Accepted Manuscript

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PII: S0022-1996(17)30119-8
DOI: doi:10.1016/j.jinteco.2017.09.004
Reference: INEC 3084

To appear in: *Journal of International Economics*

Received date: 14 April 2015
Revised date: 8 September 2017
Accepted date: 13 September 2017

Please cite this article as: Danisewicz, Piotr, Reinhardt, Dennis, Sowerbutts, Rhiannon, On a tight leash: Does bank organizational structure matter for macroprudential spillovers?, *Journal of International Economics* (2017), doi:10.1016/j.jinteco.2017.09.004

On a tight leash: Does bank organizational structure matter for macroprudential spillovers?

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September 2017

Abstract

This paper examines whether the organizational form of multinational banks' foreign affiliates affects cross-border spillovers of macroprudential regulation. We compare changes in the growth of lending provided by foreign banks' branches versus subsidiaries in the United Kingdom in response to changes in capital requirements, lending standards and reserve requirements in foreign banks' home countries. Our results suggest that a tightening of capital requirements at home reduces UK branches' interbank lending growth by 5.7pp more relative to subsidiaries. We link this effect to the higher degree of control which parent banks hold over operations of their foreign branches compared to subsidiaries. Supporting this hypothesis, a set of further tests illustrates that the response of foreign affiliates operating under a branch structure is stronger where parent banks are more likely to delegate more decision making authority to the board of directors of their subsidiaries.

Key words: Macroprudential regulation, cross-border lending, credit supply, foreign banks' organizational structure

***JEL* classification:** G21, G28, E51, E58

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