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Elections Matter: Capital Flows and Political Cycles

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Elections Matter: Capital Flows and Political Cycles

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ABSTRACT: This paper contributes to the relatively limited literature on the impact of political uncertainty on international capital flows to emerging market economies. We incorporate elections as a proxy for political uncertainty into a standard push-pull framework for analyzing capital flows. Using quarterly data for a panel of 38 emerging market economies from 1990 to 2020, we show that periods surrounding elections are associated with a decline in gross private capital inflows. This adverse impact is larger and more persistent when uncertainty extends beyond the election period, for example in the context of uncertain policy priorities following incumbent's loss. By contrast, higher levels of overall political stability appear to mitigate these adverse effects. We also find evidence that stronger institutions, as reflected in indicators such as regulatory quality and rule of law, help to mitigate the adverse effects of political uncertainty on capital flows. The results remain robust across a range of alternative specifications, including controls for standard economic drivers of capital flows, election characteristics, and model assumptions.

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WORKING PAPERS

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1.Introduction

This paper investigates the relationship between international capital flows and political uncertainty in emerging market economies. It is an aspect that has thus far received limited attention in the otherwise rich literature on capital flows. Elections are prime examples of periods when heightened uncertainty may cloud the outlook, making them a useful proxy for our analysis. Even absent any crises or major political overhauls, elections periodically open the possibility of ex-ante unknown changes in the economic, institutional, and regulatory environment.

Capital flows are likely to be affected in several ways by the uncertainty that the political cycles entail. Elections are typically associated with uncertainty about potential policy changes, such as shifts in tax or regulatory policy.[1] It is not only the eventual policy changes that matter, but also the uncertainty surrounding possible changes, regardless of whether they ultimately materialize, that can influence investor behavior (see, e.g., Ahir et al. (2022)). This uncertainty could lead the investors to, at least temporarily, retreat from or reduce their exposure to the local markets before, during as well as immediately after the votes are cast (see for example Julio and Yook (2016)). Thus, as foreign investors react to the ebb and flow of political news, this could lead to excessive volatility of capital flows to emerging markets and potentially exacerbate their underlying economic vulnerabilities.

It is important to note, however, that our choice of elections as a proxy for political uncertainty can raise endogeneity concerns, especially when elections occur outside constitutionally fixed schedules. We address these concerns in several ways, such as focusing on exogenously timed elections subsample to show that the results persist, employing instrumental variable techniques to test for exogeneity, performing Granger causality tests between election timing and capital flows, as well as demonstrating robustness to alternative variable definitions, model specifications, and institutional regimes and characteristics.

Using a standard fixed-effects model, we provide new empirical evidence on the relationship between political uncertainty and international capital flows for 38 emerging market economies across all regions,[2] extending the classic push-pull framework to explicitly account for political uncertainty. Our analysis primarily concentrates on gross private capital inflows, given that net flows can obscure high volatility in residents' and nonresidents' operations.[3] The perceived political uncertainty is also likely larger for foreign investors relative to domestic ones, implying stronger effect on inflows. However, we also test our hypothesis for capital outflows and net flows, and further investigate the impact of political uncertainty on various types of gross capital inflows, as these are likely to exhibit different sensitivities to uncertainty given their varying degrees of irreversibility. Our

[1] We use the terms "political cycle" and "election cycle" interchangeably. While elections are our proxy for political uncertainty, the latter can vary across election episodes depending on political context and institutions.

[2] The full list of countries included in the analysis can be found in Appendix A.

[3] See Forbes and Warnock (2012).

quarterly dataset spans the period from 1990 to 2020, with more recent years excluded due to significant lags in the updating of political variable databases.

The results of our analysis indicate that gross private capital inflows into emerging markets subside during election cycles, with the most pronounced effects occurring in the election quarter and extending through the two post-election quarters. Our findings can be summarized as follows. First, the evidence on push and pull factors, such as global risk aversion, global liquidity conditions, growth and interest rate differentials, and domestic financial market development, aligns well with the existing empirical literature. Second, elections and the uncertainty they generate have a dampening effect on capital flows. Third, this negative impact of political uncertainty is also broadly confirmed across different types of capital flows, although the impact is not uniform. Foreign direct investments and cross-border lending, appear to be more affected by political uncertainty compared to portfolio flows.

Fourth, the degree of uncertainty around elections differs both within country over time and across countries. We explore various factors that may amplify or mitigate the uncertainty surrounding elections, such as government's legislative strength, robustness of checks and balances, levels of polarization or availability of reliable polls that favor the incumbent. We find only tentative evidence that higher uncertainty, proxied by these indicators, is associated with larger declines in capital inflows.

Fifth, our findings indicate that the most persistent adverse effects of elections, extending through the two post-election quarters, arise when political uncertainty lingers beyond the elections. In particular, these would be the cases when the election was marred by violence, when the incumbent lost and the new policy direction remains unclear, or when elections were held outside of the regular schedule, which in our sample often coincided with political instability or crises.

Sixth, the impact of election-related uncertainty depends on overall political stability: higher stability mitigates adverse effects. The magnitude of election-related negative impact for countries in the lowest quartile of political stability, as measured by the International Country Risk Guide (ICRG) political stability index, averages -1.25% of trend GDP in the election quarter. This corresponds to a substantial 28% decline in gross capital inflows relative to their level in the pre-election quarter. In contrast, countries with an ICRG score above the sample average do not experience statistically significant decline in capital inflows around the time of elections.

Finally, having established the significant role of political stability in shaping investor behavior across various specifications, we turn to a more granular exploration of its underlying factors and their capacity to mitigate election-related uncertainty. In sum, our findings imply that many institutional country characteristics, such as control of corruption, rule of law, government effectiveness and regulatory quality, matter for investment, and their importance is amplified during periods of political uncertainty, such as elections. This reinforces the idea that institutional quality not only shapes long-term investment prospects but can also serve as an anchor of stability amid election-triggered volatility.

We confirm the robustness of our findings by testing alternative fixed effects specifications, controlling for countries' level of democratic development, accounting for the timing of U.S. elections as a source of external

political uncertainty, and addressing periods of extreme market stress during the global financial crisis and the COVID-19 pandemic. We also use alternative indicators of political uncertainty, namely World Uncertainty Index and Economic Policy Uncertainty constructed based on EIU country reports and newspaper articles respectively. Significance of election-related uncertainty is robust to these various specifications.

We proceed as follows to analyze the relationship between political uncertainty proxied by election cycles and capital flows. First, we provide a short literature review on the common drivers of capital flows as well as the impact of political uncertainty on macrofinancial outcomes. Second, we present the data used in the analysis and highlight some key stylized facts to further motivate our approach. Third, we outline the empirical methodology, discuss the main findings and present robustness checks to validate our analysis. Finally, we summarize the main conclusions.

2.Literature Review

Despite the large body of literature on international capital flows, relatively little research has been conducted to assess the impact of domestic political uncertainty on international capital flows. To frame our analysis, we begin by reviewing the literature on the drivers of capital flows, before turning to the role of political uncertainty.

2.1. Drivers of Capital Flows

A vast body of literature examines the driving forces behind the movement of international capital, given their potential to affect a broad range of macrofinancial issues at both national and global levels. Koepke (2019) and Guichard (2017) provide an extensive survey of the literature on the drivers of capital flows.

Starting with the seminal works by Calvo et al. (1993, 1996) drivers of capital flows are most commonly analyzed within the so-called push-pull framework.

- Pull factors: These refer to domestic factors, over which policymakers typically exercise a large amount of discretion. These factors can be further categorized into macroeconomic and financial drivers. Pull factors include real economic activity, domestic interest rates and inflation. They also capture more structural factors such as: a) the overall level of development, often proxied by per capita GDP; b) financial development, typically measured by the depth of the domestic financial market; and c) the regulatory environment. Overall, pull factors can inform potential investors about macroeconomic conditions in an economy and can shape their assessment of risk-reward trade-off. Consequently, faster-growing economies with liquid financial markets and developed institutions tend to be more attractive for potential investors.
- Push factors: These can also be referred to as global or external factors which, as opposed to pull factors, are exogenous and cannot be controlled by individual countries. Such factors primarily refer to global risk aversion, the monetary policy stance in the large, advanced economies (particularly in the United States) as well as global growth conditions (Sahay et al. (2014)).

There have been further refinements to this baseline framework. Often, instead of examining domestic growth or interest rate levels in isolation, studies control for the differentials in growth and interest rates between the domestic economy and a global benchmark (Ahmed and Zlate (2014)). Furthermore, while separating the effects of push and pull factors has long become mainstream in the capital flows literature, papers often also separate the structural pull factors from the cyclical ones and put them into a separate third group. Others also emphasize the importance of contagion effects, which originate from developments in a group of interconnected countries– whether through financial, trade or geographic ties, or due to similar macroeconomic vulnerabilities – and are typically beyond the control of any single economy.

The empirical literature concludes that both push and pull factors are important drivers of capital flows, but their relative significance varies across different types of capital flows (Cerutti et al. (2019); Hannan (2017)). Push

factors appear to play a role across all types of flows (foreign direct investments, portfolio or other flows) but are particularly important for portfolio flows, followed by banking flows (Bruno and Shin (2015)). At the same time, pull factors tend to influence all types of capital flows, while having the greatest impact on banking flows. For instance, studying high-frequency portfolio flows, Fratzscher (2012) concludes that common shocks have a significant impact on capital flows, while the cross-country heterogeneity in response to these shocks is driven by country-specific factors. Finally, countries with more sound fundamentals and a strong institutional environment appear to be more resilient to adverse global conditions (IRC Task Force on IMF Issues 2016).

2.2. Political Uncertainty and Capital Flows

There is relatively limited literature examining the impact of political uncertainty on international capital flows. Measuring uncertainty is inherently challenging, particularly in a consistent manner across countries and over time. Uncertainty is a broad and abstract concept, capturing the expectations and perceptions of consumers, investors, and policymakers about future events that may or may not occur (Ahir et al. (2022)). It can arise from a variety of sources, including political developments, economic shocks, geopolitical tensions, or environmental disruptions. Given this diversity, it is not surprising that the literature has employed a range of approaches to measure uncertainty, including measures derived from the volatility of key economic and financial variables, text-based methods, and business surveys.

In this paper, we focus specifically on political uncertainty and use elections as a proxy for measuring it. This approach builds on well-established literature that leverages the timing of elections as a source of variation in political uncertainty (Canes-Wrone and Park (2012); Julio and Yook (2016)). National elections are highly relevant for investors in general, and international investors in particular, as they often signal potential shifts in regulatory frameworks, economic policy (such as taxation or trade), and, in more extreme cases, the risk of expropriation or nationalization (Julio and Yook (2012)). Baker et al. (2020) show that uncertainty rises in the months before elections and more so when races are too close to call or are highly polarized. Bialkowski, Gottschalk, and Wisniewski (2008) and Boutchkova et al. (2011) find that stock market volatility is significantly higher than normal during the election period.

In addition to empirical literature, theoretical work also supports the use of elections as a proxy for political uncertainty. Bernanke (1983), in the context of firms' capital investment under uncertainty, a framework equally applicable to investors' capital allocation, argues that uncertainty about the long-term implications of events can lead to delayed investment decisions, as economic agents place value on waiting for additional information.

Thus, elections offer a quasi-natural experimental setting to study the effects of political uncertainty, helping to isolate its impact from broader macroeconomic dynamics. Because the timing of elections is typically predetermined by constitutional rules and not influenced by specific investors or the prevailing economic environment, they serve as plausibly exogenous events that recur in regular political cycles across countries and over time (Çolak et al. (2017); Durnev (2010)). We discuss potential endogeneity concerns surrounding elections, and how we address them, in the empirical analysis section.

In recent years there have been a few empirical studies with similar thematic approaches to this paper. However, their focus is limited to specific types of capital flows, selected countries, or constrained time periods. Julio and Yook (2012) show that foreign direct investments by US firms in their foreign affiliates drop significantly just before an election but recover afterwards as the uncertainty dissipates. This effect is more pronounced when the election is competitive, while a higher institutional quality in the FDI destination country helps to dampen the adverse impact of the elections.

Similarly, Frot and Santiso (2010) assess the impact of elections in emerging markets on monthly portfolio flows of investment funds over the period of 2004-2009. Their results indicate that equity flows are negatively affected after the election, but only when the incumbent loses. For bond flows, they find a negative effect when there is a shift in the ideological orientation of the government. The time period used for the analysis, however, is rather short and may not even cover two political cycles per country.

