Foreign Capital and Domestic Funding Conditions: A Mundellian Trilemma Perspective[*]

Appendix

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Abstract

This study investigates and evaluates the impact of global funding conditions on private sector credit growth, controlling for the Mundellian Trilemma configuration. We contribute to the empirical literature by investigating the role of other conditioning factors, such as the size of economies and their level of economic development. The more specific research goals are: (i) to explore the different Trilemma configurations by income group and size of the economies; (ii) to enrich international macroeconomics literature on the role of Trilemma configurations and countries' idiosyncrasies in assessing the impact of global financial conditions; and (iii) to formulate policy-relevant conclusions. We argue that when assessing the impact of global financial conditions the exchange rate regime and financial openness matter and the size of the economy and its income level. The high volatility in gross and net international capital flows redefined many trilemma configurations in the Great Recession aftermath. Many countries decided to shield their financial markets by reducing the degree of financial openness and moving toward intermediate or middle-ground positions in their Trilemma configurations.

Contents

1 Descriptive Statistics

- Stojkov, A. and Warin Th. (2021) "Foreign capital and domestic credit growth: A view through the Mundellian Trilemma lens" *Global Economy Journal*, Vol. , No., 2021, *forthcoming* / Dataset here / Dataset's description here

Table 1: Summary Statistics

Statistic	N	Mean	St. Dev.	Min	Pctl(25)	Pctl(75)	Max
domcreditgrowth	6,930	0.03	0.3	−9.3	−0.04	0.1	9.4
capinflow	5,799	0.03	0.2	−2.2	−0.1	0.1	2.7
lnvxo	4,749	2.9	0.3	2.3	2.6	3.2	3.5
deviation	5,212	−0.5	0.5	−1.8	−0.8	−0.1	0.8
size	6,930	1.1	0.4	1	1	1	3
ers	6,804	0.7	0.3	0.004	0.4	1.0	1.0
mpi	5,745	0.4	0.2	0.0	0.4	0.6	1.0
fo	5,821	0.4	0.4	0.0	0.2	0.8	1.0
gr	5,277	3.6	4.8	−36.7	1.4	6.1	35.1
infl	5,281	33.7	469.8	−37.2	2.1	10.6	23,773.1

All the commands and algorithms are coded in R 4.1.1

1.1 Figure 1: Trends in trilemma configurations by income levels

Following a time-varying World Bank's analytical classification of countries (based on the Atlas methodology), we group them into low-income, lower-middle-income, upper-middle-income and high-income economies (see Figure 1, panels A-D respectively).
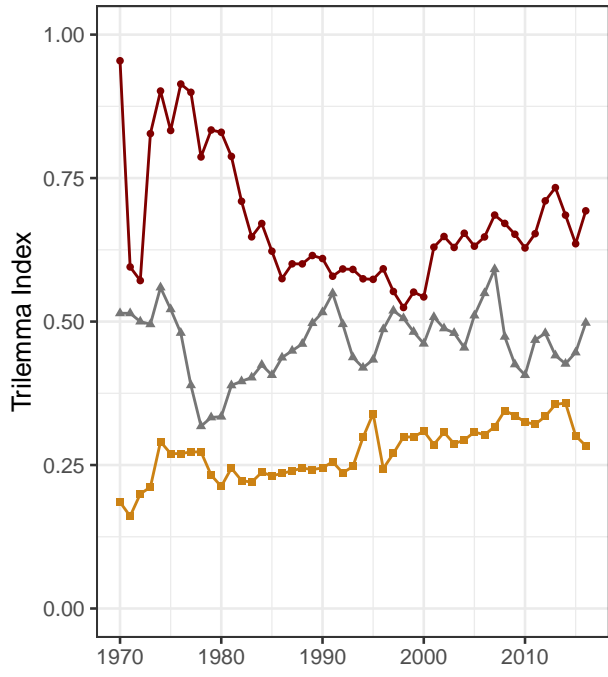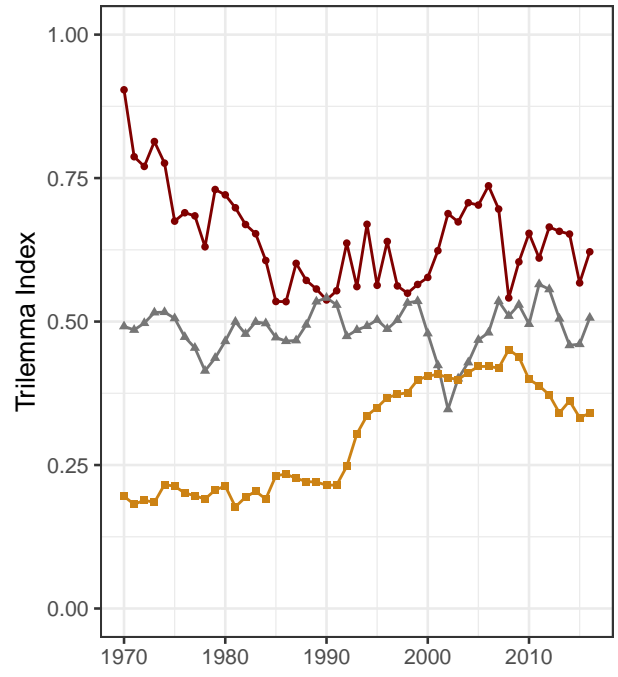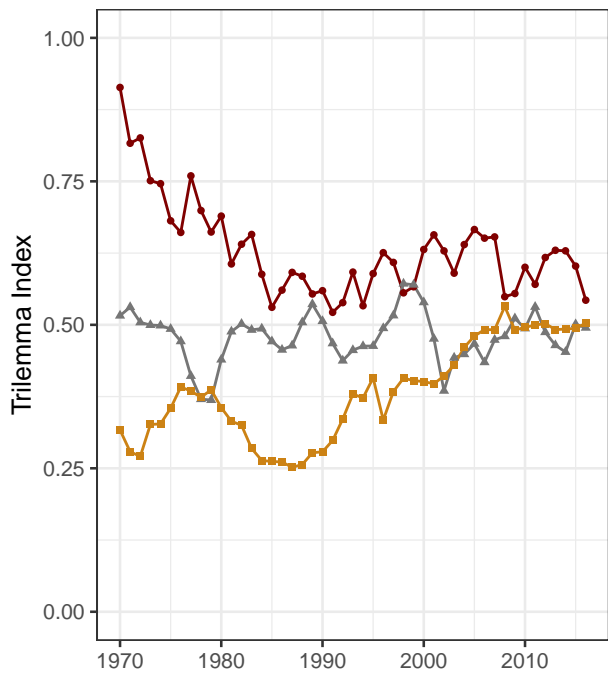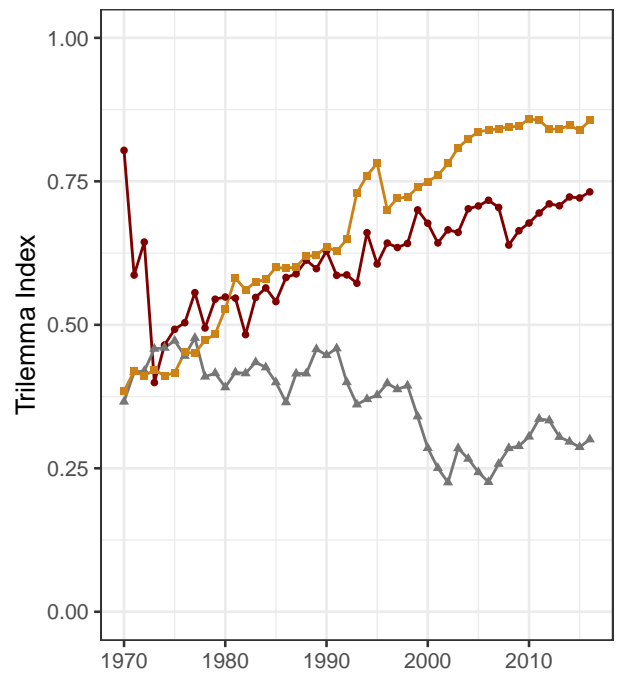
1.2 Figure 2: Trends in trilemma configurations by sizes

