Cross-Border Banking in Europe: Implications for Financial Stability and Macroeconomic Policies

Franklin Allen (Wharton School, University of Pennsylvania)

Thorsten Beck (Tilburg University and CEPR)

Elena Carletti (European University Institute and CEPR)

Philip R. Lane (Trinity College Dublin and CEPR)

Dirk Schoenmaker (Duisenberg School of Finance)

Wolf Wagner (Tilburg University)









This book is produced as part of the CEPR project 'Politics, Economics and Global Governance: The European Dimensions' (PEGGED) funded by the European Commission under its Seventh Framework Programme for Research (Collaborative Project) Contract no. 217559.

Contents

Acknowledgements Acronyms and abbreviations		vii viii
	Foreword	
Executive Summary		1
1.	Cross-Border Banking in Europe: From Boom to Bust	17
1.1	The growth of cross-border banking – trends and determinants	18
1.2	Cross-border banking flows during the crisis	34
1.3	The challenges of supervisors in the light of cross-border failures	40
1.4	Conclusions	44
2.	Cross-Border Banking and Financial Stability	47
2.1	Benefits of cross-border banking	47
2.2	Costs of cross-border banking	50
2.3	Implications for stability-enhancing cross-border banking	53
2.4	Measuring the balance of cross-border banking	57
2.5	Empirical results	63
2.6	Conclusions	71
3.	Macroeconomic Aspects of Cross-Border Banking	73
3.1	Inflation targeting	74
3.2	Sources and transmission mechanisms of systemic risk	76
3.3	Conclusions	90
4.	Policy Implications	91
4.1.	The need for European solutions	91
4.2.	Macro-prudential and macroeconomic policies	92
4.3.	Resolution policies	100
4.4	Summary of recommendations	105
References		109