Building on this work, Julio and Yook (2016), Chen et al. (2019) and Honig (2020) confirm similar findings at a global scale. Analyzing data from 126 countries between 1996 and 2015, Chen et al. (2019) finds that the negative impact of elections on FDI is particularly pronounced in less democratic countries, highlighting the role of policy environment and institution in economic development. Honig (2020) distinguishes between advanced and emerging economies. The paper finds that while elections have little impact on capital flows in advanced economies, they significantly reduce pre-election FDI inflows in emerging and developing countries. It finds no evidence that elections affect other types of capital flows in these economies.

The contribution of this paper to the literature is as follows. First, we provide some recent evidence on the classic push and pull factors driving capital inflows. Second, we contribute to the relatively limited literature on political uncertainty proxied by elections and its impact on different types of international capital flows, offering a more comprehensive approach within the classic push-pull framework. Third, we examine how various election characteristics shape political uncertainty and its effects on capital flows both in terms of size and persistence of impact. Finally, we analyze the role of institutions and political stability as mitigating factors that can cushion the adverse effects of political uncertainty on capital flows.

3.Data Sources

In this section we discuss the data used in the analysis. We start by describing the variables on capital flows, followed by an overview of the dataset on elections. The last subsection summarizes other control variables used in the analysis.

3.1. Capital Flows

We compile a quarterly dataset on international capital flows for 38 emerging market economies across various regions, covering the period from 1990 to 2020.[4] We primarily draw on the IMF's Balance of Payments Statistics database (BOPS) for the data.[5] Nevertheless, the starting dates and availability of the data on capital flows across countries and types of flows differ, resulting in an unbalanced panel. The data are all in US dollar terms. All the flows are standardized using annual trend GDP (see, e.g., Eichengreen et al. (2018)).[6]

Capital flows, by definition, represent the exchange of financial assets and liabilities between residents and non-residents of an economy. A positive change implies an increase in a country's assets or a decrease in liabilities (both capital outflows). Correspondingly, a negative change indicates a decline in residents' foreign assets or an increase in liabilities to nonresidents – both capital inflows (see (IMF 2009)). We define net flows as the difference between capital inflows and outflows, where a positive net flow is a sign of more money flowing into the country than leaving it.[7]

Our analysis covers overall flows that are comprised of foreign direct investment, portfolio investment, and other investment flows. We also distinguish between two types of financial instruments used – debt flows vs. non-debt flows – as they are likely to differ in terms of their economic drivers and dynamics. This distinction is also important for the receiving country from a financial stability point of view. Debt flows include portfolio debt instruments and other investments and are more susceptible to bouts of volatility given the higher liquidity of the relevant financial markets. Flows into portfolio equity investments and FDI are included in the non-debt flows category.

The final data adjustment involves separating official flows, those from or to monetary authorities and general government, from non-official, or private, capital flows (see, e.g., Bluedorn et al. (2013)). This is facilitated by the granular data reported in the other investment flows category that distinguishes between the two sectors. On the inflows side, we separate the liabilities of the central banks and general governments to non-residents as well as the special-drawing rights allocations from gross other investment inflows (liabilities).[8] On the outflows side, we similarly isolate financial assets acquired by the central banks and general governments.[9]

[4] The choice of countries and the end point of the analysis are constrained by data availability. China, an important recipient of capital flows among emerging market economies, is not part of the sample used in the analysis due to the lack of data on elections dates in DPI and NELDA databases used for constructing election dummies across countries.

[5] The data is compiled in accordance with the sixth edition of the Balance of Payments and International Investment Position Manual.

[6] We apply HP filter to quarterly GDP estimates obtained based on the IMF's annual GDP numbers from the World Economic Outlook database. This approach provides the broadest possible country coverage. To alleviate the negative impact of the end-point bias we include GDP data for another two years after the endpoint of our analysis. We also use actual quarterly GDP in USD obtained from Haver to conduct some of the robustness checks.

[7] Please note that this differs from the BPM6 manual definition of net flows, where it is defined as the difference between assets and liabilities instead.

[8] The subtracted categories are respectively identified by the following codes in accordance with the BPM6 Manual: BFOLOCBFR_BP6_USD, BFOLOGFR_BP6_USD, BFOLSDRFR_BP6_USD.

[9] These are coded as follows: BFOADCB_BP6_USD BFOADG_BP6_USD.

Thus, subtracting the official other inflows (outflows) from gross inflows (outflows) results in our definition of gross private capital inflows (outflows).

This distinction between official and non-official flows is an important step for the analysis, as the underlying motivations and drivers behind these two types of flows can differ significantly and, at times, may even exhibit opposing dynamics. For instance, official lenders may be called upon to avert a financial crisis by offsetting private capital outflows. However, that would potentially negate the adverse impact of uncertainty that we try to evaluate in our analysis. Hence, we primarily concentrate on gross private capital inflows.

3.2. Elections and Related Variables

To obtain the data on election cycles, we primarily rely on the Database of Political Institutions (DPI2020), which provides historical data on the exact timing of elections, including both the year and month they were held (see Cruz et al. (2016)). Based on this information we construct our quarterly election dummy. The dummy takes on a value of 1 whenever an election was held any time during a given quarter and 0 otherwise. For countries with parliamentary systems, we use information on legislative elections, while for countries with presidential systems, we use executive body elections. The type of election used is determined by the country's political system in each specific quarter. Thus, for countries that transition between systems, the election dummy reflects the election type—legislative or presidential—that is relevant in that quarter. We complement this data with information from the National Elections Across Democracy and Autocracy Dataset Codebook (NELDA, version 6.0)[10] compiled by Hyde and Marinov (2012). To analyze the dynamics around election dates, we construct dummy variables for the one to two quarters and three to four quarters before and after an election. These dummy variables take the value of one if the quarter falls within the specified window relative to the election date, and zero otherwise.

In addition to data on election timing, we collect a number of other indicators from these databases that characterize the political environment and the level of uncertainty during the political cycle. We use the following indicators to assess whether capital flows behave differently around the time of elections when uncertainty is higher.

- **"Margin of majority" from the DPI database (MAJ)** measures the government's seat share, calculated as the total number of seats held by all government parties divided by the total number of seats in the legislature. We interpret this indicator as a proxy for political stability, as a larger majority could reduce the likelihood of coalition breakdown. Moreover, stronger parliamentary support could increase the likelihood of smooth policy implementation, with less resistance at the legislative stage.

[10] Both DPI and NELDA are widely used in political economy research and offer a broad coverage of over 160 countries. While their focus differs slightly, they are complementary in scope. DPI specializes in electoral systems and rules, along with detailed information on legislative and executive institutions. In contrast, NELDA covers election characteristics, outcomes and competitiveness. While DPI data is reported at annual frequency, NELDA is an event-based dataset providing detailed information on specific elections.

- **Stability indicator from the DPI database (STABS)** reflects the percent of veto players who drop from the government in any given year. In presidential systems, veto players include the president and legislative chambers; in parliamentary systems, they comprise the prime minister, governing coalition members, and major opposition parties. This indicator, that varies from 0 to 1, reflects the degree of political turnover, with higher values indicating greater turnover and, consequently, higher political uncertainty.
- **Polarization indicator from the DPI database (POLARIZ)** quantifies the difference in political orientation between the largest government parties and the opposition party, with higher values corresponding to larger ideological differences. Party orientation varies from 1 for right-wing parties to 3 for left-wing, with POLARIZ therefore fluctuating between 0 and 2. Countries with higher polarization can face less predictable policy trajectory.
- **Favorable polls indicator** based on NELDA database reflects the availability of reliable polls that indicated the popularity of the ruling political party or of the candidates for office before elections. We construct a binary indicator that equals to 1 if reliable pre-election polls were available (nelda25=1) and they favored the incumbent (nelda26=1). It equals to 0 if reliable polls were unfavorable or sufficiently mixed to leave the incumbent's popularity uncertain. The variable is coded as missing when reliable polling data are unavailable.
- **Violence variable** is based on the NELDA database. We use a dummy that equals to 1 if there was significant violence involving civilian deaths immediately before, during, or after the election (nelda33) and equals to 0 otherwise. Such violence, occurring in close proximity to elections, is likely to generate heightened uncertainty and political instability.
- **Elections timing dummy variables** flag whether elections were held according to their predetermined legislative schedule or were rescheduled (either advanced or delayed) – due to other factors (nelda6). Changes to election timing can generate concerns about the validity of using elections as an exogenous source of political uncertainty.
- **Dummy variable on elections results** takes a value of 1 when the incumbent lost and 0 otherwise. It is defined utilizing indicators in the DPI database that show the number of years that the chief executive or the party of the chief executive has been in office (coded as YRSOFFC and PRTYIN in DPI2020). A change in political leadership often introduces greater uncertainty regarding post-election policies and their potential economic impact.

As part of the robustness checks, we also incorporate proxies of countries' democratic development as another control variable. To this end we use the Polity V database maintained by the Center for Systemic Peace along with measures of electoral competition from the DPI dataset.

3.3. Other Control Variables

Following the literature on the drivers of capital flows, we used the following push and pull factors as control variables in our analysis.

Push factors:

- As a proxy for global risk aversion, we use the log of the quarterly average of the S&P 500 market volatility index (VIX) calculated by the Chicago Board Options Exchange. This variable is intended to capture the adverse impact of higher risk aversion on capital inflows to emerging market economies.
- Global liquidity conditions are proxied by a composite measure of money supply in major economies. We calculated it as the quarterly growth of the aggregate money supply (expressed in USD) in the United States, the euro area, and Japan as well as the United Kingdom (similar to Forbes and Warnock (2012)). We expect higher liquidity levels to be supportive of capital flows, reflecting search for yield.

The data on all the push factors is taken from Haver.

Push-pull factors:

We include countries' interest rates and GDP growth rates differentials that capture the relative attractiveness of a country for international investors.

- Interest rate differentials are measured as a deviation of domestic interest rate from a proxy for risk-free interest rate. Domestic interest rates come from the IMF's International Financial Statistics (IFS) database and are enhanced using data from Haver, Bank for International Settlements (BIS) and CEIC. We focus on monetary policy rates since it is harder to ensure comparability of money market rates collected from different data sources. We use US Fed funds rate as a proxy for the monetary policy stance in advanced economies as the Fed's policy often functions as an important driver of international capital flows and global financial cycles. We use the shadow federal funds rate estimated by Wu and Xia (2016), in order to take into account the unconventional monetary policy measures undertaken by the Federal Reserve in the aftermath of the Global Financial Crisis and in response to Covid-19. We focus on interest rate differentials in real terms since they represent a better measure of the actual return on investment that drives capital flows. The data on quarterly year-over-year CPI used to transform nominal interest rates into real comes from the IMF's IFS and CEIC.
- Growth rate differentials show the difference between quarterly year-over-year real GDP growth in the analyzed economies and growth in the advanced world. The latter is proxied as average real GDP growth in the United States, the Euro Area, Japan and the United Kingdom. This data is also obtained from Haver.

Pull factors:

- The International Country Risk Guide (ICRG, the PRS Group) political risk indicator is used to capture political stability of the countries in the dataset. It is calculated as the weighted average of 12 variables

covering both political and social attributes, such as government stability, internal and external conflict, law and order etc. The index ranges between 0 and 100 with higher values indicating a lower level of political risk. Ceteris-paribus, this should entice investors, as it signals a safer and more stable environment for investment.

- Capital account openness is measured by the Chinn-Ito index (Chinn and Ito (2006)) with higher values of the index implying a more open capital account. The index is based on the IMF's Annual Report on Exchange Arrangements and Exchange Restrictions. It can be expected that a more open capital account is associated with higher average capital flows.
- The Financial Market Development Index published by the IMF is used to capture the financial development of the countries analyzed. The index summarizes how developed financial markets of a country are in terms of their depth, access, and efficiency. It is a subcomponent of a broader Financial Development Index that also measures the development of financial institutions. Financial development should be a structurally supportive factor of capital inflows as it improves investors' ability to access financial services, reduces transaction costs and increases investment opportunities.
- The World Uncertainty Index (WUI) and Economic Policy Uncertainty Index (EPU), used in the robustness section, serve as alternative measures of uncertainty. The WUI is country-specific and captures the frequency of the word "uncertainty" (and its variants) in Economist Intelligence Unit (EIU) country reports, offering a broader perspective than market-based global uncertainty indices such as the VIX. The EPU index captures the share of newspaper articles that simultaneously reference terms related to the economy, policy, and uncertainty. Higher index values indicate greater uncertainty. Capital inflows are expected to be lower in countries exhibiting higher levels of uncertainty.

