

Online Appendix

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A.1 Data Appendix

A.1.1 Construction of variables

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 the monthly averages were computed for the baseline. For simplicity, we report the corresponding tickers for each currency in Table A.2. Similarly, the 1-month and 1-year cross-currency bases are computed using tickers at different tenors from the same source.

Political risk. We obtain 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, our political risk indicator comprises government stability, internal conflict, and external conflict with equal weights. This is then inverted, to generate a readily-comprehensible interpretation (where higher values reflect greater risk).

Election. We extract election data from the *Election Guide* of *International Foundation for Electoral Systems* (IFES). The source provides summary information on national elections, such as the date of the election, government structure, electoral system, voter turnout, percentage of the vote, and so on. The baseline election indicator is coded such that 1 is assigned for the period three months prior to the presidential and/or parliamentary election month, and 0 otherwise. In the robustness section, we consider variations to the construction of the election indicator, such as allowing for a different duration, excluding legislative or competitive elections, and so on; these are coded using the information from the same source.

Democratic accountability. Democratic accountability measures how responsive a government is to its people. The more responsive it is, the less likely the system will fail to reflect the policy preferences of the electorate. These data are likewise collected from the ICRG, and inverted to obtain a readily-comprehensible interpretation, where higher values indicate a greater risk of democratic failure.

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

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

Reserves. Reserves are expressed as a ratio to each country's GDP. Monthly international reserves data are drawn from *Refinitiv Eikon*, while the GDP data are obtained at the quarterly frequency,¹ and obtained from Bureau Van Dijk's *Economist Intelligence Unit Country Data* (EIU CD).

¹In the absence of monthly records of GDP for almost every economy, the quarterly data are repeated for all corresponding months within each quarter.

Forward spread. The forward spread is calculated as the difference between the bid and ask price for the 3-month forward exchange rate for each currency. These rates are obtained *Bloomberg*, with the monthly series averaged from data at the daily frequency.

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. The long-term treasury spread is the difference in the 10-year local sovereign yield relative to the 10-year U.S. Treasury. 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 captures the probability that two randomly drawn individuals are not from the same ethnic group, and relies on [Dražanová \(2020\)](#).²

Swap dummy/size. We collect U.S. dollar liquidity swap size data between a local central bank and the Fed from the *Federal Reserve Bank of New York*, and code the swap dummy as unity any month where the central bank borrows 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.³ The synthetic rate is calculated with the IBOR interest rate, and relevant exchange rates according to the equation (A.1):

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

where $r_{t,t+n}^{i,synth}$ represents the synthetic dollar rate for currency i at a tenor of n ⁴, $f_{t,t+n}$ and s_t are the corresponding log-equivalent exchange rates. As discussed, this measures the cost of U.S. dollars to foreign firms, as obtained from the swap market. In virtually all cases, the raw data for different interest rates are derived 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), and is defined as the vote share of the strongest non-incumbent party minus the vote share of the incumbent party.⁵ Intuitively, a positive margin indi-

²In 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, interpolation methods are used to predict the data after 2013, under the assumption that the value for each month does not change within a year (that is, we assign the same value for all months within a single year).

³For certain countries with no records of the sovereign bond rate, the zero-coupon bond rate at the same tenor is used instead. These apply to Chile, Indonesia, Israel, India, and the Philippines.

⁴In our case, the tenor is 3-month.

⁵In 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. In those instances, we instead calculate the vote margin as the vote

cates that there has been a turnover in the government after the election. However, in some polities (such as Australia), government is formed as a coalition of several aligned parties after the election, meaning that the incumbent party may stay in power in the form of coalition with a lower vote share than the strongest opposing party,⁶ or *vice versa*. To resolve this issue, we invert the values of vote margin in such elections, to stay consistent with the definition that the margin with a positive (negative) value implies a turnover of government (the succession of the incumbent party in the government).

We record all variables, along with brief definitions and sources, in Table A.1.

share of the winning party minus that of the party with second-highest vote share, which might also be regarded as close elections, albeit between two non-incumbent parties.

⁶This would suggest a circumstance where a positive vote margin occurs *without* a change of the government in power, contradicting our RD identification, 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
<i>Baseline variables</i>		
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 & Bloomberg
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 [‡]
<i>Robustness and additional variables</i>		
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	Dražanová (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.

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

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

[†] Corresponding variables are all drawn from Bloomberg.

[‡] Forward points are used to calculate the forward exchange rate for the majority of currencies (ccy) when computing the CCBs. For currencies that Bloomberg does not report forward points on, 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.

A.1.2 Description of data

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—classified by G10 and non-G10 currencies—in Table A.4.

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

	N	Mean	Std. Dev.	Min	Max
<i>Original series</i>					
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
<i>Transformed series</i>					
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: Currencies in the sample, by category

<i>G10 currencies</i>				
AUD	CAD	CHF	DKK	EUR [§]
GBP	JPY	NOK	NZD	SEK
<i>Non-G10 currencies</i>				
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 euro, we include elections from the five largest economies in the Euro Area in constructing the duration-to-election indicator in our baseline.

A.2 Preliminary Tests

A.2.1 OLS and potential endogeneity

Simple OLS. As discussed in Section 2.3, endogeneity issues may arise due to either reverse causality or omitted variables, giving rise to biased estimates when applying simple OLS. It is nevertheless valuable to have a benchmark, as a gauge of the potential and magnitude of any such bias. These OLS regressions, of the cross-currency basis on political risk, and report the corresponding results in Table A.5.

Endogeneity test. If we suspect that the results in Table A.5 are biased due to potential endogeneity, it is worthwhile performing an endogeneity test for all the specifications. We report the corresponding test statistics and associated p values at the bottom of Table A.5. We choose the GMM distance test for endogeneity, for which the null hypothesis is that the specified endogenous regressors may be treated as exogenous. All the tests are performed with the IV specifications where political risk is instrumented with the duration-to-election dummy only.⁷ Evidently, the extremely small p values indicate the rejection of the null, and hence the likely existence of an endogeneity issue.

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)
$\pi / \Delta\pi$	4.26 (2.99)	3.59 (2.94)	2.92 (2.69)	1.31 (2.23)	1.14 (2.13)	0.76 (2.12)
$r^i - r^{us} / \Delta(r^i - r^{us})$		0.08 (0.06)	0.08 (0.06)		-0.23** (0.10)	-0.23** (0.10)
Exchange rate / Δ Exchange rate			1.14 (1.44)			-5.75 (3.79)
Reserves / Δ Reserves			-2.74*** (0.84)			-3.99** (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
Endogeneity 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 * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

⁷The same tests for 2SLS specifications find similar outcomes, and these results are available upon request.

A.2.2 Stationarity and cointegration of the time series

Unit root tests. We check for the stationarity of the panel with various panel unit root tests. These are reported in Table A.6, for the original series in levels (top panel) and first differences (bottom panel), with demeaning the series applied or not. We are able to reject the null (of a unit root) for our two main variables of interest—the CCB and political risk—in either 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 series of univariate unit root tests, by currency. Results for these are given in Table A.7 (for the CCB), Table A.8 (for political risk), and Table A.9 (for the interest differential). 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. On balance, the totality of the results suggest that stationarity is not an issue for our two main variables of interest—political risk and CCB—both in levels and first differences, whereas we should be a little more cautious about the interest differential.

Cointegration tests. We follow standard practice in the literature and perform panel cointegration tests for the series in *levels*. We apply these for two specifications: the parsimonious version (where only the cross-currency basis and political risk are included), with either the constant term only, or one with the constant term and a trend (top panel), and the comprehensive version (which adds on interest differentials, the exchange rate, and reserves), with the same two variants (bottom panel). Results are reported in Table A.10. We are able to reject the null—of the existence of cointegration—for the majority of tests, with the exception of the Westerlund α test for the parsimonious specifications. Accordingly, we are inclined to believe that cointegration is not be a major concern for our data.

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

	<i>with demean</i>			<i>without demean</i>		
	<i>CCB</i>	<i>Polrisk</i>	$r^i - r^{us}$	<i>CCB</i>	<i>Polrisk</i>	$r^i - r^{us}$
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	$\Delta Polrisk$	$\Delta(r^i - r^{us})$	ΔCCB	$\Delta Polrisk$	$\Delta(r^i - r^{us})$
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 the 10 percent, 5 percent, and 1 percent level, respectively.

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

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	<u>CCB</u>										
	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, 5 percent, and 1 percent level, respectively.

Table A.8: Unit root tests for political risk

	<i>Political risk (π)</i>										
	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, 5 percent, and 1 percent level, respectively.

Table A.9: Unit root tests for the interest rate 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, 5 percent, and 1 percent level, respectively.

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

	Parsimonious			
	<i>with constant only</i>		<i>with constant and trend</i>	
	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			
	<i>with constant only</i>		<i>with constant and trend</i>	
	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: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

A.2.3 Balancing and manipulation for regression discontinuity

Manipulation tests. Regression discontinuity requires a check for the presence of a 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 doubt on identification in the discontinuity design.

We perform 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 selection criterion for close elections, and either with or without the euro in the sample. 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 associated p values.

Balance tests. Another assumption in regression discontinuity designs is that covariates controlled in the estimation should not “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.⁸ We therefore select the nearest-reasonable bandwidth (of 5), to increase the number of observations used for estimation, which we are able to do without sacrificing too much the notion of close elections (since such thresholds are standard in the literature).

We then steadily increase the window for the bandwidth, and report associated p -values for the covariates test in Figures 1(a) (estimation of CCB) and 1(b) (estimation of first differences in CCB), 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 another way, the balance tests for covariates are not universally cleared in our case (especially for the level estimation as shown in Figure 1(a)), given the restriction of our vote margin to 5% for our RD estimations.

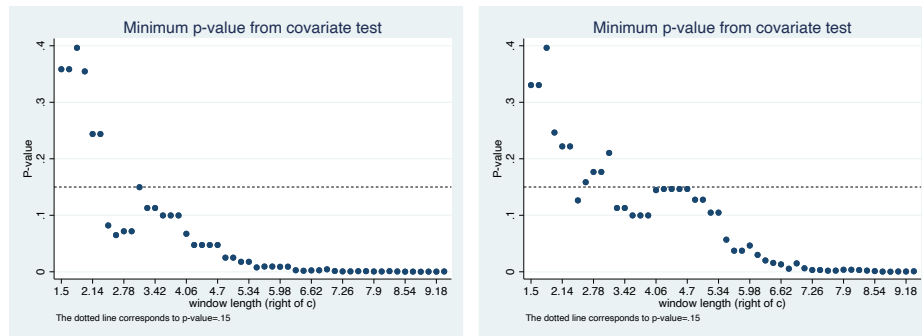
While this might potentially threaten the credibility of our estimation results reported in the main text, we allay these concern by additionally employ RD estimations for both 5% and 10% vote margin without controlling any covariates, and report the corresponding results in Tables A.12 and A.13, respectively. We find qualitatively consistent results for point estimations after excluding any given covariate, and a negative coefficient for both $\hat{\theta}_w$ and $\hat{\gamma}_w$, with the former also statistically significant (the latter is insignificant). Overall, these tests suggest that the covariates do not alter our findings from the baseline RD, further relieving residual concerns over the mixed results from the balance test.

⁸The recommended window from the non-parametric estimation is $[-0.875, 0.875]$, with 2 observations below the threshold and 3 are above. However, it makes no sense to proceed with such a miniscule sample.

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

	<i>Full sample</i>		<i>Without EUR</i>	
	Conventional	Robust	Conventional	Robust
Panel A: 5% margin				
<i>t</i> -stat	-0.24	-0.37	-0.77	-1.24
<i>p</i> -value	0.81	0.71	0.44	0.22
Panel B: 10% margin				
<i>t</i> -stat	-0.00	1.14	-0.08	0.07
<i>p</i> -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, while the “robust” column reports the statistic with bias-correction. 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		Δ CCB		CCB		Δ CCB	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Conventional	-5.71*** (2.16)	-6.28*** (2.15)	0.02 (0.42)	-0.25 (0.58)	-6.31*** (2.40)	-6.78*** (2.32)	-0.12 (0.41)	-0.45 (0.60)
Bias-corrected	-6.28*** (2.16)	-5.54*** (2.15)	-0.25 (0.42)	0.05 (0.58)	-6.78*** (2.40)	-5.86** (2.32)	-0.45 (0.41)	-0.17 (0.60)
Robust	-6.28*** (2.04)	-5.54* (3.27)	-0.25 (0.55)	0.05 (0.68)	-6.78*** (2.19)	-5.86 (3.64)	-0.45 (0.57)	-0.17 (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		Δ CCB		CCB		Δ CCB	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Conventional	-2.93* (1.56)	-3.58** (1.80)	0.07 (0.30)	-0.06 (0.34)	-3.59** (1.80)	-4.19** (2.07)	0.03 (0.32)	-0.18 (0.33)
Bias-corrected	-3.58** (1.56)	-6.94*** (1.80)	-0.06 (0.30)	-0.19 (0.34)	-4.19** (1.80)	-7.66*** (2.07)	-0.18 (0.32)	-0.42 (0.33)
Robust	-3.58** (1.77)	-6.94*** (2.01)	-0.06 (0.33)	-0.19 (0.54)	-4.19** (2.03)	-7.66*** (2.21)	-0.18 (0.32)	-0.42 (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: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

A.3 Additional Robustness Checks

A.3.1 Alternative construction of baseline sample

Alternative transformations. In footnote 17, we explained our preference for the inverse hyperbolic sine (IHS) transformation, and alluded to how the baseline results were largely unaltered when we drop the IHS, and adopt, instead, either untransformed variables, or a logarithmic transform (appropriately adjusted so as not to lose negative observations). In this appendix, we elaborate further on why we believe that the IHS transform is not only justified, but why other approaches may not be appropriate.

