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Internal capital market practices of multinational banks

Evidence from South Africa

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Abstract

This paper examines how internal capital flows inside multinational banks create global financial interconnections, relying on a novel database on foreign banks operating in South Africa. Using the event of the East Asian crisis, I find that foreign affiliates' balance sheet face “reversal of fortune” when other members of their banking group need large amounts of internal capital to cushion capital losses, leading to an abrupt reallocation of internal capital across countries. At the same time, an increase of the volume of internal funding received is shown to cause an expansion of credit to the local private sector.

JEL classification: E44, G21, G32

Keywords: Internal capital markets, multinational banks, crisis transmission, credit supply.

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