Political Risk Contributes to Post-Crisis Violations of Covered Interest Parity*

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Abstract

The large and persistent deviations in covered interest parity (CIP) observed after the global financial crisis presents a puzzle to international finance, given usual arbitrage opportunities. This paper suggests that a country's political risk is an underexplored factor in determining the cross-currency basis (CCB), a measure of such deviations. Using data for 33 advanced economy (AE) and emerging market (EM) currencies, we introduce country-specific political risk into the CIP condition, and test if such risk matters for the CCB. To identify the effect of political risk, we employ two strategies: a duration-to-election indicator, which we also pair with democratic accountability as instruments; and, a regression discontinuity around close elections. We find that higher political risks do result in more negative CCBs, consistent with our modified theory. Further explorations reveal that political risks affect CIP deviations differentially in AEs versus EMs, and that international reserves and dollar swap lines can relieve the effects of political risk. We also show that the results are driven by the effect of *unanticipated* (rather than systematic) political risk, operating on the synthetic dollar rate.

KEYWORDS: covered interest parity deviations, cross-currency basis, political risk, dollar liquidity

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1 Introduction

Up until the global financial crisis of 2007/08, covered interest parity (CIP)—the arbitrage condition that keeps the difference between the forward and spot exchange rates of two economies equal to their interest rate differential—was among the most robust and reliable of relationships in international finance. To the extent that deviations occurred, they were primarily attributable to credit risk between two counterparties,[1] and hence could be (and was) directly priced in by financial markets, as (small and fleeting) cross-currency bases (CCB).

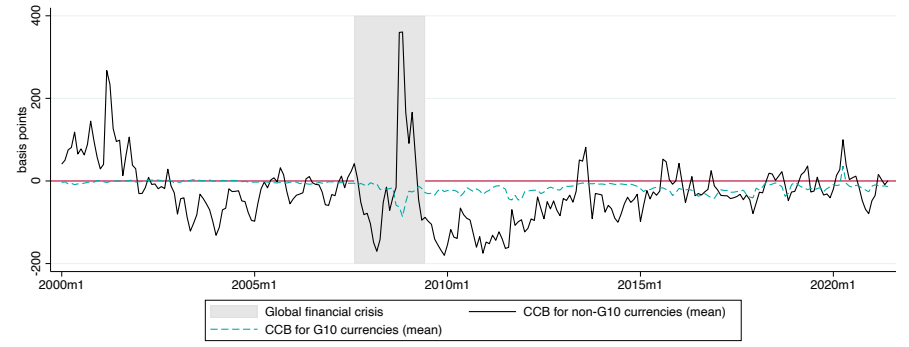
After the crisis, however, persistent deviations from CIP began to emerge, whether in advanced or emerging economies (Figure 1(a)). This phenomenon begged for explanations beyond economic risks alone. After all, populist sentiment and political polarization was rising worldwide, accompanied by a retreat in democratic norms (Figure 1(b)). These trends accelerated in the wake of the Great Recession (Diamond 2015; Eichengreen 2018; Fukuyama 2018), and while these development could have developed regardless, their uncanny coincidence at least raises questions of whether rising political risk may be manifesting more concretely in otherwise steadfastly economic phenomena, such as interest and exchange rates.

Yet explanations that are centered on political explanations are often lacking, perhaps because the two are often inextricably intertwined. Economic shocks that impact dollar financing can themselves give rise to political instability (Margalit 2019; Shih 2020), and even when such reverse causality may be ruled out, the possibility that an unobserved common driver for both political risk and economic fundamentals makes estimating the effects of the politics alone a fraught enterprise.

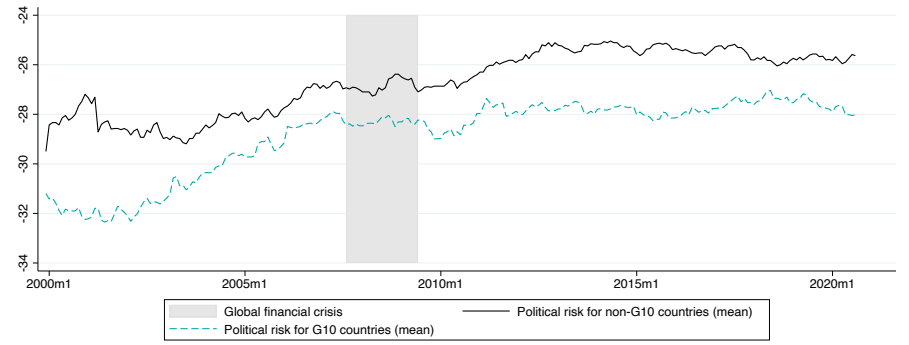
In this paper, we attempt to disentangle the two by exploiting a plausibly exogenous instrument for political risk: the duration to the next election. Political risk is virtually synonymous with changes in government, yet the *timing* of such elections—which has a tendency to increase risk due to the possibility of turnover—tends to be tied to a political calendar that is generally unaffiliated with economic conditions. We further combine this duration-to-election indicator with a measure of democratic development to obtain an instrument set that we use to identify the effects of political risk on the cross-currency basis. As an additional check on identification, we also examine the response of the basis during close election episodes, utilizing the discontinuities that emerge at the majority win threshold.

We find evidence that political risk does indeed matter for the cross-currency basis. In our baseline, a one percent increase in political risk leads to a decline in the CCB of

[1]Besides credit risk, observed deviations could also be due to transactions costs (Du, Tepper, and Verdelhan 2018; Rime, Schrimpf, and Syrstad 2022) or thin market liquidity (Cerutti, Obstfeld, and Zhou 2021), but these factors are likely to be more idiosyncratic and less persistent, compared to the risk of default.



(a) CIP deviations in G10 and non-G10 markets



(b) Political risks in G10 and non-G10 markets

Figure 1: While there were deviations from CIP prior to the global financial crisis (shaded), they were typically small and temporary, especially for G10 of developed market currencies, as shown by how the CCB for that group tends to coincide with the horizontal axis. Since 2007, CCBs for the G10 currencies have widened significantly, while those for non-G10 currencies also exhibited greater volatility. Concomitantly, political risk appears to have increased materially after the crisis for both groups, but the increase has been especially stark among advanced economies, even though their levels remain below that of emerging economies.

between 48 and 67 percent, whether measured in levels or first differences. Put another way, a typical one standard deviation shock to political risk implies greater scarcity of dollar liquidity, reflected as a tightening of between 48 and 278 basis points. This is close to an order of magnitude larger, in terms of impact, compared to variations in either the interest rate differential or effective exchange rate (for equivalent one standard-deviation shocks).

When we probe further, we are also able to establish that political risks are likely to be more relevant to EM currencies, compared to the Group of 10 (G10) developed market currencies, suggesting that the breakdown in CIP following the global crisis has been driven more by the former group. We also find that larger holdings of international reserves help mitigate the effects of dollar scarcity, while that the effects of political risk most likely operate along the channel of the synthetic dollar rate (that is, the cost

to domestic firms of borrowing in dollars), rather than other comparable local interest rates.

Related literature. There has been a recent surge in papers seeking to explain the post-global crisis CIP breakdown. Authors have attributed deviations in CIP to increased counterparty risk (Baba and Packer 2009; Hui, Genberg, and Chung 2011) or the associated rise in demand for dollar hedges (Borio, McCauley, McGuire, and Sushko 2016; Liao and Zhang 2020), a stronger demand for dollar assets (Avdjiev, Du, Koch, and Shin 2019; Cerutti et al. 2021), greater illiquidity in the foreign exchange market (Cerutti et al. 2021; Pinnington and Shamloo 2016), rising transactions costs of various kinds (Cenedese, Della Corte, and Wang 2021; Du et al. 2018; Liao 2020; Rime et al. 2022), along with divergences in monetary policy (Fukuda and Tanaka 2017; Iida, Kimura, and Sudo 2018). What is common to these papers is that they essentially stress *economic* frictions, with little attention to noneconomic (in particular, political) dimensions—which is the focus of our exercise here.

This is in spite of a fairly large body of work that has pointed to the effects of political risk on the two individual components of the cross-currency basis: exchange rates and interest rates. The possibility that political factors can affect the behavior of nominal (Leblang 2003; Steinberg and Walter 2013) and real (Bonomo and Terra 2005; Stein, Streb, and Ghezzi 2005) exchange rates has long been recognized. Political risks have even been specifically suggested as a source of unexplained fluctuations in the exchange rate (Bailey and Chung 1995; Bernhard and Leblang 2002; Cosset and de la Rianderie 1985), giving rise to the forward bias (Bachman 1992) and deviations from interest parity (Aliber 1973; Dooley and Isard 1980).[2]

Political risks have also been shown to affect interest rates, in either private (Bekaert, Harvey, Lundblad, and Siegel 2016) and sovereign markets (Bekaert, Harvey, Lundblad, and Siegel 2014; Cuadra and Sapriza 2008). More recently, a clutch of papers have built on this insight, showing that even at the firm level, political risks can explain the idiosyncratic costs of credit (Francis, Hasan, and Zhu 2014; Gad, Nikolaev, Tahoun, and van Lent 2022; Saffar, Wang, and Wei 2019) as well as returns (Rungmaitree, Boateng, Ahiabor, and Lu 2022). Our work contrasts with the extant literature by providing quantifiable, causal estimates of how political risks affect CIP deviations.

Following the global financial crisis, the demand for dollar assets has risen, which has led some researchers to explore how such demand emanates from banks (Aldasoro, Eren, and Huang 2021), corporations (Alfaro, Asis, Chari, and Panizza 2019), and sovereigns (Dittmar and Yuan 2008). In many instances, this is due to the perceived "safe haven"

[2]The difference between these papers and what we offer here is that the earlier studies essentially *assume* that unexplained variation in CIP is attributable to political risk, whereas our exercise is to explicitly account for these with identified measures of said risk.

status of the dollar and related dollar assets (He, Krishnamurthy, and Milbradt 2016; Passari and Rey 2015). To the extent that the cross-currency basis is viewed as a gauge of dollar liquidity, our study also speaks to this literature; however, our analysis is less about *why* the dollar has become a safe asset, as much as *how*.

Finally, our work is related to studies of the determinants of international financial flows (Gruber and Kamin 2007) and (especially) dollar liquidity (Cetorelli and Goldberg 2012; Dooley and Garber 2005), and how these may potentially be affected by political influences (Cao, Li, and Liu 2023; Feng, Han, Vigne, and Xu 2023; Obstfeld and Taylor 2017). Political developments may alter both portfolio (Aliber 1975; Lehkonen and Heimonen 2015; Pástor and Veronesi 2013) as well as foreign direct investment (Busse and Hefeker 2007; Jensen 2008), with policies and institutions—both of which may contribute to political risk—likely affecting cross-border flows differently (Ahlquist 2006; Alfaro, Kalemli-Ozcan, and Volosovych 2007; Papaioannou 2009). Our contribution, relative to these papers, is that we hone in on one particular channel—the cross-currency basis—by which political risk may operate.

2 Analytical Framework

2.1 Theoretical background

Covered interest rate parity deviations occur when the returns from two different money markets are not equal to each other, even after exchange rate conversions, and with exchange rate risk fully hedged with forward contracts. In the literature, scholars primarily focus on CIP deviations in terms of a local currency relative to the U.S. dollar, with this measure—known as the cross-currency basis—partly due to dollar's hegemony in international finance.

Consider a continuously compounded CCB of a given (local) currency i vis-à-vis the dollar, $x^i_{t,t+n}$, quoted at time t with a tenor lasting over n periods. This wedge to a fully-arbitraged interest parity relationship may be expressed as:[3]

$$e^{n \cdot r^{us}_{t,t+n}} = e^{n\left(r^{i}_{t,t+n} + x^{i}_{t,t+n}\right)} \cdot \frac{S_t}{F_{t,t+n}}, \tag{1}$$

where $r^{us}_{t,t+n}$ ($r^{i}_{t,t+n}$) represents the interest rate for the U.S. dollar (the local currency), S_t and $F_{t,t+n}$ represent the directly-quoted[4] spot and forward foreign exchange rates, respectively (the ratio of the latter to the former being the "forward premium"). Taking

[3] In the absence of $x^i_{t,t+n}$ (or, equivalently, if $x^i_{t,t+n} = 0$, (1) reduces to the no-arbitrage CIP relationship.

[4] In this case, the base currency is the dollar and the quote currency is the local currency, such that a depreciation of the exchange rate implies an appreciation of the dollar vis-à-vis the local currency.

logarithms and shifting cross-currency basis to the left-hand side yields:

$$x^i_{t,t+n} = r^{us}_{t,t+n} - \left[r^i_{t,t+n} - \frac{1}{n}\left(f_{t,t+n} - s_t\right) \right], \tag{2}$$

where lowercase letters are used to represent log-equivalent exchange rates. Evidently, the cross-currency basis captures the difference in the rate of return between the U.S. dollar and local currency, from the perspective of investors. The term within the square brackets on the right-hand side of equation (2) is the rate of return, after translating into dollars, for investors holding assets denominated in domestic currency. This is usually referred to as the "synthetic" dollar rate, and represents the actual costs to domestic firms of borrowing in dollars.

From the perspective of borrowers without access to the dollar market, equation (2) compares the financing cost of acquiring dollars for U.S.-based borrowers—with direct access to the dollar market—to foreign borrowers outside the dollar market, who are forced to raise dollars by first borrowing in their domestic currency, before converting it into dollars in the foreign exchange market, using a forward exchange contract that fully hedges ("covers") exchange rate risk.

A positive cross-currency basis, therefore, implies a relative advantage possessed by foreign borrowers in raising dollars, compared to their U.S. counterparts, since these firms are able to fund themselves at a lower cost. In reality, the cross-currency bases for most currencies against the U.S. dollar frequently turns out to be negative, implying that financing in dollars tends to be costlier for the majority of economies around the world (or, equivalently, that dollars tend to be scarce).

Theoretically, the cross-currency basis should be equal to zero, which is precisely the CIP condition. If we suppose that this condition holds perfectly, we have:

$$\frac{1}{n}\left(f_{t,t+n} - s_t\right) = r^i_{t,t+n} - r^{us}_{t,t+n}, \tag{3}$$

which may be taken to the data as

$$\frac{1}{n}\left(f_{t,t+n} - s_t\right) = \alpha + \beta_r (r^i_{t,t+n} - r^{us}_{t,t+n}) + \varepsilon_t, \tag{4}$$

where, should CIP hold perfectly, $\alpha = 0$ and $\beta_r = 1$, along with $\mathbb{E}(\varepsilon) = 0$ and $R^2 = 1$.

Intuitively, arbitrage requires that the forward premium make up for the interest rate gap between the two currencies. However, the breakdown of CIP since the global crisis has been widely noted, and intensively examined (Avdjiev et al. 2019; Cerutti et al. 2021; Du et al. 2018; Rime et al. 2022). While factors such as credit default risks and forward bid-ask spreads have been tagged as determinants behind large and negative cross-currency bases, these have not taken the subsequent step of asking if such spreads

may, in turn, be a reflection of changes to political risk.

When there is elevated political risk in a particular country, dollar suppliers might reduce their willingness to lend dollars to that market, because they may be concerned that subsequent movements in the exchange or interest rate could erode returns from investments in the country, which in turn would compromise the ability or willingness of counterparties to meet their other (covered) contractual obligations. This contributes toward *ex ante* dollar scarcity in that country, which therefore leads to an emergence of a more negative cross-currency basis.

We formalize this notion of political risk, π, by introducing this term into our estimating equation (4). Doing so yields

$$\frac{1}{n}\left(f_{t,t+n} - s_t\right) = \alpha' + \beta_r'(r^i_{t,t+n} - r^{us}_{t,t+n}) + \beta_p \pi^i_t + \varepsilon'_t,$$

where π^i_t represents the political risk in country i at time t. By adding $r^{us}_{t,t+n} - r^i_{t,t+n}$ to both sides of the above and using equation (2), we obtain:

$$x^i_{t,t+n} = \alpha'' + \theta_r(r^i_{t,t+n} - r^{us}_{t,t+n}) + \theta_p \pi^i_t + \varepsilon'_t, \tag{5}$$

where $\alpha'' = \alpha'$, $\theta_r = \beta_r' - 1$, and $\theta_p = \beta_p$ should be different from zero, should CIP deviations be explainable by political risk.

2.2 Empirical methodology

We operationalize equation (5) by including the possibility of additional (observable) controls and (unobservable) fixed effects:

$$ccb_{it,i(t+n)} = \hat{\theta}_r(r_{it,i(t+n)} - r_{US,t,US,t+n}) + \hat{\theta}_p \pi_{it} + \mathbf{X}^\intercal_{it}\hat{\mathbf{\Theta}} + \hat{\alpha}'' + \delta_i + \delta_t + \epsilon_{it}, \tag{6}$$

where $ccb_{it,i(t+n)} \equiv x^i_{t,t+n}$ is the observed cross-currency basis, δ_i and δ_t are currency and time fixed effects, respectively, $\mathbf{X}_i$ is an additional $1 \times j$ vector of country-specific controls, and ϵ_{it} is the error term (which may or may not be biased).

For comparability with the prior literature (Avdjiev et al. 2019; Cerutti et al. 2021), and to accommodate the possibility of nonstationarity arising due to potential unit root issues, we also consider the following first-differenced specification as an alternative baseline:

$$\Delta ccb_{it,i(t+n)} = \hat{\gamma}_r \Delta(r_{it,i(t+n)} - r_{US,t,US,t+n}) + \hat{\gamma}_p \Delta\pi_{it} + \Delta\mathbf{X}^\intercal_{it}\hat{\mathbf{\Gamma}} + \Delta\hat{\alpha}'' + \delta_i' + \delta_t' + \epsilon_{it}', \tag{7}$$

where Δ is the first difference operator between time t and $t+1$.

Under normal conditions, the level of political risk in a given country does not vary

from month to month, which suggests that (7) may give rise to estimates with many null observations for our key variable of interest. Accordingly, (6) makes the most of the available data.

We therefore treat both (6) and (7) as our combined baseline, which affords us a more comprehensive analysis of how political risks might affect deviations from CIP. In light of our discussion in Section 2.1, our *a priori* expectations are that coefficient θ_p and γ_p will be negative: increases in political risks lead to an increased demand for U.S. dollars, even while the supply of dollars declines as a result of reduced investor confidence.

2.3 Potential threats to identification

Naïve OLS estimation of the effects of political risk is likely to be biased. For starters, there could be simultaneity bias, arising from reverse causality. In particular, changes in financing conditions associated with access to the U.S. dollar—reflected in the cross-currency basis—could also alter local economic conditions faced by consumers and businesses. This affects public confidence in the government, which colors perceptions of political risk. There could also be omitted variable bias; shocks to the (unobserved) underlying economic fundamentals may affect not just political risk, but also the CCB.

This is verified by estimates of θ_p and γ_p, which we report in Annex Table A.5. The coefficients on π and $\Delta\pi$ [5] are uniformly positive, regardless of the inclusion of controls or not. Although statistically insignificant, these are contrary to what one might expect in theory, and hint at how it will be necessary to address the possibility of endogeneity in the estimation of (6) and (7).[6]

Our approach is to instrument political risk with a duration-to-election indicator. Elections are virtually synonymous with political risk,[7] and, as an election draws closer, the uncertainty surrounding the possibility of a change in government (and therefore *status quo* macroeconomic policies promised by the incumbent might not be realized) typically elevates. This assures relevance.[8,9]

[5] For simplicity, we denote π and $\Delta\pi$ for π_{it} and $\Delta\pi_{it}$, respectively in the paper.

[6] Simple endogeneity tests run after the IV specifications likewise reveal an endogeneity problem, with rejections of the null that the regressors may be treated as exogenous. These are supplied in the appendix.

[7] As discussed in the next subsection, we further refine our risk measure to include only the most relevant components of political risk for the CCB, which includes government stability.

[8] One alternative perspective is that, as an election draws closer, uncertainty over policy is diminished, as informational asymmetries are resolved. In our view, this outcome is less plausible. Even if more information is available about the policy positions of competing parties closer to the polls, the likelihood of policy change remains elevated, relative to the non-election-period *status quo*. That said, pre-election polling may reveal information about the tightness of the election, which may reduce uncertainty. Overall, it strikes us that political risk associated with policy changes would *still* be higher in the pre-election phase relative non-election periods. Nevertheless, in subsequent sections, we seriously consider the possibility that risks are lower by restricting our sample to only close elections, while also allowing for the possibility that it is policy, rather than political, risk that matters.

[9] It is important not to conflate the relevance of impending elections as an *instrument*, with the

The instrument is also likely to be orthogonal the error term. It is difficult to see, *ex ante*, how closer proximity to elections should directly affect interest rates or the exchange rate (other than explicitly via the political risk channel), since elections generally follow a fixed schedule determined by the political calendar, rather than the business cycle.

Some research has, however, hinted at how exchange rates (Bonomo and Terra 2005) and business cycles (Alesina 1987; Nordhaus 1975) may be affected by electoral considerations. If so, policy changes associated with exchange or interest rate policy could well be timed to occur closer to elections. The duration to an impending election would then be influenced by economic fundamentals, rather than political risk, *per se*.

But the exchange rate is affected by many drivers, and virtually impossible to successfully predict (Cheung, Chinn, and Pascual 2005; Meese and Rogoff 1983). Forecasting interest rates are a similarly fraught exercise (Duffee 2013). Moreover, the direction in which the exchange or interest rate might change need not systematically vary in one direction or another, as an election draws near. For instance, it is just as plausible for a policymaker facing high inflation in one economy to hike interest rates, as it is for another to lower rates to stimulate economic activity to shore up weak growth performance (think Hungary versus Greece). By a similar token, governments from an open economy with export-oriented firms may prefer a weaker exchange rate as a means of boosting commercial competitiveness, but another that is reliant on imports may desire a strong (think East Asia versus Latin America).

Consequently, the bar remains fairly high for intimating that any easily-observable measure, such as election timing or macroeconomic fundamentals, could potentially remain embedded in the error term ϵ_{it} (or ϵ'_{it}). Regardless, we perform a battery of robustness checks, to ascertain the quality of our instrument.

For starters, we routinely deploy an instrument set—by including democratic accountability as a secondary instrument—and run a two-stage least squares (2SLS) specification. While the strength of democracy is correlated to political risk—more accountable governments are more likely to adhere to regular elections—there is also no clear reason why more (or less) democratic polities should experience greater (or lesser) access to dollar liquidity, except again through the selfsame political risk channel. That said, democracies may differ systematically from nondemocracies, and such unobservable factors would render this measure endogenous. For this reason, we only deploy democratic accountability in tandem with our more plausibly exogenous duration-to-election indicator.

The other checks are described in detail in Section 3.4.2. For example, one may wonder whether the timing for elections are truly exogenous. In some political systems, incumbent governments retain some flexibility in calling for an election, so long as it occurs prior to

phenomenon of political risk itself. While the duration to election satisfies the needed conditions for a quality instrument, but the form of political risk being captured is not limited to electoral risk, but all manner of political risks that are being proxied by the instrumented variable.

the end of the term. If so, one could argue that elections are called with an eye toward economic conditions. But economic conditions are difficult to game, and policy operates with long and variable transmission lags. Moreover, there is little evidence that dollar liquidity follows political cycles. We therefore consider if our instruments hold up when we exclude all observations associated with jurisdictions that allow for some flexibility in the actual of elections.

Of course, despite of the reassurances above, one may still harbor residual concerns about successful identification based solely on an instrumental variables strategy. As an alternative, we apply a different methodology that exploits the fact that close elections—when win margins for the incumbent party are sufficiently small—also imply a heightened *ex ante* risk of political turnover. By limiting our sample to just such instances, we can deploy a regression discontinuity design around the majority (50 percent) vote share threshold. The (locally) random allocation of government rule around this cutoff then allows us to elicit the causal effect of political risk.[10]

2.4 Econometric estimation

Our main baseline estimates of (6) and (7) are obtained either with instrumental variables (IV), or with an instrument set, comprised of the duration-to-election indicator alongside a measure of democratic accountability. We denote these as our two-stage-least-square (2SLS) estimations.

More generally, the instrument set $\mathbf{Z}$ constitutes the first stage regression:

$$\pi_{it} = \mathbf{Z}_{it}^{\intercal}\hat{\Psi} + \upsilon_{it}, \tag{8}$$

$$\Delta\pi_{it} = \Delta\mathbf{Z}_{it}^{\intercal}\hat{\Psi}' + \upsilon'_{it}, \tag{9}$$

where $\upsilon_{it} \sim IID\left(0, \sigma_{\upsilon}^2\right)$ and $\upsilon'_{it} \sim IID\left(0, \sigma_{\upsilon'}^2\right)$ are idiosyncratic error terms.

We also consider specifications that introduce the election dummy directly; if the instrument is reasonable, this approach should likewise generate a significant coefficient, even if the election does not carry any clear economic interpretation (and may be less precisely estimated).

Consistent with (6) and (7), our estimation accommodates two-dimensional fixed effects, coupled with two-way clustering of standard errors, on both time and currency. Our baseline also reports underidentification and overidentification tests (where relevant),

[10]The use of regression discontinuity in close elections is fairly established, both in the political science (de la Cuesta and Imai 2016; Eggers, Fowler, Hainmueller, Hall, and Snyder 2015; Hainmueller, Hall, and Snyder 2015) as well as finance and economics (Girardi 2020; Hyytinen, Meriläinen, Saarimaa, Toivanen, and Tukiainen 2018) literature. Most applications use the method to identify the effects of specific characteristics of elected politicians. Here, we instead use the vote margin as our forcing variable to estimate the influence of political risk.

along with a check for weak identification.[11]

Our regression discontinuity (RD) estimates are analogous to (6) and (7), but are limited to periods surrounding the time of the election, T, with $\hat{\theta}_p \pi_{it}$ and $\hat{\gamma}_p \Delta\pi_{it}$ replaced respectively by:

$$\hat{\theta}_p \pi_{iT} = \hat{\theta}_w W_{iT} + f\left(\chi_{iT}\right), \tag{10a}$$

$$W_{iT} = \begin{cases} 1 & \text{if } \chi_{iT} \geq 0, \\ 0 & \text{otherwise;} \end{cases} \tag{10b}$$

$$\hat{\gamma}_p \Delta\pi_{iT} = \hat{\gamma}_w W'_{iT} + g\left(\chi'_{iT}\right), \tag{11a}$$

$$W'_{iT} = \begin{cases} 1 & \text{if } \chi'_{iT} \geq 0, \\ 0 & \text{otherwise,} \end{cases} \tag{11b}$$

where W is an indicator, f and g are (parametric and possibly nonlinear) functions, and χ_{iT} is the forcing variable, which is the vote margin of victory/loss of the incumbent party.

2.5 Data sources and construction

Here we describe the sources and construction of our main variables of interest. Additional details on these (and other variables) are provided in the appendix.

Cross-currency basis data are calculated for 33 currencies[12] vis-à-vis the U.S. dollar, according to equation (2), using the relevant three-month Inter-bank Offered Rate (IBOR), spot, and forward exchange rates, all drawn from *Bloomberg*. We focus on the 3-month cross-currency basis, since a 3-month tenor is a reasonable maturity period that captures short-term CIP deviations, without the possibility of longer-term mean reversion.[13] The series are computed at a daily frequency, before being collapsed into monthly data by taking their respective monthly averages.

We collect the political risk data from the *International Country Risk Guide* (ICRG), which provides ratings for various dimensions of risk, on the basis of political information collected within each country. The ICRG data comprise 12 subcomponents,[14] but not all

[11] In the interest of space, we omit these for most of our robustness checks, but verify that these are satisfied in any case; these are available separately on request.

[12] Information on the specific currencies included in the sample are documented in the appendix; see table A.4. The selection of currency is constrained mainly by the availability of data (on short-term interest and forward exchange rates) to construct the CCB.

[13] It is also the standard tenor explored in the literature, probably due to the fact that 3-month interbank interest rates are more widely available than others. However, we also consider, for robustness, the CCB computed at the 1-month and 1-year tenors.

[14] These are: government stability, socioeconomic conditions, investment profiles, internal conflict, external conflict, corruption, military in politics, religious tensions, law and order, ethnic tensions, democratic accountability and bureaucratic quality.

of these are constrained to political risk relevant for money and foreign exchange markets. For instance, it is questionable whether the currency traders are swayed by the presence of the military in politics or prevailing socioeconomic conditions.

Thus, while ICRG itself offers an overall political risk rating, we utilize only a subset of these measures to construct our political risk indicator. These are comprised of government stability, internal conflict, and external conflict, which we weight equally as ICRG does. A high turnover rate of the government, for instance, poses a high risk for policy changes that could affect the short-term interest rate environment (and in turn the cross-currency basis). That said, we also explore alternative ways that political risk may be computed in Sections 3.4.1 and 4.3.2.

The raw ICRG measures assign a higher score when risk is lower. Since we are mainly interested in political risk, *qua* risk (as opposed to a rating), we invert these values to generate a readily-comprehensible interpretation, where an increase in the measure implies a higher level of political risk in a given country.

Elections data are compiled from the *Election Guide*, a platform providing data on national elections as well as referenda around the world. The baseline assigns an indicator corresponding to 1 for the period three months prior to the election month, and 0 otherwise, with this duration chosen to balance between its relevance to risks associated with political developments (closer to the elections), but allowing sufficient time for impending elections cannot be properly reflected in financial asset prices (but not too close).[15]

We focus primarily on presidential elections and parliamentary elections,[16] since results of such national-level elections are typically the ones that could potentially influence the continuity and stability of key policies that could impact the CCB, such as financial regulation, or openness toward foreign investment promised by the incumbent government.[17]

To normalize the variables and obtain comparable coefficients, we apply an inverse hyperbolic sine transformation to all the variables, with the exception of the election dummy. The working dataset is an unbalanced sample that ranges from July 2009 through August 2020.[18]

[15]We exclude the election month itself to rule out simultaneity bias. In robustness checks, we also test the sensitivity of our results to this choice by varying the duration between a month to up to half a year.

[16]Parliamentary elections are different across countries. For instance, in Australia, elections are bicameral—for the Senate and House of Representatives—whereas in the UK, which is similarly bicameral, only seats in the House of Commons are determined by elections (members of the House of Lords are generally by appointment). Our indicator takes on unity for any election corresponding to an elected legislature. In addition, we also build election dummies that takes into account referenda, and employ them in the robustness checks.

[17]In robustness checks, we also consider variations in the definition of our election indicator.

[18]The National Bureau of Economic Research's Business Cycle Dating Committee places June 2009 as the trough of the global crisis-associated recession in the United States. Since the U.S. is the common counterparty to all our currency pairs, and given the potential distortions to the CCB during crisis conditions, we use July 2009 as the start date for our baseline. The Federal Open Market Committee statement, released in June 2009, also conveyed positive signals of a normalization of financial market

3 Empirical Results

3.1 Preliminaries

Before moving on to our main results, we verify the stationarity of each series in our data, given the relatively high frequency of our data. Table A.6 in the appendix summarizes the results for a selection of panel unit root test of series, both in levels (upper panel) and first differences (lower panel). We are able to reject the null (of a unit root) for our two main variables of interest—the CCB and political risk—either in levels or first differences. This is not the case for the interest differential, however, for half the tests. Even so, in first differences, all three baseline variables satisfy stationarity.

We also consider a suite of univariate unit root tests, by currency, for these variables (these are documented in Tables A.7–A.9 the appendix). While certain currencies occasionally yield instances where one (or more) of the variables may fail a given test, the totality of the univariate tests point to a similar conclusion as those for the panel: that the CCB and political risk do not generally raise concerns about stationarity, but the same cannot be said for the interest rate differential.

Finally, we consider a sequence of panel cointegration tests between our main variables of interest, for both the parsimonious (top panel) and comprehensive[19] (bottom panel) models.[20] We apply the Pedroni (1999) and Westerlund (2007) tests. While the results for some tests—notably, the Westerlund α for the parsimonious model—reject the null of no cointegration, the results in Table A.10 of the appendix point to an absence of any systematic long-run relationship between CCB and political risk.

Overall, our view is that neither nonstationarity nor cointegration are major concerns for our two main variables of interest, whether in levels or (where applicable) first differences. Accordingly, we proceed with our analysis using the empirical specifications outlined in Section 2.4.

3.2 Baseline regressions

Our baseline results corresponding to (6) are reported in Table 1. We consider three different specifications within each estimation method, incrementally adding controls along the way. The first only has our explanatory variable of interest, political risk; the second includes the interest differential, as implied by the expanded CIP condition (5); and the third further populates $\mathbf{X}_{it}$ with two very common covariates used in the

conditions. We therefore also perform estimates using a sample period that commences from June 2009, as a robustness check.

[19]For "parsimonious", we refer to the system where the two main variables of interest—CCB and political risk—are considered. However, the "comprehensive" system includes also all the controls used in the baseline on top of the two main varialbes.

[20]Consistent with the general approach in cointegration testing, We only do so for only the variables in the level form.

literature on empirical estimation of CIP: the effective exchange rate, and the international reserve ratio (we will refer to these—the interest differential, exchange rate, and reserves—as the standard controls). As mentioned in Section 2.4, all specifications include time-invariant currency and time fixed effects by default.

Table 1: Effects of political risk on the cross-currency basis[†]

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
π				-52.12*	-53.09*	-54.61*	-49.29	-48.19**	-66.74**
				(26.54)	(27.61)	(28.19)	(30.61)	(22.16)	(26.02)
Election	-0.58***	-0.59***	-0.60***						
	(0.20)	(0.20)	(0.20)						
$r^i - r^{us}$		0.09	0.09		0.21**	0.20**		0.20***	0.23**
		(0.06)	(0.06)		(0.08)	(0.08)		(0.07)	(0.10)
Exchange rate			1.17			1.78			1.91
			(1.46)			(2.33)			(2.68)
Reserves			-2.84***			-4.44**			-4.80**
			(0.87)			(1.86)			(2.19)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,339	4,339	4,333	4,339	4,339	4,333	4,339	4,339	4,333
F	8.64	5.22	4.61	3.86	3.85	2.45	2.59	4.72	2.55
Cragg-Donald F				21.68	21.62	21.41	27.78	28.98	23.41
Kleibergen-Paap rk LM				7.49***	7.35***	7.34***	8.38**	8.37**	8.03**
Hansen J							0.01	0.03	0.16

[†] This table reports the regression of monthly cross-currency basis, at a tenor of 3 months, on political risk, which is instrumented with the 3-month-prior election dummy (IV specifications) and both the election dummy and democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of trade-weighted foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap rk LM statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

We focus first on the IV and 2SLS results (middle and rightmost columns). The coefficient on π is negative, implying that increases in political risk lead to a reduction in the cross-currency basis. Put another way, a heightened level of political risk levels leads to a more severe dollar shortage for firms and individuals outside the U.S., perhaps reflecting a reduction in international investors' willingness to lend dollars in currency and money markets.

The point estimates are comparable across the three specifications, which—together with a largely unchanged overall F statistic—indicates that the additional controls do not add much by way of explanatory power for understanding the CCB. This is also the case when comparing across estimation methodologies; importantly, the coefficients tend to be more precisely estimated—at the 95 percent confidence or greater—when using an instrument set (via 2SLS), as opposed to relying solely on the election dummy.

The magnitudes themselves indicate that the elasticity of the political risk effect on

CIP deviations ranges from -48.2 to -66.7 percent[21]. In terms of a typical one standard deviation shock to political risk, the tightening ranges between 48 and 278 basis points.[22] This is nontrivial, but just as important, is at least one or two orders of magnitude greater than coefficients on the interest differential, or other standard controls. To lend additional insight into how exactly political risk matters, we look into this measure more carefully in Section 4.3.2.

The tests for the instruments do not raise red flags. Significant Kleibergen-Paap $rk\ LM$ statistics point to the instruments' relevance, while insignificant Hansen J for support the overall coherence of the instrument set. Meanwhile, the Cragg-Donald Fs consistently cross the threshold for acceptable bias at the 10 percent level, validating the overall strength of the instrument set.

As a crude validity check, the significant and negative coefficients on the unvarnished election dummy (leftmost columns) reveal that countries that enter into pre-election periods tend to experience larger (and more negative) CIP deviations. This result, at the very least, corroborates the relevance of the duration-to-election instrument, and suggests that political risks could be an important factor in influencing the cross-currency basis.

