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This study analyses cross-border capital flows in order to verify the existence and direction of the effect of the soft regulation promoted by international organizations against banking secrecy which characterized the so called tax and financial heavens. This effect is called in the literature Stigma Effect but both the existence and the direction of the stigma effect are far from being obvious. The international capital flows can simply neglect the relevance of the blacklisting, or worst, the attractiveness of banking secrecy can produce a race to the bottom: the desire to elude more transparent regulation can sensibly influence the capital movements. We test whether being included and later excluded from the FATF blacklist is an effective measure that influences countries' cross-border capital flows. Using annual panel data for the period 1996-2014, we apply our framework to 126 countries worldwide. We find evidence that in general the stigma effect does not exist.

JEL Classification Numbers: F21, K42

Keywords: bank secrecy, offshore centres, international capital flows, name and shame regulation, money laundering

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1. Introduction

On April 2016 revelations of the Panama Papers spotlighted the role that banking secrecy - which is offered in the so called tax and financial centres and territories - perform in the global economy. The facts have caused increasing concern that banking secrecy lies at the centre of an international web of illegal and criminal conduct. In parallel, several policymakers in advanced countries have emphasised the need for enforcing the blacklisting tool against the territories that breach transparency standards. But does the blacklisting work?

Banking secrecy is an evergreen issue for the national and international debate. In the aftermath of the Global Financial Crisis the fight against bank secrecy as well as against tax and financial havens has become a political priority in advanced countries.

It is often the case that international organisations and national governments do not have strong legal instruments to impose strict measures to prevent and combat banking secrecy. For this reason, soft law practices, such as blacklisting, have been introduced. The aim of the soft law tools is to put the investigated country under intense international financial pressures, using the "name and shame" approach. Under the "name and shame" approach, institutional regulatory organizations and/or national governments disclose names of non-compliant countries and/or non-compliant banks to the public, supplementing the disclosure with forms of official opprobrium (Brummer, 2012). This approach is increasingly applied in the international context and it aims to address policy coordination problems among national policymakers and regulators (Greene and Boehm, 2012).

This paper looks at cross-border capital flows in the period 1996-2014 in order to verify the existence and the direction of the so-called stigma effect, i.e. the effect of the blacklisting in addressing banking secrecy.

Country compliance with the international standards of the blacklisting policy named Anti-Money Laundering and Combating the Financing of Terrorism – **AML/CFT** thereafter – gained momentum in the national policymaking all around the world in the last two decades.

Established by the Financial Action Task Force (**FATF**) in 1999, nowadays the international standard consists of 49 Recommendations, dealing respectively with anti-money laundering (forty recommendations) and combating terrorist financing (nine recommendations). Since 2000, FATF has periodically issued lists – **Blacklists** thereafter **–** of Non-Cooperative Countries and Territories (**NCCTs**), which identify the jurisdictions that FATF believes to be non-compliant with international best practices.

In order to prevent and combat illegal financial flows, international organizations do not have hard legal commitments at their disposal; therefore they resort to blacklisting by FATF as a soft law practice. The aim of the listing procedure is to put Black-Listed Countries (**BLCs**) under intense international financial pressure, by employing the "name and shame" approach in order to produce the so-called ***stigma effect*** (Masciandaro, 2005 and 2008). The stigma effect represents an inverse relationship between blacklisting and international capital flows. Indeed, the event of being blacklisted decreases the international capital flows towards a country. Two sources of pressures on the BLC are expected to work.

On the one side, most countries that interact with a BLC evaluate its financial transactions as suspicious. This occurrence leads to more stringent and costly monitoring procedures. Banks operating in multiple jurisdictions are the most concerned by these **monetary costs**, including compliance costs. The AML/CFT cost of compliance seems to continuously increase, at an average rate of about 45 per cent (KPMG 2011).

Along with monitoring costs, financial transactions with a BLC can imply **reputational costs**. Suspicious financial transactions attract more and more attention from supranational organizations, national policymakers and regulators, and international media. For banking institutions, engagement in opaque financial transactions can increase reputational risks. Just to cite some recent and meaningful episodes, it is worth mentioning that in 2012-15 various international banks have been investigated for alleged illicit financial transactions and fined, or solicited, to improve their compliance (Powell, 2013). Transactions with BLCs can produce such a kind of negative reputational effects.

Because of the potential damage caused by the stigma effect, international banks may have a strong incentive to avoid business with BLCs.

In the same way, the stigma effect can be considered as a consequence of the "name and shame" approach.

However both the existence and the direction of the stigma effect are far from being obvious. As it was pointed out in previous studies – Masciandaro (2005 and 2008) and Masciandaro et al. (2007) – the AML/CFT non-compliance of a country can be attractive under specific conditions, such as the potential existence of a worldwide demand for non-transparent financial transactions. A BLC can be attractive for banking and non-banking institutions seeking to promote lightly regulated products and services to their wealthy and/or sophisticated clients. The international banking industry as a whole can have incentives to take advantages from the existence of BLCs.

Therefore the stigma effect, meant to be "a stick" for all the countries not in compliance with the regulation, can turn out into "a carrot".

The ***stigma paradox*** can emerge. A specific case of regulatory arbitrage that creates the so-called "race to the bottom" strategy, which implies the desire to elude more prudent regulation (Barth et al., 2006) and that can sensibly influence the international capital movements (Houston, 2011).

Finally, a third possibility has to be considered: the behaviour of the international banking institutions in the cross-border business can be simply driven by factors other than the stigma effect (Kurdle 2009). In this case, the ***stigma neutrality*** holds.

The relevance of the stigma effect has become increasingly important in recent times, when policymakers, regulators and scholars seek to understand which institutional, regulatory and historical features can attract or discourage international capital flows (Papaioannu, 2009; Reinhardt et al., 2010; Houston et al., 2011; Qureshi et al., 2011; Milesi Feretti and Tille, 2011; Chitu et al., 2013). The financial effects of regulation are particularly relevant when the AML/CFT rules are under discussion.

This paper aims to empirically evaluate the trend, magnitude and robustness of the stigma effect, by focusing on the impact of the FATF blacklisting on the relationships between international financial flows and the BLCs banking systems.

So far empirical evidence is sparse and mixed (Kurdle 2009, Masciandaro) – with cases of stigma effect, stigma paradox and stigma neutrality being detected – and therefore inconclusive.

To understand the kind of influence that FATF blacklisting can have on BLCs, our research focuses on how international capital flows respond to the stigma signals provided by the FATF. The stigma effect is based on the assumption that blacklisting procedures alter the attractiveness of a country for capital flows. The non-compliance of a country with AML/CFT standards (listing) can decrease the overall amount of financial transactions (volume effect) and/or decrease its efficiency to manage those capitals (cost effect). Of course, the opposite can happen when a country is delisted.

In this paper we aim to find empirical evidence of whether and to what extent FATF blacklisting affects the volume of financial transactions. The stigma effect, as a signal that enables to distinguish between compliant and non-compliant countries, can have deterring effects, since transactions with non-compliant countries imply higher monitoring and/or reputational costs. Observing the signal, international banks allocate their activities accordingly. The effects of blacklisting subsequently manifest.

The rest of the paper is organized as follows. Section 2 contains the review of the literature. In Section 3 we discuss our data and present the identification strategy. Section 4 reports the empirical model and results. Section 5 concludes.

2. Related Literature

Blacklisting procedures have been introduced in 2000. Since that time relatively few economic studies on the stigma effect have been produced.

The first theoretical and empirical discussion of the stigma effect as a controversial issue is found in Masciandaro (2005). The study highlight how in the aftermath of 9/11, growing attention has been paid to the role of lax financial regulation in facilitating money laundering and the financing of terrorism (criminal finance).

Two interacting principles are commonly described in the debate on the relationship between money laundering and regulation: a) illegal financial flows are facilitated by lax financial regulation; b) countries adopting lax financial regulation do not co-operate with the international effort aimed at combating criminal finance (International Monetary Fund 1998, Holder, 2003). These two principles characterize the mandate of the Financial Action Task Force (FATF) for the prevention of money laundering and terrorism finance.

On the one hand, in order to address the problems associated with criminal finance risks, it is fundamental to develop legal standards for regulation. FATF standards (Recommendations) have become the benchmark for measuring the degree of laxity of AML/CFT financial regulation in every single country setting.

On the other hand, faced with the problem of the lack of international harmonization and coordination, the FATF uses a list of specific criteria in order to monitor the compliance of countries with international standards. Those lists of compliance are commonly described as blacklists (Alexander, 2001; Masciandaro, 2005; and Verdugo Yepes, 2011). Blacklisting represents the cornerstone of the international regulation, with the effort to reduce the risk that some countries or territories can turn into havens for criminal financial activities. Blacklisting is based on the stigma effect, i.e. the threat for a listed country to face a drop in capital inflows and then the erosion of its competitive advantage after the inclusion in the list (Hampton and Christensen, 2002).

Here the possibility of the stigma paradox occurs. Focusing on the supply of regulation, the study notes that various jurisdictions, notwithstanding the blacklisting threat, delay or fail to change their financial rules, confirming their non-cooperative attitude (*reluctant friend effect*). Furthermore, although the fact that most jurisdictions in the blacklist enact regulatory measures in an effort to be removed from it, it remains to be proven that regulatory reforms are sufficient to guarantee a real change in the country non-cooperative attitude, with a decreasing appeal for black capital flows (*false friend effect*). The existence of these two consequences can nullify the stigma effect, producing stigma neutrality or even the stigma paradox.

The theoretical analysis under discussion develops the assumption that lax financial regulation may be a strategic dependent variable for national policymakers seeking to maximize the net benefits produced by such a policy, just like any other public policy choice. Therefore, given the structural features and endowments of their own country, certain policymakers may find it profitable to adopt financial regulations which accommodate the

needs of opaque financial flows – whose existence is given by assumption – and therefore may choose to be a *de facto* BLC jurisdiction.

The potential incentives to be a BLC have been empirically tested using cross-section estimates, finding that the probability of being a BLC jurisdiction may be linked to specific country features (Masciandaro, 2005; Verdugo Yepes, 2011; Schwarz, 2011). The rationale for the strategy of being a BLC has been further explored from a theoretical point of view (Unger and Rawlings, 2008; Gnutzmann et al., 2010). Recently, the interactions between the FATF standards and national government activities have been further analyzed using a principal-agent framework (Ferwerda, 2012).

The economics of the stigma effect is analyzed in depth in Picard and Pieretti (2011), who focus on the incentives that banks located in a BLC have for complying with the AML/CFT regulation. The blacklisting practice is interpreted as an international pressure policy on the BLC bank and the stigma effect holds anytime the pressure policy is strong enough. More precisely, the stigma effect becomes effective when the reputational costs linked with the blacklisting procedures – which can harm banks' costumers – are higher than the costs of compliance. In the model, international policymakers act efficiently and thus implement optimal blacklisting pressure. In the real world, non-efficient policymakers are likely to exist, blacklisting pressure can be insufficient and the BLC might continue to attract financial flows, creating the stigma paradox.

The possibility of the stigma paradox has been empirically demonstrated in Rose and Spiegel (2006). Using bilateral and multilateral data from over 200 countries into a gravity framework, the study analyzes the determinants of the international capital flows, finding that a country status of tax haven and/or money launderer assigned by the international organizations can produce beneficial effects. The analysis confirms that the desire to circumvent national laws and regulations can be a driver in shifting financial assets abroad.

The search for the impact of the blacklisting has also been implemented in Kurdle (2008). Using ARIMA techniques on a sample of blacklisted countries, the study analyzes the financial effects of being listed and delisted. The results are inconclusive: the three effects – stigma effect, stigma paradox and stigma neutrality – can be equally found, depending on the time and the observed jurisdiction.

3. Data and Summary Statistics

3.1 Data sources

Our study compiles data from three main sources:

1. International banking statistics published by the Bank of International Settlements (BIS), which provides data regarding international banking flows for 126 countries (the list of the countries can be found in Appendix 1) for the period from 1996 to 2014.

The BIS Locational Banking Statistics publishes quarterly information on all balance sheet positions (and some off-balance sheet positions in the area of trustee business) which represent financial claims or liabilities vis-

à-vis non-residents, as well as financial claims or foreign currency liabilities vis-à-vis residents. Banks report data to the central bank or monetary authority of the country where they are headquartered, and national aggregate data are then transmitted to the BIS.

The main dependent variable – Banking Flows – is constructed using data on Total Foreign Claims from the BIS consolidated banking statistics database (CBS). The relevant data are contained in Table 9A:S of the CBS (Total foreign claims, immediate borrower basis).

The bank flow variable is equal to the difference between the logarithm of total foreign claims in period $(t+1)$ and the logarithm of total foreign claims in period (t)

$$BankFlow_{i,t+1} = \log\left(\frac{TFC_{i,t+1}}{TFC_{i,t}}\right) \quad (1)$$

where TFC_{it} is the value of Total Foreign Claims in year t for country *i*.

Foreign claims are financial claims on residents of countries other than the reporting country, i.e. claims on non-residents of the reporting country. In the CBS, foreign claims are calculated as the sum of cross-border and local claims (in all currencies) of reporting banks' foreign affiliates or, equivalently, of international claims and local claims denominated in local currencies.

2. Another data source we use in our analysis is Martin Čihák, Asli-Demirgüç-Kunt, Erik Feyen, and Ross Levine's "Global financial development Database" (GFDD). This is an extensive dataset of financial system characteristics for 205 countries from 1960 to 2010. The database enables to measure the size of financial institutions and markets, the degree to which individuals can and do use financial services, the efficiency of financial intermediaries and markets in intermediating resources and facilitating financial transactions, the stability of financial institutions and markets, and the level of macroeconomic stability.

3. Barth J.R., Caprio G. Jr., Levine R. "Banking Regulation Survey" 2000, 2003, 2007, 2012 provides data for the construction of the *Overall Activities Restrictions Index* and the *Independence of Supervisory Authority Index*.

The *Overall Activities Restrictions Index* is a dummy variable that takes value 1 if the banks of a country are subject to some restrictions in their operations, and 0 if they are totally free in their investment choices.

The *Independence of Supervisory Authority Index* expresses the extent to which the supervisory authority is independent from the government and legally protected from the banking industry.

In addition to those three main datasets, we also use a variety of other data sources. Specifically, we use the dataset constructed by Masciandaro et al. (2013) for banking sector supervision and regulation variables, World Bank and IMF data for macroeconomic controls and the dataset constructed by Mattes and Rodriguez (2014) to calculate cooperation variables.

