to an acceleration of capital inflows, thereby confirming the main distinctive prediction of our model.

The expansion of the domestic money stock is also associated with capital flows, as consistently found in earlier studies of capital flows to emerging economies (for instance, Berg and Patillo (1999)). In addition, higher GDP growth, proxing for high domestic demand conditions, is positively associated with banking flows, whereas the deterioration of lending (higher inflation) and public debt conditions act as push factors against cross-border lending. However, these variables are not statistically significant in every specification.

Finally, we observe that the coefficient of the Δ*Interest Spread* is positive and significant as predicted by our theory in specification (5) when other variables are not included. However, it loses significance when used in conjunction with all other variables (column 6). Overall, Table 1 reveals the significant role of global bank leverage and exchange rate changes.

3.3 Robustness tests and additional results

We complement our panel regressions by examining dynamic panel Generalised Method of Moments (GMM) methods due to Arellano and Bover (1995). The panel GMM estimator can be used to control for the dynamic nature of the banking flows-banking leverage relationships, while accounting for other sources of endogeneity, such as credit demand from local banks, funding and lending costs (monetary policy) and other local country characteristics. The results are given in the Appendix in Section A.2. They show that *Global Leverage* and ΔRER continue remaining highly significant.

In Section A.3, we present panel regressions using alternative specifications. In one set of regressions, we include bank leverage terms computed in terms of market capitalisation. We follow Adrian, Moech and Shin (2013) and we define enterprise value leverage (*Mk Global Leverage*) as the enterprise value divided by the market capitalisation of US broker dealers. We show that book leverage remains significant, whereas enterprise value leverage does not. One way to understand our results is to note that enterprise value addresses the question "how much is the bank worth?", whereas capital flows address the question "how much does the bank lend?". Section A.3 also reports results where VIX is used instead of broker dealer