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Central Bank Transparency and Cross-Border Banking^{*}

by

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Abstract

We analyze the effect of central bank transparency on cross-border bank activities. Based on a panel gravity model for cross-border bank claims for 21 home and 47 destination countries from 1998 to 2010, we find strong empirical evidence that a rise in central bank transparency in the destination country, on average, increases cross-border claims. Using interaction models, we find that the positive effect of central bank transparency on cross-border claims is only significant if the central bank is politically independent and operates in a stable economic environment. Central bank transparency and credibility are thus considered complements by banks investing abroad.

Keywords: Central bank transparency; Cross-border banking; Gravity model; PPML

JEL codes: E58, F30, G15; G21

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