

The Contagion Effect in Foreign Bank's Lending during a Crisis: Does Local Currency Market Development Promote Credit Stability?

日本経済研究センター

増島雄樹

This empirical paper investigates whether financial and economic shocks from home countries (advanced economies where globalized banks' headquarters are located) affect a host country (Indonesia). I find the evidence that there is the contagion effect of shocks that a parent bank and a home economy suffer on foreign banks' loans in foreign currency. A change in a home stock market index and industrial production appears to have a negative effect on growth rates in foreign currency loans of foreign banks in the host market; high growth rates in the parent bank's stock price in the home market lead to an increase in foreign banks' loans in foreign currency in the host country. However, no contagion effect is observed in local currency lending, meaning that local currency market developments plays a vital role in a stable credit supply in the emerging Asia during a crisis.

JEL classification: F34; F37; O16

Keywords: Crisis; Currency Denomination; International banking; Financial Sector Development.