## Accepted Manuscript

Transmission of Liquidity Shocks: Evidence on Cross-border Bank Ownership Linkages

Yifei Cao, Ian Gregory-Smith, Alberto Montagnoli

PII: \$1042-4431(17)30325-6

DOI: http://dx.doi.org/10.1016/j.intfin.2017.09.017

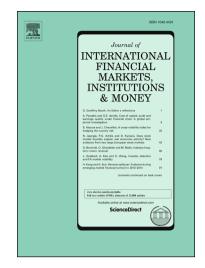
Reference: INTFIN 983

To appear in: Journal of International Financial Markets, Institu-

tions & Money

Received Date: 6 July 2017

Accepted Date: 14 September 2017



Please cite this article as: Y. Cao, I. Gregory-Smith, A. Montagnoli, Transmission of Liquidity Shocks: Evidence on Cross-border Bank Ownership Linkages, *Journal of International Financial Markets, Institutions & Money* (2017), doi: http://dx.doi.org/10.1016/j.intfin.2017.09.017

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

## **ACCEPTED MANUSCRIPT**

## Transmission of Liquidity Shocks: Evidence on Cross-border Bank Ownership Linkages<sup>☆</sup>

Yifei Cao<sup>1</sup>, Ian Gregory-Smith<sup>2</sup>, and Alberto Montagnoli<sup>3</sup>

Department of Economics, University of Sheffield.

#### Abstract

This study examines whether a liquidity shock to a banking system could be transmitted to other economies through a network of bank ownership. Firstly we construct cross-border ownership networks for banks located in European countries. We then exploit the 2010 European debt crisis as a natural experiment. The analysis shows that subsidiary banks located outside of Greece, Ireland, Italy, Portugal and Spain (GIIPS) but with ownership linkages to these countries have a lower loan growth rate during the crisis period. This suggests that the liquidity shock experienced by GIIPS countries was indeed transmitted to those banks through ownership linkages. Larger subsidiary banks and those subsidiaries that were more profitable are found to be more resilient to the shock. We also find that the parent bank's characteristics affect the transmission of the shock, supporting the notion of an internal capital market operating within these banks.

Keywords: Foreign Banks; Liquidity Crisis; Crisis Transmission; Bank Lending.

JEL Classification: F3, G2, H63

#### 1. Introduction

This study provides empirical evidence on whether foreign bank ownership linkages can transmit external liquidity shocks. The past two decades has witnessed extensive globalisation of the financial sector. Banks from one country to the next are increasingly connected by cross-border interbank lending relationships and ownership ties. Additionally, there has been a large increase in the presence of foreign-owned banks in a typical domestic banking system. The overall share of domestic banking assets held by foreign banks has increased from 15% in 1995 to 23% in 2005 (International Monetary Fund, 2007). As a result, the role of foreign banks

<sup>&</sup>lt;sup>☆</sup>This paper was presented at the 2016 Cross Country Perspectives of Finance conferences held in Taiyuan and Pu'er, China. The authors are thankful to participants at seminar at University of Sheffield for their helpful comments and suggestions. All remaining errors are ours.

 $<sup>^1\</sup>mathrm{Address}$ : Department of Economics, 10 Mappin Street, Sheffield, UK, S1 4DT; Tel: +44 (0)114 222 3421; Email: ycao13@sheffield.ac.uk

 $<sup>^2\</sup>mathrm{Tel}\colon +44\ (0)114\ 222\ 3317;$ Email: i.gregory-smith@sheffield.ac.uk

 $<sup>^3\</sup>mathrm{Tel}\colon +44~(0)114~222~9655;$ Email: a.montagnoli@sheffield.ac.uk

### Download English Version:

# https://daneshyari.com/en/article/7364275

Download Persian Version:

https://daneshyari.com/article/7364275

<u>Daneshyari.com</u>