Following a time-varying World Bank's analytical classification of countries (based on the Atlas methodology), we group them into low-income, lower-middle-income, upper-middle-income and high-income economies (see Figure 3, panels A-D respectively). Sizes 1, 2, 3 respectively for small, medium and large economies.
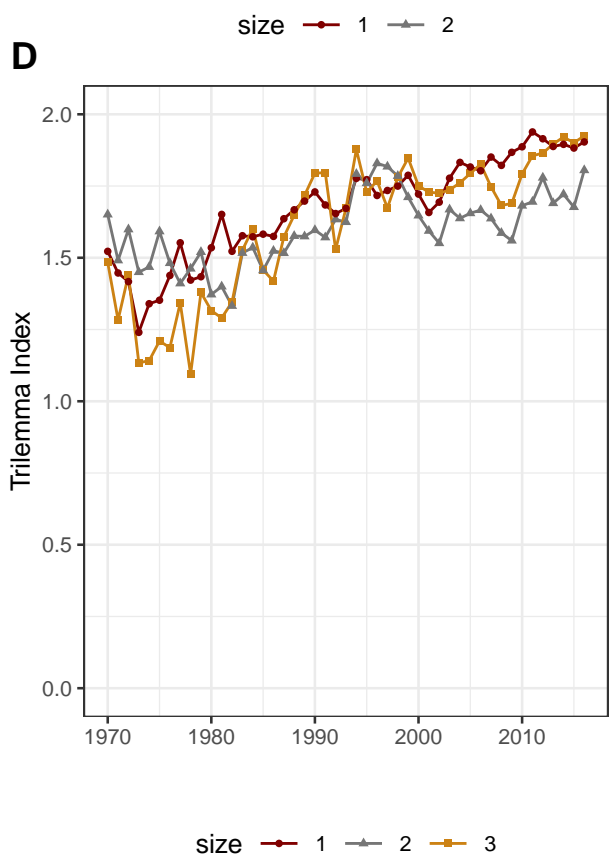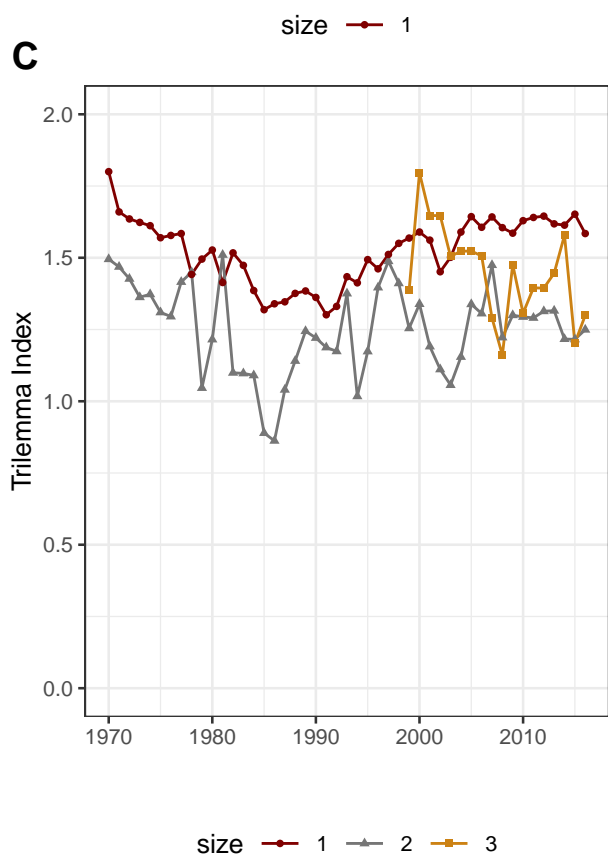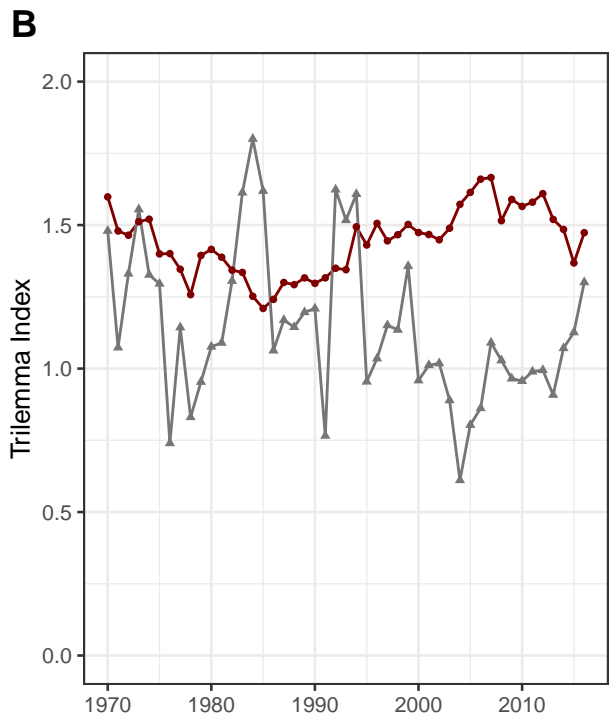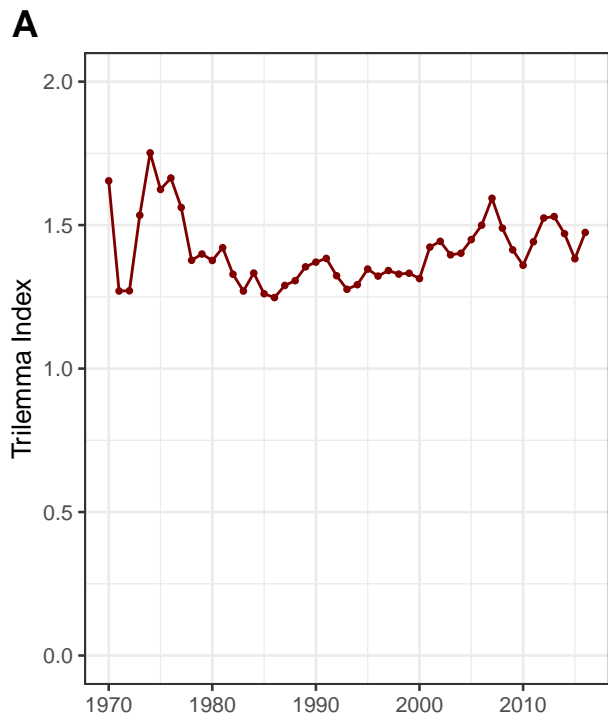
1.3 Figure 3. Descriptive statistics by income groups
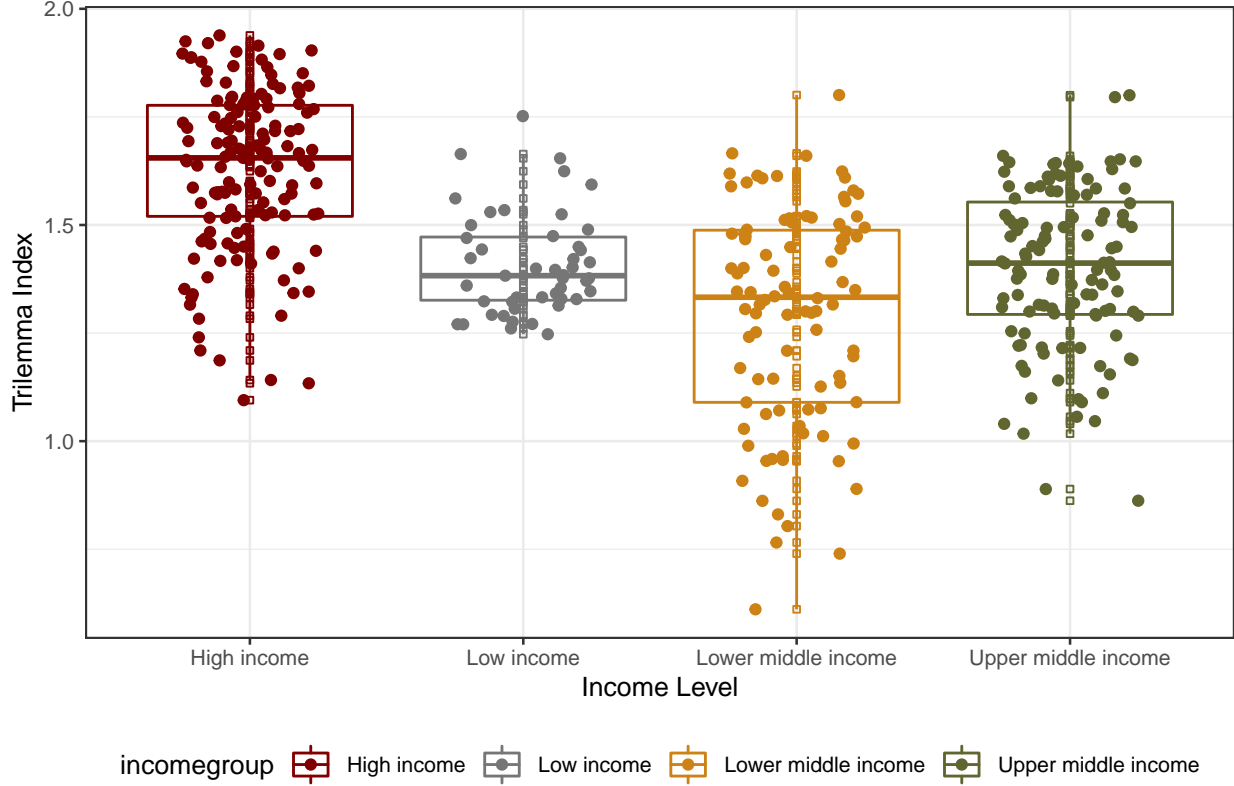
1.4 Figure 4. Descriptive statistics by sizes
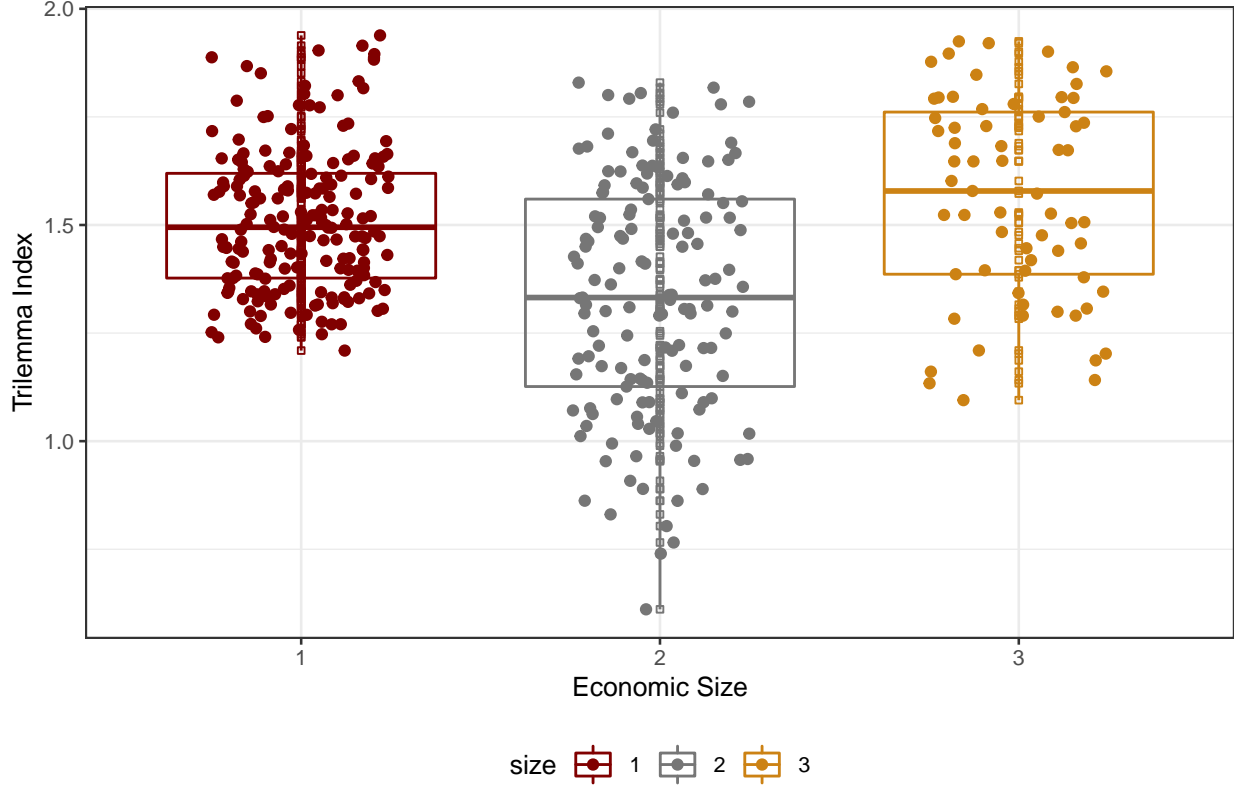
1.5   Figure 5. Parametric and non-parametric tests by the economies' size