The coefficient on the interest differential between local-currency interest rate and that for U.S. dollar deposits is positive, suggesting that dollar shortages are compensated for by higher domestic rates (a symptom sometimes referred to as a "dollar squeeze" by financial markets). This supports the notion that providing currency-hedging contracts is costly for financial intermediaries, who have to be compensated for doing so; this additional wedge then becomes a potential contributor toward CIP deviations (Borio, Iqbal, McCauley, McGuire, and Sushko 2018). More generally, a higher local interest rate raises the opportunity cost of dollar-denominated investments, which in turn reduces demand for such exposures. Consequently, the desire for currency-hedging contracts declines, which relieves the squeeze, thereby giving rise to a less negative/more positive cross-currency basis.

While this finding stands in contrast to Cerutti et al. (2021)—where the coefficient on the dollar rate is positive while that on the local is negative—the result is in line with others in the literature, where greater interest differentials lead to more negative cross-currency bases (Du et al. 2018; Jiang, Krishnamurthy, and Lustig 2021).[23] To better grasp the importance of local versus dollar interest rates, we delve more into this in

[21]For arcsinh-arcsinh specifications, it can be shown that the elasticity of y in response to a variable x, η_{yx}, is $\hat{\eta}_{yx} \approx \hat{\beta}$, where $\hat{\beta}$ is the estimated coefficient from the arcsinh-arcsinh model. See Bellemare and Wichman (2020).

[22]A one σ shock to political risk, multiplied by the elasticity, yields $0.095 * (-48.2) = 4.56$ and $0.095 * (-66.7) = 6.32$, with $sinh(4.56) \approx 48$ bps and $sinh(6.32) \approx 278$ bps.

[23]The results in Cerutti et al. (2021) are also obtained from unconstrained regressions, whereas we impose a one-to-one relationship between coefficients on the interest rates, as required by theory. It is worth noting, however, that Cerutti et al. (2021) themselves suggest that their results require further exploration.

Section 4.3.1.

The coefficients on the remaining controls are as expected *a priori*. The nominal effective exchange rate varies positively with the CCB (albeit remaining statistically insignificant). This means that an appreciation of the local currency reduces dollar scarcity or, equivalently, that dollar weakness relieves its shortage in the economy. When the dollar depreciates, the balance sheets of local banks and foreign exchange dealers become more able to take on the same volume of dollar exposure (Cenedese et al. 2021). As the cost of synthetic dollar funding diminishes, these intermediaries become more willing to take on further exchange rate risk via dollar-denominated debt (Bruno and Shin 2015), which in turn leads them to scale up their dollar lending activities. This expands dollar liquidity, and suppresses the basis. This result is consistent with the empirical literature that finds a negative relationship between dollar strength and the cross-currency basis (Avdjiev et al. 2019; Cerutti et al. 2021; Jiang et al. 2021).[24]

The negative and significant association between the international reserves-to-GDP ratio is, likewise, corroborated by the literature (see, for example, Amador, Bianchi, Bocola, and Perri 2020)[25] Essentially, when reserve holdings are larger, CIP deviations turn more negative, which implies that dollars become more scarce. While seemingly counterintuitive, this may be understood as how greater dollar reserve holdings by the central bank allow private-sector banks to retain less dollars on their balance sheets (even as they extend a comparable volume of loans in dollars). Dollar reserves are also associated with a greater ability to defend an implicit peg to the dollar, which has enabled banks to maintain a local-currency asset portfolio, despite exposure to dollar liabilities. We explore the manner by which reserves may or may not alter the political risk dimension in greater detail in Section 4.2.

The results for our alternative baseline—corresponding to (7)—are reported in Table 2 (where all variables are represented in first differences).[26] As before, we implement three distinct estimation methods, with the same three specifications within.

The results are consistent with our baseline in levels. We uncover a strong, negative relationship between changes in the cross-currency basis and political risk. The raw change in election dummy in the first three columns is highly significant, suggesting that CIP deviations in a certain country tend to be more negative when it enters into an

[24]To be clear, these papers appeal more to a different mechanism—the tightness of global financial conditions and the safe haven status of the dollar—as an explanation for the relationship.

[25]In their paper, the authors recover a positive coefficient on reserves, but since their measure of the cross-currency basis is computed in the opposite way from ours (as the difference between the dollar interest rate and the synthetic rate), the results are actually consistent.

[26]It is worth clarifying that the transformation is applied to the election dummy as well. There are two justifications for doing so. First, first differencing without exception retains consistency with the rest of the variables. Second, $\Delta Election$ captures a relevant concept: the change in the status of an election period within a country, resulting in an indicator that takes on +1 at the commencement of an election period, and -1 its cessation. To the extent that entry and exit from an election *period* may alter political risk, the variable serves as a reasonable instrument for changes in political risk.

Table 2: Effects of changes in political risk on changes in the cross-currency basis[†]

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
$\Delta\pi$				-62.88**	-61.30**	-64.03**	-58.63**	-57.31**	-60.29**
				(25.12)	(24.95)	(25.69)	(21.69)	(21.67)	(22.10)
ΔElection	-0.45***	-0.44***	-0.45***						
	(0.16)	(0.17)	(0.16)						
$\Delta(r^i - r^{us})$		-0.23***	-0.23**		-0.25**	-0.25**		-0.25**	-0.25**
		(0.06)	(0.10)		(0.11)	(0.11)		(0.11)	(0.11)
ΔExchange rate			-5.97			-9.77**			-9.54**
			(3.83)			(4.59)			(4.42)
ΔReserves			-3.99**			-4.52**			-4.49**
			(1.67)			(1.93)			(1.91)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,337	4,337	4,330	4,337	4,337	4,330	4,337	4,337	4,330
F	7.71	10.25	4.54	6.27	5.08	3.57	7.31	5.69	4.05
Cragg-Donald F				37.47	37.60	36.54	20.86	20.93	20.21
Kleibergen-Paap *rk LM*				13.00***	13.01***	12.74***	13.94***	13.94***	13.77***
Hansen J							0.19	0.17	0.15

[†] This table reports the regression of monthly changes in the cross-currency basis, at a tenor of 3 months, on changes in political risk, which is instrumented with the change in the 3-month-prior election dummy (IV specifications) and both the change in election dummy and changes in democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

election period. More strikingly, the coefficients on $\Delta\pi$ for the remaining specifications from columns (4) through (9)—whether including additional controls or not—are all negative and significant at standard levels, in line with the argument that increases in the level of political risk level induce greater dollar scarcity, as evidenced by more negative cross-currency bases.

What is perhaps a little more surprising is how, relative to the level regressions, the coefficients on changes to the interest rate differential, as well as the nominal effective exchange rate, flip signs (and, for the latter, becomes statistically significant).[27]

The negative effect of the change in the interest differential differs from the existing literature (see, for example, Du and Schreger 2021), but may be capturing practical aspects of the carry trade. Implementing an arbitrage strategy for exploiting CIP deviations usually entails going long in the low-interest-rate currency and short in the high-interest-rate currency; since increases in the spread (generally) reflect an increase in the (higher) local rate vis-à-vis the dollar rate, short covering activity may lead to a surge in dollar demand, which then leads to more negative cross-currency bases. Thus, once the effects of a given rate differential is established (in equilibrium), further changes in the spread

[27] The coefficient on changes to international reserves persists with a negative and significant coefficient persists, consistent with the level results, as well as intuition.

tend to be associated with reductions in the basis.

There are at least three potential explanations for why exchange rate appreciations now lead to reductions in the basis. First, it is well-understood that arbitrage is typically accompanied by expected exchange rate *changes* that occur in the opposite direction. For example, the standard Mundell-Fleming prediction—that a local currency appreciates (depreciates) when relative local rates are higher (lower) than the risk-free rate—requires an *expected* depreciation of the currency for (uncovered) interest parity to hold.[28] Hence, while higher levels of the exchange rate may well lower the CCB, changes may raise it. Second, the theoretically-expected weakening of the currency versus the dollar could still apply to the local currency, even as still it appreciates in relation to the full basket of currencies (it is the depreciation against the dollar that ultimately determines the extent of CIP deviations). Finally, it is worth noting that the coefficients obtained in Table 1 were not statistically distinguishable from zero, and so the disparate results need not be inconsistent.

3.3 Additional covariates

To further investigate if the impact of political risk on CIP deviations may be driven by omitted variables, we introduce several additional covariates (beyond the standard controls) to the baseline. We draw on the literature in this regard, and include the forward exchange bid-ask spread and term premium, as Cerutti et al. (2021) do (the argument being that these capture different aspects of liquidity, respectively: illiquidity arising from risk aversion, and liquidity due to changes in the relative supply of dollar bonds). We also introduce the differential in the 10-year U.S. Treasury relative to the equivalent local sovereign interest rate, as well as the implied volatility on 3-month at-the-money currency option, similar to Avdjiev et al. (2019) (under the premise that these alter elements of risk; the former drives sovereign credit risk due to divergent monetary policies and economic prospects, while the latter shapes the forex risk-bearing capacity of financial intermediaries). We report these additional results, for both level and first differences, in Table 3.

The negative and significant coefficient on π and $\Delta\pi$ persists through these straightforward additions, providing further support to the argument that countries' political circumstances play a central role in contributing toward CIP deviations. In particular, elevated political risk tends to lead to a deterioration in domestic access to dollar financing.

The majority of the estimated coefficients for the control variables also enter with the expected signs, although these do not always turn out to be statistically significant. For instance, the long-term sovereign interest differential (between local-currency deposits

[28] This is usually reconciled by an appeal to overshooting dynamics, à la Dornbusch (1976).

Table 3: Effects of political risk on the cross-currency basis, levels and first differences, with additional covariates[†]

	Levels						First differences					
	(1) IV	(2) 2SLS	(3) IV	(4) 2SLS	(5) IV	(6) 2SLS	(7) IV	(8) 2SLS	(9) IV	(10) 2SLS	(11) IV	(12) 2SLS
π / $\Delta\pi$	-58.29*	-78.37**	-84.99**	-102.81*	-80.44**	-96.52**	-66.67**	-57.28**	-75.79**	-66.00***	-76.46**	-66.62***
	(30.75)	(33.40)	(40.57)	(56.83)	(37.11)	(46.11)	(27.69)	(22.79)	(28.21)	(22.16)	(28.10)	(22.18)
$r^i - r^{us}$ / $\Delta(r^i - r^{us})$	0.18**	0.22**	0.12	0.13	0.10	0.10	-0.24**	-0.24**	-0.26**	-0.26**	-0.26**	-0.26**
	(0.08)	(0.09)	(0.11)	(0.13)	(0.11)	(0.12)	(0.12)	(0.12)	(0.12)	(0.11)	(0.12)	(0.12)
Exchange rate / ΔExchange rate	2.18	2.42	4.21	4.65	4.13	4.50	-10.37**	-9.78**	-3.50	-3.02	-3.24	-2.78
	(2.39)	(2.82)	(3.30)	(3.90)	(2.95)	(3.40)	(4.80)	(4.46)	(4.27)	(4.15)	(4.29)	(4.18)
Reserves / ΔReserves	-4.65**	-5.21**	-4.28*	-4.57*	-4.69**	-5.05**	-4.83**	-4.80**	-5.39**	-5.34**	-5.40**	-5.36**
	(1.97)	(2.21)	(2.10)	(2.42)	(2.10)	(2.30)	(2.13)	(2.08)	(2.07)	(2.03)	(2.08)	(2.05)
Fwd spread/ ΔFwd spread	-0.51	-0.61*			-0.56*	-0.63*	-0.04	-0.04			-0.00	-0.00
	(0.30)	(0.32)			(0.33)	(0.37)	(0.12)	(0.12)			(0.12)	(0.12)
$tp^i - tp^{us}$/ $\Delta(tp^i - tp^{us})$	-0.11	-0.14			-0.16	-0.19	-0.02	-0.02			-0.00	-0.01
	(0.11)	(0.12)			(0.14)	(0.15)	(0.05)	(0.05)			(0.06)	(0.06)
$y^i - y^{us}$/ $\Delta(y^i - y^{us})$			0.25	0.29	0.23	0.27			0.02	0.02	0.00	0.01
			(0.17)	(0.23)	(0.17)	(0.22)			(0.06)	(0.05)	(0.06)	(0.05)
Currency volatility/ ΔCurrency volatility			3.84*	4.30*	2.87	3.14			4.57***	4.48***	4.80***	4.70***
			(2.08)	(2.37)	(1.76)	(1.95)			(1.33)	(1.24)	(1.40)	(1.30)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,069	4,069	3,944	3,944	3,931	3,931	4,059	4,059	3,934	3,934	3,920	3,920
F	1.61	2.24	1.39	1.26	1.19	1.41	2.63	3.17	3.52	4.28	3.89	4.78
Cragg-Donald F	18.97	14.52	12.19	10.10	14.05	11.65	28.86	18.18	25.68	16.30	25.61	16.32
Kleibergen-Paap rk LM	6.65**	6.89**	5.65**	5.76*	5.98**	6.20**	11.92***	13.06***	11.03***	12.19***	11.10***	12.25***
Hansen J		0.38		0.12		0.13		0.26		0.22		0.22

[†] This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserves to GDP ratio for each country. Fwd spread is the bid-ask spread for the forward exchange rate of each currency; $tp^i - tp^{us}$ is the difference between the local and U.S Treasury term spreads (10-year over 2-year); $y^i - y^{us}$ is the the spread of the 10-year local sovereign yield over the 10-year U.S. Treasury; currency volatility is the implied volatility on 3-month at-the-money currency options. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap rk LM statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

and the U.S. dollar) is positively correlated to the cross-currency basis, corroborating the idea that CIP deviations may result from variations in sovereign credit risk (Du and Schreger 2021). The negative coefficient on forward exchange spread also suggests that illiquidity in the currency markets can increase market frictions and result in the breakdown of CIP (Pinnington and Shamloo 2016). Our one anomalous result pertains to currency option volatility, where we find that higher local currency risk is correlated to a less severe domestic dollar financing condition.

Overall, we find—whether measured in levels or first differences, and estimated via IV or 2SLS—support for our argument that heightened political risk has led to more severe dollar shortages in the post-crisis period. When investors observe increased political risk in any given country, they may be inclined to curtail their investments into that country, thereby starving the local economy of dollars. This is captured by the breakdown of CIP, and in particular, a negative cross-currency basis of the local currency vis-á-vis the U.S. dollar. As such, our result is consistent with evidence on changes to portfolio and foreign direct investment in response to political risk Busse and Hefeker (2007); Lehkonen and Heimonen (2015).

Moreover, our finding further suggests that such politically-influenced changes to international financial inflows may be further exacerbated by corresponding outflows. This is because a negative CCB also reflects the choice by local borrowers to borrow at the synthetic dollar rate. As such implicit demand for dollars increases—perhaps because dollar-denominated assets, such as the U.S. government bonds, have become relatively more attractive (Bernanke, Bertaut, Demarco, and Kamin 2011; He et al. 2016)—this further worsens domestic dollar financing conditions, due to the the mismatch between demand and supply of dollars.

3.4 Robustness of main findings

3.4.1 Sensitivity to sample coverage and construction of key variables

We test the sensitivity of our baseline results along several lines. First, we allow for changes in the coverage of our sample, along two dimensions: in terms of countries/currencies included, and the choice of starting date for the post-crisis period, when CIP deviations began to emerge in earnest. We then consider alternative ways for how the key independent and dependent variables of interest are constructed.

In the interest of space, while we run the full suite of baseline specifications discussed in Section 3.2, we constrain our reporting to only the IV and 2SLS results with controls, for both levels and first differences.[29] These are shown in Table 4.

There are several variations to the currency sample worth exploring. First, our baseline includes the euro by using the average levels of political risk for the five largest

[29]The full set of results are provided in the online appendix.

Table 4: Sensitivity of cross-currency basis and political risk to changes in sample coverage and variable construction[†]

	No Euro		No HKD & SAR		Flexible regime		Non-flexible regime		Alternative CLP		No CHN & SAU	
	(1) IV	(2) 2SLS	(3) IV	(4) 2SLS	(5) IV	(6) 2SLS	(7) IV	(8) 2SLS	(9) IV	(10) 2SLS	(11) IV	(12) 2SLS
π	-49.14*	-63.30**	-56.99*	-70.43**	-71.06**	-80.61**	18.23	-48.52	-42.83*	-63.50**	-55.84*	-76.62**
	(25.37)	(23.67)	(28.92)	(30.90)	(32.93)	(34.08)	(28.80)	(98.72)	(22.12)	(23.76)	(28.66)	(32.69)
Controls and FEs	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,199	4,199	4,071	4,071	3,311	3,311	1,022	1,022	4,333	4,333	4,071	4,071
F	2.56	2.77	2.45	2.96	2.76	3.20	5.12	1.52	2.74	2.92	2.52	3.10
$\Delta\pi$	-62.18**	-59.17**	-64.41**	-55.95**	-77.94**	-68.16***	3.80	3.50	-62.65**	-59.03***	-65.00**	-57.40**
	(25.48)	(22.27)	(25.68)	(21.43)	(29.92)	(24.32)	(18.99)	(18.72)	(24.83)	(21.35)	(25.92)	(21.60)
Controls and FEs	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,196	4,196	4,069	4,069	3,309	3,309	1,021	1,021	4,330	4,330	4,069	4,069
F	3.62	4.05	3.29	3.80	4.21	4.82	2.06	2.06	2.58	2.83	3.47	4.01
	2009M4-2020M8		2009M6-2020M8		1-month CCB		1-year CCB		With invest profile		With ethnic & religious	
	(13) IV	(14) 2SLS	(15) IV	(16) 2SLS	(17) IV	(18) 2SLS	(19) IV	(20) 2SLS	(21) IV	(22) 2SLS	(23) IV	(24) 2SLS
π	-48.57	-61.38**	-51.43*	-64.39**	-24.58	-56.30**	-63.29**	-38.77	-80.36*	-55.35	-68.04*	-67.98**
	(28.87)	(24.85)	(27.69)	(24.96)	(19.03)	(22.28)	(29.86)	(24.98)	(46.75)	(41.42)	(34.22)	(31.46)
Controls and FEs	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,426	4,426	4,364	4,364	4,228	4,228	3,568	3,568	4,333	4,333	4,333	4,333
F	2.11	2.32	2.31	2.51	3.43	3.18	3.03	3.38	2.30	1.94	2.54	2.26
$\Delta\pi$	-66.05**	-61.62**	-64.56**	-60.63**	-34.19	-32.53	-32.77**	-29.83**	-94.13**	-88.36**	-79.63**	-74.00**
	(27.94)	(23.85)	(25.85)	(22.19)	(30.04)	(28.50)	(15.00)	(13.32)	(40.20)	(33.62)	(33.85)	(27.86)
Controls and FEs	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,423	4,423	4,361	4,361	4,226	4,226	3,567	3,567	4,330	4,330	4,330	4,330
F	3.75	4.31	3.59	4.09	5.88	5.88	9.42	9.16	3.40	3.96	3.57	4.14

[†] This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months except where indicated, on (changes in) political risk, which is instrumented with the (changes in) election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Controls refer to the standard controls (interest rate differential, effective exchange rate, and the reserves to GDP ratio), and fixed effects are by currency and time. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Robust standard errors are clustered at currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

countries in the Euro Area, in terms of GDP.[30] The election indicator is likewise constructed on the basis of elections in the corresponding five countries, which might give rise to overidentifying political risk. Dropping the euro from our regressions would therefore seem like a reasonable check, and we do so in columns (1)–(2).

Second, the vast majority of currencies in our sample operate on a flexible-rate regime (or, at least, a managed float). However, two currencies run relatively hard pegs: Hong Kong runs a currency board, while Saudi Arabia maintains a fairly rigid (and largely credible) peg. Consequently, in columns (3) and (4), we drop the Hong Kong dollar (HKD) and Saudi *riyal* (SAR) from our sample. More generally, we also subdivide the sample into currencies operating under either (*de facto*) flexible and inflexible regimes.[31] These occupy columns (5) through (8).

Third, the Chilean *peso* (CLP) also exhibits an idiosyncrasy in terms of how interest and exchange rates are reported: calculations of the CCB (for example, those reported by Bloomberg) typically rely on interbank interest rates corresponding to an artificial unit of account (the Unidad de Fomento, or UF[32]). To remain consistent with the computation of CCB for the other currencies—which rely on nominal, market-based rates—we collect nominal interbank rates of the CLP from the Chilean benchmark facility, and calculate an alternative cross-currency basis for CLP against USD, which we then replace the original CCB series with. These are shown in columns (9) and (10).

Two *political* regimes do not rely on popular elections for the selection of government: China (a one-party state[33]) and Saudi Arabia (a monarchy). In the absence of standard elections for the presidency in these polities, the election indicator always takes on a zero in the baseline. To examine if these null entries affect our results, we run regressions without China (CHN) and Saudi Arabia (SAU) in columns (11)–(12).

The choice of periods for the full sample may also be varied. In the baseline, July 2009 was chosen as the start date, which corresponds to the month following the NBER-defined trough in the U.S. business cycle. There are other potential candidates for the market bottom, however. U.S. equity markets—whether indexed by the S&P500 or DJIA—attained

[30]These are Germany, France, Italy, Spain, and the Netherlands. We also perform additional checks using just the largest two and largest four countries, and find results comparable with the baseline. These are available on request.

[31]We do so using the *de facto* classification, as adjudged by IMF staff, with independent and managed floats defined as "flexible" regimes, and the remainder defined as "inflexible". As an alternative, we also considered the latest version of the popular classification scheme proposed by Levy-Yeyati and Sturzenegger (2005). These results turn our to be slightly less significant, but are qualitatively similar to those shown here; these are available in the appendix.

[32]The UF is an officially-recognized currency in Chile. However, it is non-circulating, and has a quoted value of 100 CLP relative to the CPI. That is, the UF interest rate is a *real* interest rate, which adjusts for inflation.

[33]People's Republic of China conducts the so-called "multi-party cooperation and political consultation system" under the leadership of the Communist Party of China (CPC), which means that the CPC is the only party in power within the country. Under the premise that the CPC is the only ruling party, the eight other political parties participate in the discussion and management of state affairs, in cooperation with the CPC.

their lowest level in March. More generally, financial market tightness—as proxied by the Goldman Financial Conditions Index—peaked in May 2009. Accordingly, we apply sample periods that commence from either April or June 2009, and the results are reported in columns (13)–(16).

The most obvious way of varying the dependent variable is to utilize alternative tenors (other than the 3-month) for interest rates used in the computation of the CCB. Two reasonable choices—which correspond to the very short term and the longer term—are the 1-month and 1-year counterparts. We do so in columns (17) through (20).

As discussed in Section 2.5, our main independent variable of interest is constructed as the simple sum of government stability, internal, and external conflict, which we regard as the most relevant subset of political risk indicators for our application. One may still wonder if the exclusion[34] or inclusion of additional subcomponents would make a difference. We experimented with a range of permutations and combinations, but here we report two variants. First, we further include risks associated with the economy's investment profile. While we find this subcomponent a little too uncomfortably close to the concept of actual investment risk (and hence runs the risk of endogeneity, which explains our reason for not including it in our baseline construct), one could reasonably make the case that factors—such as constraints to the ability to repatriate profit, or a greater possibility of contract appropriation—may be regarded by financial markets as a risk emanating from political processes. If so, one could justify adding this subcomponent to the political risk measure. Alternatively, we can include tensions that arise from ethnic or religious sources. These do not strike us as sufficiently related to risks that currency markets perceive as relevant. Still, one could argue that such tensions, when allowed to fester, may eventually erupt in conflict (which we do measure). Regressions for these two variations in the construction of the independent variable are shown in columns (21)–(24).[35]

We find, across these broad range of estimates for coefficients on π and $\Delta\pi$, that they remain, in the main, both negative and significant, consistent with the baseline.[36] The notable exception applies to the case when the sample is restricted to only more inflexible regimes. This is not unexpected, since the exchange rate (by definition) adjusted less under such regimes, making CIP deviations less likely to be responsive to political risk.

[34]We test the individual subcomponent of political risk in Section 4.3.2.

[35]One residual concern is whether the metric of political risk is invariant to the (implicit) assumption that the level of risk in the United States serve as the numeraire. We therefore consider instead computing our measure of political risk relative to the U.S., as an alternative. Regression results are reported in Table A.14 of the appendix, and are qualitatively unchanged.

[36]While not reported, test statistics for underidentification, overidentification, and weak identification are also generally sound (these are available on request).

3.4.2 Robustness of the instrument set

Given the centrality of our instruments for identification, we also subject these to a battery of stress tests. These entail either variations in the construction of the 3-month duration-to-election indicator, or pairing this indicator with alternative variables in the first stage. As in the previous section, we run our regressions across the full complement of specifications; we report the IV and 2SLS results, as before, but now also include the direct regression on the election dummy. These are summarized in Table 5.

The most obvious change is to set a different duration-to-election. We vary our indicator to a range of between a month up to half a year. For economy, we only report the results corresponding to two months less (hence, 1 month) and two months more (5 months) in columns (1) through (6), with the remaining months provided in Table A.15 of the appendix.

It is also possible to restrict or enlarge on the definition of an election. We could do the former so by excluding legislative elections, and the latter by further including referenda. Rather than dropping these observations—which would result in sample attrition, and potentially introduce selection bias—we instead *recode* these cases, into zero and one, respectively. These are shown in columns (7)–(9), and (10)–(12), respectively.

The executive is sometimes the most relevant branch for economic decisionmaking. Many political systems confer policymaking authority solely to an independently-elected president or cabinet of ministers, leaving the legislature with only veto rights. Even in systems where the legislature originates bills, it is normal for such bills to receive extensive input from the executive. In the runup to the presidential 2017 elections in France, for example, financial markets were focused on the implications of a Macron versus Le Pen presidency. In contrast, elections for the *Assemblée Nationale*, which occurred several months thereafter, were essentially a sideshow.[37] Consequently, if we believe that turnovers in the legislature are secondary to political risk, then we might choose to exclude such elections from our election indicator.[38]

Referenda introduce their own class of political risk. Essentially, such ballots expand consultation with the polity to beyond simply competitive elections. The Scottish independence referendum in 2014, for instance, led to a dramatic increase in the volatility of the British pound, and the unexpected results of the Brexit referendum in 2016 led to a sharp depreciation of the sterling. If we wish to recognize the potential political risks emanating from referenda, we can include them in our coding of elections indicator.

[37]Strictly speaking, in the event that the President's party fails to secure a majority in the National Assembly (a situation known as *cohabilitation*), the legislature led by the Prime Minister may exercise more independence, albeit would still exercise relatively limited power over policy.

[38]For countries with direct elections for the executive (e.g. Chile, France, and Czech Republic), we code only these instances as elections. For countries without any direct election of the executive (e.g. Australia, Canada, and Denmark), we retain the full incidence of legislative elections, since the executive is typically drawn from the legislature in such cases.

Table 5: Sensitivity of cross-currency basis and political risk to variations in the instrument set[†]

	1-month election			5-month election			Excluding legislature			Including referenda			Fixed election calendar		
	(1) Dummy	(2) IV	(3) 2SLS	(4) Dummy	(5) IV	(6) 2SLS	(7) Dummy	(8) IV	(9) 2SLS	(10) Dummy	(11) IV	(12) 2SLS	(13) Dummy	(14) IV	(15) 2SLS
Election	-0.69**			-0.45**			-0.47**			-0.59***			-0.85**		
	(0.30)			(0.17)			(0.22)			(0.20)			(0.40)		
π		-65.39	-74.27*		-37.26*	-53.17***		-54.87	-70.42*		-72.85*	-75.58**		-64.64	-72.87**
		(45.71)	(37.79)		(19.05)	(17.79)		(38.35)	(34.58)		(40.28)	(33.45)		(43.70)	(32.40)
Controls and FEs	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y			
Observations	4,333	4,333	4,333	4,333	4,333	4,333	4,333	4,333	4,333	4,333	4,333	4,333	4,333	4,333	4,333
F	4.26	1.68	1.63	4.51	3.10	3.85	4.82	2.33	1.85	4.47	1.92	2.00	3.52	1.54	1.90
ΔElection	-0.30**			-0.37**			-0.34*			-0.28**			-0.92**		
	(0.14)			(0.16)			(0.18)			(0.11)			(0.37)		
$\Delta\pi$		-38.73**	-37.75**		-45.78**	-44.16**		-48.12*	-45.52**		-48.43**	-45.68**		-134.94**	-108.79**
		(17.92)	(15.46)		(21.50)	(20.17)		(25.77)	(22.27)		(21.88)	(19.06)		(63.93)	(52.17)
Controls and FEs	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,330	4,330	4,330	4,330	4,330	4,330	4,330	4,330	4,330	4,330	4,330	4,330	4,330	4,330	4,330
F	3.67	3.37	3.67	3.59	3.09	3.20	4.02	3.71	4.00	3.95	3.40	3.74	4.41	2.58	3.03
	No snap elections			Change in government[§]			Competitive election			3-month post election[‡]			5-month post election[‡]		
	(16) Dummy	(17) IV	(18) 2SLS	(19) Dummy	(20) IV	(21) 2SLS	(22) Dummy	(23) IV	(24) 2SLS	(25) Dummy	(26) IV	(27) 2SLS	(28) Dummy	(29) IV	(30) 2SLS
Election	-0.75***			-0.70**			-0.64**			-0.03			0.00		
	(0.21)			(0.31)			(0.24)			(0.14)			(0.14)		
π		-68.64**	-73.55**		-27.29	-46.55***		-49.93*	-65.42**		1.98	-22.37*		-0.15	-18.20*
		(33.64)	(30.40)		(17.90)	(16.85)		(29.32)	(26.98)		(7.95)	(12.56)		(8.15)	(10.60)
Controls and FEs	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y			
Observations	4,333	4,333	4,333	4,333	4,333	4,333	4,333	4,333	4,333	4,329	4,329	4,329	4,327	4,327	4,327
F	5.34	2.42	2.25	4.43	2.95	3.42	5.05	2.27	2.20	3.17	3.24	2.58	3.18	3.17	2.79
ΔElection	-0.65***			-0.39*			-0.43**			0.05			0.11		
	(0.20)			(0.21)			(0.19)			(0.17)			(0.10)		
$\Delta\pi$		-97.46**	-88.03***		-29.55*	-29.29*		-58.53**	-54.10**		-6.86	-8.40		-44.39	-38.52
		(36.17)	(29.18)		(14.92)	(14.42)		(26.81)	(22.13)		(21.86)	(20.24)		(48.58)	(39.74)
Controls and FEs	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y			
Observations	4,330	4,330	4,330	4,330	4,330	4,330	4,330	4,330	4,330	4,326	4,326	4,326	4,323	4,323	4,323
F	4.85	3.16	3.81	3.79	3.92	3.95	3.29	2.78	3.03	3.47	3.38	3.38	3.47	2.76	2.89

[†] This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Controls refer to the standard controls (interbank interest rate differential, effective exchange rate, and the reserve-to-GDP ratio), and fixed effects are by currency and time. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Robust standard errors are clustered at currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

[‡] For 2SLS specifications estimated with post election dummies, the over-identification tests reject the null hypothesis, indicating exclusion restriction issue.

[§] Change in government dummy is coded according to DPI (2020).

Beyond defining what constitutes an election, one may worry that the elections defined in our dataset are not entirely exogenous. The most common instance of potentially non-exogenous elections occurs in polities that have roots in the Westminster system,[39] where elections *must* be called within a given window, but may occur at any time before the end of the term. In such cases, the incumbent may take advantage of favorable economic conditions to call the election, thereby violating the exclusion restriction. We address this by recoding all such countries without a fixed election calendar as null, with the remainder being the only truly "exogenous" elections.

Certain systems may also confer the right for a chief executive (usually the president, but also possibly the prime minister) to dissolve parliament at any time; alternatively, a sufficiently large majority within the legislative body itself could force a new election (perhaps by calling for a vote of no confidence). Such opportunistic election calls could also violate the exclusion restriction, regardless of whether they derive from a Westminster system or not. Accordingly, we consider an alternative coding with no snap elections, where countries with elections occurring a full year (or more) earlier than originally scheduled are recoded as zero. These two sets of results comprise columns (13) through (18).

We may also regard elections, *per se*—which includes all observed incidents—as exaggerated signals of political risk. Elections may occur in environments where the incumbent is so well-entrenched that it may not engender much uncertainty at all, which would serve to weaken the relevance condition. Defining the election indicator to only take into account cases where there is an actual change in government, while potentially introducing an underreporting bias, may nevertheless serve to ensure that the risk of political change is material. Conversely, political risk may be most salient when elections are genuinely competitive, which we define as a win margin of no more than 10 percentage points.[40] While doing so is again limited by the fact that such a measure is necessarily *post hoc* and runs a similar underreporting risk, recoding elections in this fashion focuses on cases where elections are less likely to be an academic exercise. The corresponding results for these two possibilities are reported between columns (19) and (24).

Finally, it may be worth performing falsification checks on the duration-to-election instrument. Instead of coding the run-up to an election as instruments for heightened political risk, we instead replace these with the *post*-election months (we do so for 3 and 5 months). Unsurprisingly, these either generate statistically insignificant coefficients, or fail the tests for instrument validity (or both). Hence, we obtain partial validation of the assumptions made in terms of the relevance of the instrument.

[39]These are usually countries that are part of the Commonwealth (by dint of having been colonies of Great Britain); they include Western democracies such as Australia and New Zealand, but also non-Western countries such as Malaysia and Singapore.

[40]We also consider setting the spread at 5 percentage points, but find this threshold excessively stringent, since this results in a large loss of observations.

There are a wide range of potential ways to expand the instrument set. The main constraint, however, pertains to whether any additional instrument(s) we introduce may compromise our identification strategy. We limit ourselves to only including plausibly exogenous instruments,[41] and either replace the democratic accountability variable, or add this new instrument to the full set. Two potential exogenous instruments for political-economic institutions that have been applied in other contexts as instruments for are bureaucratic quality (Rauch and Evans 2000) and ethnic fractionalization (Alesina, Easterly, Devleeschauwer, Kurlat, and Wacziarg 2003). While the strength of the coefficients are slightly weaker (especially with the fractionalization instrument), the conclusions are qualitatively unchanged. These results are reported in Tables A.18 and A.19, respectively, of the appendix.

Overall, these results are consistent with the baseline finding. The coefficients on π and $\Delta\pi$ are uniformly negative, and across most of the variations, statistically significant as well. The coefficients on the direct regression on the *Election* and Δ*Election* indicator also attains statistical significance in virtually all specifications. Furthermore, while not reported, test statistics for underidentification, overidentification, and weak identification are generally sound (these are available on request). On balance, our checks provide little reason to be deeply concerned about the quality of our instrument set, and we are reasonably assured that identification is achieved.

3.4.3 Regression discontinuities at the vote margin

We apply our regression discontinuity to close elections. This is defined, as per Section 3.4.2, as those where the vote margin of victory/loss[42] is within 5 percentage points or less.[43] We first verify that the RD design is admissible,[44] before performing our analysis for two candidate samples: the full currency sample, and one where the euro is

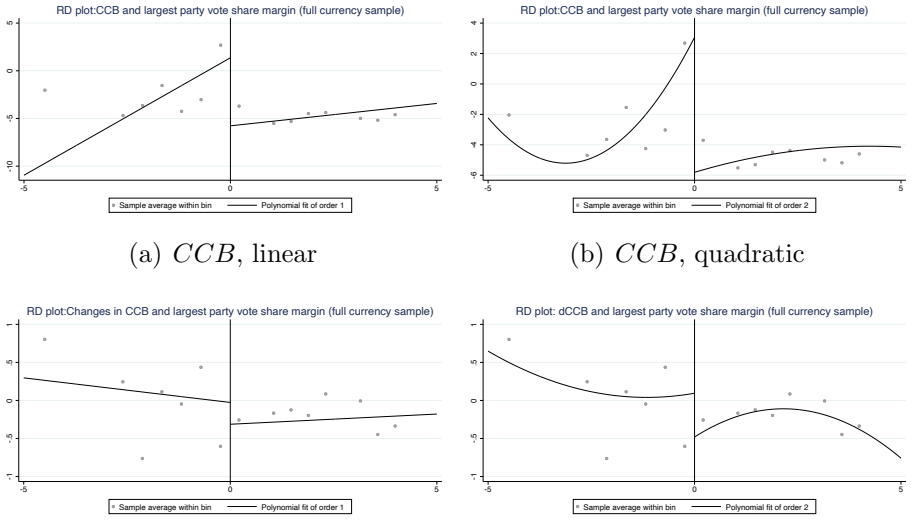
[41] Including a variable that is not strictly exogenous need not invalidate the entire instrument set—identification would still be achieved if the duration-to-election indicator still satisfied the exclusion restriction—restricting the full instrument set to (plausibly) exogenous instruments is generally preferred. Moreover, including an additional covariate that also simultaneously satisfies the relevance condition and exclusion restriction could potentially improve the credibility of our identification strategy.