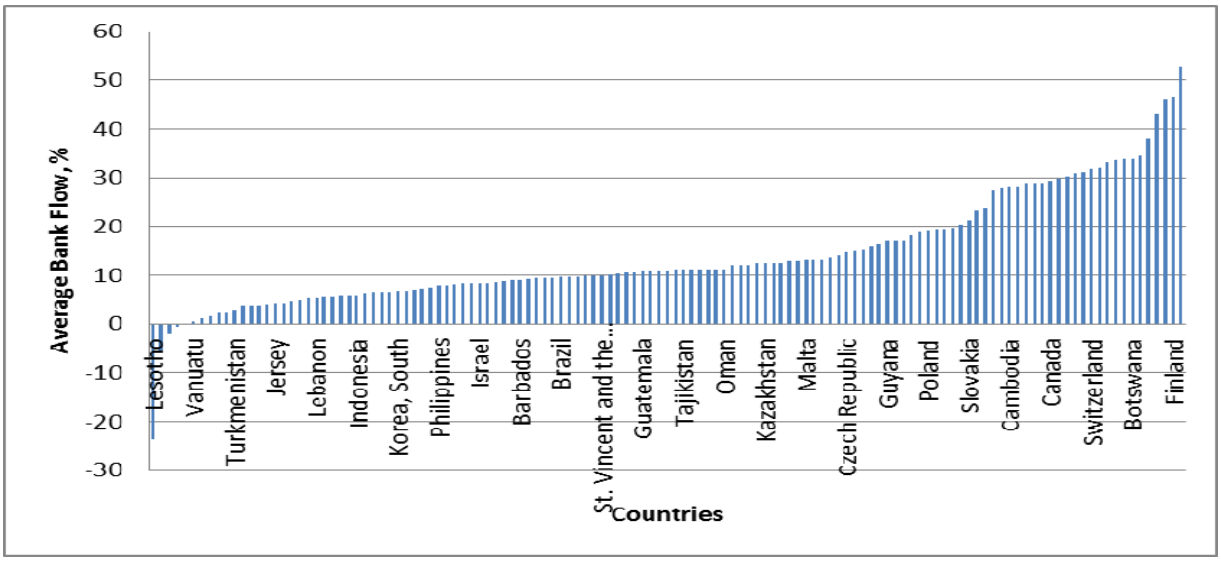
3.2 Variables

3.2.1 International capital flows measure

The main goal of this research is to investigate the effect of soft regulation on the international capital flows. The international capital flows measure is used as our dependent variable. In the specific, we use growth rate of the total foreign claims obtained from the BIS database. The construction of the Bank Flow variable is described in equation (1).

Figure 1 represents the average value of International Bank Flows for all 126 countries in the period from 1996 till 2014.

Figure 1. Average value of International Bank Flow, 1996-2014



3.2.2 Blacklisting

The variable of interest (our main predictor) is the dummy variable -- ***FATF*** -- which is equal to 1 if the country is listed in the Financial Action Task Force list of "Non-Cooperative Countries or Territories" and 0 if the country complies with FATF conditions. FATF variable is constructed using Financial Action Task Force reports "Review to Identify Non-Cooperative countries or Territories: Increasing The Worldwide Effectiveness of Anti-Money Laundering Measures", published annually, in June, by the FATF. The report covers a period of 12 months, i.e. the report published in June 2009 represents the blacklisting status of the country during the last year, starting from June 2008 till June 2009. We assign the status of “listed” to the country in year (t), if in June of $(t+1)$ that country actually belongs to the FATF list.

The Financial Task Force List consists of countries perceived to be non-cooperative in the global fight against money laundering and terrorist financing. To evaluate the involvement of a country in terrorist financing and money laundering FATF has created a list of recommendations, which includes 40 recommendations on money

laundering and 9 Special Recommendations on Terrorist Financing. The lack of cooperation by those countries manifests itself as unwillingness or inability to follow FATF recommendations.

According to the forty nine recommendations on money laundering and Report on Non-cooperative Countries and Territories, countries are required to:

- Exclude the following loopholes in financial regulation:
  - Inadequate regulation and supervision of financial institutions;
  - Inadequate rules for the licensing and creation of financial institutions;
  - Inadequate customer identification requirements;
  - Excessive secrecy provisions regarding financial institutions;
  - Lack of efficient suspicious transaction reporting system;
- Respect the impediments set by other regulatory requirements in terms of:
  - Inadequate commercial law requirements for registration of business and legal entities;
  - Lack of identification of the beneficial owner(s) of legal and business entities;
- Remove the obstacles to the international co-operation
  - At administrative level;
  - At the judicial level (absence of criminalization of money laundering, laws and regulations prohibiting international exchange of information, presence of tax evasion);
- Avoid to own inadequate resources for preventing, detecting and repressing money laundering activities.

The judicial system is a core element of detection for non-cooperative countries or territories. Countries that are characterized by the absence of laws regulating money laundering and tax evasion or preventing information sharing about suspicious business entities are more inclined to be included in the FATF Blacklist.

The Blacklisting of a country is not affected by the level of its capital flows. In this paper we are interested in the effect of the Blacklisting on the growth rate of international capital flows. Since Blacklisting is an exogenous event for capital movements, the problem of endogeneity is not crucial in our analysis.

Descriptive statistics for the FATF variable and Bank Flows are represented in Table 1.

Table 1. Descriptive Statistics: Bank Flows and FATF

Variable		Mean	Std. Dev.	Min	Max	Observations
BankFlow	overall	14.48147	57.10873	-192.3687	962.2409	N = 2334
	between		12.68277	-28.27814	58.97776	n = 126
	within		55.76565	-181.9404	917.7446	T-bar = 18.5238
FATF	overall	.0304929	.1719751	0	1	N = 2394
	between		.0660238	0	.3684211	n = 126
	within		.1588996	-.3379282	.9778613	T = 19

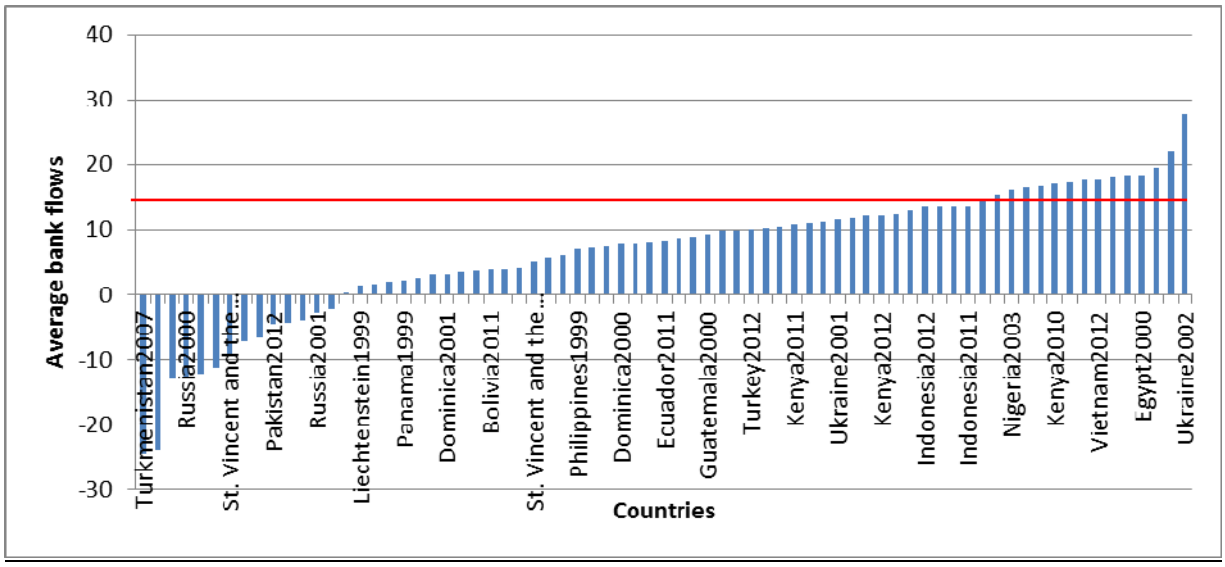
With regard to our sample, 29 countries have been blacklisted since the introduction of the FATF List.

12 of these countries are developed, the remaining 17 belong to the underdeveloped economies, according to the World Bank characterization. Other informative statistics about listing can be found in Appendix 1.

It is worth noting that our sample shows three years for which no countries are in the FATF blacklist. In reality, that happened only one time, in June 2007. According to the FATF, at that time, all countries were compliant with the established requirements.

Figure 2 shows, for blacklisted countries only, the mean growth rate in bank flows relative to the years of blacklisting. This simple plot provides a first feel of the stigma effect and it uses a sort of monitoring period (two years before and after the blacklisting) to point it out. As a comparison, in red is drawn the average growth rate for all countries over the entire sample period.

Figure 2. Mean growth rate of International Bank Flows, black listed countries in the years of blacklisting



3.2.3 Control Variables

- Financial Institution Depth, Efficiency, Stability

To describe the depth of the banking system of a country we use the measure from the GFDD - Bank Private Credit to GDP (BPC). BPC is equal to the amount of credit to private sector created by deposit money banks and other financial institutions normalized by GDP. It is calculated according to the following formula:

$$BPC_t = 0.5 * \frac{(PC_t / P_{et}) + (PC_{t-1} / P_{et-1})}{GDP_t / P_{at}}, \quad (2)$$

where PC_t is credit to private sector in year t, P_{et} is end-of-period consumer price index (CPI), and P_{at} is average annual CPI.

We use Net Interest Margin (NIM) from the "Global Financial Development Database" as the measure of the financial institution efficiency. NIM is calculated as the bank's income that has been generated by non-interest related activities as a percentage of total income (net-interest income plus non-interest income). Non-interest related income includes net gains on trading and derivatives, net gains on other securities, net fees and commissions and other operating income.

As a measure of the stability of financial institutions we use the Bank Z-Score (always from GFDD). It captures the probability of default of a country's banking system, calculated as a weighted average of the Z-scores of a country's individual banks (the weights are based on the individual banks' total assets). Z-score compares a bank's buffers (capitalization and returns) with the volatility of those returns.

- Supervision and Regulation of the Financial Sector

We use a set of variables from the four worldwide surveys conducted by Barth J.R., Caprio G. Jr., Levine R. "Banking Regulation Survey" in 2000, 2003, 2007, 2012. Data from those surveys are used to construct measures for various aspects of bank regulation and supervision, such as the *Overall Activities Restrictions Index* (ORA) and the *Independence of the Supervisory Authority Index* (ISA). Moreover, we build up an additional index that we called the *Supervisory Lightness Index* (SLI). That is an indicator which takes values between 0 and 20 and it represents an inverse measure of the degree of lightness of the supervision system (Appendix 1 - Figure 5, provides detailed information about this index). As a measure of supervisory governance we take hints from the paper of Quintyn et al. 2004.

3.2.4 Other country controls

We also include several country-level variables to control for differences in economic development.

We control for growth in the real per capita GDP, real interest rates and the real exchange rate as well as for the GDP deflator to take into account macroeconomic factors.

Also, we use a dummy variable identifying the time-period after the introduction of the FATF Blacklist (dummy is equal to one for the periods after 2000 and 0 for the earlier period). Doing so we want to see whether the introduction of the Black list itself has had any impact on the international capital flows dynamic.

To further control for the banking and financial supervision regime, we use the FINFIU variable. That is a dummy variable that takes the value of 1 if a Financial Intelligence Unit exists and it has a financial nature (i.e. it is under an authority or an entity involved in financial markets discipline), and 0 otherwise.

To test the relevance of social and political parameters, we employ a set of six indicators of good governance that express quantitative measures for the political environment. They respectively indicate: government effectiveness; political stability; regulatory quality; voice and accountability; rule of law; and control of corruption but seen as a whole, they show the structural capacity of the government to formulate and implement sound policies. These indexes are extrapolated from the Worldwide Governance Index of the World Bank while the overall project of the WGI follows the proposal by Kaufmann et al. (2003).

Specific political factors are also included. Polity2 and durable represent two important proxies of the persistence and change in Political regimes. They are both extracted from Marshall et al. (2002).

Finally, an indicator for the size of the shadow economy is considered. Values raise from Schneider et al. (2010).

Descriptive statistics for control variables are presented in Table 2.

Table 2. Control variables, descriptive statistics

Variable		Mean	Std. Dev.	Min	Max	Observations
OAR	overall	.7691002	.4215278	0	1	N = 1767
	between		.2676238	0	1	n = 121
	within		.3250214	-.0433998	1.5816	T = 14.6033
ISA	overall	1.82147	.8205511	0	3	N = 1714
	between		.6090409	.3636364	3	n = 121
	within		.5671021	-.0451964	3.954804	T = 14.1653
SLI	overall	5.838729	2.609646	0	14	N = 1699
	between		1.764543	2.307692	10.3125	n = 121
	within		1.942521	-1.223771	12.15123	T = 14.0413
BPC	overall	58.81332	46.31515	.5573513	311.063	N = 2143
	between		42.84895	1.478462	203.6033	n = 118
	within		17.92076	-50.28376	231.0052	T-bar = 18.161
NIM	overall	4.38293	2.94119	.0066142	23.31961	N = 1513
	between		2.573156	.5875667	13.15254	n = 121
	within		1.5104	-8.737343	15.14527	T = 12.5041
BZS	overall	15.01105	10.44965	-11.57409	58.71029	N = 1516
	between		9.697505	-1.613888	48.28198	n = 120
	within		3.787908	-.0264032	43.25155	T = 12.6333
GDPgro	overall	8.606893	1.478962	4.234848	11.96868	N = 2289
	between		1.407985	5.124587	11.53326	n = 122
	within		.4772506	5.69425	10.17332	T = 18.7623
RIR	overall	7.455217	22.16294	-94.21994	572.9363	N = 1864
	between		16.07804	-14.16517	164.2393	n = 112
	within		17.14335	-133.6159	416.1522	T-bar = 16.6429
REER	overall	102.4263	13.83995	42.40215	179.9582	N = 1379
	between		6.352384	74.00537	128.7365	n = 126
	within		11.16037	58.99066	161.6395	T = 10.9444
GDPdef	overall	11.37652	118.9026	-27.63177	5399.507	N = 2270
	between		34.5289	-.9092251	368.516	n = 122
	within		113.7147	-364.5583	5042.367	T-bar = 18.6066
FINFIU	overall	.3263511	.4689757	0	1	N = 2387
	between		.3819414	0	1	n = 126

