

Estimating Global Bank Network Connectedness

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Abstract

We use lasso methods to shrink, select and estimate the network linking the publicly-traded subset of the world's top 150 banks, 2003-2014. We characterize static network connectedness using full-sample estimation and dynamic network connectedness using rolling-window estimation. Statistically, we find that global banking connectedness is clearly linked to bank location, not bank assets. Dynamically, we find that global banking connectedness displays both secular and cyclical variation. The secular variation corresponds to gradual increases/decreases during episodes of gradual increases/decreases in global market integration. The cyclical variation corresponds to sharp increases during crises, involving mostly cross-country, as opposed to within-country, bank linkages.