[42] We define the vote margin as the difference between the vote share of the largest party in power and that of the largest opposing party received in an election. Intuitively, a positive margin indicates a turnover of the government after the election. In some polities, such as Australia, the government is typically formed as a coalition comprising several aligned parties after the election. While these *ex post* exercises may reduce the accuracy of our vote share measure, we also consider computing (where applicable) the vote margin using the opposing and incumbent coalition. Estimates with this alternative definition yield qualitatively similar results, and are reported in Table A.23 of the appendix.

[43] We also consider, in the appendix, a looser threshold—up to a 10 percent win margin—for what constitutes a close election. This, predictably, yields a larger number of observations. Even so, the results are qualitatively unchanged, and are reported in Table A.22 of the appendix.

[44] We do so with a manipulation test, which checks that the marginal density of the vote margin (the forcing variable) is continuous around the cutoff. As reported in the appendix, we find no evidence of manipulation, thereby validating local randomization for the running variable.

excluded.[45] The results are captured in in Figures 2 and 3[46] and, more formally, in Table 6. The latter reports coefficients corresponding to conventional RD point estimates (for either a local linear or quadratic form) with standard confidence intervals, bias-corrected estimates (along the lines of Calonico, Cattaneo, and Titiunik (2014)), and bias-corrected estimates when the variances for confidence intervals are also robust to bandwidth choices.(Calonico et al. 2014).



(a) CCB, linear (b) CCB, quadratic

(c) ΔCCB, linear (d) ΔCCB, quadratic

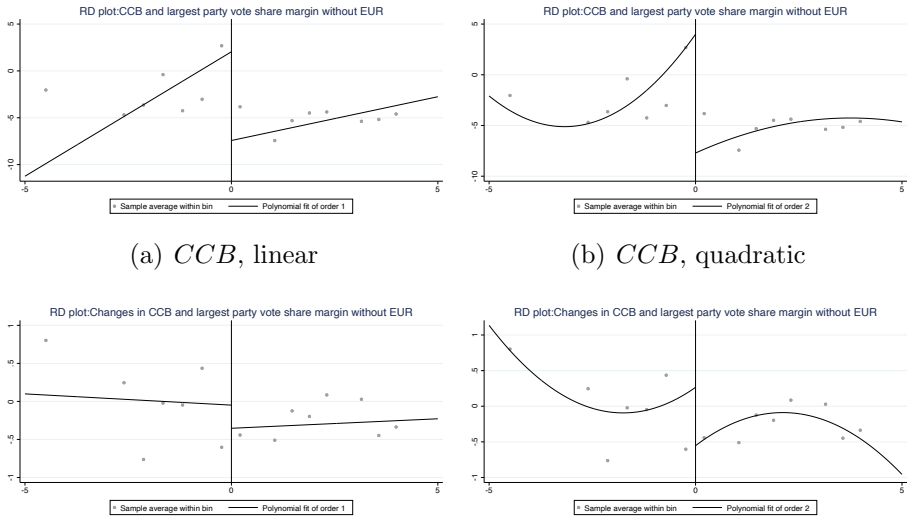
Figure 2: Regression discontinuity plots corresponding to a local linear (left panel) or quadratic (right panel) form, for a vote share win/loss margin of 5 percent between the government and opposition *parties*, for the full sample. Consistently, the discontinuities are clearly more pronounced for the level (top panel) rather than changes (right panel) in the cross-currency basis.

First off, notice that even in full sample, our sample drops drastically, to only 29 observations. This is the main downside of the RD estimates for our application, and the reason why we do not rely on this particular identification strategy for our baseline.

Next, it is clear from the figures that there is a decline in cross-currency basis at the vote margin threshold (of zero). This is most evident for the levels specification of CCB, and holds regardless of whether the regression is fit to a local linear or quadratic polynomial. The drop persists for first differences of the CCB, although the gap is evidently smaller.

[45]The prevalence of democratic elections in Euro Area economies, coupled with how they all represent a single currency, may lead to an overweighting of this currency. Although we follow the baseline and limit the sample to just the five largest economies in the region, it may nevertheless be prudent to consider whether excluding the currency altogether may alter the results.

[46]We present these plots without confidence intervals, for clarity, as confidence intervals generated by binned standard deviations, consistent with Table 6, tend to obscure the points. Plots with confidence intervals—corresponding to either bin-specific standard deviations or constant standard deviations on each side of the cutoff—are provided in the appendix.



(a) CCB, linear (b) CCB, quadratic

(c) ΔCCB, linear (d) ΔCCB, quadratic

Figure 3: Regression discontinuity plots corresponding to a local linear (left panel) or quadratic (right panel) form, for a vote share win/loss margin of 5 percent between the government and opposition *parties*, for the sample excluding the euro. Consistently, the discontinuities are clearly more pronounced for the level (top panel) rather than changes (right panel) in the cross-currency basis.

Table 6: Effects of political risk on the cross currency basis using discontinuities at the vote margin for close elections between the largest government and opposition parties†

	Full sample				**Without EUR**			
	CCB		ΔCCB		CCB		ΔCCB	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Conventional	-7.13***	-8.87***	-0.29	-0.58	-9.47***	-11.71***	-0.30	-0.82
	(2.34)	(2.77)	(0.37)	(0.51)	(2.07)	(2.31)	(0.40)	(0.51)
Bias-corrected	-8.64***	-10.25***	-0.49	-0.16	-11.16***	-12.90***	-0.63	-0.60
	(2.34)	(2.77)	(0.37)	(0.51)	(2.07)	(2.31)	(0.40)	(0.51)
Robust	-8.64***	-10.25***	-0.49	-0.16	-11.16***	-12.90***	-0.63	-0.60
	(2.55)	(3.05)	(0.49)	(0.56)	(2.09)	(2.74)	(0.49)	(0.64)
Observations	29	29	29	29	23	23	23	23
Polynomial	Linear	Quadratic	Linear	Quadratic	Linear	Quadratic	Linear	Quadratic
Kernel	Triangular	Triangular	Triangular	Triangular	Triangular	Triangular	Triangular	Triangular

† This table reports the regression between monthly cross-currency basis at a tenor of 3 months and the vote share margin of close elections between the government and opposing parties between July 2009 and August 2020. We regard an election as a close one if the vote margin is not greater than **5%**. Controls include the the interest differential, reserves, real effective exchange rate, and both currency and time fixed effects. Robust standard errors, clustered at currency level, are reported in parentheses, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Third, we find a negative and significant coefficient on $\hat{\theta}_w$, as shown in columns (1)–(2) and (5)–(6). This is consistent with our baseline, where heightened political risk gives rise to a more negative CCB (or, equivalently, a deterioration in dollar financing conditions outside of the United States). However, estimates of $\hat{\gamma}_w$ are insignificant (but negative) in columns (3)–(4) and (7)–(8).

Overall, the findings from regression discontinuities corroborate with our baseline results, further alleviating residual concerns about the ability of our IV and 2SLS estimates to achieve identification.

4 Discussion

4.1 Heterogeneity in the effect of political risks

The literature on CIP deviations has, by and large, focused on currencies from advanced economies, especially the so-called G10 most-liquid currencies[47], and their exchange rate vis-à-vis the U.S. dollar (Baba and Packer 2009; Cerutti et al. 2021; Du et al. 2018; Fukuda 2012).[48] By a similar token, CIP deviations were typically transient and trivial in the period prior to 2007. Indeed, empirical analyses generally pointed to how CIP held in practice (Akram, Rime, and Sarno 2008; Clinton 1988), with arbitrage opportunities too instantaneous to exploit. Taken together, these two stylized facts suggest that it may be worthwhile considering whether political risk may be more pertinent for G10 versus non-G10 currencies, and if the effects of political risk on the CCB may be different during the pre-crisis period.

4.1.1 G10 versus non-G10 currencies

While deviations in CIP, captured in Figure 1(a), are clearly significantly larger for non-G10 currencies relative to G10 ones, this alone is insufficient to infer that political risk is behind these observed differences. After all, the larger CCBs for non-G10 currencies could be driven by a host of non-political factors more applicable to emerging economies—such as the degree of trade openness or financial development—or perhaps distorted by specific currencies.[49]. More generally, political risk levels tend to be higher in emerging economies—due to weaker institutional environments—while advanced economies frequently enjoy more consolidated democratic processes as well as better-managed social frictions, which are less likely to devolve into unrest and violent conflict. Conversely, political risk could easily account for a greater *share* of the smaller deviations among G10 currencies, making it more pertinent. In this spirit, we estimate separate regressions for non-G10 and G10 currencies in our sample, and report the corresponding results in panels A and B of Table 7, respectively.

[47] These are the AUD, CAD, CHF, DKK, EUR, GBP, JPY, NOK, NZD, and SEK.

[48] One exception is Geyikçi and Özyıldırım (2023); unfortunately, in this case the authors limit themselves to only EM currencies, rather than consider a combined analysis of both G10 and non-G10 currencies, as we do here.

[49] Indeed, the large positive realizations of the CCB for the non-G10 currency aggregate during the crisis are heavily conditioned by large forward premia for some currencies, such as Indonesian *rupiah*.

Table 7: Effects of political risk on the cross-currency basis, non-G10 versus G10 currencies[†]

	Levels						First differences					
	IV			2SLS			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Panel A: *Non-G10 currencies*												
π / $\Delta\pi$	-40.79*	-41.80*	-46.46*	-35.23*	-37.59**	-59.60**	-65.01*	-63.04*	-67.04*	-60.54*	-58.87*	-63.47**
	(22.40)	(23.78)	(25.73)	(19.04)	(15.10)	(24.65)	(33.60)	(33.50)	(34.41)	(29.22)	(29.30)	(29.98)
$r^i - r^{us}$ / $\Delta(r^i - r^{us})$		0.24**	0.25**		0.22***	0.31**		-0.30**	-0.31**		-0.30**	-0.31**
		(0.10)	(0.11)		(0.08)	(0.14)		(0.12)	(0.12)		(0.12)	(0.11)
Exchange rate / ΔExchange rate			2.37			2.75			-14.25**			-14.00**
			(2.46)			(2.94)			(6.14)			(5.96)
Reserves / ΔReserves			-4.42**			-4.75*			-4.62*			-4.57*
			(2.12)			(2.46)			(2.40)			(2.37)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	2,999	2,999	2,993	2,999	2,999	2,993	2,997	2,997	2,990	2,997	2,997	2,990
F	3.31	2.99	1.87	3.42	5.29	2.24	3.74	4.90	4.55	4.29	5.28	4.88
Cragg-Donald F	27.78	28.56	27.35	29.42	28.78	19.02	32.54	32.55	31.63	18.09	18.09	17.44
Kleibergen-Paap *rk LM*	8.78***	8.59***	8.18***	9.55***	9.39***	8.45**	10.65***	10.65***	10.58***	11.51***	11.51***	11.57***
Hansen J				0.06	0.05	0.50				0.17	0.15	0.11
Panel B: *G10 currencies*												
π / $\Delta\pi$	-218.46	-160.58	-137.84	-24.67***	-22.98***	-21.31**	-23.33	-24.01	-25.73	-23.35	-24.02	-25.74
	(803.98)	(453.53)	(353.41)	(6.24)	(6.27)	(9.13)	(26.31)	(25.41)	(26.88)	(26.18)	(25.31)	(26.78)
$r^i - r^{us}$ / $\Delta(r^i - r^{us})$		-0.41	-0.33		-0.06	-0.05		0.03	0.03		0.03	0.03
		(1.07)	(0.77)		(0.04)	(0.04)		(0.08)	(0.08)		(0.08)	(0.08)
Exchange rate / ΔExchange rate			1.00			1.49			-2.36			-2.36
			(16.14)			(2.40)			(1.87)			(1.87)
Reserves / ΔReserves			-2.37			-0.81			1.12			1.12
			(6.71)			(0.63)			(2.53)			(2.53)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	1,340	1,340	1,340	1,340	1,340	1,340	1,340	1,340	1,340	1,340	1,340	1,340
F	0.07	0.08	0.06	15.63	16.68	12.26	0.79	1.33	1.03	0.80	1.32	1.01
Cragg-Donald F	0.07	0.13	0.17	19.36	23.18	23.02	3.14	3.38	3.24	1.58	1.70	1.63
Kleibergen-Paap *rk LM*	0.09	0.15	0.18	1.18	1.22	1.33	1.49	1.57	1.53	3.10	3.15	3.29
Hansen J				1.81	1.84	1.92				0.00	0.00	

[†] This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) election dummy (IV specifications) and both (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserves to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Effecting this split reveals that the negative and significant coefficient on either π or $\Delta\pi$ (for either IV or 2SLS specifications) remain for the non-G10 subsample—consistent with the baseline—but statistical significance weakens substantially in the G10 subsample (even while the coefficients remain negative).[50] Moreover, the magnitudes of the coefficients on political risk are typically much larger for the non-G10 sample relative to the G10 sample (regardless of the significance), which further corroborates the intuitive notion that political risks matter more for non-G10 currencies.

4.1.2 A pre-crisis falsification test

Table 8 documents the baseline specifications, in levels (upper panel) and first differences (bottom panel), for the pre-crisis period between January 2000 and July 2007.[51] One may also view resampling as a falsification test, designed to probe whether political risk was relevant prior to the global crisis.

The coefficients on political risk are now uniformly insignificant. Fascinatingly, while level estimations yield a negative coefficient on π—similar to the baseline—that on $\Delta\pi$ flips signs (albeit being indistinguishable from zero). Overall, the message is that political risk had little to do with the CCB prior to the crisis, which indirectly speaks to how political risk may well have been a necessary—even if insufficient—factor driving post-crisis deviations from CIP.

4.2 Mitigating political risk with insurance mechanisms

While political risk insurance exists, these are not generally available to sovereigns (due to obvious moral hazard issues), nor do they typically cover more esoteric instruments, such as basis swaps.

4.2.1 Insurance via central bank liquidity swaps

To the extent that an insurance mechanism catered specifically to dollar liquidity exists, it takes the form of central bank liquidity swaps,[52] especially with the Federal

[50] The notable exception—where coefficients on π remain highly significant at conventional levels—is for the 2SLS estimates in levels. However, corresponding Kleibergen-Paap *LM* tests point to underidentification issues with these regressions.

[51] The pre-crisis expansion likely ended only in the second half of July 2007, after U.S. equity markets peaked (the DJIA, for example, closed above 14,000 on July 19), before tumbling thereafter. In Table A.24 of the appendix, we instead confine the sample to between January 2000 and June 2009—which we term the pre-crisis and crisis period—and find similar results to those reported in this section.

[52] The Asian crisis was an early spark for serious consideration of cross-border currency swaps. When proposals for the establishment of an Asian Monetary Fund did not come to fruition, a number of East Asian economies instead negotiated the Chiang Mai Initiative Multilateralization, a $240 billion currency swap arrangement that avails hard currency reserves among the 14-economy signatories.

Table 8: Effects of political risk on the cross-currency basis, pre-crisis period[†]

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-9.48	-8.74	-4.34	-8.59	-8.06	-11.03
				(29.15)	(28.32)	(28.66)	(14.68)	(14.83)	(13.75)
Election	-0.11	-0.10	-0.05						
	(0.19)	(0.30)	(0.30)						
$r^i - r^{us}$		-0.03	-0.01		-0.04	-0.01		-0.04	-0.02
		(0.10)	(0.11)		(0.10)	(0.11)		(0.10)	(0.11)
Exchange rate			4.03			4.29			4.70
			(2.66)			(3.51)			(3.40)
Reserves			0.08			0.23			0.45
			(2.93)			(2.80)			(3.63)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	2,278	2,278	2,242	2,278	2,278	2,242	2,278	2,278	2,242
F	0.33	0.12	0.65	0.11	0.11	0.59	0.34	0.20	0.60
Cragg-Donald F				7.05	7.25	6.64	22.47	22.97	19.26
Kleibergen-Paap *rk LM*				2.55	2.58	2.57	4.02	4.14	4.19
Hansen J							0.00	0.00	0.05
Panel B: *Estimation in first differences*									
$\Delta\pi$				53.02	31.99	38.63	50.31	29.96	37.89
				(39.10)	(36.34)	(39.31)	(38.82)	(35.96)	(39.16)
ΔElection	0.30**	0.18	0.21						
	(0.15)	(0.18)	(0.18)						
$\Delta(r^i - r^{us})$		-0.42***	-0.42***		-0.42**	-0.42**		-0.42**	-0.42**
		(0.15)	(0.15)		(0.16)	(0.16)		(0.16)	(0.15)
ΔExchange rate			-6.26**			-2.78			-2.84
			(2.49)			(5.20)			(5.17)
ΔReserves			0.05			-0.25			-0.24
			(2.21)			(2.58)			(2.57)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	2,246	2,246	2,210	2,246	2,246	2,210	2,246	2,246	2,210
F	4.25	5.93	4.04	1.84	6.05	3.31	1.68	5.81	3.28
Cragg-Donald F				7.72	7.70	6.40	3.89	3.88	3.20
Kleibergen-Paap *rk LM*				5.18**	5.09**	5.07**	5.65*	5.57*	5.53*
Hansen J							1.82	1.09	1.35

[†] This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserves to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2000M1 to 2007M7. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Reserve as the counterparty.[53] Liquidity swaps of this nature first emerged during the global financial crisis (Rose and Spiegel 2012), and were revived during the COVID-19 pandemic (Aizenman, Ito, and Pasricha 2022).

Access to dollar swap facilities appears to materially alter the effects of political risk on the basis. π is uniformly insignificant for the subsample of currencies with swap lines, and when political risk is interacted with the swap dummy, the coefficient is positive—implying that the presence of a swap attenuates the effects of political risk—albeit insignificant.[54] Taken together, the evidence therefore supports the notion that dollar swaps are an important political risk mitigation tool, for economies that are able to avail themselves of them.

4.2.2 Currency reserves as self-insurance

Countries that are able to access Fed swap lines are an exclusive club. Failing which, countries—especially emerging markets—may instead choose to self-insure, via currency reserve holdings (Aizenman and Lee 2007; Choi and Taylor 2022; Jeanne and Ranciere 2011). The impetus for pursuing self-insurance via reserve accumulation began in the aftermath of the Asian financial crisis of 1997/98,[55] and was reinforced by the global financial crisis, when local dollar financing in many emerging economies dried up, despite their non-involvement in what was essentially a developed markets crisis (Hur and Kondo 2016; Obstfeld, Shambaugh, and Taylor 2010). Global foreign currency reserves have grown rapidly since, and currently amount to $12 trillion (as at the end of 2022), for which the dollar accounts for a share of close to three-fifths.

The use of reserves to offset country risk is (literally) a textbook idea.[56] Standard treatments of uncovered interest parity that allow for imperfect substitutability between local and U.S. dollar-denominated bonds posit how the risk premium may be suppressed by international reserves held by the central bank, which serve as tradable assets that can offset domestic bond issuance, and improve credibility (Ben-Bassat and Gottlieb 1992). One might therefore expect greater foreign reserve holdings by the monetary authority to relieve the negative impact of political risks on the deviations from CIP, since private-

[53] There are, of course, traditional multilateral liquidity facilities, obtained via international financial institutions such as the International Monetary Fund (IMF), in the form of short-term credit to meet liquidity shortfalls. But since IMF loans are accessible by virtually all countries—and the political-economic determinants of IMF lending and conditionality are themselves the subject of an extensive literature (see, for example, Harrigan, Wang, and El-Said 2006; Stone 2004; Sturm, Berger, and de Haan 2005, and the references therein)—we do not explore this mechanism in detail here.

[54] The coefficient on π remains negative and significant, however, suggesting that political risk is still generally relevant; however, we caution against the overinterpretation of this uninteracted term, since it is the total effect (which is also negative) that should most concern us.

[55] Up till then, large reserve holdings had mainly served the purpose of bolstering the credibility of fixed exchange rate regimes, and had not been extensively accumulated by economies with floating (or managed floating) systems.

[56] See, for instance, Krugman and Obstfeld (2009).

Table 9: Effects of political risk on the cross-currency basis, when Fed swap lines are available[†]

	Sample with swap lines[‡]						**Full sample with swap dummy[§]**					
	IV			2SLS			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
π	-52.71	-55.50	-52.05	78.46	59.05	55.48	-50.30*	-51.65*	-53.30*	-49.40*	-49.14**	-66.28**
	(50.89)	(50.13)	(44.54)	(69.43)	(51.08)	(73.93)	(26.59)	(27.94)	(28.65)	(28.26)	(21.33)	(25.01)
Swap $\times$ π							24.90	24.92	24.27	33.81	39.24	53.75
							(52.73)	(56.07)	(59.08)	(50.04)	(49.31)	(61.71)
Swap							98.09	98.36	95.87	133.81	155.76	213.90
							(210.41)	(223.77)	(235.80)	(199.80)	(196.84)	(246.21)
$r^i - r^{us}$		0.05	0.07		0.16*	0.16		0.20**	0.20**		0.20***	0.23**
		(0.11)	(0.10)		(0.09)	(0.09)		(0.08)	(0.08)		(0.07)	(0.10)
Exchange rate			-1.22			0.11			1.70			1.81
			(4.42)			(5.10)			(2.25)			(2.58)
Reserves			-2.04			0.40			-4.24**			-4.48**
			(2.17)			(2.13)			(1.76)			(2.04)
							(210.41)	(223.77)	(235.80)	(199.80)	(196.84)	(246.21)
Observations	1,742	1,742	1,742	1,742	1,742	1,742	4,339	4,339	4,333	4,339	4,339	4,333
F	1.07	1.18	0.71	1.28	2.30	1.33	2.95	3.13	2.48	1.76	3.08	2.06
Cragg-Donald F	3.13	3.45	3.75	2.96	5.13	4.26	10.37	10.30	10.20	8.05	8.00	7.92
Kleibergen-Paap *rk LM*	1.60	1.72	1.89	1.60	1.73	1.90	6.59**	6.48**	6.40**	2.50	2.51	2.61
Hansen J				2.80*	2.79*	1.58				0.26	1.00	0.31

[†] This table reports the regression of monthly cross-currency basis, at a tenor of 3 months, on political risk, which is instrumented with the 3-month-prior election dummy (IV specifications) and both the election dummy and democratic accountability (2SLS specifications). Swap is an indicator that takes on unity when there is a U.S. dollar liquidity swap between the local central bank and the Federal Reserve (and zero otherwise), exchange rate is the nominal effective exchange rate of the local currency against a basket of trade-weighted foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. While the 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications in the left panel, it is 16.9 for 2SLS specifications and 7.0 for IV specifications in the right panel. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

[‡] The swap line sample comprises currencies from Australia, Canada, Denmark, the Euro Area, Japan, Mexico, New Zealand, Norway, Singapore, South Korea, Sweden, Switzerland, and the UK.

[§] Records of U.S. dollar swap facilities were extended and terminated at different times, and for different central banks in each instance. The dummy was coded as unity only when the the swap line was in place.

sector banks would then be able to retain less dollars on their balance sheets (while remaining sound counterparties).

We explore this alternative insurance channel by imposing an interaction of political risk with reserves in our regressions, with a sample split into non-G10 and G10 currencies, consonant with the notion that the mechanism is more relevant for emerging markets. The results are shown in Table 10.[57]

Table 10: Effects of political risk on the cross-currency basis, conditional on reserves[†]

	Non-G10			G10		
	(1)	(2)	(3)	(4)	(5)	(6)
π	-119.66*	-123.75*	-121.30*	3.3e+05	-855.00	-766.19
	(61.07)	(62.02)	(61.22)	(1.5e+09)	(10952.11)	(9042.76)
$\pi \times$ Reserves	83.04*	87.64*	86.02*	-1.3e+05	310.43	274.13
	(46.61)	(47.05)	(46.88)	(6.0e+08)	(3950.97)	(3208.71)
Reserves	325.47*	344.13*	338.45*	-5.2e+05	1265.66	1117.13
	(184.75)	(186.60)	(186.02)	(2.5e+09)	(16108.65)	(13078.67)
$r^i - r^{us}$		0.09	0.03		-1.47	-1.33
		(0.13)	(0.14)		(18.62)	(15.30)
Exchange rate			-4.51			2.06
			(2.72)			(73.03)
Currency and Time FE?	Y	Y	Y	Y	Y	Y
Observations	2,993	2,993	2,993	1,340	1,340	1,340
F	1.47	1.39	1.39	0.00	0.00	0.01
Cragg-Donald F	5.30	6.50	7.49	0.00	0.00	0.00
Kleibergen-Paap rk LM	8.10***	5.73**	5.04**	0.00	0.01	0.01

[†] This table reports the regression of monthly cross-currency basis, at a tenor of 3 months, on political risk, which is instrumented with the 3-month-prior election dummy. Exchange rate is the nominal effective exchange rate of the local currency against a basket of trade-weighted foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap rk LM statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% (15%) maximal IV size critical value of weak identification is 7.0 (4.6). Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Strikingly, while we find that the coefficient on the interaction term is positive for both groups—suggesting that reserves do, indeed, mitigate political risk—it is only marginally significant for emerging economies, while remaining insignificant for developed markets. This aligns with the literature that attributes international reserve accumulation in EMs to an insurance motive against sudden stops of financial flows (Aizenman and Lee 2007; Choi and Taylor 2022). Hence, holding greater reserves helps relieve the dollar squeeze,

[57] In the interest of space, we only report results for estimations using IV, with political risk instrumented by the election dummy alone. Full suite results with 2SLS estimations are reported in Table A.27 of the appendix.

thereby improving the ability of EM actors to meet contractual obligations associated with the CCB. The insignificant result for G10 currencies could capture either how these monetary authorities are able to sustain continued access to dollar via swap lines (and hence their reserve stocks do not matter), or how their own currencies could play the role of safe assets in and of themselves.[58]

More generally, one could make the case that any action by a government to boost the attractiveness of its assets could serve to compensate investors for perceived sovereign default—or political—risk. The most standard such policy tool is the interest rate defense, involving hikes in the domestic sovereign bond rate. To verify that such policy choices can indeed serve to mitigate political risk on the CCB, we estimate another specification where we include an interaction between political risk and the 10-year sovereign-U.S. Treasury rate differential (used as an additional control in Section 3.3). The results—reported in Table A.28 of the appendix—similarly reveal that significant (and negative) coefficients[59] on the interaction term only applies to the non-G10 countries, corroborating how self-insurance mechanisms appear to be most relevant for EMs.

4.3 Channels of transmission for political risk

4.3.1 Are local interest rates affected by political risks?

Our calculations of the cross-currency basis in the baseline rely on Interbank Offered (IBOR) interest rates.[60]. IBOR is an *un*secured interest rate, typically reported by a panel of selected banks, at which they are willing to lend to (or borrow from) one another.

In practice, IBORs are not constructed using actual transactions data, but reported ones; as such, they have been criticized as potentially subject to manipulation by (especially) large panel banks, especially since the global financial crisis.[61]. As such, IBOR may not turn out to be a truly risk-free rate, as required in the computation of CIP. Moreover, since IBORs do not require posting collateral, it is likewise not a secured rate, which suggests that default risk may be nonzero.

[58] Besides the dollar, the Japanese *yen* and Swiss *franc* are often regarded as safe haven currencies, and assets denominated in these currencies are frequently treated as safe assets. There is some suggestion in the literature that swap lines and reserves are more likely to be substitutes rather than complements (Aizenman, Jinjarak, and Park 2011).

[59] The coefficient implies that hikes in the long-term interest differentials leads to deterioration in dollar availability, which may be explained by how increases in the local sovereign rate (relative to the United States) likely signals, *inter alia*, greater political risk, which in turn discourages foreign investment inflows and curtails the domestic supply of dollars.

[60] For major currencies such as the GBP, JPY, and USD, LIBOR (or LIBOR-equivalent) rates were used. For other currencies with their own domestic interbank rates—such as the CNY and EUR—we used these instead (the SHIBOR and EURIBOR, respectively). For simplicity, we refer to all these rates as IBOR.

[61] The manipulation of LIBOR did not result from the crisis, but the event did bring the public's (and regulators') attention to the issue. The most infamous scandals involving the manipulation of LIBOR rates concern Barclays and UBS, with the goal of maintaining creditworthiness or benefiting trading positions. See McConnell (2013) for details.

Accordingly, we consider alternatives to the IBOR. Two options for risk-free rates are the deposit rate at the domestic central bank, and the rates on treasures issued by the local government. Both are secured, but they potentially embed other risks (which explains why we did not favor these choices in our baseline). Central bank rates may embed inflation risk, especially for less-credible monetary authorities. Non-U.S. government bond rates (and increasingly even that of the U.S.) are famously subject to sovereign default risks, especially for emerging economies. Still, accommodating these alternatives allows us to peer into whether political risk operates on the unsecured rate used to calculate the synthetic dollar in equation (2), or if a secured one will still be associated with political risk.

Finally, it is also worth considering if the unsecured synthetic interest rate *alone* is sufficient to alter the political risk calculus. We can check this by comparing the effect of the synthetic rate to the IBOR rate alone.

We investigate all these possibilities by regressing the respective interest rates directly on the political risk measure, instrumenting the latter with the election dummy and democratic accountability, in line with the baseline. These results are reported in Table 11.

Strikingly, we do not find significant results for deposit rates, treasury rates, or IBOR rates, as shown in Table 11.[62] For the first two categories, the insignificant results suggest that secured rates are not sensitive to political risk; equivalently, collateralized debt may offer insulation from political risk. Similarly, the absence of statistical significance for IBOR rates imply that (risk-free) interest rates are, likewise, unaffected by political risk.

In contrast, estimates using synthetic dollar rates do produce positive and significant coefficients on π and $\Delta\pi$, suggesting that the effects of political risk operate along the margin of local access to dollars. Put another way, it is not so much the unsecured local interest rate that is driving CIP deviations, as much as a so-called "dollar squeeze" experienced by firms in the local economy, as captured by the local rate, in combination with the forward differential.

4.3.2 What sorts of political risks matter for CIP deviations?

Our baseline indicator for political risk was constructed from a subset of risk measures that we regard as most pertinent for deviations in covered interest parity. More precisely, turnover and conflict are the sorts of unanticipated shocks that may potentially violate the typical reliability of the CIP relationship. To ascertain whether variations in *other* sorts of risk may still affect our results, we perturb our baseline metric with several

[62]The column with IBOR rates simply replaces the entire CCB with the IBOR rate (sans the synthetic dollar rate), and is hence distinct from the baseline in Tables 1 and 2, where IBORs are used to compute the CCB.

Table 11: Local interest rates and political risks

	Deposit rate				Treasury rate				IBOR rate				Synthetic rate			
	(1) IV	(2) IV	(3) 2SLS	(4) 2SLS	(5) IV	(6) IV	(7) 2SLS	(8) 2SLS	(9) IV	(10) IV	(11) 2SLS	(12) 2SLS	(13) IV	(14) IV	(15) 2SLS	(16) 2SLS
Panel A: *Estimation in levels*																
π	1.30	0.59	-19.48	-11.18	-7.13	-8.36	-48.17	-41.30	-5.92	-6.90	-30.24	-30.41	24.72	25.50*	33.79*	34.57*
	(8.92)	(8.67)	(39.53)	(32.59)	(12.95)	(13.26)	(33.87)	(31.61)	(7.25)	(7.07)	(19.29)	(21.17)	(14.59)	(15.01)	(19.03)	(19.00)
Exchange rate		-2.19*		-2.26		-2.61*		-3.21		-2.85**		-3.07*		0.71		0.79
		(1.20)		(1.47)		(1.29)		(2.19)		(1.24)		(1.71)		(1.68)		(1.84)
Reserves		-1.54		-1.89		-1.93		-2.77		-1.25		-1.87		1.62		1.87
		(2.05)		(2.34)		(1.55)		(2.28)		(1.95)		(2.29)		(1.13)		(1.31)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	3,942	3,936	3,942	3,936	4,246	4,246	4,246	4,246	4,207	4,207	4,207	4,207	4,205	4,205	4,205	4,205
F	0.02	1.46	0.24	1.15	0.30	2.30	2.02	1.41	0.67	2.21	2.46	1.56	2.87	1.56	3.15	1.74
Cragg-Donald F	15.56	15.49	30.50	30.53	18.32	17.96	12.01	15.63	21.48	21.12	11.66	13.07	21.77	21.41	11.79	13.09
Kleibergen-Paap *rk LM*	6.18**	6.22**	7.37**	7.58**	6.31**	6.20**	6.69**	6.79**	7.45***	7.43***	7.57**	7.54**	7.55***	7.53***	7.66**	7.63**
Hansen J			0.24	0.12			1.41	1.04			2.22	1.62			0.89	0.74
Panel B: *Estimation in first differences*																
$\Delta\pi$	2.56	2.59	3.73	3.84	-2.64	-2.56	-1.51	-1.38	2.60	2.78	2.09	2.35	14.90	16.36	22.36**	24.02**
	(3.64)	(3.62)	(3.28)	(3.25)	(7.19)	(7.28)	(5.66)	(5.75)	(2.60)	(2.62)	(2.11)	(2.17)	(12.35)	(13.04)	(8.99)	(9.80)
Δ Exchange rate		0.20		0.28		0.41		0.48		0.81		0.78		5.17**		5.65**
		(0.53)		(0.54)		(0.56)		(0.50)		(0.62)		(0.61)		(2.39)		(2.60)
Δ Reserves		-0.97		-0.95		-0.53*		-0.52*		-1.01		-1.02		3.42**		3.48**
		(0.60)		(0.61)		(0.27)		(0.26)		(0.74)		(0.74)		(1.31)		(1.33)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	3,930	3,923	3,930	3,923	4,244	4,244	4,244	4,244	4,206	4,206	4,206	4,206	4,203	4,203	4,203	4,203
F	0.50	1.11	1.29	1.68	0.14	1.91	0.07	1.92	1.00	0.97	0.98	0.96	1.46	3.98	6.19	3.84
Cragg-Donald F	30.66	29.69	17.44	16.79	33.77	32.84	20.69	19.98	36.83	35.73	22.38	21.58	36.88	35.78	22.40	21.60
Kleibergen-Paap *rk LM*	10.39***	10.17***	11.32***	11.20***	12.13***	11.91***	13.21***	13.11***	12.93***	12.66***	13.97***	13.83***	12.94***	12.67***	13.97***	13.84***
Hansen J			0.22	0.26			0.52	0.56			0.90	0.67			0.52	0.54

† This table reports the regression of monthly cross-currency basis, at a tenor of 3 months, on political risk, which is instrumented with the 3-month-prior election dummy (IV specifications) and both the election dummy and democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of trade-weighted foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

distinctive risks.[63]

A natural question to pose is whether it is truly political risk that we are measuring, or if the risk is related more to *policy* variability. To evaluate this possibility, use instead an index of policy uncertainty, constructed from the frequency of coverage by newspapers of uncertainty in economic policy (Baker, Bloom, and Davis 2016). Next, rather than focusing on unanticipated risk, we consider political risks of a more *systematic* nature. The most obvious candidate for this weakness in the rule of law. When the rule of law is poor, contractual arrangements—including forward contracts—become less credible, which could then induce CIP deviations. However, this form of risk is usually chronic and persistent, and as such, would typically be priced into the forward basis.

The remaining columns decompose the main measure into subcomponents, to gauge whether a specific type of unanticipated risk is driving the results. We first limit political risk to *only* external conflict. If such extraneous volatility does not spill over into domestic economic and financial activity, then such conflict may not influence CIP deviations, when taken on its own. Alternatively, we could limit political risk to only government stability, under the premise that such shocks exert the most direct impact on financial market contracts (whereas the disruptions that arise from conflict are more indirect).