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         within  |            .2739398  -.6210174   1.221088 |     T = 18.9444
                 |                                           |
VA       overall |  .2354757    .930759  -2.210279   1.826408 |     N =    1950
         between |            .9205197  -1.964402   1.614059 |     n =     123
         within  |            .1620531  -.6077295   1.003748 |     T = 15.8537
                 |                                           |
PS       overall |  .0804559   .9208158   -2.81208   1.665204 |     N =    1950
         between |            .8913455  -2.074042   1.480144 |     n =     123
         within  |            .2620763  -1.337109    1.48025 |     T = 15.8537
                 |                                           |
GE       overall |  .3104646   .9449761  -1.726847   2.429651 |     N =    1947
         between |            .9351116  -1.464468   2.158809 |     n =     123
         within  |             .162076  -.4839532   1.194526 |     T = 15.8293
                 |                                           |
RQ       overall |  .3086253   .9166185  -2.210257   2.247345 |     N =    1947
         between |            .8990784   -2.00456   1.917077 |     n =     123
         within  |            .1900983  -.4190966   1.461987 |     T = 15.8293
                 |                                           |
RL       overall |  .2008595   .9833934  -1.909397   2.001923 |     N =    1950
         between |            .9794344  -1.578796   1.938847 |     n =     123
         within  |            .1535045  -.4950774   1.069367 |     T = 15.8537
                 |                                           |
CC       overall |  .2361487   1.026974   -1.81587   2.585612 |     N =    1947
         between |            1.012835  -1.327975   2.444269 |     n =     123
         within  |            .1866439  -.6494514   1.335162 |     T = 15.8293
                 |                                           |
Polity2  overall |  5.235146   6.033124        -10         10 |     N =    1986
         between |            5.765381        -10         10 |     n =     105
         within  |            1.819977  -7.028012   14.44567 | T-bar = 18.9143
                 |                                           |
Durable  overall |  31.14647   34.99643          0        205 |     N =    2014
         between |            34.27294          0        196 |     n =     106
         within  |            7.785832  -14.16931   82.83069 |     T =      19
                 |                                           |
ShadowEc overall |  30.89012   13.32441        8.1       67.7 |     N =     972
         between |            13.36793   8.544444   66.06667 |     n =     109
         within  |            1.143708   24.85679   40.23457 |     T = 8.91743
```

4. Empirical Analysis

4.1 Main Analysis

Here we empirically test the effect of the soft regulation (blacklisting) on the international bank flows. As a proxy for the blacklisting we consider the abovementioned Financial Action Task Force Listing of countries. Countries not compliant with the requirements of the FATF are included in this list, while they can easily get out of it after fulfilling all the requirements.

For each of the considered years, we construct the Bank Flow Measure, that is equal to the logarithm of the fraction of Total Foreign Claims in year *(t+1)* over Total Foreign claims in year t. We use this measure as the dependent variable in the following regression:

$$Bank\ Flows_{i,t} = \alpha_0 + \alpha_1 FATF_{i,t} + \alpha_2 Regulation_{i,t} + \alpha_3 InstQuality_{i,t} + \gamma X_{i,t} + \varphi_i + \mu_t + \varepsilon_{i,t}, \quad (3)$$

where i represents the country dimension of the sample, and t represents the time dimension;

- ✓ $FATF_{i,t}$ is a dummy variable equal to 1 if the country is listed in year *t*, and zero otherwise;
- ✓ $Regulation_{i,t}$ is a vector of regulation and supervision indexes, such as the Overall Activity Restrictiveness (OAR), the Independence of Supervisory Authority (ISA) and the Supervisory Lightness Index (SLI);
- ✓ $InstQuality_{i,t}$ is a vector of variables, representing features of the banking sector in country *i* at time *t*: Depth of Traditional Banking (Bank Private Credit to GDP, BPC), Degree of Innovativeness of Banking Activities (Net Interest Margin, NIM), Stability of the Banking Sector (Altman Z Score, Zscore);
- ✓ $X_{i,t}$ is a vector of independent variables representing other political and macroeconomic controls;
- ✓ φ_i is a country fixed effect and μ_t is the time-fixed effect (constructed by using dummy variables for each single year).
- ✓ $\varepsilon_{i,t}$ represents the usual vector of error terms, independent and identically distributed (iid).

Table 3 lists estimated coefficients for regression (3).

In the Table we provide results for three types of models: Random effect (1), model with year fixed effects (2), and model with year and country fixed effects (3). The main specification from which we draw our conclusions is the last one, with year and country fixed effects. This model helps us to capture all the unobservable country and year characteristics (for the details of our main regression, refer to Appendix 2 - Table 3, all the variants).

From the Table we see that the coefficient of the FATF variable and it is not statistically and economically significant. Furthermore the coefficient is positive, meaning that we can completely exclude the occurrence of the stigma effect.

Table 3. Estimation results: Main Model

VARIABLES	(1) BankFlowMeasure	(2) BankFlowMeasure	(3) BankFlowMeasure
FATF	12.2836	11.6423	22.2550
	(8.591)	(13.211)	(19.409)
OAR	2.5654	4.2719	5.2605
	(7.662)	(7.634)	(9.115)
ISA	1.1799	3.1726	11.8984*
	(3.645)	(3.732)	(6.591)
SLI	-0.9807	-1.1933	-4.2783***
	(1.228)	(1.208)	(1.613)
BPC	-0.1038	-0.1359	-1.7891**
	(0.121)	(0.119)	(0.748)
NIM	-0.3080	-0.1637	-0.3513
	(0.805)	(1.163)	(1.408)
BZS	0.2052	0.1260	-0.6844
	(0.211)	(0.221)	(0.747)
LogGDPperCapita	-0.3228	4.2368	71.2379**
	(4.148)	(4.336)	(32.867)
RealInterestrate	-0.5902***	-1.0059***	-0.2820
	(0.211)	(0.328)	(0.808)
RealEffectiveExchangeRate	0.4002*	0.1819	0.0999
	(0.207)	(0.264)	(0.504)
InflationGDPdeflatorannual	-0.2753	-0.8169**	-0.3868
	(0.254)	(0.415)	(0.547)
FINFIU	1.4020	8.7697	14.5358
	(5.384)	(5.375)	(19.887)
VoiceandAccountability	3.5258	1.6206	0.5769
	(12.134)	(13.280)	(24.744)
PoliticalStabilityandAbsence	13.9664**	12.6902**	28.2924
	(6.219)	(6.051)	(29.406)
GovernmentEffectiveness	6.2966	8.1943	30.2065
	(14.755)	(15.322)	(33.335)
RegulatoryQuality	12.1154	1.0108	1.7988
	(14.535)	(15.789)	(35.734)
RuleofLaw	-41.0240**	-35.3396**	6.0118
	(17.874)	(17.289)	(34.610)
ControlofCorruption	18.3328	16.6185	19.1651
	(16.079)	(14.817)	(29.520)
Polity2	0.0006	0.2501	-1.2053
	(1.256)	(1.462)	(4.716)
Durable	0.3063***	0.2956***	-2.1105
	(0.102)	(0.085)	(2.274)
SizeofShadowEconomy	-0.0494	-0.0275	-7.2460*
	(0.394)	(0.407)	(4.344)
Constant	-20.0334	-36.9024	-225.2774
	(44.706)	(50.432)	(295.194)
Observations	396	396	396
Number of ID	85	85	85
Country FE	NO	NO	YES
Year FE	NO	YES	YES
R-squared	0.102	0.200	0.281

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

It is interesting to note that the variables representing supervision are instead significant. The coefficient for the Supervision Lightness Index is negative, while the coefficient of the Index of Independence of the Supervisory Authority is positive: the desire to take gains from a market friendly supervision managed by an authority independent from the local politicians seems to attract the capital flows.

At the same time the traditional banking systems seem to be less attractive. As for the other controls, the variable Bank Private Credit has a negative coefficient. The larger the traditional banking system in the country, the slower the growth rate of International Banking Flows. The log of the GDP per capita is positively correlated with the Bank flow measure, while the presence of a relevant shadow economy slows down the growth in capital movements. On the one side the international capital flows seem to appreciate banking secrecy, but at the same time the bankers seem to dislike countries and territories where the significant role of the shadow economy can signalling weak rule of law, i.e. risks of instability and expropriation.

The next step of the analysis is to conduct robustness checks for our main results.

4.2 Robustness Check: Endogeneity of the FATF measure

To proceed with the empirical analysis we should take into account several potential problems. In the previous part we highlight how, according to the official documents (recommendations), the fact that a country is included in the FATF Blacklist is not formally related to its international banking flows. In practice, however, we cannot exclude that the following can potentially be going on: FATF authorities track the same statistics as the BIS. When an unusual growth in banking flows is noticed, the jurisdiction gets flagged as a "priority for investigation". This event automatically increases the probability of a country to be included in the Blacklist. Thus an endogeneity problem can arise.

FATF determines the compliance of a country with the anti-money laundering and anti-terrorist financing regulation based on the already mentioned 49 Recommendations (last issue February 2013).

The decision to put a country into the Blacklist is based on a series of criteria. To prevent the event of blacklisting, a country should:

- Identify the risks, and develop policies and domestic coordination;
- Pursue money laundering, terrorist financing and the financing of proliferation;
- Apply preventive measures for the financial sector and other designated sectors;
- Establish powers and responsibilities for the competent authorities (e.g., investigative, law enforcement and supervisory authorities) and other institutional measures;
- Enhance the transparency and availability of beneficial ownership information of legal persons and arrangements;
- Facilitate international cooperation.

FATF authorities observe the performance of a country, including its international capital flows, and make a decision about blacklisting. Even though FATF policy can be considered exogenous to the internal policy of a country, we still may face endogeneity problems given those interconnections.

In order to address and fix these issues we apply the Instrumental Variables (IV) methodology and proceed through the empirical analysis. The first step is to propose an instrumental variable that is related as close as possible to the probability of being listed and that is uncorrelated with the international capital flows if not

through the blacklisting. The second step, instead, uses the findings of the first stage in order to replicate the main regression, with the fitted values of the FATF variable being our main predictor.

4.2.1 Instrumental Variables analysis

FATF recommendations can be divided into several groups: AML/CFT policies and coordination; money laundering and confiscation; terrorist financing and financing proliferation; preventive measures; transparency and beneficial ownership of legal persons and arrangements; powers and responsibilities of competent authorities and other institutional measures; international cooperation. Based on this classification, we can conclude that regulatory factors and political variables determine the blacklisting status of the country.

One of the main factors that is reflected in the FATF recommendations is the level of International Cooperation that a country is involved in.