4.Stylized Facts

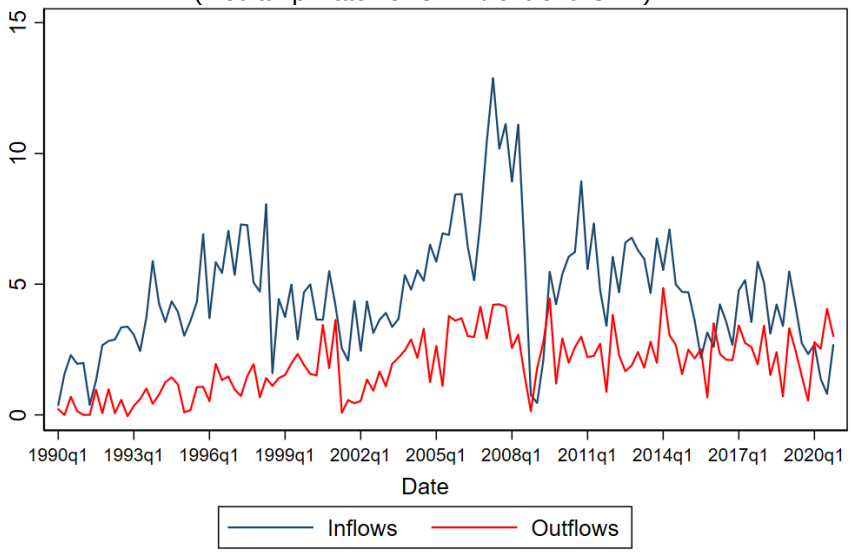
This section begins by describing the dynamics of capital flows over the period covered by our analysis. It then presents key stylized facts related to the election variables. The section concludes with some preliminary observations on how capital flows evolve over the course of election cycles.

4.1. Evolution of Capital Flows

Capital inflows into the 38 emerging market economies covered in the analysis have reached their peak right before the global financial crisis at a level of over 10% of their trend quarterly GDP (Appendix B provides some basic descriptive statistics). Figure 1 also illustrates the well-documented pattern that capital inflows into emerging market economies materially exceed capital outflows. This implies that, on aggregate, emerging countries depend on sustained and large capital inflows from foreign investors. However, the gap between inflows and outflows has gradually narrowed, as inflows have not returned to their pre-GFC levels during the analyzed period, while outflows have increased on average from below 1% of trend quarterly GDP in the 1990s

Figure 1: Dynamics of private capital inflows and outflows

(Median private flows in % of trend GDP)

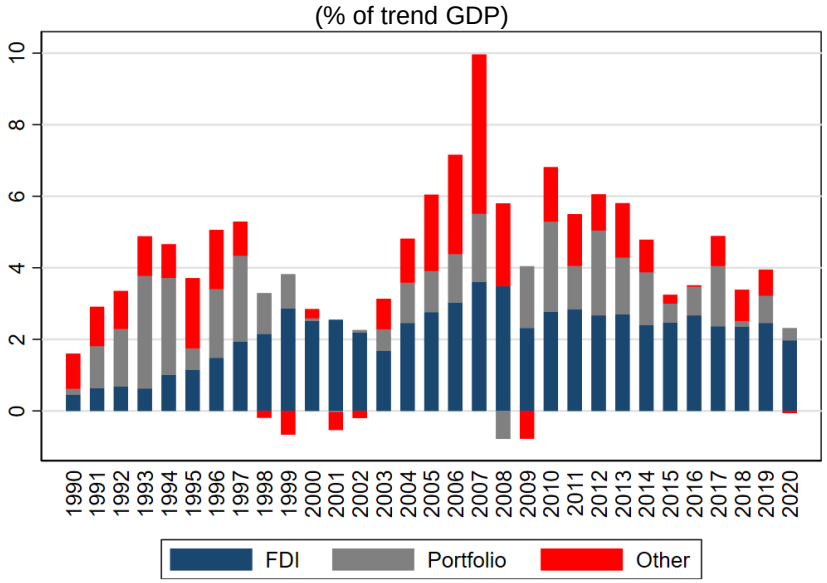


Sources: IMF BOPS and WEO, authors' calculations

to over 3% in the most recent decade. This largely reflects the rise of institutional investors in emerging markets and a gradual capital account liberalization. Since the economic importance of the inflows is still much higher than that of the outflows, we make them the focus of this empirical analysis.

Figure 2 depicts the structure of private capital inflows by different types of investment instruments. On average, foreign direct investments (FDI) constitute the largest share of capital inflows to emerging market economies, standing at a stable 2 percent of the group's aggregate GDP over the last 25 years, even during Covid-19. These are followed by portfolio flows and other types of flows which largely consist of banking sector flows and cross-border lending to the private sector. Importantly, the figure illustrates the massive buildup of the banking sector flows in the run-up to the global financial crisis. In 2007, these flows accounted for close to half of the total flows but subsequently collapsed as global liquidity conditions tightened. This has been primarily driven by the reversal of short-term oriented bank lending inflows. Portfolio flows in the last 5 years observed on the graph were relatively modest, likely reacting to monetary policy normalization in advanced economies, trade wars and fragmentation of the global economy. This highlights how different types of capital flows can exhibit materially different dynamics given their different legal or economic background as well as the different types of investors that stand behind them.

Figure 2: Structure of private capital inflows



Note: Private capital inflows relative to total annual GDP for all countries in the analysis.
Sources: IMF BOPS and WEO, authors' calculations

4.2. Election Cycles

Overall, there were 261 elections held in the 38 countries included in the analysis over the observed period of 1990Q1 to 2020Q4. In more than half of these elections (152), the incumbent lost in the elections. The average duration of the election cycle, the distance between two consecutive elections was close to 4 years (see Table 1 below).

Table 1: Election characteristics

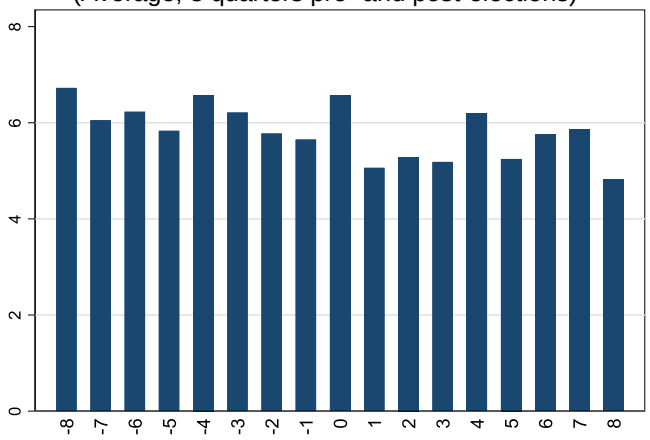
Variable	Share of elections with different characteristics	Mean	Std. dev
Length of term (in quarters)		15.6	4.6
Margin of majority (%)		57.3	16.5
Stability (% of dropping veto players)		14.3	28.5
Polarization		0.6	0.8
Favorable polls	34.5		
Violence occurred	25.7		
Non-predetermined elections	19.9		
Incumbent lost	58.2		

Sources: DPI, NELDA, authors' calculations

Figure 3 plots the average inflows across all countries in our dataset in the 8 quarters immediately before and after the elections. What clearly stands out is that the average inflows decline strongly in the quarter immediately after the election and that the inflows do not immediately fully recover to their pre-election averages. This suggests that capital flow dynamics are more likely to be affected in the post-election period, especially when outcomes are unexpected or do not reduce uncertainty. We look closer at such cases, which can temporarily dampen investor activity, in Section 5.2.2.

Figure 3: Private capital inflows (% of trend GDP) and election cycles

(Average, 8 quarters pre- and post-elections)



Sources: IMF BOPS and WEO, DPI, authors' calculations

5.Empirical Analysis and Main Findings

This section begins by outlining the empirical framework of the analysis, followed by a presentation of the main findings and a summary of robustness checks conducted to assess the validity of the results.

5.1. Empirical Framework

As discussed in the previous sections, we adopt the standard push-pull framework to analyze the determinants of capital flows into emerging market economies. Building on this, we study the relationship between political uncertainty, proxied by election cycles and their various characteristics, and the dynamics of capital flows. We allow for different intercepts for countries as well as differing time trends across countries (see, e.g., Araujo et al. (2017)).[11] We normalize capital flow measures by trend GDP for each country to prevent any single country

[11] We conducted a Hausman test to compare fixed and random effects specifications, and the results support the use of a fixed effects model as the more appropriate framework for our analysis.

from disproportionally influencing the results. The reduced-form panel-data regression can be described as follows:

$$Flow_{it} = \alpha_i + \beta_1 Ext_t + \beta_2 Diff_{it-1} + \beta_3 Dom_{it-1} + \beta_4 Elec_{it} + \phi_i t + \varepsilon_{it}$$

where i indicates a country at time t

$Flow_{it}$ - is the measure of capital flows (e.g., total or by a specific type) relative to trend GDP

α_i - contains country fixed effects

Ext_t - includes global push variables: log of VIX and money supply growth

$Diff_{it-1}$- includes lags of growth and real interest rates differentials

Dom_{it-1}- includes lagged[12] domestic factors: financial market development index, Chinn-Ito capital account openness index.

$Elec_{it}$ - contains variables related to election cycles and political risk (including interaction terms). The specific controls may vary depending on the model specification.

ϕ_{it} - controls for the country specific time trends.

ε_{it} - contains the error terms for country i at time t

We estimate the model using a standard panel regression with country fixed effects and correct the standard errors for potential serial correlation and cross-sectional dependence. Given the nature of the factors influencing capital flows, contagion effects and common unobserved factors are likely to play a role, increasing the risk of spatial correlation in the standard errors (($\text{cov}(\varepsilon_{it}, \varepsilon_{jt}) \neq 0$). This would violate the conventional assumption of cross-sectional independence and lead to inappropriate inference. To test this hypothesis, we first estimate a standard fixed effects model and use the estimated errors to conduct a cross-sectional dependence test proposed by Pesaran (Pesaran (2021)). The results confirm the initial guess of cross-sectional dependence of standard errors. Thus, we rely on Driscoll-Kraay correction of standard errors[13] to address this issue (Driscoll and Kraay (1998)).

[12] The variables are lagged by one year if they are available only at annual frequency and by one quarter otherwise.

[13] The procedure was implemented using a module developed in Hoechle (2007).

5.2. Empirical Findings

In this subsection we proceed as follows. First, we present empirical results on the drivers of gross capital inflows, with a focus on the role of political uncertainty. In this context we also disaggregate the capital inflows by type and examine the drivers of capital outflows and net capital flows. Second, we examine additional election characteristics that may influence the level of uncertainty surrounding elections. Finally, we analyze the various dimensions of political stability and the institutional environment to assess their role in shaping election-related uncertainty.

5.2.1. Push–Pull Drivers and Election-Induced Political Uncertainty

We begin by analyzing the relationship between election cycles and gross private capital inflows standardized by trend GDP (see Table 2).[14] We focus on gross inflows, as net capital inflows can often mask the high volatility of transactions by residents and nonresidents. Moreover, domestic political uncertainty is likely to have distinct effects on capital inflows and outflows. The focus on private capital flows stems from the fact that official flows are likely driven by different underlying motivations. Column (1) presents a specification that follows the standard push-pull approach in the literature. We then introduce election dummy variables and subsequently include an interaction term between elections and the level of political stability (ICRG) in columns (2) through (5).

In line with findings in the literature, our results suggest that both push and pull factors matter in driving gross capital inflows into emerging market economies. Regarding global push factors (Ext_t), our findings confirm that increased global risk aversion, proxied by a rise in the VIX index, can significantly hinder private gross capital inflows to emerging market economies (see, e.g., Ahmed and Zlate (2014)). To the contrary, loosening of global liquidity conditions is associated with pushing capital to emerging countries.

Higher interest rate differentials (real domestic rate – real risk-free rate) should, in principle, lead to more capital inflows into emerging market economies, as the latter offer more attractive rates of return, all else being equal. We find no evidence of a statistically significant impact of real interest rate differentials on gross private capital inflows. The empirical findings in the literature are also rather inconclusive regarding the role of this factor in driving capital flows (IMF (2016)). In contrast, stronger domestic growth relative to advanced economies appears to be a robust driver of capital inflows into the countries included in the analysis. This result is also in line with the empirical findings in the literature.