The results in Table 12 provide three additional insights. First, it is clear that policy uncertainty alone is insufficient to trigger CIP deviations. Hence, while political transitions may well result in unexpected shifts in policy, the CCB is ultimately influenced more by the unpredictability of the underlying political process. Second, given how our results appear to be driven by EMs (Section 4.1), one may be tempted to attribute this risk to the usual suspects for governance failures in developing countries, such as poor control of corruption or weaknesses in the rule of law. However, the insignificance of the coefficients on these measures[64] make it clear that it is unanticipated shocks that give rise to the CCB, rather than forms of political risk that may be more readily priced into spreads. Third, the highly significant coefficient on government stability (and insignificant one on external shocks) underscores how political risk remains solidly grounded in domestic factors.[65]

[63] Admittedly, the instruments we deploy were chosen to satisfy the relevance condition and exclusion restriction for the specific sort of unexpected political risk we have in mind. Still, we believe this exercise is useful, since the effect of political risk is ultimately a combination of both instrumental and instrumented variables (since $\hat{\theta}_p = (\mathbf{Z}^\intercal \pi)^{-1} (\mathbf{Z}^\intercal ccb)$).

[64] In the appendix, we report the analogous results for columns (5)–(8) when corruption, bureaucracy quality, and military in politics are used instead, with no qualitative difference in the outcome.

[65] We also perform estimations with internal conflict risk. There, we find negative and significant coefficients for political risk in first differences, but insignificant results in levels.

Table 12: Cross-currency basis and different political risks

	Policy uncertainty				Law and order				External conflict				Government stability			
	(1) IV	(2) IV	(3) 2SLS	(4) 2SLS	(5) IV	(6) IV	(7) 2SLS	(8) 2SLS	(9) IV	(10) IV	(11) 2SLS	(12) 2SLS	(13) IV	(14) IV	(15) 2SLS	(16) 2SLS
Panel A: *Estimation in levels*																
π	-29.35	-24.74	-10.66	-34.20	-361.16	-563.30	11.73	25.26*	-142.33	-164.24	-40.18	-47.21	-14.15**	-14.58**	-13.86**	-17.90***
	(49.29)	(37.63)	(25.34)	(50.26)	(889.99)	(2230.32)	(6.99)	(13.42)	(139.05)	(182.20)	(48.86)	(28.88)	(6.81)	(7.01)	(5.69)	(6.07)
$r^i - r^{us}$		-0.13		-0.22		1.77		0.01		0.69		0.26*		0.14**		0.15*
		(0.52)		(0.74)		(6.65)		(0.09)		(0.73)		(0.14)		(0.06)		(0.08)
Exchange rate		-4.04		-6.34		-89.99		5.26*		-2.65		0.07		1.93		2.10
		(13.76)		(16.56)		(360.18)		(2.98)		(11.74)		(2.92)		(1.80)		(2.01)
Reserves		-21.19		-26.90		-14.50		-2.30**		-10.79		-5.11*		-3.01**		-3.06**
		(24.88)		(35.77)		(50.46)		(0.87)		(10.22)		(2.61)		(1.25)		(1.39)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	2,195	2,195	2,195	2,195	4,339	4,333	4,339	4,333	4,339	4,333	4,339	4,333	4,339	4,333	4,339	4,333
F	0.35	0.30	0.18	0.27	0.16	0.02	2.82	2.86	1.05	0.29	0.68	1.22	4.32	2.71	5.94	2.96
Cragg-Donald F	0.79	1.09	0.46	0.61	0.30	0.16	190.01	92.61	2.45	2.12	27.04	36.77	34.17	34.08	40.99	36.98
Kleibergen-Paap *rk LM*	0.40	0.54	0.46	0.56	0.18	0.07	3.44	5.19*	1.22	0.95	1.75	2.45	8.57***	8.49***	10.32***	9.74***
Hansen J			1.97	0.13			7.35***	7.23***			1.82	2.08			0.00	0.18
Panel B: *Estimation in first differences*																
$\Delta\pi$	34.80	23.55	34.74	23.53	897.64	938.41	10.23	6.67	-212.06	-220.06	-208.88	-219.38	-22.68**	-23.05**	-21.83**	-22.33**
	(81.49)	(36.10)	(81.78)	(35.84)	(1064.47)	(1146.78)	(30.74)	(30.34)	(157.54)	(166.93)	(146.77)	(159.71)	(9.36)	(9.58)	(8.40)	(8.60)
$\Delta(r^i - r^{us})$		-0.42		-0.42		-0.34		-0.23**		-0.20		-0.20		-0.25**		-0.25**
		(0.26)		(0.26)		(0.41)		(0.10)		(0.12)		(0.12)		(0.11)		(0.11)
ΔExchange rate		33.43		33.41		-18.74		-5.89		-13.27**		-13.24**		-9.35*		-9.24**
		(57.80)		(57.55)		(32.97)		(3.78)		(6.29)		(6.07)		(4.64)		(4.53)
ΔReserves		-21.69		-21.68		-3.04		-3.99**		-4.67**		-4.67**		-4.85**		-4.82**
		(30.14)		(29.93)		(7.53)		(1.67)		(1.97)		(1.96)		(2.08)		(2.06)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	2,193	2,193	2,193	2,193	4,337	4,330	4,337	4,330	4,337	4,330	4,337	4,330	4,337	4,330	4,337	4,330
F	0.18	1.18	0.18	1.19	0.71	1.15	0.11	3.29	1.81	3.78	2.03	3.91	5.87	3.28	6.76	3.66
Cragg-Donald F	0.28	0.60	0.14	0.30	0.36	0.33	5.85	5.93	6.10	5.91	3.16	3.02	28.63	27.93	15.32	14.88
Kleibergen-Paap *rk LM*	0.19	0.47	0.20	0.49	0.83	0.76	2.00	1.94	2.23	2.10	2.55	2.32	12.37***	12.08***	13.44***	13.22***
Hansen J			0.00	0.00			6.72**	6.89***			0.02	0.00			0.10	0.08

† This table reports the regression of monthly cross-currency basis, at a tenor of 3 months, on different risks, which is instrumented with the 3-month-prior election dummy (IV specifications) and both the election dummy and democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of trade-weighted foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

5 Conclusion

One key vulnerability in the international financial system—uncovered since the outbreak of the global financial crisis—has been the critical importance of dollar liquidity for countries around the world, underscored by the breakdown of covered interest parity since. While the literature has focused on a host of explanations, this paper offers an underexplored factor—political risk—which has taken off in the post-crisis period, and continued to contribute to continued deviations from CIP.

This result is robust to a host of additional controls, alternative construction of key variables, variations in sample coverage, and checks on the identification strategy. Crucially, political risk stands independent of the financial factors that have been the preoccupation of the extant literature, and its presence may also help explain several stylized facts in post-crisis international finance, including the divergence in CIP deviations between AEs and EMs, the rise of self-insurance via reserve accumulation in the latter group, and the imperviousness of the dollar squeeze to changes in local interest rates alone.

Future research can look to unpack the specific forms of political risk—whether these derive more from, for example, distortions arising from special interest politics, or the intensity of political competition between parties—and how these may contribute separately to deviations in CIP. Similarly, it would be interesting to examine how political risk intersects with more traditional explanations premised on more traditional financial factors, especially those associated with sovereign risk and transactions costs.

Policy implications. Our results speak to the importance of policy tools, currently in place, that are meant to mitigate the effects of dollar shortages. Most evidently, this would take the form of dollar swap lines, although the Federal Reserve may be reluctant to extend such facilities to countries that it feels are less creditworthy (or less politically aligned), thereby introducing a chicken-and-egg problem of providing support only for economies that would already be in more secure financial positions to begin with. Alternatively, self-insurance mechanisms appear to have some (limited) efficacy, especially for EMs, but perhaps the most pertinent form of policy action would be to improve the domestic political and institutional environment, so that risks of this nature do not inadvertently spill over into economic relationships.

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Online Appendix (Not for Publication)

A.1 Description of Data Sources

Cross-currency basis Our cross-currency basis data in the baseline are calculated according to equation (2), using relevant Interbank Offered Rate (IBOR), spot and forward exchange rates at daily frequency from *Bloomberg* before computing the monthly averages for the baseline estimations. For simplicity, we report the corresponding tickers for each currency in Table A.2. Similarly, the 1-month and 1-year cross-currency basis are computed using tickers at different tenors from the same source.

Political risk We obtain the political risk data from the *International Country Risk Guide* (ICRG), which provides ratings for various dimensions of risk, on the basis of political information collected within each country. As discussed in section 2.5, we construct our political risk indicator comprising of government stability, internal conflict, and external conflict with an equal weight, and invert its values to generate a readily-comprehensible interpretation for it.

Election We extract the election data from the *Election Guide* of *International Foundation for Electoral System* (IFES). It provides compact information on national elections, such as date of the election, government structure, electoral system, voter turnout and percentage of the vote, etc. The baseline election dummy is coded in a way that 1 is assigned for the period three months prior to the presidential and parliamentary election month, and 0 otherwise. In the robustness section, various of election indicators such as those at different duration, excluding legislature and competitive election etc. are coded according to the information from the same source as well.

Democratic accountability Democratic accountability measures how responsive a government is to its people. The more responsive it is, the less likely it is that the government will fail. We collect this data also from ICRG, and invert the values to get a readily-comprehensive interpretation, where a higher value indicates a higher risk in terms of democratic accountability.

Interest differentials As shown in equation 5, we define and calculate interest differentials as the gap between local and the U.S. 3-month IBOR interest rate in the baseline, with *Bloomberg* as the source as well.

Exchange rate We collect the (broad) nominal effective exchange rate of the local currency vis-à-vis a basket (64 economies) of trade-weighted foreign currencies from the *Bank for International Settlements* (BIS).

Reserves In our analysis, we control the reserves by computing a ratio to each country's GDP. The monthly international reserves data are drawn from *Refinitiv Eikon*, while the GDP data at quarterly frequency[66] are obtained from Bureau Van Dijk's *Economist*

[66]Given that there is no monthly record of GDP, we use the quarterly data to represent the corresponding months for each quarter.

Intelligence Unit Country Data (EIU CD).

Forward spread We derive the forward spread by calculating the difference between the bid and ask price for the 3-month forward exchange rate for each currency. Likewise, the data source is *Bloomberg* and the monthly series are the averages of daily frequency data.

Term premium The term premium is defined and computed as the difference between the 10-year local sovereign and 2-year U.S. Treasury term spread, with data collected from *Bloomberg* for each currency.

Long-term treasury spread We calculate the long-term treasury spread as the spread of the 10-year local sovereign yield over the 10-year U.S. Treasury. Again, the relevant data for each currency are extracted from *Bloomberg*.

Currency volatility We collect the implied volatility on 3-month at-the-money currency options for each currency from *Bloomberg*.

Ethnic fractionalization The ethnic fractionalization index from Drazanova (2020)[67] captures the probability that two randomly drawn individuals are not from the same ethnic group.

Swap dummy/size We collect the U.S. dollar liquidity swap size data between a local central bank and the Fed from *Federal Reserve Bank of New York*, and the swap dummy is coded as unity in the month when the central bank does borrow U.S. dollars from the Fed via the swap line.

Different types of interest rates The deposit rate is the 3-month interest rate from the central bank, while the treasury rate is the 3-month sovereign bond rate[68]. The synthetic rate is calculated with IBOR interest rate and relevant exchange rates according to the equation (A.1):

$$r_{t,t+n}^{i,synth} = r_{t,t+n}^{i} - \frac{1}{n}\left(f_{t,t+n} - s_t\right), \tag{A.1}$$

where $r_{t,t+n}^{i,synth}$ represents the synthetic dollar rate for currency i at a tenor of n[69], $f_{t,t+n}$ and s_t are the corresponding log-equivalent exchange rates. As discussed, it measures the cost of U.S. dollars to foreign firms via the swap market. On balance, the raw data for different interest rates are all from *Bloomberg*.

Vote margin The vote margin—the running variable in our RD estimation—refers to the margin victory for the strongest non-incumbent party (or the strongest opposing party in most cases), defined as the vote share of the strongest non-incumbent party minus the

[67] In this data set, there is only yearly record of ethnic fractionalization between 1945 to 2013, while our sample ranges from July 2009 to August 2020. Therefore, we have to employ interpolation method to predict the data after 2013 and assume that the value for each month does not change within a year (therefore we assign the same value for all months in a single year).

[68] For certain countries that we find no record of sovereign bond rate, we use the zero-coupon bond rate at the same tenor instead. These are Chile, Indonesia, Israel, India and Philippines.

[69] In our case, the tenor is 3-month.

vote share of the incumbent party[70]. Intuitively, a positive margin indicates a turnover of the government after the election. However, some polities, such as Australia, often form a government with a coalition of a few aligned parties after the election, meaning that the incumbent party may stay in power in the form of coalition with a fewer vote share than the strongest opposing party[71], or *vice versa*. To resolve this issue, we invert the values of vote margin in these elections to stay consistent with the definition of the margin that a positive (negative) value implies a turnover of government (the succession of the incumbent party in the government).

For simplicity, we describe all the variables with their short definitions and sources in Table A.1. The summary statistics for the main variables of interest are reported in Table A.3, with the original series in the upper panel and the inverse hyperbolic sine transformed series in the bottom panel. We also report our currency sample together with the classification of G10 and non-G10 currencies, as shown in Table A.4.

[70]In most cases, the incumbent party gets the second largest vote share when there is a turnover of government. However, there are still a few cases in which the incumbent party loses without being the second-highest vote share receiver. And we instead calculate the vote margin as the vote share of the winning party minus that of the party with second-highest vote share, which might also be regarded as close elections but between two non-incumbent parties.

[71]It suggests a positive vote margin without a change of government in power under this circumstance, contradicting with our identification in RD estimation where any observation with a positive vote margin should be to the right of the cutoff.

Table A.1: Sources and definitions for variables of interest

Variable	**Definition**	**Source**
	Baseline variables	
Cross-currency basis	Three-month IBOR basis of a currency against the US dollar	Calculated by author & Bloomberg †
Political risk	An indicator comprising of government stability, internal conflict and external conflict	Calculated by author & ICRG‡
Election	An indicator that assigns 1 for the period three months prior to the presidential and presidential election month, and 0 otherwise	Coded by author & EG IFES‡
Democratic accountability	A measure of how responsive a government is to its people	ICRG
Interest differentials	The gap between local and the U.S. 3-month IBOR interest rate	Calculated by author & Bloombeg
Exchange rate	Nominal effective exchange rate of the local currency vis-à-vis a basket of trade-weighted foreign currencies	BIS‡
Reserves	International reserves to GDP ratio	RE‡& EIU CD‡
	Robustness and additional variables	
Forward spread	The difference between the bid and ask price for the 3-month forward exchange rate	Calculated by author & Bloomberg
Term premium	The difference between the 10-year local sovereign and 2-year U.S. Treasury term spread	Calculated by author & Bloomberg
Long-term yield spread	The spread of the 10-year local sovereign yield over the 10-year U.S. Treasury	Calculated by author & Bloomberg
Currency volatility	The implied volatility on 3-month at-the-money currency options	Bloomberg
Ethnic fractionalization	The probability that two randomly drawn individuals are not from the same ethnic group	Drazanova (2020)
Swap size	The amount of U.S. dollars that the central bank borrows from the Fed via swap line	FRBNY‡
Swap dummy	An indicator coded as unity in the month when the central bank does borrow U.S. dollars from the Fed via the swap line, and 0 otherwise	Coded by author & FRBNY
Deposit rate	The 3-month deposit interest rate from the central bank	Bloomberg
Treasury rate	The 3-month sovereign bond yield	Bloomberg
IBOR rate	The 3-month Interbank Offered Rate reported by a panel of banks, at which they are willing to borrow or lend to each other	Bloomberg
Synthetic dollar rate	Interest rate faced by non-US investors to borrow dollars via currency swap	Calculated by author & Bloomberg
Vote margin	Vote share of the strongest opposing party minus vote share of the incumbent party	Calculated by author, DPI‡& EG IFES‡

† Relevant data are from Bloomberg. See Table A.2 for details.

‡ BIS = Bank for International Settlements, DPI = Database of Political Institutions 2020 from Inter-American Development Bank, EIU CD = Economist Intelligence Unit Country Data, EG IFES = ElectionGuide of International Foundation for Electoral System, FRBNY = Federal Reserve Bank of New York, ICRG = International Country Risk Guide, RE = Refinitiv Eikon.

A.2 Preliminary tests

Simple OLS estimation As discussed in Section 2.3, there might be endogeneity issues arising from reverse causality. We therefore run the simple OLS regression of the cross-currency basis on political risk, and report the corresponding results in Table A.5.

Endogeneity test Given that we believe the results found in Table A.5 are biased due to potential endogeneity problem, we subsequently do the endogeneity test for all the specifications, and report the corresponding test statistics and p values[72] in the last two rows of Table A.5. Evidently, the extremely small p values indicate that we have to reject the null and accept the existence of endogeneity issue.

Unit root tests We do the stationarity of panel unit root tests for series used in the baseline and report the corresponding results in levels (top panel) and first differences (bottom panel) in Table A.6. We are able to reject the null (of a unit root) for our two main variables of interest—the CCB and political risk—either in levels of first differences. This is not the case for the interest differential, however, for half the tests. Even so, in first differences, all three baseline variables satisfy stationarity. We also consider a series of univariate unit root tests by currency, and show the results in Table A.7 (for CCB), Table A.8 (for political risk) and Table A.9 (for interest differential), respectively. Obviously, the totality of the univariate tests point to a similar conclusion as those for the panel: that the CCB and political risk do not generally raise concerns about stationarity, but the same cannot be said for the interest rate differential. The overall results indicate that unit root is not an issue for our two main variables of interest—political risk and CCB—both in levels and first differences.

Cointegration tests We do the panel cointegration tests for series in levels for the parsimonious (top panel) and comprehensive[73] (bottom panel) specifications in Table A.10. We are able to reject the null of the existence of cointegration for the majorities except for the parsimonious specifications with Westerlund α test. Therefore, we believe that cointegration should not be a big issue in our data.

Manipulation tests Regression discontinuity requires a check for the discontinuity in the distribution of the forcing variable, known as the manipulation test. The idea is that the marginal density of the forcing variable should be continuous without manipulation around the cutoff; otherwise, it might cast doubts on the identification in discontinuity design. We do the manipulation tests for our running variable–the vote margin–and report the corresponding results in Table A.11 for both the 5% margin (panel A) and 10% margin (panel B) as the criterion for close elections, either with or without the

[72]For test statistics, we report the GMM distance test statistic of endogeneity under the null hypothesis that the specified endogenous regressors can be treated as exogenous. All the tests are done with the IV specifications where political risk is instrumented with the duration-to-election dummy only. The same tests for 2SLS specifications find similar results, and these results are available upon request.

[73]We denote the specification where only the cross-currency basis and political risk are considered as "parsimonious", and that with interest differentials, exchange rate and reserves as "comprehensive".

Euro sample. Evidently, we find no evidence to reject the null of no manipulation in our running variable around the threshold for all the specifications given the large p values found for them.

Balance test Another assumption on regression discontinuity is that covariates controlled in the estimation should be no "jump" around the cutoff. While the bandwidth selected with a non-parametric estimation passes this test, the window turns out to be rather narrow with a mere 5 variables[74]. Given that we select the bandwidth of 5 to increase the number of observations used for estimation without sacrificing the accuracy for close elections too much, we increase the window for bandwidth and report the p-values for covariates test in Figures 1(a) (estimation of CCB) and 1(b) (estimation of first differences in CCB) in Figure A.1, respectively. Clearly, the p values are large and volatile when the window lengths are quite small in both specifications, consistent with the balance test from non-parametric estimations. However, they stabilize at a relatively small value as the window length increases, especially when the vote margin is greater than 4%. Put it another way, the balance tests for covariates are not universally passed in our case (especially for the level estimation as shown in Figure 1(a)) since we restrict our vote margin at 5% for RD estimations. While this might indicate some threats to our estimation results, we additionally employ RD estimations for both 5% and 10% vote margin without controlling any covariate, and report the corresponding results in Tables A.12 and A.13, respectively. Obviously, we find qualitatively consistent results for point estimations after excluding any covariate, a negative coefficient for both $\hat{\theta}_w$ and $\hat{\gamma}_w$. While the former is statistically significant, the latter is insignificant. Overall, these indicate that covariates do not alter our findings from RD, further relieving the concern regarding the balance test for covariates.

A.3 Additional robustness checks

Political risk measure relative to the U.S. Throughout our baseline analysis, we only consider the political risk level in the local polity while overlooking its counterparty—the U.S.—whose political risk level might fluctuate as well[75]. Therefore, it is reasonable to look at the political risk indicator relative to the U.S., which we define as the gap between the local and the U.S. political risk level. We run the full suite of baseline specifications as described in Section 3.2, and report the levels (upper panel) and first differences (bottom panel) results in Table A.14, in which we find consistently negative and significant coefficient on either π and $\Delta\pi$ through all the specifications.

[74]The recommended window from the non-parametric estimation is [-0.875, 0.875], where 2 observations are below the threshold and 3 are above. However, it makes no sense to go with such a small sample.

[75]Put another way, we assume that there is no or unchanged political risk in the U.S. in the baseline regressions.

Multiple duration-to-election indicators As discussed, we employ the 3-month prior to the election indicator in the baseline, and provide estimation results with 1-month and 5-month indicators in the robustness check section. Here, we run similar regressions for the 2-month, 4-month, and 6-month prior to election indicators and summarize the results in Table A.15. On balance, the findings are consistent with the baseline results.

Both level and first differenced variables (election dummy and democratic accountability) in the instrument set Although we have cogent reason to employ first-differenced variable(s) as instrument(s), one might still be curious about how the duration-to-election dummy or democratic accountability in levels works for the first differenced specifications. Therefore, we additionally run first-differenced regressions where we instrument the changes in political risk with both the level and first differenced variables, and these results are shown in Table A.16. Consistently, we find quantitatively and qualitatively similar results to the baseline findings.

Quarterly estimation An election usually occurs every several years, one might be worried that there could be many null values in our election dummy constructed on a monthly basis. We therefore run a quarterly regression where all the variables are the quarterly averages of the monthly data (except for the election dummy[76]), and report these results in Table A.17. On balance, the coefficient on either π or $\Delta\pi$ is negative (although not always significant[77]), consistent with our finding from monthly estimations.

Expansion of the instrument set As discussed in Section 3.4.2, we also consider expanding our instrument set by either replacing democratic accountability variable, or adding the new variable to the full instrument set. The corresponding results for bureaucratic quality and ethnic fractionalization are reported in Tables A.18 and A.19, respectively. Unsurprisingly, these are both qualitatively and quantitatively in line with our baseline finding.

Presidential and parliamentary systems Although we differentiate the presidential elections from parliamentary ones in coding the duration-to-election dummy, we do not estimate the effect of political risk on CCB with a sample with either system only. Therefore, we do so and report the subsample estimation results in Tables A.20 (for polities with presidential system) and A.21 (for polities with parliamentary system), respectively. Consistently, we find a negative coefficient for either π or $\Delta\pi$ in both groups despite the reduction in significance for the specifications with parliamentary system.

[76]We only use the one quarter prior to the election quarter election indicator as the instrument for political risk, given that more than 1 quarter might be far earlier than the real election date.

[77]The less significant results also point to the necessity to conduct monthly analysis where the election information is more accurate and coded at a monthly basis.

A.4 Additional discussion

Why parametric RD? We use a parametric model for our RD estimation since we manually choose the bandwidth at 10% for both sides of the cutoff, given the small number of observations in our data. In fact, we also try the non-parametric RD where the bandwidth is determined by either the MSE[78]-optimal or CER[79]-optimal selector, and find negative (and significant) point estimates[80] for both $\hat{\theta}_w$ and $\hat{\gamma}_w$. However, these estimations suggest very small values—between 1% and 5% (usually smaller than 3%)—for bandwidths, substantially reducing the number of observations in our sample. Therefore, we do the parametric RD estimation with a bandwidth at 10%.

RD figures with confidence intervals We illustrate the RD plots at the 90% confidence interval level for the full sample in Figure A.2 (bin-specific standard errors) and Figure A.3 (constant standard errors), and for the sample excluding euro in Figure A.4 (bin-specific standard errors) and Figure A.5 (constant standard errors), respectively.

Additional analysis for RD In the baseline, we follow the spirit of the non-parametric RD estimation which suggests a very small value for the bandwidth (5 percent in our case). However, the choice sacrifices the number of observations in our sample. To make most of the data, we loosen our threshold for close elections to a 10 percent margin, and present these results in Figures A.6 (full currency sample) and A.7 (sample excluding euro), and Table A.22, as reported in the paper for the 5 percent voting margin. Furthermore, we plot the RD graphs with bin-specific standard error confidence interval at 90% level in Figure A.8 (full currency sample) and Figure A.9 (sample excluding euro), respectively. While the number of observations increases, the decline in cross-currency basis at the threshold persists regardless of currency sample and choice of local polynomial. In particular, the gap seems to be slightly smaller compared to what we find with the 5 percent margin for estimations with changes in cross-currency basis, although the point estimates remain insignificant (but negative). The less significant results from a less stringent criterion for close elections confirm again that the closer the elections the more negative cross-currency basis is. In some polities, such as Australia, the government is typically formed as a coalition comprising several aligned parties after the election. We therefore employ the vote margin from the government and opposing coalitions (where applicable) as our running variable, and report the corresponding results in Figures A.10 (full currency sample) and A.11 (sample excluding euro), and Table A.23. Evidently, we see a drop in CCB for the level estimations at the cutoff (zero) of the vote margin, while it switches to a hike (although small) for first differences of CCB. However, the estimates of $\hat{\gamma}_w$ are insignificant, suggesting no effect in specifications of first differences in CCB. On balance, these findings are in line with our baseline result that a higher political risk

[78] MSE refers to mean square error.
[79] CER refers to coverage error rate.
[80] These results are available upon request.

leads to a more negative cross-currency basis.[81].

Falsification test We do the estimations for the baseline specifications but with the period between January 2000 to June 2009, or the pre-crisis and crisis period. The corresponding results are summarized in Table A.24. The results suggest that political risk played little role on CIP deviations before the global financial crisis.

Additional analysis for swap lines We run the first difference specifications for the sample whose central bank has direct dollar liquidity swap lines with the Federal Reserve, and provide the corresponding results in Table A.25. Although the coefficient on $\Delta\pi$ is marginally significant, Cragg-Donald F tests point to weak instrument issues through all the specifications. Particularly, Kleibergen-Paap LM tests indicate underidentification issues with the 2SLS specifications. Consistent with the levels estimations, these results suggest little impact of political risk on CIP deviations in countries whose central bank has active swap lines with the Fed. Alternatively, we also do an estimation in levels where we impose another interaction term, political risk with the swap line *size*, and report the results in Table A.26. The interaction term proves insignificant for all the specifications, suggesting no effect of political risk on deviations in CIP for currencies whose monetary authority has swap lines with the Fed.

Additional results for insurance channel While full suite regression results for specification where political risk is interacted with reserves are reported in Table A.27, those for specification in which an interaction between political risk and the 10-year sovereign-U.S. Treasury rate differential are shown in Table A.28. The negative coefficient on the interaction with treasury differential for non-G10 currencies implies that hikes in the long-term interest differentials leads to deterioration in dollar availability, which may be explained by how increases in the local sovereign rate (relative to the United States) likely signals, *inter alia*, greater political risk, which in turn discourages foreign investment inflows and curtails the domestic supply of dollars.

Additional results for decomposing political risk In addition to the risks discussed in Table 12, we also analyze the effects of some other types of political risks on CIP deviations. Specifically, these results are reported in Table A.29 (internal conflict risk), Table A.30 (bureaucracy quality risk), Table A.31 (military in politics risk), and Table A.32 (corruption risk), respectively. Among these, we only find significant results for internal conflict risk in the first differenced estimations, consistent with our baseline analysis in constructing the political risk measure by considering the most relevant sub-components to CIP deviations. Meanwhile, we show the full suite results for the economic policy uncertainty risk (Table A.33), law and order risk (Table A.34), external conflict risk (Table A.35) and government stability risk (Table A.36) in this appendix.

[81]While we use the triangular kernel function (by default) to construct our local-polynomial estimators, we also try other kernel functions such as uniform and epanechnikov. Overall, these results are qualitatively in line with our baseline finding and available upon request.

A.5 Full suite results for robustness checks

Sample coverage and construction of key variables While we report here the full suite estimation results for different currency sample with "No EUR" (Table A.37) , "No HKD & SAR" (Table A.38), "Flexible regime"[82] (Table A.39), "Non-flexible regime" (Table A.40), "Alternative CLP" (Table A.41) and "No CHN & SAU" (Table A.42), we run the regressions with different period sample and provide the results for 2009M4–2020M8 in Table A.43 and 2009M6–2020M8 in Table A.44, respectively. In terms of variations in the cross-currency basis, we calculate the 1-month and 1-year CCB and rerun the baseline with these two indicators, with the corresponding results displaying in Tables A.45 and A.46, respectively. In addition, we also show the full results for regressions where the political risk measure varies, in Table A.47 for a measure that includes investment profile only, and in Table A.48 for another measure that considers both ethnic and religious tensions on top of the original three components in the baseline.

Variations in instrument set The regression results from 1-month and 5-month election indicator are reported in Table A.49 and Table A.50, respectively. We then consider different types of elections and provide the results in Table A.51 for an indicator that only considers the presidential elections, and in Table A.52 for another including referenda. Going further, we also run the regressions based on election indicators based on "exogenous elections only" (Table A.53) and "no endogenous election" (Table A.54). Finally, the full suite results for "change in government"[83] and "competitive election" are provided in Tables A.55 and A.56, respectively. Additionally, we do two more placebo tests by running regressions with different post election dummies. The results are presented in Table A.57 for 3-month post election and Table A.58 for 5-month post election, respectively.

[82]We also classify exchange rate regimes for our sample by following Levy-Yeyati and Sturzenegger (2005), and the estimation results are similar to the those with IMF classification. The corresponding results are shown in Table A.59 for flexible exchange rate regimes and Table A.60 for non-flexible exchange rate regimes, respectively.

[83]The change in government dummy is coded along the lines of Beck, Clarke, Groff, Keefer, and Walsh (2001), and we use the 3-month prior to election for estimation to stay consistent with the baseline.

Table A.2: Tickers for 3-month IBOR cross-currency basis computation[†]

Currency	Forward[‡]	Spot	IBOR	Day Count Convention
AUD	AUD3M Curncy	AUDUSD Curncy	BBSW3M	365/ACT
CAD	CAD3M Curncy	USDCAD Curncy	CDOR03M	365/ACT
CHF	CHF3M Curncy	USDCHF Curncy	SF0003M	360/ACT
DKK	DKK3M Curncy	USDDKK Curncy	CIBO03M	360/ACT
EUR	EUR3M Curncy	EURUSD Curncy	EUR003M	360/ACT
GBP	GBP3M Curncy	GBPUSD Curncy	BP0003M	365/ACT
JPY	JPY3M Curncy	USDJPY Curncy	JY0003M	360/ACT
NOK	NOK3M Curncy	USDNOK Curncy	NIBOR3M	360/ACT
NZD	NZD3M Curncy	NZDUSD Curncy	NDBB3M	365/ACT
SEK	SEK3M Curncy	USDSEK Curncy	STIB3M	360/ACT
BGN	BGN3M Curncy	USDBGN Curncy	SOBR3M & BIR[§]	360/ACT
CLP	CHN3M Curncy	USDCLP Curncy	PCRR90D Index	360/ACT
CNY	CNN+3M Curncy	USDCNY Curncy	SHIBO3M	360/ACT
COP	CLN+3M Curncy	USDCOP Curncy	COOVIBR3 Index	360/ACT
CZK	CZK3M Curncy	USDCZK Curncy	PRIB03M Index	360/ACT
HKD	HKD3M Curncy	USDHKD Curncy	HIHD03M Index	365/ACT
HUF	HUF3M Curncy	USDHUF Curncy	BUBOR03M	360/ACT
IDR	IHN+3M Curncy	USDIDR Curncy	JIIN3M	360/ACT
ILS	ILS3M Curncy	USDILS Curncy	TELBOR03M	365/ACT
INR	IRN+3M Curncy	INR Curncy	IN003M	360/ACT
KRW	KWN+3M Curncy	USDKRW Curncy	KRBO3M	365/ACT
MXN	MXN3M Curncy	USDMXN Curncy	MXIB91DT Index	360/ACT
MYR	MRN+3M Curncy	USDMYR Curncy	KLIB3M	365/ACT
PHP	PPN+3M Curncy	USDPHP Curncy	PREF3MO Index	360/ACT
PLN	PLN3M Curncy	USDPLN Curncy	WIBO3M	360/ACT
RON	RON3M Curncy	USDRON Curncy	BUBR03M	360/ACT
RUB	RUB3M Curncy	USDRUB Curncy	MMIBR3M	365/ACT
SAR	SAR+3M Curncy	USDSAR Curncy	SAIB3M Index	360/ACT
SGD	SGD3M Curncy	USDSGD Curncy	SIBF3M Index	365/ACT
THB	THB3M Curncy	USDTHB Curncy	THFX3M Index	365/ACT
TRY	TRY3M Curncy	USDTRY Curncy	TRLIB3M Index	360/ACT
TWD	NTN+3M Curncy	USDTWD Curncy	TAIBOR3M	365/ACT
ZAR	ZAR3M Curncy	USDZAR Curncy	JIBA3M	365/ACT

[†] The corresponding variables are drawn from Bloomberg.

[‡] We use the forward points to calculate the forward exchange rate for the majority of the currencies when computing the CCBs. For currencies that do not report forward points in Bloomberg, we refer to their outright forward rates instead.

[§] The Bulgarian National Bank ceased reporting the SOBR3M index in July 2018, and replaced it with a benchmark interest rate (BIR), at the same tenor, thereafter.

Table A.3: Summary statistics for main variables of interest †

	N	**Mean**	**Std. Dev.**	**Min**	**Max**
			original series		
CCB	4,333	-40.05	129.71	-928.79	1778.00
π	4,333	-26.39	2.47	-32	-19
$r^i - r^{us}$	4,333	188.05	317.87	-352.18	2596.00
Exchange rate	4,333	96.65	14.68	23.93	132.72
Reserves	4,333	1.20	1.23	0.02	7.09
	Inverse hyperbolic sine transformed series				
CCB	4,333	-2.50	3.77	-7.53	8.18
π	4,333	-3.96	0.0947	-4.16	-3.64
$r^i - r^{us}$	4,333	2.76	4.91	-6.56	8.55
Exchange rate	4,333	5.25	0.18	3.87	5.58
Reserves	4,333	0.85	0.61	0.02	2.66

† Balanced sample statistics are reported; actual statistics may vary depending on the availability of data for a particular specification.

Table A.4: Sample currency

G10 currencies				
AUD	CAD	CHF	DKK	EUR§
GBP	JPY	NOK	NZD	SEK
Non-G10 currencies				
BGN	CLP	CNY	COP	CZK
HKD	HUF	IDR	ILS	INR
KRW	MXN	MYR	PHP	PLN
RON	RUB	SAR	SGD	THB
TRY	TWD	ZAR		

§ For the currency euro, we consider the elections from the five largest economies in the Euro Area in constructing the duration-to-election indicator in our baseline.

