

# **Multinational Banking and Financial Contagion: Evidence from Foreign Bank Subsidiaries**

**Bang Nam Jeon**

Drexel University

Hong Kong Institute for Monetary Research

and

**María Pía Olivero**

Drexel University

and

**Ji Wu**

Southwestern University of Finance and Economics

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.