Parametric test

$p_{\text{Holm-corrected}} = 2.06e{-}08$

$p_{\text{Holm-corrected}} = 6.06e{-}10$

$\widehat{\mu}_{\text{mean}} = 1.51$

$\widehat{\mu}_{\text{mean}} = 1.33$

$\widehat{\mu}_{\text{mean}} = 1.57$

Mean Trilemma

1 (n = 188)   2 (n = 141)   3 (n = 65)
Size

Size   1   2   3

$\log_e(\text{BF}_{01}) = -27.74, \widehat{R}^{2\,\text{posterior}}_{\text{Bayesian}} = 0.15, \text{CI}^{\text{HDI}}_{95\%} [0.09, 0.21], r^{\text{JZS}}_{\text{Cauchy}} = 0.71$

Pairwise test: **Games–Howell test**; Comparisons shown: **only significant**

Non–parametric Test (violin plot)

$\chi^2_{\text{Kruskal-Wallis}}(2) = 45.71, p = 1.19e{-}10, \widehat{\epsilon}^2_{\text{ordinal}} = 0.12, \text{CI}_{99\%} [0.05, 0.23], n_{\text{obs}} = 394$

$p_{\text{Holm-corrected}} = 2.07e{-}08$

$p_{\text{Holm-corrected}} = 3.91e{-}08$

$\widehat{\mu}_{\text{median}} = 1.49$

$\widehat{\mu}_{\text{median}} = 1.33$

$\widehat{\mu}_{\text{median}} = 1.58$

Mean Trilemma

1 (n = 188)   2 (n = 141)   3 (n = 65)
Size

Size   1   2   3

Pairwise test: **Dunn test**; Comparisons shown: **only significant**

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1.6 Figure 6. Robust and Bayesian tests by the economies' size

Robust Test (box & violin plot)

$F_{\text{trimmed-means}}(2, 154.86) = 28.00$, $p = 4.17\text{e}{-}11$, $\hat{\xi} = 0.46$, $\text{CI}_{95\%}$ [0.37, 0.63], $n_{\text{obs}} =$

Bayesian Test (box plot)

$\log_e(\text{BF}_{01}) = -27.74$, $\widehat{R^2{}_{\text{Bayesian}}^{\text{posterior}}} = 0.15$, $\text{CI}_{95\%}^{\text{HDI}}$ [0.09, 0.21], $r_{\text{Cauchy}}^{\text{JZS}} = 0.71$

Pairwise test: **Yuen's trimmed means test**; Comparisons shown: **only significant**