The most used measure of international cooperation has been proposed by Goldstein (1992). In that paper the author proposes a scale to classify countries based on their international relations. The conflict-cooperation scale has been created for the WEIS events data – World Event/Interaction Survey (1966-1978). The Goldstein scale incorporates both formal and informal cooperation and overall does well at capturing cooperation intensity. Recently the Goldstein scale has been applied to 10 million International Dyadic Events data (Bond, Bond, Oh, Jenkins and Taylor, 2003; King and Lowe, 2003) by Mattes and Rodriguez (2014). These data have been generated by the VRA Reader software, which classifies events found in Reuters Business Briefing news stories based on a typology called Integrated Data for event Analysis.

Mattes and Rodriguez have created two measures of international cooperation for the period to 1990 to 2004: the Goldstein Scale for pair of countries (GS_{ijt}) and a Dummy variable that is equal to 1 if countries cooperate in year t and 0 otherwise $(DummyInternCoop_{ijt})$.

For our purposes we construct two indexes using variables from Mattes and Rodriguez.

The first index is set up taking information from the dummy variable. The international cooperation index for the country i in year t $(IC1_{it})$ is equal to:

$$IC1_{it} = \frac{\sum_j DummyInternCoop_{ijt}}{Total\ \#of\ countries}, \qquad (3)$$

where j identifies the counterparty country for the country i.

The second index is similar in construction but more precise, since it takes into account the value of the Goldstein scale for each pair of cooperating countries. The International Cooperation Goldstein index for the country i in year t $(IC2_{it})$ is equal to:

$$IC2_{it} = \frac{\sum_j GS_{ijt} * DummyInternCoop_{ijt}}{Total\ \#of\ countries} \qquad (4)$$

These indexes are two of the measures that can be used as IVs for the FATF listing event and, notwithstanding their limited availability, we strongly rely on them in this step of the analysis.

Another factor that affects the probability of being blacklisted is the political influence of the country.

The UN Security Council "takes the lead in determining the existence of a threat to peace or act of aggression".

Being a representative state in the UN Security Council gives a country the right to imply a veto. Thus, being a member of the UN Security Council gives a country the power, among the others, to inflict anti-terrorist policies to other countries. We define the membership of the country i in the UN Security Council in year t as $UNSCmem_{it}$, a dummy variable which is equal to 1 if the country i is actually a member and 0 otherwise. The $UNSCmem$ forms our third instrumental variable.

In the same way as in the case of the UN membership, being mentioned on the agenda of the UN Security Council can affect the probability of being blacklisted. The dummy variable $UNSCagenda_{it}$ is equal to 1 if the country i is on the agenda of the UN Security Council meeting in year t and it is equal to 0 otherwise. The $UNSCagenda$ completes our set of four instrumental variables.

To summarize, the IVs used to instrument the probability of being included in the FATF Blacklist are as in the table below.

Table 4. Instrumental Variables

Variable	Description
Goldstein scale	The level of International Cooperation of a country
Dummy cooperation	Based on the Goldstein Scale for the WEIS data
UN member	Membership in the UN Security Council
UN agenda	Whether the country has or has not been mentioned on the UN meeting agenda (http://research.un.org/en/docs/sc/quick)

The IV analysis is performed using a two-stage least squares (2SLS) regression.

The first stage is used to build up our new variable, $\widehat{FATF}$, that comes as a linear combination of the instrumental variables. In the specific, we generate four different predictions of $\widehat{FATF}$: the first one takes into account only the variables related to the UN Security Council; the second adds to the predictors the Goldstein scale; the third substitutes the Goldstein scale with the dummy cooperation; finally, in the fourth column we set up a linear combination of all of our four instruments. Results related to the first stage are presented in Table 5.

Table 5. IV method: First stage

VARIABLES	(1) FATF	(2) FATF	(3) FATF	(4) FATF
OAR	-0.0592**	-0.0897**	-0.0921**	-0.0946**
	(0.027)	(0.040)	(0.040)	(0.041)
ISA	-0.0016	0.0095	0.0083	0.0073
	(0.014)	(0.017)	(0.017)	(0.017)
SLI	0.0013	-0.0005	-0.0006	-0.0009
	(0.003)	(0.005)	(0.005)	(0.005)
BPC	-0.0001	-0.0002	-0.0003	-0.0002
	(0.000)	(0.000)	(0.000)	(0.000)
NIM	-0.0058	-0.0121	-0.0122	-0.0124
	(0.006)	(0.010)	(0.009)	(0.010)
BZS	0.0002	0.0009	0.0007	0.0007
	(0.001)	(0.002)	(0.002)	(0.002)
LogGDPperCapita	-0.0149	-0.0420	-0.0426	-0.0411
	(0.016)	(0.026)	(0.026)	(0.026)
RealInterestrate	-0.0002	0.0004	0.0006	0.0007
	(0.001)	(0.001)	(0.001)	(0.001)
RealEffectiveExchangeRate	-0.0005	0.0010	0.0009	0.0009
	(0.001)	(0.002)	(0.002)	(0.002)
InflationGDPdeflatorannual	0.0019	0.0051	0.0051	0.0052
	(0.002)	(0.003)	(0.003)	(0.003)
FINFIU	-0.0391*	-0.0932**	-0.0928**	-0.0884**
	(0.023)	(0.040)	(0.038)	(0.039)
VoiceandAccountability	0.0312	-0.0434	-0.0341	-0.0264
	(0.034)	(0.057)	(0.056)	(0.054)
PoliticalStabilityandAbsence	-0.0469*	-0.0457	-0.0480	-0.0530
	(0.025)	(0.043)	(0.042)	(0.042)
GovernmentEffectiveness	0.1168**	0.2923***	0.2986***	0.3066***
	(0.047)	(0.088)	(0.088)	(0.088)
RegulatoryQuality	-0.0227	-0.0672	-0.0752	-0.0859
	(0.036)	(0.058)	(0.060)	(0.058)
RuleofLaw	-0.0171	-0.0015	-0.0023	-0.0015
	(0.036)	(0.063)	(0.062)	(0.062)
ControlofCorruption	-0.0506**	-0.1118**	-0.1098**	-0.1122**
	(0.025)	(0.048)	(0.048)	(0.048)
Polity2	-0.0026	0.0056	0.0046	0.0039
	(0.004)	(0.007)	(0.007)	(0.007)
Durable	0.0003	0.0001	0.0000	0.0001
	(0.000)	(0.000)	(0.000)	(0.000)
SizeofShadowEconomy	0.0046***	0.0074***	0.0073***	0.0072***
	(0.002)	(0.003)	(0.003)	(0.003)
UNSCmem	0.0093	-0.0282	-0.0396	-0.0356
	(0.028)	(0.049)	(0.052)	(0.051)
UNSCagenda	-0.0078	-0.0466	-0.0401	-0.0368
	(0.044)	(0.054)	(0.055)	(0.056)
GoldsteinCoop		0.1697**		-0.1630
		(0.076)		(0.206)
DummyCoop			1.0881**	1.8294
			(0.455)	(1.192)
Constant	0.1464	0.0956	0.1165	0.1172
	(0.138)	(0.167)	(0.170)	(0.172)
Observations	396	253	253	253
R-squared (adjusted)	0.184	0.298	0.309	0.311
Country FE	NO	NO	NO	NO
Year FE	YES	YES	YES	YES

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Once obtained our instrument $\widehat{FATF}$ in all its different forms, the second stage consists in regressing the Bank flows measure on them. Our main equation becomes:

$$Bank\ Flows_{i,t} = \alpha_0 + \alpha_1 \widehat{FATF}_{i,t} + \alpha_2 Regulation_{i,t} + \alpha_3 InstQuality_{i,t} + \gamma X_{i,t} + \varphi_t + \mu_i + \varepsilon_{i,t}, \quad (5)$$

Where the original FATF variable has been substituted by the new $\widehat{FATF}$, while all the other controls remain the same. Results for the second stage are presented in Table 6.

Table 6. IV method: Second stage

VARIABLES	(1) BankFlowMeasure	(2) BankFlowMeasure	(3) BankFlowMeasure	(4) BankFlowMeasure
FATF	1,443.2058	97.4974	55.5203	39.6384
	(3,769.696)	(234.371)	(194.596)	(177.633)
OAR	92.5300	16.6149	12.3157	10.6892
	(219.426)	(29.389)	(26.302)	(25.078)
ISA	6.0724	3.5308	3.8955	4.0336
	(21.997)	(6.085)	(5.867)	(5.800)
SLI	-3.0773	-0.2518	-0.3082	-0.3295
	(6.573)	(1.963)	(1.935)	(1.933)
BPC	-0.0140	-0.2251	-0.2272	-0.2280
	(0.429)	(0.160)	(0.160)	(0.160)
NIM	8.3419	1.4239	0.8971	0.6978
	(25.913)	(3.530)	(3.070)	(2.890)
BZS	-0.0764	0.1300	0.1607	0.1723
	(2.131)	(0.367)	(0.326)	(0.314)
LogGDPperCapita	26.1839	11.7365	10.1923	9.6080
	(63.535)	(11.222)	(10.042)	(9.683)
RealInterestrate	-0.7821	-1.4191***	-1.3982***	-1.3903***
	(1.156)	(0.477)	(0.462)	(0.458)
RealEffectiveExchangeRate	0.9901	-0.0692	-0.0349	-0.0220
	(2.564)	(0.420)	(0.392)	(0.388)
InflationGDPdeflatorannual	-3.5447	-2.0461	-1.8146	-1.7270
	(7.910)	(1.460)	(1.242)	(1.159)
FINFIU	61.5561	22.4887	19.5413	18.4261
	(132.804)	(23.003)	(20.692)	(19.624)
VoiceandAccountability	-41.4527	-4.4629	-6.1055	-6.7269
	(119.620)	(19.183)	(18.114)	(17.831)
PoliticalStabilityandAbsence	77.4487	23.0430	20.9964	20.2221
	(185.568)	(15.171)	(13.374)	(12.744)
GovernmentEffectiveness	-162.0774	-14.2537	-0.8636	4.2024
	(432.480)	(76.311)	(62.689)	(56.605)
RegulatoryQuality	29.5506	-11.0844	-14.4834	-15.7694
	(88.064)	(33.293)	(30.503)	(29.084)
RuleofLaw	-5.5217	-41.5304*	-41.8049*	-41.9088**
	(84.290)	(21.998)	(21.445)	(21.323)
ControlofCorruption	91.6271	44.0344	38.3980	36.2654
	(185.733)	(38.140)	(32.724)	(30.522)
Polity2	4.1129	1.1307	1.3333	1.4099
	(10.730)	(2.148)	(1.988)	(1.943)
Durable	-0.2547	0.4277*	0.4495*	0.4577*
	(1.360)	(0.250)	(0.240)	(0.237)
SizeofShadowEconomy	-6.4932	-0.4584	-0.1695	-0.0602
	(16.364)	(1.753)	(1.485)	(1.364)
Constant	-283.5488	-87.0409	-83.6808	-82.4095
	(688.928)	(78.518)	(76.487)	(75.895)
Observations	396	253	253	253
R-squared	-13.566	0.239	0.265	0.269
Country FE	NO	NO	NO	NO
Year FE	YES	YES	YES	YES
R-squared (adjusted)	-14.68	0.155	0.184	0.189
Hansen J statistic	0.0654	4.068	4.507	4.723
J statistic P-value	0.798	0.131	0.105	0.193
Underidentification P-value	0.927	0.0537	0.0404	0.0783

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Endogeneity test: FATF variable

	(1)	(2)	(3)	(4)
Endogeneity test	1.537	0.021	0.019	0.111
Chi-sq(1) P-val	0.2151	0.8859	0.8913	0.7387

The coefficient of the $FATF$ variable that is associated to the International capital flows is always positive and never statistically significant. It is quite difficult to make inference in favour of the stigma paradox and/or to the stigma neutrality. However, we have strong evidence against the stigma effect. Our findings, those of Table 3 and those of Table 6, seem to suggest that, ultimately, a stigma effect for the blacklisted countries does not exist.

To give more consistency to our findings, at the end of the table we provide some statistics about the IV regressions.

The under-identification test is an LM test of whether the equation is identified, i.e., that the excluded instruments are "relevant", meaning correlated with the endogenous regressors. The test is essentially the test of the rank of a matrix: under the null hypothesis that the equation is under-identified. Under the null, the statistic is distributed as chi-squared with degrees of freedom equal to $(L1 - K1 + 1)$. A rejection of the null indicates that the matrix is full column rank, i.e., the model is identified.

The Sargan-Hansen test is a test of over-identifying restrictions. The joint null hypothesis is that the instruments are valid instruments, i.e., uncorrelated with the error term, and that the excluded instruments are correctly excluded from the estimated equation. Under the null, the test statistic is distributed as chi-squared in the number of $(L - K)$ over-identifying restrictions. A rejection casts doubt on the validity of the instruments. In our case, the null is never rejected.

Finally, the endogeneity test, which estimates are reported in a separate table. Under the null hypothesis that the specified endogenous regressors can actually be treated as exogenous, the test statistic is distributed as chi-squared with degrees of freedom equal to the number of regressors tested. As we can see, the hypothesis of the exogeneity of the FATF variable can never be rejected, providing additional validity to our primordial analysis.

4.3 Robustness check: International Banking Inflows and Outflows

The measure of international bank flows is equal to the growth rate of a country's total foreign claims. Total foreign claims comprise cross-border claims plus local claims in local and foreign currencies. Cross-border claims are asset positions vis-à-vis banks and non-banks located in a country other than the country of residence of the reporting banking office; they are also referred to as "external" assets. Local claims include Asset positions with a counterparty (bank or non-bank) located in the same country as the banking office, denominated in local and foreign currency.

We can disentangle two effects of the FATF Listing. The first regards the bank outflows, the second is related to the bank inflows.

With regard to the former, the blacklisting effect can be further divided. On the one hand, the listing procedure directly influences the external bank outflows, i.e. the growth rate of External Assets. On the other hand, even the internal flows between domestic and foreign banks react to the blacklisting of the host country. The effects, as we can see in a moment, are different.