It is useful begin by documenting the main critiques of the IHS in applied work.

1. One concern is that the transformation does not appear to be *scale-invariant* (Aihounon & Henningsen 2021). If so, this will not only negate one of the main advantages of applying any transform—obtaining qualitative conclusions that are consistent with the untransformed estimates—while also undermining comparability with other studies.
2. Other issues relate to *interpretation*. In particular, in contrast to a logarithmic transform, the average treatment effect for an IHS should be interpreted as approximating a percentage effect (Chen & Roth 2024), as marginal effects may differ along the distribution (Bellemare & Wichman 2020). Relatedly, when there is a large mass at zero, it becomes difficult to distinguish between the intensive and extensive margin (Mullahy & Norton 2024). Notably, however, this problem applies to *any* “log-like” transformation, not just the IHS.
3. A final objection is that the transform may be *atheoretical* and arbitrary, as it is often a statistical fix that is not informed by theory (Bellemare & Wichman 2020).

To address the risks of *scale invariance*, we replicate our baseline estimations for Tables 1 and 2 without any transformation applied in Table ??, in line with the suggestion of Mullahy & Norton (2024). Moreover, since the logarithmic transform is scale-invariant, we also generate results with the more common natural log transform—appropriately adjusted by adding the sum of 0.0001 and the minimum for each series, to avoid dropping observations—in Table A.15. It is worth pointing out, however, that log transforms relying on such added-integer “hacks” have faced criticisms of their own (Cohn, Liu & Wardlaw 2022), and are not a clear panacea to some of the criticisms leveled at the IHS transform.

The main qualitative difference in the results in both tables relate to the estimation in levels. The coefficients on political risk for the IV and 2SLS specifications become significant only at the 15 percent level (while retaining their signs), and there are notable changes in coefficient magnitudes for the logarithmic transform. The changes in statistical significance are likely because the IHS better captures variations in small values (which is frequently the case for the CCB in advanced economies), while also handling large outliers (which is often observed for the CCB in emerging markets) well. By stabilizing the variation in the data from these two extremes, the IHS transform reduces the noise and reveals statistical patterns in the data that may otherwise be lost in either the untransformed or log-transformed variants.

This is indirectly corroborated by how the first-differenced results retain both their signs and statistical significance, with sharper changes only in terms of coefficient sizes. Since first differencing already addresses large and small changes—by, respectively, dampening the effect of outliers in levels, while effectively removing drift even when values are small—it is less surprising that the significance of coefficients from this specification turns out to be less affected by the alternative approaches to transformation.

One suggestion to ensure the validity of the IHS transform, as emphasized by [Aihouton & Henningsen \(2021\)](#), is to select the units deliberately. This is especially if the means in the *untransformed* data are less than 10 ([Bellemare & Wichman 2020](#)). We have already taken care to do so; our measure of the CCB is in basis points, which is two orders of magnitude greater than percentage points. This delivers a mean of -40.1 (hence greater than 10 in absolute terms), with support $[-928.8, 1778.0]$. Retaining the centering around zero is also natural, in our case; CCB deviations can, after all, logically occur in either direction.

Moreover, keeping in mind that first differences are often applied to cater to the risks of nonstationarity in the data, especially when the data are either untransformed or log-transformed (an approach adopted by, for example, [Cerutti et al. \(2021\)](#) and [Borio et al. \(2016\)](#)), the consistency of the results for the first-differenced specifications when using the IHS compared to the other two approaches is more valid and convincing.

Regarding *interpretation*, we recognize that caution is in order when interpreting coefficients corresponding to IHS-transformed specifications. This is why, as described in footnote 22, we follow the approach suggested by [Bellemare & Wichman \(2020\)](#), and adjust our estimates to ensure consistency in their interpretation as semielasticities. As it turns out, the estimated coefficient $\hat{\beta}$ from an arcsinh-arcsinh specification *does* approximate the elasticity of y in response to x (i.e. $\hat{\eta}_{yx} \approx \hat{\beta}$), at least in the limit. Notably, this is not the case for other specifications; for instance, for a linear-arcsinh regression, the coefficient has to be adjusted by dividing by the dependent variable y to recover the approximate semielasticity, and the average value of y should also be greater than 10.

Nevertheless, to further verify the robustness of our interpretation, we also consider robustness checks with an arcsinh-linear specification (by not transforming the variables on the right hand side). These results are reported in Table ???. The negative effect remains for the specification in both levels and first-differences, with only a change in the magnitude. Adjusting the coefficient for political risk by multiplying by its mean, as suggested by [Bellemare & Wichman \(2020\)](#), yields XXX and XXX, which is essentially the same as our reported baseline. This lends confidence that our interpretation of the arcsinh-arcsinh coefficients as approximating the elasticity is sound.

It is also worthwhile recognizing that our data do *not* contain many zeroes, but rather low values that are close to zero. The CCB series also contain many negative values. Hence, concerns that interpretation may be distorted by a large mass of observations *at* zero do not generally apply ([Mullahy & Norton 2024](#)), nor is the “solution” of modeling the data-generating process directly as, say, a Poisson or negative binomial ([Chen & Roth 2024](#); [Cohn et al. 2022](#)) valid, since such regressions do not admit negative values in the dependent variable.

Insofar as the *theoretical coherence* of applying a transformation is concerned, note that the specification for the cross-currency basis (2) derived in Section 2.1 has undergone a functional transformation of its own (albeit in logarithms). Consequently, the linear specification for the estimation equation (6) is in fact consistent with the-

ory. Since IHS is a log-like transform (recall, $\operatorname{arcsinh}(x) = \ln \left[x + (1 + x^2)^{\frac{1}{2}} \right]$), applying variable transformations is actually a theoretically-informed approach to conform with a linear regression specification.

Winsorization. In footnote 18, we alluded to an alternative strategy for addressing outliers: winsorization. We replicate our baseline results here, with observations that are either greater than 99 percent or less than 1 percent of all observations for the CCB removed. The results are essentially unchanged.

Table A.14: Effects of political risk on the cross-currency basis, no variable transformation[†]

	Reduced form			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Estimation in levels									
π				-63.19 [§] (42.25)	-63.18 [§] (42.30)	-63.84 [§] (42.35)	-59.14 [§] (39.49)	-60.16 [§] (36.63)	-71.48* (40.67)
Election	-18.12* (10.29)	-18.06* (9.96)	-18.29* (10.02)						
$r^i - r^{us}$		-0.09** (0.03)	-0.08** (0.03)		-0.00 (0.04)	0.01 (0.05)		-0.01 (0.04)	0.02 (0.07)
EFFEX Rate			0.00 (1.09)			0.61 (1.54)			0.68 (1.70)
RSV			-0.46* (0.24)			-0.65* (0.35)			-0.68* (0.39)
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	3.10	3.75	3.18	2.24	3.81	1.95	2.24	4.08	1.89
Cragg-Donald F				21.41	21.89	22.24	20.84	35.22	27.24
Kleibergen-Paap rk LM				7.54***	7.91***	7.97***	8.35**	9.19**	8.74**
p value for rk LM				0.006	0.005	0.005	0.015	0.010	0.013
Hansen J							0.01	0.01	0.03
Panel B: Estimation in first difference									
$\Delta\pi$				-60.05** (27.76)	-55.59** (24.84)	-57.78** (26.27)	-57.86** (25.68)	-49.07* (24.35)	-51.56* (25.46)
Δ Election	-10.95** (4.32)	-10.10** (3.83)	-10.38** (3.94)						
$\Delta(r^i - r^{us})$		-0.48** (0.20)	-0.49** (0.20)		-0.46** (0.21)	-0.47** (0.20)		-0.46** (0.21)	-0.47** (0.20)
Δ EFFEX Rate			-2.33 (1.55)			-3.25* (1.71)			-3.15* (1.68)
Δ RSV			-0.58** (0.24)			-0.66*** (0.24)			-0.65** (0.24)
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	6.41	4.96	3.67	4.68	4.27	3.70	5.08	3.72	3.67
Cragg-Donald F				37.80	37.57	36.83	21.48	21.23	20.70
Kleibergen-Paap rk LM				13.48***	13.38***	13.14***	14.88***	14.93***	14.75***
Hansen J							0.07	0.29	0.27

[†] 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. No transformation is applied to any variable 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 * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

[§] The statistic is significant at $p < 0.15$.

Table A.15: Effects of political risk on the cross-currency basis, logarithmic transform[†]

	Reduced form			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Estimation in levels									
π				-5.48 [§] (3.68)	-5.49 [§] (3.71)	-5.76 [§] (3.77)	-2.92 [§] (1.91)	-2.92 [§] (1.96)	-2.73 (2.60)
Election	-0.18* (0.10)	-0.18* (0.10)	-0.19* (0.10)						
$r^i - r^{us}$		-0.58* (0.33)	-0.67 (0.48)		0.38 (0.55)	0.59 (0.80)		-0.07 (0.39)	-0.07 (0.64)
EFFEX Rate			0.01 (0.85)			1.03 (1.22)			0.49 (0.98)
RSV			-1.13** (0.47)			-1.69** (0.76)			-1.39** (0.60)
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	3.10	2.16	2.51	2.22	1.36	1.73	2.34	2.02	1.86
Cragg-Donald F				18.13	18.53	18.61	30.40	30.86	28.83
Kleibergen-Paap rk LM				6.97***	7.35***	7.48***	7.18**	7.62**	7.64**
Hansen J							0.80	0.79	0.79
Panel B: Estimation in first difference									
$\Delta\pi$				-5.09** (2.24)	-4.63** (2.01)	-4.85** (2.09)	-4.95** (2.19)	-4.50** (1.97)	-4.73** (2.05)
Δ Election	-0.11** (0.04)	-0.10** (0.04)	-0.10** (0.04)						
$\Delta(r^i - r^{us})$		-5.72*** (1.64)	-5.79*** (1.54)		-5.66*** (1.69)	-5.74*** (1.57)		-5.66*** (1.69)	-5.74*** (1.57)
Δ EFFEX Rate			-2.20 (1.37)			-2.88* (1.46)			-2.86* (1.46)
Δ RSV			-1.17** (0.49)			-1.31** (0.52)			-1.30** (0.52)
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	6.41	7.37	5.06	5.17	6.89	4.90	5.11	6.83	4.89
Cragg-Donald F				36.76	36.67	35.99	18.93	18.88	18.52
Kleibergen-Paap rk LM				13.95***	13.90***	13.67***	15.74***	15.69***	15.68***
Hansen J							0.76	0.93	0.83

[†] 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 logarithmic transformation is applied to all the right-hand side variables, except the election dummy, prior to differencing and estimation. To avoid dropping variables, the absolute value of the minimum for the respective series, plus a small positive value of 0.0001, is added to all series with negative values. 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 * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

[§] The statistic is significant at [§] $p < 0.15$.

Table A.16: Effects of political risk on the cross-currency basis, winsorized[†]

	Reduced form			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Estimation in levels									
π				-51.73*	-52.70*	-54.21*	-49.12	-48.02**	-66.62**
				(26.35)	(27.41)	(27.98)	(30.51)	(22.10)	(25.94)
Election	-0.58***	-0.58***	-0.59***						
	(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)
EFFEX Rate			1.19			1.79			1.93
			(1.43)			(2.30)			(2.65)
RSV			-2.82***			-4.41**			-4.78**
			(0.86)			(1.84)			(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	8.66	5.21	4.65	3.86	3.85	2.45	2.59	4.71	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	0.17
Panel B: Estimation in first difference									
$\Delta\pi$				-62.33**	-60.75**	-63.45**	-58.13**	-56.80**	-59.76**
				(25.05)	(24.90)	(25.63)	(21.67)	(21.66)	(22.10)
Δ Election	-0.44***	-0.43**	-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)
Δ EFFEX Rate			-5.94			-9.71**			-9.48**
			(3.82)			(4.58)			(4.42)
Δ RSV			-3.95**			-4.47**			-4.44**
			(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	7.59	6.08	4.56	6.19	5.14	3.58	7.19	5.75	4.07
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) 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 is censored by dropping observations for the CCB that are either greater than 99% or lesser than 1% of all observations, and the 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.3.2 Alternative measures of key variables

Political risk measure relative to the United States. Throughout our baseline analysis, we only consider the level of political risk in the local polity, while overlooking the key counterparty in the currency pair—the U.S.—where political risk levels may fluctuate as well. Put another way, we effectively assumed that political risk in the U.S. was either unchanged or irrelevant.