Pairwise test: **Student's t–test**; Comparisons shown: **all**
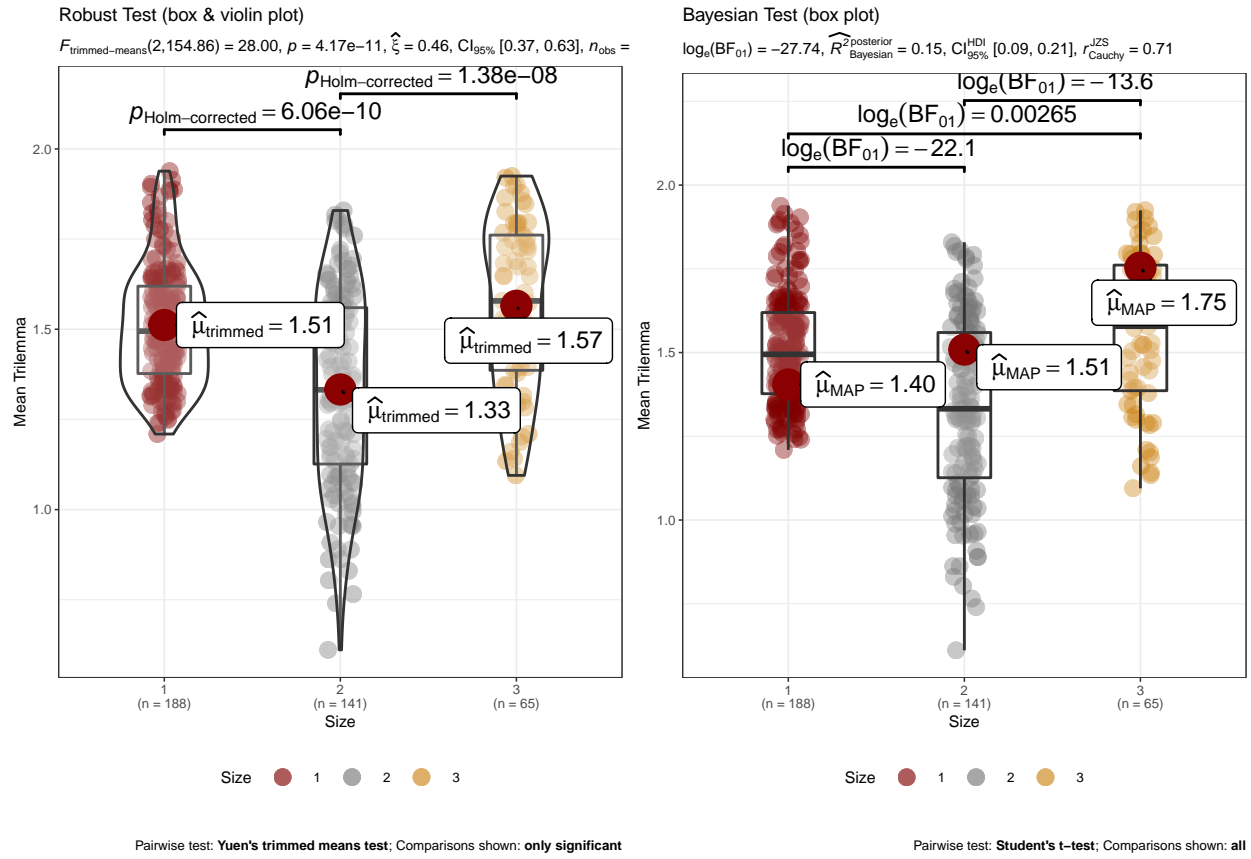
2 Empirical Strategy

Let us now have a quick look at the heterogeneity in our dataset:

Heterogeneity across countries
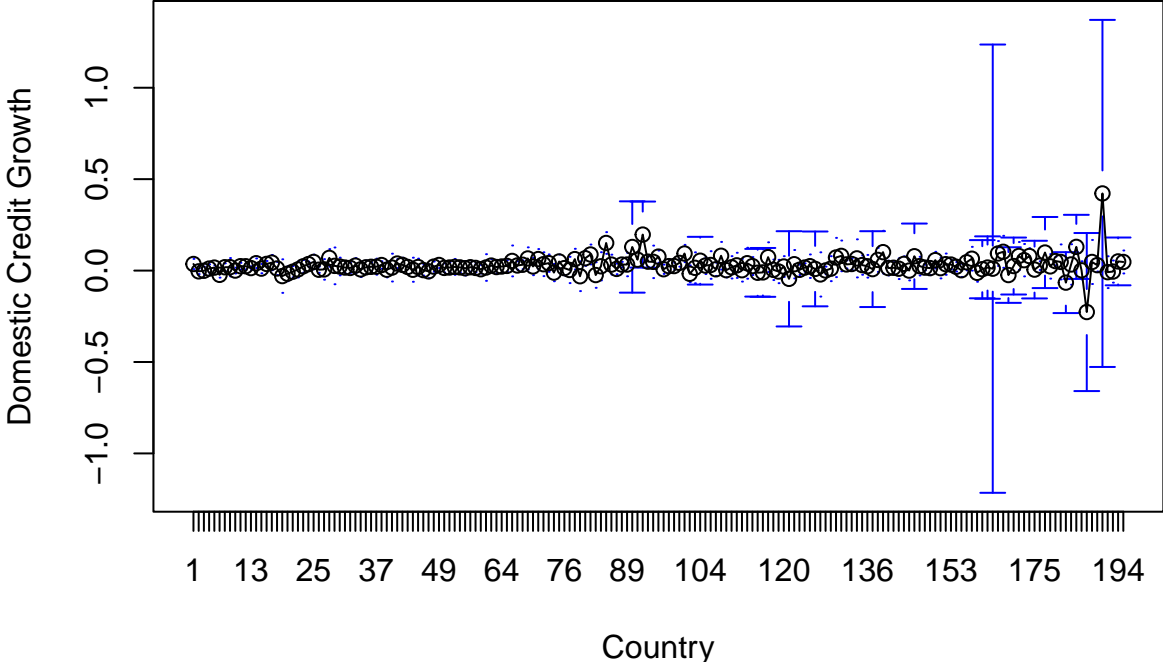
Heterogeneity across years
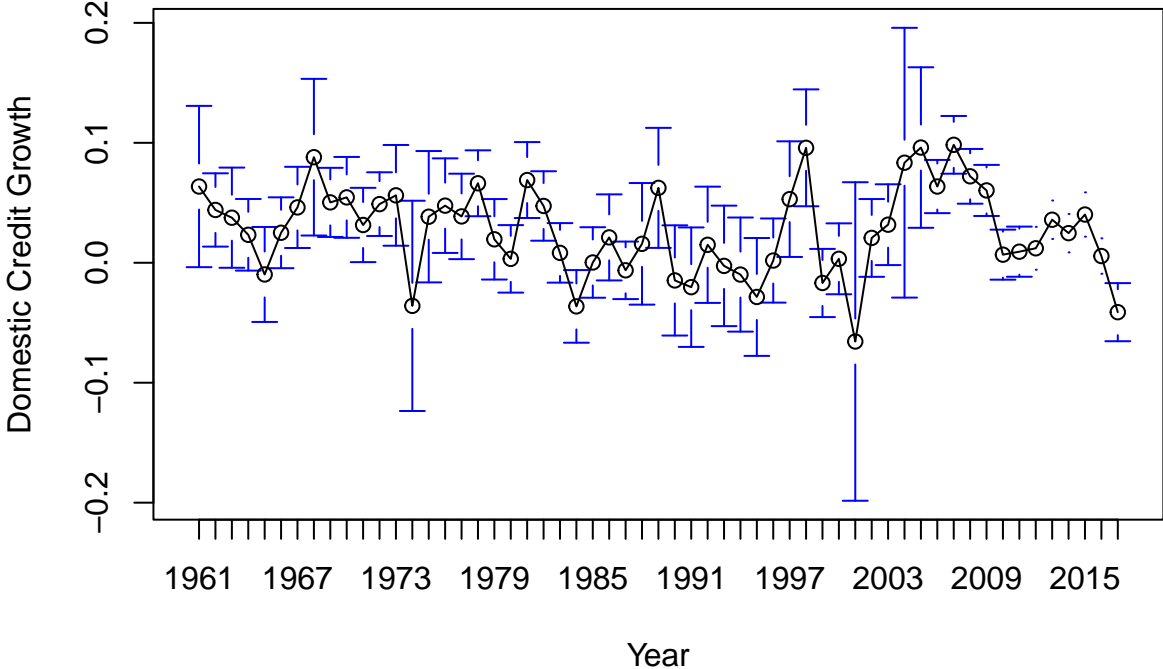
2.1 System GMMs by income levels

2.1.1 Time-Fixed effects = no

Table 2: Regression Results by income levels

| | Domestic Credit Growth | | | | |
	Overall Sample	High Income	Upper Middle Income	Lower Middle Income	Low Income
	(1)	(2)	(3)	(4)	(5)
lag(domcreditgrowth, 1)	0.104*** (0.068, 0.139)	0.064* (−0.001, 0.129)	0.082*** (0.036, 0.128)	0.077 (−0.033, 0.186)	−0.176 (−0.438, 0.086)
lag(ers, 1)	0.018** (0.001, 0.034)	0.015* (−0.003, 0.032)	0.026 (−0.032, 0.085)	0.012 (−0.017, 0.041)	0.019 (−0.013, 0.052)
lag(mpi, 1)	0.022* (−0.0001, 0.043)	0.010 (−0.010, 0.029)	0.010 (−0.060, 0.080)	0.046** (0.006, 0.086)	0.033 (−0.025, 0.091)
lag(fo, 1)	0.003 (−0.011, 0.017)	0.006 (−0.011, 0.022)	0.011 (−0.018, 0.040)	−0.0002 (−0.032, 0.032)	−0.003 (−0.054, 0.048)
capinflow	0.042* (−0.007, 0.092)	0.168*** (0.094, 0.242)	0.044 (−0.091, 0.180)	0.111*** (0.027, 0.195)	0.057 (−0.021, 0.134)
Time Fixed Effects	No	No	No	No	No
N	166	55	50	43	31

Notes:

***Significant at the 1 percent level.

**Significant at the 5 percent level.

*Significant at the 10 percent level.

