whereas higher inflation could limit the supply of credit. $\Delta Debt/GDP$ is the change in government gross debt to GDP (from WEO) and is another factor that potentially affects credit conditions.

Finally, our model also predicts that cross-border lending is increasing in the interest rate spread between the funding rate f and the risk-free interest rate of the wholesale funding currency i. We construct the variable $\Delta Interest\ Spread$ as the difference between the local lending rate and the US Fed Fund rate (from the IMF IFS) and then take the differences between quarters t and $t-1$.

The variables ΔL, $\Delta Debt/GDP$, *Inflation*, and *Local Equity growth* are winsorised at the 2.5% percentile to limit the effect of the outliers. The sample period spans from the first quarter of 1996 (the first date covered in Table 7 of the BIS locational data) to the last quarter of 2011, but the coverage of years and countries varies depending on data availability.

3.2 Panel Regressions for Bank Capital Flows

The specification follows our closed-form solution for banking sector capital flows given by (37). Our panel regressions are with country fixed effects and clustered standard errors at the country level:

$$\begin{aligned} \Delta L_{c,q,y} &= \beta_0 + \beta_i \cdot \text{Global Factor} \,(i)_{(q-1\ \text{or}\ y-1)} + \beta_j \cdot \text{Local Factor} \,(c,j)_{(q-1\ \text{or}\ y-1)} \\ &+ \beta_k \cdot \Delta \text{Interest Spread}_{c,q-1} + e_{c,q} \end{aligned} \qquad (38)$$

where

- $\Delta L_{c,q,y}$ is the growth in cross-border loans vis-à-vis the bank sector in country c and in quarter q of year y, as given by the quarterly log difference in the external loans of BIS reporting country banks in country c between quarters $q-1$ and q;

- Global Factors i encompass the leverage of the US broker dealer sector in level (*Global Leverage*) (at quarter $q-1$) and its log difference between quarters $q-2$ and $q-1$ (*Global Leverage growth*), and the log difference in equity of global banks between years $y-2$ and $y-1$ (*Global Equity growth*).