



IMPACT OF FOREIGN BANKS ON CREDIT STABILITY IN ASEAN

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ABSTRACT

This paper employs panel dataset of 115 banks operated in emerging ASEAN countries, including Thailand, the Philippines, Indonesia and Malaysia during 1998 to 2012 in order to study the impact of foreign banks on credit stability, measured by bank lending growth rate, in host countries. This paper indicates that foreign bank subsidiaries are less sensitive to host country business cycle. In contrast, loan growth of foreign banks is significantly and positively correlated with change in home country GDP growth and the effect is more pronounced in greenfield foreign banks that have closer relationship with their parent bank. These results provide supporting evidence that there exists the transmission of foreign banks' home country economic conditions to host countries via internal market capital employed within multinational banking conglomerate, which leads to the concerns of bank regulators regarding the open up level to foreign bank entry in emerging market countries. This concern, consequently, causes the limited participation of foreign banks in emerging ASEAN countries in the present day.

Key word: Foreign banks; Credit growth; Credit stability; ASEAN banking system