Blundell and Bond's System GMM Estimator.

All the commands and algorithms are coded in R 4.1.1 using the plm package.

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2.1.2 Time-fixed effects = ln(vxo)

Table 3: Regression Results by income levels

	Overall Sample	High Income	Upper Middle Income	Lower Middle Income	Low Income
			Domestic Credit Growth		
	(1)	(2)	(3)	(4)	(5)
lag(domcreditgrowth, 1)	0.104*** (0.068, 0.139)	0.059* (−0.004, 0.123)	0.080*** (0.038, 0.121)	0.081 (−0.046, 0.207)	−0.212 (−0.490, 0.066)
lag(ers, 1)	0.022* (−0.001, 0.045)	0.004 (−0.020, 0.027)	0.045 (−0.054, 0.145)	0.021 (−0.017, 0.058)	0.029 (−0.025, 0.083)
lag(mpi, 1)	0.026* (−0.005, 0.057)	0.002 (−0.027, 0.031)	0.056 (−0.043, 0.155)	0.044 (−0.019, 0.106)	0.062 (−0.061, 0.184)
lag(fo, 1)	0.006 (−0.011, 0.023)	−0.005 (−0.023, 0.014)	0.019 (−0.021, 0.060)	−0.007 (−0.044, 0.029)	0.0005 (−0.064, 0.065)
capinflow	0.043* (−0.008, 0.093)	0.166*** (0.095, 0.236)	0.077 (−0.044, 0.198)	0.135** (0.031, 0.239)	0.064 (−0.049, 0.177)
lnvxo	−0.002 (−0.011, 0.007)	0.006 (−0.005, 0.016)	−0.013 (−0.049, 0.023)	−0.0001 (−0.014, 0.014)	−0.006 (−0.032, 0.020)
Time Fixed Effects	No	No	No	No	No
N	166	55	50	43	31

Notes:

***Significant at the 1 percent level.

**Significant at the 5 percent level.

*Significant at the 10 percent level.

Blundell and Bond's System GMM Estimator.

All the commands and algorithms are coded in R 4.1.1 using the plm package.

2.2 Sytem GMMs by economic sizes

2.2.1 Time-fixed effects = no

Table 4: Regression Results by economic sizes

| | Domestic Credit Growth | | | |
| | Overall Sample | Large | Medium | Small |
	(1)	(2)	(3)	(4)
lag(domcreditgrowth, 1)	0.104*** (0.068, 0.139)	−0.567 (−1.600, 0.463)	0.082** (0.009, 0.155)	0.044 (−0.032, 0.121)
lag(ers, 1)	0.018** (0.001, 0.034)	0.009 (−0.020, 0.038)	−0.005 (−0.053, 0.043)	0.019* (−0.001, 0.039)
lag(mpi, 1)	0.022* (−0.0001, 0.043)	−0.089 (−0.228, 0.050)	0.041*** (0.011, 0.071)	0.023* (−0.002, 0.048)
lag(fo, 1)	0.003 (−0.011, 0.017)	0.054 (−0.010, 0.117)	0.011 (−0.022, 0.044)	0.007 (−0.006, 0.020)
capinflow	0.042* (−0.007, 0.092)	0.043 (−0.067, 0.154)	0.021 (−0.106, 0.147)	0.091*** (0.035, 0.147)
Time Fixed Effects	No	No	No	No
N	166	7	17	159

Notes:

***Significant at the 1 percent level.

**Significant at the 5 percent level.

*Significant at the 10 percent level.

Blundell and Bond's System GMM Estimator.

All the commands and algorithms are coded in R 4.1.1 using the plm package.

2.2.2 Time-fixed effects with ln(vxo)

Table 5: Regression Results by economic sizes

	Domestic Credit Growth			
	Overall Sample	Large	Medium	Small
	(1)	(2)	(3)	(4)
lag(domcreditgrowth, 1)	0.104*** (0.068, 0.139)	−0.704 (−2.050, 0.640)	0.073* (−0.006, 0.152)	0.038 (−0.044, 0.119)
lag(ers, 1)	0.022* (−0.001, 0.045)	−0.030 (−0.122, 0.062)	−0.006 (−0.075, 0.062)	0.036* (−0.005, 0.077)
lag(mpi, 1)	0.026* (−0.005, 0.057)	−0.169 (−0.478, 0.140)	0.034 (−0.058, 0.126)	0.051** (0.006, 0.095)
lag(fo, 1)	0.006 (−0.011, 0.023)	0.012 (−0.128, 0.153)	0.011 (−0.028, 0.049)	0.007 (−0.012, 0.026)
capinflow	0.043* (−0.008, 0.093)	0.025 (−0.132, 0.183)	0.044 (−0.100, 0.187)	0.099*** (0.034, 0.164)
lnvxo	−0.002 (−0.011, 0.007)	0.026 (−0.025, 0.077)	0.002 (−0.022, 0.025)	−0.008 (−0.024, 0.008)
Time Fixed Effects	No	No	No	No
N	166	7	17	159

Notes:

***Significant at the 1 percent level.

**Significant at the 5 percent level.

*Significant at the 10 percent level.

Blundell and Bond's System GMM Estimator.

All the commands and algorithms are coded in R. 4.1.1 using the plm package.

2.3 Sytem GMMs by regions

2.3.1 Time-fixed effects = no

Table 6: Regression Results

| | Domestic Credit Growth | | | |
| | Overall Sample | Europe | Middle East | East Asia |
	(1)	(2)	(3)	(4)
lag(domcreditgrowth, 1)	0.104*** (0.068, 0.139)	0.052*** (0.033, 0.072)	0.004 (−0.201, 0.209)	0.239*** (0.098, 0.380)
lag(ers, 1)	0.018** (0.001, 0.034)	0.087* (−0.009, 0.183)	−0.0003 (−0.079, 0.079)	0.033 (−0.007, 0.074)
lag(mpi, 1)	0.022* (−0.0001, 0.043)	0.108*** (0.064, 0.153)	0.040 (−0.031, 0.111)	0.042* (0.007, 0.077)
lag(fo, 1)	0.003 (−0.011, 0.017)	−0.066* (−0.136, 0.004)	0.008 (−0.054, 0.069)	−0.019 (−0.048, 0.010)
capinflow	0.042* (−0.007, 0.092)	0.033 (−0.162, 0.227)	0.278*** (0.107, 0.448)	0.088 (−0.055, 0.231)
Time Fixed Effects	No	No	No	No
N	166	46	21	25

Notes:

***Significant at the 1 percent level.

**Significant at the 5 percent level.

*Significant at the 10 percent level.

Blundell and Bond's System GMM Estimator.

All the commands and algorithms are coded in R 4.1.1 using the plm package.

Table 7: Regression Results

| | Domestic Credit Growth | | |
| | Africa | Latin A. | South Asia |
	(1)	(2)	(3)
lag(domcreditgrowth, 1)	−0.089 (−0.320, 0.142)	0.097 (−0.019, 0.214)	0.180** (0.036, 0.323)
lag(ers, 1)	0.002 (−0.021, 0.025)	0.035*** (0.008, 0.062)	0.030 (−0.009, 0.069)
lag(mpi, 1)	0.037 (−0.008, 0.082)	−0.041** (−0.079, −0.002)	0.015 (−0.057, 0.088)
lag(fo, 1)	0.007 (−0.030, 0.045)	0.022** (0.005, 0.039)	−0.015 (−0.103, 0.074)
capinflow	0.067** (0.004, 0.130)	0.0001 (−0.118, 0.118)	0.153* (−0.011, 0.317)
Time Fixed Effects	No	No	No
N	45	33	8

Notes:

***Significant at the 1 percent level.

**Significant at the 5 percent level.

*Significant at the 10 percent level.

