

# Accepted Manuscript

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PII: S0022-1996(16)30151-9  
DOI: doi:[10.1016/j.jinteco.2016.12.003](https://doi.org/10.1016/j.jinteco.2016.12.003)  
Reference: INEC 3005

To appear in: *Journal of International Economics*

Received date: 15 September 2016  
Accepted date: 14 December 2016

Please cite this article as: Baskaya, Yusuf Soner, Giovanni, Julian di, Kalemli-Özcan, Şebnem, Peydro, José-Luis, Ulu, Mehmet Fatih, Capital Flows and the International Credit Channel, *Journal of International Economics* (2017), doi:[10.1016/j.jinteco.2016.12.003](https://doi.org/10.1016/j.jinteco.2016.12.003)

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# Capital Flows and the International Credit Channel\*

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January 2017

## Abstract

We examine the role of the international credit channel in Turkey over 2005–2013. We show that larger, more capitalised banks with higher non-core liabilities increase credit supply when capital inflows are higher. This result is stronger for domestic banks relative to foreign banks and survives during the crisis period of post 2008, when foreign banks in general stop lending in emerging markets and retreat to their home countries. By decomposing capital inflows into bank and non-bank flows, we show the importance of domestic banks' external borrowing for domestic credit growth.

JEL Classification: E0, F0, F1

Keywords: Capital Flows, Bank-Lending Channel, Bank Heterogeneity

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\*We thank the editor Michael Devereux, an anonymous referee, and our two discussants Benoit Mojon, Romain Rancière for very useful comments. We also thank Koray Alper, and participants at ESSIM 2015, CBRT-BIS-IMF Conference on “Macprudential Policy: Effectiveness and Implementation Challenges” in Istanbul, Université catholique de Louvain, University of Munich, Edinburgh University, and the NBER-ISOM 2016 for their helpful comments. We thank Eda Gulsen who provided phenomenal research assistance. Di Giovanni gratefully acknowledges the CREI for financial support, and di Giovanni and Peydro also thank the Spanish Ministry of Economy and Competitiveness, through the Severo Ochoa Programme for Centres of Excellence in R&D (SEV-2015-0563) for financial support. The views expressed herein are those of the authors and not necessarily those of the Central Bank of the Republic of Turkey.

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