Regarding the structural characteristics of the countries (Dom_{it}), our results support the view that economies with more developed financial markets, proxied by the IMF's Financial Market Development Index, tend to

[14] Despite the statistical significance of the explanatory variables and inclusion of fixed effects the largest part of the variation in capital flows remains unexplained as indicated by the low R2. This feature, however, is typical for all research done on capital flows

attract more capital inflows. However, the degree of the capital account openness, proxied by Chinn-Ito index, does not seem to be a statistically significant driver of gross capital inflows into emerging markets. Lastly, the highly positive and significant coefficient on the political stability indicator (ICRG) implies that countries with lower political risk attract more capital.[15] The results from the first regression specification, presented in column (1) of Table 2, align well with economic theory and empirical findings in the literature.

Table 2: Gross capital inflows and elections

	(1)	(2)	(3)	(4)	(5)
VIX	-4.24***	-4.50***	-4.48***	-4.50***	-4.47***
	(-5.08)	(-5.61)	(-5.44)	(-5.59)	(-5.42)
Global liquidity, qoq	0.23**	0.24**	0.24**	0.24**	0.24**
	(2.24)	(2.35)	(2.31)	(2.31)	(2.27)
L.Real interest rate differential	-0.043	-0.060	-0.054	-0.060	-0.055
	(-0.87)	(-1.23)	(-1.10)	(-1.24)	(-1.11)
L.Growth differential	0.38***	0.41***	0.41***	0.41***	0.42***
	(4.23)	(4.84)	(4.86)	(4.87)	(4.88)
L4.Fin market development	7.70**	10.2**	10.4**	10.3**	10.4**
	(2.06)	(2.73)	(2.76)	(2.75)	(2.78)
L4.Chinn-Ito index	0.33	0.46	0.44	0.46	0.44
	(0.84)	(1.20)	(1.16)	(1.18)	(1.14)
ICRG Political stability	0.20***	0.19***	0.20***	0.19***	0.19***
	(5.07)	(4.86)	(5.14)	(4.51)	(4.77)
Election		0.64	0.52	-11.5**	-11.5**
		(1.22)	(0.95)	(-2.32)	(-2.31)
Election X ICRG Political Stability				0.18**	0.18**
				(2.29)	(2.27)
Pre election, 3-4q			0.61		0.61
			(1.38)		(1.38)
Pre election, 1-2q			-0.53		-0.53
			(-1.55)		(-1.55)
Post election, 1-2q			-0.97**		-0.96**
			(-2.48)		(-2.43)
Post election, 3-4q			0.032		0.043
			(0.09)		(0.12)
Constant	12.0**	14.6***	14.2***	15.2***	14.8***
	(3.02)	(3.95)	(3.84)	(4.05)	(3.94)
R-squared within	0.19	0.23	0.23	0.23	0.23
Observations	3173	3015	3015	3015	3015
Groups	38	38	38	38	38
Country FE	✓	✓	✓	✓	✓
Country trend	✓	✓	✓	✓	✓

Note: Driscoll-Kraay standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1.
Differentials and domestic (except for political) variables enter the regressions with a lag.
Source: Authors' estimations

We then introduce election dummy variables in the specifications reported in columns (2) - (5) of Table 2 to test whether political uncertainty around the time of election may deter foreign investments into the country. It is

[15] The political stability index (0-100) is designed in a way that higher levels of the indicator are consistent with lower levels of political risk.

important to note that election timing itself is not a direct measure of uncertainty. We therefore complement it with different variables reflecting political context around elections (notably, election outcome and political stability characteristics) in Section 5.2.2. This approach allows us to examine the behavior of capital flows under varying degrees of political uncertainty and policy unpredictability.

As shown in column (2), the level of capital inflows is not significantly associated with the standalone election-quarter dummy. In column (3), we extend the previous specification by including controls for the periods of up to four quarters before and after the election quarter. The results suggest a significant downward adjustment in capital inflows one to two quarters after the election, in line with the finding in the section on stylized facts. The election quarter itself remains statistically not significant in this extended specification.

Next, to investigate how the impact of elections on capital flows varies with political stability, we interact the election quarter dummy with the ICRG political stability index (column (4)). The inclusion of the interaction term allows us to test whether the effect of elections on capital flows is conditional on the prevailing level of political stability as captured by the ICRG index. Interestingly, when estimated jointly, the election-quarter dummy, the political stability index, and their interaction all become statistically significant. This implies that elections on average are indeed associated with a negative effect on the inflow of capital in the quarter in which they occur. Political stability independently influences capital flows, however, the negative election-related effect is mitigated in a more stable political environment, as indicated by the positive and significant coefficient on the interaction term.

Finally, in addition to the interaction between the election indicator and political stability, the specification in column (5) of Table 2 controls for the election cycle, including four pre- and four post-election quarters. The finding of adverse capital inflow dynamics in the first two quarters following the election remains unchanged, consistent with column (3). We provide a nuanced analysis of possible channels behind adverse post-election capital flow dynamics in Section 5.2.2.

The specifications containing interaction term with political stability yield a crucial result. Elections in countries with a higher level of political stability can be associated with a lower degree of uncertainty and therefore a milder negative effect on capital flows. The observed fluctuations in capital flows around the time of elections can be particularly problematic for emerging markets, which are in focus of our analysis. These countries are often highly dependent on the uninterrupted inflow of capital, and any temporary halt can have negative consequences for the stability of their currencies, the continuous supply of credit, their ability to roll over debt obligations, and overall financial stability.

Before proceeding with our analysis of the impact of elections, as a proxy for political uncertainty, on capital inflows and their various dimensions, it is important to acknowledge potential endogeneity concerns associated with this proxy. These concerns are particularly relevant in cases where elections are held outside the constitutionally predetermined schedule (see, e.g., Julio and Yook, 2012). The classic political business cycle

literature starting with Nordhaus (1975) argues that opportunistic incumbents can deploy fiscal[16] and monetary stimulus ahead of elections to boost short-term growth and thus increase the probability of re-election. This mechanism implies that elections may affect macroeconomic outcomes directly, independent of uncertainty, raising identification concerns in our setting. We address these concerns through several strategies, drawing on the approach proposed by Ericsson (1998). First, we instrument the election variable using the time since the last election, which serves as a mechanical predictor of the probability of an upcoming election. While this variable satisfies the instrument relevance condition, the Durbin-Wu-Hausman test does not reject the null hypothesis of exogeneity, indicating that treating elections as exogenous in our empirical setting is statistically appropriate (see also Canes-Wrone and Park (2012)). Second, we conduct Granger causality tests to examine the direction of predictive causality between elections and capital flows. The results indicate that elections Granger-cause capital flows, while capital flows do not Granger-cause elections. This provides further support for treating elections as an exogenous determinant in our empirical framework.[17] Third, we address the concern more directly by focusing on a subsample of predetermined elections only - those held according to constitutionally fixed schedules. We report the results in the robustness section. These results allow us to conclude that elections are a suitable exogenous proxy for political uncertainty.

As discussed in the previous sections, different types of capital flows fulfil different economic functions and, therefore, might react differently to push and pull factors. This also implies that they are likely to have different sensitivity to uncertainty associated with elections. Table 3 contains estimates of our baseline model specification for different types of capital inflows, distinguishing between non-debt (column (1)) and debt inflows (column (2)), as well as by instrument type such as FDI, portfolio, and other flows (columns (3) - (5), respectively). In addition to our baseline specification based on gross private capital inflows (presented in column (6)), we also examine resident capital outflows and net capital flows, as shown in columns (7) and (8).

Non-debt flows (column (1)) contain foreign direct investments and portfolio equity flows, while debt flows (column (2)) include portfolio debt instruments and other investments. Within the classic push-pull framework, disaggregating gross private capital inflows into debt and non-debt components does not alter the overall pattern regarding the direction or the significance of push and pull factors affecting these flows. As expected, however, the relative importance of these factors differs. In particular, our regression results suggest that an increase in a global risk aversion is associated with a much larger drop in debt flows compared to non-debt ones (as shown by the magnitude of the coefficients). This reflects sensitivity of debt flows to changes in market confidence and spreads as well as their vulnerability to contagion. Similarly, global liquidity conditions only play a statistically significant role in explaining debt flows. This is unsurprising given that these flows frequently have short maturity, rely on wholesale funding and are therefore subject to roll-over risk.

We proceed to a more granular breakdown of flows by instrument type. Direct investments (column (3) in Table 3) appear to be insulated from the global liquidity conditions and the magnitude of the sensitivity to risk

[16] See de Haan and Klomp (2013) for an overview of the recent literature on political budget cycles.

[17] In addition, we conduct placebo lead regressions and estimate a logit model of election timing. Both exercises support the assumption that elections are exogenous to capital flows.

aversion is also smaller compared to other types of flows. Being of a more long-term and strategic nature, they are less responsive to short-term financial market fluctuations. Portfolio inflows are primarily driven by push factors (column (4) in Table 3). The regression for these flows has the lowest explanatory power, which is not surprising given the high volatility of these flows. Other inflows (column (5)) benefit from higher liquidity and are very vulnerable to risk aversion.

Table 3: Various types of capital flows and elections

	Non-debt	Debt	FDI inflow	Portfolio inflow	Other inflow	Inflows	Outflows	Net flows
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
VIX	-1.14***	-3.37***	-0.58**	-1.38**	-2.56***	-4.47***	-1.61**	-3.11***
	(-6.81)	(-4.32)	(-3.29)	(-3.29)	(-4.40)	(-5.42)	(-3.08)	(-4.50)
Global liquidity, qoq	0.047	0.19**	0.020	0.082*	0.13*	0.24**	0.19**	0.068
	(1.47)	(2.17)	(0.66)	(1.67)	(1.76)	(2.27)	(3.09)	(0.86)
L.Real interest rate differential	-0.027	-0.029	-0.029	0.017	-0.043	-0.055	0.0064	-0.060
	(-1.38)	(-0.77)	(-1.55)	(0.84)	(-1.42)	(-1.11)	(0.28)	(-1.33)
L.Growth differential	0.13***	0.29***	0.12***	-0.037	0.34***	0.42***	0.13**	0.32***
	(4.64)	(4.08)	(4.00)	(-1.49)	(5.28)	(4.88)	(2.93)	(5.21)
L4.Fin market development	3.28**	7.35**	2.17	1.59	6.12**	10.4**	3.45*	5.99*
	(2.04)	(2.66)	(1.39)	(0.85)	(2.64)	(2.78)	(1.77)	(1.75)
L4.Chinn-Ito index	0.12	0.38	0.18	0.078	0.17	0.44	0.55**	-0.11
	(0.81)	(1.32)	(1.19)	(0.55)	(0.63)	(1.14)	(2.74)	(-0.32)
ICRG Political stability	0.058***	0.13***	0.037**	0.060**	0.100***	0.19***	0.0098	0.19***
	(3.42)	(4.38)	(2.66)	(2.81)	(3.57)	(4.77)	(0.60)	(5.00)
Election	-3.84*	-6.08**	-3.60*	-1.27	-4.83*	-11.5**	-2.08	-8.22*
	(-1.73)	(-2.25)	(-1.85)	(-0.77)	(-1.84)	(-2.31)	(-0.68)	(-1.87)
Election X ICRG Political stability	0.063*	0.090**	0.057*	0.015	0.078*	0.18**	0.038	0.12*
	(1.79)	(2.12)	(1.80)	(0.61)	(1.87)	(2.27)	(0.76)	(1.75)
Pre election, 3-4q	0.12	0.46	0.036	0.098	0.39	0.61	0.40	0.078
	(0.72)	(1.27)	(0.26)	(0.37)	(1.50)	(1.38)	(1.31)	(0.19)
Pre election, 1-2q	-0.19	-0.32	-0.16	-0.19	-0.11	-0.53	0.053	-0.50
	(-1.03)	(-1.04)	(-0.95)	(-0.91)	(-0.45)	(-1.55)	(0.25)	(-1.28)
Post election, 1-2q	-0.37**	-0.48	-0.35**	-0.13	-0.40*	-0.96**	-0.85***	-0.00093
	(-2.00)	(-1.42)	(-2.31)	(-0.56)	(-1.82)	(-2.43)	(-4.02)	(-0.00)
Post election, 3-4q	-0.052	0.075	0.034	-0.23	0.14	0.043	0.26	-0.15
	(-0.28)	(0.27)	(0.19)	(-1.25)	(0.61)	(0.12)	(0.86)	(-0.44)
Constant	6.91***	7.66**	6.03***	1.16	7.07**	14.8***	6.69**	8.73**
	(5.17)	(2.11)	(4.58)	(0.57)	(2.31)	(3.94)	(2.36)	(2.45)
R-squared within	0.16	0.19	0.14	0.040	0.25	0.23	0.063	0.18
Observations	3015	3015	3015	3006	3015	3015	3015	3015
Groups	38	38	38	38	38	38	38	38
Country FE	✓	✓	✓	✓	✓	✓	✓	✓
Country trend	✓	✓	✓	✓	✓	✓	✓	✓

Note: Driscoll-Kraay standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1.
Differential and domestic (except for political) variables enter the regressions with a lag.
Source: Authors' estimations

We now turn to our primary variable of interest: elections and political uncertainty associated with them. The reported regressions in Table 3 suggest that, as with gross private inflows, election-related political uncertainty plays an important role for both debt and non-debt private capital inflows. Namely, the inflows tend to be smaller in the election quarter, but the hit is larger and more statistically significant for debt flows. Looking into specific instrument type, negative and statistically significant effect of elections is confirmed for FDI and other

investment inflows, but not for portfolio flows. Empirical literature also finds particularly strong impact of elections on more irreversible forms of capital flows like FDI (see, e.g. Honig (2020), Julio and Yook (2016)). As for other investment flows, their decline in election quarters is likely linked to a lower private investment activity around elections (as documented by Julio and Yook (2012)) and a corresponding lower demand for financing. Portfolio flows, which can be reversed quickly, seem to be insulated from the election-related uncertainty.