It is reasonable to question if the political risk indicator may matter when benchmarked relative to the U.S., which we define as the difference in the level of political risk in the local polity and the United States. We run the full suite of baseline specifications as described in Section 3.2, and report both levels (upper panel) and first differences (bottom panel) estimates in Table A.17. We find consistently negative and significant coefficients on either π and $\Delta\pi$ through all the specifications, corroborating the baseline.

Multiple duration-to-election indicators. In the main text, we report our baseline with a 3-month duration-to-election indicator, and the robustness section reported results with 1-month and 5-month indicators. Here, we run similar regressions for the 2-month, 4-month, and 6-month prior-to-election indicators. The results are summarized in Table A.18. Overall, the findings are consistent with the baseline results.

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 the CCB with a sample that comprises only one system or the other. We do so here, and report the subsample estimation results in Tables A.19 (for polities with presidential systems) and A.20 (for polities with parliamentary systems), respectively. Consistent with the main text, we find a negative coefficient for either π or $\Delta\pi$ in both groups, despite a small loss of significance for the specifications with the parliamentary system.

Table A.17: Effects of political risk relative to the U.S. on the cross-currency basis[†]

	Reduced form			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Estimation in levels									
π				-3.31** (1.50)	-3.36** (1.55)	-3.44** (1.57)	-3.37** (1.56)	-3.31*** (1.16)	-4.60*** (1.44)
Election	-0.58*** (0.20)	-0.59*** (0.20)	-0.60*** (0.20)						
$r^i - r^{us}$		0.09 (0.06)	0.09 (0.06)		0.17** (0.07)	0.18** (0.07)		0.17** (0.06)	0.21** (0.09)
Exchange rate			1.17 (1.46)			2.36 (2.14)			2.76 (2.65)
Reserves			-2.84*** (0.87)			-3.89** (1.50)			-4.25** (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** (1.98)	-5.20** (1.96)	-5.42** (2.01)	-5.07*** (1.75)	-4.96*** (1.74)	-5.22*** (1.79)
Δ Election	-0.45*** (0.16)	-0.44*** (0.17)	-0.45*** (0.16)						
$\Delta(r^i - r^{us})$		-0.23*** (0.06)	-0.23** (0.10)		-0.24** (0.11)	-0.24** (0.11)		-0.24** (0.11)	-0.24** (0.11)
Δ Exchange rate			-5.97 (3.83)			-9.50* (4.68)			-9.36** (4.56)
Δ Reserves			-3.99** (1.67)			-3.06* (1.78)			-3.09* (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.18: Effects of political risk on the cross-currency basis, different duration-to-election indicators[†]

	2-month election			4-month election			6-month election		
	(1) Dummy	(2) IV	(3) 2SLS	(4) Dummy	(5) IV	(6) 2SLS	(7) Dummy	(8) IV	(9) 2SLS
Election	-0.57** (0.23)			-0.50** (0.19)			-0.37** (0.16)		
π		-52.98 (32.07)	-68.24** (29.96)		-43.70* (23.08)	-59.08*** (21.19)		-29.30* (15.32)	-46.14*** (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 (0.16)			-0.28 (0.20)			-0.46*** (0.14)		
$\Delta\pi$		-18.41 (21.77)	-19.24 (20.33)		-39.37 (27.46)	-38.00 (26.26)		-60.87*** (18.45)	-57.59*** (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.19: Effects of political risk on the CCB: presidential systems[†]

	Reduced form			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)
$\Delta\text{Election}$	-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)
$\Delta\text{Exchange rate}$			-8.63			-15.05			-13.66
			(8.20)			(9.36)			(8.56)
$\Delta\text{Reserves}$			-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.20: Effects of political risk on the CCB: parliamentary systems[†]

	Reduced form			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Estimation in levels									
π				-13.72 (16.92)	-13.45 (16.68)	-12.71 (16.03)	-54.56* (27.10)	-52.37** (23.82)	-47.11** (21.20)
Election	-0.16 (0.17)	-0.16 (0.17)	-0.15 (0.16)						
$r^i - r^{us}$		0.00 (0.05)	-0.01 (0.05)		0.03 (0.05)	0.02 (0.05)		0.09 (0.06)	0.07 (0.06)
Exchange rate			-0.43 (1.56)			-0.38 (1.56)			-0.24 (1.98)
Reserves			-1.69** (0.64)			-1.78*** (0.61)			-2.04* (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 (24.72)	-29.77 (24.81)	-31.08 (25.79)	-31.01 (22.08)	-31.07 (22.13)	-33.09 (22.57)
Δ Election	-0.22 (0.15)	-0.22 (0.15)	-0.23 (0.16)						
$\Delta(r^i - r^{us})$		-0.06 (0.05)	-0.06 (0.06)		-0.07 (0.06)	-0.07 (0.06)		-0.07 (0.05)	-0.07 (0.06)
Δ Exchange rate			-7.35** (3.16)			-9.22** (4.23)			-9.34** (4.08)
Δ Reserves			-1.69 (1.49)			-1.70 (1.70)			-1.69 (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.3.3 Exploring further changes to the instrument set

Including both level and first differenced variables in the instrument set. For reasons of consistency, we have relied on the same transformation of the instruments as the specification, i.e. we employ first-differenced variable(s) as instrument(s) for the first-differenced specification (7). One might wonder, however, if the duration-to-election dummy or democratic accountability in levels should be included in the first differenced specifications, as additional instruments, and *vice versa*. These results are shown in Table A.21. We find quantitatively and qualitatively similar results to the baseline findings.

Expansion of the instrument set. As discussed in Section 3.4.2, we also consider expanding our instrument set by either replacing the democratic accountability variable, or adding a new variable to the full instrument set. The corresponding results for including bureaucratic effectiveness and ethnic fractionalization are reported in Tables A.22 and A.23, respectively. Unsurprisingly, these are both qualitatively and quantitatively in line with our baseline findings.

Placebos with post-election dummies. Our instrument set considers *pre*-election duration, as is consistent with our identification strategy. It is nevertheless useful to consider if our results are sensitive to the use of *post*-election dummies. Ideally, these should generate null results, since there is little basis for post-election periods to coincide with heightened political risk.⁹ We consider such placebo tests by running regressions with different post election dummies. The results are presented in Table A.24 for 3-month and Table A.25 for 5-month post-election dummies.

⁹There are likely to be a very small number of instances, especially in EMs, where election results may be challenged and lead to post-election tumult. The number of such observations would be so small as to rule it out as a plausible instrument. But even if this were the case, we would expect a regression in our other instrument—democratic accountability—which would then be correlated with the internal conflict measure of political risk that is being instrumented.

Table A.21: 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** (22.14)	-57.74** (22.18)	-60.70** (22.95)	-55.81*** (19.96)	-55.02*** (20.08)	-58.55*** (20.47)
$\Delta(r^i - r^{us})$		-0.25** (0.11)	-0.25** (0.11)		-0.25** (0.11)	-0.25** (0.11)
$\Delta\text{Exchange rate}$			-9.57** (4.54)			-9.43** (4.40)
$\Delta\text{Reserves}$			-4.50** (1.91)			-4.48** (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.22: Effects of political risk on the cross-currency basis, adding bureaucratic effectiveness to the instrument set[†]

	Substitute			Addition		
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: Estimation in levels						
π	-49.56 (32.31)	-53.04* (27.44)	-53.82* (30.18)	-46.21 (29.26)	-48.77** (22.73)	-65.44** (24.01)
$r^i - r^{us}$		0.21** (0.08)	0.20** (0.08)		0.20** (0.07)	0.22** (0.10)
Exchange rate			1.77 (2.30)			1.90 (2.63)
Reserves			-4.42** (1.88)			-4.77** (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** (24.88)	-59.10** (24.71)	-61.52** (25.37)	-56.69** (21.65)	-55.30** (21.62)	-57.99** (22.03)
$\Delta(r^i - r^{us})$		-0.25** (0.11)	-0.25** (0.11)		-0.25** (0.11)	-0.25** (0.11)
Δ Exchange rate			-9.62** (4.55)			-9.40** (4.39)
Δ Reserves			-4.50** (1.92)			-4.47** (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.23: Effects of political risk on the cross-currency basis, adding ethnic fractionalization to 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)
Δ Exchange rate			-7.58*			-7.42*
			(4.10)			(3.99)
Δ Reserves			-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.24: Placebos: Effects of political risk on the CCB instrumented with 3-month post-election dummy[†]

	Reduced form			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Estimation in levels									
π				2.66 (8.06)	2.76 (7.92)	1.98 (7.95)	-16.26 (12.66)	-15.87 (10.84)	-22.37* (12.56)
Post election	-0.05 (0.15)	-0.05 (.)	-0.03 (0.14)						
$r^i - r^{us}$		0.09 (.)	0.09 (0.06)		0.08 (0.06)	0.08 (0.06)		0.13** (0.06)	0.13* (0.07)
Exchange rate			1.11 (1.45)			1.09 (1.44)			1.33 (1.70)
Reserves			-2.79*** (0.87)			-2.74*** (0.88)			-3.44** (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 (21.68)	-6.57 (21.72)	-6.86 (21.86)	-6.74 (20.06)	-8.04 (20.09)	-8.40 (20.24)
Δ Post election	0.04 (0.17)	0.05 (0.15)	0.05 (0.17)						
$\Delta(r^i - r^{us})$		-0.23*** (0.06)	-0.23** (0.10)		-0.23** (0.10)	-0.23** (0.10)		-0.23** (0.10)	-0.24** (0.10)
Δ Exchange rate			-5.77 (3.84)			-6.20* (3.39)			-6.30* (3.45)
Δ Reserves			-3.99** (1.68)			-4.04** (1.73)			-4.05** (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.25: Placebo: Effects of political risk on the CCB instrumented with 5-month post-election dummy[†]

	Reduced form			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Estimation in levels									
π				0.32 (8.15)	0.42 (8.17)	-0.15 (8.15)	-13.60 (10.22)	-13.31 (9.23)	-18.20* (10.60)
Post election	-0.01 (.)	-0.01 (0.14)	0.00 (0.14)						
$r^i - r^{us}$		0.09 (0.06)	0.09 (0.06)		0.09 (0.06)	0.09 (0.06)		0.12** (0.06)	0.13* (0.06)
Exchange rate			1.11 (1.45)			1.11 (1.45)			1.27 (1.63)
Reserves			-2.79*** (0.87)			-2.80*** (0.88)			-3.31*** (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 (22.00)	-14.40 (22.64)	-16.20 (23.29)	-10.29 (19.29)	-15.56 (19.94)	-17.43 (20.69)
Δ Post election	0.06 (.)	0.10 (0.14)	0.11 (0.14)						
$\Delta(r^i - r^{us})$		-0.23*** (0.06)	-0.23** (0.10)		-0.24** (0.11)	-0.24** (0.11)		-0.24** (0.11)	-0.24** (0.11)
Δ Exchange rate			-5.91 (3.76)			-6.92* (3.56)			-6.99* (3.62)
Δ Reserves			-3.89** (1.66)			-4.00** (1.73)			-4.01** (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 * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

A.3.4 Alternative sample coverages

Classification of *de facto* regimes. In the robustness checks, we consider subsamples that classify exchange rate regimes using the standard IMF classification. Here, we follow the *de facto* classification proposed by [Levy-Yeyati & Sturzenegger \(2005\)](#) instead. The corresponding results are shown in Table A.26 (for *de facto* flexible regimes) and Table A.27 (for *de facto* non-flexible regimes). The estimation results are very similar to those that adopt the IMF classification.

Estimation at the quarterly frequency. An election typically occurs only once every few years, and hence one might be worried that this would introduce an excessive number of null values into our election dummy, which is constructed on a monthly basis. We therefore run regressions with observations aggregated up to the where quarterly frequency—where each variable is the quarterly average of the monthly data—with the exception of the election dummy, where quarter is coded as pre-election one as long as it includes a single month in the 3 months preceding an election (consequently, we retain only a single election quarter in the instrument set for political risk).

We report these results in Table A.28. Overall, the coefficient on either π or $\Delta\pi$ remains negative (corroborating the results from the monthly frequency used for the baseline), although these are not always significant. The increase noise surrounding the estimates of coefficients actually militate toward conducting our analysis on a monthly frequency, since election information in such cases will adhere more closely to the preceding months.