Having those definitions in mind, to ascertain the effect of blacklisting on outflows and inflows separately, we construct two variables.

The first variable, Bank External Outflow, is equal to the difference between the log of external assets (all sectors) in period $(t+1)$ and logarithm of external assets (all sectors) in period (t):

$$ExtOutflow_{i,t} = \log\left(\frac{ExternalAssets_{i,t}}{ExternalAssets_{i,t-1}}\right), \quad (8)$$

where $ExternalAssets_{i,t}$ is the value of External Assets (all sectors) in year t for the country *i*.

Empirical results considering External Outflows as the dependent variable of our main regression are presented in Table 7.

Table 7. External and Internal Bank Outflows

VARIABLES	(1) ExternalOut	(2) ExternalOut	(3) ExternalOut	(4) ExternalOut
FATF	-0.0058	-0.0644	0.2677**	0.3337***
	(0.062)	(0.054)	(0.112)	(0.107)
OAR	0.0592	0.0453	0.1085	0.0969
	(0.041)	(0.047)	(0.074)	(0.071)
ISA	0.0399*	0.0262	-0.0145	-0.0287
	(0.021)	(0.022)	(0.035)	(0.041)
SLI	0.0107	0.0036	-0.0035	-0.0176
	(0.008)	(0.009)	(0.014)	(0.017)
BPC		-0.0010	0.0001	-0.0007
		(0.001)	(0.001)	(0.001)
NIM		-0.0077	0.0130	0.0167
		(0.009)	(0.013)	(0.017)
BZS		0.0052	-0.0017	-0.0045
		(0.003)	(0.005)	(0.005)
LogGDPperCapita			0.0171	0.2395*
			(0.066)	(0.123)
RealInterestrate			-0.0109**	-0.0071*
			(0.005)	(0.004)
RealEffectiveExchangeRate			0.0055**	0.0031
			(0.002)	(0.003)
InflationGDPdeflatorannual			-0.0055	-0.0049
			(0.005)	(0.004)
FINFIU			0.1040	0.0913
			(0.075)	(0.072)
VoiceandAccountability			-0.1911	-0.2937**
			(0.152)	(0.144)
PoliticalStabilityandAbsence			-0.0011	-0.0707
			(0.094)	(0.112)
GovernmentEffectiveness			-0.0201	-0.1850
			(0.248)	(0.307)
RegulatoryQuality			0.1273	0.2559
			(0.199)	(0.205)
RuleofLaw			0.1778	0.5441**
			(0.222)	(0.264)
ControlofCorruption			0.0476	0.0154
			(0.150)	(0.164)
Polity2				-0.0490**
				(0.021)
Durable				0.0118
				(0.012)
SizeofShadowEconomy				0.0136
				(0.020)
Constant	-0.0810	0.0111	-0.6678	-2.7377**
	(0.072)	(0.115)	(0.599)	(1.229)
Observations	1,412	1,080	546	388
R-squared	0.006	0.007	0.061	0.121
Number of ID	121	113	90	82
Country FE	YES	YES	YES	YES
Year FE	NO	NO	NO	NO

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

As we can see, the FATF coefficient is positive and statistically significant but FATF listing slightly affects External Outflows.

Since Banking outflows are equal to the sum of External Outflows and Internal outflows and we observe only a small effect of FATF blacklisting on External Outflows, FATF Blacklisting should strongly affect Internal Banking Outflows. This result can be interpreted as reflecting the increase in the value and number of transactions between domestic and foreign local banks after the listing event.

The main reason for blacklisting are tax evasion and money laundering. When a country is included into the FATF List, domestic banks seem to decrease their international transactions. However, that does not mean that the country automatically becomes compliant. It means that banks transfer funds through subsidiaries of foreign banks located in the country. After that, such subsidiaries transfer money to the bank's headquarters. In that way, transactions stay undetected, the country can be excluded from the FATF List and banks can continue their illegal transactions.

We can say that FATF Listing is significant in affecting Internal Banking Outflow and it affects External Banking Outflow only marginally. But that is just a simple hypothesis.

An alternative measure of International Bank Flows is represented by Bank Inflows. To measure Bank Inflows we can use the External Liabilities data from the BIS Locational Banking Statistics. As regards the analytical formula, it perfectly reflects that of bank outflows.

Model estimation results when considering Bank Inflows as the dependent variable are presented in Table 8.

According to the results, FATF Listing has not a significant impact on the External Inflows of capital.

Table 8. Bank Inflow, estimation Results

VARIABLES	(1) ExternalInflow	(2) ExternalInflow	(3) ExternalInflow	(4) ExternalInflow
FATF	0.0462	-0.0171	0.1327	0.2283
	(0.067)	(0.073)	(0.120)	(0.172)
OAR	0.0069	0.0466	0.0960	0.1236**
	(0.036)	(0.045)	(0.092)	(0.055)
ISA	-0.0225	-0.0314	-0.0874**	-0.0561
	(0.017)	(0.020)	(0.035)	(0.034)
SLI	0.0076	0.0207**	0.0228	-0.0218*
	(0.007)	(0.010)	(0.019)	(0.012)
BPC		-0.0015*	-0.0003	-0.0033
		(0.001)	(0.001)	(0.003)
NIM		0.0061	0.0355	0.0360
		(0.013)	(0.028)	(0.035)
BZS		0.0040	-0.0022	-0.0037
		(0.004)	(0.006)	(0.008)
LogGDPperCapita			-0.0716	-0.0419
			(0.078)	(0.156)
RealInterestrate			-0.0071**	-0.0020
			(0.004)	(0.003)
RealEffectiveExchangeRate			0.0028	0.0029
			(0.003)	(0.004)
InflationGDPdeflatorannual			-0.0024	0.0041
			(0.005)	(0.007)
FINFIU			0.2023**	0.2025
			(0.099)	(0.126)
VoiceandAccountability			-0.0899	-0.0420
			(0.207)	(0.198)
PoliticalStabilityandAbsence			-0.0945	-0.1010
			(0.112)	(0.087)
GovernmentEffectiveness			0.0826	-0.0332
			(0.204)	(0.201)
RegulatoryQuality			-0.0401	0.1983
			(0.254)	(0.308)
RuleofLaw			0.2838	0.5152**
			(0.178)	(0.254)
ControlofCorruption			-0.1428	-0.2145
			(0.186)	(0.253)
Polity2				-0.0367
				(0.050)
Durable				0.0143
				(0.015)
SizeofShadowEconomy				-0.0461*
				(0.024)
Constant	0.0801	0.0143	0.2861	1.2323
	(0.061)	(0.125)	(0.701)	(1.448)
Observations	1,448	1,108	555	396
R-squared	0.003	0.019	0.064	0.123
Number of ID	121	113	93	85
Country FE	YES	YES	YES	YES
Year FE	NO	NO	NO	NO

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

4.4 Robustness check: Bank flows lags

Another robustness check takes into account the lag values of international banking flows.

The idea is that to investigate the possibility that lagged growth in bank inflows predicts blacklisting, and that if growth in bank inflows is more or less constant for the affected countries, the stigma effect could simply capture this persistence.

Results of our main regression when considering also the lagged values of bank flows, are presented in Appendix 2 - Table 9.a and subsequent.

Our FATF measure appears to be often not significant in explaining Bank flows. Moreover, when considering our full specification, with all the control variables, its coefficients turn out to be positive. Once more, we cast doubts on the existence of the stigma effect.

4.5 Robustness check: Monitored countries

Our final robustness check considers a new version of the FATF blacklist. Rather than looking only to those countries actually being prosecuted through the blacklist, this new variable takes into account even those countries whose cloudy activities require a simple monitoring. We call this variable FATF monitoring "FATFmon".

The table below presents results when FATFmon is used as our main predictor.

As we can see, the main findings of the paper remain the same. Blacklisting is positively associated with bank capital flows albeit with not significant coefficients. Supervisory lightness and the level of independence in financial supervision even matter as well as the amount of bank private credit. Finally, more developed economies are used to experience higher movements in terms of capital flows.

Table 10. Estimation results: Main Model using blacklisted and monitored countries

VARIABLES	RE BankFlowMeasure	Year FE BankFlowMeasure	Year and country FE BankFlowMeasure
FATFmon	12.3766	10.5247	12.6906
	(7.616)	(10.986)	(12.923)
OAR	2.3825	4.0570	5.0431
	(7.537)	(7.516)	(9.095)
ISA	1.1973	3.1516	11.7001*
	(3.620)	(3.714)	(6.635)
SLI	-1.0148	-1.2113	-4.1957**
	(1.235)	(1.211)	(1.628)
BPC	-0.1048	-0.1371	-1.7847**
	(0.121)	(0.119)	(0.748)
NIM	-0.3072	-0.1634	-0.3451
	(0.802)	(1.158)	(1.438)
BZS	0.2070	0.1276	-0.6146
	(0.210)	(0.220)	(0.744)
LogGDPperCapita	-0.5397	3.9954	70.2392**
	(4.142)	(4.319)	(32.595)
RealInterestrate	-0.5831***	-0.9980***	-0.2688
	(0.210)	(0.329)	(0.801)
RealEffectiveExchangeRate	0.4070**	0.1854	0.1050
	(0.207)	(0.263)	(0.506)
InflationGDPdeflatorannual	-0.2730	-0.8122**	-0.3774
	(0.254)	(0.413)	(0.543)
FINFIU	1.5681	8.8559	13.7539
	(5.357)	(5.388)	(19.794)
VoiceandAccountability	3.8138	1.9695	2.4931
	(12.110)	(13.295)	(24.526)
PoliticalStabilityandAbsence	14.4730**	13.0464**	29.4115
	(6.301)	(6.103)	(29.445)
GovernmentEffectiveness	6.3925	8.5091	29.2166
	(14.666)	(15.286)	(33.803)
RegulatoryQuality	12.1210	1.0150	1.7479
	(14.522)	(15.772)	(36.162)
RuleofLaw	-41.2862**	-35.6500**	3.3145
	(17.883)	(17.285)	(35.260)
ControlofCorruption	18.0741	16.3449	18.9341
	(16.011)	(14.772)	(29.797)
Polity2	-0.0467	0.2002	-1.1463
	(1.263)	(1.472)	(4.744)
Durable	0.3107***	0.3000***	-2.1148
	(0.100)	(0.083)	(2.279)
SizeofShadowEconomy	-0.0680	-0.0378	-6.9630
	(0.390)	(0.411)	(4.311)
Constant	-18.1192	-34.4008	-224.7225
	(44.565)	(50.151)	(295.780)
Observations	396	396	396
Number of ID	85	85	85
Country FE	NO	NO	YES
Year FE	NO	YES	YES
R-squared	0.102	0.200	0.280

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

5. Conclusion

This study analyses cross-border capital flows in order to verify the existence and direction of the effect of the soft regulation promoted by international organizations against banking secrecy which characterizes the so called tax and financial heavens. This effect is called in the literature the "Stigma Effect".

In the last decades, banking secrecy has been an hot and controversial topic for the international debate. Particularly in the aftermath of the Global Financial Crisis, advanced economies have declared that the fight against bank secrecy and offshore countries and territories is a political priority and the use of blacklisting its main tool. More recently, after the publication of the so called Panama Papers, the German and French governments have pressed other OECD nations to pull together a common blacklist, including all those countries that breach the international transparency standards. But is the blacklisting effective?

We studied the relationship between international capital movements and FATF (Financial Action Task Force) listing/delisting events in 126 countries in the years from 1996 to 2014. We tested whether international banking activities respond to the "name and shame" approach, which has been introduced to combat money laundering and terrorism finance. Consequently, we wondered if it was possible to detect financial gains for a country that implements AML/CFT policies consistent with the international standards. To understand the effects that FATF decisions produce over listed countries, we focused on how banks react to higher potential costs that can emerge (disappear) when a country is listed (delisted). Our empirical conclusion is that, in general, the stigma effect does not exist.

Therefore, is the era of banking secrecy definitively over, as a G20 official document stated in 2009? Probably not. The economic rationale of our results is easy to find out. If it is assumed that banking secrecy is the result of market mechanisms, it is natural to forecast that the worldwide demand and supply of banking secrecy are likely to be relevant for a long time to come, and consequently the existence of tax and financial heavens.

The bottom line of this paper is that the growth of criminal and illegal activities systematically generates the demand of banking secrecy, while economic and political incentives can motivate national politicians and international banks to demand and to supply banking secrecy. The use of a soft law practice as the blacklisting is likely to be a weak policy solution for a structural problem that has deep roots in the incentive structures of both offshore and onshore countries.

Banking secrecy is unlikely to disappear. It is a dynamic variable with its booms and busts motivated by the changing preferences of national policymakers. Banking secrecy is a like a tango: it takes two to dance it. And the blacklisting is unlikely to stop the music.

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Appendix 1