Our results do not indicate a statistically significant decline in capital inflows in the run-up to elections. However, some flows do appear to decline in their immediate aftermath (up to two quarters). The decline seems more persistent for non-debt inflows (and namely FDI as their main component), possibly because direct investors, who face higher risk, may be more cautious about returning until there is greater clarity on potential policy changes following an election. A similar effect is also present for other inflows but with a weaker statistical significance.

Political stability appears to be a mitigating factor for election-related uncertainty across all types of flows. In sum, these results broadly reinforce the conclusions from the regressions for gross capital inflows, indicating that the findings are not driven by only a particular type of flow. Mirroring the gross-inflows findings, greater political stability proxied by the ICRG political stability index reduces the adverse effects of election-related uncertainty.

Before turning to other factors that may affect the political uncertainty associated with elections, we first explore the relationship between election cycles and private capital outflows, as well as net capital flows (Table 3, columns (7) and (8)) and compare the results with the impact of elections on our baseline specification for capital inflows (Table 3, columns (6)). We do this to provide a more comprehensive picture beyond only inflows. The main push and pull drivers seem to have some similarity across these different types of flows, at least in terms of the direction of their impact. The level of financial market development, risk aversion and growth rate differential seem to matter for all types of flows. In contrast, capital account restrictions appear to be a statistically significant driver only for capital outflows. Turning to election cycle and political stability controls, these appear to play a limited role in explaining gross capital outflows, in contrast to their more pronounced effect on inflows. Neither overall political stability, elections, nor their interaction show a statistically significant link with capital outflows (column (7), Table 3). On the one hand, this might suggest that resident investors are accustomed to domestic political risks or have a better reading of them. On the other hand, one might have expected private capital to leave the country if the political situation in the home country deteriorates. These results are consistent with other studies suggesting that foreign investors have limited information about the host country and face weaker protection under its legal and political institutions, leaving them more vulnerable to policy uncertainty (e.g., Dixit (2011)). Although we find no evidence of a contemporaneous reaction of outflows to elections, our regression results suggest that resident investors might adjust their portfolios 1 to 2 quarters after the elections.

As regards the relationship between elections and net capital flows, the overall pattern appears relatively closely aligned with that of gross capital inflows. This likely reflects the fact that net inflows in emerging markets

are typically driven by inflows more than by outflows. The significance of political variables for net flows is weaker than for gross inflows, likely because the effects are diluted by the impact of outflows.

The results reported in Tables 2 and 3 suggest that election cycles can be associated with a decline in the level of capital inflows, though the magnitude and significance of this effect vary across different types of flows. However, several factors may either amplify or mitigate the uncertainty surrounding elections—for example, the availability of polls providing guidance on likely outcomes, or whether the incumbent ultimately wins or loses. The analysis in the next section centers on gross capital inflows, the sources of election-related uncertainty and factors that may mitigate these effects.

5.2.2. Pre- and Post-Election Political Landscape and Gross Capital Inflows

The uncertainty surrounding elections likely varies across countries and within countries over time. To explore this variation, we extend our baseline specification on gross private capital inflows by incorporating variables that help capture various aspects of the political landscape and the level of uncertainty associated with elections and their outcomes (Table 4 and Table 5).

We begin by controlling for variables that capture the pre-election political landscape. In particular, we focus on measures of government stability (as a proxy for the likelihood of policy change), the degree of polarization as well as the availability of credible pre-election polling (Table 4).

First, we augment our standard specification—which includes the election-quarter dummy and the ICRG overall political stability indicator—by including the “margin of majority” (from DPI database). This represents the fraction of the seats held by the government, calculated as the number of government-held seats divided by the total number of seats in the legislature. The hypothesis is that a larger majority likely implies a greater policy continuity, lower probability of coalition breakdown and thus stronger capital inflows. Accordingly, we expect a positive coefficient on this control variable and a positive interaction with the election-quarter dummy. Column (1) of Table 4 shows that while the coefficient on the election-quarter dummy remains negative and statistically significant, the coefficient on the margin of majority is positive and weakly significant. However, there is no differential effect during election periods as the interaction term is not significant. These results support the finding in the literature that minority governments can be as stable as majority ones (see, e.g. Thürk and Krauss (2023)).

Following Julio and Yook (2012), we employ an alternative proxy for government stability—the ICRG political sub-pillar combining government stability, military-in-politics, and democratic accountability indices. A higher score on this composite indicator reflects greater legislative strength, more robust checks and balances, stronger popular support, and enhanced democratic features. We expect that stronger political stability proxied by this indicator can partially offset the negative effects of uncertainty surrounding elections. The estimates in Table 4, column (2), indicate weak but positive associations between this indicator and capital inflows in

election quarters. We return to these results below, when discussing countries' institutional characteristics mitigating uncertainty.

Table 4: Gross capital inflows vs. pre-election political landscape

	(1) Majority	(2) ICRG polit pillar	(3) Checks	(4) Polarization	(5) Polls
VIX	-4.51***	-4.59***	-4.47***	-3.92***	-4.44***
	(-5.41)	(-5.65)	(-5.44)	(-3.83)	(-5.49)
Global liquidity, qoq	0.23**	0.26**	0.24**	0.12	0.24**
	(2.17)	(2.38)	(2.27)	(1.11)	(2.33)
L.Real interest rate differential	-0.051	-0.037	-0.054	-0.048	-0.063
	(-1.04)	(-0.73)	(-1.09)	(-1.20)	(-1.30)
L.Growth differential	0.43***	0.45***	0.41***	0.33***	0.42***
	(5.03)	(5.26)	(4.86)	(3.66)	(4.97)
L4.Fin market development	10.9**	11.6**	10.6**	14.0***	9.95**
	(2.75)	(2.80)	(2.79)	(3.64)	(2.74)
L4.Chinn-Ito index	0.38	0.65	0.42	-0.28	0.49
	(0.98)	(1.62)	(1.11)	(-1.10)	(1.28)
ICRG Political stability (Overall)	0.18***		0.20***	0.18***	0.19***
	(4.61)		(4.75)	(4.41)	(4.50)
Election	-11.9**	-5.52*	-11.9**	-8.19*	-12.5**
	(-2.23)	(-1.97)	(-2.37)	(-1.92)	(-2.20)
Election X ICRG Political stability (Overall)	0.18**		0.18**	0.13*	0.20**
	(2.17)		(2.33)	(1.97)	(2.14)
Majority	2.77*				
	(1.84)				
Election X Majority	0.63				
	(0.30)				
ICRG Political Pillar		0.11			
		(1.29)			
Election X ICRG Political Pillar		0.37*			
		(1.94)			
Checks			0.23		
			(0.42)		
Election X Checks			-0.33		
			(-0.21)		
Polarization				0.21	
				(0.79)	
Election X Polarization				-0.44	
				(-0.76)	
Favorable polls					-0.32
					(-0.26)
Constant	14.0***	26.0***	14.4***	9.30**	14.9***
	(3.87)	(9.04)	(3.78)	(2.28)	(3.90)
R-squared within	0.23	0.22	0.23	0.20	0.23
Observations	2968	3015	3007	2260	2974
Groups	38	38	38	38	38
Country FE	✓	✓	✓	✓	✓
Country trend	✓	✓	✓	✓	✓

Note: Driscoll-Kraay standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1. Differential and domestic (except for political) variables enter the regression with a lag.
Source: Authors' estimations

Next, we introduce another variable from the DPI database that captures the effectiveness of checks and balances. It reflects the share of veto players that drop from government over a year, with higher values corresponding to more turnover, higher likelihood of policy change and hence higher uncertainty. The estimates

in column (3) show no statistically significant association with capital inflows, and we again find no differential effect during election periods. We then account for polarization across countries. Higher levels of polarization, reflecting larger ideological gaps between the principal governing parties and the opposition, are expected to yield a less predictable policy path (column (4) in Table 4). We do not find a statistically significant impact of this indicator on capital inflows.

We subsequently proceed to include a dummy variable that equals to 1 when reliable polls were available in the run up to elections and were favorable to the incumbent and 0 otherwise. We expect favorable polls for the incumbent to reduce uncertainty as it makes the status quo more likely to persist. However, this hypothesis is not supported by our results reported in column (5), Table 4, as the corresponding coefficient on elections with favorable polls is not statistically significant. At the same time, this does not diminish the broader negative impact of elections on capital flows. One potential explanation is the limited availability of credible polls across the emerging markets included in the study. As noted in the stylized facts section, reliable and favorable polls were available in only about one-third of the election episodes analyzed.

Table 4 explores a set of pre-election drivers of political uncertainty and provides tentative evidence that higher uncertainty is associated with larger declines in capital inflows. That said, the estimated effects of these indicators are, on balance, modest.

We next focus on other features of elections that may exert more substantial effects, particularly when uncertainty persists beyond election date. In Table 5, we examine separately (i) elections marred by post-election violence, (ii) elections held outside a predetermined schedule (e.g., snap/unscheduled elections), and (iii) cases with incumbent turnover. We subsequently motivate these choices and present empirical results.

We begin by distinguishing between peaceful elections and those marked by violence shortly before or immediately after the vote. As shown in column (1) of Table 5, both types are associated with lower capital flows in the election quarter. However, elections accompanied by violence exhibit a persistent negative effect that lasts one to two quarters post-election. In the meantime, for peaceful elections the effect is short-lived and confined to the election quarter. These results corroborate the view that election effects are heterogeneous; higher-uncertainty elections have more persistent, adverse effects on capital flows.

In our dataset, around 80% of the elections were held on predetermined dates, while the remaining 20% occurred outside of the regular political cycle. Predetermined elections take place following an established schedule (typically set in the constitution) that is known ex ante to market participants. By contrast, non-predetermined (off-cycle) elections are those that are held earlier or later than the prescribed timetable. Such elections in our sample are often triggered by political instability or crises (government collapse, vote of no confidence, public protests, etc.). We therefore anticipate greater uncertainty and more negative capital-flow outcomes around them. To provide a more nuanced analysis, we control separately for these two types of election cycles. Column (2) of Table 5 reports the results. The coefficient on the non-predetermined elections appears to be marginally larger than that on the predetermined ones suggesting that investors tend to be more cautious around non-predetermined elections likely due to higher levels of uncertainty. For non-predetermined

elections, we find a statistically significant negative effect that endures for four quarters following the election. For predetermined elections, the negative effect is confined to the election quarter. Consistent with the previous specification, high-uncertainty elections exert a more negative and more persistent impact, helping to explain the persistence observed in the full-sample results.

