Multinational Banking and Financial Contagion: Evidence from Foreign Bank Subsidiaries

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February 2013

Summary

This paper shows that multinational banks play a role of transmission of financial shocks globally through cross-border internal capital transactions between parent banks and their foreign subsidiaries. We find that internal capital markets transmit shocks by affecting foreign subsidiaries' reliance on their own funding for lending. We also find that the transmission of financial shocks varies across types of shocks; is strongest among subsidiaries in Central and Eastern Europe, followed by Asia and Latin America; is global rather than regional; and became more conspicuous in recent years.