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International Transmission of Liquidity Shocks Between Parent Banks and Their Affiliates: The Host Country Perspective

In this study we analyze how funding shocks affecting large international banks were transmitted to Polish subsidiaries and branches of these banks in recent years. We investigate differences in the effects of liquidity shocks on banks owned by both Polish and foreign institutions. All Polish banks reacted to liquidity shocks after Lehman Brothers failure; however, only Polish subsidiaries and branches of foreign parent banks adjusted their funding after liquidity shocks had taken place during the sovereign debt crisis of the Eurozone. Mortgage lending in foreign currencies was affected by liquidity shocks in all Polish banks after the Lehman Brothers failure. Our results suggest that the intragroup links between banking institutions serve as an important channel for international transmission of liquidity shocks.

Keywords: liquidity shocks, international transmission, parent banks, affiliate banks, Poland

JEL classification: E44, F34, G32