

in a country; c) do not vary systematically between developed and developing countries, suggesting that bank leverage decisions have global impact that is not differentially larger for emerging economies.

A.4 Accounting for Global Factors

To gauge the relative weight of local and global factors in explaining the variation of capital flows, we run four OLS regressions as modified specifications of our benchmark panel regression 38. The respective regressions include the following variables: 1) all the local variables (Local Leverage (in levels and growth), Local Equity Growth, ΔRER , $\Delta M2$, ΔGDP , $\Delta Debt/GDP$, Inflation); 2) all the local variables plus country dummies; 3) all the global variables (Global Leverage (in levels and growth) and Global Equity growth); 4) time dummies (quarterly) only. We then compare the adjusted R-squared from each regressions.

The R^2 statistic from the specifications with time dummies represent an upper bound on the goodness of fit, and we ask how close we get to this upper bound by using the variables selected from our model.¹⁰

Table 3 reports the adjusted R^2 statistics from the four OLS specifications defined above. In Panel A, we report the results for the full sample. We see that local variables alone explain 8.4% of the variation (column 1), while the global variables alone explain 10.2% (column 3). When comparing column 3 with the hypothetical upper bound for a model that has all global factors (column 4), we see that our global variables account for $0.102/0.175 = 58\%$ of the total global variation. Comparing model (4) to model (2), we see that the adjusted R-squared of the time dummy regression is about twice that of the regression with country-specific variables and country-dummies. Consequently, the global characteristics dominate local characteristics in explaining the variation in banking flows.

¹⁰Our approach is in the spirit similar to the analysis performed by Doidge, Karolyi Stulz (2007) in an unrelated context of cross-country comparisons of corporate governance. Doidge, Karolyi Stulz (2007) attempt to measure the relative importance of firm-level factors and country-level factors in corporate governance. Their method proceeds by running regressions with different specifications with country-level variables and firm-level variables (See, Doidge, Karolyi Stulz (2007, Table 2)). They compare their results with that from a regression with country dummies, which gives a statistical upper bound on the importance of country-specific characteristics. By comparing the R^2 obtained from their favored specification with the R^2 from the country dummy regressions that give the upper bound, they are able to gauge the proportion of the total variation that can be captured by the country level variables.