Table A.5: Simple OLS regression of political risk on the cross-currency basis[†]

	Estimation in levels			Estimation in first differences		
	(1)	(2)	(3)	(4)	(5)	(6)
π / $\Delta\pi$	4.26	3.59	2.92	1.31	1.14	0.76
	(2.99)	(2.94)	(2.69)	(2.23)	(2.13)	(2.12)
$r^i - r^{us}$ / $\Delta(r^i - r^{us})$		0.08	0.08		-0.23**	-0.23**
		(0.06)	(0.06)		(0.10)	(0.10)
Exchange rate / ΔExchange rate			1.14			-5.75
			(1.44)			(3.79)
Reserves / ΔReserves			-2.74***			-3.99**
			(0.84)			(1.67)
Currency and Time FE?	Y	Y	Y	Y	Y	Y
Observations	4,339	4,339	4,333	4,337	4,337	4,330
F	2.03	1.68	3.42	0.34	2.53	3.28
Enogeneity statistic	7.25	6.94	6.86	7.01	6.82	7.09
p value	0.0071	0.0084	0.0088	0.0081	0.0090	0.0078

[†] This table reports the regression of the monthly (changes in) cross-currency basis, at the tenor of 3 months, on (changes in) political risk. The sample starts from 2009m7 to 2020m8. For endogeneity check, we report the GMM distance test statistic of endogeneity under the null hypothesis that the specified endogenous regressors can be treated as exogenous, and the corresponding p values in the last two rows. Standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.6: Panel unit root tests for main variables of interests[†]

	with demean			*without demean*		
	CCB	Poli risk	$r^i - r^{us}$	CCB	Poli risk	$r^i - r^{us}$
Im-Pesaran-Shin	-19.23***	-4.56***	1.92	-20.31***	-3.32***	-0.95
Fisher ADF	-23.53***	-14.49***	-9.19***	-24.69***	-14.60***	-9.31***
Fisher PPerron	-23.92***	-7.49***	-0.21	-26.01***	-7.55***	0.45
Pesaran CADF	-16.26***	-3.38***	-3.73***	-17.36***	-5.37***	-4.31***
	ΔCCB	$\Delta Poli\ risk$	$\Delta(r^i - r^{us})$	ΔCCB	$\Delta Poli\ risk$	$\Delta(r^i - r^{us})$
Im-Pesaran-Shin	-54.79***	-61.48***	-53.43***	-52.69***	-61.39***	-40.91***
Fisher ADF	-46.46***	-42.06***	-39.88***	-46.56***	-42.57***	-38.48***
Fisher PPerron	-46.61***	-46.52***	-45.59***	-46.64***	-46.63***	-42.51***
Pesaran CADF	-28.06***	-28.05***	-26.06***	-27.76***	-27.77***	-26.22***

[†] The null hypothesis is nonstationarity or the existence of a unit root. Lags for the tests are chosen by the Akaike criterion. The Im-Pesaran-Shin test reports the W_{t-bar} statistic, the Fisher ADF test and Fisher PPerron test report the inverse normal Z, and the Pesaran CADF reports the Z_{t-bar} statistic. *, ** and *** indicates significance at 10 percent level, 5 percent level and 1 percent level respectively.

Table A.7: Unit root tests for cross-currency basis

					CCB						
	AUD	BGN	CAD	CHF	CLP	CNY	COP	CZK	DKK	EUR	GBP
DF-GLS	-3.129**	-3.979***	-3.988***	-4.021***	-1.917	-3.498***	-2.670	-2.158	-4.861***	-3.424**	-2.146
ADF	-3.303***	-3.492***	-2.752***	-3.337***	-3.635***	-3.712***	-2.834***	-2.125**	-2.394***	-2.277**	-2.082**
Pperron	-6.737***	-7.416***	-3.623**	-7.233***	-4.980***	-4.050***	-4.769***	-3.340*	-10.047***	-6.689***	-4.415***
	HKD	HUF	IDR	ILS	INR	JPY	KRW	MXN	MYR	NOK	NZD
DF-GLS	-4.126***	-4.991***	-3.352**	-3.644***	-3.101**	-3.313**	-2.822*	-1.391	-7.672***	-2.469	-3.336**
ADF	-4.035***	-2.263**	-2.958***	-3.316***	-2.518***	-3.099***	-3.482***	-3.314***	-4.557***	-2.017**	-4.073***
Pperron	-6.524***	-9.509***	-6.451***	-4.386***	-5.720***	-8.428***	-9.410***	-5.684***	-8.119***	-7.366***	-6.059***
	PHP	PLN	RON	RUB	SAR	SEK	SGD	THB	TRY	TWD	ZAR
DF-GLS	-2.000	-3.503**	-2.091	-3.106**	-4.394***	-3.352**	-2.216	-3.664***	-2.692	-4.788***	-3.829***
ADF	-1.963**	-2.317**	-2.312**	-3.187***	-3.617***	-3.415***	-2.286**	-2.516***	-0.657	-4.105***	-2.878***
Pperron	-8.485***	-7.332***	-4.871***	-4.549***	-4.479***	-8.439***	-3.056	-4.677***	-3.989***	-6.193***	-5.158***

The null hypothesis is nonstationarity or the existence of a unit root. Lags for the tests are chosen by several information criteria. The DF-GLS test reports the DF-GLS tau statistic, the Fisher ADF test and Phillips-Perron test report the Z_t statistic. *, ** and *** indicates significance at 10 percent level, 5 percent level and 1 percent level respectively.

Table A.8: Unit root tests for political risk

	Political risk (π)										
	AUD	BGN	CAD	CHF	CLP	CNY	COP	CZK	DKK	EUR	GBP
DF-GLS	-1.777	-2.231	-3.033**	-1.061	-1.760	-0.656	-1.324	-4.168***	-0.916	-1.000	-1.582
ADF	-3.217***	-2.303**	-1.913**	-1.463*	-2.518***	-2.250**	-1.908**	-3.656***	-0.271	-3.956***	-3.255***
Pperron	-3.112	-3.023	-3.405*	-1.251	-2.559	-0.573	-1.357	-4.614***	-0.613	-2.393	-2.964
	HKD	HUF	IDR	ILS	INR	JPY	KRW	MXN	MYR	NOK	NZD
DF-GLS	-2.025	-2.280	-1.739	-1.805	-1.907	-3.225***	-2.878*	-2.381	-2.407	-2.673	-1.556
ADF	-1.667**	-3.803***	-2.515***	-2.441***	-2.914***	-2.720***	-2.468***	-2.218**	-2.405***	-2.026**	-1.652*
Pperron	-2.160	-3.214*	-2.030	-2.986	-2.577	-3.343*	-3.382*	-2.309	-2.764	-3.053	-1.767
	PHP	PLN	RON	RUB	SAR	SEK	SGD	THB	TRY	TWD	ZAR
DF-GLS	-2.410	-1.485	-3.908***	-2.436	-1.229	-1.304	-2.242	-3.036**	-2.176	-1.905	-1.623
ADF	-2.551***	-2.823***	-3.814***	-1.685**	-1.865**	-2.715***	-1.770**	-2.614***	-2.465***	-1.765**	-3.021***
Pperron	-2.857	-3.180*	-4.273***	-2.966	-1.840	-1.795	-2.565	-3.582**	-2.776	-2.071	-4.104***

The null hypothesis is nonstationarity or the existence of a unit root. Lags for the tests are chosen by several information criteria. The DF-GLS test reports the DF-GLS tau statistic, the Fisher ADF test and Phillips-Perron test report the Z_t statistic. *, ** and *** indicates significance at 10 percent level, 5 percent level and 1 percent level respectively.

Table A.9: Unit root tests for interest differential

					$r^i - r^{us}$						
	AUD	BGN	CAD	CHF	CLP	CNY	COP	CZK	DKK	EUR	GBP
DF-GLS	-1.282	-1.593	-1.474	-4.529***	-2.643	-1.500	-1.508	-0.830	-2.639	-2.430	-1.332
ADF	-0.369	-0.938	-1.573*	-2.820***	-1.937**	-1.703**	-1.334*	-1.487*	-1.557*	-1.635*	-0.815
Pperron	-1.73	-1.509	-3.316*	-3.453**	-4.990***	-2.531	-1.264	-0.872	-2.316	-2.111	-1.420
	HKD	HUF	IDR	ILS	INR	JPY	KRW	MXN	MYR	NOK	NZD
DF-GLS	-1.795	-1.375	-2.593	-1.232	-0.712	-3.685***	-1.848	-1.787	-1.027	-1.482	-1.590
ADF	-1.811**	-1.385*	-2.100**	-1.069	-1.103	-2.845***	-1.484 *	-1.723**	-1.083	-1.179	-1.533*
Pperron	-1.859	-0.818	-2.048	-1.055	-2.930	-3.321*	-1.633	-1.223	-2.295	-1.833	-1.672
	PHP	PLN	RON	RUB	SAR	SEK	SGD	THB	TRY	TWD	ZAR
DF-GLS	-3.168**	-1.960	-1.394	-1.712	-2.440	-1.440	-2.077	-1.773	-2.771*	-1.094	-1.173
ADF	-3.375***	-1.018	-1.491*	-1.650*	-2.890***	-0.947	-2.082**	-1.513*	-2.200**	-1.427*	-0.575
Pperron	-4.214***	-2.582	-1.931	-2.870	-3.901**	-1.387	-1.539	-1.633	-2.489	-0.943	-0.618

The null hypothesis is nonstationarity or the existence of a unit root. Lags for the tests are chosen by several information criteria. The DF-GLS test reports the DF-GLS tau statistic, the Fisher ADF test and Phillips-Perron test report the Z_t statistic. *, ** and *** indicates significance at 10 percent level, 5 percent level and 1 percent level respectively.

Table A.10: Panel cointegration tests, parsimonious and comprehensive models

	Parsimonious			
	with constant only		with constant and trend	
	Panel	Group	Panel	Group
Pedroni ADF	-12.97	-13.30	-16.90	-16.18
Westerlund α Z[§]	-13.33***	-9.13***	-9.30***	-6.13***

	Comprehensive			
	with constant only		with constant and trend	
	Panel	Group	Panel	Group
Pedroni ADF	-14.15	-14.75	-13.53	-12.62
Westerlund α Z[§]	-1.02	1.75	1.97	3.80

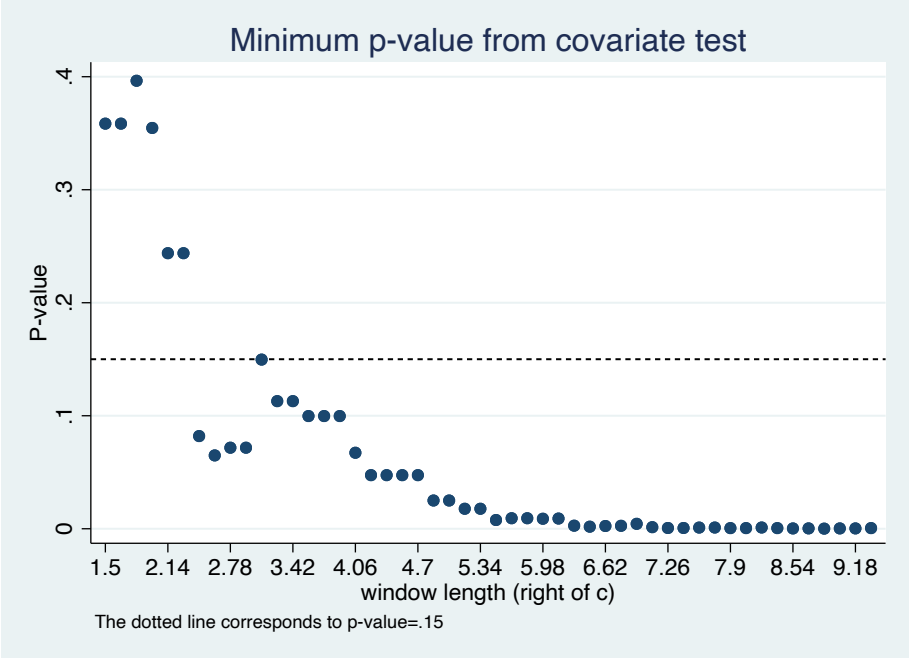
† The null hypotheses are of no cointegration for both tests. Variables for the Pedroni (1999) test were time-demeaned to capture common time effects, and the parametric group and panel augmented Dickey-Fuller statistics are reported; the Westerlund (2007) α test explicitly accounts for cross-sectional dependence, reporting the semiparametric group-mean and panel statistics G_α and P_α. Lags for the tests are chosen with the Akaike criterion.

§ COP, ILS, MXN, RON, SAR and TRY are excluded for the Westerlund α test due to insufficient observations to conduct the test for comprehensive specifications: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

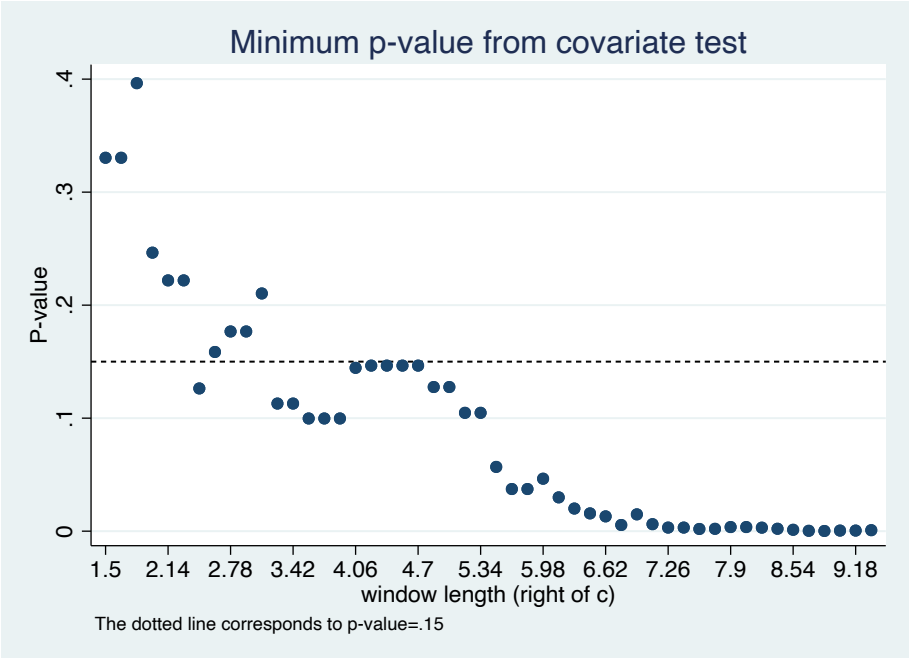
Table A.11: Manipulation tests for a discontinuity in the running variable at the threshold†

	Full sample		*Without EUR*	
	Conventional	Robust	Conventional	Robust
Panel A: 5% margin				
T-stat	-0.24	-0.37	-0.77	-1.24
P-value	0.81	0.71	0.44	0.22
Panel B: 10% margin				
T-stat	-0.00	1.14	-0.08	0.07
P-value	0.99	0.26	0.94	0.95

† The "Conventional" column reports the statistic that might not be valid when MSE-optimal bandwidth is used; the "Robust" column reports the statistic with bias-correction. They both test the null hypothesis of no manipulation of the running variable (vote margin) at the cutoff.



(a) Balance test for covariates in level estimation



(b) Balance test for covariates in FD estimation

Figure A.1: Plot of p-values for covariates balance tests in regression discontinuity with different window lengths

Table A.12: Regression discontinuity analysis: Cross-currency basis and vote share margin of close elections between the opposing and government parties ***without covariates***

	Full sample				**Without EUR**			
	CCB		ΔCCB		CCB		ΔCCB	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Conventional	-5.71***	-6.28***	0.02	-0.25	-6.31***	-6.78***	-0.12	-0.45
	(2.16)	(2.15)	(0.42)	(0.58)	(2.40)	(2.32)	(0.41)	(0.60)
Bias-corrected	-6.28***	-5.54***	-0.25	0.05	-6.78***	-5.86**	-0.45	-0.17
	(2.16)	(2.15)	(0.42)	(0.58)	(2.40)	(2.32)	(0.41)	(0.60)
Robust	-6.28***	-5.54*	-0.25	0.05	-6.78***	-5.86	-0.45	-0.17
	(2.04)	(3.27)	(0.55)	(0.68)	(2.19)	(3.64)	(0.57)	(0.74)
Observations	29	29	29	29	23	23	23	23
Polynomial	Linear	Quadratic	Linear	Quadratic	Linear	Quadratic	Linear	Quadratic
Kernel	Triangular	Triangular	Triangular	Triangular	Triangular	Triangular	Triangular	Triangular

This table reports the regression between monthly cross-currency basis at a tenor of 3 months and the vote share margin of close elections between the opposing and government parties between July 2009 and August 2020. We regard an election as a close one if the voting margin is smaller than **5%** due to low number of observations. There is no covariate controlled in the estimations. Robust standard errors clustered at currency level are reported: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table A.13: Regression discontinuity analysis: Cross-currency basis and vote share margin of close elections between the opposing and government parties ***without covariates***

	Full sample				**Without EUR**			
	CCB		ΔCCB		CCB		ΔCCB	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Conventional	-2.93*	-3.58**	0.07	-0.06	-3.59**	-4.19**	0.03	-0.18
	(1.56)	(1.80)	(0.30)	(0.34)	(1.80)	(2.07)	(0.32)	(0.33)
Bias-corrected	-3.58**	-6.94***	-0.06	-0.19	-4.19**	-7.66***	-0.18	-0.42
	(1.56)	(1.80)	(0.30)	(0.34)	(1.80)	(2.07)	(0.32)	(0.33)
Robust	-3.58**	-6.94***	-0.06	-0.19	-4.19**	-7.66***	-0.18	-0.42
	(1.77)	(2.01)	(0.33)	(0.54)	(2.03)	(2.21)	(0.32)	(0.56)
Observations	66	66	66	66	56	56	56	56
Polynomial	Linear	Quadratic	Linear	Quadratic	Linear	Quadratic	Linear	Quadratic
Kernel	Triangular	Triangular	Triangular	Triangular	Triangular	Triangular	Triangular	Triangular

This table reports the regression between monthly cross-currency basis at a tenor of 3 months and the vote share margin of close elections between the opposing and government parties between July 2009 and August 2020. We regard an election as a close one if the voting margin is smaller than **10%** due to low number of observations. There is no covariate controlled in the estimations. Robust standard errors clustered at currency level are reported: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table A.14: Effects of political risk relative to the U.S. on the cross-currency basis[†]

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-3.31**	-3.36**	-3.44**	-3.37**	-3.31***	-4.60***
				(1.50)	(1.55)	(1.57)	(1.56)	(1.16)	(1.44)
Election	-0.58***	-0.59***	-0.60***						
	(0.20)	(0.20)	(0.20)						
$r^i - r^{us}$		0.09	0.09		0.17**	0.18**		0.17**	0.21**
		(0.06)	(0.06)		(0.07)	(0.07)		(0.06)	(0.09)
Exchange rate			1.17			2.36			2.76
			(1.46)			(2.14)			(2.65)
Reserves			-2.84***			-3.89**			-4.25**
			(0.87)			(1.50)			(1.89)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,339	4,339	4,333	4,339	4,339	4,333	4,339	4,339	4,333
F	8.64	5.22	4.61	4.87	4.37	2.79	4.66	7.92	3.70
Cragg-Donald F				27.45	27.36	27.27	30.57	31.44	23.53
Kleibergen-Paap *rk LM*				9.32***	9.26***	9.25***	10.35***	10.60***	10.05***
Hansen J							0.00	0.00	0.54
Panel B: *Estimation in first difference*									
$\Delta\pi$				-5.33**	-5.20**	-5.42**	-5.07***	-4.96***	-5.22***
				(1.98)	(1.96)	(2.01)	(1.75)	(1.74)	(1.79)
Δ Election	-0.45***	-0.44***	-0.45***						
	(0.16)	(0.17)	(0.16)						
$\Delta(r^i - r^{us})$		-0.23***	-0.23**		-0.24**	-0.24**		-0.24**	-0.24**
		(0.06)	(0.10)		(0.11)	(0.11)		(0.11)	(0.11)
ΔExchange rate			-5.97			-9.50*			-9.36**
			(3.83)			(4.68)			(4.56)
ΔReserves			-3.99**			-3.06*			-3.09*
			(1.67)			(1.78)			(1.75)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,337	4,337	4,330	4,337	4,337	4,330	4,337	4,337	4,330
F	7.71	10.25	4.54	7.26	5.32	4.03	8.43	6.08	4.36
Cragg-Donald F				22.71	22.73	22.12	12.31	12.32	11.89
Kleibergen-Paap *rk LM*				12.99***	13.05 ***	12.53***	15.89***	15.93***	15.41***
Hansen J							0.28	0.25	0.20

[†] This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk relative to the U.S., which is instrumented with the (changes in) election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserves to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.15: Effects of political risk on the cross-currency basis, different duration-to-election indicators†

	2-month election			4-month election			6-month election		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Dummy	IV	2SLS	Dummy	IV	2SLS	Dummy	IV	2SLS
Election	-0.57**			-0.50**			-0.37**		
	(0.23)			(0.19)			(0.16)		
π		-52.98	-68.24**		-43.70*	-59.08***		-29.30*	-46.14***
		(32.07)	(29.96)		(23.08)	(21.19)		(15.32)	(14.54)
Controls	Y	Y	Y	Y	Y	Y	Y	Y	Y
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,333	4,333	4,333	4,333	4,333	4,333	4,333	4,333	4,333
F	4.23	2.15	2.08	4.41	2.80	3.22	4.15	3.26	4.53
Δ Election	-0.13			-0.28			-0.46***		
	(0.16)			(0.20)			(0.14)		
$\Delta\pi$		-18.41	-19.24		-39.37	-38.00		-60.87***	-57.59***
		(21.77)	(20.33)		(27.46)	(26.26)		(18.45)	(15.71)
Controls	Y	Y	Y	Y	Y	Y	Y	Y	Y
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,330	4,330	4,330	4,330	4,330	4,330	4,330	4,330	4,330
F	3.10	2.94	2.93	3.47	3.08	3.14	5.00	4.62	5.38

† This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Controls refer to the standard controls (interest rate differential, effective exchange rate, and the reserves to GDP ratio), and fixed effects are by currency and time. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Robust standard errors are clustered at currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.16: Effects of political risk on the cross-currency basis, both level and first-differenced variables in the instrument set

	IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)
$\Delta\pi$	-58.74**	-57.74**	-60.70**	-55.81***	-55.02***	-58.55***
	(22.14)	(22.18)	(22.95)	(19.96)	(20.08)	(20.47)
$\Delta(r^i - r^{us})$		-0.25**	-0.25**		-0.25**	-0.25**
		(0.11)	(0.11)		(0.11)	(0.11)
ΔExchange rate			-9.57**			-9.43**
			(4.54)			(4.40)
ΔReserves			-4.50**			-4.48**
			(1.91)			(1.90)
Currency and Time FE?	Y	Y	Y	Y	Y	Y
Observations	4,337	4,337	4,330	4,337	4,337	4,330
F	7.04	5.62	3.76	7.82	6.09	4.21
Cragg-Donald F	20.28	20.33	19.71	11.23	11.25	10.89
Kleibergen-Paap *rk LM*	13.11***	13.12***	12.84***	15.74***	15.80***	15.12***
Hansen J	0.51	0.40	0.34	2.93	3.03	2.41

† This table reports the regression of monthly changes in cross-currency basis, at a tenor of 3 months, on changes in political risk, which is instrumented with both the election dummy and changes in election dummy (IV specifications) and the election dummy, changes in the election dummy, democratic accountability and changes in democratic accountability (2SLS specifications). The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Robust standard errors are clustered at currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.17: (Quarterly) Effects of political risk on the cross-currency basis[†]

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-42.47	-41.89	-44.92	-47.87	-45.93**	-68.28**
				(35.42)	(34.94)	(36.13)	(31.44)	(20.78)	(27.42)
Election	-0.41*	-0.41*	-0.43*						
	(0.24)	(0.24)	(0.23)						
$r^i - r^{us}$		0.11*	0.11*		0.21**	0.21**		0.22***	0.26**
		(0.06)	(0.06)		(0.09)	(0.10)		(0.07)	(0.11)
Exchange rate			1.45			1.96			2.23
			(1.74)			(2.33)			(2.90)
Reserves			-2.93***			-4.16**			-4.81**
			(1.01)			(1.81)			(2.36)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	1,458	1,458	1,456	1,458	1,458	1,456	1,458	1,458	1,456
F	3.09	3.37	3.58	1.44	2.60	2.03	2.32	6.58	2.71
Cragg-Donald F				5.94	6.15	5.98	9.47	10.08	7.97
Kleibergen-Paap *rk LM*				3.50*	3.64*	3.52*	4.47	4.89*	4.44
Hansen J							0.02	0.01	0.35
Panel B: *Estimation in first differences*									
$\Delta\pi$				-33.83*	-34.98*	-37.00*	-31.78	-32.97	-34.58
				(19.92)	(19.30)	(20.75)	(21.01)	(20.48)	(21.40)
Δ Election	-0.26**	-0.27**	-0.28**						
	(0.12)	(0.12)	(0.12)						
$\Delta(r^i - r^{us})$		-0.08	-0.09		-0.08	-0.09		-0.08	-0.09
		(0.13)	(0.13)		(0.14)	(0.13)		(0.14)	(0.13)
ΔExchange rate			-0.02			-2.32			-2.17
			(2.98)			(3.79)			(3.55)
ΔReserves			-3.14**			-4.34***			-4.25***
			(1.15)			(1.32)			(1.34)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	1,425	1,425	1,423	1,425	1,425	1,423	1,425	1,425	1,423
F	4.59	2.84	4.05	2.88	2.47	4.34	2.29	1.93	3.78
Cragg-Donald F				23.28	23.26	22.42	12.38	12.38	11.88
Kleibergen-Paap *rk LM*				8.11***	8.24***	7.62***	8.67**	8.82**	8.26**
Hansen J							0.05	0.04	0.07

[†] This table reports the regression of *quarterly* (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) the election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009Q3 to 2020Q3. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for under-identification test, weak identification, and overidentification, respectively. The 10 (15)% maximal IV size critical value of weak identification is 19.9 (11.6) for 2SLS specifications, and 16.4 (9.0) for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.18: Effects of political risk on the cross-currency basis, bureaucracy quality in the instrument set†

	Substitute			Addition		
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: *Estimation in levels*						
π	-49.56	-53.04*	-53.82*	-46.21	-48.77**	-65.44**
	(32.31)	(27.44)	(30.18)	(29.26)	(22.73)	(24.01)
$r^i - r^{us}$		0.21**	0.20**		0.20**	0.22**
		(0.08)	(0.08)		(0.07)	(0.10)
Exchange rate			1.77			1.90
			(2.30)			(2.63)
Reserves			-4.42**			-4.77**
			(1.88)			(2.17)
Observations	4,339	4,339	4,333	4,339	4,339	4,333
F	2.35	3.91	2.19	2.49	4.26	2.56
Cragg-Donald F	11.24	10.81	10.78	21.29	20.58	16.89
Kleibergen-Paap *rk LM*	7.49**	7.35**	7.34**	8.50**	8.49**	8.24**
Hansen J	0.04	0.01	0.02	0.08	0.03	0.18
Panel B: *Estimation in first differences*						
$\Delta\pi$	-60.75**	-59.10**	-61.52**	-56.69**	-55.30**	-57.99**
	(24.88)	(24.71)	(25.37)	(21.65)	(21.62)	(22.03)
$\Delta(r^i - r^{us})$		-0.25**	-0.25**		-0.25**	-0.25**
		(0.11)	(0.11)		(0.11)	(0.11)
ΔExchange rate			-9.62**			-9.40**
			(4.55)			(4.39)
ΔReserves			-4.50**			-4.47**
			(1.92)			(1.90)
Observations	4,337	4,337	4,330	4,337	4,337	4,330
F	5.96	4.98	3.57	6.85	5.52	4.00
Cragg-Donald F	18.75	18.82	18.29	13.92	13.96	13.49
Kleibergen-Paap *rk LM*	14.85***	14.91***	14.95***	15.79***	15.83***	15.95***
Hansen J	0.98	1.01	1.03	1.05	1.06	1.07

† This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk relative to the U.S., which is instrumented with the (changes in) election dummy (IV specifications) and both the (changes in) election dummy and (changes in) *bureaucratic quality* (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserves to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 15% maximal IV size critical value of weak identification is 11.6 for Substitute specifications, and 12.8 for Addition specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.19: Effects of political risk on the cross-currency basis, ethnic fractionalisation in the instrument set†

	Substitute			Addition		
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: *Estimation in levels*						
π	-60.65*	-52.55	-64.86*	-57.60	-50.53*	-76.47**
	(34.38)	(37.65)	(35.74)	(38.00)	(26.91)	(31.10)
$r^i - r^{us}$		0.19*	0.19*		0.18**	0.21*
		(0.09)	(0.09)		(0.08)	(0.11)
Exchange rate			1.74			1.77
			(2.67)			(2.98)
Reserves			-4.84**			-5.22**
			(2.18)			(2.46)
Observations	4,071	4,071	4,065	4,071	4,071	4,065
F	3.11	2.15	1.73	2.30	3.82	2.04
Cragg-Donald F	10.62	13.22	10.73	14.97	17.86	13.54
Kleibergen-Paap *rk LM*	6.87**	6.80**	6.78**	7.56*	7.64*	7.37*
Hansen J	0.22	0.02	0.23	0.24	0.04	0.47
Panel B: *Estimation in first differences*						
$\Delta\pi$	-51.10***	-49.06**	-50.85***	-48.08***	-46.34***	-48.29***
	(18.47)	(18.23)	(18.15)	(15.76)	(15.69)	(15.27)
$\Delta(r^i - r^{us})$		-0.25**	-0.25**		-0.24**	-0.25**
		(0.12)	(0.12)		(0.12)	(0.12)
ΔExchange rate			-7.58*			-7.42*
			(4.10)			(3.99)
ΔReserves			-4.59**			-4.57**
			(2.01)			(2.00)
Observations	4,069	4,069	4,062	4,069	4,069	4,062
F	7.65	5.97	4.50	9.30	7.00	6.54
Cragg-Donald F	20.59	20.74	20.19	15.17	15.26	14.77
Kleibergen-Paap *rk LM*	13.58***	13.63***	13.33***	14.51***	14.54***	14.36***
Hansen J	0.02	0.02	0.00	0.16	0.14	0.11

† This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk relative to the U.S., which is instrumented with the (changes in) election dummy (IV specifications) and both the (changes in) election dummy and (changes in) *ethnic fractionalization* (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserves to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 15% maximal IV size critical value of weak identification is 11.6 for Substitute specifications, and 12.8 for Addition specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.20: Effects of political risk on the CCB: presidential systems[†]

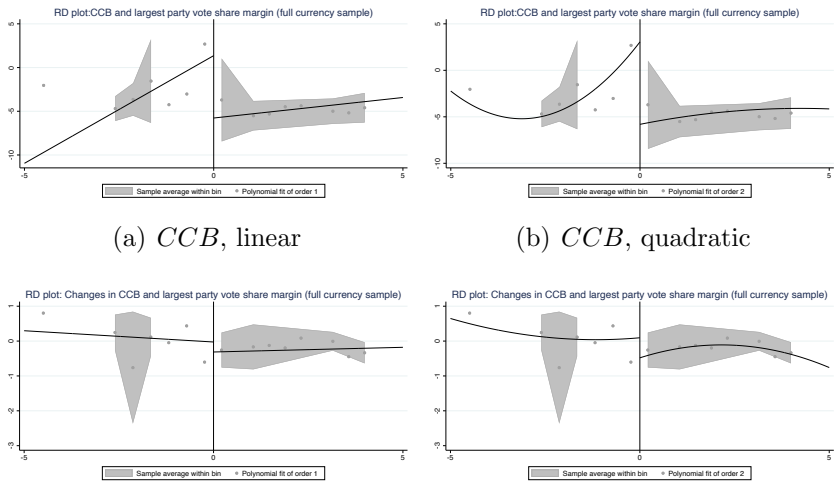
	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-88.13*	-96.57*	-131.50	-15.92	-33.35	-28.26
				(43.78)	(48.49)	(78.92)	(29.39)	(35.50)	(49.82)
Election	-1.15**	-1.21**	-1.28**						
	(0.41)	(0.43)	(0.45)						
$r^i - r^{us}$		0.15	0.18		0.33*	0.22		0.21	0.19
		(0.13)	(0.14)		(0.15)	(0.21)		(0.17)	(0.15)
Exchange rate			2.80			-7.76			0.42
			(2.91)			(5.32)			(5.17)
Reserves			-2.60			-17.93			-5.39
			(3.13)			(15.35)			(7.71)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	1,257	1,257	1,257	1,257	1,257	1,257	1,257	1,257	1,257
F	7.75	5.53	3.54	4.05	5.15	1.67	0.29	0.81	0.52
Cragg-Donald F				9.46	8.70	5.68	15.69	12.26	7.23
Kleibergen-Paap rk LM				3.96**	3.72*	2.94*	4.50	4.24	3.36
Hansen J							5.10**	3.55**	5.03**
Panel B: *Estimation in first differences*									
$\Delta\pi$				-108.38**	-98.34*	-107.52*	-85.83*	-77.75*	-85.53**
				(47.83)	(47.76)	(47.61)	(38.58)	(38.40)	(36.80)
ΔElection	-0.95**	-0.88*	-0.94**						
	(0.39)	(0.46)	(0.38)						
$\Delta(r^i - r^{us})$		-0.34***	-0.34**		-0.38**	-0.38**		-0.37**	-0.38**
		(0.09)	(0.13)		(0.16)	(0.15)		(0.15)	(0.15)
ΔExchange rate			-8.63			-15.05			-13.66
			(8.20)			(9.36)			(8.56)
ΔReserves			-6.01			-6.90			-6.65
			(3.68)			(3.85)			(3.74)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	1,255	1,255	1,255	1,255	1,255	1,255	1,255	1,255	1,255
F	6.01	9.22	6.17	5.13	4.80	4.93	4.95	4.99	6.14
Cragg-Donald F				15.09	15.37	14.67	8.87	9.01	8.62
Kleibergen-Paap rk LM				5.34**	5.39**	5.22**	7.30**	7.39**	7.29**
Hansen J							2.14	2.18	2.03

[†] This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) the election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap rk LM statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.21: Effects of political risk on the CCB: parliamentary systems[†]

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-13.72	-13.45	-12.71	-54.56*	-52.37**	-47.11**
				(16.92)	(16.68)	(16.03)	(27.10)	(23.82)	(21.20)
Election	-0.16	-0.16	-0.15						
	(0.17)	(0.17)	(0.16)						
$r^i - r^{us}$		0.00	-0.01		0.03	0.02		0.09	0.07
		(0.05)	(0.05)		(0.05)	(0.05)		(0.06)	(0.06)
Exchange rate			-0.43			-0.38			-0.24
			(1.56)			(1.56)			(1.98)
Reserves			-1.69**			-1.78***			-2.04*
			(0.64)			(0.61)			(1.01)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	2,680	2,680	2,680	2,680	2,680	2,680	2,680	2,680	2,680
F	0.91	0.46	2.70	0.66	0.33	3.27	4.05	3.05	2.42
Cragg-Donald F				15.20	15.92	16.00	16.94	19.91	20.66
Kleibergen-Paap *rk LM*				4.70**	4.67**	4.72**	5.65*	5.50*	5.48*
p value for rk LM				0.030	0.031	0.030	0.059	0.064	0.064
Hansen J							1.42	1.51	1.43
Panel B: *Estimation in first differences*									
$\Delta\pi$				-29.57	-29.77	-31.08	-31.01	-31.07	-33.09
				(24.72)	(24.81)	(25.79)	(22.08)	(22.13)	(22.57)
ΔElection	-0.22	-0.22	-0.23						
	(0.15)	(0.15)	(0.16)						
$\Delta(r^i - r^{us})$		-0.06	-0.06		-0.07	-0.07		-0.07	-0.07
		(0.05)	(0.06)		(0.06)	(0.06)		(0.05)	(0.06)
ΔExchange rate			-7.35**			-9.22**			-9.34**
			(3.16)			(4.23)			(4.08)
ΔReserves			-1.69			-1.70			-1.69
			(1.49)			(1.70)			(1.70)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	2,680	2,680	2,680	2,680	2,680	2,680	2,680	2,680	2,680
F	2.01	1.88	1.62	1.43	1.32	1.47	1.97	1.57	1.48
Cragg-Donald F				24.45	24.40	23.82	14.18	14.17	13.71
Kleibergen-Paap *rk LM*				6.70**	6.68**	6.58**	7.16**	7.14**	7.10**
Hansen J							0.01	0.01	0.02

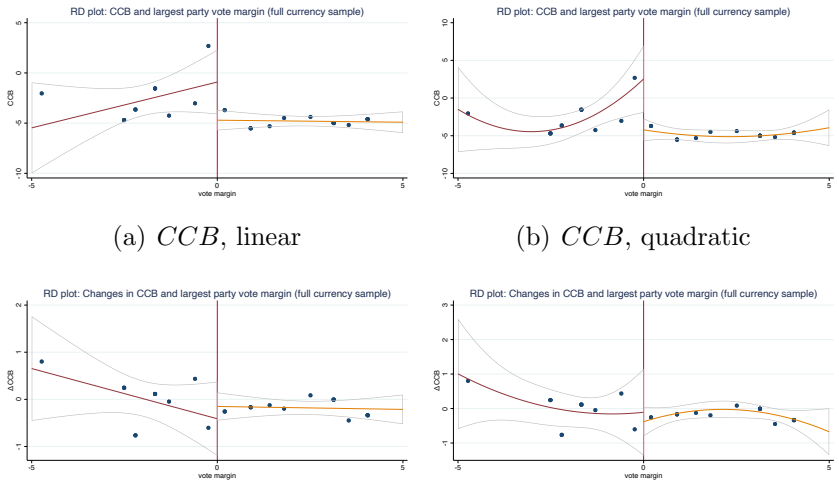
[†] This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) the election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.