Table A.26: Effects of political risk on the CCB (*de facto* flexible exchange rate regime sample)[†]

	Reduced form			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)
Δ Election	-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)
Δ Exchange rate			-5.62			-11.51			-7.35
			(5.47)			(8.40)			(5.73)
Δ Reserves			-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.27: Effects of political risk on the CCB (*de facto* non-flexible exchange rate regime sample)[†]

	Reduced form			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Estimation in levels									
π				-25.83 (36.40)	-25.22 (36.64)	-22.84 (35.79)	-31.72 (28.23)	-35.15 (23.45)	-55.95* (29.06)
Election	-0.24 (0.27)	-0.24 (0.28)	-0.23 (0.29)						
$r^i - r^{us}$		0.03 (0.06)	0.04 (0.06)		0.11 (0.10)	0.10 (0.10)		0.14 (0.10)	0.18 (0.15)
Exchange rate			3.06 (1.92)			3.24 (2.48)			3.50 (3.61)
Reserves			-2.67* (1.41)			-3.64 (2.26)			-5.05 (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 (29.47)	-39.33 (29.94)	-41.49 (30.13)	-37.27 (29.94)	-36.87 (30.42)	-38.48 (30.69)
$\Delta\text{Election}$	-0.38 (0.27)	-0.37 (0.26)	-0.39 (0.27)						
$\Delta(r^i - r^{us})$		-0.11* (0.07)	-0.12 (0.09)		-0.06 (0.11)	-0.05 (0.12)		-0.06 (0.11)	-0.06 (0.12)
$\Delta\text{Exchange rate}$			-5.24 (5.13)			-7.99 (4.78)			-7.78 (4.74)
$\Delta\text{Reserves}$			-1.49 (2.79)			-1.30 (2.84)			-1.31 (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 * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A.28: Effects of political risk on the cross-currency basis at the quarterly frequency[†]

	Reduced form			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Estimation in levels									
π				-42.47 (35.42)	-41.89 (34.94)	-44.92 (36.13)	-47.87 (31.44)	-45.93** (20.78)	-68.28** (27.42)
Election	-0.41* (0.24)	-0.41* (0.24)	-0.43* (0.23)						
$r^i - r^{us}$		0.11* (0.06)	0.11* (0.06)		0.21** (0.09)	0.21** (0.10)		0.22*** (0.07)	0.26** (0.11)
Exchange rate			1.45 (1.74)			1.96 (2.33)			2.23 (2.90)
Reserves			-2.93*** (1.01)			-4.16** (1.81)			-4.81** (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* (19.92)	-34.98* (19.30)	-37.00* (20.75)	-31.78 (21.01)	-32.97 (20.48)	-34.58 (21.40)
Δ Election	-0.26** (0.12)	-0.27** (0.12)	-0.28** (0.12)						
$\Delta(r^i - r^{us})$		-0.08 (0.13)	-0.09 (0.13)		-0.08 (0.14)	-0.09 (0.13)		-0.08 (0.14)	-0.09 (0.13)
Δ Exchange rate			-0.02 (2.98)			-2.32 (3.79)			-2.17 (3.55)
Δ Reserves			-3.14** (1.15)			-4.34*** (1.32)			-4.25*** (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 underidentification 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 * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

A.3.5 Additional falsification test for the pre-crisis and crisis period

In the main text, we performed our an out-of-sample falsification test using only the pre-crisis period. Here, we repeat the exercise for the baseline specifications, but instead utilize data for the period between January 2000 to June 2009, which we define as the pre-crisis and crisis period. The corresponding results are summarized in Table A.29, and the uniformly insignificant coefficients on political risk corroborate the results argument that such risks did not contribute to CIP deviations in the the pre-crisis and crisis period, but only became relevant *after* the global financial crisis.

Table A.29: Effects of political risk on the cross-currency basis, pre-crisis and crisis period[†]

	Reduced form			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Estimation in levels									
π				6.86 (56.92)	6.66 (56.04)	15.34 (61.68)	0.71 (17.93)	1.26 (19.12)	-4.92 (19.81)
Election	0.04 (0.19)	0.04 (0.35)	0.09 (0.37)						
$r^i - r^{us}$		-0.11 (0.09)	-0.10 (0.10)		-0.11 (0.09)	-0.09 (0.11)		-0.11 (0.09)	-0.11 (0.10)
Exchange rate			2.42 (2.25)			1.39 (5.22)			2.75 (2.94)
Reserves			2.02 (2.46)			0.79 (5.36)			2.41 (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 (60.59)	67.25 (59.24)	78.92 (66.47)	70.43 (58.80)	59.92 (57.35)	75.80 (65.42)
$\Delta\text{Election}$	0.31** (0.16)	0.27 (0.20)	0.29 (0.19)						
$\Delta(r^i - r^{us})$		-0.33** (0.15)	-0.32** (0.15)		-0.31* (0.16)	-0.31* (0.17)		-0.31* (0.16)	-0.31* (0.17)
$\Delta\text{Exchange rate}$			-2.29 (2.40)			2.11 (5.94)			1.94 (5.82)
$\Delta\text{Reserves}$			0.25 (2.46)			1.21 (3.18)			1.17 (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 * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

A.4 Additional Discussion

A.4.1 Further results from regression discontinuity

Choice of parametric regression discontinuity design. In the baseline, we utilize a parametric model for our RD estimation, with manually-chosen bandwidths set at 5 percent for both sides of the cutoff. As explained in Section A.2.3, this is because strictly following the optimally-suggested bandwidth would result in our dataset collapsing to an unjustifiably-small number of observations.

Here, we summarize our nonparametric RD results, where the bandwidth was determined by either the mean squared error (MSE)-optimal or coverage error rate (CER)-optimal selector. We find negative and significant point estimates (full details are available on request), for both $\hat{\theta}_w$ and $\hat{\gamma}_w$. However, these estimations suggest very small values—between 1 and 5 percent (and usually smaller than 3 percent)—for bandwidths, which in turn imply constraining the sample to a very small number of observations.

RD figures with confidence intervals. In the main text, we explained that including confidence intervals would excessively obscure the scatter of points, given our small sample. Here, we provide the RD plots at the 90% confidence interval (CI) level for the full sample, with CIs constructed either with bin-specific standard errors (Figure A.2) or constant standard errors (Figure A.3). Again following the main text, we also include the analogous figures for the sample excluding euro (in Figures A.4 and Figure A.5, respectively).

Using a looser 10 percent threshold for close elections. The major disadvantage to utilizing the 5 percent bandwidth, informed by nonparametric approach, is the loss of observations. We loosen our threshold for close elections to a 10 percent margin and present these results analogous to the main text (for the 5 percent margin) in Figures A.6 (full currency sample) and A.7 (sample excluding euro), and Table A.30. We also offer plots for the RD graphs with confidence intervals at the 90% level, constructed from bin-specific standard errors (Figure A.8 for the full currency sample and Figure A.9 for the sample excluding the euro).

Even as the number of observations increases, the decline in cross-currency basis at the threshold persists, regardless of currency sample or choice of local polynomial. That said, the gap appears 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 are insignificant (albeit negative). The less-significant results—obtained when applying a less stringent criterion for close elections—indirectly corroborate how closer elections give rise to a more negative cross-currency basis.

Alternative approaches to characterizing win margins. In some polities, such as those in Australia, Europe, or Malaysia, government is typically formed from a coalition, comprising several aligned parties after the election. To accommodate this possibility, we employ the vote margin from the government and opposing coalitions (where applicable) as our running variable instead. We report the corresponding results in Figures A.10 (full currency sample) and A.11 (sample excluding euro), and Table A.31.¹⁰

¹⁰While we use the default triangular kernel function to construct our local-polynomial estimators,

With these results, we observe a drop in the CCB for the level estimations at the cutoff (zero) of the vote margin, whereas there is a small hike for the CCB in first differences. 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 results.

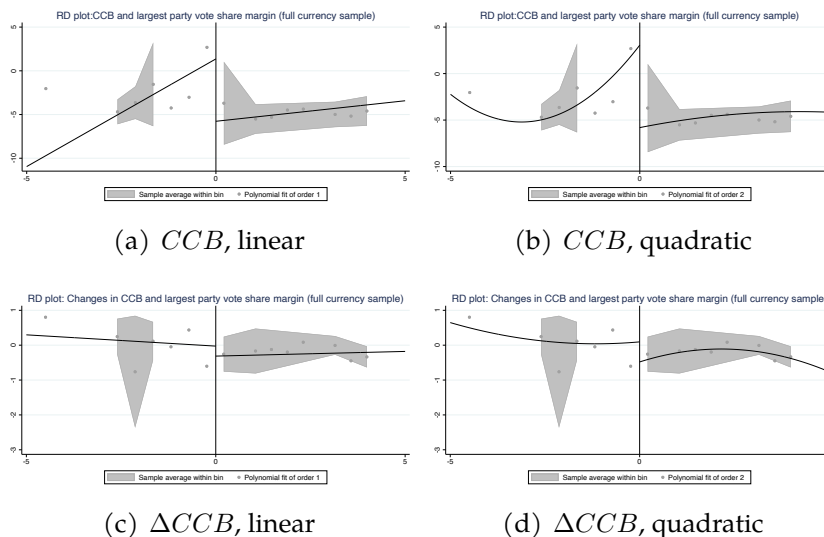


Figure A.2: Regression discontinuity plots corresponding to a local linear (left panel) or quadratic (right panel) form, for a vote share win/loss margin of 5 percent between the government and opposition parties, for the *full sample* with confidence interval at 90% level generated with bin-specific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

we also consider other kernel functions, such as the uniform and Epanechnikov. Overall, these results are qualitatively in line with our baseline finding and available on request.

Table A.30: Effects of political risk on the cross currency basis using discontinuities at the 10 percent vote margin for close elections between the largest government and opposition parties[†]

	Full sample				Without EUR			
	CCB		Δ CCB		CCB		Δ CCB	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Conventional	-3.21** (1.44)	-3.35* (1.89)	0.07 (0.31)	0.08 (0.33)	-4.07*** (1.52)	-4.75** (1.95)	-0.02 (0.34)	-0.10 (0.33)
Bias-corrected	-3.49** (1.44)	-6.88*** (1.89)	0.08 (0.31)	0.11 (0.33)	-4.69*** (1.52)	-8.86*** (1.95)	-0.10 (0.34)	-0.16 (0.33)
Robust	-3.49* (1.83)	-6.88*** (2.06)	0.08 (0.33)	0.11 (0.50)	-4.69** (1.90)	-8.86*** (1.81)	-0.10 (0.32)	-0.16 (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.31: 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)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	CCB	CCB	Δ CCB	Δ CCB	CCB	CCB	Δ CCB	Δ CCB
Conventional	-4.05** (1.81)	-4.69** (2.32)	0.16 (0.32)	0.30 (0.45)	-5.78*** (1.85)	-8.07*** (2.11)	0.18 (0.39)	0.29 (0.51)
Bias-corrected	-4.77*** (1.81)	-5.76** (2.32)	0.27 (0.32)	0.62 (0.45)	-7.06*** (1.85)	-9.97*** (2.11)	0.24 (0.39)	0.52 (0.51)
Robust	-4.77** (2.16)	-5.76 (4.42)	0.27 (0.42)	0.62 (0.43)	-7.06*** (1.94)	-9.97** (4.06)	0.24 (0.48)	0.52 (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: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

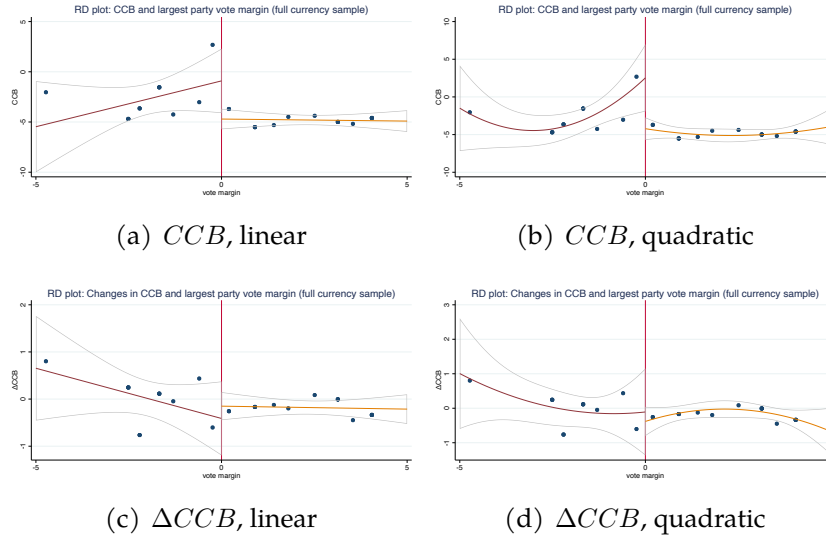


Figure A.3: Regression discontinuity plots corresponding to a local linear (left panel) or quadratic (right panel) form, for a vote share win/loss margin of 5 percent between the government and opposition parties, for the *full sample* with confidence interval at 90% level generated with constant standard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