List of countries in the sample

1.	Argentine	**33.**	Cyprus	**65.**	Jordan	**97.**	Peru
2.	Aruba	**34.**	Czech Republic	**66.**	Kazakhstan	**98.**	Portugal
3.	Albania	**35.**	Denmark	**67.**	Kenya	**99.**	Romania
4.	Algeria	**36.**	Dominica	**68.**	Korea, South	**100.**	Russia
5.	Angola	**37.**	Egypt	**69.**	Kuwait	**101.**	Saudi Arabia
6.	Australia	**38.**	Dominican Republic	**70.**	Kyrgyzstan	**102.**	Seychelles
7.	Austria	**39.**	El Salvador	**71.**	Latvia	**103.**	Singapore
8.	Azerbaijan	**40.**	Estonia	**72.**	Lebanon	**104.**	Slovakia
9.	Bahamas	**41.**	Ecuador	**73.**	Lesotho	**105.**	Slovenia
10.	Bahrain	**42.**	Finland	**74.**	Liechtenstein	**106.**	South Africa
11.	Bangladesh	**43.**	France	**75.**	Lithuania	**107.**	Spain
12.	Barbados	**44.**	Germany	**76.**	Luxembourg	**108.**	Sri Lanka
13.	Belarus	**45.**	Ghana	**77.**	Macau	**109.**	St. Lucia
14.	Belgium	**46.**	Gibraltar	**78.**	Macedonia	**110.**	Sweden
15.	Belize	**47.**	Greece	**79.**	Malaysia	**111.**	St. Vincent and the Grenadines
16.	Bhutan	**48.**	Grenada	**80.**	Malta	**112.**	Switzerland
17.	Bermuda	**49.**	Guernsey	**81.**	Mauritius	**113.**	Surinam
18.	Bolivia	**50.**	Guatemala	**82.**	Mexico	**114.**	Tajikistan
19.	Bosnia and Herzegovina	**51.**	Guyana	**83.**	Moldova	**115.**	Thailand
20.	Botswana	**52.**	Hungary	**84.**	Morocco	**116.**	Trinidad and Tobago
21.	Brazil	**53.**	Haiti	**85.**	Namibia	**117.**	Turkey
22.	Bulgaria	**54.**	Iceland	**86.**	Nepal	**118.**	Turkmenistan
23.	Burundi	**55.**	Honduras	**87.**	Netherlands	**119.**	Ukraine
24.	Cambodia	**56.**	India	**88.**	New Zealand	**120.**	United Kingdom
25.	Canada	**57.**	Indonesia	**89.**	Nicaragua	**121.**	United States
26.	Cayman Islands	**58.**	Ireland	**90.**	Nigeria	**122.**	Uruguay
27.	China	**59.**	Isle of Man	**91.**	Oman	**123.**	Vanuatu
28.	Chile	**60.**	Israel	**92.**	Pakistan	**124.**	Venezuela
29.	Colombia	**61.**	Italy	**93.**	Panama	**125.**	Vietnam
30.	Croatia	**62.**	Jamaica	**94.**	Philippines	**126.**	Zimbabwe
31.	Costa Rica	**63.**	Japan	**95.**	Paraguay		
32.	Cuba	**64.**	Jersey	**96.**	Poland		

List of blacklisted countries

	Country	Year of listing
1.	Algeria	2014;2015
2.	Bahamas	2000
3.	Bolivia	2011;2012
4.	Cayman	2000
5.	Cuba	2011;2012
6.	Dominica	2000-2002
7.	Ecuador	2012-2014
8.	Egypt	2001-2003
9.	Ghana	2012
10.	Grenada	2002
11.	Guatemala	2001;2002
12.	Hungary	2001
13.	Indonesia	2001-2004; 2012-2014
14.	Israel	2000;2001
15.	Kenya	2011-2013
16.	Lebanon	2000;2001
17.	Liechtenstein	2000
18.	Nigeria	2001-2005; 2012
19.	Pakistan	2008;2009; 2012;2013
20.	Panama	2000
21.	Philippines	2000-2004
22.	Russian Federation	2000-2002
23.	Saint Vincent	2000-2002
24.	Sri Lanka	2011;2012
25.	Thailand	2012
26.	Turkey	2011-2013
27.	Turkmenistan	2008;2009
28.	Ukraine	2002;2003
29.	Vietnam	2012;2013

Figure 3. Blacklisted countries

Characteristics	Number of countries	OECD Countries	Emerging markets
Listed	29	3	9
One year listed	8	1	1
Two years listed	10	1	2
More than two years listed	11	1	6

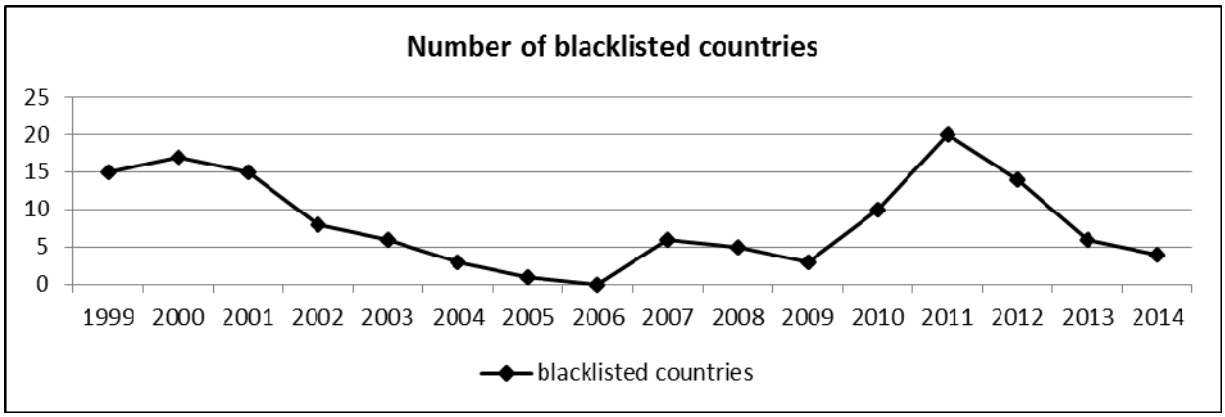


Figure 4. Blacklisted and monitored countries

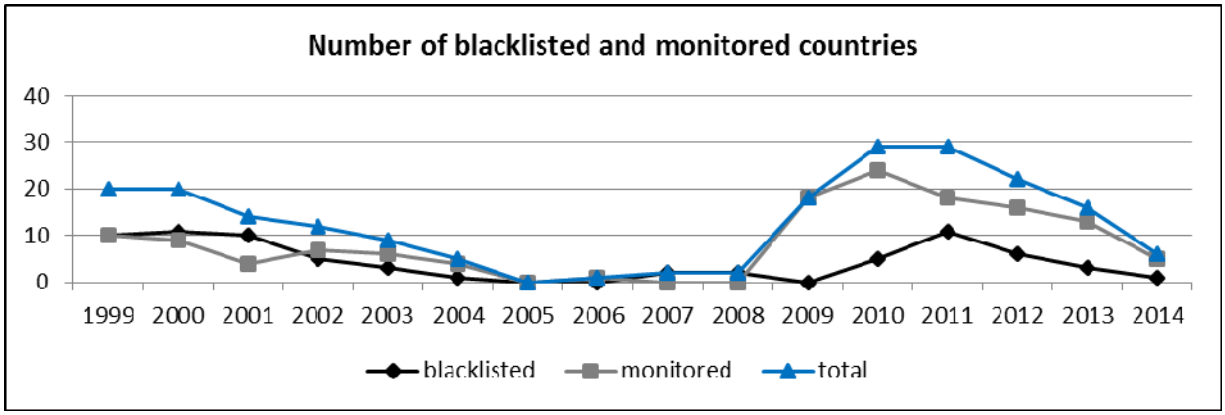


Figure 5. Listed, monitored and non listed countries

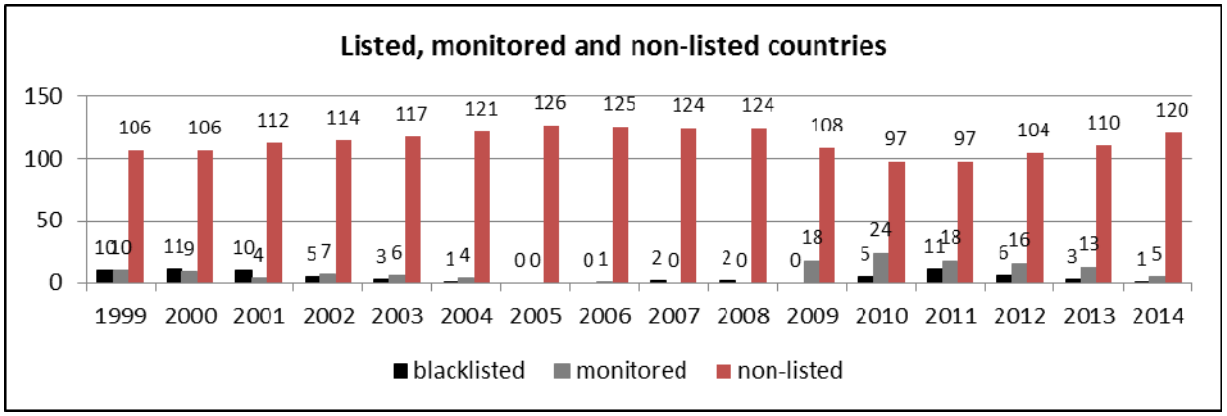


Figure 6. Bank Flow Measure: listed and non-listed countries

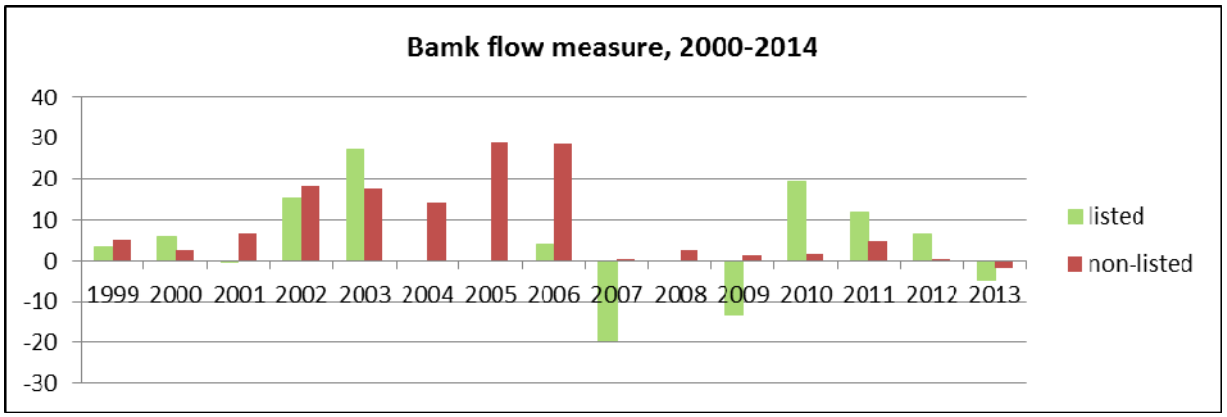
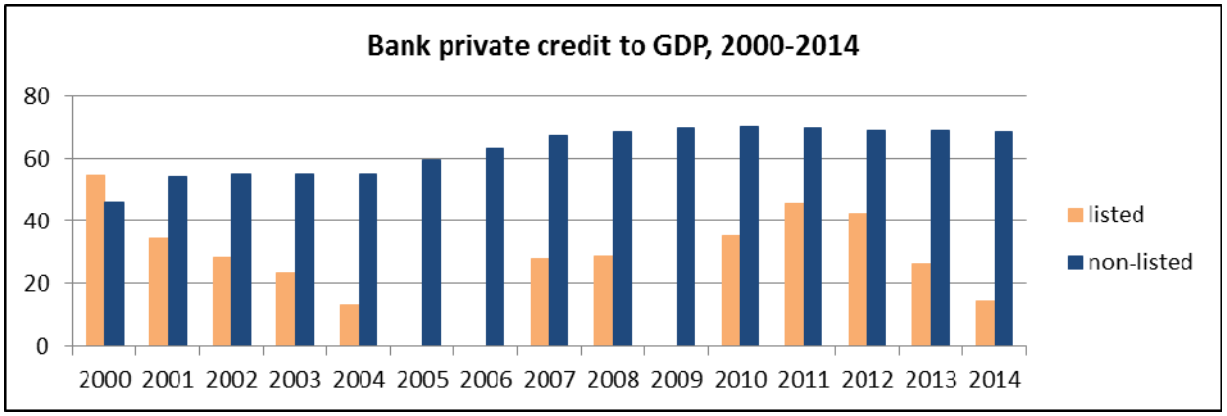
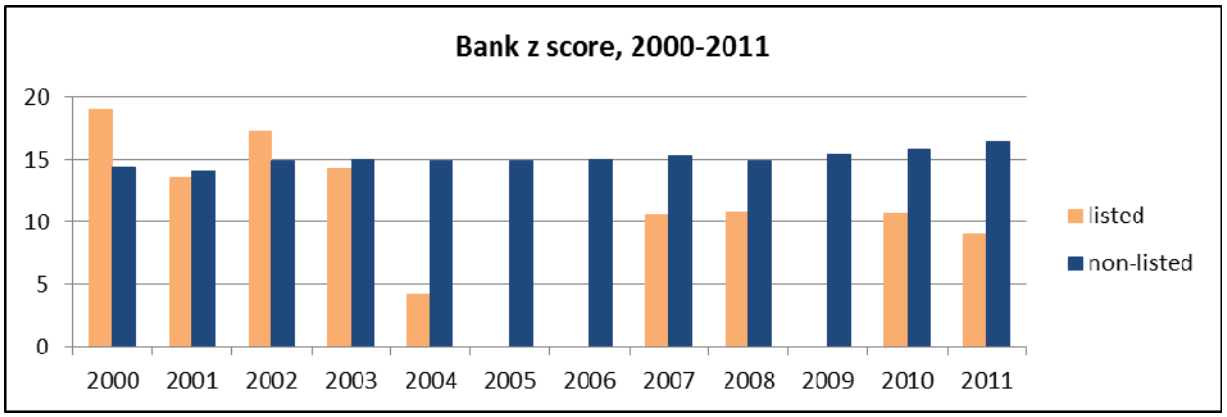


Figure 7. Some Independent Variables: listed and non-listed countries





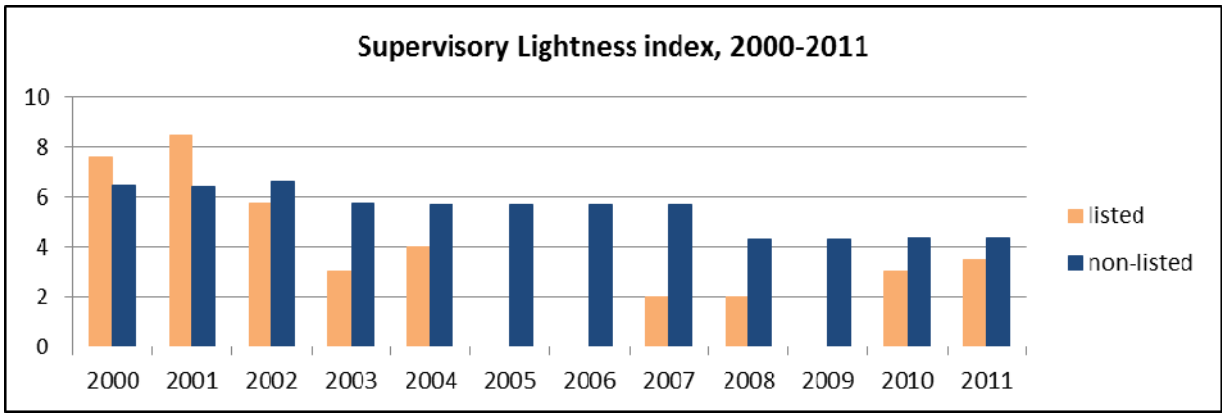
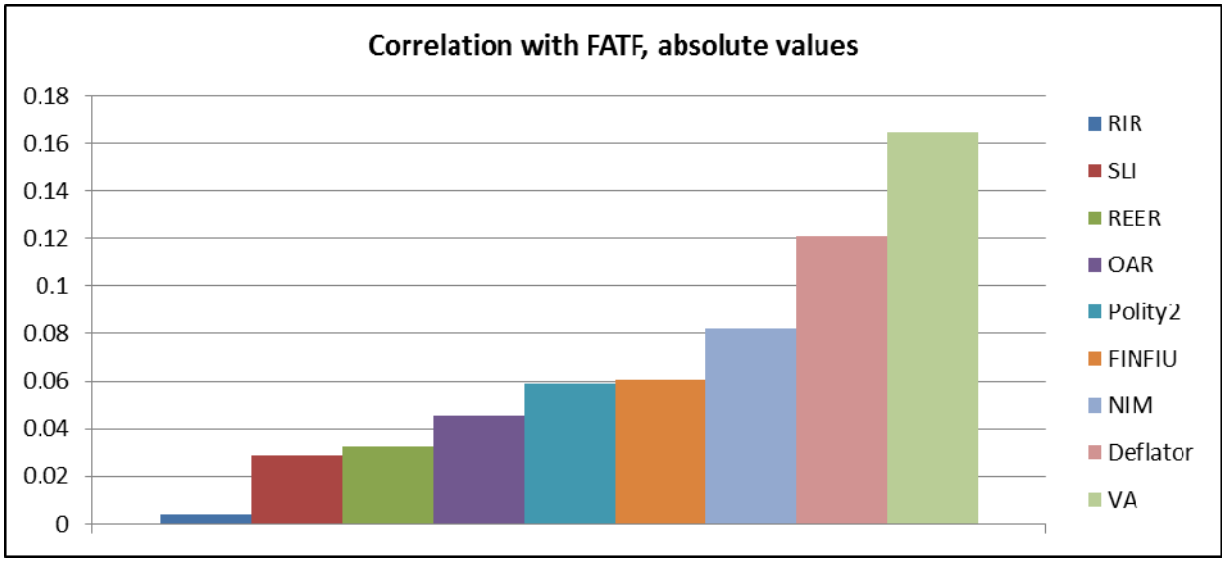


Figure 6. Correlation of FATF Listing variable with other independent variables



Appendix 2

Table 3.a. Capital flows: Random effects

VARIABLES	(1) BankFlowMeasure	(2) BankFlowMeasure	(3) BankFlowMeasure	(4) BankFlowMeasure	(5) BankFlowMeasure	(6) BankFlowMeasure	(7) BankFlowMeasure
FATF	-10.9163***	-11.3874	-3.3501	-4.0510	8.3140	13.8699	12.2836
	(3.533)	(7.412)	(3.127)	(8.588)	(8.011)	(9.533)	(8.591)
OAR	-0.4977	-9.3919	5.1273	-5.6481	10.2742*	0.6235	2.5654
	(4.958)	(8.540)	(3.880)	(7.200)	(5.649)	(8.330)	(7.662)
ISA	2.4049	7.6613*	3.8062*	5.4017	1.8802	1.7229	1.1799
	(2.014)	(4.581)	(1.969)	(4.363)	(3.133)	(4.036)	(3.645)
SLI	1.3938**	0.2659	0.5747	-0.1778	0.5203	-1.4978	-0.9807
	(0.566)	(1.812)	(0.646)	(1.618)	(0.998)	(1.389)	(1.228)
BPC			0.0292	0.1161	-0.0223	-0.0206	-0.1038
			(0.037)	(0.080)	(0.078)	(0.117)	(0.121)
NIM			-0.7513	-1.8879**	-0.0471	-0.1081	-0.3080
			(0.473)	(0.945)	(0.646)	(0.819)	(0.805)
BZS			0.1179	0.1925	0.2855*	0.2858	0.2052
			(0.096)	(0.190)	(0.171)	(0.190)	(0.211)
LogGDPperCapita					-2.2080	2.9270	-0.3228
					(3.344)	(3.793)	(4.148)
RealInterestrate					-0.5551***	-0.6070***	-0.5902***
					(0.166)	(0.214)	(0.211)
RealEffectiveExchangeRate					0.3631*	0.3870*	0.4002*
					(0.192)	(0.216)	(0.207)
InflationGDPdeflatorannual					-0.1608	-0.2416	-0.2753
					(0.204)	(0.271)	(0.254)
FINFIU					0.0025	1.3112	1.4020
					(4.061)	(5.287)	(5.384)
VoiceandAccountability					3.6825	4.9844	3.5258
					(6.512)	(8.795)	(12.134)
PoliticalStabilityandAbsence					6.4492*	9.7726**	13.9664**
					(3.820)	(4.847)	(6.219)
GovernmentEffectiveness					2.5269	-3.4725	6.2966
					(9.048)	(11.640)	(14.755)
RegulatoryQuality					15.3401	8.4523	12.1154
					(11.193)	(15.000)	(14.535)
RuleofLaw					-30.1317**	-30.5763*	-41.0240**
					(11.852)	(16.862)	(17.874)
ControlofCorruption					20.4466*	25.3297	18.3328
					(10.950)	(15.672)	(16.079)
Polity2							0.0006
							(1.256)
Durable							0.3063***
							(0.102)
SizeofShadowEconomy							-0.0494
							(0.394)
Constant	7.2413	14.3517	0.3592	15.4170	-21.3486	-40.2955	-20.0334
	(6.482)	(18.628)	(6.941)	(17.082)	(34.942)	(44.276)	(44.706)
Observations	1,515	396	1,109	396	556	396	396
Number of ID	121	85	113	85	93	85	85
Country FE	NO	NO	NO	NO	NO	NO	NO
Year FE	NO	NO	NO	NO	NO	NO	NO
R-squared (overall)	0.00382	0.0136	0.0136	0.0381	0.0690	0.0858	0.102

RobustSE in()***p<0.01,**p<0.05,*p<0.1

Table 3.b. Capital flows: Year fixed effects

VARIABLES	(1) BankFlowMeasure	(2) BankFlowMeasure	(3) BankFlowMeasure	(4) BankFlowMeasure	(5) BankFlowMeasure	(6) BankFlowMeasure	(7) BankFlowMeasure
FATF	-18.3198**	-14.1115	-3.4747	-6.3300	7.0135	13.1787	11.6423
	(8.237)	(11.935)	(5.331)	(14.054)	(12.053)	(14.153)	(13.211)
OAR	-4.2839	-9.2924	0.1381	-5.7714	6.5853	2.3813	4.2719
	(4.872)	(8.694)	(3.583)	(7.348)	(5.766)	(8.299)	(7.634)
ISA	3.0891	9.3669*	3.7278*	7.1174	2.9819	3.6873	3.1726
	(2.104)	(5.016)	(2.045)	(4.689)	(3.347)	(4.113)	(3.732)
SLI	0.2854	0.2054	-0.3738	-0.3619	-0.7354	-1.6787	-1.1933
	(0.607)	(1.814)	(0.680)	(1.613)	(1.152)	(1.392)	(1.208)
BPC			0.0334	0.1035	-0.0403	-0.0539	-0.1359
			(0.035)	(0.078)	(0.077)	(0.115)	(0.119)
NIM			-0.8875*	-2.4884**	-0.2204	0.0644	-0.1637
			(0.519)	(1.065)	(0.802)	(1.179)	(1.163)
BZS			0.1197	0.1641	0.2184	0.1945	0.1260
			(0.089)	(0.200)	(0.166)	(0.204)	(0.221)
LogGDPperCapita					3.1161	7.3868*	4.2368
					(3.446)	(4.405)	(4.336)
RealInterestrate					-0.8849***	-1.0255***	-1.0059***
					(0.248)	(0.308)	(0.328)
RealEffectiveExchangeRate					0.2862	0.1648	0.1819
					(0.213)	(0.268)	(0.264)
InflationGDPdeflatorannual					-0.5344**	-0.7947*	-0.8169**
					(0.264)	(0.428)	(0.415)
FINFIU					5.1791	8.9789	8.7697
					(4.326)	(5.752)	(5.375)
VoiceandAccountability					5.0909	4.8748	1.6206
					(6.321)	(8.282)	(13.280)
PoliticalStabilityandAbsence					4.5188	8.4227*	12.6902**
					(3.836)	(4.881)	(6.051)
GovernmentEffectiveness					-0.4848	-1.4042	8.1943
					(9.294)	(12.954)	(15.322)
RegulatoryQuality					6.3464	-2.5678	1.0108
					(11.056)	(16.264)	(15.789)
RuleofLaw					-25.1905**	-25.7082	-35.3396**
					(11.971)	(16.779)	(17.289)
ControlofCorruption					19.0068*	23.0719	16.6185
					(10.572)	(14.474)	(14.817)
Polity2							0.2501
							(1.462)
Durable							0.2956***
							(0.085)
SizeofShadowEconomy							-0.0275
							(0.407)
Constant	-3.0893	14.4210	-4.3319	15.1302	-60.3514		-36.9024
	(6.359)	(18.747)	(7.039)	(18.186)	(39.817)		(50.432)
Observations	1,515	396	1,109	396	556	396	396
Number of ID	121	85	113	85	93	85	85
Country FE	NO	NO	NO	NO	NO	NO	NO
Year FE	YES	YES	YES	YES	YES	YES	YES
R-squared (overall)	0.151	0.101	0.112	0.130	0.173	0.185	0.200

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 3.c. Capital flows: Year and Country fixed effects

VARIABLES	(1) BankFlowMeasure	(2) BankFlowMeasure	(3) BankFlowMeasure	(4) BankFlowMeasure
FATF	-6.2309	4.4522	8.4623	22.2550
	(8.671)	(6.191)	(12.951)	(19.409)
OAR	4.0085	6.0746*	9.2080	5.2605
	(6.619)	(3.632)	(5.720)	(9.115)
ISA	-0.1856	2.9210	3.0409	11.8984*
	(2.542)	(2.934)	(5.548)	(6.591)
SLI	-0.7215	-0.6735	-1.8932	-4.2783***
	(0.704)	(0.868)	(1.270)	(1.613)
BPC		-0.4748*	-0.4304	-1.7891**
		(0.265)	(0.347)	(0.748)
NIM		0.0702	0.4252	-0.3513
		(1.060)	(0.920)	(1.408)
BZS		0.1655	-0.2364	-0.6844
		(0.304)	(0.514)	(0.747)
LogGDPperCapita			42.5933**	71.2379**
			(18.142)	(32.867)
RealInterestrate			-0.9596*	-0.2820
			(0.528)	(0.808)
RealEffectiveExchangeRate			0.0765	0.0999
			(0.343)	(0.504)
InflationGDPdeflatorannual			-0.7718**	-0.3868
			(0.369)	(0.547)
FINFIU			14.6575	14.5358
			(18.352)	(19.887)
VoiceandAccountability			2.2217	0.5769
			(17.848)	(24.744)
PoliticalStabilityandAbsence			16.9420	28.2924
			(20.974)	(29.406)
GovernmentEffectiveness			30.6538	30.2065
			(24.259)	(33.335)
RegulatoryQuality			-3.1083	1.7988
			(22.908)	(35.734)
RuleofLaw			-22.5512	6.0118
			(27.859)	(34.610)
ControlofCorruption			40.5836**	19.1651
			(20.253)	(29.520)
Polity2				-1.2053
				(4.716)
Durable				-2.1105
				(2.274)
SizeofShadowEconomy				-7.2460*
				(4.344)
Constant	0.9657	26.9131	-384.3606***	-225.2774
	(8.065)	(21.326)	(139.559)	(295.194)
Observations	1,515	1,109	556	396
R-squared	0.161	0.133	0.204	0.281
Number of ID	121	113	93	85
Country FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

List of the 85 countries considered in the last regression.

	Country	**Years**
1	Argentine	2004
2	Algeria	1999 and 2001-2006
3	Angola	2005
4	Australia	1999 and 2001-2007
5	Bahrain	1999 and 2001-2005
6	Bangladesh	2005
7	Belarus	2005
8	Belgium	2001-2007
9	Bhutan	2005
10	Bolivia	1999 and 2001-2006
11	Botswana	2005
12	Brazil	1999 and 2001-2006
13	Bulgaria	1999 and 2001-2007
14	Burundi	1999 and 2001-2007
15	Canada	1999 and 2001-2007
16	China	2003-2006
17	Chile	1999 and 2001-2006
18	Colombia	1999 and 2001-2006
19	Croatia	1999 and 2001-2007
20	Costa Rica	1999 and 2001-2006
21	Cyprus	1999 and 2001-2007
22	Czech Republic	1999 and 2001-2006
23	Denmark	1999 and 2001-2002
24	Egypt	2005
25	Dominican Republic	2003-2006
26	Estonia	2005
27	Ecuador	1999 and 2001-2002
28	Finland	2001-2004
29	France	2001-2004
30	Germany	2001-2002
31	Greece	1999 and 2002-2003
32	Guatemala	2004
33	Guyana	1999 and 2001-2006
34	Hungary	1999 and 2001-2007
35	Honduras	2004
36	India	2005
37	Indonesia	2005
38	Ireland	2001-2005
39	Israel	1999 and 2001-2007

40	Italy	2001-2007
41	Japan	1999 and 2001-2006
42	Jordan	2005
43	Kenya	2005
44	South Korea	2005
45	Kuwait	2005
46	Kyrgyzstan	2005
47	Latvia	2005
48	Lebanon	2005
49	Lesotho	1999 and 2001-2007
50	Macedonia	1999 and 2001-2006
51	Malaysia	1999 and 2001-2006
52	Mauritius	2005
53	Mexico	1999 and 2001-2006
54	Moldova	1999 and 2001-2006
55	Morocco	1999 and 2001-2005
56	Netherlands	2001-2007
57	New Zealand	1999 and 2001-2007
58	Nicaragua	1999 and 2001-2006
59	Nigeria	1999 and 2001-2006
60	Oman	2005
61	Pakistan	2004-2007
62	Panama	2004
63	Philippines	1999 and 2001-2007
64	Paraguay	1999 and 2001-2002
65	Poland	1999 and 2001-2006
66	Peru	2004
67	Romania	1999 and 2001-2007
68	Russia	1999 and 2001-2007
69	Singapore	1999 and 2001-2007
70	Slovakia	1999 and 2001-2007
71	Slovenia	2005
72	South Africa	1999 and 2001-2007
73	Spain	2001-2002
74	Sri Lanka	2005
75	Sweden	1999 and 2001-2005
76	Switzerland	1999 and 2001-2007
77	Suriname	2004
78	Tajikistan	2005
79	Thailand	2005
80	Trinidad and Tobago	1999 and 2001-2006
81	Ukraine	1999 and 2001-2002

82	United Kingdom	1999 and 2001-2007
83	United States	1999 and 2001-2007
84	Uruguay	1999 and 2001-2006
85	Venezuela	1999 and 2001-2006

Summary statistics for the 85 countries.

