Goyeau and Bautista measure time variation in market risk using firm level weekly Philippines stock market data. The authors use markov–switching techniques to capture states of low and high risk levels. The study finds that shifts in risk levels appear to be related to market developments and prevailing economic conditions. Duport, Goyeau and Sarte's article looks at the synchronization of real and financial cycles of six Southeast Asian countries with a view of determining contributions of each country to international portfolio diversification. The study's results enable the classification of countries into three groups according to their degree of synchronization. The relation between money growth and velocity first studied by Milton Friedman is the subject of a detailed empirical test in the paper of Baunto, Bordes, Maveyraud and Rous. Using Philippine data, they find evidence supporting Friedman's hypothesis after accounting for structural breaks in the data. Borja and Goyeau analyze the effects of international liquidity on asset prices in three selected regions: the United States, the Euro area and the ASEAN. They find that the latter area is unaffected by international liquidity. This is not the case however for the U.S. and the Euro area. The paper by Los Baños, Crouzille, Nys and Sauviat examines the relation between the structure of Philippine banking (commercial, thrift and rural banks) and economic activity at a regional level using principal component analysis. Results show globally a positive link between economic and banking development with a specific influence of rural banking in the Philippine regions with an intermediate level of development, reinforced after the 1997 financial crisis, but no influence in the less developed regions whilst the most rural in the Philippines.

Beginning with this special issue, the **Review** adopts a new layout and moves away from a two-column arrangement in favor of a one-column format.

Carlos Bautista
Amine Tarazi

* Activities of the project are documented in http://www.upd.edu.ph/~cba/asialink/.