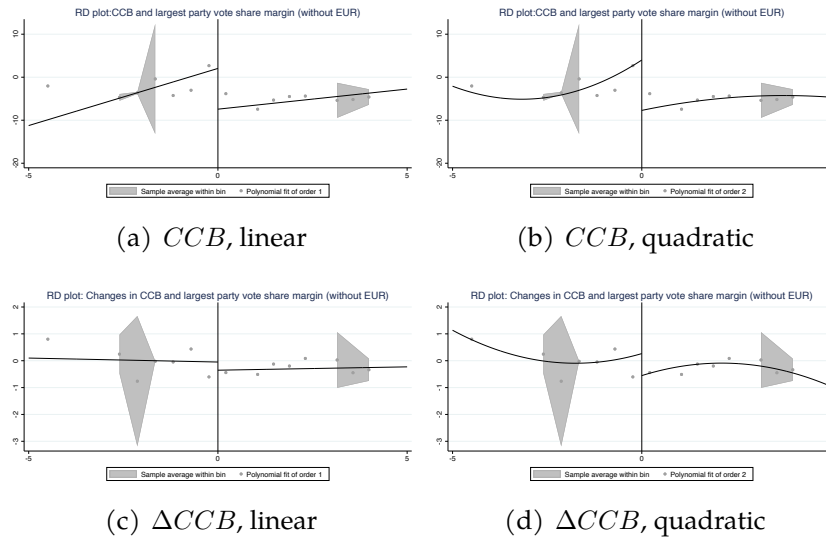


Figure A.4: Regression discontinuity plots corresponding to a local linear (left panel) or quadratic (right panel) form, for a vote share win/loss margin of 5 percent between the government and opposition parties, for the sample *excluding the euro* with confidence interval at 90% level generated with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

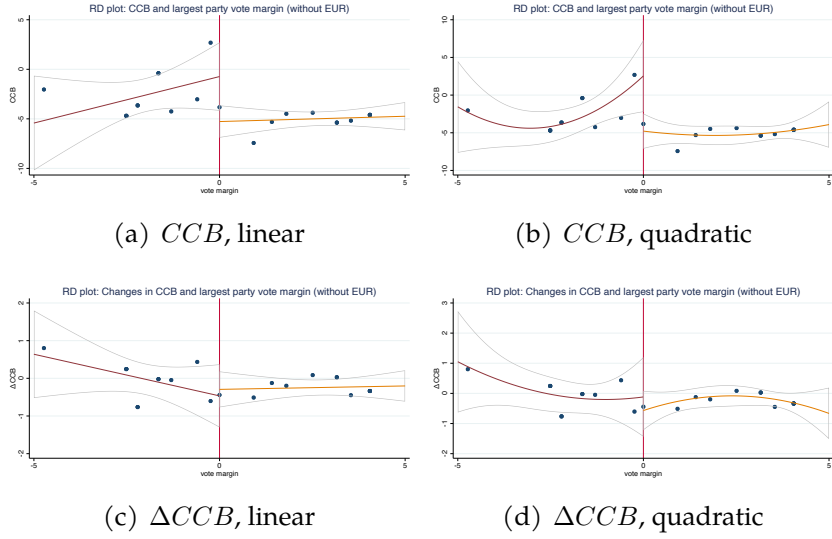


Figure A.5: Regression discontinuity plots corresponding to a local linear (left panel) or quadratic (right panel) form, for a vote share win/loss margin of 5 percent between the government and opposition parties, for the sample *excluding the euro* with confidence intervals at 90% level generated with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

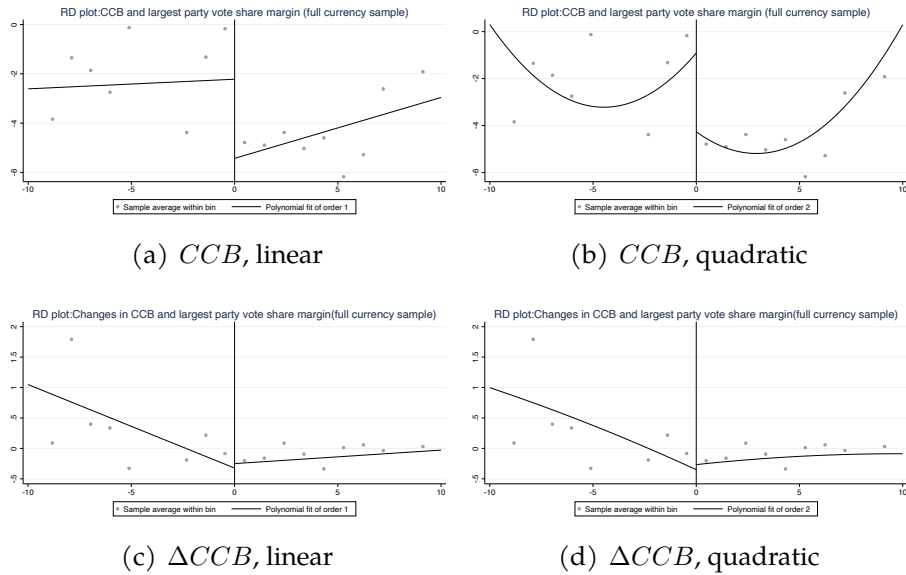


Figure A.6: Regression discontinuity plots corresponding to a local linear (left panel) or quadratic (right panel) form, for a vote share win/loss margin of 10 percent between the government and opposition parties, for the *full sample*. The discontinuities are clearly more pronounced for the level (top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

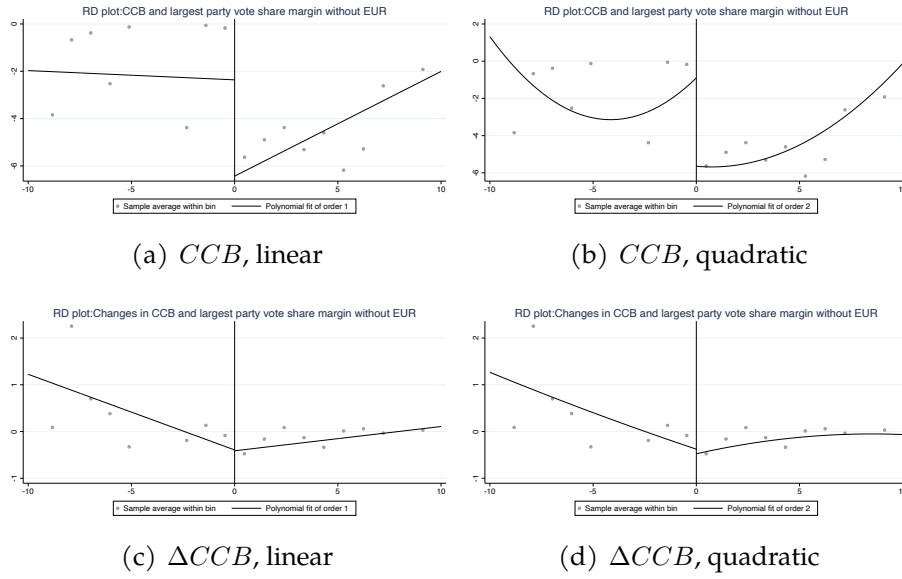


Figure A.7: Regression discontinuity plots corresponding to a local linear (left panel) or quadratic (right panel) form, for a vote share win/loss margin of 10 percent between the government and opposition parties, for the sample *excluding the euro*. The discontinuities are clearly more pronounced for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

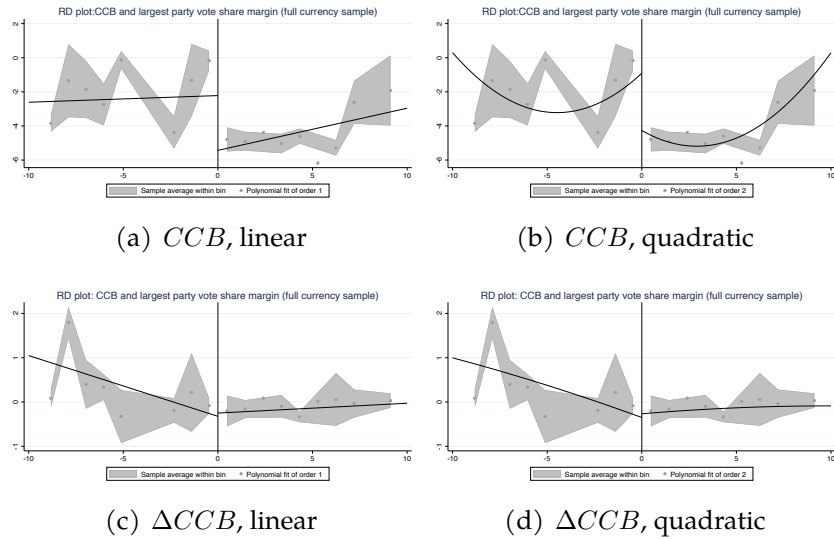


Figure A.8: Regression discontinuity plots corresponding to a local linear (left panel) or quadratic (right panel) form, for a vote share win/loss margin of **10** percent between the government and opposition parties, for the **full sample** with confidence interval at 90% level generated with bin-specific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

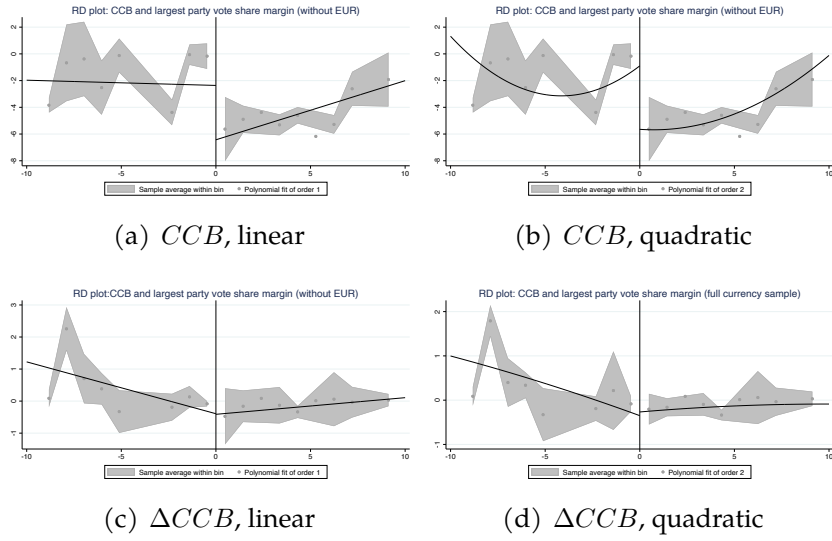


Figure A.9: Regression discontinuity plots corresponding to a local linear (left panel) or quadratic (right panel) form, for a vote share win/loss margin of **10** percent between the government and opposition parties, for the sample **excluding the euro** with confidence interval at 90% level generated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

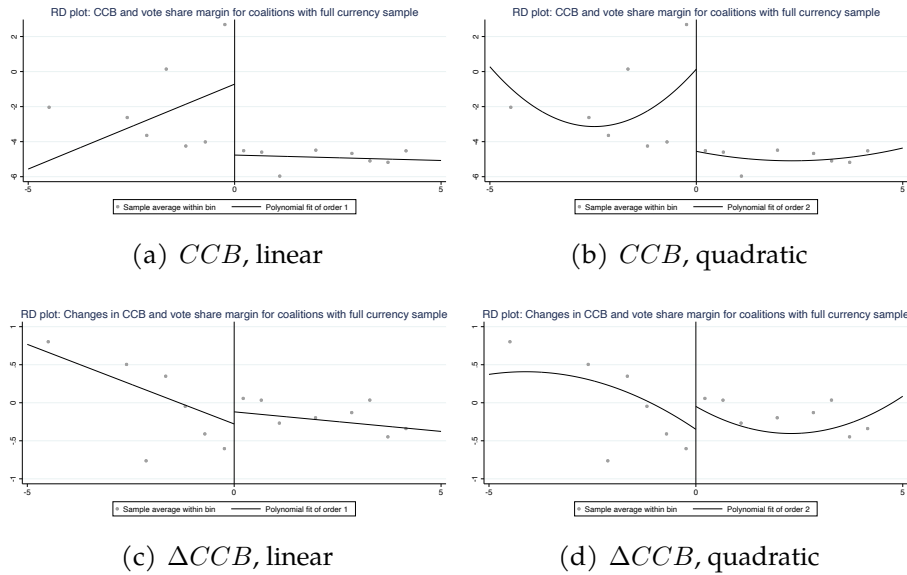


Figure A.10: Regression discontinuity plots corresponding to a local linear (left panel) or quadratic (right panel) form, for a vote share win/loss margin of **5** percent between the government and opposition *coalitions*, for the **full sample**. Consistently, the discontinuities are clearly more pronounced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

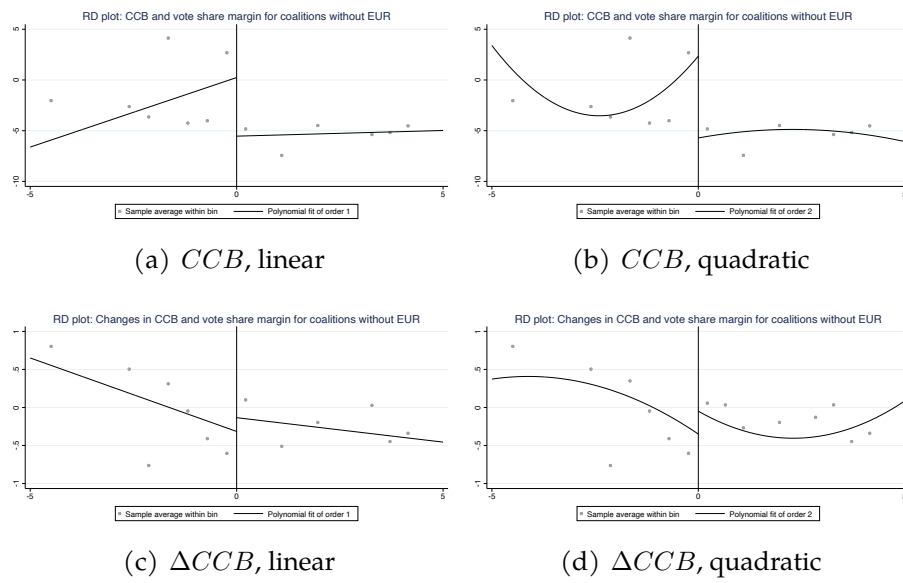


Figure A.11: Regression discontinuity plots corresponding to a local linear (left panel) or quadratic (right panel) form, for a vote share win/loss margin of 5 percent between the government and opposition *coalitions*, for the sample **excluding the euro**. Consistently, the discontinuities are clearly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

A.4.2 Results from first stage regressions

We report full first stage results between the political risk and the instruments of the baseline results in Table A.32, corresponding to Tables 1 and 2. As discussed in the main text, the first stage effects are very small, but are highly significant at the 1% level. This points to how the duration indicator not only satisfies the relevance condition, but since political risks entail more dimensions than elections alone, it lends some additional credence to the plausibility of the exclusion restriction. The small coefficient also implies that the duration to an election indicator, *per se*, does not exert any causal effect on political risk, which is also intuitively reasonable.

