Central Bank Transparency and Cross-Border Banking

by

Stefan Eichler (Technische Universitaet Dresden and Halle Institute for Economic Research)

Helge C. N. Littke (Halle Institute for Economic Research)

Lena Tonzer (Halle Institute for Economic Research)

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Abstract

We analyze the effect of central bank transparency on cross-border bank activities. Based on a panel gravity model for cross-border bank claims for 21 home and 47 destination countries from 1998 to 2010, we find strong empirical evidence that a rise in central bank transparency in the destination country, on average, increases cross-border claims. Using interaction models, we find that the positive effect of central bank transparency on cross-border claims is only significant if the central bank is politically independent and operates in a stable economic environment. Central bank transparency and credibility are thus considered complements by banks investing abroad.

Keywords: Central bank transparency; Cross-border banking; Gravity model; PPML

JEL codes: E58, F30, G15; G21

*Corresponding author: Stefan Eichler, Technische Universitaet Dresden, Chair of International Monetary Economics, 01062 Dresden, Germany, and Halle Institute for Economic Research (IWH), Kleine Maerkerstraede 8, 06108 Halle (Saale), Germany, stefan.eichler@tu-dresden.de; Helge C. N. Littke, Halle Institute for Economic Research (IWH), Kleine Maerkerstraede 8, 06108 Halle (Saale), Germany, helge.littke@iwh-halle.de; Lena Tonzer, Halle Institute for Economic Research (IWH), Kleine Maerkerstraede 8, 06108 Halle (Saale), Germany, lena.tonzer@iwh-halle.de. We thank Barry Eichengreen and the Bank for International Settlements (BIS) for providing data. Special thanks goes to Sebastian Goerlich of the International Banking and Financial Statistics unit of the BIS for providing useful information on the BIS data. We also thank the editor and an anonymous referee for helpful comments and suggestions. We further want to thank Felix Noth and conference participants of the SMYE 2016 and ICMAIF 2016 as well as seminar participants at the Halle Institute for Economic Research for helpful comments and Friederike Gütter for research assistance. All errors and inconsistencies are solely our own responsibility. This research was partly funded by the European Regional Development Fund through the program “Investing in your Future”.

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