```
Variable         |      Mean   Std. Dev.       Min        Max |    Observations
-----------------+--------------------------------------------+----------------
BankFlow overall |  21.28501   64.45684    -141.02   554.2036 |     N =     396
         between |             30.43566  -40.34729    193.544 |     n =      85
         within  |             57.89944  -164.5387   484.1908 |     T = 4.65882
                 |                                          |
FATF     overall |  .0353535   .1849054          0          1 |     N =     396
         between |             .1142211          0   .6666667 |     n =      85
         within  |             .1378492  -.6313131   .9103535 |     T = 4.65882
```

Table 9.a. Capital flows: considering lag1, Random effects

VARIABLES	(1) BankFlowMeasure	(2) BankFlowMeasure	(3) BankFlowMeasure	(4) BankFlowMeasure	(5) BankFlowMeasure	(6) BankFlowMeasure	(7) BankFlowMeasure
L.BankFlowMeasure	-0.0340	0.2732**	0.0219	0.2253*	0.0738	0.1542	0.1705
	(0.022)	(0.135)	(0.032)	(0.130)	(0.083)	(0.139)	(0.135)
FATF	-11.2922***	-9.6917	-3.2477	-3.0770	8.0718	13.3478	11.6665
	(3.767)	(6.167)	(3.098)	(7.272)	(7.807)	(8.743)	(7.581)
OAR	1.6882	-8.1216	5.1806	-4.8884	10.0180*	0.8491	2.8562
	(5.277)	(8.208)	(3.810)	(6.989)	(5.638)	(8.191)	(7.510)
ISA	2.6863	7.2359	3.7407*	5.2009	1.8566	1.5137	0.9805
	(2.283)	(4.567)	(2.002)	(4.277)	(3.118)	(4.065)	(3.585)
SLI	1.6444**	0.3297	0.5516	-0.0827	0.5142	-1.4151	-0.8902
	(0.652)	(1.784)	(0.643)	(1.599)	(0.988)	(1.378)	(1.188)
BPC			0.0265	0.1149	-0.0229	-0.0213	-0.1071
			(0.037)	(0.078)	(0.077)	(0.117)	(0.121)
NIM			-0.7585	-1.6224*	0.0158	0.0454	-0.1690
			(0.468)	(0.925)	(0.621)	(0.764)	(0.754)
BZS			0.1178	0.1697	0.2822	0.2667	0.1869
			(0.095)	(0.181)	(0.172)	(0.187)	(0.201)
LogGDPperCapita					-2.2999	2.4475	-0.8864
					(3.267)	(3.701)	(4.046)
RealInterestrate					-0.5483***	-0.5854***	-0.5649***
					(0.162)	(0.203)	(0.194)
RealEffectiveExchangeRate					0.3443*	0.3503	0.3618*
					(0.196)	(0.223)	(0.215)
InflationGDPdeflatorannual					-0.1555	-0.2383	-0.2678
					(0.197)	(0.262)	(0.246)
FINFIU					-0.0362	0.8215	0.7770
					(3.990)	(5.206)	(5.107)
VoiceandAccountability					3.4263	4.4250	1.9456
					(6.363)	(8.500)	(11.809)
PoliticalStabilityandAbsence					6.1470	9.2038*	13.5166**
					(3.828)	(4.799)	(6.172)
GovernmentEffectiveness					3.0054	-1.6257	8.5229
					(8.651)	(10.558)	(13.623)
RegulatoryQuality					14.0536	5.0605	8.4201
					(10.872)	(14.192)	(13.318)
RuleofLaw					-29.3109**	-29.4325*	-39.7245**
					(11.837)	(16.591)	(17.686)
ControlofCorruption					20.6725*	26.4083*	19.5126
					(10.844)	(15.521)	(15.906)
Polity2							0.1254
							(1.182)
Durable							0.3127***
							(0.101)
SizeofShadowEconomy							-0.0477
							(0.364)
Constant	4.5590	10.6636	0.4598	11.3797	-19.2435	-34.5239	-14.3347
	(7.019)	(17.478)	(6.729)	(15.665)	(35.002)	(44.920)	(44.187)
Observations	1,410	396	1,107	396	556	396	396
Number of ID	121	85	113	85	93	85	85
Country FE	NO	NO	NO	NO	NO	NO	NO
Year FE	NO	NO	NO	NO	NO	NO	NO
R-squared (overall)	0.00574	0.0251	0.0141	0.0458	0.0702	0.0890	0.106

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 9.b. Capital flows: considering lag1, Year fixed effects

VARIABLES	(1) BankFlowMeasure	(2) BankFlowMeasure	(3) BankFlowMeasure	(4) BankFlowMeasure	(5) BankFlowMeasure	(6) BankFlowMeasure	(7) BankFlowMeasure
L.BankFlowMeasure	-0.0185	0.3037**	0.0226	0.2518*	0.0676	0.1857	0.2022
	(0.021)	(0.134)	(0.029)	(0.131)	(0.086)	(0.135)	(0.133)
FATF	-18.4471**	-12.9115	-3.3736	-5.7387	6.7510	12.2966	10.6333
	(8.413)	(10.744)	(5.289)	(12.723)	(11.868)	(13.179)	(12.123)
OAR	-2.0969	-8.2574	0.2339	-5.1810	6.4799	2.5834	4.5226
	(5.133)	(8.365)	(3.514)	(7.147)	(5.726)	(8.120)	(7.432)
ISA	3.4196	9.2407*	3.6779*	7.1522	3.0242	3.6558	3.2169
	(2.292)	(4.888)	(2.066)	(4.518)	(3.284)	(4.019)	(3.560)
SLI	0.3254	0.1606	-0.4087	-0.3513	-0.7484	-1.6357	-1.1601
	(0.636)	(1.784)	(0.672)	(1.595)	(1.141)	(1.366)	(1.156)
BPC			0.0312	0.1032	-0.0400	-0.0535	-0.1385
			(0.035)	(0.075)	(0.076)	(0.113)	(0.118)
NIM			-0.8904*	-2.2052**	-0.1759	0.2202	-0.0481
			(0.513)	(1.037)	(0.785)	(1.145)	(1.135)
BZS			0.1171	0.1407	0.2177	0.1733	0.1091
			(0.088)	(0.195)	(0.166)	(0.202)	(0.212)
LogGDPperCapita					3.1027	7.1120*	3.9506
					(3.387)	(4.286)	(4.189)
RealInterestrate					-0.8874***	-1.0137***	-0.9914***
					(0.249)	(0.308)	(0.325)
RealEffectiveExchangeRate					0.2707	0.1257	0.1441
					(0.216)	(0.270)	(0.266)
InflationGDPdeflatorannual					-0.5299**	-0.7947*	-0.8094**
					(0.263)	(0.419)	(0.405)
FINFIU					5.2480	8.5904	8.2287
					(4.248)	(5.586)	(5.013)
VoiceandAccountability					4.8244	4.1011	-0.8733
					(6.153)	(7.832)	(12.986)
PoliticalStabilityandAbsence					4.2518	7.7170	12.1659**
					(3.831)	(4.730)	(5.902)
GovernmentEffectiveness					-0.2952	0.2603	10.1080
					(9.005)	(12.082)	(14.455)
RegulatoryQuality					5.2549	-6.7520	-3.5158
					(10.805)	(15.564)	(14.761)
RuleofLaw					-24.5805**	-24.1148	-33.3792**
					(11.887)	(16.316)	(16.933)
ControlofCorruption					19.3761*	24.3246*	18.0791
					(10.501)	(14.237)	(14.532)
Polity2							0.4680
							(1.405)
Durable							0.3015***
							(0.083)
SizeofShadowEconomy							-0.0269
							(0.373)
Constant	-5.2904	5.7027	-4.0083	7.0447	-58.3470		-36.4128
	(6.753)	(17.223)	(6.954)	(15.994)	(40.043)		(48.388)
Observations	1,410	396	1,107	396	556	396	396
Number of ID	121	85	113	85	93	85	85
Country FE	NO	NO	NO	NO	NO	NO	NO
Year FE	YES	YES	YES	YES	YES	YES	YES
R-squared (overall)	0.156	0.115	0.113	0.139	0.174	0.189	0.205

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 9.c. Capital flows: Arellano-Bond estimators

VARIABLES	(1) BankFlowMeasure	(2) BankFlowMeasure	(3) BankFlowMeasure	(4) BankFlowMeasure
L.BankFlowMeasure	-0.0216	-0.0072	-0.0360	-0.0232
	(0.022)	(0.046)	(0.045)	(0.093)
FATF	5.2391	5.2718	-5.3243	3.9540
	(5.660)	(5.899)	(16.638)	(11.319)
OAR	21.6247***	31.0941***	33.9312***	19.4407***
	(4.718)	(4.807)	(8.386)	(7.007)
ISA	4.3331	0.4278	-1.6043	-0.4840
	(3.732)	(3.428)	(5.062)	(4.704)
SLI	2.2715**	1.7572	2.5783	-1.5832
	(1.072)	(1.280)	(1.775)	(1.771)
BPC		-0.2161	-0.0169	-0.0202
		(0.315)	(0.067)	(0.191)
NIM		1.1121	0.5126	-0.8400
		(0.702)	(0.774)	(0.971)
BZS		0.4301	0.8386*	0.8081
		(0.336)	(0.438)	(0.493)
LogGDPperCapita			11.3255	-6.1091
			(11.640)	(12.629)
RealInterestrate			-0.8158***	-0.4265
			(0.274)	(0.294)
RealEffectiveExchangeRate			0.3492	0.8186***
			(0.256)	(0.247)
InflationGDPdeflatorannual			-0.4306**	-0.3654*
			(0.195)	(0.195)
FINFIU			3.8395	-0.7879
			(6.298)	(6.210)
VoiceandAccountability			2.6810	-6.3537
			(19.836)	(17.800)
PoliticalStabilityandAbsence			-13.7323	-16.2110
			(12.572)	(12.274)
GovernmentEffectiveness			10.3423	31.0606
			(23.214)	(22.740)
RegulatoryQuality			-0.0412	7.7822
			(13.964)	(16.202)
RuleofLaw			-11.4741	17.5661
			(33.242)	(38.980)
ControlofCorruption			10.9396	-7.5477
			(15.064)	(14.781)
Polity2				0.3167
				(4.001)
Durable				1.8918
				(2.319)
SizeofShadowEconomy				-3.6092
				(3.974)
Constant	-18.6841**	-19.0655	-166.8796*	-6.5330
	(9.087)	(28.680)	(91.784)	(194.366)
Observations	1,276	986	411	265
Number of ID	121	111	62	57

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 9.1.a. Capital flows: considering lag1 of bank inflows, Random effects

VARIABLES	(1) BankFlowMeasure	(2) BankFlowMeasure	(3) BankFlowMeasure	(4) BankFlowMeasure
ExternalInflows_1	4.2000	4.0480	4.8035	8.3231
	(3.495)	(3.695)	(5.029)	(5.140)
FATF	-10.2687***	-3.3767	7.8002	11.4516
	(3.547)	(3.058)	(7.868)	(8.249)
OAR	1.6037	5.0339	10.4771*	3.1599
	(5.306)	(3.872)	(5.630)	(7.655)
ISA	2.4455	3.6655*	1.7229	0.7834
	(2.143)	(1.987)	(3.139)	(3.631)
SLI	1.3691**	0.5193	0.4559	-0.8731
	(0.648)	(0.648)	(1.005)	(1.238)
BPC		0.0311	-0.0233	-0.1014
		(0.037)	(0.078)	(0.120)
NIM		-0.7085	-0.0212	-0.3090
		(0.474)	(0.635)	(0.805)
BZS		0.1242	0.2949*	0.2214
		(0.095)	(0.170)	(0.210)
LogGDPperCapita			-2.3114	-1.1931
			(3.330)	(4.096)
RealInterestrate			-0.5443***	-0.5821***
			(0.162)	(0.206)
RealEffectiveExchangeRate			0.3506*	0.4053*
			(0.191)	(0.212)
InflationGDPdeflatorannual			-0.1337	-0.2155
			(0.192)	(0.239)
FINFIU			0.1101	1.4343
			(4.023)	(5.304)
VoiceandAccountability			3.6163	4.2881
			(6.601)	(11.853)
PoliticalStabilityandAbsence			6.1815	14.0650**
			(3.827)	(6.193)
GovernmentEffectiveness			3.2369	6.2621
			(9.046)	(14.738)
RegulatoryQuality			15.7480	12.3321
			(11.273)	(14.386)
RuleofLaw			-31.1159**	-41.5479**
			(12.108)	(17.768)
ControlofCorruption			20.8853*	19.1321
			(11.020)	(16.276)
Polity2				-0.0532
				(1.232)
Durable				0.3087***
				(0.102)
SizeofShadowEconomy				-0.0524
				(0.384)
Constant	4.7749	0.1413	-19.9336	-15.0902
	(6.823)	(6.920)	(35.216)	(45.540)
Observations	1,343	1,105	555	396
Number of ID	121	113	93	85
Country FE	NO	NO	NO	NO
Year FE	NO	NO	NO	NO
R-squared (overall)	0.00422	0.0148	0.0711	0.104

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 9.1.b. Capital flows: considering lag1 of bank inflows, Year fixed effects

VARIABLES	(1) BankFlowMeasure	(2) BankFlowMeasure	(3) BankFlowMeasure	(4) BankFlowMeasure
ExternalInflows_1	8.7539**	5.6398	7.6731	15.7950*
	(4.072)	(3.757)	(6.009)	(9.077)
FATF	-19.0886**	-3.6927	6.0744	9.7397
	(8.401)	(5.281)	(11.993)	(12.891)
OAR	-3.0214	0.0645	6.3800	5.2344
	(5.266)	(3.558)	(5.637)	(7.576)
ISA	3.5795	3.6998*	3.0094	2.6213
	(2.195)	(2.056)	(3.346)	(3.673)
SLI	0.1785	-0.4028	-0.7033	-1.0572
	(0.656)	(0.677)	(1.150)	(1.201)
BPC		0.0357	-0.0407	-0.1308
		(0.035)	(0.076)	(0.115)
NIM		-0.8421	-0.1900	-0.2552
		(0.520)	(0.821)	(1.196)
BZS		0.1244	0.2348	0.1558
		(0.088)	(0.165)	(0.216)
LogGDPperCapita			3.0819	2.9128
			(3.480)	(4.340)
RealInterestrate			-0.8811***	-1.0032***
			(0.247)	(0.318)
RealEffectiveExchangeRate			0.2786	0.1938
			(0.209)	(0.266)
InflationGDPdeflatorannual			-0.4998**	-0.7097*
			(0.253)	(0.380)
FINFIU			5.3426	9.1887*
			(4.235)	(5.217)
VoiceandAccountability			5.1118	2.1880
			(6.232)	(12.778)
PoliticalStabilityandAbsence			4.2272	12.8561**
			(3.811)	(6.063)
GovernmentEffectiveness			-0.7297	7.5491
			(9.152)	(15.168)
RegulatoryQuality			6.1824	0.9789
			(11.100)	(15.587)
RuleofLaw			-24.4182**	-35.4489**
			(11.739)	(17.096)
ControlofCorruption			18.9063*	17.9701