Table A.32: First stage relationship between political risk and its instruments[†]

	IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: Estimation in levels						
Election	0.01*** (0.00)	0.01*** (0.00)	0.01*** (0.00)	0.01*** (0.00)	0.01*** (0.00)	0.01*** (0.00)
Demo accountability				-0.05 (0.03)	-0.05** (0.02)	-0.04* (0.02)
Observations	4,339	4,339	4,333	4,339	4,339	4,333
F	10.06	9.74	9.67	6.82	7.81	6.70
Panel B: Estimation in first differences						
ΔElection	0.01*** (0.00)	0.01*** (0.00)	0.01*** (0.00)	0.01*** (0.00)	0.01*** (0.00)	0.01*** (0.00)
ΔDemo accountability				0.04 (0.05)	0.04 (0.05)	0.04 (0.05)
Observations	4,337	4,337	4,330	4,337	4,337	4,330
F	21.38	21.42	20.64	13.07	13.08	12.70

[†] This table reports the first-stage results for the political risk and its instruments, where the (changes in) political risk is instrumented with the (changes in) election dummy (IV specifications) and both the (changes in) election dummy and (changes in) democratic accountability (2SLS specifications). Fixed effects at currency-time level is controlled, and robust standard errors clustered at currency-time level are reported: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

A.4.3 Additional analysis for insurance mitigation mechanisms

Additional first-differenced results for swap lines. In the main text, we reported specifications for the conditioning role of effects of swap lines for the specifications in levels. Here, we report the comparable results for first-differenced specifications (Table A.33). Although the coefficient on $\Delta\pi$ is marginally significant, Cragg-Donald F tests point to weak instrument issues through all the specifications. In particular, Kleibergen-Paap LM tests reveal 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.

One may also wonder if the mere presence of the swap lines are what matters, or if the *magnitude* of the swap lines will have a discernible impact. Indeed, one could argue that we are throwing away information by limiting the analysis to merely an indicator of swap lines. We therefore repeat our levels estimations where we instead impose an alternative interaction term, political risk with the swap line *size*. The results are given in Table A.34. The interaction term is insignificant for all the specifications, corroborating the notion that there is no effect of political risk on CIP deviations for currencies whose monetary authority maintain swap lines with the Fed.

Additional 2SLS results for reserves. As alluded to in the text, the full set of regression results, for specifications where political risk is interacted with reserves, are reported in Table A.35. Estimates with 2SLS do not differ much compared to those in levels.

Interactions of political risk with interest differential. Now, instead of applying an interaction between political risk and reserves, one could argue that a more relevant margin for self-insurance is whether a sovereign is able to continue funding its borrowing, especially if it were to mount an interest rate defense of its debt. Table A.36 replaces reserves with the 10-year sovereign-U.S. Treasury rate differential. 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 is associated with greater political risk, which in turn discourages foreign investment inflows and curtails the domestic supply of dollars.

Table A.33: 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)
$\Delta\text{Exchange rate}$			-9.94			-9.73
			(5.74)			(5.60)
$\Delta\text{Reserves}$			-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.34: Effects of political risk on cross-currency basis, conditional on swap size[†]

	IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)
$\pi \times \text{Swap size}$	1.73 (5.18)	1.25 (5.45)	1.28 (5.71)	2.37 (4.11)	3.72 (5.14)	3.92 (6.41)
π	-49.89* (27.08)	-50.77* (28.20)	-52.48* (28.93)	-47.86* (26.88)	-47.75** (20.47)	-64.00** (23.63)
Swap size	6.84 (20.71)	4.94 (21.78)	5.08 (22.81)	9.42 (16.47)	14.83 (20.60)	15.61 (25.68)
$r^i - r^{us}$		0.20** (0.08)	0.20** (0.08)		0.20*** (0.07)	0.23** (0.10)
Exchange rate			1.72 (2.24)			1.81 (2.52)
Reserves			-4.24** (1.73)			-4.35** (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.35: 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* (61.07)	-123.75* (62.02)	-121.30* (61.22)	13.53 (18.28)	4.42 (21.92)	23.30 (21.35)
$\pi \times \text{Reserves}$	83.04* (46.61)	87.64* (47.05)	86.02* (46.88)	-18.79* (9.73)	-16.73 (10.70)	-36.05** (16.69)
Reserves	325.47* (184.75)	344.13* (186.60)	338.45* (186.02)	-78.09* (38.52)	-69.77 (42.43)	-147.14** (66.76)
$r^i - r^{us}$		0.09 (0.13)	0.03 (0.14)		0.10 (0.09)	0.18 (0.12)
Exchange rate			-4.51 (2.72)			4.12 (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 (1.5e+09)	-855.00 (10952.11)	-766.19 (9042.76)	-25.61*** (5.91)	-23.95*** (6.31)	-21.57** (8.38)
$\pi \times \text{Reserves}$	-1.3e+05 (6.0e+08)	310.43 (3950.97)	274.13 (3208.71)	2.75 (8.58)	2.26 (7.92)	2.42 (7.09)
Reserves	-5.2e+05 (2.5e+09)	1265.66 (16108.65)	1117.13 (13078.67)	10.51 (35.75)	8.72 (33.06)	9.16 (29.64)
$r^i - r^{us}$		-1.47 (18.62)	-1.33 (15.30)		-0.05 (0.04)	-0.05 (0.03)
Exchange rate			2.06 (73.03)			1.52 (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.36: 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 (26.15)	-38.63 (28.18)	-38.09 (27.73)	-38.85 (25.92)	-41.71 (28.97)	-46.52 (31.57)
$\pi \times (y^i - y^{us})$	-4.94* (2.74)	-5.09* (2.80)	-5.04* (2.81)	-2.72 (1.80)	-3.35 (2.17)	-4.31 (2.70)
$y^i - y^{us}$	-19.25* (10.80)	-19.90* (11.03)	-19.71* (11.08)	-10.44 (7.08)	-12.99 (8.56)	-16.80 (10.66)
Reserves		-4.80 (2.99)	-4.46 (3.23)		-4.30 (2.70)	-4.39 (3.19)
Exchange rate			-1.65 (2.66)			-1.11 (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 (194.98)	-89.30 (148.86)	-89.92 (173.82)	4.21 (14.43)	6.09 (15.73)	0.22 (10.63)
$\pi \times (y^i - y^{us})$	11.68 (30.34)	9.29 (22.38)	9.36 (26.43)	2.12 (2.46)	2.39 (2.71)	1.35 (2.05)
$y^i - y^{us}$	46.65 (121.19)	37.11 (89.45)	37.40 (105.66)	8.39 (9.76)	9.47 (10.75)	5.35 (8.14)
Reserves		-3.04 (5.66)	-3.01 (4.67)		-0.09 (0.42)	-0.50 (0.30)
Exchange rate			-0.27 (20.67)			1.72 (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 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 * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

A.4.4 Additional analysis for the transmission of political risk

Additional types of political risk. In the main text, the discussion of systematic political risk in Table 12 was limited to the rule of law. Here, we report the effects of other types of political risk. These correspond to corruption (Table A.37), bureaucratic effectiveness (Table A.38), and the military in politics (Table A.39).

Furthermore, while the results in Table 12 apply the decomposition of political risk to external conflict and government stability, we report an additional decomposition for internal conflict (Table A.40).

Across these variations, 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. This corroborates our argument that it is political stability that matters most often.

Table A.37: Effects of corruption risk on the CCB[†]

	Reduced form			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Estimation in levels									
Corruption risk				-177.23 (272.98)	-190.75 (308.28)	-226.32 (435.85)	6.23 (3.71)	6.14* (3.50)	10.83** (4.26)
Election	-0.58*** (0.20)	-0.59*** (0.20)	-0.60*** (0.20)						
$r^i - r^{us}$		0.09 (0.06)	0.09 (0.06)		0.85 (1.19)	0.61 (1.09)		0.07 (0.07)	0.06 (0.06)
Exchange rate			1.17 (1.46)			-36.39 (74.60)			2.97 (2.08)
Reserves			-2.84*** (0.87)			-11.68 (20.95)			-2.40** (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									
Δ Corruption risk				-93000.01 (1.7e+07)	19400.69 (7.5e+05)	5483.50 (58860.59)	-35.81 (72.73)	-31.21 (68.64)	-21.66 (62.07)
Δ Election	-0.45*** (0.16)	-0.44*** (0.17)	-0.45*** (0.16)						
$\Delta(r^i - r^{us})$		-0.23*** (0.06)	-0.23** (0.10)		-11.99 (452.42)	-3.61 (36.51)		-0.21* (0.11)	-0.22* (0.11)
Δ Exchange rate			-5.97 (3.83)			162.27 (1788.65)			-6.46 (4.24)
Δ Reserves			-3.99** (1.67)			14.60 (180.69)			-4.07** (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.38: Effects of bureaucratic effectiveness risk on the CCB[†]

	Reduced form			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Estimation in levels									
π				-530.62 (404.88)	-552.87 (415.43)	-558.18 (406.74)	32.02 (26.75)	31.49 (28.08)	48.98 (42.11)
Election	-0.58*** (0.20)	-0.59*** (0.20)	-0.60*** (0.20)						
$r^i - r^{us}$		0.09 (0.06)	0.09 (0.06)		0.47** (0.21)	0.39** (0.17)		0.07 (0.06)	0.06 (0.06)
Exchange rate			1.17 (1.46)			-9.83 (6.77)			2.14 (1.85)
Reserves			-2.84*** (0.87)			1.74 (2.57)			-3.23*** (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 (31679.76)	-2.2e+04 (32702.88)	-2.1e+04 (30692.68)	-6814.64 (10076.79)	-6485.84 (9740.32)	-7168.85 (10667.37)
Δ Election	-0.45*** (0.16)	-0.44*** (0.17)	-0.45*** (0.16)						
$\Delta(r^i - r^{us})$		-0.23*** (0.06)	-0.23** (0.10)		0.31 (.)	0.28 (.)		-0.07 (0.10)	-0.06 (0.09)
Δ Exchange rate			-5.97 (3.83)			14.40 (.)			1.13 (6.20)
Δ Reserves			-3.99** (1.67)			8.55 (6.33)			0.31 (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.39: Effects of military in politics risk on the CCB[†]

	Reduced form			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Estimation in levels									
π				899.88 (2922.88)	723.00 (1835.72)	692.73 (1676.76)	13.83** (6.23)	13.71** (6.35)	17.33** (7.32)
Election	-0.58*** (0.20)	-0.59*** (0.20)	-0.60*** (0.20)						
$r^i - r^{us}$		0.09 (0.06)	0.09 (0.06)		-2.19 (6.08)	-2.18 (5.63)		0.05 (0.06)	0.03 (0.06)
Exchange rate			1.17 (1.46)			-10.71 (32.12)			0.87 (1.61)
Reserves			-2.84*** (0.87)			7.67 (22.90)			-2.56*** (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 (289.71)	317.72 (283.21)	326.68 (288.66)	316.45 (264.35)	309.22 (258.84)	318.87 (264.82)
$\Delta\text{Election}$	-0.45*** (0.16)	-0.44*** (0.17)	-0.45*** (0.16)						
$\Delta(r^i - r^{us})$		-0.23*** (0.06)	-0.23** (0.10)		-0.24** (0.09)	-0.24** (0.09)		-0.24** (0.09)	-0.24** (0.09)
$\Delta\text{Exchange rate}$			-5.97 (3.83)			-6.02 (3.82)			-6.01 (3.82)
$\Delta\text{Reserves}$			-3.99** (1.67)			-2.83 (2.14)			-2.86 (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.40: Effects of internal conflict risk on the CCB[†]