Blundell and Bond's System GMM Estimator.

All the commands and algorithms are coded in R 4.1.1 using the plm package.

2.3.2 Time-fixed effects = ln(vxo)

Table 8: Regression Results

	Domestic Credit Growth			
	Overall Sample	Europe	Middle East	East Asia
	(1)	(2)	(3)	(4)
lag(domcreditgrowth, 1)	0.104*** (0.068, 0.139)	0.046*** (0.019, 0.073)	−0.003 (−0.266, 0.261)	0.254*** (0.104, 0.403)
lag(ers, 1)	0.022* (−0.001, 0.045)	0.189 (−0.095, 0.472)	0.050 (−0.024, 0.124)	0.046* (−0.007, 0.098)
lag(mpi, 1)	0.026* (−0.005, 0.057)	0.243* (−0.044, 0.530)	0.039 (−0.044, 0.121)	0.057 (−0.018, 0.132)
lag(fo, 1)	0.006 (−0.011, 0.023)	−0.034 (−0.095, 0.027)	−0.024 (−0.080, 0.032)	−0.021 (−0.057, 0.015)
capinflow	0.043* (−0.008, 0.093)	0.036 (−0.146, 0.218)	0.262** (0.050, 0.474)	0.094 (−0.071, 0.260)
lnvxo	−0.002 (−0.011, 0.007)	−0.043 (−0.144, 0.058)	−0.007 (−0.023, 0.009)	−0.004 (−0.019, 0.010)
Time Fixed Effects	No	No	No	No
N	166	46	21	25

Notes:

***Significant at the 1 percent level.

**Significant at the 5 percent level.

*Significant at the 10 percent level.

Blundell and Bond's System GMM Estimator.

All the commands and algorithms are coded in R. 4.1.1 using the plm package.

Table 9: Regression Results

| | Domestic Credit Growth | | |
| | Africa | Latin A. | South Asia |
	(1)	(2)	(3)
lag(domcreditgrowth, 1)	−0.123 (−0.378, 0.132)	0.095 (−0.044, 0.235)	0.122* (−0.002, 0.246)
lag(ers, 1)	−0.003 (−0.042, 0.036)	0.026 (−0.013, 0.066)	0.077*** (0.025, 0.128)
lag(mpi, 1)	0.044 (−0.038, 0.125)	−0.057* (−0.119, 0.006)	0.005 (−0.183, 0.193)
lag(fo, 1)	0.004 (−0.041, 0.050)	0.021** (0.003, 0.038)	0.015 (−0.107, 0.136)
capinflow	0.072* (−0.009, 0.153)	0.035 (−0.098, 0.169)	0.023 (−0.124, 0.171)
lnvxo	0.002 (−0.016, 0.020)	0.005 (−0.011, 0.020)	−0.010 (−0.040, 0.020)
Time Fixed Effects	No	No	No
N	45	33	8

Notes:

***Significant at the 1 percent level.

**Significant at the 5 percent level.

*Significant at the 10 percent level.

Blundell and Bond's System GMM Estimator.

All the commands and algorithms are coded in R 4.1.1 using the plm package.

2.4 Arellano's RCVME estimator with log(vxo) and interaction between economic sizes and trilemma variables, by income levels

Table 10: Regression Results

| | Domestic Credit Growth (for large economies) | | |
| | Overall Sample | High Income | Upper Middle Income |
	(1)	(2)	(3)
lag(domcreditgrowth, 1)	0.040* (−0.001, 0.081)	0.054** (0.010, 0.099)	0.031 (−0.021, 0.083)
lag(ers, 1)	0.127** (0.009, 0.245)	0.063* (−0.007, 0.133)	0.184 (−0.089, 0.457)
lag(mpi, 1)	0.022 (−0.024, 0.068)	0.001 (−0.048, 0.051)	0.034 (−0.052, 0.120)
lag(fo, 1)	0.008 (−0.030, 0.046)	0.021 (−0.016, 0.058)	0.024 (−0.035, 0.082)
capinflow	0.042 (−0.008, 0.093)	0.172*** (0.104, 0.241)	0.043 (−0.106, 0.191)
lnvxo	−0.018 (−0.048, 0.012)	0.007 (−0.012, 0.026)	−0.058 (−0.157, 0.042)
large	0.201* (−0.005, 0.406)		0.285** (0.015, 0.555)
lag(ers, 1):large	−0.159 (−0.397, 0.079)	−0.056 (−0.127, 0.015)	−0.363*** (−0.638, −0.088)
lag(mpi, 1):large	0.0001 (−0.073, 0.073)	0.0003 (−0.093, 0.093)	0.020 (−0.222, 0.261)
lag(fo, 1):large	−0.526*** (−0.722, −0.329)	−0.448*** (−0.536, −0.360)	
capinflow:large	0.047 (−0.055, 0.149)	−0.069 (−0.190, 0.051)	−0.040 (−0.274, 0.194)
Time Fixed Effects	No	No	No

Notes:

***Significant at the 1 percent level.

**Significant at the 5 percent level.

*Significant at the 10 percent level.

Arellano's RCVME Estimator.

All the commands and algorithms are coded in R 4.1.1 using the plm package.

Table 11: Regression Results

| | Domestic Credit Growth (for large economies) | |
| | Lower Middle Income | Low Income |
	(1)	(2)
lag(domcreditgrowth, 1)	0.067 (−0.063, 0.197)	−0.193 (−0.440, 0.054)
lag(ers, 1)	0.076* (−0.006, 0.157)	0.112* (−0.007, 0.231)
lag(mpi, 1)	−0.007 (−0.086, 0.072)	0.100 (−0.019, 0.219)
lag(fo, 1)	0.035 (−0.019, 0.089)	−0.021 (−0.222, 0.180)
capinflow	0.124** (0.014, 0.233)	0.076 (−0.041, 0.194)
lnvxo	−0.035* (−0.072, 0.002)	0.033 (−0.020, 0.086)
Time Fixed Effects	No	No

Notes:

*** Significant at the 1 percent level.

** Significant at the 5 percent level.

* Significant at the 10 percent level.

Arellano's RCVME Estimator.

All the commands and algorithms are coded in R 4.1.1 using the plm package.

Table 12: Regression Results

	Domestic Credit Growth (for medium economies)		
	Overall Sample	High Income	Upper Middle Income
	(1)	(2)	(3)
lag(domcreditgrowth, 1)	0.040* (−0.001, 0.080)	0.057** (0.013, 0.101)	0.031 (−0.022, 0.083)
lag(ers, 1)	0.137** (0.011, 0.263)	0.107** (0.004, 0.210)	0.197 (−0.097, 0.492)
lag(mpi, 1)	0.032 (−0.014, 0.079)	0.010 (−0.039, 0.060)	0.044 (−0.046, 0.133)
lag(fo, 1)	0.008 (−0.031, 0.047)	0.034 (−0.015, 0.082)	0.017 (−0.041, 0.074)
capinflow	0.054** (0.001, 0.106)	0.168*** (0.097, 0.239)	0.060 (−0.103, 0.223)
lnvxo	−0.018 (−0.048, 0.012)	0.008 (−0.009, 0.026)	−0.057 (−0.156, 0.041)
medium	0.201** (0.009, 0.392)		0.217 (−0.129, 0.564)
lag(ers, 1):medium	−0.136 (−0.327, 0.055)	−0.101* (−0.207, 0.005)	−0.172 (−0.569, 0.225)
lag(mpi, 1):medium	−0.132** (−0.252, −0.012)	−0.028 (−0.151, 0.094)	−0.106** (−0.199, −0.014)
lag(fo, 1):medium	−0.008 (−0.084, 0.068)	−0.018 (−0.084, 0.048)	0.026 (−0.074, 0.126)
capinflow:medium	−0.145*** (−0.249, −0.041)	0.021 (−0.171, 0.213)	−0.193* (−0.403, 0.016)
Time Fixed Effects	No	No	No

Notes:

***Significant at the 1 percent level.

**Significant at the 5 percent level.

*Significant at the 10 percent level.

Arellano's RCVME Estimator.

All the commands and algorithms are coded in R 4.1.1 using the plm package.