(a) CCB, linear (b) CCB, quadratic

(c) ΔCCB, linear (d) ΔCCB, quadratic

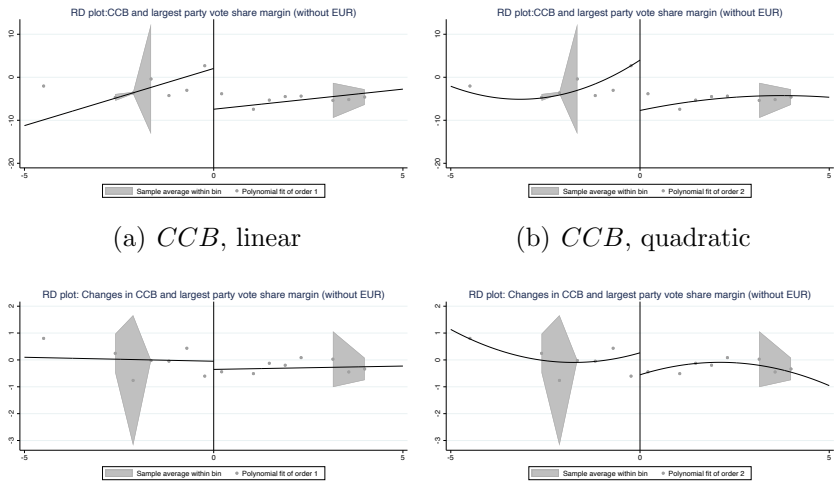
Figure A.2: Regression discontinuity plots corresponding to a local linear (left panel) or quadratic (right panel) form, for a vote share win/loss margin of **5** percent between the government and opposition parties, for the **full sample** with confidence interval at 90% level generated with bin-specific standard error. The discontinuities are clearly more pronounced for the level (top panel) rather than changes (right panel) in the cross-currency basis.



(a) CCB, linear (b) CCB, quadratic

(c) ΔCCB, linear (d) ΔCCB, quadratic

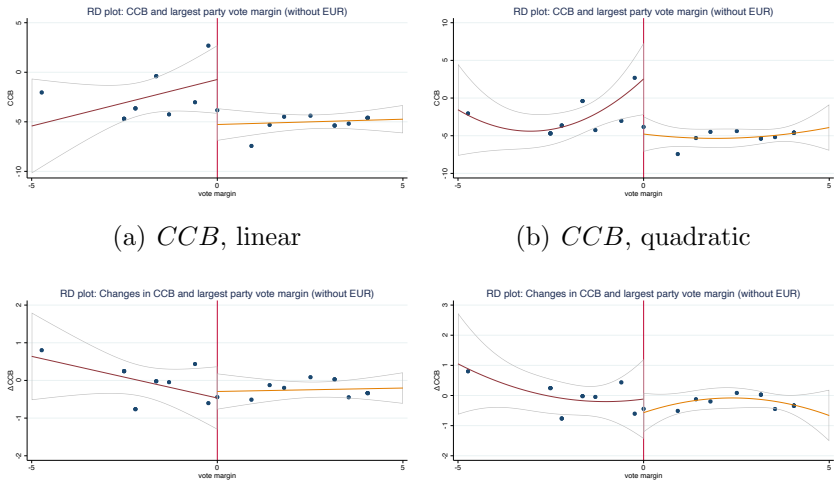
Figure A.3: Regression discontinuity plots corresponding to a local linear (left panel) or quadratic (right panel) form, for a vote share win/loss margin of **5** percent between the government and opposition parties, for the **full sample** with confidence interval at 90% level generated with constant standard error. The discontinuities are clearly more pronounced for the level (top panel) rather than changes (right panel) in the cross-currency basis.



(a) CCB, linear (b) CCB, quadratic

(c) ΔCCB, linear (d) ΔCCB, quadratic

Figure A.4: Regression discontinuity plots corresponding to a local linear (left panel) or quadratic (right panel) form, for a vote share win/loss margin of **5** percent between the government and opposition parties, for the sample **excluding the euro** with confidence interval at 90% level generated with bin-specific standard error. The discontinuities are clearly more pronounced for the level (top panel) rather than changes (right panel) in the cross-currency basis.



(a) CCB, linear (b) CCB, quadratic

(c) ΔCCB, linear (d) ΔCCB, quadratic

Figure A.5: Regression discontinuity plots corresponding to a local linear (left panel) or quadratic (right panel) form, for a vote share win/loss margin of **5** percent between the government and opposition parties, for the sample **excluding the euro** with confidence intervals at 90% level generated with constant standard error. The discontinuities are clearly more pronounced for the level (top panel) rather than changes (right panel) in the cross-currency basis.

Table A.22: Effects of political risk on the cross currency basis using discontinuities at the vote margin for close elections between the largest government and opposition parties†

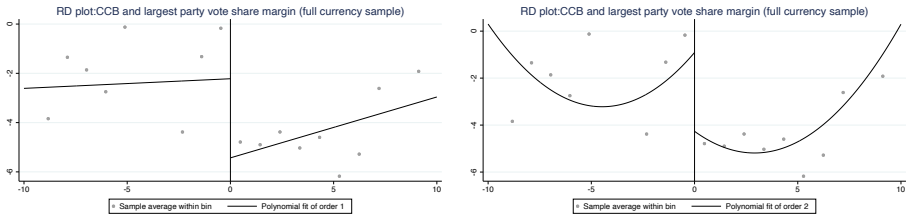
	Full sample				**Without EUR**			
	CCB		ΔCCB		CCB		ΔCCB	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Conventional	-3.21**	-3.35*	0.07	0.08	-4.07***	-4.75**	-0.02	-0.10
	(1.44)	(1.89)	(0.31)	(0.33)	(1.52)	(1.95)	(0.34)	(0.33)
Bias-corrected	-3.49**	-6.88***	0.08	0.11	-4.69***	-8.86***	-0.10	-0.16
	(1.44)	(1.89)	(0.31)	(0.33)	(1.52)	(1.95)	(0.34)	(0.33)
Robust	-3.49*	-6.88***	0.08	0.11	-4.69**	-8.86***	-0.10	-0.16
	(1.83)	(2.06)	(0.33)	(0.50)	(1.90)	(1.81)	(0.32)	(0.53)
Observations	66	66	66	66	56	56	56	56
Polynomial	Linear	Quadratic	Linear	Quadratic	Linear	Quadratic	Linear	Quadratic
Kernel	Triangular	Triangular	Triangular	Triangular	Triangular	Triangular	Triangular	Triangular

† This table reports the regression between monthly cross-currency basis at a tenor of 3 months and the vote share margin of close elections between the government and opposing parties between July 2009 and August 2020. We regard an election as a close one if the vote margin is not greater than **10** percent due to low number of observations. Interest differentials, reserves, real effective exchange rate, currency and time fixed effects are controlled. Robust standard errors clustered at currency level are reported: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table A.23: Effects of political risk on the cross currency basis using discontinuities at the vote margin for close elections between the largest government and opposition *coalitions*†

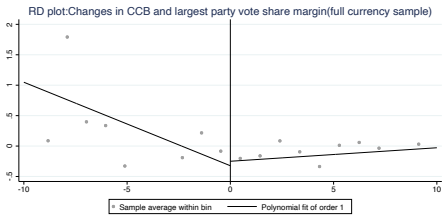
	Full sample				Sample without EUR			
	(1) CCB	(2) CCB	(3) Δ CCB	(4) Δ CCB	(5) CCB	(6) CCB	(7) Δ CCB	(8) Δ CCB
Conventional	-4.05**	-4.69**	0.16	0.30	-5.78***	-8.07***	0.18	0.29
	(1.81)	(2.32)	(0.32)	(0.45)	(1.85)	(2.11)	(0.39)	(0.51)
Bias-corrected	-4.77***	-5.76**	0.27	0.62	-7.06***	-9.97***	0.24	0.52
	(1.81)	(2.32)	(0.32)	(0.45)	(1.85)	(2.11)	(0.39)	(0.51)
Robust	-4.77**	-5.76	0.27	0.62	-7.06***	-9.97**	0.24	0.52
	(2.16)	(4.42)	(0.42)	(0.43)	(1.94)	(4.06)	(0.48)	(0.47)
Observations	28	28	28	28	22	22	22	22
Polynomial	1	2	1	2	1	2	1	2
Kernel	Triangular	Triangular	Triangular	Triangular	Triangular	Triangular	Triangular	Triangular

† This table reports the regression between monthly cross-currency basis at a tenor of 3 months and the vote share margin of close elections between the government and opposing *coalitions* between July 2009 and August 2020. We regard an election as a close one if the vote margin is not greater than **5** percent. Interest differentials, reserves, real effective exchange rate, currency and time fixed effects are controlled. Robust standard errors clustered at currency level are reported: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

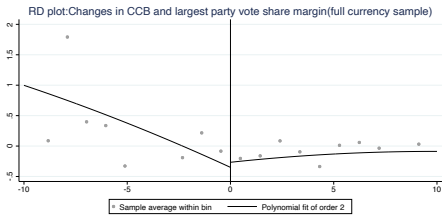


(a) CCB, linear

(b) CCB, quadratic

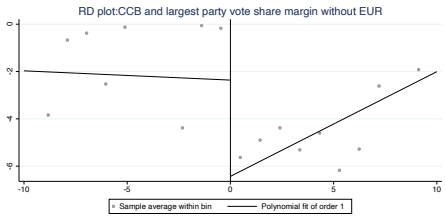


(c) ΔCCB, linear

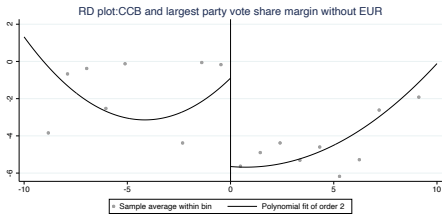


(d) ΔCCB, quadratic

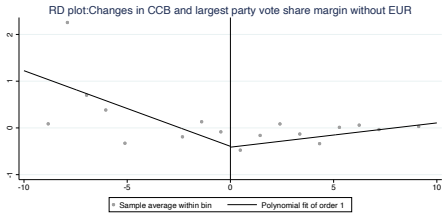
Figure A.6: Regression discontinuity plots corresponding to a local linear (left panel) or quadratic (right panel) form, for a vote share win/loss margin of **10** percent between the government and opposition parties, for the **full sample**. The discontinuities are clearly more pronounced for the level (top panel) rather than changes (right panel) in the cross-currency basis.



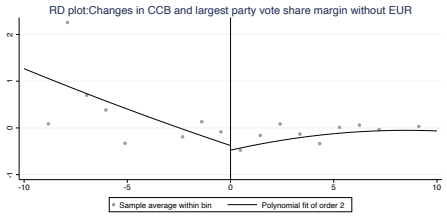
(a) CCB, linear



(b) CCB, quadratic

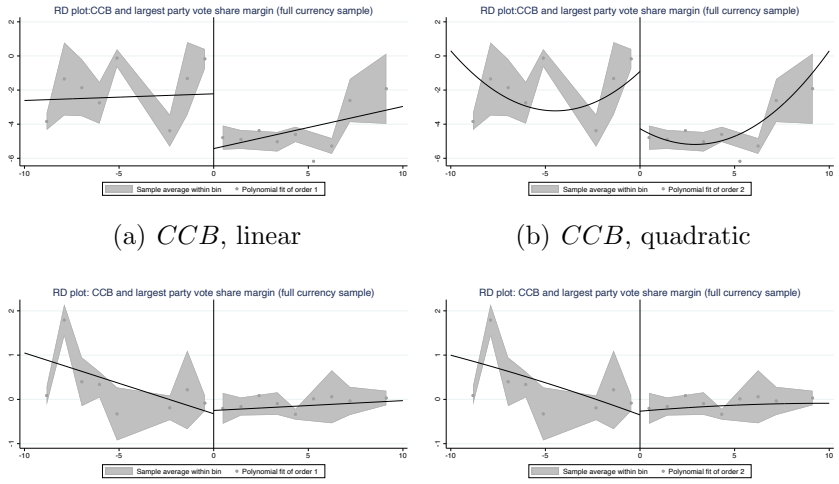


(c) ΔCCB, linear



(d) ΔCCB, quadratic

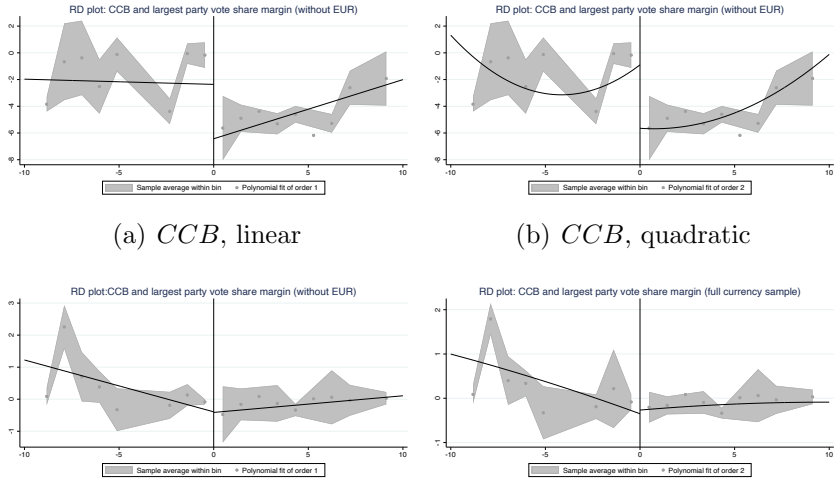
Figure A.7: Regression discontinuity plots corresponding to a local linear (left panel) or quadratic (right panel) form, for a vote share win/loss margin of **10** percent between the government and opposition parties, for the sample **excluding the euro**. The discontinuities are clearly more pronounced for the level (top panel) rather than changes (right panel) in the cross-currency basis.



(a) CCB, linear (b) CCB, quadratic

(c) ΔCCB, linear (d) ΔCCB, quadratic

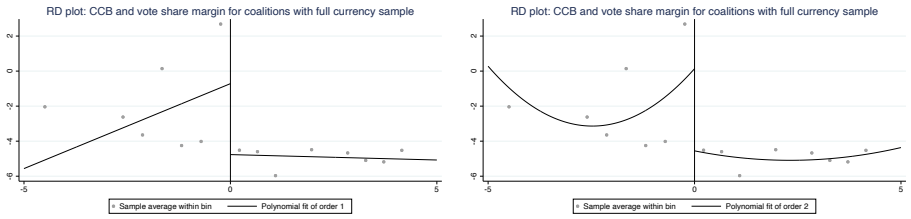
Figure A.8: Regression discontinuity plots corresponding to a local linear (left panel) or quadratic (right panel) form, for a vote share win/loss margin of **10** percent between the government and opposition parties, for the **full sample** with confidence interval at 90% level generated with bin-specific standard error. The discontinuities are clearly more pronounced for the level (top panel) rather than changes (right panel) in the cross-currency basis.



(a) CCB, linear (b) CCB, quadratic

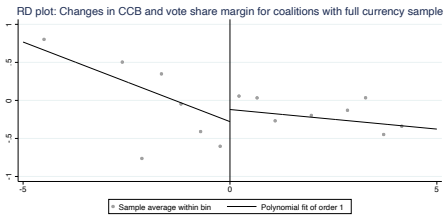
(c) ΔCCB, linear (d) ΔCCB, quadratic

Figure A.9: Regression discontinuity plots corresponding to a local linear (left panel) or quadratic (right panel) form, for a vote share win/loss margin of **10** percent between the government and opposition parties, for the sample **excluding the euro** with confidence interval at 90% level generated with bin-specific standard error. The discontinuities are clearly more pronounced for the level (top panel) rather than changes (right panel) in the cross-currency basis.

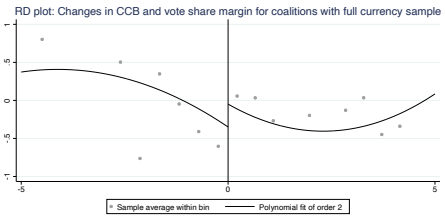


(a) CCB, linear

(b) CCB, quadratic

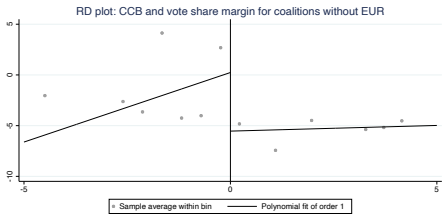


(c) ΔCCB, linear

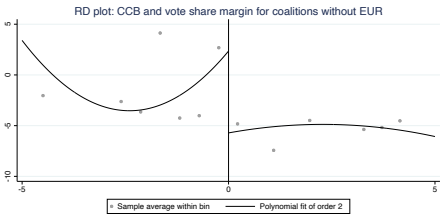


(d) ΔCCB, quadratic

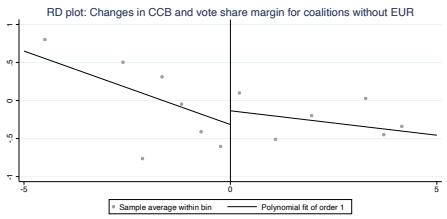
Figure A.10: Regression discontinuity plots corresponding to a local linear (left panel) or quadratic (right panel) form, for a vote share win/loss margin of **5** percent between the government and opposition *coalitions*, for the **full sample**. Consistently, the discontinuities are clearly more pronounced for the level (top panel) rather than changes (right panel) in the cross-currency basis.



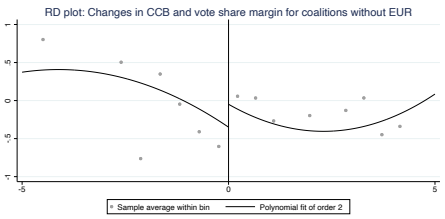
(a) CCB, linear



(b) CCB, quadratic



(c) ΔCCB, linear



(d) ΔCCB, quadratic

Figure A.11: Regression discontinuity plots corresponding to a local linear (left panel) or quadratic (right panel) form, for a vote share win/loss margin of **5** percent between the government and opposition *coalitions*, for the sample **excluding the euro**. Consistently, the discontinuities are clearly more pronounced for the level (top panel) rather than changes (right panel) in the cross-currency basis.

Table A.24: Effects of political risk on the cross-currency basis, pre-crisis and crisis period†

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				6.86	6.66	15.34	0.71	1.26	-4.92
				(56.92)	(56.04)	(61.68)	(17.93)	(19.12)	(19.81)
Election	0.04	0.04	0.09						
	(0.19)	(0.35)	(0.37)						
$r^i - r^{us}$		-0.11	-0.10		-0.11	-0.09		-0.11	-0.11
		(0.09)	(0.10)		(0.09)	(0.11)		(0.09)	(0.10)
Exchange rate			2.42			1.39			2.75
			(2.25)			(5.22)			(2.94)
Reserves			2.02			0.79			2.41
			(2.46)			(5.36)			(2.81)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	2,985	2,985	2,942	2,985	2,985	2,942	2,985	2,985	2,942
F	0.05	0.66	0.79	0.01	0.66	0.88	0.00	0.67	0.71
Cragg-Donald F				2.78	2.77	2.41	28.75	28.86	17.86
Kleibergen-Paap *rk LM*				0.88	0.87	0.84	4.50	4.55	3.38
Hansen J							0.01	0.01	0.12
Panel B: *Estimation in first differences*									
$\Delta\pi$				78.18	67.25	78.92	70.43	59.92	75.80
				(60.59)	(59.24)	(66.47)	(58.80)	(57.35)	(65.42)
ΔElection	0.31**	0.27	0.29						
	(0.16)	(0.20)	(0.19)						
$\Delta(r^i - r^{us})$		-0.33**	-0.32**		-0.31*	-0.31*		-0.31*	-0.31*
		(0.15)	(0.15)		(0.16)	(0.17)		(0.16)	(0.17)
ΔExchange rate			-2.29			2.11			1.94
			(2.40)			(5.94)			(5.82)
ΔReserves			0.25			1.21			1.17
			(2.46)			(3.18)			(3.13)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	2,948	2,948	2,907	2,948	2,948	2,907	2,948	2,948	2,907
F	3.95	4.32	2.34	1.66	4.11	2.19	1.43	3.86	2.14
Cragg-Donald F				5.34	5.26	4.38	2.71	2.67	2.21
Kleibergen-Paap *rk LM*				3.46*	3.41*	3.09*	3.56	3.51	3.16
Hansen J							1.95	1.74	0.73

† This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2000M1 to 2009M6. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.25: Effects of political risk on cross-currency basis, when swap lines are available[†]

	IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)
$\Delta\pi$	-40.10*	-40.87*	-46.26*	-34.93*	-35.71*	-42.66**
	(19.43)	(21.30)	(22.75)	(17.81)	(19.36)	(19.57)
$\Delta(r^i - r^{us})$		0.11	0.12		0.11	0.12
		(0.11)	(0.11)		(0.11)	(0.11)
ΔExchange rate			-9.94			-9.73
			(5.74)			(5.60)
ΔReserves			-1.02			-1.03
			(2.22)			(2.15)
Observations	1,742	1,742	1,742	1,742	1,742	1,742
F	4.26	2.94	3.89	3.85	3.03	4.61
Cragg-Donald F	6.57	6.60	6.12	3.45	3.47	3.18
Kleibergen-Paap rk LM	2.91*	2.94*	2.81*	3.78	3.83	3.98
Hansen J				1.25	1.21	1.09

[†] This table reports the regression between monthly changes in cross-currency basis, at a tenor of 3 months, and changes in political risk which is instrumented with the change in election dummy (IV specifications) and both the changes in election dummy and changes in democratic accountability (2SLS specifications). The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap rk LM statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.26: Effects of political risk on cross-currency basis, conditional on swap size†

	IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)
$\pi \times$ Swap size	1.73	1.25	1.28	2.37	3.72	3.92
	(5.18)	(5.45)	(5.71)	(4.11)	(5.14)	(6.41)
π	-49.89*	-50.77*	-52.48*	-47.86*	-47.75**	-64.00**
	(27.08)	(28.20)	(28.93)	(26.88)	(20.47)	(23.63)
Swap size	6.84	4.94	5.08	9.42	14.83	15.61
	(20.71)	(21.78)	(22.81)	(16.47)	(20.60)	(25.68)
$r^i - r^{us}$		0.20**	0.20**		0.20***	0.23**
		(0.08)	(0.08)		(0.07)	(0.10)
Exchange rate			1.72			1.81
			(2.24)			(2.52)
Reserves			-4.24**			-4.35**
			(1.73)			(2.09)
Observations	4,339	4,339	4,333	4,339	4,339	4,333
F	3.07	3.61	2.82	1.48	2.91	2.02
Cragg-Donald F	4.38	4.50	4.47	5.81	5.81	5.52
Kleibergen-Paap rk LM	0.77	0.78	0.79	2.60	2.56	2.57
Hansen J				0.02	0.18	0.16

† This table reports the regression between monthly cross-currency basis, at a tenor of 3 months, and political risk which is instrumented with the election dummy (IV specifications) and both the election dummy and democratic accountability (2SLS specifications). The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap rk LM statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 16.9 for 2SLS specifications, and 7.0 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.27: Effects of political risk on the cross-currency basis, conditional on reserves[†]

	IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: *Non-G10 currencies*						
π	-119.66*	-123.75*	-121.30*	13.53	4.42	23.30
	(61.07)	(62.02)	(61.22)	(18.28)	(21.92)	(21.35)
π ×Reserves	83.04*	87.64*	86.02*	-18.79*	-16.73	-36.05**
	(46.61)	(47.05)	(46.88)	(9.73)	(10.70)	(16.69)
Reserves	325.47*	344.13*	338.45*	-78.09*	-69.77	-147.14**
	(184.75)	(186.60)	(186.02)	(38.52)	(42.43)	(66.76)
$r^i - r^{us}$		0.09	0.03		0.10	0.18
		(0.13)	(0.14)		(0.09)	(0.12)
Exchange rate			-4.51			4.12
			(2.72)			(2.68)
Currency and Time FE?	Y	Y	Y	Y	Y	Y
Observations	2,993	2,993	2,993	2,993	2,993	2,993
F	1.47	1.39	1.39	5.55	4.15	2.74
Cragg-Donald F	5.30	6.50	7.49	38.44	27.10	22.80
Kleibergen-Paap *rk LM*	8.10***	5.73**	5.04**	9.87**	10.60**	6.14
Hansen J				6.23**	5.51*	6.89**
Panel B: *G10 currencies*						
π	3.3e+05	-855.00	-766.19	-25.61***	-23.95***	-21.57**
	(1.5e+09)	(10952.11)	(9042.76)	(5.91)	(6.31)	(8.38)
π ×Reserves	-1.3e+05	310.43	274.13	2.75	2.26	2.42
	(6.0e+08)	(3950.97)	(3208.71)	(8.58)	(7.92)	(7.09)
Reserves	-5.2e+05	1265.66	1117.13	10.51	8.72	9.16
	(2.5e+09)	(16108.65)	(13078.67)	(35.75)	(33.06)	(29.64)
$r^i - r^{us}$		-1.47	-1.33		-0.05	-0.05
		(18.62)	(15.30)		(0.04)	(0.03)
Exchange rate			2.06			1.52
			(73.03)			(2.27)
Currency and Time FE?	Y	Y	Y	Y	Y	Y
Observations	1,340	1,340	1,340	1,340	1,340	1,340
F	0.00	0.00	0.01	10.53	9.76	11.39
Cragg-Donald F	0.00	0.00	0.00	6.53	8.02	7.71
Kleibergen-Paap *rk LM*	0.00	0.01	0.01	3.52	3.33	3.25
Hansen J				.	.	.

[†] This table reports the regression of monthly cross-currency basis, at a tenor of 3 months, on political risk which is instrumented with the 3-month-prior election dummy (IV specifications) and both the election dummy and democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% (15%) maximal IV size critical value of weak identification is 7.0 (4.6). Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.28: Effects of political risk on the cross-currency basis, conditional on long-term treasury interest differentials†

	IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: *non-G10 currencies*						
π	-33.69	-38.63	-38.09	-38.85	-41.71	-46.52
	(26.15)	(28.18)	(27.73)	(25.92)	(28.97)	(31.57)
$\pi \times (y^i - y^{us})$	-4.94*	-5.09*	-5.04*	-2.72	-3.35	-4.31
	(2.74)	(2.80)	(2.81)	(1.80)	(2.17)	(2.70)
$y^i - y^{us}$	-19.25*	-19.90*	-19.71*	-10.44	-12.99	-16.80
	(10.80)	(11.03)	(11.08)	(7.08)	(8.56)	(10.66)
Reserves		-4.80	-4.46		-4.30	-4.39
		(2.99)	(3.23)		(2.70)	(3.19)
Exchange rate			-1.65			-1.11
			(2.66)			(2.67)
Currency and Time FE?	Y	Y	Y	Y	Y	Y
Observations	2,830	2,830	2,830	2,830	2,830	2,830
F	1.58	1.19	1.06	1.83	1.21	1.36
Cragg-Donald F	5.17	4.96	5.56	5.16	4.88	5.10
Kleibergen-Paap *rk LM*	4.01**	4.36**	4.72**	6.48*	6.00	5.89
Hansen J				4.34*	1.98	1.31
Panel B: *G10 currencies*						
π	-105.48	-89.30	-89.92	4.21	6.09	0.22
	(194.98)	(148.86)	(173.82)	(14.43)	(15.73)	(10.63)
$\pi \times (y^i - y^{us})$	11.68	9.29	9.36	2.12	2.39	1.35
	(30.34)	(22.38)	(26.43)	(2.46)	(2.71)	(2.05)
$y^i - y^{us}$	46.65	37.11	37.40	8.39	9.47	5.35
	(121.19)	(89.45)	(105.66)	(9.76)	(10.75)	(8.14)
Reserves		-3.04	-3.01		-0.09	-0.50
		(5.66)	(4.67)		(0.42)	(0.30)
Exchange rate			-0.27			1.72
			(20.67)			(1.41)
Currency and Time FE?	Y	Y	Y	Y	Y	Y
Observations	1,252	1,252	1,252	1,252	1,252	1,252
F	0.12	0.12	0.10	0.54	0.39	1.52
Cragg-Donald F	0.09	0.13	0.11	1.65	1.72	1.56
Kleibergen-Paap *rk LM*	0.27	0.34	0.25	3.26	3.37	8.21**
Hansen J				6.29	6.56	5.45*

† This table reports the regression of monthly cross-currency basis, at a tenor of 3 months, on political risk which is instrumented with the 3-month-prior election dummy (IV specifications) and both the election dummy and democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of trade-weighted foreign currencies, and reserves is the international reserve to GDP ratio for each country. $y^i - y^{us}$ is the the spread of the 10-year foreign Treasury yield over the 10-year U.S Treasury. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% (15%) maximal IV size critical value of weak identification is 7.0 (4.6). Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.29: Robust: Effects of internal conflict risk on the CCB†

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				128.15	130.34	130.55	34.98	34.13*	38.10**
				(81.21)	(83.82)	(83.42)	(20.80)	(18.64)	(18.35)
Election	-0.58***	-0.59***	-0.60***						
	(0.20)	(0.20)	(0.20)						
$r^i - r^{us}$		0.09	0.09		0.19	0.19		0.12	0.12
		(0.06)	(0.06)		(0.23)	(0.24)		(0.09)	(0.11)
Exchange Rate			1.17			-0.35			0.73
			(1.46)			(5.00)			(1.51)
Reserves			-2.84***			0.11			-1.97**
			(0.87)			(2.59)			(0.97)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,339	4,339	4,333	4,339	4,339	4,333	4,339	4,339	4,333
F	8.64	5.22	4.61	2.49	1.56	0.87	2.83	2.48	2.59
Cragg-Donald F				3.01	2.96	3.07	35.40	35.85	51.99
Kleibergen-Paap rk LM				2.58	2.57	2.54	4.94*	4.99*	5.25*
Hansen J							3.70*	3.71*	3.23*
Panel B: *Estimation in first differences*									
Δ π				-171.02**	-165.84*	-172.53**	-141.19*	-137.88*	-144.36*
				(83.89)	(81.72)	(84.21)	(72.00)	(70.71)	(72.76)
Δ Election	-0.45***	-0.44***	-0.45***						
	(0.16)	(0.17)	(0.16)						
$\Delta(r^i - r^{us})$		-0.23***	-0.23**		-0.30**	-0.30**		-0.29**	-0.29**
		(0.06)	(0.10)		(0.13)	(0.14)		(0.13)	(0.13)
ΔExchange Rate			-5.97			-9.05			-8.52
			(3.83)			(5.38)			(5.10)
ΔReserves			-3.99**			-3.71*			-3.76*
			(1.67)			(2.18)			(2.05)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,337	4,337	4,330	4,337	4,337	4,330	4,337	4,337	4,330
F	7.71	10.25	4.54	4.16	3.92	4.09	3.84	4.02	3.46
Cragg-Donald F				5.24	5.31	5.18	3.36	3.40	3.30
Kleibergen-Paap rk LM				4.94**	4.99**	5.05**	5.03*	5.08*	5.14*
Hansen J							0.38	0.35	0.33

† This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) internal conflict risk, which is instrumented with the (changes in) the *competitive* election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap rk LM statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.30: Robust: Effects of bureaucracy quality risk on the CCB†

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-530.62	-552.87	-558.18	32.02	31.49	48.98
				(404.88)	(415.43)	(406.74)	(26.75)	(28.08)	(42.11)
Election	-0.58***	-0.59***	-0.60***						
	(0.20)	(0.20)	(0.20)						
$r^i - r^{us}$		0.09	0.09		0.47**	0.39**		0.07	0.06
		(0.06)	(0.06)		(0.21)	(0.17)		(0.06)	(0.06)
Exchange rate			1.17			-9.83			2.14
			(1.46)			(6.77)			(1.85)
Reserves			-2.84***			1.74			-3.23***
			(0.87)			(2.57)			(1.00)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,339	4,339	4,333	4,339	4,339	4,333	4,339	4,339	4,333
F	8.64	5.22	4.61	1.72	6.37	3.95	1.43	1.66	2.81
Cragg-Donald F				1.35	1.28	1.32	236.61	236.54	201.23
Kleibergen-Paap *rk LM*				2.11	2.25	2.34	2.91	3.12	3.11
Hansen J							7.03***	6.94***	7.24***
Panel B: *Estimation in first differences*									
$\Delta\pi$				-2.2e+04	-2.2e+04	-2.1e+04	-6814.64	-6485.84	-7168.85
				(31679.76)	(32702.88)	(30692.68)	(10076.79)	(9740.32)	(10667.37)
ΔElection	-0.45***	-0.44***	-0.45***						
	(0.16)	(0.17)	(0.16)						
$\Delta(r^i - r^{us})$		-0.23***	-0.23**		0.31	0.28		-0.07	-0.06
		(0.06)	(0.10)		(.)	(.)		(0.10)	(0.09)
ΔExchange rate			-5.97			14.40			1.13
			(3.83)			(.)			(6.20)
ΔReserves			-3.99**			8.55			0.31
			(1.67)			(6.33)			(1.84)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,337	4,337	4,330	4,337	4,337	4,330	4,337	4,337	4,330
F	7.71	10.25	4.54	0.47	0.23	0.47	0.46	5.78	0.34
Cragg-Donald F				0.01	0.01	0.01	0.01	0.01	0.01
Kleibergen-Paap *rk LM*				0.57	0.59	0.57	0.60	0.60	0.62
Hansen J							4.85**	4.83**	.

