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WHY POLITICAL RISK MATTERS FOR BANKING FLOWS?

Abstract:

In this paper we rely on an extensive dataset on cross-border banking flows to understand the effect of political risk on international lending. Moreover, our paper is the first that analyses the effect of several factors of political risk in cross-border banking flows using a sample that is larger than that of previous studies, i.e. covering the period 1984 - 2013. Moreover - and given the importance of the 9/11 attacks as a turning point both in the political atmosphere and on the global economy - our paper sets out to investigate how the September 11, 2001 attacks shaped the importance of political risk as a determinant of cross-border banking flows. We find that political risk is an important consideration for foreign investors and that it is perceived differently in developed and non-developed countries. Moreover, we find that the 9/11/2001 attacks change the perception of political risk, and the factors of the aforementioned risk that drive international lending - both in developed and non-developed countries - also changed with the September 11, 2001 attacks.

Keywords:

political risk, cross-border banking flows, international lending, 9/11/2001 attacks

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