	Reduced form			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Estimation in levels									
π				128.15 (81.21)	130.34 (83.82)	130.55 (83.42)	34.98 (20.80)	34.13* (18.64)	38.10** (18.35)
Election	-0.58*** (0.20)	-0.59*** (0.20)	-0.60*** (0.20)						
$r^i - r^{us}$		0.09 (0.06)	0.09 (0.06)		0.19 (0.23)	0.19 (0.24)		0.12 (0.09)	0.12 (0.11)
Exchange Rate			1.17 (1.46)			-0.35 (5.00)			0.73 (1.51)
Reserves			-2.84*** (0.87)			0.11 (2.59)			-1.97** (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									
$\Delta \pi$				-171.02** (83.89)	-165.84* (81.72)	-172.53** (84.21)	-141.19* (72.00)	-137.88* (70.71)	-144.36* (72.76)
Δ Election	-0.45*** (0.16)	-0.44*** (0.17)	-0.45*** (0.16)						
$\Delta(r^i - r^{us})$		-0.23*** (0.06)	-0.23** (0.10)		-0.30** (0.13)	-0.30** (0.14)		-0.29** (0.13)	-0.29** (0.13)
Δ Exchange Rate			-5.97 (3.83)			-9.05 (5.38)			-8.52 (5.10)
Δ Reserves			-3.99** (1.67)			-3.71* (2.18)			-3.76* (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 * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

A.5 Full Set of Results

In the main text, for reasons of economy, our robustness checks only report selected coefficient estimates and summary statistics. Here, we include the full suite of results.

A.5.1 Sensitivity to sample coverage and key variable construction

These correspond to: (a) different currency samples with “no EUR” (Table A.41) , “no HKD & SAR” (Table A.42), “flexible regime” (Table A.43), “non-flexible regime” (Table A.44); (b) different measures of the CCB, especially for the “alternative CLP” measure (Table A.45); (c) different political regime sample with “No CHN & SAU” (Table A.46); (d) different period coverage for 2009M4–2020M8 (Table A.47) and 2009M6–2020M8 (Table A.48); (e) variations to the tenor of the cross-currency basis according to the 1-month and 1-year CCB (Tables A.49 and A.50, respectively); (f) different variations of the political risk measure where only the investment profile is used (Table A.51) or where both ethnic and religious tensions are included on top of the original three baseline components (Table A.52).

A.5.2 Variations in the instrument set

As discussed in the main text, we consider variations to the instrument set along several dimensions. These include: (a) allowing the election indicator to take on a 1-month or 5-month duration (Tables A.53 and Table A.54, respectively); (b) coding the election indicator such that it only considers presidential elections or includes referenda (Table A.55 and Table A.56, respectively); (c) restricting the elections considered to only exogenous elections or excluding endogeneous elections altogether (Table A.57 and Table A.58, respectively); (d) limiting elections to only when there is a change in government (changes in government follow those defined by [Beck, Clarke, Groff, Keefer & Walsh \(2001\)](#)), or if elections are competitive (Table A.59 and Table A.60, respectively).

A.5.3 Different types of political risks

These correspond to: economic policy uncertainty risk (Table A.61), law and order risk (Table A.62), external conflict risk (Table A.63), and government stability risk (Table A.64).

Table A.41: Robustness: Effects of political risk on the CCB (no EUR)[†]

	Reduced form			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)
$\Delta\text{Election}$	-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)
$\Delta\text{Exchange rate}$			-6.20			-9.99**			-9.79**
			(3.92)			(4.65)			(4.50)
$\Delta\text{Reserves}$			-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.42: Robustness: Effects of political risk on the CCB (no HKD & SAR)[†]

	Reduced form			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)
Δ Election	-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)
Δ Exchange rate			-6.05			-9.77**			-9.26**
			(3.87)			(4.63)			(4.36)
Δ Reserves			-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.43: Robustness: Effects of political risk on the CCB (flexible[§] exchange rate regime sample)[†]

	Reduced form			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Estimation in levels									
π				-67.48** (31.64)	-69.69** (32.34)	-71.06** (32.93)	-67.12** (31.64)	-73.41** (32.47)	-80.61** (34.08)
Election	-0.75 (.)	-0.77*** (0.22)	-0.78*** (0.22)						
$r^i - r^{us}$		0.12* (0.07)	0.12 (0.07)		0.15* (0.08)	0.14 (0.09)		0.15* (0.08)	0.15 (0.09)
Exchange rate			0.83 (1.46)			0.18 (2.05)			0.10 (2.19)
Reserves			-2.59*** (0.77)			-3.64** (1.66)			-3.78** (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** (29.72)	-76.65** (28.96)	-77.94** (29.92)	-68.34** (24.72)	-65.50** (24.42)	-68.16*** (24.32)
$\Delta\text{Election}$	-0.52 (.)	-0.50*** (0.19)	-0.50*** (0.18)						
$\Delta(r^i - r^{us})$		-0.24*** (0.07)	-0.24** (0.11)		-0.28** (0.12)	-0.27** (0.12)		-0.27** (0.12)	-0.27** (0.12)
$\Delta\text{Exchange rate}$			-5.50 (4.68)			-11.13* (5.93)			-10.40* (5.48)
$\Delta\text{Reserves}$			-5.83*** (2.01)			-5.98*** (2.12)			-5.97*** (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 is treated as running a non-flexible exchange rate regime.

Table A.44: Robustness: Effects of political risk on the CCB (non-flexible[§] exchange rate regime sample)[†]

	Reduced form			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Estimation in levels									
π				24.37 (49.19)	16.85 (30.37)	18.23 (28.80)	-6.50 (15.12)	-10.88 (62.87)	-48.52 (98.72)
Election	0.15 (0.29)	0.17 (0.29)	0.17 (0.25)						
$r^i - r^{us}$		0.03 (0.11)	-0.05 (0.08)		-0.11 (0.24)	-0.18 (0.20)		0.11 (0.59)	0.30 (0.71)
Exchange rate			5.46** (2.21)			5.72*** (1.59)			4.74 (3.41)
Reserves			-4.76 (3.00)			-3.91 (3.11)			-7.04 (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 (20.91)	1.26 (20.21)	3.80 (18.99)	1.78 (20.71)	0.97 (19.87)	3.50 (18.72)
$\Delta\text{Election}$	0.02 (0.23)	0.01 (0.29)	0.04 (0.20)						
$\Delta(r^i - r^{us})$		-0.17* (0.09)	-0.16 (0.12)		-0.17 (0.12)	-0.16 (0.12)		-0.17 (0.12)	-0.16 (0.12)
$\Delta\text{Exchange rate}$			-4.00 (4.46)			-3.90 (4.27)			-3.91 (4.27)
$\Delta\text{Reserves}$			4.27 (3.68)			4.34 (3.62)			4.33 (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.45: Robustness: Effects of political risk on the CCB (alternative CLP)[†]

	Reduced form			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)
Δ Election	-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)
Δ Exchange rate			-6.35*			-10.10**			-9.88**
			(3.69)			(4.43)			(4.29)
Δ Reserves			-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.46: Robustness: Effects of political risk on the CCB (no CHN & SAU)[†]

	Reduced form			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)
Δ Election	-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)
Δ Exchange rate			-6.57*			-10.35**			-9.89**
			(3.78)			(4.54)			(4.29)
Δ Reserves			-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.47: Robustness: Effects of political risk on the CCB (2009M4–2020M8 period)[†]

	Reduced form			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)
Δ Election	-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)
Δ Exchange rate			-5.04			-8.82*			-8.55*
			(3.69)			(4.44)			(4.24)
Δ Reserves			-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.48: Robustness: Effects of political risk on the CCB (2009M6–2020M8 period)[†]

	Reduced form			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)
$\Delta\text{Election}$	-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)
$\Delta\text{Exchange rate}$			-5.96			-9.66**			-9.42**
			(3.81)			(4.56)			(4.39)
$\Delta\text{Reserves}$			-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.49: Robustness: Effects of political risk on the CCB, 1-month tenor[†]

	Reduced form			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Estimation in levels									
π				-22.94 (18.36)	-24.09 (19.08)	-24.58 (19.03)	-47.52 (33.81)	-48.20** (22.28)	-56.30** (22.28)
Election	-0.29 (0.21)	-0.30 (0.22)	-0.30 (0.22)						
$r^i - r^{us}$		0.18*** (0.06)	0.17*** (0.06)		0.23*** (0.07)	0.22*** (0.07)		0.27*** (0.07)	0.27*** (0.09)
Exchange rate			0.33 (1.65)			0.45 (1.88)			0.59 (2.49)
Reserves			-1.45** (0.55)			-2.14** (1.00)			-3.04* (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 (29.21)	-30.77 (29.32)	-34.19 (30.04)	-27.89 (27.94)	-28.66 (28.05)	-32.53 (28.50)
Δ Election	-0.20 (0.18)	-0.21 (0.18)	-0.23 (0.18)						
$\Delta(r^i - r^{us})$		0.11** (0.05)	0.11** (0.05)		0.11** (0.05)	0.11** (0.05)		0.11** (0.05)	0.11** (0.05)
Δ Exchange rate			-10.27** (4.32)			-12.31** (5.29)			-12.20** (5.04)
Δ Reserves			-2.50** (1.14)			-2.74** (1.24)			-2.73** (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.50: Robustness: Effects of political risk on the CCB, 1-year tenor[†]

	Reduced form			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Estimation in levels									
π				-60.44** (28.51)	-60.70** (29.10)	-63.29** (29.86)	-16.40 (25.96)	-17.37 (28.68)	-38.77 (24.98)
Election	-0.72*** (0.24)	-0.72*** (0.23)	-0.74*** (0.24)						
$r^i - r^{us}$		-0.08 (0.07)	-0.09 (0.06)		0.12 (0.13)	0.12 (0.12)		-0.02 (0.10)	0.04 (0.10)
Exchange rate			2.15 (2.03)			2.70 (2.99)			2.48 (2.55)
Reserves			-4.80*** (1.31)			-6.47*** (2.21)			-5.82*** (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** (14.73)	-32.56** (14.71)	-32.77** (15.00)	-30.03** (13.03)	-29.85** (13.03)	-29.83** (13.32)
Δ Election	-0.25** (0.10)	-0.25** (0.10)	-0.25** (0.10)						
$\Delta(r^i - r^{us})$		-0.10** (0.04)	-0.10** (0.04)		-0.09** (0.04)	-0.09** (0.04)		-0.09** (0.04)	-0.09** (0.04)
Δ Exchange rate			1.77 (1.76)			0.05 (2.14)			0.20 (2.01)
Δ Reserves			-3.28*** (0.78)			-3.49*** (0.71)			-3.47*** (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.51: Robustness: Effects of political risk on the CCB (with investment profile)

	Reduced form			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)
$\Delta\text{Election}$	-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)
$\Delta\text{Exchange rate}$			-5.97			-12.11**			-11.72**
			(3.83)			(5.28)			(4.88)
$\Delta\text{Reserves}$			-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.52: Robustness: Effects of political risk on the CCB (with ethnic & religious tensions)

	Reduced form			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)
Δ Exchange rate			-5.97			-9.60**			-9.33**
			(3.83)			(4.53)			(4.34)
Δ Reserves			-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.53: Robustness: Effects of political risk on the CCB (1-month election)[†]

	Reduced form			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Estimation in levels									
π				-59.99 (40.28)	-64.77 (45.71)	-65.39 (45.71)	-49.98 (40.49)	-48.73* (28.57)	-74.27* (37.79)
Election_1m	-0.67** (0.29)	-0.69** (0.30)	-0.69** (0.30)						
$r^i - r^{us}$		0.09 (0.06)	0.09 (0.06)		0.23** (0.11)	0.22* (0.11)		0.20** (0.08)	0.24* (0.12)
Exchange rate			1.17 (1.46)			1.90 (2.57)			1.99 (2.90)
Reserves			-2.83*** (0.87)			-4.76** (2.23)			-5.03* (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** (0.15)	-0.29** (0.14)	-0.30** (0.14)						
$\Delta(r^i - r^{us})$		-0.23** (0.10)	-0.23** (0.10)		-0.24** (0.11)	-0.24** (0.11)		-0.24** (0.11)	-0.24** (0.11)
Δ Exchange rate			-5.83 (3.84)			-8.20** (4.01)			-8.14** (3.97)
Δ Reserves			-3.99** (1.67)			-4.31** (1.84)			-4.31** (1.83)
$\Delta\pi$				-42.81** (20.03)	-38.31** (17.81)	-38.73** (17.92)	-41.05** (17.25)	-37.01** (15.37)	-37.75** (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.54: Robustness: Effects of political risk on the CCB (5-month election)[†]