† This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) bureaucracy quality risk, which is instrumented with the (changes in) the *competitive* election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.31: Robust: Effects of military in politics risk on the CCB†

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				899.88	723.00	692.73	13.83**	13.71**	17.33**
				(2922.88)	(1835.72)	(1676.76)	(6.23)	(6.35)	(7.32)
Election	-0.58***	-0.59***	-0.60***						
	(0.20)	(0.20)	(0.20)						
$r^i - r^{us}$		0.09	0.09		-2.19	-2.18		0.05	0.03
		(0.06)	(0.06)		(6.08)	(5.63)		(0.06)	(0.06)
Exchange rate			1.17			-10.71			0.87
			(1.46)			(32.12)			(1.61)
Reserves			-2.84***			7.67			-2.56***
			(0.87)			(22.90)			(0.91)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,339	4,339	4,333	4,339	4,339	4,333	4,339	4,339	4,333
F	8.64	5.22	4.61	0.09	0.08	0.05	4.93	4.30	3.68
Cragg-Donald F				0.06	0.09	0.10	168.09	169.52	216.60
Kleibergen-Paap *rk LM*				0.10	0.17	0.19	2.71	2.78	3.01
Hansen J							6.07**	6.01**	5.91**
Panel B: *Estimation in first differences*									
$\Delta\pi$				325.72	317.72	326.68	316.45	309.22	318.87
				(289.71)	(283.21)	(288.66)	(264.35)	(258.84)	(264.82)
ΔElection	-0.45***	-0.44***	-0.45***						
	(0.16)	(0.17)	(0.16)						
$\Delta(r^i - r^{us})$		-0.23***	-0.23**		-0.24**	-0.24**		-0.24**	-0.24**
		(0.06)	(0.10)		(0.09)	(0.09)		(0.09)	(0.09)
ΔExchange rate			-5.97			-6.02			-6.01
			(3.83)			(3.82)			(3.82)
ΔReserves			-3.99**			-2.83			-2.86
			(1.67)			(2.14)			(2.12)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,337	4,337	4,330	4,337	4,337	4,330	4,337	4,337	4,330
F	7.71	10.25	4.54	1.26	3.79	4.15	1.43	3.86	4.22
Cragg-Donald F				5.59	5.61	5.59	2.96	2.96	2.95
Kleibergen-Paap *rk LM*				1.67	1.67	1.67	2.38	2.38	2.28
Hansen J							0.17	0.15	0.13

† This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) military in politics risk, which is instrumented with the (changes in) the *competitive* election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.32: Robust: Effects of corruption risk on the CCB†

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
Corruption risk				-177.23	-190.75	-226.32	6.23	6.14*	10.83**
				(272.98)	(308.28)	(435.85)	(3.71)	(3.50)	(4.26)
Election	-0.58***	-0.59***	-0.60***						
	(0.20)	(0.20)	(0.20)						
$r^i - r^{us}$		0.09	0.09		0.85	0.61		0.07	0.06
		(0.06)	(0.06)		(1.19)	(1.09)		(0.07)	(0.06)
Exchange rate			1.17			-36.39			2.97
			(1.46)			(74.60)			(2.08)
Reserves			-2.84***			-11.68			-2.40**
			(0.87)			(20.95)			(0.90)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,339	4,339	4,333	4,339	4,339	4,333	4,339	4,339	4,333
F	8.64	5.22	4.61	0.42	0.26	0.08	2.83	3.54	3.24
Cragg-Donald F				0.64	0.58	0.47	366.75	370.12	255.89
Kleibergen-Paap *rk LM*				0.49	0.45	0.30	2.84	2.74	2.90
Hansen J							7.10***	6.99***	7.01***
Panel B: *Estimation in first differences*									
ΔCorruption risk				-93000.01	19400.69	5483.50	-35.81	-31.21	-21.66
				(1.7e+07)	(7.5e+05)	(58860.59)	(72.73)	(68.64)	(62.07)
Δ Election	-0.45***	-0.44***	-0.45***						
	(0.16)	(0.17)	(0.16)						
$\Delta(r^i - r^{us})$		-0.23***	-0.23**		-11.99	-3.61		-0.21*	-0.22*
		(0.06)	(0.10)		(452.42)	(36.51)		(0.11)	(0.11)
ΔExchange rate			-5.97			162.27			-6.46
			(3.83)			(1788.65)			(4.24)
ΔReserves			-3.99**			14.60			-4.07**
			(1.67)			(180.69)			(1.76)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,337	4,337	4,330	4,337	4,337	4,330	4,337	4,337	4,330
F	7.71	10.25	4.54	0.00	0.00	0.01	0.24	2.62	2.89
Cragg-Donald F				0.00	0.00	0.01	0.78	0.79	0.73
Kleibergen-Paap *rk LM*				0.00	0.00	0.01	0.55	0.56	0.54
Hansen J							6.59***	6.43***	6.81***

† This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) corruption risk, which is instrumented with the (changes in) the election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.33: Robust: Effects of economic policy uncertainty risk on the CCB†

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-29.35	-27.45	-24.74	-10.66	-0.18	-34.20
				(49.29)	(39.93)	(37.63)	(25.34)	(15.05)	(50.26)
Election	-0.67**	-0.70**	-0.66**						
	(0.29)	(0.28)	(0.30)						
$r^i - r^{us}$		0.09	0.09		-0.14	-0.13		0.09	-0.22
		(0.08)	(0.07)		(0.52)	(0.52)		(0.16)	(0.74)
Exchange rate			1.90			-4.04			-6.34
			(2.21)			(13.76)			(16.56)
Reserves			-6.21**			-21.19			-26.90
			(2.89)			(24.88)			(35.77)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	2,195	2,195	2,195	2,195	2,195	2,195	2,195	2,195	2,195
F	5.51	6.27	4.28	0.35	0.37	0.30	0.18	0.56	0.27
Cragg-Donald F				0.79	0.98	1.09	0.46	0.84	0.61
Kleibergen-Paap *rk LM*				0.40	0.54	0.54	0.46	0.80	0.56
Hansen J							1.97	4.44**	0.13
Panel B: *Estimation in first differences*									
$\Delta\pi$				34.80	34.14	23.55	34.74	34.10	23.53
				(81.49)	(79.69)	(36.10)	(81.78)	(79.96)	(35.84)
ΔElection	-0.53**	-0.52***	-0.52**						
	(0.24)	(0.18)	(0.23)						
$\Delta(r^i - r^{us})$		-0.28***	-0.28**		-0.42	-0.42		-0.42	-0.42
		(0.08)	(0.11)		(0.39)	(0.26)		(0.39)	(0.26)
ΔExchange rate			-3.81			33.43			33.41
			(5.66)			(57.80)			(57.55)
ΔReserves			-6.85			-21.69			-21.68
			(4.69)			(30.14)			(29.93)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	2,193	2,193	2,193	2,193	2,193	2,193	2,193	2,193	2,193
F	4.81	9.20	2.85	0.18	1.08	1.18	0.18	1.08	1.19
Cragg-Donald F				0.28	0.29	0.60	0.14	0.14	0.30
Kleibergen-Paap *rk LM*				0.19	0.20	0.47	0.20	0.20	0.49
Hansen J							0.00	0.00	0.00

† This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) economic policy uncertainty risk, which is instrumented with the (changes in) the election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.34: Robust: Effects of law and order risk on the CCB†

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-361.16	-428.76	-563.30	11.73	11.67	25.26*
				(889.99)	(1263.57)	(2230.32)	(6.99)	(7.32)	(13.42)
Election	-0.58***	-0.59***	-0.60***						
	(0.20)	(0.20)	(0.20)						
$r^i - r^{us}$		0.09	0.09		2.09	1.77		0.04	0.01
		(0.06)	(0.06)		(5.79)	(6.65)		(0.08)	(0.09)
Exchange rate			1.17			-89.99			5.26*
			(1.46)			(360.18)			(2.98)
Reserves			-2.84***			-14.50			-2.30**
			(0.87)			(50.46)			(0.87)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,339	4,339	4,333	4,339	4,339	4,333	4,339	4,339	4,333
F	8.64	5.22	4.61	0.16	0.07	0.02	2.82	2.61	2.86
Cragg-Donald F				0.30	0.23	0.16	190.01	195.85	92.61
Kleibergen-Paap rk LM				0.18	0.13	0.07	3.44	3.98	5.19
Hansen J							7.35***	7.27***	7.23***
Panel B: *Estimation in first differences*									
$\Delta\pi$				897.64	867.50	938.41	10.23	9.23	6.67
				(1064.47)	(1015.95)	(1146.78)	(30.74)	(30.26)	(30.34)
ΔElection	-0.45***	-0.44***	-0.45***						
	(0.16)	(0.17)	(0.16)						
$\Delta(r^i - r^{us})$		-0.23***	-0.23**		-0.33	-0.34		-0.23**	-0.23**
		(0.06)	(0.10)		(0.38)	(0.41)		(0.10)	(0.10)
ΔExchange rate			-5.97			-18.74			-5.89
			(3.83)			(32.97)			(3.78)
ΔReserves			-3.99**			-3.04			-3.99**
			(1.67)			(7.53)			(1.67)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,337	4,337	4,330	4,337	4,337	4,330	4,337	4,337	4,330
F	7.71	10.25	4.54	0.71	0.50	1.15	0.11	2.61	3.29
Cragg-Donald F				0.36	0.37	0.33	5.85	5.86	5.93
Kleibergen-Paap rk LM				0.83	0.85	0.76	2.00	2.02	1.94
Hansen J							6.72**	6.55**	6.89***

† This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) the law and order risk, which is instrumented with the (changes in) the election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap rk LM statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.35: Robust: Effects of external conflict risk on the CCB†

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-142.33	-151.64	-164.24	-40.18	-37.82	-47.21
				(139.05)	(159.32)	(182.20)	(48.86)	(35.23)	(28.88)
Election	-0.58***	-0.59***	-0.60***						
	(0.20)	(0.20)	(0.20)						
$r^i - r^{us}$		0.09	0.09		0.73	0.69		0.25	0.26*
		(0.06)	(0.06)		(0.75)	(0.73)		(0.16)	(0.14)
Exchange rate			1.17			-2.65			0.07
			(1.46)			(11.74)			(2.92)
Reserves			-2.84***			-10.79			-5.11*
			(0.87)			(10.22)			(2.61)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,339	4,339	4,333	4,339	4,339	4,333	4,339	4,339	4,333
F	8.64	5.22	4.61	1.05	0.48	0.29	0.68	1.32	1.22
Cragg-Donald F				2.45	2.32	2.12	27.04	30.60	36.77
Kleibergen-Paap *rk LM*				1.22	1.08	0.95	1.75	1.81	2.45
Hansen J							1.82	2.38	2.08
Panel B: *Estimation in first differences*									
$\Delta\pi$				-212.06	-207.75	-220.06	-208.88	-204.85	-219.38
				(157.54)	(155.35)	(166.93)	(146.77)	(144.80)	(159.71)
ΔElection	-0.45***	-0.44***	-0.45***						
	(0.16)	(0.17)	(0.16)						
$\Delta(r^i - r^{us})$		-0.23***	-0.23**		-0.20	-0.20		-0.20	-0.20
		(0.06)	(0.10)		(0.12)	(0.12)		(0.12)	(0.12)
ΔExchange Rate			-5.97			-13.27**			-13.24**
			(3.83)			(6.29)			(6.07)
ΔReserves			-3.99**			-4.67**			-4.67**
			(1.67)			(1.97)			(1.96)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,337	4,337	4,330	4,337	4,337	4,330	4,337	4,337	4,330
F	7.71	10.25	4.54	1.81	2.96	3.78	2.03	3.08	3.91
Cragg-Donald F				6.10	6.07	5.91	3.16	3.15	3.02
Kleibergen-Paap *rk LM*				2.23	2.22	2.10	2.55	2.54	2.32
Hansen J							0.02	0.02	0.00

† This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) the external conflict risk, which is instrumented with the (changes in) the *competitive* election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap rk LM statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.36: Robust:Effects of government stability risk on the CCB†

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
Gov stab risk				-14.15**	-14.32**	-14.58**	-13.86**	-13.67***	-17.90***
				(6.81)	(6.97)	(7.01)	(5.69)	(4.41)	(6.07)
Election	-0.58***	-0.59***	-0.60***						
	(0.20)	(0.20)	(0.20)						
$r^i - r^{us}$		0.09	0.09		0.14**	0.14**		0.13**	0.15*
		(0.06)	(0.06)		(0.06)	(0.06)		(0.07)	(0.08)
Exchange rate			1.17			1.93			2.10
			(1.46)			(1.80)			(2.01)
Reserves			-2.84***			-3.01**			-3.06**
			(0.87)			(1.25)			(1.39)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,339	4,339	4,333	4,339	4,339	4,333	4,339	4,339	4,333
F	8.64	5.22	4.61	4.32	4.61	2.71	5.94	7.18	2.96
Cragg-Donald F				34.17	34.03	34.08	40.99	41.58	36.98
Kleibergen-Paap *rk LM*				8.57***	8.50***	8.49***	10.32***	10.41***	9.74***
Hansen J							0.00	0.01	0.18
Panel B: *Estimation in first difference*									
ΔGov stab risk				-22.68**	-22.10**	-23.05**	-21.83**	-21.32**	-22.33**
				(9.36)	(9.31)	(9.58)	(8.40)	(8.39)	(8.60)
ΔElection	-0.45***	-0.44**	-0.45***						
	(0.16)	(0.16)	(0.16)						
$\Delta(r^i - r^{us})$		-0.23**	-0.23**		-0.25**	-0.25**		-0.25**	-0.25**
		(0.10)	(0.10)		(0.11)	(0.11)		(0.11)	(0.11)
ΔExchange rate			-5.97			-9.35*			-9.24**
			(3.83)			(4.64)			(4.53)
ΔReserves			-3.99**			-4.85**			-4.82**
			(1.67)			(2.08)			(2.06)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,337	4,337	4,330	4,337	4,337	4,330	4,337	4,337	4,330
F	7.71	6.02	4.54	5.87	4.85	3.28	6.76	5.33	3.66
Cragg-Donald F				28.63	28.76	27.93	15.32	15.38	14.88
Kleibergen-Paap *rk LM*				12.37***	12.36***	12.08***	13.44***	13.43***	13.22***
Hansen J							0.10	0.09	0.08

† This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) *government stability* risk, which is instrumented with the (changes in) the election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.37: Robust:Effects of political risk on the CCB (No EUR)[†]

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-46.73*	-47.29*	-49.14*	-46.77	-46.08**	-63.30**
				(23.65)	(24.62)	(25.37)	(27.75)	(20.45)	(23.67)
Election	-0.59***	-0.59**	-0.61***						
	(0.21)	(0.22)	(0.22)						
$r^i - r^{us}$		0.09	0.08		0.19**	0.19**		0.19***	0.22**
		(0.06)	(0.06)		(0.07)	(0.08)		(0.07)	(0.10)
Exchange rate			1.18			1.73			1.89
			(1.47)			(2.22)			(2.61)
Reserves			-2.83***			-4.26**			-4.68**
			(0.87)			(1.74)			(2.10)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,205	4,205	4,199	4,205	4,205	4,199	4,205	4,205	4,199
F	7.61	4.69	4.44	3.90	4.00	2.56	2.84	5.02	2.77
Cragg-Donald F				24.34	24.47	24.11	28.63	29.64	24.09
Kleibergen-Paap *rk LM*				7.90***	7.76***	7.70***	8.82**	8.80**	8.40**
Hansen J							0.00	0.00	0.28
Panel B: *Estimation in first difference*									
$\Delta\pi$				-61.10**	-59.65**	-62.18**	-57.60**	-56.36**	-59.17**
				(25.06)	(24.94)	(25.48)	(21.97)	(21.97)	(22.27)
ΔElection	-0.48**	-0.47**	-0.49***						
	(0.18)	(0.18)	(0.18)						
$\Delta(r^i - r^{us})$		-0.24**	-0.24**		-0.26**	-0.26**		-0.26**	-0.26**
		(0.10)	(0.10)		(0.11)	(0.11)		(0.11)	(0.11)
ΔExchange rate			-6.20			-9.99**			-9.79**
			(3.92)			(4.65)			(4.50)
ΔReserves			-3.81**			-4.35**			-4.33**
			(1.70)			(1.96)			(1.94)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,203	4,203	4,196	4,203	4,203	4,196	4,203	4,203	4,196
F	7.33	6.13	4.75	5.95	5.05	3.62	6.87	5.58	4.05
Cragg-Donald F				41.14	41.27	40.18	22.57	22.63	21.91
Kleibergen-Paap *rk LM*				13.00***	13.00***	12.78***	13.99***	13.98***	13.87***
Hansen J							0.17	0.15	0.13

[†] This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). We exclude the currency *EUR* in this exercise. Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap rk LM statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.38: Robust:Effects of political risk on the CCB (No HKD & SAR)[†]

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-53.92*	-55.69*	-56.99*	-51.49*	-62.94**	-70.43**
				(27.25)	(28.41)	(28.92)	(27.15)	(29.40)	(30.90)
Election	-0.60***	-0.62***	-0.63***						
	(0.20)	(0.21)	(0.21)						
$r^i - r^{us}$		0.12*	0.12*		0.19**	0.18**		0.20**	0.20**
		(0.06)	(0.06)		(0.08)	(0.09)		(0.08)	(0.09)
Exchange rate			1.79			1.42			1.34
			(1.56)			(2.64)			(2.99)
Reserves			-2.87***			-4.58**			-4.99**
			(0.84)			(2.06)			(2.29)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,071	4,071	4,071	4,071	4,071	4,071	4,071	4,071	4,071
F	8.96	6.25	4.98	3.92	4.21	2.45	3.59	5.69	2.96
Cragg-Donald F				21.92	21.52	21.30	10.97	11.05	11.34
Kleibergen-Paap *rk LM*				7.43***	7.30***	7.31***	7.44**	7.32**	7.31**
p value for rk LM				0.006	0.007	0.007	0.024	0.026	0.026
Hansen J							1.98	0.75	1.10
Panel B: *Estimation in first difference*									
$\Delta\pi$				-63.64**	-61.57**	-64.41**	-54.73**	-52.85**	-55.95**
				(25.29)	(24.86)	(25.68)	(21.42)	(21.21)	(21.43)
ΔElection	-0.46***	-0.44**	-0.46***						
	(0.17)	(0.16)	(0.16)						
$\Delta(r^i - r^{us})$		-0.22*	-0.22*		-0.24*	-0.24*		-0.24*	-0.24*
		(0.11)	(0.11)		(0.12)	(0.12)		(0.12)	(0.12)
ΔExchange rate			-6.05			-9.77**			-9.26**
			(3.87)			(4.63)			(4.36)
ΔReserves			-4.10**			-4.38**			-4.34**
			(1.72)			(1.97)			(1.94)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,069	4,069	4,069	4,069	4,069	4,069	4,069	4,069	4,069
F	7.13	5.39	4.22	6.33	4.65	3.29	6.53	4.97	3.80
Cragg-Donald F				36.90	37.15	36.00	22.59	22.73	21.90
Kleibergen-Paap *rk LM*				12.58***	12.62***	12.33***	13.64***	13.67***	13.52***
Hansen J							0.32	0.33	0.29

[†] This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). We exclude the currency *HKD* & *SAR* in this exercise. Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.39: Effects of political risk on the CCB: sample with flexible[§] exchange rate regime[†]

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-67.48**	-69.69**	-71.06**	-67.12**	-73.41**	-80.61**
				(31.64)	(32.34)	(32.93)	(31.64)	(32.47)	(34.08)
Election	-0.75	-0.77***	-0.78***						
	(.)	(0.22)	(0.22)						
$r^i - r^{us}$		0.12*	0.12		0.15*	0.14		0.15*	0.15
		(0.07)	(0.07)		(0.08)	(0.09)		(0.08)	(0.09)
Exchange rate			0.83			0.18			0.10
			(1.46)			(2.05)			(2.19)
Reserves			-2.59***			-3.64**			-3.78**
			(0.77)			(1.66)			(1.79)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	3,311	3,311	3,311	3,311	3,311	3,311	3,311	3,311	3,311
F	12.39	7.84	6.19	4.55	4.89	2.76	4.50	5.40	3.20
Cragg-Donald F				19.41	19.14	19.08	9.70	9.60	9.80
Kleibergen-Paap *rk LM*				6.18**	6.23**	6.18**	6.26**	6.28**	6.21**
Hansen J							1.54	1.00	0.79
Panel B: *Estimation in first differences*									
$\Delta\pi$				-79.74**	-76.65**	-77.94**	-68.34**	-65.50**	-68.16***
				(29.72)	(28.96)	(29.92)	(24.72)	(24.42)	(24.32)
ΔElection	-0.52	-0.50***	-0.50***						
	(.)	(0.19)	(0.18)						
$\Delta(r^i - r^{us})$		-0.24***	-0.24**		-0.28**	-0.27**		-0.27**	-0.27**
		(0.07)	(0.11)		(0.12)	(0.12)		(0.12)	(0.12)
ΔExchange rate			-5.50			-11.13*			-10.40*
			(4.68)			(5.93)			(5.48)
ΔReserves			-5.83***			-5.98***			-5.97***
			(2.01)			(2.12)			(2.09)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	3,309	3,309	3,309	3,309	3,309	3,309	3,309	3,309	3,309
F	8.44	9.39	4.85	7.20	5.46	4.21	7.64	6.03	4.82
Cragg-Donald F				24.27	24.53	23.69	14.79	14.94	14.19
Kleibergen-Paap *rk LM*				9.53***	9.61***	9.32***	10.42***	10.48***	10.29***
Hansen J							0.26	0.26	0.21

[†] This table reports the regression of monthly (changes in) cross-currency basis for flexible exchange rate countries, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) the election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

[§] We define a country as running a flexible exchange rate regime if it is classified as a managed floating or independently floating regime from the IMF's *de facto* classification of exchange rate regimes. Otherwise, it treated as running a non-flexible exchange rate regime.

Table A.40: Effects of political risk on the CCB: sample with non-flexible[§] exchange rate regime[†]

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				24.37	16.85	18.23	-6.50	-10.88	-48.52
				(49.19)	(30.37)	(28.80)	(15.12)	(62.87)	(98.72)
Election	0.15	0.17	0.17						
	(0.29)	(0.29)	(0.25)						
$r^i - r^{us}$		0.03	-0.05		-0.11	-0.18		0.11	0.30
		(0.11)	(0.08)		(0.24)	(0.20)		(0.59)	(0.71)
Exchange rate			5.46**			5.72***			4.74
			(2.21)			(1.59)			(3.41)
Reserves			-4.76			-3.91			-7.04
			(3.00)			(3.11)			(7.99)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	1,028	1,028	1,022	1,028	1,028	1,022	1,028	1,028	1,022
F	0.29	0.17	3.07	0.25	0.16	5.12	0.18	0.03	1.52
Cragg-Donald F				1.08	3.43	3.17	28.10	2.48	1.92
Kleibergen-Paap rk LM				1.55	2.44	2.56	2.46	2.54	2.58
Hansen J							0.54	0.26	0.72
Panel B: *Estimation in first differences*									
$\Delta\pi$				1.84	1.26	3.80	1.78	0.97	3.50
				(20.91)	(20.21)	(18.99)	(20.71)	(19.87)	(18.72)
ΔElection	0.02	0.01	0.04						
	(0.23)	(0.29)	(0.20)						
$\Delta(r^i - r^{us})$		-0.17*	-0.16		-0.17	-0.16		-0.17	-0.16
		(0.09)	(0.12)		(0.12)	(0.12)		(0.12)	(0.12)
ΔExchange rate			-4.00			-3.90			-3.91
			(4.46)			(4.27)			(4.27)
ΔReserves			4.27			4.34			4.33
			(3.68)			(3.62)			(3.63)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	1,028	1,028	1,021	1,028	1,028	1,021	1,028	1,028	1,021
F	0.01	1.76	2.08	0.01	1.04	2.06	0.01	1.04	2.06
Cragg-Donald F				19.66	19.78	18.80	9.84	9.91	9.42
Kleibergen-Paap rk LM				4.18**	4.20**	4.10**	4.30	4.35	4.22
Hansen J							0.03	.	.

[†] This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) the election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap rk LM statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

[§] We define a country as running a flexible exchange rate regime if it is classified as a managed floating or independently floating regime from the IMF's *de facto* classification of exchange rate regimes. Otherwise, it is treated as running a non-flexible exchange rate regime.

Table A.41: Robust:Effects of political risk on the CCB (Alternative CLP)[†]

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-42.15*	-41.42*	-42.83*	-46.78	-45.49**	-63.50**
				(21.60)	(21.53)	(22.12)	(29.38)	(20.18)	(23.76)
Election	-0.47***	-0.47***	-0.48***						
	(0.12)	(0.17)	(0.17)						
$r^i - r^{us}$		0.12**	0.11*		0.21***	0.20**		0.21***	0.24**
		(0.06)	(0.06)		(0.07)	(0.07)		(0.07)	(0.10)
Exchange rate			1.25			1.72			1.94
			(1.47)			(2.08)			(2.61)
Reserves			-2.78***			-4.04**			-4.65**
			(0.87)			(1.60)			(2.10)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,339	4,339	4,333	4,339	4,339	4,333	4,339	4,339	4,333
F	14.73	4.60	4.18	3.81	4.29	2.74	2.54	5.97	2.92
Cragg-Donald F				21.68	22.39	22.14	27.78	29.01	23.51
Kleibergen-Paap *rk LM*				7.49***	7.57***	7.56***	8.38**	8.54**	8.23**
Hansen J							0.02	0.03	0.57
Panel B: *Estimation in first difference*									
$\Delta\pi$				-60.12**	-59.88**	-62.65**	-56.10**	-55.91**	-59.03***
				(24.10)	(24.14)	(24.83)	(20.89)	(20.92)	(21.35)
ΔElection	-0.43***	-0.43**	-0.44***						
	(0.16)	(0.16)	(0.16)						
$\Delta(r^i - r^{us})$		-0.06	-0.06		-0.05	-0.06		-0.05	-0.06
		(0.05)	(0.05)		(0.06)	(0.07)		(0.06)	(0.06)
ΔExchange rate			-6.35*			-10.10**			-9.88**
			(3.69)			(4.43)			(4.29)
ΔReserves			-2.88**			-3.37**			-3.34**
			(1.23)			(1.58)			(1.57)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,337	4,337	4,330	4,337	4,337	4,330	4,337	4,337	4,330
F	7.33	4.42	3.37	6.22	3.75	2.58	7.21	4.21	2.83
Cragg-Donald F				37.47	37.44	36.37	20.86	20.85	20.13
Kleibergen-Paap *rk LM*				13.00***	13.02***	12.74***	13.94***	13.95***	13.78***
Hansen J							0.19	0.18	0.15

[†] This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). We employ the CCB for CLP calculated based on nominal interest rate in this exercise. Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.42: Robust:Effects of political risk on the CCB (No CHN & SAU)[†]

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-53.89*	-54.65*	-55.84*	-60.43**	-70.87**	-76.62**
				(27.42)	(28.25)	(28.66)	(27.77)	(30.16)	(32.69)
Election	-0.60***	-0.60***	-0.61***						
	(0.20)	(0.20)	(0.21)						
$r^i - r^{us}$		0.08	0.08		0.16**	0.15**		0.19**	0.18**
		(0.06)	(0.06)		(0.07)	(0.07)		(0.07)	(0.08)
Exchange rate			0.65			-0.52			-0.95
			(1.39)			(1.67)			(2.01)
Reserves			-2.34***			-2.96**			-3.20*
			(0.74)			(1.29)			(1.57)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,071	4,071	4,071	4,071	4,071	4,071	4,071	4,071	4,071
F	8.93	4.97	4.50	3.86	3.68	2.52	4.74	5.56	3.10
Cragg-Donald F				22.57	22.45	22.24	11.35	12.13	14.19
Kleibergen-Paap *rk LM*				7.43***	7.34***	7.29***	7.48**	7.40**	7.42**
p value for rk LM				0.006	0.007	0.007	0.024	0.025	0.025
Hansen J							1.98	1.27	0.70
Panel B: *Estimation in first difference*									
$\Delta\pi$				-63.68**	-62.17**	-65.00**	-55.73**	-54.20**	-57.40**
				(25.37)	(25.18)	(25.92)	(21.45)	(21.41)	(21.60)
ΔElection	-0.45***	-0.44***	-0.46***						
	(0.17)	(0.16)	(0.16)						
$\Delta(r^i - r^{us})$		-0.22*	-0.22*		-0.24*	-0.24*		-0.23*	-0.24*
		(0.11)	(0.11)		(0.12)	(0.12)		(0.12)	(0.12)
ΔExchange rate			-6.57*			-10.35**			-9.89**
			(3.78)			(4.54)			(4.29)
ΔReserves			-3.88**			-4.32**			-4.27**
			(1.64)			(1.92)			(1.89)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,069	4,069	4,069	4,069	4,069	4,069	4,069	4,069	4,069
F	7.12	5.51	4.52	6.30	4.63	3.47	6.75	5.05	4.01
Cragg-Donald F				36.27	36.41	35.36	22.03	22.12	21.36
Kleibergen-Paap *rk LM*				12.82***	12.83***	12.59***	13.86***	13.87***	13.77***
Hansen J							0.28	0.29	0.25

[†] This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). We exclude the currency *CNY* & *SAR* in this exercise. Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.43: Robust:Effects of political risk on the CCB (2009m4-2020m8)†

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-46.05*	-47.36	-48.57	-43.85	-43.14**	-61.38**
				(27.02)	(28.16)	(28.87)	(28.73)	(20.76)	(24.85)
Election	-0.48***	-0.49**	-0.49**						
	(0.14)	(0.20)	(0.21)						
$r^i - r^{us}$		0.08	0.07		0.19**	0.18**		0.18**	0.21**
		(0.06)	(0.06)		(0.08)	(0.09)		(0.07)	(0.10)
Exchange rate			1.08			1.61			1.75
			(1.43)			(2.22)			(2.57)
Reserves			-2.81***			-4.30**			-4.69**
			(0.87)			(1.80)			(2.12)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,435	4,435	4,426	4,435	4,435	4,426	4,435	4,435	4,426
F	11.12	3.57	3.96	2.90	2.69	2.11	2.33	3.82	2.32
Cragg-Donald F				18.85	18.61	18.40	26.26	27.29	20.74
Kleibergen-Paap *rk LM*				7.12***	6.92***	6.91***	7.90**	7.94**	7.70**
Hansen J							0.00	0.02	0.17
Panel B: *Estimation in first difference*									
$\Delta\pi$				-65.37**	-63.19**	-66.05**	-60.47**	-58.63**	-61.62**
				(27.66)	(27.25)	(27.94)	(23.70)	(23.49)	(23.85)
ΔElection	-0.43**	-0.42**	-0.43**						
	(0.16)	(0.16)	(0.16)						
$\Delta(r^i - r^{us})$		-0.29***	-0.29**		-0.31**	-0.31**		-0.31**	-0.31**
		(0.07)	(0.12)		(0.13)	(0.13)		(0.13)	(0.13)
ΔExchange rate			-5.04			-8.82*			-8.55*
			(3.69)			(4.44)			(4.24)
ΔReserves			-3.71**			-4.26**			-4.22**
			(1.56)			(1.83)			(1.81)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,433	4,433	4,423	4,433	4,433	4,423	4,433	4,433	4,423
F	7.17	12.28	4.89	5.59	5.45	3.75	6.51	6.04	4.31
Cragg-Donald F				32.27	32.43	31.37	18.23	18.31	17.59
Kleibergen-Paap *rk LM*				11.84***	11.86***	11.56***	12.76***	12.77***	12.55***
Hansen J							0.19	0.17	0.16

† This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) the election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from *2009M4 to 2020M8*. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.44: Robust:Effects of political risk on the CCB (2009m6-2020m8)†

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-48.88*	-49.97*	-51.43*	-46.85	-45.83**	-64.39**
				(26.00)	(27.04)	(27.69)	(29.54)	(21.35)	(24.96)
Election	-0.54***	-0.55***	-0.56***						
	(0.14)	(0.20)	(0.20)						
$r^i - r^{us}$		0.09	0.08		0.20**	0.19**		0.19**	0.22**
		(0.06)	(0.06)		(0.08)	(0.08)		(0.07)	(0.10)
Exchange rate			1.18			1.73			1.87
			(1.45)			(2.27)			(2.63)
Reserves			-2.80***			-4.34**			-4.73**
			(0.88)			(1.81)			(2.15)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,371	4,371	4,364	4,371	4,371	4,364	4,371	4,371	4,364
F	14.98	4.72	4.27	3.54	3.48	2.31	2.51	4.48	2.51
Cragg-Donald F				21.30	21.17	20.93	27.32	28.50	22.67
Kleibergen-Paap *rk LM*				7.61***	7.43***	7.42***	8.45**	8.44**	8.18**
Hansen J							0.00	0.02	0.19
Panel B: *Estimation in first difference*									
$\Delta\pi$				-63.23**	-61.74**	-64.56**	-58.84**	-57.60**	-60.63**
				(25.26)	(25.10)	(25.85)	(21.77)	(21.74)	(22.19)
ΔElection	-0.45***	-0.44***	-0.45***						
	(0.16)	(0.17)	(0.16)						
$\Delta(r^i - r^{us})$		-0.23***	-0.23**		-0.25**	-0.25**		-0.25**	-0.25**
		(0.06)	(0.10)		(0.11)	(0.11)		(0.11)	(0.11)
ΔExchange rate			-5.96			-9.66**			-9.42**
			(3.81)			(4.56)			(4.39)
ΔReserves			-4.02**			-4.52**			-4.49**
			(1.65)			(1.90)			(1.89)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,369	4,369	4,361	4,369	4,369	4,361	4,369	4,369	4,361
F	7.71	10.45	4.60	6.27	5.15	3.59	7.31	5.76	4.09
Cragg-Donald F				36.87	36.98	35.94	20.59	20.64	19.94
Kleibergen-Paap *rk LM*				12.95***	12.95***	12.69***	13.87***	13.87***	13.70***
Hansen J							0.19	0.18	0.16

† This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) the election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from *2009M6 to 2020M8*. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.45: Robust:Effects of political risk on the CCB at the tenor of 1 month[†]

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-22.94	-24.09	-24.58	-47.52	-48.20**	-56.30**
				(18.36)	(19.08)	(19.03)	(33.81)	(22.28)	(22.28)
Election	-0.29	-0.30	-0.30						
	(0.21)	(0.22)	(0.22)						
$r^i - r^{us}$		0.18***	0.17***		0.23***	0.22***		0.27***	0.27***
		(0.06)	(0.06)		(0.07)	(0.07)		(0.07)	(0.09)
Exchange rate			0.33			0.45			0.59
			(1.65)			(1.88)			(2.49)
Reserves			-1.45**			-2.14**			-3.04*
			(0.55)			(1.00)			(1.61)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,234	4,234	4,228	4,234	4,234	4,228	4,234	4,234	4,228
F	1.80	5.32	4.70	1.56	5.84	3.43	1.98	6.79	3.18
Cragg-Donald F				26.72	26.54	26.53	31.14	31.30	27.91
Kleibergen-Paap *rk LM*				8.50***	8.37***	8.49***	9.44***	9.44***	9.27**
Hansen J							0.44	0.78	1.47
Panel B: *Estimation in first difference*									
$\Delta\pi$				-29.78	-30.77	-34.19	-27.89	-28.66	-32.53
				(29.21)	(29.32)	(30.04)	(27.94)	(28.05)	(28.50)
ΔElection	-0.20	-0.21	-0.23						
	(0.18)	(0.18)	(0.18)						
$\Delta(r^i - r^{us})$		0.11**	0.11**		0.11**	0.11**		0.11**	0.11**
		(0.05)	(0.05)		(0.05)	(0.05)		(0.05)	(0.05)
ΔExchange rate			-10.27**			-12.31**			-12.20**
			(4.32)			(5.29)			(5.04)
ΔReserves			-2.50**			-2.74**			-2.73**
			(1.14)			(1.24)			(1.26)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,233	4,233	4,226	4,233	4,233	4,226	4,233	4,233	4,226
F	1.22	2.67	6.45	1.04	2.68	5.88	1.00	2.66	5.88
Cragg-Donald F				32.62	32.55	31.57	18.34	18.31	17.64
Kleibergen-Paap *rk LM*				11.95***	12.00***	11.71***	12.95***	13.00***	12.81***
Hansen J							0.02	0.02	0.01

[†] This table reports the regression of monthly (changes in) cross-currency basis, *at a tenor of 1 month*, on (changes in) political risk, which is instrumented with the (changes in) the election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.46: Robust:Effects of political risk on the CCB at the tenor of 1 year[†]

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-60.44**	-60.70**	-63.29**	-16.40	-17.37	-38.77
				(28.51)	(29.10)	(29.86)	(25.96)	(28.68)	(24.98)
Election	-0.72***	-0.72***	-0.74***						
	(0.24)	(0.23)	(0.24)						
$r^i - r^{us}$		-0.08	-0.09		0.12	0.12		-0.02	0.04
		(0.07)	(0.06)		(0.13)	(0.12)		(0.10)	(0.10)
Exchange rate			2.15			2.70			2.48
			(2.03)			(2.99)			(2.55)
Reserves			-4.80***			-6.47***			-5.82***
			(1.31)			(2.21)			(1.89)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	3,574	3,574	3,568	3,574	3,574	3,568	3,574	3,574	3,568
F	9.19	5.90	5.40	4.49	2.46	3.03	0.40	0.71	3.38
Cragg-Donald F				20.49	21.19	20.98	38.09	32.52	28.06
Kleibergen-Paap *rk LM*				6.87***	6.87***	6.84***	7.93**	7.92**	7.59**
Hansen J							2.00	1.79	0.75
Panel B: *Estimation in first difference*									
$\Delta\pi$				-32.82**	-32.56**	-32.77**	-30.03**	-29.85**	-29.83**
				(14.73)	(14.71)	(15.00)	(13.03)	(13.03)	(13.32)
ΔElection	-0.25**	-0.25**	-0.25**						
	(0.10)	(0.10)	(0.10)						
$\Delta(r^i - r^{us})$		-0.10**	-0.10**		-0.09**	-0.09**		-0.09**	-0.09**
		(0.04)	(0.04)		(0.04)	(0.04)		(0.04)	(0.04)
ΔExchange rate			1.77			0.05			0.20
			(1.76)			(2.14)			(2.01)
ΔReserves			-3.28***			-3.49***			-3.47***
			(0.78)			(0.71)			(0.72)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	3,574	3,574	3,567	3,574	3,574	3,567	3,574	3,574	3,567
F	6.75	5.67	8.20	4.96	6.22	9.42	5.31	6.43	9.16
Cragg-Donald F				36.14	36.09	35.86	19.89	19.87	19.66
Kleibergen-Paap *rk LM*				13.33***	13.33***	13.30***	14.06***	14.07***	14.10***
Hansen J							0.46	0.43	0.52