Table 13: Regression Results

| | Domestic Credit Growth (for medium economies) | |
| | Lower Middle Income | Low Income |
	(1)	(2)
lag(domcreditgrowth, 1)	0.066 (−0.064, 0.197)	−0.193 (−0.440, 0.054)
lag(ers, 1)	0.080* (−0.004, 0.164)	0.112* (−0.007, 0.231)
lag(mpi, 1)	−0.005 (−0.087, 0.077)	0.100 (−0.019, 0.219)
lag(fo, 1)	0.034 (−0.020, 0.088)	−0.021 (−0.222, 0.180)
capinflow	0.126** (0.015, 0.236)	0.076 (−0.041, 0.194)
lnvxo	−0.036* (−0.073, 0.002)	0.033 (−0.020, 0.086)
lag(ers, 1):medium	−0.170*** (−0.252, −0.088)	
lag(mpi, 1):medium	−0.161*** (−0.251, −0.071)	
capinflow:medium	−0.226*** (−0.349, −0.104)	
Time Fixed Effects	No	No

Notes:

***Significant at the 1 percent level.
**Significant at the 5 percent level.
*Significant at the 10 percent level.
Arellano's RCVME Estimator.
All the commands and algorithms are coded in R 4.1.1 using the plm package.

Table 14: Regression Results

| | Domestic Credit Growth (for small economies) | | |
| | Overall Sample | High Income | Upper Middle Income |
	(1)	(2)	(3)
lag(domcreditgrowth, 1)	0.054** (0.003, 0.105)	0.058* (−0.001, 0.117)	0.040 (−0.013, 0.093)
lag(ers, 1)	−0.026 (−0.085, 0.033)	−0.002 (−0.033, 0.030)	0.016 (−0.110, 0.143)
lag(mpi, 1)	−0.019 (−0.095, 0.058)	−0.006 (−0.050, 0.037)	0.048 (−0.133, 0.229)
lag(fo, 1)	−0.037* (−0.074, 0.0003)	−0.008 (−0.044, 0.028)	0.020 (−0.033, 0.072)
capinflow	−0.043 (−0.110, 0.025)	0.171** (0.021, 0.321)	−0.034 (−0.170, 0.103)
small	−0.077* (−0.161, 0.007)	−0.002 (−0.066, 0.062)	−0.058* (−0.120, 0.004)
lag(ers, 1):small	0.051 (−0.020, 0.122)	0.001 (−0.046, 0.048)	0.042 (−0.114, 0.198)
lag(mpi, 1):small	0.070* (−0.012, 0.151)	0.001 (−0.054, 0.056)	0.044 (−0.083, 0.171)
lag(fo, 1):small	0.036* (−0.005, 0.077)	0.013 (−0.027, 0.054)	0.0004 (−0.059, 0.060)
capinflow:small	0.097** (0.015, 0.178)	−0.017 (−0.175, 0.140)	0.111 (−0.107, 0.329)
Time Fixed Effects	No	No	No

Notes:

***Significant at the 1 percent level.

**Significant at the 5 percent level.

*Significant at the 10 percent level.

Arellano's RCVME Estimator.

All the commands and algorithms are coded in R 4.1.1 using the plm package.

Table 15: Regression Results

| | Domestic Credit Growth (for small economies) | |
| | Lower Middle Income | Low Income |
	(1)	(2)
lag(domcreditgrowth, 1)	0.119* (−0.019, 0.258)	−0.194 (−0.436, 0.049)
lag(ers, 1)	−0.058 (−0.142, 0.026)	0.021 (−0.027, 0.068)
lag(mpi, 1)	−0.099** (−0.186, −0.012)	0.044 (−0.065, 0.153)
lag(fo, 1)	−0.022 (−0.052, 0.008)	−0.012 (−0.059, 0.036)
capinflow	−0.045 (−0.192, 0.101)	0.086 (−0.029, 0.200)
small	−0.069** (−0.134, −0.004)	
lag(ers, 1):small	0.052 (−0.039, 0.143)	
lag(mpi, 1):small	0.124*** (0.040, 0.208)	
capinflow:small	0.210*** (0.084, 0.337)	
Time Fixed Effects	No	No

Notes:

***Significant at the 1 percent level.
**Significant at the 5 percent level.
*Significant at the 10 percent level.

Arellano's RCVME Estimator.

All the commands and algorithms are coded in R 4.1.1 using the plm package.

3 Sensitivity Analysis

3.1 Alternative specifications and samples

Table 16: Regression Results - Arellano's RCVME

| | Domestic Credit Growth | | | |
| | Mundell Trilemma | Income Levels | Regional Disparities | Economic Sizes |
	(1)	(2)	(3)	(4)
lag(domcreditgrowth, 1)	0.053** (0.0004, 0.106)	0.053** (0.001, 0.105)	0.051* (−0.0004, 0.102)	0.050* (−0.0004, 0.101)
ers	0.026 (−0.005, 0.057)	0.026 (−0.005, 0.057)	0.035** (0.0005, 0.070)	0.035* (−0.001, 0.070)
mpi	0.066** (0.007, 0.124)	0.061** (0.003, 0.120)	0.071** (0.008, 0.133)	0.070** (0.007, 0.133)
fo	0.002 (−0.017, 0.021)	0.004 (−0.017, 0.025)	0.002 (−0.019, 0.024)	0.003 (−0.019, 0.025)
capinflow	0.050** (0.002, 0.098)	0.050** (0.002, 0.098)	0.048* (−0.002, 0.097)	0.048* (−0.002, 0.097)
highincome		0.004 (−0.014, 0.022)	−0.007 (−0.032, 0.018)	−0.005 (−0.030, 0.020)
uppermiddle		0.008 (−0.009, 0.025)	0.004 (−0.020, 0.027)	0.004 (−0.020, 0.027)
lowermiddle		0.017* (−0.002, 0.036)	0.012 (−0.012, 0.035)	0.011 (−0.012, 0.035)
europe			−0.007 (−0.024, 0.010)	−0.003 (−0.022, 0.016)
middleast			−0.044*** (−0.068, −0.020)	−0.043*** (−0.069, −0.017)
eastasia			−0.021** (−0.040, −0.002)	−0.017 (−0.039, 0.005)
africa			−0.038*** (−0.065, −0.011)	−0.036** (−0.065, −0.006)
latin			−0.040*** (−0.060, −0.019)	−0.038*** (−0.062, −0.015)
southasia			−0.032** (−0.060, −0.003)	−0.029** (−0.058, −0.0005)
large				−0.027*** (−0.045, −0.009)
medium				−0.001 (−0.018, 0.017)
Time Fixed Effects	No	No	No	No

Notes:

*** Significant at the 1 percent level.
** Significant at the 5 percent level.
* Significant at the 10 percent level.

Time-fixed effects estimations based on Arellano's RCVME,
with control for potential serial correlation, contemporenous correlation and heteroskedasticity.
All the commands and algorithms are coded in R 4.1.1 using the plm package.

Table 17: Regression Results - Beck and Katz

	Domestic Credit Growth			
	Mundell Trilemma	Income Levels	Regional Disparities	Economic Sizes
	(1)	(2)	(3)	(4)
lag(domcreditgrowth, 1)	0.053 (−0.224, 0.330)	0.053 (−0.225, 0.330)	0.051 (−0.228, 0.329)	0.050 (−0.228, 0.329)
ers	0.026 (−0.012, 0.063)	0.026 (−0.011, 0.063)	0.035* (−0.005, 0.075)	0.035* (−0.006, 0.075)
mpi	0.066** (0.014, 0.117)	0.061** (0.007, 0.116)	0.071** (0.011, 0.131)	0.070** (0.011, 0.130)
fo	0.002 (−0.028, 0.032)	0.004 (−0.026, 0.034)	0.002 (−0.031, 0.036)	0.003 (−0.031, 0.038)
capinflow	0.050 (−0.013, 0.113)	0.050 (−0.013, 0.113)	0.048 (−0.015, 0.110)	0.048 (−0.015, 0.110)
highincome		0.004 (−0.025, 0.033)	−0.007 (−0.043, 0.029)	−0.005 (−0.040, 0.030)
uppermiddle		0.008 (−0.027, 0.043)	0.004 (−0.031, 0.038)	0.004 (−0.032, 0.040)
lowermiddle		0.017 (−0.009, 0.043)	0.012 (−0.015, 0.038)	0.011 (−0.015, 0.038)
europe			−0.007 (−0.083, 0.070)	−0.003 (−0.069, 0.063)
middleast			−0.044* (−0.089, 0.001)	−0.043* (−0.090, 0.004)
eastasia			−0.021 (−0.060, 0.018)	−0.017 (−0.060, 0.026)
africa			−0.038* (−0.080, 0.004)	−0.036 (−0.085, 0.013)
latin			−0.040 (−0.088, 0.008)	−0.038 (−0.096, 0.020)
southasia			−0.032 (−0.078, 0.014)	−0.029 (−0.077, 0.018)
large				−0.027* (−0.056, 0.002)
medium				−0.001 (−0.032, 0.031)
Constant	−0.060* (−0.124, 0.005)	−0.066* (−0.134, 0.001)	−0.036 (−0.115, 0.042)	−0.038 (−0.122, 0.045)
Time Fixed Effects	Yes	Yes	Yes	Yes