			(10.421)	(15.031)
Polity2				0.2449
				(1.438)
Durable				0.2976***
				(0.083)
SizeofShadowEconomy				-0.0462
				(0.391)
Constant	-4.9344	-4.9333	-60.3928	-31.5678
	(6.767)	(7.024)	(40.761)	(51.762)
Observations	1,343	1,105	555	396
Number of ID	121	113	93	85
Country FE	NO	NO	NO	NO
Year FE	YES	YES	YES	YES
R-squared (overall)	0.161	0.114	0.176	0.207

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 9.1.c. Capital flows: considering lag1 of bank inflows, Year and Country fixed effects

VARIABLES	(1) BankFlowMeasure	(2) BankFlowMeasure	(3) BankFlowMeasure	(4) BankFlowMeasure
ExternalInflows_1	8.0051**	4.7363	4.6749	6.4894
	(3.612)	(3.600)	(6.182)	(8.523)
FATF	-8.8038	4.2290	8.1776	21.8630
	(8.761)	(6.151)	(12.814)	(19.640)
OAR	5.4522	6.1791*	8.8148	4.7276
	(7.490)	(3.564)	(5.542)	(9.209)
ISA	-0.8029	3.2239	3.2858	11.7502*
	(2.805)	(2.919)	(5.585)	(6.614)
SLI	-0.8742	-0.7709	-1.8944	-4.1876**
	(0.782)	(0.870)	(1.240)	(1.611)
BPC		-0.4733*	-0.4289	-1.7720**
		(0.263)	(0.344)	(0.747)
NIM		0.1223	0.4754	-0.1935
		(1.037)	(0.917)	(1.471)
BZS		0.1850	-0.2244	-0.6493
		(0.304)	(0.516)	(0.748)
LogGDPperCapita			42.5011**	70.4011**
			(18.121)	(32.631)
RealInterestrate			-0.9680*	-0.3052
			(0.527)	(0.809)
RealEffectiveExchangeRate			0.0710	0.0905
			(0.337)	(0.500)
InflationGDPdeflatorannual			-0.7456**	-0.3232
			(0.368)	(0.549)
FINFIU			14.8729	15.2489
			(18.356)	(19.911)
VoiceandAccountability			1.5055	-0.2792
			(18.247)	(25.152)
PoliticalStabilityandAbsence			15.6445	28.0726
			(20.952)	(29.617)
GovernmentEffectiveness			31.6188	28.8618
			(23.689)	(34.321)
RegulatoryQuality			-3.1556	2.7052
			(23.008)	(35.472)
RuleofLaw			-21.4437	6.0079
			(27.930)	(34.530)
ControlofCorruption			39.9274**	20.8144
			(19.958)	(30.327)
Polity2				-1.1280
				(4.661)
Durable				-1.9151
				(2.224)
SizeofShadowEconomy				-7.3880*
				(4.343)
Constant	1.9291	25.8962	-384.2413***	-225.9449
	(9.113)	(21.199)	(139.485)	(294.127)
Observations	1,343	1,105	555	396
R-squared	0.170	0.134	0.205	0.282
Number of ID	121	113	93	85
Country FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Appendix 3

List of variables

DEPENDENT VARIABLES	DEFINITION AND INFORMATION	SOURCE
External Assets (all_sector)	Asset positions vis-à-vis banks and non-banks located in a country other than the country of residence of the reporting banking office.	Bank for International Settlements (BIS) Locational banking statistics
External Liabilities (all_sector)	Liability positions vis-à-vis banks and non-banks located in a country other than the country of residence of the reporting banking office.	Bank for International Settlements (BIS) Locational banking statistics
Bank Flow Measure	Annual percentage change in Total Foreign Claims, computed as 100*[Ln(TFC(t)) - Ln(TFC(t-1))]. Total Foreign Claims are the sum of Local Claims of foreign affiliates in local currency and Total International Claims, i.e. the sum of Local Claims of foreign affiliates in foreign currency and Cross-Border Claims (activities that are granted or extended to non-residents).	Bank for International Settlements (BIS) Consolidated banking statistics

CONTROL VARIABLES	TOPIC	DEFINITION AND INFORMATION	SOURCE
FATF BlackList	Anti-Money Laundering and Combatting the Financing of Terrorism Compliance	FATF BlackList is a Dummy variable that takes the value of 1 if the Country was blacklisted during the study period, 0 otherwise.	FATF Annual and Overall Reviews of Non-Cooperative Countries or Terrirories; FATF web site.
Overall Activities Restrictions Index	Bank Regulation and Supervision	Overall Activities Restrictions Index is a Dummy variable that takes the value of 1 if the banks of the countries are subject to some restrictions in their operations, 0 if they are totally free in their investment choices.	Barth J.R., Caprio G. Jr., Levine R. "Banking Regulation Surveys"
Independence of Supervisory Authority Index	Bank Regulation and Supervision	The Independence of Supervisory Authority Index is an indicator that takes the values of 0, 1, 2 or 3 and it expresses the degree to which the supervisory authority is independent from the government and legally protected from the banking industry.	Barth J.R., Caprio G. Jr., Levine R. "Banking Regulation Surveys"
Supervisory Lightness Index	Bank Regulation and Supervision	The Supervisory Lightness Index is an index which takes values between 0 and 20 and it's an inverse indicator of the degree of lightness of the supervision system. It's built up starting from 20 question of the Banking Regulation Surveys of Barth et al. The Supervisory Lightness Index is the total sum of the 20 indicators.	Barth J.R., Caprio G. Jr., Levine R. "Banking Regulation Survey".
Growth of GDP (annual %)	Macroeconomic Characteristic	Annual percentage growth rate of GDP at market prices based on constant local currency. Aggregates are based on constant 2000 U.S. dollars. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products.	World Bank national accounts data, and OECD National Accounts data files.
Log GDP per Capita	Macroeconomic Characteristic	The natural logarithm of the GDP per capita. GDP per capita is gross domestic product divided by midyear population. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products.	World Bank national accounts data, and OECD National Accounts data files.
Bank Private Credit to GDP (%)	Financial Institutions Depth (size)	The financial resources provided to the private sector by domestic money banks as a share of GDP. Domestic money banks comprise commercial banks and other financial institutions that accept transferable deposits, such as demand deposits.	International Financial Statistics (IFS) - International Monetary Fund (IMF)

Net Interest Marginal (%)	Financial Institutions Efficiency	Bank's income that has been generated by non-interest related activities as a percentage of total income (net-interest income plus non-interest income). Non-interest related income includes net gains on trading and derivatives, net gains on other securities, net fees and commissions and other operating income.	Bankscope
Bank Z Score	Financial Institutions Stability	It captures the probability of default of a country's banking system, calculated as a weighted average of the z-scores of a country's individual banks (the weights are based on the individual banks' total assets). Z-score compares a bank's buffers (capitalization and returns) with the volatility of those returns.	Bankscope
FINFIU	Banking and Financial Supervision	It's a dummy variable that takes the value of 1 if a Financial Intelligence Unit exist and it has a financial nature (i.e. is under an authority or an entity involved in financial markets), 0 otherwise.	Information taken from the FIUs' web site
Real Interest rate (%)	Macroeconomic Characteristic	Real interest rate is the lending interest rate adjusted for inflation as measured by the GDP deflator.	World Bank
Real Effective Exchange Rate	Macroeconomic Characteristic	The effective exchange rate is a weighted average of a basket of foreign currencies, and it can be viewed as an overall measure of the country's external competitiveness. The real effective exchange rate is the nominal effective exchange rate divided by a price deflator (they use the CPI). Index 2005 =100.	IFS, IMF data.
Inflation, GDP deflator (annual %)	Macroeconomic Characteristic	Inflation as measured by the annual growth rate of the GDP implicit deflator shows the rate of price change in the economy as a whole. The GDP implicit deflator is the ratio of GDP in current local currency to GDP in constant local currency.	World Bank
Voice and Accountability	Public Governance	It reflects perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.	The Worldwide Governance Indicators, Kaufmann et al. 2008, World Bank.
Political Stability and Absence of Violence	Public Governance	It reflects perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism.	The Worldwide Governance Indicators, Kaufmann et al. 2008, World Bank.
Government Effectiveness	Public Governance	It reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.	The Worldwide Governance Indicators, Kaufmann et al. 2008, World Bank.
Regulatory Quality	Public Governance	It reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.	The Worldwide Governance Indicators, Kaufmann et al. 2008, World Bank.
Rule of Law	Public Governance	It reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.	The Worldwide Governance Indicators, Kaufmann et al. 2008, World Bank.
Control of Corruption	Public Governance	It reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.	The Worldwide Governance Indicators, Kaufmann et al. 2008, World Bank.
Polity 2	Political Control	This variable is a modified version of the POLITY variable added in order to facilitate the use of the POLITY regime measure in time-series analyses. It modifies the combined annual POLITY score by applying a simple treatment to convert instances of "standardized authority scores" (i.e., -66, -77, and -88) to conventional polity scores (i.e., within the range, -10 to +10). The Polity score is computed by subtracting the Autocracy score from the Democracy score.	Polity IV Project, University of Maryland

Durable	Political Control	This variable indicates the number of years since the most recent regime change.	Polity IV Project, University of Maryland
Size of Shadow Economy	Shadow Economy	It's a measure of the Size of the Shadow Economy.	Shadow Economies All over the World: New Estimates for 162 Countries from 1999 to 2007 (Revised Version), F. Schneider, A. Buehn and C. E. Montenegro

IV VARIABLES	**DEFINITION AND INFORMATION**	**SOURCE**
Goldstein scale	It captures the level of International Cooperation of a country	Goldstein (1992)
Dummy cooperation	It is based on the Goldstein Scale for the WEIS data. It shows 1 if a country cooperate, 0 if a country does not cooperate.	Goldstein (1992)
UN member	Dummy variable indicating the membership of a country in the UN Security Council in year t	UN website
UN agenda	Whether the country has or has not been mentioned on the UN meeting agenda in year t	UN website (http://research.un.org/en/docs/sc/quick)