Table 5: Gross capital inflows: the persistence of high-uncertainty election effects

	(1) Violence	(2) Election timing	(3) Incumbent change
VIX	-4.49***	-4.53***	-4.59***
	(-5.47)	(-5.60)	(-5.68)
Global liquidity, qoq	0.24**	0.23**	0.22**
	(2.27)	(2.21)	(2.10)
L.Real interest rate differential	-0.058	-0.054	-0.061
	(-1.18)	(-1.14)	(-1.19)
L.Growth differential	0.41***	0.41***	0.40***
	(4.77)	(4.78)	(4.68)
L4.Fin market development	10.4**	10.6**	10.5**
	(2.71)	(2.77)	(2.71)
L4.Chinn-Ito index	0.44	0.46	0.48
	(1.13)	(1.20)	(1.28)
ICRG Political stability	0.20***	0.18***	0.21***
	(4.81)	(4.74)	(4.87)
Election X ICRG Political Stability	0.18**	0.17**	0.14*
	(2.27)	(2.14)	(1.94)
Violence	-11.6**		
	(-2.34)		
No violence	-11.5**		
	(-2.31)		
Predetermined election		-10.5**	
		(-2.10)	
Non-predetermined election		-12.4**	
		(-2.45)	
Incumbent lost			-10.5**
			(-2.15)
Incumbent won			-7.64*
			(-1.66)
Post-election violence — Non-predetermined elections — Incumbent lost			
1-2q post	-2.20**	-3.50***	-1.53**
	(-3.03)	(-5.05)	(-2.77)
3-4q post	-0.47	-1.91**	-0.0022
	(-0.71)	(-2.63)	(-0.00)
No post-election violence — Predetermined elections — Incumbent won			
1-2q post	-0.66	-0.42	-0.12
	(-1.50)	(-0.94)	(-0.21)
3-4q post	0.19	0.44	0.25
	(0.47)	(1.10)	(0.52)
Constant	14.5***	15.5***	13.6**
	(3.86)	(4.25)	(3.35)
R-squared within	0.23	0.24	0.24
Observations	3007	3015	2947
Groups	38	38	38
Country FE	✓	✓	✓
Country trend	✓	✓	✓

Note: Driscoll-Kraay standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1. Differential and domestic (except for political) variables enter the regressions with a lag.
Source: Authors' estimations

Next, we control for whether the incumbent lost the election (columns (3) of Table 5). A change in a country's leadership can heighten uncertainty about future policies or signal a more material shift from the status quo, potentially delaying foreign capital inflows until the new policy agenda becomes clear. Uncertainty can also arise from limited experience or untested track records of newly elected officials. We find that, when the incumbent loses, election-related effects on capital flows are negative and statistically significant both in the election quarter and up to two quarters thereafter. In contrast, when the incumbent retains power, the negative effect on capital flows is smaller in magnitude and short-lived. This pattern is consistent with the hypothesis that policy continuity reduces uncertainty and stabilizes capital flows.

These findings shed light on the persistent post-election drag on capital flows reported in Table 2 and point to plausible underlying mechanisms.

5.2.3. Quantifying the Impact of Political Uncertainty

Evidence from Table 2 through Table *5* points to a significant role election-related political uncertainty plays in shaping capital flows to emerging market economies. Importantly, the magnitude of the effect is conditional on the overall prevailing level of political stability. Higher levels of political stability, measured by the ICRG political risk index, tend to cushion the adverse effects of elections, whereas countries with low political stability are most exposed to shifts in investor risk appetite triggered by electoral events. Moreover, political cycles marked by heightened policy uncertainty (e.g., incumbent defeat) coincide with larger and longer lasting retrenchments in capital flows.

Table 6 quantifies the impact of election-induced uncertainty on capital inflows to EM countries in the bottom quartile of political stability. The effects are sizable, averaging to -1.25 percent of trend GDP in the election quarter. This corresponds to a substantial 28% decline in gross capital inflows relative to their level in two pre-election quarters. The most pronounced negative effects occur when the incumbent loses or when elections are not held on a predetermined schedule—situations typically associated with heightened uncertainty. In such cases, gross capital inflows to the least politically stable countries in our sample decline by about 50% compared to the two pre-election quarters.

For some types of flows (gross capital inflows, non-debt flows and FDI) negative election-related effects are observed only among countries in the lowest quartile of political stability in the quarter when election took place. However, for net inflows and debt-related inflows, the negative impact extends to countries in the second quartile as well. The effects are most persistent when the incumbent loses the election or when elections occur outside of the predetermined schedule. In these cases, even countries in the third quartile of the ICRG political stability index see their gross capital inflows decline in the election quarter.

Table 6: Change in capital flows during the election quarter: countries in the lowest ICRG political stability quartile

	Absolute change (in % of trend GDP)	Relative change (in % of average flows during 6 months before the election)	Based on regression results reported in
Gross inflows	-1.25	-28.3%	Table 2, column 4
Net inflows	-1.39	-62.2%	Table 3, column 8
Non-debt inflows	-0.25	-11.0%	Table 3, column 1
Debt inflows	-0.95	-44.8%	Table 3, column 2
FDI inflows	-0.35	-16.4%	Table 3, column 3
Other investment inflows	-0.39	-30.5%	Table 3, column 5
Gross inflows in case of predetermined elections	-0.25	-5.6%	Table 5, column 2
Gross inflows in case of non-predetermined elections	-2.15	-48.7%	Table 5, column 2
Gross inflows when incumbent lost	-2.53	-57.3%	Table 5, column 3
Gross inflows when incumbent won	0.33	7.6%	Table 5, column 3

Source: Authors' estimations

5.2.4. The Role of Institutional Capacity

Having established the importance of political stability in shaping investor behavior across various specifications, we proceed to a more granular exploration of its underlying factors and their capacity to mitigate election-related uncertainty (Table 7). To this end, we augment our main regression framework by decomposing the overall ICRG score into five thematic pillars: the political pillar (government stability, military in politics, democratic accountability);[18] socioeconomic conditions; investment profile; institutional development (corruption, law and order, bureaucracy); and tensions and conflicts (internal and external conflicts, religious and ethnic tensions).[19] As in the case of the overall ICRG index, higher scores on these pillars indicate lower political risk. Each of these variables is included into the regression both directly and through an interaction with the election dummy, allowing to capture their potential mitigating effects during electoral periods.

The results highlight several important patterns. First, socioeconomic conditions (column (3)), investment risk (column (4)), and tensions and conflicts (column (6)) are independently significant in explaining capital flows. Higher scores are associated with larger inflows—consistent with investor sensitivity to structural and operational risk factors. Second, the interaction terms with the election dummy are positive and statistically significant for almost all ICRG pillars, suggesting that strong institutions, low investment risks, political stability and strong economic performance play a buffering role for capital flows during elections. By contrast, while tensions and conflicts are significant as a standalone variable, they do not exhibit a meaningful interaction with electoral periods, implying that these factors are persistent deterrents to capital flows, rather than conditional on election cycles.

[18] Already presented in Table 4 above.

[19] Reflects contract enforcement, payment delays, profit repatriation constraints.

Table 7: Gross capital inflows and institutional characteristics (ICRG)

	Overall ICRG (1)	ICRG political pillar (2)	ICRG SocCond (3)	ICRG InvestRisk (4)	ICRG institutions (5)	ICRG tensions (6)
VIX	-4.47***	-4.59***	-4.11***	-4.83***	-4.56***	-4.51***
	(-5.42)	(-5.65)	(-4.80)	(-5.66)	(-5.64)	(-5.49)
Global liquidity, qoq	0.24**	0.26**	0.24**	0.22**	0.26**	0.26**
	(2.27)	(2.38)	(2.30)	(2.11)	(2.45)	(2.34)
L.Real interest rate differential	-0.055	-0.037	-0.040	-0.055	-0.033	-0.043
	(-1.11)	(-0.73)	(-0.81)	(-1.10)	(-0.65)	(-0.87)
L.Growth differential	0.42***	0.45***	0.40***	0.41***	0.46***	0.44***
	(4.88)	(5.26)	(5.09)	(5.12)	(5.38)	(5.11)
L4.Fin market development	10.4**	11.6**	12.1**	9.56**	12.2**	12.6**
	(2.78)	(2.80)	(3.29)	(2.56)	(3.04)	(3.22)
L4.Chinn-Ito index	0.44	0.65	0.36	0.54	0.64	0.59
	(1.14)	(1.62)	(0.99)	(1.37)	(1.57)	(1.47)
Election	-11.5**	-5.52*	-5.28**	-6.35*	-4.55**	-3.38
	(-2.31)	(-1.97)	(-2.86)	(-1.87)	(-2.06)	(-1.20)
Pre election, 3-4q	0.61	0.58	0.60	0.50	0.59	0.59
	(1.38)	(1.30)	(1.37)	(1.13)	(1.34)	(1.34)
Pre election, 1-2q	-0.53	-0.60*	-0.57*	-0.60*	-0.61*	-0.60*
	(-1.55)	(-1.79)	(-1.67)	(-1.66)	(-1.80)	(-1.75)
Post election, 1-2q	-0.96**	-0.87**	-0.82**	-0.81**	-0.80*	-0.81**
	(-2.43)	(-2.12)	(-2.17)	(-2.05)	(-1.92)	(-1.98)
Post election, 3-4q	0.043	0.13	0.16	0.22	0.18	0.16
	(0.12)	(0.36)	(0.48)	(0.63)	(0.51)	(0.46)
ICRG overall	0.19***					
	(4.77)					
Election X ICRG Overall	0.18**					
	(2.27)					
ICRG Political Pillar		0.11				
		(1.29)				
Election X ICRG Political Pillar		0.37*				
		(1.94)				
ICRG Socioeconomic Conditions			0.99***			
			(5.09)			
Election X ICRG Socioeconomic Conditions			1.01**			
			(2.94)			
ICRG Investment Risk				0.68***		
				(4.12)		
Election X ICRG Investment Risk				0.83*		
				(1.91)		
ICRG Institutions					0.085	
					(0.42)	
Election X ICRG Institutions					0.62**	
					(2.02)	
ICRG Tensions and Conflicts						0.23**
						(2.40)
Election X ICRG Tensions and Conflicts						0.14
						(1.25)
Constant	14.8***	26.0***	24.0***	24.5***	27.2***	20.4***
	(3.94)	(9.04)	(8.39)	(7.92)	(8.76)	(5.22)
R-squared within	0.23	0.22	0.24	0.24	0.22	0.22
Observations	3015	3015	3015	2956	3015	3015
Groups	38	38	38	37	38	38
Country FE	✓	✓	✓	✓	✓	✓
Country trend	✓	✓	✓	✓	✓	✓

Note: Driscoll-Kraay standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1. Differential and domestic (except for political) variables enter the regressions with a lag.
Source: Authors' estimations

In sum, these findings imply that many institutional country characteristics matter for investment, and their importance is amplified during periods of heightened political uncertainty, such as elections. This reinforces the

idea that institutional quality not only shapes long-term investment prospects but can also serve as an anchor of stability amid short-term election-triggered volatility.

While our results highlight the role of strong institutions in mitigating the decline of capital flows triggered by election-related uncertainty, previous studies (see, e.g. Carrière-Swallow and Céspedes (2013)) have emphasized the importance of financial market depth in shaping emerging markets' vulnerability to global uncertainty shocks. In particular, when global liquidity tightens, countries with shallow financial systems face binding credit constraints that amplify the contraction in investment. In our specification, financial depth emerges as a significant positive determinant of capital inflows. However, when we interact financial depth with the election dummy to assess its moderating effect on election-related uncertainty, the interaction term is not statistically significant.[20] This suggests that, in contrast to global shocks, a deeper financial system may not be sufficient to cushion against political uncertainty. One possible explanation is that elections introduce uncertainty about long-term policy direction, which undermines investor confidence. In such contexts, strong institutional frameworks may offer reassurance that partially compensates for the lack of policy clarity. By contrast, the resilience to global uncertainty shocks (proxied by VIX dynamics) appears to depend more on the functioning of domestic financial markets and their ability to withstand shocks originating in global capital markets.

Findings consistent to those reported in Table 7 emerge when we replicate the analysis using an alternative set of governance indicators from the World Bank: voice and accountability; political stability and absence of violence/terrorism; government effectiveness; regulatory quality; rule of law; and control of corruption. We substitute ICRG stability score with WB country rankings by governance dimension along with the average across the six indicators. As with the ICRG-based specifications, we include governance variables as standalone controls but also interacted with election dummies. Unlike the quarterly ICRG scores, however, the World Bank indicators are available only at an annual frequency, which makes them less aligned with the timing of other macroeconomic variables in our regressions. This difference in frequency is the main reason we rely primarily on ICRG data in our core specifications.

