Abstract

This paper analyzes the determinants and implications for financial stability of the mix of international banks' claims countries receive. In particular, we distinguish between local claims, extended by international banks through their affiliates in a host (or claim recipient) country, and cross-border claims, booked from outside the host country, typically from banks' headquarters in their home countries. Using data on U.S., Spanish, and Italian banks' foreign claims across countries, we find that the share of local foreign claims is primarily driven by the degree of "freedom" in the host banking sector and by business opportunities in the local market. Entry requirements, startup and informational costs associated with international banking also play a role, but their influence is less robust. Finally, we find that the mix of international bank claims has implications for financial stability, since foreign claim volatility is lower in countries that receive a larger share of local claims.

Keywords: foreign bank financing, financial FDI, cross-border claims
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