

Domestic Credit Growth, International Capital Inflows, and Risk Perception in Global Markets

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This study explores the interaction among credit growth, capital inflows, and risk perception in global markets. An empirical analysis reveals that capital inflows, especially cross-border bank inflows, and risk perception in global markets are key drivers of credit growth in each country, whereas country-specific factors mainly have ambiguous effects. The results indicate that cross-border banking contributed toward excess credit creation and its bust, especially in the late 2000s. Moreover, they also indicate that the effects of the US financial and monetary conditions are transmitted to developed countries through cross-border capital transactions and risk perceptions.