As shown in Column (1) of Table 8, the overall governance level is a highly statistically significant driver of capital flows. Countries with more solid governance frameworks systematically attract more capital, reflecting stronger investor confidence. Moreover, this positive effect is amplified during election periods: the interaction between elections and governance is significantly positive, indicating that institutional strength mitigates election-induced uncertainty.

Among individual indicators, control of corruption (Column (2)), government effectiveness (Column (3)), rule of law (Column (6)) and regulatory quality (Column (7)) stand out as particularly influential. These dimensions not only correlate positively with capital inflows but also are especially valued by investors during periods of heightened uncertainty, as suggested by the significance of the interaction term with the election-quarter

[20] We do not report these results for brevity.

dummy. Conversely, voice and accountability (Column (4)) and political stability (Column (7)) appear less relevant for capital flow dynamics.

Table 8: Gross capital inflows and institutional characteristics (WB Governance)

	WB average	WB1	WB2	WB3	WB4	WB5	WB6
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
VIX	-4.66***	-4.72***	-4.66***	-4.70***	-4.71***	-4.64***	-4.62***
	(-5.61)	(-5.65)	(-5.40)	(-5.42)	(-5.52)	(-5.50)	(-5.50)
Global liquidity, qoq	0.31**	0.30**	0.31**	0.31**	0.30**	0.33**	0.31**
	(2.83)	(2.75)	(2.83)	(2.83)	(2.77)	(3.03)	(2.86)
L.Real interest rate differential	-0.11	-0.096	-0.087	-0.074	-0.085	-0.11	-0.087
	(-1.64)	(-1.46)	(-1.33)	(-1.09)	(-1.32)	(-1.59)	(-1.33)
L.Growth differential	0.46***	0.47***	0.48***	0.49***	0.48***	0.49***	0.48***
	(5.35)	(5.32)	(5.46)	(5.80)	(5.68)	(5.55)	(5.55)
L4.Fin market development	13.5**	15.2**	14.0**	15.2**	14.7**	13.9**	13.0**
	(2.83)	(3.31)	(2.96)	(3.27)	(3.23)	(2.92)	(2.66)
L4.Chinn-Ito index	0.33	0.44	0.55	0.61	0.55	0.33	0.31
	(0.74)	(0.98)	(1.25)	(1.38)	(1.26)	(0.78)	(0.74)
Election	-4.20**	-2.68**	-4.92**	-2.79*	-1.72*	-3.45**	-4.92**
	(-2.43)	(-2.19)	(-2.73)	(-1.79)	(-1.69)	(-2.92)	(-2.80)
Pre election, 3-4q	0.61	0.55	0.57	0.55	0.57	0.61	0.56
	(1.17)	(1.06)	(1.09)	(1.03)	(1.08)	(1.18)	(1.07)
Pre election, 1-2q	-0.72*	-0.73*	-0.74*	-0.75*	-0.73*	-0.73*	-0.75*
	(-1.81)	(-1.83)	(-1.85)	(-1.89)	(-1.87)	(-1.87)	(-1.86)
Post election, 1-2q	-0.80*	-0.82*	-0.81*	-0.80	-0.79	-0.78*	-0.79*
	(-1.72)	(-1.69)	(-1.73)	(-1.66)	(-1.66)	(-1.72)	(-1.72)
Post election, 3-4q	-0.048	-0.015	-0.000090	0.039	0.020	0.0012	-0.030
	(-0.12)	(-0.04)	(-0.00)	(0.10)	(0.05)	(0.00)	(-0.08)
WB overall governance score	0.20***						
	(3.64)						
Election X WB overall governance	0.088**						
	(2.21)						
WB corruption		0.093**					
		(3.39)					
Election X WB corruption		0.064**					
		(2.06)					
WB government effectiveness			0.071**				
			(2.15)				
Election X WB government effectiveness			0.094**				
			(2.56)				
WB voice and accountability				-0.034			
				(-0.75)			
Election X WB voice and accountability				0.058*			
				(1.72)			
WB political stability					0.021		
					(0.63)		
Election X WB political stability					0.049		
					(1.63)		
WB rule of law						0.18***	
						(4.09)	
Election X WB rule of law						0.078**	
						(2.52)	
WB regulatory quality							0.12***
							(4.94)
Election X WB regulatory quality							0.092**
							(2.60)
Constant	18.9***	23.4***	25.1***	30.4***	27.7***	21.4***	22.3***
	(5.18)	(7.34)	(6.79)	(8.00)	(9.61)	(6.27)	(7.33)
R-squared within	0.25	0.25	0.25	0.25	0.25	0.26	0.25
Observations	2589	2589	2589	2589	2589	2589	2589
Groups	37	37	37	37	37	37	37
Country FE	✓	✓	✓	✓	✓	✓	✓
Country trend	✓	✓	✓	✓	✓	✓	✓

Note: Driscoll-Kraay standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1. Differential and domestic (except for political) variables enter the regressions with a lag.
Source: Authors' estimations

Overall, the results underscore the importance of institutional development as a buffer against uncertainty. Marginal effect calculations based on estimated regression coefficients and governance quartile data show that in countries with average or above-average governance, the stabilizing influence of strong institutions offsets the adverse effects of election-related uncertainty. In contrast, countries in the bottom quartile of governance rankings remain vulnerable to capital flow volatility during election cycles.

5.3. Robustness Checks

In this final subsection, we assess the robustness of our conclusions by exploring alternative model specifications, including with the use of different proxies for political uncertainty in addition or in place of election indicator. The results are presented in Tables 9-11.

Measuring uncertainty is inherently challenging. Beyond using elections as a proxy, we employ two alternative indicators widely used in the literature: the World Uncertainty Index (WUI) and the Economic Policy Uncertainty (EPU) index. WUI is a text-based measure of uncertainty in the EIU country reports and captures uncertainty related to economic and political developments, regarding both near-term and long-term concerns (see Ahir et al. (2022) for the details on the index construction). We report our results in Table 9, where we start from specifications with no election-related variables but only with WUI to capture the country-specific uncertainty beyond global uncertainty level tracked by VIX (column (1)). We then sequentially introduce the election dummy, the ICRG political stability index and the interaction term between elections and political stability (columns (2) through (4)), as well as dummies for the quarters preceding and following elections (columns (5) and (6)). Finally, we include an interaction between the election dummy and the WUI to study whether the impact of elections on capital flows varies with the level of economic and political uncertainty captured by the WUI (column (7)). Across all seven specifications that control for WUI in Table 9, neither the coefficients on the WUI nor its interaction with the election dummy are statistically significant, while the findings regarding the significance of the election-related variables remain robust. In other words, election-related uncertainty, particularly when conditioned on political stability, plays a distinct and robust role in shaping capital flow patterns, going beyond what is captured by broader country-level measures of uncertainty such as the WUI.

As an additional robustness check, we replace the WUI with the Economic Policy Uncertainty (EPU) index developed by Baker et al. (2016) (column (8) of Table 9). The EPU index captures the share of newspaper articles that simultaneously reference terms related to the economy, policy, and uncertainty. Its narrower focus on political uncertainty makes it particularly relevant for our context. Baker et al. (2016) also note that the index spikes upward during elections. A key limitation is that country-specific EPU indices are available for only 8 of the 38 countries in our sample. Therefore, we must rely on the global EPU index, which is a GDP-weighted average of national indices across 18 countries. The EPU variable is not statistically significant, but the election-related dummy variables remain robust and statistically significant, consistent with our earlier findings.

Table 9: Gross capital inflows and alternative uncertainty measures

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
VIX	-4.14***	-4.37***	-4.04***	-4.26***	-4.24***	-4.24***	-4.24***	-4.35***
	(-5.25)	(-5.69)	(-5.12)	(-5.47)	(-5.31)	(-5.28)	(-5.28)	(-3.69)
Global liquidity, qoq	0.21*	0.21**	0.19*	0.20*	0.20*	0.20*	0.20*	0.26**
	(1.95)	(2.06)	(1.86)	(1.97)	(1.94)	(1.91)	(1.91)	(2.28)
L.Real interest rate differential	-0.020	-0.033	-0.043	-0.054	-0.049	-0.050	-0.050	-0.074
	(-0.41)	(-0.69)	(-0.91)	(-1.19)	(-1.06)	(-1.08)	(-1.08)	(-1.34)
L.Growth differential	0.38***	0.41***	0.34***	0.37***	0.38***	0.38***	0.38***	0.41***
	(4.16)	(4.96)	(3.82)	(4.44)	(4.49)	(4.51)	(4.51)	(4.93)
L4.Fin market development	9.13**	11.7**	7.30*	9.83**	10.0**	10.0**	10.0**	9.12**
	(2.27)	(2.87)	(1.90)	(2.55)	(2.57)	(2.59)	(2.59)	(2.40)
L4.Chinn-Ito index	0.55	0.69*	0.35	0.48	0.46	0.46	0.46	0.47
	(1.36)	(1.70)	(0.88)	(1.24)	(1.20)	(1.19)	(1.19)	(1.22)
ICRG Political Stability			0.20***	0.19***	0.20***	0.19***	0.19***	0.22***
			(5.22)	(4.99)	(5.26)	(4.90)	(4.91)	(4.77)
Election		0.54		0.51	0.40	-10.4**	-10.4**	-12.6**
		(1.12)		(1.05)	(0.77)	(-2.22)	(-2.33)	(-2.26)
Election X ICRG Political Stability						0.16**	0.16**	0.19**
						(2.18)	(2.24)	(2.21)
World Uncertainty Index (WUI)	-0.52	-0.90	-0.28	-0.68	-0.63	-0.63	-0.63	
	(-0.71)	(-1.28)	(-0.39)	(-0.99)	(-0.90)	(-0.89)	(-0.88)	
Election X Uncertainty (WUI)							0.0023	
							(0.00)	
EPU								-0.0037
								(-0.44)
Election X EPU								0.0039
								(0.51)
Pre election, 3-4q					0.58	0.58	0.58	0.67
					(1.36)	(1.37)	(1.37)	(1.45)
Pre election, 1-2q					-0.48	-0.48	-0.48	-0.48
					(-1.32)	(-1.32)	(-1.32)	(-1.32)
Post election, 1-2q					-0.90**	-0.89**	-0.89**	-0.90**
					(-2.27)	(-2.23)	(-2.23)	(-2.09)
Post election, 3-4q					0.047	0.057	0.057	0.13
					(0.14)	(0.16)	(0.16)	(0.35)
Constant	24.7***	26.6***	11.1**	13.5***	13.1***	13.6***	13.6***	12.5*
	(9.67)	(10.16)	(2.94)	(3.85)	(3.72)	(3.81)	(3.81)	(1.67)
R-squared within	0.18	0.21	0.19	0.22	0.22	0.22	0.22	0.23
Observations	3082	2928	3082	2928	2928	2928	2928	2855
Groups	37	37	37	37	37	37	37	38
Country FE	✓	✓	✓	✓	✓	✓	✓	✓
Country trend	✓	✓	✓	✓	✓	✓	✓	✓

Note: Driscoll-Kraay standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1. Differential and domestic (except for political) variables enter the regressions with a lag.
Source: Authors' estimations

Next, as a robustness check we explore whether there is a "democratic premium" in terms of capital flows, that is, whether elections have a smaller negative impact in more democratic countries, where potentially stronger institutions, more solid legal frameworks and greater transparency may reduce the scope for unpredictable policy changes, lowering election-related uncertainty. To do this, we expand our baseline model specification by controlling for the level and changes of democratic development (Table 10). We proxy democratic development using several measures. Specifically, we consider the Polity score, which classifies countries along a spectrum from strongly autocratic to strongly democratic[21] (column (1)) and its annual change (column

[21] The Polity index scale ranges from +10 (strongly democratic) to -10 (strongly autocratic).

(2)). We further incorporate a continuous index of electoral competitiveness from the DPI[22] database (column (3)) as well as a binary variable derived from this index which that equals to 1 for competitive systems and 0 for uncompetitive ones (column (4)). We do not find any evidence of a "democratic premium" such that more democratic countries attract more capital inflows or are less susceptible to election uncertainty. Democracy indicators added into specification are not statistically significant, while election-related uncertainty remains a negative factor for capital flows.