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Table 18: Regression Results - Driscoll and Kraay

| | Domestic Credit Growth | | | |
	Mundell Trilemma	Income Levels	Regional Disparities	Economic Sizes
	(1)	(2)	(3)	(4)
lag(domcreditgrowth, 1)	0.036 (−0.009, 0.081)	0.036 (−0.009, 0.081)	0.036 (−0.009, 0.081)	0.036 (−0.009, 0.081)
ers	0.128*** (0.038, 0.218)	0.128*** (0.038, 0.218)	0.128*** (0.038, 0.218)	0.128*** (0.038, 0.218)
mpi	0.053* (−0.003, 0.108)	0.053* (−0.003, 0.108)	0.053* (−0.003, 0.108)	0.053* (−0.003, 0.108)
fo	0.004 (−0.043, 0.050)	0.004 (−0.043, 0.050)	0.004 (−0.043, 0.050)	0.004 (−0.043, 0.050)
capinflow	0.057** (0.008, 0.107)	0.057** (0.008, 0.107)	0.057** (0.008, 0.107)	0.057** (0.008, 0.107)
large				−0.002 (−0.049, 0.045)
Time Fixed Effects	Yes	Yes	Yes	Yes

Notes:

3.2 Endogeneity

3.2.1 Difference GMMs by income levels

Table 19: Regression Results - Arellano and Bond

	Domestic Credit Growth		
	Overall Sample	High Income	Upper Middle Income
	(1)	(2)	(3)
lag(domcreditgrowth, 1)	0.096*** (0.055, 0.138)	0.092** (0.014, 0.171)	0.077** (0.010, 0.144)
lag(ers, 1)	0.096* (−0.014, 0.205)	0.068 (−0.020, 0.156)	0.185 (−0.244, 0.613)
lag(mpi, 1)	−0.011 (−0.071, 0.049)	−0.044 (−0.116, 0.028)	−0.066 (−0.189, 0.057)
lag(fo, 1)	−0.001 (−0.101, 0.099)	0.082 (−0.060, 0.225)	0.036 (−0.109, 0.181)
capinflow	0.060* (−0.004, 0.124)	0.057 (−0.019, 0.134)	0.010 (−0.104, 0.125)
Time Fixed Effects	No	No	No
N	166	53	44

Notes:

***Significant at the 1 percent level.
**Significant at the 5 percent level.
*Significant at the 10 percent level.
Arellano and Bond's Difference GMM Estimator.
All the commands and algorithms are coded in R 4.1.1 using the plm package.

Table 20: Regression Results - Arellano and Bond

	Domestic Credit Growth	
	Lower Middle Income	Low Income
	(1)	(2)
lag(domcreditgrowth, 1)	0.152** (0.026, 0.279)	0.021 (−0.113, 0.154)
lag(ers, 1)	0.067 (−0.018, 0.151)	0.157* (−0.011, 0.325)
lag(mpi, 1)	−0.042 (−0.185, 0.100)	0.195** (0.037, 0.353)
lag(fo, 1)	−0.058 (−0.247, 0.131)	−0.245 (−0.583, 0.092)
capinflow	0.183*** (0.079, 0.287)	0.051 (−0.028, 0.130)
Time Fixed Effects	No	No
N	40	29

Notes:

***Significant at the 1 percent level.

**Significant at the 5 percent level.

*Significant at the 10 percent level.

Arellano and Bond's Difference GMM Estimator.

All the commands and algorithms are coded in R 4.1.1 using the plm package.

3.2.2 Difference GMMs by economic sizes

Table 21: Regression Results - Arellano and Bond

| | Domestic Credit Growth | | | |
| | Overall Sample | Large | Medium | Small |
	(1)	(2)	(3)	(4)
lag(domcreditgrowth, 1)	0.096*** (0.055, 0.138)	0.052 (−0.340, 0.443)	0.122*** (0.049, 0.196)	0.093*** (0.053, 0.133)
lag(ers, 1)	0.096* (−0.014, 0.205)	−0.179 (−0.682, 0.324)	0.023 (−0.147, 0.192)	0.108* (−0.017, 0.233)
lag(mpi, 1)	−0.011 (−0.071, 0.049)	−0.115 (−0.423, 0.193)	−0.098 (−0.262, 0.066)	−0.002 (−0.071, 0.066)
lag(fo, 1)	−0.001 (−0.101, 0.099)	3.520 (−11.200, 18.300)	0.231*** (0.094, 0.369)	−0.051 (−0.157, 0.055)
capinflow	0.060* (−0.004, 0.124)	0.031 (−0.095, 0.158)	−0.005 (−0.047, 0.037)	0.075** (0.0004, 0.149)
Time Fixed Effects	No	No	No	No
N	166	7	15	146

Notes:

***Significant at the 1 percent level.
**Significant at the 5 percent level.
*Significant at the 10 percent level.

Arellano and Bond's Difference GMM Estimator.

All the commands and algorithms are coded in R 4.1.1 using the plm package.

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3.2.3 Difference GMMs by regions

Table 22: Regression Results - Arellano and Bond

| | Domestic Credit Growth | | | |
| | Overall Sample | Europe | Middle East | East Asia |
	(1)	(2)	(3)	(4)
lag(domcreditgrowth, 1)	0.096*** (0.055, 0.138)	0.061*** (0.032, 0.090)	0.119** (0.015, 0.223)	0.270*** (0.087, 0.453)
lag(ers, 1)	0.096* (−0.014, 0.205)	0.519 (−0.343, 1.380)	0.085 (−0.130, 0.300)	0.061 (−0.084, 0.206)
lag(mpi, 1)	−0.011 (−0.071, 0.049)	0.044 (−0.049, 0.137)	0.001 (−0.103, 0.105)	0.074 (−0.048, 0.196)
lag(fo, 1)	−0.001 (−0.101, 0.099)	−0.073 (−0.584, 0.438)	−0.162 (−0.396, 0.072)	0.005 (−0.362, 0.371)
capinflow	0.060* (−0.004, 0.124)	0.043 (−0.016, 0.103)	0.200*** (0.061, 0.339)	0.041 (−0.081, 0.164)
Time Fixed Effects	No	No	No	No
N	166	41	19	23

Notes:

*** Significant at the 1 percent level.

** Significant at the 5 percent level.

* Significant at the 10 percent level.

Arellano and Bond's Difference GMM Estimator.

All the commands and algorithms are coded in R 4.1.1 using the plm package.

Table 23: Regression Results - Arellano and Bond

| | Domestic Credit Growth | | |
| | Africa | Latin A. | South Asia |
	(1)	(2)	(3)
lag(domcreditgrowth, 1)	0.061 (−0.071, 0.193)	0.173*** (0.042, 0.304)	−0.033 (−1.050, 0.979)
lag(ers, 1)	0.175** (0.034, 0.316)	−0.052 (−0.209, 0.104)	0.058 (−0.033, 0.149)
lag(mpi, 1)	0.012 (−0.119, 0.144)	−0.146*** (−0.248, −0.045)	0.029 (−0.393, 0.450)
lag(fo, 1)	−0.044 (−0.275, 0.186)	0.004 (−0.125, 0.132)	0.680 (−1.430, 2.790)
capinflow	0.059 (−0.036, 0.153)	0.033 (−0.130, 0.196)	0.284 (−0.510, 1.080)
Time Fixed Effects	No	No	No
N	42	33	7

Notes:

***Significant at the 1 percent level.

**Significant at the 5 percent level.

*Significant at the 10 percent level.

Arellano and Bond's Difference GMM Estimator.

All the commands and algorithms are coded in R 4.1.1 using the plm package.

4 References

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