**Dynamic Analysis of Capital Inflow to Credit Allocation, Efficiency, and Banking Performance, Using The Panel Vector Autoregressive Model.**

**Case Studies In Developed And Developing Countries.**

**Abstract**

The direction of globalization and the integration of the financial system continues to increase in line with the trend of increasing capital flows which is the focus of discussion in this research. This study applies panel data analysis to analyze banking behavior to improve its performance. The analysis uses panel data from 1991 to 2020 in 39 countries. Return on equity (ROE) as a measure of the success of banking operations is determined by various interrelated factors. One of the variables closely related to banking performance is the share of non-financial business loans, the share of capital inflows entering the banking sector, and the share of capital inflows entering the non-bank sector. Economic variables that support good banking performance are GDP growth, bank concentration, inflation, Leverage, and bank efficiency. This article focuses on the heterogeneity of the economies of countries and the dynamics of banking. This article applies a Panel Vector Autoregressive (PVAR) to capture all components. We performed PVAR on all samples and data groups. The data groups are divided according to the level of GDP per capita, the share of capital inflow to banks, and Leverage. IRF analysis on VAR with a threshold value of GDP per capita, share capital inflow to banks, and Leverage shows results under theoretical estimates. We analyze the response ROE, the share of non-financial business loans, and Efficiency due to changes in capital inflows entering the banking sector. IRF analysis on VAR in several OECD countries shows a corresponding pattern at the upper and lower levels according to the threshold variables.

Key words : capital flow, bank performance, leverage, panel vector Autoregressive, dynamic model

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