[†] This table reports the regression of monthly (changes in) cross-currency basis, *at a tenor of 1 year*, on (changes in) political risk, which is instrumented with the (changes in) the election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.47: Robust:Effects of political risk on the CCB (With invest profile)

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-75.35*	-77.14*	-80.36*	-47.16	-45.60	-55.35
				(42.69)	(44.45)	(46.75)	(57.13)	(45.37)	(41.42)
Election	-0.58***	-0.59***	-0.60***						
	(0.20)	(0.20)	(0.20)						
$r^i - r^{us}$		0.09	0.09		0.27***	0.24**		0.19	0.19*
		(0.06)	(0.06)		(0.10)	(0.10)		(0.11)	(0.11)
Exchange rate			1.17			-0.14			0.27
			(1.46)			(2.59)			(2.24)
Reserves			-2.84***			-5.70*			-4.81**
			(0.87)			(2.81)			(2.01)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,339	4,339	4,333	4,339	4,339	4,333	4,339	4,339	4,333
F	8.64	5.22	4.61	3.12	3.86	2.30	0.68	1.64	1.94
Cragg-Donald F				12.11	12.00	11.72	32.97	34.84	40.44
Kleibergen-Paap *rk LM*				5.29**	5.23**	5.01**	6.10**	6.06**	6.12**
Hansen J							0.17	0.30	0.19
Panel B: *Estimation in first difference*									
$\Delta\pi$				-91.62**	-89.28**	-94.13**	-84.89**	-82.96**	-88.36**
				(38.75)	(38.39)	(40.20)	(32.49)	(32.40)	(33.62)
ΔElection	-0.45***	-0.44**	-0.45***						
	(0.16)	(0.16)	(0.16)						
$\Delta(r^i - r^{us})$		-0.23**	-0.23**		-0.25**	-0.25**		-0.25**	-0.25**
		(0.10)	(0.10)		(0.11)	(0.11)		(0.11)	(0.11)
ΔExchange rate			-5.97			-12.11**			-11.72**
			(3.83)			(5.28)			(4.88)
ΔReserves			-3.99**			-4.34**			-4.32**
			(1.67)			(1.95)			(1.93)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,337	4,337	4,330	4,337	4,337	4,330	4,337	4,337	4,330
F	7.71	6.02	4.54	5.59	5.04	3.40	6.83	5.76	3.96
Cragg-Donald F				26.89	27.01	25.81	15.08	15.14	14.33
Kleibergen-Paap *rk LM*				10.86***	10.86***	10.42***	12.13***	12.12***	11.81***
Hansen J							0.17	0.16	0.13

† This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) the election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.48: Robust:Effects of political risk on the CCB (With ethnic & religious tensions)

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-64.61*	-65.84*	-68.04*	-52.22	-50.88**	-67.98**
				(31.89)	(33.29)	(34.22)	(32.30)	(22.72)	(31.46)
Election	-0.58***	-0.59***	-0.60***						
	(0.20)	(0.20)	(0.20)						
$r^i - r^{us}$		0.09	0.09		0.21**	0.20**		0.18**	0.20*
		(0.06)	(0.06)		(0.08)	(0.08)		(0.07)	(0.10)
Exchange rate			1.17			1.30			1.30
			(1.46)			(2.61)			(2.63)
Reserves			-2.84***			-4.93**			-4.93**
			(0.87)			(2.12)			(2.21)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,339	4,339	4,333	4,339	4,339	4,333	4,339	4,339	4,333
F	8.64	5.22	4.61	4.11	4.01	2.54	2.61	4.65	2.26
Cragg-Donald F				22.98	22.96	22.66	39.70	41.56	38.35
Kleibergen-Paap *rk LM*				8.31***	8.11***	8.08***	8.66***	8.46***	8.14***
Hansen J							0.11	0.25	0.00
Panel B: *Estimation in first difference*									
$\Delta\pi$				-78.24**	-76.30**	-79.63**	-71.99**	-70.40**	-74.00**
				(33.15)	(32.87)	(33.85)	(27.41)	(27.35)	(27.86)
Δ Election	-0.45***	-0.44***	-0.45***						
	(0.16)	(0.17)	(0.16)						
$\Delta(r^i - r^{us})$		-0.23***	-0.23**		-0.25**	-0.25**		-0.25**	-0.25**
		(0.06)	(0.10)		(0.11)	(0.11)		(0.11)	(0.11)
ΔExchange rate			-5.97			-9.60**			-9.33**
			(3.83)			(4.53)			(4.34)
ΔReserves			-3.99**			-4.45**			-4.42**
			(1.67)			(1.90)			(1.88)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,337	4,337	4,330	4,337	4,337	4,330	4,337	4,337	4,330
F	7.71	10.25	4.54	5.57	4.86	3.57	6.90	5.61	4.14
Cragg-Donald F				41.01	41.15	40.05	23.22	23.28	22.52
Kleibergen-Paap *rk LM*				11.17***	11.19***	10.97***	12.56***	12.56***	12.45***
Hansen J							0.22	0.20	0.18

† This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) the election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap $rk\ LM$ statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.49: Robust:Effects of political risk on the CCB (1-month election)[†]

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-59.99	-64.77	-65.39	-49.98	-48.73*	-74.27*
				(40.28)	(45.71)	(45.71)	(40.49)	(28.57)	(37.79)
Election_1m	-0.67**	-0.69**	-0.69**						
	(0.29)	(0.30)	(0.30)						
$r^i - r^{us}$		0.09	0.09		0.23**	0.22*		0.20**	0.24*
		(0.06)	(0.06)		(0.11)	(0.11)		(0.08)	(0.12)
Exchange rate			1.17			1.90			1.99
			(1.46)			(2.57)			(2.90)
Reserves			-2.83***			-4.76**			-5.03*
			(0.87)			(2.23)			(2.51)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,339	4,339	4,333	4,339	4,339	4,333	4,339	4,339	4,333
F	5.43	3.88	4.26	2.22	2.25	1.68	1.52	3.12	1.63
Cragg-Donald F				8.36	7.75	7.76	21.10	22.01	16.60
Kleibergen-Paap *rk LM*				5.19**	4.63**	4.74**	6.01*	5.82*	5.75*
Hansen J							0.04	0.13	0.03
Panel B: *Estimation in first differences*									
Δ Election_1m	-0.33**	-0.29**	-0.30**						
	(0.15)	(0.14)	(0.14)						
$\Delta(r^i - r^{us})$		-0.23**	-0.23**		-0.24**	-0.24**		-0.24**	-0.24**
		(0.10)	(0.10)		(0.11)	(0.11)		(0.11)	(0.11)
ΔExchange rate			-5.83			-8.20**			-8.14**
			(3.84)			(4.01)			(3.97)
ΔReserves			-3.99**			-4.31**			-4.31**
			(1.67)			(1.84)			(1.83)
$\Delta\pi$				-42.81**	-38.31**	-38.73**	-41.05**	-37.01**	-37.75**
				(20.03)	(17.81)	(17.92)	(17.25)	(15.37)	(15.46)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,337	4,337	4,330	4,337	4,337	4,330	4,337	4,337	4,330
F	4.42	3.85	3.67	4.57	3.65	3.37	5.66	4.15	3.67
Cragg-Donald F				46.69	47.24	47.16	25.54	25.81	25.58
Kleibergen-Paap *rk LM*				9.69***	9.80***	9.66***	11.71***	11.82***	11.69***
Hansen J							0.07	0.05	0.03

[†] This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) the *1 month* prior to election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.50: Robust:Effects of political risk on the CCB (5-month election)[†]

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-34.70*	-34.96*	-37.26*	-40.67*	-39.91**	-53.17***
				(18.16)	(18.71)	(19.05)	(20.79)	(15.61)	(17.79)
Election_5m	-0.43**	-0.43**	-0.45**						
	(0.17)	(0.17)	(0.17)						
$r^i - r^{us}$		0.09	0.09		0.17***	0.16**		0.18***	0.20**
		(0.06)	(0.06)		(0.06)	(0.06)		(0.06)	(0.08)
Exchange rate			1.17			1.58			1.76
			(1.45)			(1.96)			(2.34)
Reserves			-2.85***			-3.93**			-4.40**
			(0.87)			(1.48)			(1.84)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,339	4,339	4,333	4,339	4,339	4,333	4,339	4,339	4,333
F	6.52	4.91	4.51	3.65	4.57	3.10	3.83	7.32	3.85
Cragg-Donald F				38.32	38.76	37.84	36.06	37.52	31.60
Kleibergen-Paap *rk LM*				8.34***	8.31***	8.23***	9.39***	9.46***	8.92**
p value for rk LM				0.004	0.004	0.004	0.009	0.009	0.012
Hansen J							0.07	0.07	0.77
Panel B: *Estimation in first difference*									
$\Delta\pi$				-43.44**	-43.13**	-45.78**	-41.59**	-41.38**	-44.16**
				(20.46)	(20.47)	(21.50)	(19.20)	(19.28)	(20.17)
ΔElection_5m	-0.36**	-0.35**	-0.37**						
	(0.16)	(0.16)	(0.16)						
$\Delta(r^i - r^{us})$		-0.23**	-0.23**		-0.24**	-0.24**		-0.24**	-0.24**
		(0.10)	(0.10)		(0.11)	(0.11)		(0.11)	(0.11)
ΔExchange rate			-5.92			-8.64*			-8.54*
			(3.84)			(4.59)			(4.51)
ΔReserves			-4.04**			-4.37**			-4.36**
			(1.66)			(1.85)			(1.84)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,337	4,337	4,330	4,337	4,337	4,330	4,337	4,337	4,330
F	4.90	5.01	3.59	4.51	4.40	3.09	4.69	4.57	3.20
Cragg-Donald F				46.40	46.43	45.33	25.44	25.45	24.71
Kleibergen-Paap *rk LM*				11.38***	11.37***	11.27***	12.17***	12.15***	12.13***
Hansen J							0.09	0.08	0.07

[†] This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) the *5 months* prior to election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.51: Robust:Effects of political risk on the CCB (Excluding legislature)

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-54.40	-59.12	-54.87	-49.16	-48.28*	-70.42*
				(36.61)	(40.12)	(38.35)	(37.93)	(27.28)	(34.58)
President	-0.48**	-0.50**	-0.47**						
	(0.21)	(0.21)	(0.22)						
$r^i - r^{us}$		0.09	0.09		0.22**	0.20**		0.20**	0.23**
		(0.06)	(0.06)		(0.09)	(0.09)		(0.08)	(0.11)
Exchange rate			1.17			1.78			1.95
			(1.47)			(2.32)			(2.79)
Reserves			-2.81***			-4.45**			-4.91**
			(0.87)			(1.89)			(2.36)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,339	4,339	4,333	4,339	4,339	4,333	4,339	4,339	4,333
F	5.30	4.50	4.82	2.21	2.98	2.33	1.68	3.51	1.85
Cragg-Donald F				10.85	10.03	10.71	22.30	23.11	17.97
Kleibergen-Paap *rk LM*				5.43**	5.09**	5.32**	6.04**	5.99*	5.78*
Hansen J							0.01	0.07	0.13
Panel B: *Estimation in first difference*									
$\Delta\pi$				-46.27*	-46.17*	-48.12*	-43.28*	-43.28*	-45.52**
				(25.26)	(25.30)	(25.77)	(21.88)	(21.96)	(22.27)
ΔPresident	-0.33*	-0.33*	-0.34*						
	(0.18)	(0.18)	(0.18)						
$\Delta(r^i - r^{us})$		-0.23**	-0.23**		-0.24**	-0.25**		-0.24**	-0.24**
		(0.10)	(0.10)		(0.11)	(0.11)		(0.11)	(0.11)
ΔExchange rate			-5.91			-8.78**			-8.62**
			(3.81)			(4.17)			(4.06)
ΔReserves			-3.98**			-4.39**			-4.37**
			(1.67)			(1.83)			(1.83)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,337	4,337	4,330	4,337	4,337	4,330	4,337	4,337	4,330
F	3.52	3.90	4.02	3.36	3.62	3.71	3.91	3.96	4.00
Cragg-Donald F				31.66	31.66	30.84	18.15	18.15	17.55
Kleibergen-Paap *rk LM*				9.70***	9.69***	9.58***	10.96***	10.95***	10.85***
Hansen J							0.10	0.09	0.07

† This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) the election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.52: Robust:Effects of political risk on the CCB (Including referenda)†

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-67.42*	-72.74*	-72.85*	-53.47	-52.68*	-75.58**
				(37.25)	(41.42)	(40.28)	(37.11)	(27.18)	(33.45)
all_election_3m	-0.57***	-0.59***	-0.59***						
	(0.19)	(0.19)	(0.20)						
$r^i - r^{us}$		0.09	0.09		0.25**	0.24**		0.21**	0.25**
		(0.06)	(0.06)		(0.11)	(0.11)		(0.08)	(0.12)
Exchange rate			1.17			1.98			2.01
			(1.45)			(2.81)			(2.93)
Reserves			-2.83***			-4.99**			-5.07**
			(0.88)			(2.39)			(2.48)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,339	4,339	4,333	4,339	4,339	4,333	4,339	4,339	4,333
F	8.86	5.77	4.47	3.27	2.90	1.92	2.08	3.77	2.00
Cragg-Donald F				14.44	13.36	13.48	24.04	24.71	19.34
Kleibergen-Paap *rk LM*				5.19**	4.78**	4.99**	6.22**	6.11**	5.93*
Hansen J							0.09	0.26	0.00
Panel B: *Estimation in first difference*									
$\Delta\pi$				-49.10**	-46.53**	-48.43**	-45.59**	-43.47**	-45.68**
				(21.53)	(21.43)	(21.88)	(18.86)	(18.97)	(19.06)
Δall_election_3m	-0.28**	-0.27**	-0.28**						
	(0.10)	(0.11)	(0.11)						
$\Delta(r^i - r^{us})$		-0.23**	-0.23**		-0.24**	-0.25**		-0.24**	-0.24**
		(0.10)	(0.10)		(0.11)	(0.11)		(0.11)	(0.11)
ΔExchange rate			-5.89			-8.80*			-8.63*
			(3.83)			(4.44)			(4.32)
ΔReserves			-3.98**			-4.39**			-4.37**
			(1.67)			(1.86)			(1.85)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,337	4,337	4,330	4,337	4,337	4,330	4,337	4,337	4,330
F	7.48	5.57	3.95	5.20	4.68	3.40	5.84	5.08	3.74
Cragg-Donald F				30.47	30.66	29.88	17.65	17.74	17.16
Kleibergen-Paap *rk LM*				12.30***	12.33***	12.17***	12.68***	12.70***	12.64***
Hansen J							0.12	0.10	0.08

Note:This table reports the regression between monthly (change in) cross-currency basis at the tenor of 3 months and (change in) political risk which is instrumented with the (change in) presidential dummy and (change in) democratic accountability. The sample starts from 2009m7 to 2020m8. We report Kleibergen-Paap rk LM statistic, Cragg-Donald Wald F statistic and Hansen J statistic for under-identification test, weak identification test and over-identification test, repectively. The 10% maximal IV size critical value for weak identification is 16.38 for IV estimations and 19.93 for 2SLS estimations. Both currency and time fixed effects are controlled, and robust standard errors clustered at currency and time level are reported: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table A.53: Robust:Effects of political risk on the CCB (Exogenous elections only)[†]

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-56.70	-57.80	-64.64	-50.18	-48.74*	-72.87**
				(38.91)	(39.93)	(43.70)	(36.25)	(25.91)	(32.40)
Election	-0.79*	-0.80*	-0.85**						
	(0.39)	(0.40)	(0.40)						
$r^i - r^{us}$		0.09	0.09		0.22**	0.22**		0.20**	0.24**
		(0.06)	(0.06)		(0.10)	(0.10)		(0.07)	(0.11)
Exchange rate			1.18			1.89			1.98
			(1.47)			(2.55)			(2.84)
Reserves			-2.86***			-4.74*			-4.99*
			(0.88)			(2.38)			(2.45)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,339	4,339	4,333	4,339	4,339	4,333	4,339	4,339	4,333
F	4.08	3.02	3.52	2.12	2.61	1.54	1.92	3.74	1.90
Cragg-Donald F				13.76	13.70	12.61	24.02	25.23	19.26
Kleibergen-Paap *rk LM*				4.24**	4.23**	4.04**	5.30*	5.66*	5.55*
Hansen J							0.02	0.06	0.03
Panel B: *Estimation in first differences*									
$\Delta\pi$				-133.40**	-132.39**	-134.94**	-105.31**	-104.81**	-108.79**
				(61.95)	(62.49)	(63.93)	(50.74)	(51.12)	(52.17)
Δ Election	-0.92**	-0.91**	-0.92**						
	(0.37)	(0.37)	(0.37)						
$\Delta(r^i - r^{us})$		-0.23***	-0.23**		-0.27**	-0.27**		-0.26**	-0.26**
		(0.06)	(0.10)		(0.13)	(0.13)		(0.12)	(0.12)
ΔExchange rate			-5.94			-14.17*			-12.55**
			(3.85)			(7.00)			(5.82)
ΔReserves			-3.92**			-5.11**			-4.90**
			(1.66)			(2.28)			(2.16)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,337	4,337	4,330	4,337	4,337	4,330	4,337	4,337	4,330
F	6.13	9.95	4.41	4.64	4.05	2.58	4.31	4.16	3.03
Cragg-Donald F				13.25	13.27	12.93	8.83	8.84	8.48
Kleibergen-Paap *rk LM*				5.59**	5.57**	5.44**	6.40**	6.38**	6.25**
Hansen J							0.52	0.50	0.45

[†] This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) the *exogenous* election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap rk LM statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.54: Robust:Effects of political risk on the CCB (No endogenous election)†

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-65.58*	-65.57**	-68.64**	-53.82	-52.14**	-73.55**
				(32.30)	(32.18)	(33.64)	(35.50)	(25.44)	(30.40)
Election	-0.73***	-0.73***	-0.75***						
	(0.21)	(0.21)	(0.21)						
$r^i - r^{us}$		0.09	0.09		0.23***	0.23**		0.21***	0.24**
		(0.06)	(0.06)		(0.08)	(0.09)		(0.07)	(0.11)
Exchange rate			1.17			1.93			1.99
			(1.45)			(2.65)			(2.85)
Reserves			-2.85***			-4.86**			-5.01**
			(0.88)			(2.19)			(2.38)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,339	4,339	4,333	4,339	4,339	4,333	4,339	4,339	4,333
F	11.97	7.68	5.34	4.12	4.50	2.42	2.30	4.39	2.25
Cragg-Donald F				18.06	18.39	17.86	26.09	27.49	21.75
Kleibergen-Paap rk LM				5.91**	5.96**	5.84**	6.74**	7.02**	6.61**
Hansen J							0.09	0.19	0.02
Panel B: *Estimation in first differences*									
$\Delta\pi$				-93.46**	-94.00**	-97.46**	-83.56***	-84.13***	-88.03***
				(34.25)	(34.53)	(36.17)	(27.70)	(28.06)	(29.18)
ΔElection	-0.64***	-0.64***	-0.65***						
	(0.20)	(0.20)	(0.20)						
$\Delta(r^i - r^{us})$		-0.23***	-0.23**		-0.26**	-0.26**		-0.26**	-0.26**
		(0.06)	(0.10)		(0.12)	(0.12)		(0.12)	(0.12)
ΔExchange rate			-6.00			-11.85**			-11.26**
			(3.83)			(5.45)			(4.98)
ΔReserves			-3.99**			-4.80**			-4.72**
			(1.67)			(2.08)			(2.03)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,337	4,337	4,330	4,337	4,337	4,330	4,337	4,337	4,330
F	10.16	11.06	4.85	7.45	5.23	3.16	9.10	6.17	3.81
Cragg-Donald F				27.26	27.23	26.41	15.76	15.74	15.15
Kleibergen-Paap rk LM				9.39***	9.37***	9.10***	11.83***	11.80***	11.53***
Hansen J							0.33	0.32	0.29

† This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) the election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap rk LM statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.55: Robust:Effects of political risk on the CCB (Change in government)[†]

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-21.91	-26.22	-27.29	-32.84*	-35.21**	-46.55***
				(15.87)	(17.53)	(17.90)	(18.05)	(15.52)	(16.85)
Election	-0.60*	-0.67**	-0.70**						
	(0.32)	(0.31)	(0.31)						
$r^i - r^{us}$		0.09	0.09		0.15**	0.14**		0.17***	0.18**
		(0.06)	(0.06)		(0.06)	(0.05)		(0.06)	(0.07)
Exchange rate			1.16			1.47			1.69
			(1.46)			(1.76)			(2.17)
Reserves			-2.83***			-3.63***			-4.21**
			(0.87)			(1.32)			(1.71)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,339	4,339	4,333	4,339	4,339	4,333	4,339	4,339	4,333
F	3.43	4.91	4.43	1.91	3.88	2.95	3.31	6.37	3.42
Cragg-Donald F				45.02	40.16	39.87	39.42	38.17	32.48
Kleibergen-Paap *rk LM*				5.88**	5.37**	5.35**	6.79**	6.78**	6.44**
Hansen J							0.36	0.30	1.22
Panel B: *Estimation in first differences*									
$\Delta\pi$				-28.29*	-27.29*	-29.55*	-27.78*	-26.93*	-29.29*
				(15.49)	(15.04)	(14.92)	(15.03)	(14.70)	(14.42)
ΔElection	-0.38*	-0.37	-0.39*						
	(0.22)	(0.25)	(0.21)						
$\Delta(r^i - r^{us})$		-0.23***	-0.23**		-0.24**	-0.24**		-0.24**	-0.24**
		(0.06)	(0.10)		(0.11)	(0.11)		(0.11)	(0.11)
ΔExchange rate			-5.91			-7.63*			-7.62*
			(3.83)			(3.85)			(3.86)
ΔReserves			-3.99**			-4.24**			-4.24**
			(1.66)			(1.78)			(1.78)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,337	4,337	4,330	4,337	4,337	4,330	4,337	4,337	4,330
F	2.95	8.17	3.79	3.33	3.32	3.92	3.41	3.43	3.95
Cragg-Donald F				46.49	46.60	45.17	25.61	25.66	24.76
Kleibergen-Paap *rk LM*				8.61***	8.63***	8.44***	10.07***	10.08***	9.94***
Hansen J							0.01	0.01	0.00

[†] This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) the *3 months prior to change in government* election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.56: Robust:Effects of political risk on the CCB (Competitive election)†

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-47.76	-46.22	-49.93*	-47.57	-45.59*	-65.42**
				(29.24)	(28.50)	(29.32)	(33.36)	(23.42)	(26.98)
Competitive election	-0.62**	-0.61**	-0.64**						
	(0.25)	(0.25)	(0.24)						
$r^i - r^{us}$		0.09	0.08		0.19**	0.19**		0.19***	0.22**
		(0.06)	(0.06)		(0.07)	(0.07)		(0.07)	(0.10)
Exchange rate			1.17			1.72			1.90
			(1.47)			(2.15)			(2.62)
Reserves			-2.85***			-4.31**			-4.77**
			(0.87)			(1.76)			(2.17)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,339	4,339	4,333	4,339	4,339	4,333	4,339	4,339	4,333
F	6.16	5.01	5.05	2.67	3.63	2.27	2.03	4.22	2.20
Cragg-Donald F				18.70	19.73	18.83	26.45	28.22	22.30
Kleibergen-Paap *rk LM*				5.39**	5.64**	5.46**	6.02**	6.52**	6.12**
Hansen J							0.00	0.00	0.23
Panel B: *Estimation in first differences*									
$\Delta\pi$				-54.73**	-55.84**	-58.53**	-50.08**	-51.12**	-54.10**
				(25.85)	(25.66)	(26.81)	(21.33)	(21.25)	(22.13)
ΔCompetitive election	-0.41**	-0.42*	-0.43**						
	(0.19)	(0.22)	(0.19)						
$\Delta(r^i - r^{us})$		-0.23***	-0.23**		-0.25**	-0.25**		-0.25**	-0.25**
		(0.06)	(0.10)		(0.11)	(0.11)		(0.11)	(0.11)
ΔExchange rate			-5.91			-9.43*			-9.16*
			(3.83)			(4.89)			(4.65)
ΔReserves			-3.99**			-4.48**			-4.44**
			(1.66)			(1.92)			(1.90)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,337	4,337	4,330	4,337	4,337	4,330	4,337	4,337	4,330
F	4.49	8.21	3.29	4.48	3.86	2.78	5.51	4.44	3.03
Cragg-Donald F				26.49	26.43	25.65	15.46	15.42	14.85
Kleibergen-Paap *rk LM*				8.18***	8.16***	7.98***	10.45***	10.42***	10.25***
Hansen J							0.14	0.14	0.12

† This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) the *competitive* election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.57: Placebo test: Effects of political risk on the CCB instrumented with 3-month post election dummy†

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				2.66	2.76	1.98	-16.26	-15.87	-22.37*
				(8.06)	(7.92)	(7.95)	(12.66)	(10.84)	(12.56)
Post election	-0.05	-0.05	-0.03						
	(0.15)	(.)	(0.14)						
$r^i - r^{us}$		0.09	0.09		0.08	0.08		0.13**	0.13*
		(.)	(0.06)		(0.06)	(0.06)		(0.06)	(0.07)
Exchange rate			1.11			1.09			1.33
			(1.45)			(1.44)			(1.70)
Reserves			-2.79***			-2.74***			-3.44**
			(0.87)			(0.88)			(1.27)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,335	4,335	4,329	4,335	4,335	4,329	4,335	4,335	4,329
F	0.10	1.19	3.17	0.11	1.17	3.24	1.65	2.71	2.58
Cragg-Donald F				55.61	56.98	56.90	45.40	47.41	42.08
Kleibergen-Paap rk LM				9.35	9.48***	9.50***	10.61***	11.43***	11.19***
Hansen J							3.30*	5.01**	7.16***
Panel B: *Estimation in first differences*									
$\Delta\pi$				-5.22	-6.57	-6.86	-6.74	-8.04	-8.40
				(21.68)	(21.72)	(21.86)	(20.06)	(20.09)	(20.24)
ΔPost election	0.04	0.05	0.05						
	(0.17)	(0.15)	(0.17)						
$\Delta(r^i - r^{us})$		-0.23***	-0.23**		-0.23**	-0.23**		-0.23**	-0.24**
		(0.06)	(0.10)		(0.10)	(0.10)		(0.10)	(0.10)
ΔExchange rate			-5.77			-6.20*			-6.30*
			(3.84)			(3.39)			(3.45)
ΔReserves			-3.99**			-4.04**			-4.05**
			(1.68)			(1.73)			(1.73)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,333	4,333	4,326	4,333	4,333	4,326	4,333	4,333	4,326
F	0.06	7.49	3.47	0.06	2.48	3.38	0.11	2.49	3.38
Cragg-Donald F				46.99	46.84	47.69	25.72	25.64	25.86
Kleibergen-Paap rk LM				8.25***	8.26***	8.50***	9.67***	9.69***	9.80***
Hansen J							0.17	0.15	0.18

† This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) the post 3-month election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap rk LM statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.58: Placebo test: Effects of political risk on the CCB instrumented with 5-month post election dummy†

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				0.32	0.42	-0.15	-13.60	-13.31	-18.20*
				(8.15)	(8.17)	(8.15)	(10.22)	(9.23)	(10.60)
Post election	-0.01	-0.01	0.00						
	(.)	(0.14)	(0.14)						
$r^i - r^{us}$		0.09	0.09		0.09	0.09		0.12**	0.13*
		(0.06)	(0.06)		(0.06)	(0.06)		(0.06)	(0.06)
Exchange rate			1.11			1.11			1.27
			(1.45)			(1.45)			(1.63)
Reserves			-2.79***			-2.80***			-3.31***
			(0.87)			(0.88)			(1.17)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,332	4,332	4,327	4,332	4,332	4,327	4,332	4,332	4,327
F	0.00	1.16	3.18	0.00	1.15	3.17	1.77	2.68	2.79
Cragg-Donald F				82.21	84.23	84.22	58.49	60.90	56.19
Kleibergen-Paap *rk LM*				9.59***	9.76***	9.79***	11.08***	11.99***	11.81***
Hansen J							3.23*	4.50**	6.72**
Panel B: *Estimation in first differences*									
$\Delta\pi$				-8.48	-14.40	-16.20	-10.29	-15.56	-17.43
				(22.00)	(22.64)	(23.29)	(19.29)	(19.94)	(20.69)
ΔPost election	0.06	0.10	0.11						
	(.)	(0.14)	(0.14)						
$\Delta(r^i - r^{us})$		-0.23***	-0.23**		-0.24**	-0.24**		-0.24**	-0.24**
		(0.06)	(0.10)		(0.11)	(0.11)		(0.11)	(0.11)
ΔExchange rate			-5.91			-6.92*			-6.99*
			(3.76)			(3.56)			(3.62)
ΔReserves			-3.89**			-4.00**			-4.01**
			(1.66)			(1.73)			(1.74)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	4,329	4,329	4,324	4,329	4,329	4,324	4,329	4,329	4,324
F	0.16	7.50	3.42	0.15	2.45	3.15	0.28	2.46	3.17
Cragg-Donald F				30.72	30.34	30.17	17.58	17.39	17.10
Kleibergen-Paap *rk LM*				4.34**	4.34**	4.30**	4.76*	4.76*	4.69*
Hansen J							0.09	0.03	0.04

† This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) the post 5-month election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.59: Effects of political risk on the CCB: sample with flexible exchange rate regime (LYFS)[†]

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-70.74*	-74.01*	-79.43*	-73.84*	-67.23*	-73.33
				(39.45)	(41.83)	(43.45)	(39.69)	(37.51)	(45.83)
Election	-0.85***	-0.87**	-0.92***						
	(0.28)	(0.30)	(0.30)						
$r^i - r^{us}$		0.15	0.14		0.24**	0.25**		0.24**	0.24**
		(0.09)	(0.09)		(0.10)	(0.11)		(0.08)	(0.10)
Exchange rate			0.39			0.59			0.58
			(1.32)			(2.35)			(2.24)
Reserves			-3.35***			-4.19*			-4.12*
			(1.05)			(2.23)			(2.25)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	2,010	2,010	2,010	2,010	2,010	2,010	2,010	2,010	2,010
F	8.86	5.65	5.31	3.22	3.35	2.08	3.46	4.83	2.90
Cragg-Donald F				13.59	13.19	12.83	6.98	7.58	7.69
Kleibergen-Paap *rk LM*				4.01**	3.93**	3.92**	4.23	4.33	4.03
Hansen J							0.14	0.23	0.05
Panel B: *Estimation in first differences*									
$\Delta\pi$				-105.54**	-101.77*	-104.25*	-34.87	-32.59	-34.01
				(47.54)	(47.76)	(51.23)	(26.47)	(25.84)	(25.70)
ΔElection	-0.52**	-0.51**	-0.51**						
	(0.22)	(0.22)	(0.22)						
$\Delta(r^i - r^{us})$		-0.27***	-0.27**		-0.36***	-0.36***		-0.30**	-0.30**
		(0.07)	(0.12)		(0.10)	(0.10)		(0.11)	(0.11)
ΔExchange rate			-5.62			-11.51			-7.35
			(5.47)			(8.40)			(5.73)
ΔReserves			-5.25**			-6.72**			-5.79**
			(2.26)			(2.42)			(2.32)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	2,010	2,010	2,010	2,010	2,010	2,010	2,010	2,010	2,010
F	5.81	10.13	3.85	4.93	8.84	4.87	1.74	4.57	4.91
Cragg-Donald F				8.67	8.84	8.52	11.29	11.47	11.04
Kleibergen-Paap *rk LM*				6.48**	6.42**	6.14**	6.76**	6.71**	6.52**
Hansen J							4.11**	4.15**	4.12**

[†] This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) the election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.60: Effects of political risk on the CCB: sample with non-flexible exchange rate regime (LYFS)[†]

	Dummies			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: *Estimation in levels*									
π				-25.83	-25.22	-22.84	-31.72	-35.15	-55.95*
				(36.40)	(36.64)	(35.79)	(28.23)	(23.45)	(29.06)
Election	-0.24	-0.24	-0.23						
	(0.27)	(0.28)	(0.29)						
$r^i - r^{us}$		0.03	0.04		0.11	0.10		0.14	0.18
		(0.06)	(0.06)		(0.10)	(0.10)		(0.10)	(0.15)
Exchange rate			3.06			3.24			3.50
			(1.92)			(2.48)			(3.61)
Reserves			-2.67*			-3.64			-5.05
			(1.41)			(2.26)			(3.07)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	2,329	2,329	2,323	2,329	2,329	2,323	2,329	2,329	2,323
F	0.80	0.68	1.23	0.50	0.54	0.76	1.26	1.36	1.07
Cragg-Donald F				6.95	7.43	8.12	28.95	25.54	20.63
Kleibergen-Paap *rk LM*				2.83*	2.79*	2.96*	3.82	3.90	3.72
Hansen J							0.01	0.04	0.41
Panel B: *Estimation in first differences*									
$\Delta\pi$				-39.85	-39.33	-41.49	-37.27	-36.87	-38.48
				(29.47)	(29.94)	(30.13)	(29.94)	(30.42)	(30.69)
ΔElection	-0.38	-0.37	-0.39						
	(0.27)	(0.26)	(0.27)						
$\Delta(r^i - r^{us})$		-0.11*	-0.12		-0.06	-0.05		-0.06	-0.06
		(0.07)	(0.09)		(0.11)	(0.12)		(0.11)	(0.12)
ΔExchange rate			-5.24			-7.99			-7.78
			(5.13)			(4.78)			(4.74)
ΔReserves			-1.49			-1.30			-1.31
			(2.79)			(2.84)			(2.83)
Currency and Time FE?	Y	Y	Y	Y	Y	Y	Y	Y	Y
Observations	2,327	2,327	2,320	2,327	2,327	2,320	2,327	2,327	2,320
F	2.00	2.40	3.52	1.83	2.09	3.08	1.55	2.03	3.06
Cragg-Donald F				35.33	34.46	33.74	17.86	17.39	17.08
Kleibergen-Paap *rk LM*				7.09***	6.98***	7.01***	7.76**	7.72**	7.70**
Hansen J							1.13	1.14	1.21

[†] This table reports the regression of monthly (changes in) cross-currency basis, at a tenor of 3 months, on (changes in) political risk, which is instrumented with the (changes in) the election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Exchange rate is the nominal effective exchange rate of the local currency against a basket of foreign currencies, and reserves is the international reserve to GDP ratio for each country. The inverse hyperbolic sine transformation is applied to all variables, except the election dummy, prior to differencing and estimation. The sample period ranges from 2009M7 to 2020M8. Test statistics for instrument quality are the Kleibergen-Paap *rk LM* statistic, Cragg-Donald Wald F statistic, and Hansen J statistic, corresponding to tests for underidentification test, weak identification, and overidentification, respectively. The 10% maximal IV size critical value of weak identification is 19.9 for 2SLS specifications, and 16.4 for IV specifications. Fixed effects are by currency and time, while robust standard errors are clustered at the currency and time level, with statistical significance given by * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.