	Reduced form			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)
Δ Election_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)
Δ Exchange rate			-5.92			-8.64*			-8.54*
			(3.84)			(4.59)			(4.51)
Δ Reserves			-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.55: Instruments: Effects of political risk on the CCB (excluding legislative elections)

	Reduced form			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Estimation in levels									
π				-54.40 (36.61)	-59.12 (40.12)	-54.87 (38.35)	-49.16 (37.93)	-48.28* (27.28)	-70.42* (34.58)
President	-0.48** (0.21)	-0.50** (0.21)	-0.47** (0.22)						
$r^i - r^{us}$		0.09 (0.06)	0.09 (0.06)		0.22** (0.09)	0.20** (0.09)		0.20** (0.08)	0.23** (0.11)
Exchange rate			1.17 (1.47)			1.78 (2.32)			1.95 (2.79)
Reserves			-2.81*** (0.87)			-4.45** (1.89)			-4.91** (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* (25.26)	-46.17* (25.30)	-48.12* (25.77)	-43.28* (21.88)	-43.28* (21.96)	-45.52** (22.27)
Δ President	-0.33* (0.18)	-0.33* (0.18)	-0.34* (0.18)						
$\Delta(r^i - r^{us})$		-0.23** (0.10)	-0.23** (0.10)		-0.24** (0.11)	-0.25** (0.11)		-0.24** (0.11)	-0.24** (0.11)
Δ Exchange rate			-5.91 (3.81)			-8.78** (4.17)			-8.62** (4.06)
Δ Reserves			-3.98** (1.67)			-4.39** (1.83)			-4.37** (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.56: Instruments: Effects of political risk on the CCB (including referenda)[†]

	Reduced form			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)
$\Delta\text{all_election_3m}$	-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)
$\Delta\text{Exchange rate}$			-5.89			-8.80*			-8.63*
			(3.83)			(4.44)			(4.32)
$\Delta\text{Reserves}$			-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, respectively. 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.57: Instruments: Effects of political risk on the CCB (exogenous elections only)[†]

	Reduced form			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Estimation in levels									
π				-56.70 (38.91)	-57.80 (39.93)	-64.64 (43.70)	-50.18 (36.25)	-48.74* (25.91)	-72.87** (32.40)
Election	-0.79* (0.39)	-0.80* (0.40)	-0.85** (0.40)						
$r^i - r^{us}$		0.09 (0.06)	0.09 (0.06)		0.22** (0.10)	0.22** (0.10)		0.20** (0.07)	0.24** (0.11)
Exchange rate			1.18 (1.47)			1.89 (2.55)			1.98 (2.84)
Reserves			-2.86*** (0.88)			-4.74* (2.38)			-4.99* (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** (61.95)	-132.39** (62.49)	-134.94** (63.93)	-105.31** (50.74)	-104.81** (51.12)	-108.79** (52.17)
Δ Election	-0.92** (0.37)	-0.91** (0.37)	-0.92** (0.37)						
$\Delta(r^i - r^{us})$		-0.23*** (0.06)	-0.23** (0.10)		-0.27** (0.13)	-0.27** (0.13)		-0.26** (0.12)	-0.26** (0.12)
Δ Exchange rate			-5.94 (3.85)			-14.17* (7.00)			-12.55** (5.82)
Δ Reserves			-3.92** (1.66)			-5.11** (2.28)			-4.90** (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.58: Instruments: Effects of political risk on the CCB (no endogenous elections)[†]

	Reduced form			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)
$\Delta\text{Election}$	-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)
$\Delta\text{Exchange rate}$			-6.00			-11.85**			-11.26**
			(3.83)			(5.45)			(4.98)
$\Delta\text{Reserves}$			-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.59: Instruments: Effects of political risk on the CCB (change in government)[†]

	Reduced form			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Estimation in levels									
π				-21.91 (15.87)	-26.22 (17.53)	-27.29 (17.90)	-32.84* (18.05)	-35.21** (15.52)	-46.55*** (16.85)
Election	-0.60* (0.32)	-0.67** (0.31)	-0.70** (0.31)						
$r^i - r^{us}$		0.09 (0.06)	0.09 (0.06)		0.15** (0.06)	0.14** (0.05)		0.17*** (0.06)	0.18** (0.07)
Exchange rate			1.16 (1.46)			1.47 (1.76)			1.69 (2.17)
Reserves			-2.83*** (0.87)			-3.63*** (1.32)			-4.21** (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* (15.49)	-27.29* (15.04)	-29.55* (14.92)	-27.78* (15.03)	-26.93* (14.70)	-29.29* (14.42)
Δ Election	-0.38* (0.22)	-0.37 (0.25)	-0.39* (0.21)						
$\Delta(r^i - r^{us})$		-0.23*** (0.06)	-0.23** (0.10)		-0.24** (0.11)	-0.24** (0.11)		-0.24** (0.11)	-0.24** (0.11)
Δ Exchange rate			-5.91 (3.83)			-7.63* (3.85)			-7.62* (3.86)
Δ Reserves			-3.99** (1.66)			-4.24** (1.78)			-4.24** (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.60: Instruments: Effects of political risk on the CCB (competitive elections)[†]

	Reduced form			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Estimation in levels									
π				-47.76 (29.24)	-46.22 (28.50)	-49.93* (29.32)	-47.57 (33.36)	-45.59* (23.42)	-65.42** (26.98)
Competitive election	-0.62** (0.25)	-0.61** (0.25)	-0.64** (0.24)						
$r^i - r^{us}$		0.09 (0.06)	0.08 (0.06)		0.19** (0.07)	0.19** (0.07)		0.19*** (0.07)	0.22** (0.10)
Exchange rate			1.17 (1.47)			1.72 (2.15)			1.90 (2.62)
Reserves			-2.85*** (0.87)			-4.31** (1.76)			-4.77** (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** (25.85)	-55.84** (25.66)	-58.53** (26.81)	-50.08** (21.33)	-51.12** (21.25)	-54.10** (22.13)
Δ Competitive election	-0.41** (0.19)	-0.42* (0.22)	-0.43** (0.19)						
$\Delta(r^i - r^{us})$		-0.23*** (0.06)	-0.23** (0.10)		-0.25** (0.11)	-0.25** (0.11)		-0.25** (0.11)	-0.25** (0.11)
Δ Exchange rate			-5.91 (3.83)			-9.43* (4.89)			-9.16* (4.65)
Δ Reserves			-3.99** (1.66)			-4.48** (1.92)			-4.44** (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.61: Risks: Effects of economic policy uncertainty risk on the CCB[†]

	Reduced form			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Estimation in levels									
π				-29.35 (49.29)	-27.45 (39.93)	-24.74 (37.63)	-10.66 (25.34)	-0.18 (15.05)	-34.20 (50.26)
Election	-0.67** (0.29)	-0.70** (0.28)	-0.66** (0.30)						
$r^i - r^{us}$		0.09 (0.08)	0.09 (0.07)		-0.14 (0.52)	-0.13 (0.52)		0.09 (0.16)	-0.22 (0.74)
Exchange rate			1.90 (2.21)			-4.04 (13.76)			-6.34 (16.56)
Reserves			-6.21** (2.89)			-21.19 (24.88)			-26.90 (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 (81.49)	34.14 (79.69)	23.55 (36.10)	34.74 (81.78)	34.10 (79.96)	23.53 (35.84)
Δ Election	-0.53** (0.24)	-0.52*** (0.18)	-0.52** (0.23)						
$\Delta(r^i - r^{us})$		-0.28*** (0.08)	-0.28** (0.11)		-0.42 (0.39)	-0.42 (0.26)		-0.42 (0.39)	-0.42 (0.26)
Δ Exchange rate			-3.81 (5.66)			33.43 (57.80)			33.41 (57.55)
Δ Reserves			-6.85 (4.69)			-21.69 (30.14)			-21.68 (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.62: Risks: Effects of law and order risk on the CCB[†]

	Reduced form			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Estimation in levels									
π				-361.16 (889.99)	-428.76 (1263.57)	-563.30 (2230.32)	11.73 (6.99)	11.67 (7.32)	25.26* (13.42)
Election	-0.58*** (0.20)	-0.59*** (0.20)	-0.60*** (0.20)						
$r^i - r^{us}$		0.09 (0.06)	0.09 (0.06)		2.09 (5.79)	1.77 (6.65)		0.04 (0.08)	0.01 (0.09)
Exchange rate			1.17 (1.46)			-89.99 (360.18)			5.26* (2.98)
Reserves			-2.84*** (0.87)			-14.50 (50.46)			-2.30** (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 (1064.47)	867.50 (1015.95)	938.41 (1146.78)	10.23 (30.74)	9.23 (30.26)	6.67 (30.34)
Δ Election	-0.45*** (0.16)	-0.44*** (0.17)	-0.45*** (0.16)						
$\Delta(r^i - r^{us})$		-0.23*** (0.06)	-0.23** (0.10)		-0.33 (0.38)	-0.34 (0.41)		-0.23** (0.10)	-0.23** (0.10)
Δ Exchange rate			-5.97 (3.83)			-18.74 (32.97)			-5.89 (3.78)
Δ Reserves			-3.99** (1.67)			-3.04 (7.53)			-3.99** (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.63: Risks: Effects of external conflict risk on the CCB[†]

	Reduced form			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Estimation in levels									
π				-142.33 (139.05)	-151.64 (159.32)	-164.24 (182.20)	-40.18 (48.86)	-37.82 (35.23)	-47.21 (28.88)
Election	-0.58*** (0.20)	-0.59*** (0.20)	-0.60*** (0.20)						
$r^i - r^{us}$		0.09 (0.06)	0.09 (0.06)		0.73 (0.75)	0.69 (0.73)		0.25 (0.16)	0.26* (0.14)
Exchange rate			1.17 (1.46)			-2.65 (11.74)			0.07 (2.92)
Reserves			-2.84*** (0.87)			-10.79 (10.22)			-5.11* (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 (157.54)	-207.75 (155.35)	-220.06 (166.93)	-208.88 (146.77)	-204.85 (144.80)	-219.38 (159.71)
$\Delta\text{Election}$	-0.45*** (0.16)	-0.44*** (0.17)	-0.45*** (0.16)						
$\Delta(r^i - r^{us})$		-0.23*** (0.06)	-0.23** (0.10)		-0.20 (0.12)	-0.20 (0.12)		-0.20 (0.12)	-0.20 (0.12)
$\Delta\text{Exchange Rate}$			-5.97 (3.83)			-13.27** (6.29)			-13.24** (6.07)
$\Delta\text{Reserves}$			-3.99** (1.67)			-4.67** (1.97)			-4.67** (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.64: Risks: Effects of government stability risk on the CCB[†]

	Reduced form			IV			2SLS		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Estimation in levels									
Gov stab risk				-14.15** (6.81)	-14.32** (6.97)	-14.58** (7.01)	-13.86** (5.69)	-13.67*** (4.41)	-17.90*** (6.07)
Election	-0.58*** (0.20)	-0.59*** (0.20)	-0.60*** (0.20)						
$r^i - r^{us}$		0.09 (0.06)	0.09 (0.06)		0.14** (0.06)	0.14** (0.06)		0.13** (0.07)	0.15* (0.08)
Exchange rate			1.17 (1.46)			1.93 (1.80)			2.10 (2.01)
Reserves			-2.84*** (0.87)			-3.01** (1.25)			-3.06** (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									
Δ Gov stab risk				-22.68** (9.36)	-22.10** (9.31)	-23.05** (9.58)	-21.83** (8.40)	-21.32** (8.39)	-22.33** (8.60)
Δ Election	-0.45*** (0.16)	-0.44** (0.16)	-0.45*** (0.16)						
$\Delta(r^i - r^{us})$		-0.23** (0.10)	-0.23** (0.10)		-0.25** (0.11)	-0.25** (0.11)		-0.25** (0.11)	-0.25** (0.11)
Δ Exchange rate			-5.97 (3.83)			-9.35* (4.64)			-9.24** (4.53)
Δ Reserves			-3.99** (1.67)			-4.85** (2.08)			-4.82** (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 * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Conflict-of-Interest Disclosure Statement

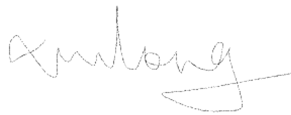
- Jamus Lim

I am a member of the 14th Parliament in Singapore, and regularly speak on financial policy matters in that capacity. The findings, interpretations, and conclusions expressed in this article are my own, and neither represent the views of the party I am affiliated with, nor the Parliament of Singapore.

A handwritten signature in black ink, appearing to read 'Jamus Lim', with a checkmark above the name.

- Xin Long

I am a PhD student at the ESSEC Business School. The findings, interpretations, and conclusions expressed in this article are my own, and do not represent the views of ESSEC Business School.

A handwritten signature in black ink, appearing to read 'Xin Long', with a checkmark above the name.