Table 10: Gross capital inflows and indicators of democracy

	Dem	Delta dem	Dem DPI cont	Dem DPI dummy
	(1)	(2)	(3)	(4)
VIX	-5.25***	-5.27***	-4.51***	-4.49***
	(-5.98)	(-5.96)	(-5.45)	(-5.40)
Global liquidity, qoq	0.28**	0.27**	0.24**	0.24**
	(2.11)	(2.06)	(2.22)	(2.18)
L.Real interest rate differential	-0.067	-0.069	-0.055	-0.057
	(-1.11)	(-1.10)	(-1.12)	(-1.12)
L.Growth differential	0.45***	0.44***	0.42***	0.42***
	(4.57)	(4.55)	(5.01)	(4.86)
L4.Fin market development	8.22*	8.06*	10.5**	11.3**
	(1.93)	(1.92)	(2.78)	(2.99)
L4.Chinn-Ito index	0.40	0.39	0.42	0.41
	(0.93)	(0.91)	(1.09)	(1.06)
ICRG Political stability	0.19***	0.19***	0.19***	0.19***
	(4.17)	(4.12)	(4.75)	(4.80)
Election	-12.4**	-12.1**	-11.3**	-11.3**
	(-2.31)	(-2.25)	(-2.23)	(-2.11)
Election X ICRG Political Stability	0.19**	0.19**	0.18**	0.17**
	(2.25)	(2.20)	(2.16)	(2.02)
Pre election, 3-4q	0.57	0.61	0.61	0.51
	(1.22)	(1.34)	(1.39)	(1.12)
Pre election, 1-2q	-0.64	-0.59	-0.53	-0.59*
	(-1.51)	(-1.43)	(-1.54)	(-1.72)
Post election, 1-2q	-1.07**	-1.06**	-1.01**	-1.11**
	(-2.28)	(-2.23)	(-2.50)	(-2.70)
Post election, 3-4q	0.11	0.091	0.070	0.0044
	(0.25)	(0.22)	(0.20)	(0.01)
Democracy level (Polity)	-0.18			
	(-1.39)			
Change in democracy level (Polity)		-0.14		
		(-0.90)		
Democracy level (DPI)			0.18	
			(0.67)	
Democracy dummy (DPI)				1.48
				(0.82)
Constant	13.5**	13.0**	13.8***	13.3***
	(2.23)	(2.10)	(3.41)	(3.40)
R-squared within	0.25	0.25	0.23	0.23
Observations	2265	2265	3003	2908
Groups	38	38	38	38
Country FE	✓	✓	✓	✓
Country trend	✓	✓	✓	✓

Note: Driscoll-Kraay standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1. Differential and domestic (except for political) variables enter the regressions with a lag.
Source: Authors' estimations

[22] The index ranges from 1 (no legislature or executive power) to 7 (competitively elected prime-minister/president or legislative elections where multiple parties win seats with the largest party getting less than 75%).

We also conduct a set of additional robustness checks to verify the stability of our findings. We start by redefining the dependent variable, scaling capital flows by quarterly GDP rather than trend GDP as in the baseline. Column (1) of Table 11 presents the baseline model specification under this alternative normalization. The results suggest that this modification does not materially alter our inference both in terms of push and pull and the political factors. The key difference relative to the baseline is that a statistically significant negative effect on capital flows is also observed in the 2 pre-election quarters.

Second, we experiment with alternative fixed effects specifications. In particular, in column (2) we exclude country-specific time trends from the specification, retaining only country fixed effects.[23] In column (3) we add an overall time trend to the specification in the previous regression, while in column (4) we control for annual time fixed effects. In all the cases the overall inference remains unchanged.

Third, we account for two major crisis episodes – global financial crisis and the pandemic – that occurred during our sample period. In column (5), we exclude the year 2020 from the sample to account for the unprecedented disruptions caused by the global pandemic, while in column (6), we include a global financial crisis (GFC) dummy to control for the effects of the 2008–09 crisis. Given the exceptional nature of these shocks, even otherwise stable relationships may have been temporarily distorted. The GFC dummy variable is not statistically significant, likely because the stress of this episode is captured by highly statistically significant VIX. Our main findings remain robust to these modifications.

Fourth, we check for the robustness of our findings while controlling for the uncertainty that can be generated by elections in the United States (columns (7) and (8) of Table 11). This can be viewed as a push factor since developments and policy uncertainty in the U.S. are likely to have spillover effects on the rest of the world. Specifically, we add a dummy for elections in the United States into our baseline specification (both with and without the domestic election dummy). We do not find any significant relationship between this event and private capital inflows into emerging market economies, while the coefficients on domestic elections remain negative and statistically significant. This suggests that domestic political uncertainty has a stronger effect on capital inflows compared to political uncertainty in the U.S. One potential explanation could be that investors are likely to be more sensitive to political uncertainties in emerging market countries where institutional frameworks tend to be weaker. Julio and Yook (2016), however, show that when focusing only on U.S. investors, their FDI flows abroad drop significantly in the quarter leading up to the U.S. election.

Fifth, we test the robustness of our main findings to the presence of potentially strong unobserved common factors, such as global shocks or regional trends, which may influence capital flows and be correlated with election cycles, thereby confounding the estimated election effect. To address this concern, we augment our specification in two ways. First, we include quarterly cross-sectional averages of capital flows as a proxy for unobserved global factors (column (9) of Table 11). Second, we incorporate year-region[24] fixed effects to

[23] Gross capital inflows scaled by trend GDP remain the dependent variable in the regressions in columns (2)-(8), as in our baseline specification.

[24] 38 EM countries from the sample were grouped into four regions: Asia and Pacific, Europe and Central Asia, Latin America and Middle East and Africa.

capture region-specific shocks (column (10)). Across both specifications, our main results remain robust, suggesting that the estimated effects are not driven by omitted common factors.

Table 11: Gross capital inflows: Alternative model specifications

	(1) Inflows-to-quarterly GDP	(2) No country trend	(3) With time trend	(4) Time FE	(5) Ex. COVID	(6) GFC dummy	(7) US elec. EM elec.	(8) US elec	(9) Cross-sec. CF average	(10) Region-time FE	(11) Elec. with fixed timing
VIX	-4.59***	-3.52***	-4.14***	-4.59**	-4.78***	-5.02***	-4.70***	-4.70***	-1.32**	-4.48**	-4.38***
	(-5.06)	(-3.44)	(-5.08)	(-2.82)	(-5.51)	(-5.14)	(-6.41)	(-6.53)	(-3.32)	(-2.73)	(-5.65)
Global liquidity, qoq	0.23**	0.21*	0.25**	0.25**	0.22*	0.25**	0.22**	0.22**	0.051	0.24**	0.23**
	(2.18)	(1.69)	(2.20)	(2.89)	(1.83)	(2.36)	(2.40)	(2.42)	(1.30)	(2.66)	(2.10)
Capital flows cross-sec. av.									0.72***		
									(14.35)		
L.Real interest rate diff.	-0.057	-0.083	-0.046	-0.028	-0.055	-0.039	-0.059	-0.049	-0.039	-0.052	-0.091
	(-1.26)	(-1.32)	(-0.77)	(-0.59)	(-1.07)	(-1.07)	(-1.29)	(-1.06)	(-1.08)	(-1.08)	(-1.63)
L.Growth differential	0.42***	0.47***	0.46***	0.37***	0.44***	0.40***	0.41***	0.42***	0.31***	0.23***	0.43***
	(5.22)	(4.66)	(4.85)	(4.67)	(4.90)	(4.99)	(5.06)	(5.00)	(4.42)	(3.56)	(4.88)
L4.Fin market development	10.4**	9.53***	12.1***	8.57***	10.0**	9.42**	10.5**	8.79**	3.13	3.90*	10.3**
	(2.92)	(4.15)	(4.55)	(4.18)	(2.54)	(2.90)	(2.81)	(2.24)	(1.05)	(1.91)	(2.45)
L4.Chinn-Ito index	0.43	-0.62**	-0.39	-0.56**	0.52	0.34	0.47	0.49	0.039	-0.035	0.59
	(1.16)	(-2.40)	(-1.47)	(-2.44)	(1.35)	(1.11)	(1.25)	(1.31)	(0.13)	(-0.17)	(1.38)
gfc						1.71					
						(0.94)					
ICRG Political stability	0.19***	0.24***	0.20***	0.16***	0.18***	0.18***	0.19***	0.19***	0.13***	0.12***	0.17***
	(5.13)	(5.29)	(5.92)	(5.05)	(4.40)	(4.60)	(4.38)	(4.71)	(3.76)	(3.65)	(4.32)
Election	-10.4**	-11.9**	-12.4**	-12.6**	-11.8**	-11.4**	-12.0**		-12.0**	-12.2**	-16.2**
	(-2.15)	(-2.28)	(-2.47)	(-2.54)	(-2.28)	(-2.29)	(-2.47)		(-2.58)	(-2.41)	(-2.42)
Election X ICRG Polit. stab.	0.16**	0.19**	0.19**	0.19**	0.18**	0.18**	0.19**		0.19**	0.19**	0.23**
	(2.13)	(2.24)	(2.38)	(2.44)	(2.23)	(2.26)	(2.41)		(2.50)	(2.38)	(2.10)
Pre election, 3-4q	0.62	0.90**	0.68	0.73*	0.66	0.60			0.79*	0.66	0.92**
	(1.41)	(2.00)	(1.61)	(1.89)	(1.47)	(1.37)			(1.89)	(1.51)	(2.06)
Pre election, 1-2q	-0.63*	-0.39	-0.56	-0.56*	-0.41	-0.48			-0.44	-0.44	-0.12
	(-1.76)	(-1.14)	(-1.64)	(-1.66)	(-1.17)	(-1.40)			(-1.39)	(-1.57)	(-0.36)
Post election, 1-2q	-1.02**	-0.89**	-0.97**	-0.95**	-0.94**	-0.91**			-0.88**	-0.75*	-0.16
	(-2.58)	(-2.23)	(-2.40)	(-2.21)	(-2.30)	(-2.28)			(-2.13)	(-1.97)	(-0.34)
Post election, 3-4q	-0.032	0.17	0.12	-0.016	0.14	0.064			0.058	0.15	0.56
	(-0.09)	(0.49)	(0.36)	(-0.05)	(0.39)	(0.18)			(0.16)	(0.48)	(1.32)
Date			-0.042***								
			(-5.66)								
US Election							-0.13	-0.066			
							(-0.22)	(-0.11)			
Pre US election, 3-4q							0.62	0.65			
							(0.83)	(0.87)			
Pre US election, 1-2q							0.30	0.29			
							(0.44)	(0.43)			
Post US election, 1-2q							-0.76	-0.70			
							(-1.10)	(-1.04)			
Post US election, 3-4q							-0.54	-0.46			
							(-1.02)	(-0.87)			
Constant	16.0***	-3.21	9.04**	7.23	16.8***	16.9***	16.0***	16.0***	0.69	9.79**	15.5***
	(4.14)	(-0.70)	(2.64)	(1.53)	(3.78)	(3.94)	(4.37)	(4.59)	(0.26)	(2.07)	(4.03)
R-squared within	0.24	0.13	0.15	0.21	0.24	0.23	0.23	0.22	0.29	0.34	0.23
Observations	2962	3015	3015	3015	2866	3015	3015	3026	3015	3015	2641
Groups	38	38	38	38	38	38	38	38	38	38	38
Country FE	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Country trend	✓				✓	✓	✓	✓	✓	✓	✓
Time FE				✓							
Region-year FE										✓	

Note: Driscoll-Kraay standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1.
Source: Authors' estimations

Finally, we take a closer look at potential endogeneity concerns with using elections as a proxy variable for political uncertainty. Following the approach of Julio and Yook (2012, 2016), we re-estimate our baseline specification on a subsample limited to elections with predetermined, constitutionally fixed dates. These elections provide a more rigorous proxy for an exogenous source of political uncertainty, as their timing is less likely to be influenced by strategic considerations. In column (11) of Table 11 we focus on this subsample. The main conclusions on the decline of capital inflows during the election quarter and on mitigating effects of political stability are confirmed. This evidence is consistent with the assumption that election timing is exogenous.

6.Conclusions

This paper contributes to the relatively limited literature on the impact of political uncertainty on international capital flows. We employ the occurrence of an election as an exogenous measure of political uncertainty. Even in the absence of crises or major political overhauls, elections periodically open the possibility of ex-ante unknown changes in the economic, institutional, and regulatory environment.

We construct a quarterly dataset covering international capital flows and political cycles for 38 emerging economies from 1990 to 2020. We employ a standard fixed-effects model to estimate the relationship between election cycles and the magnitude of private capital inflows in our sample, accounting for both the election quarter and the immediately adjacent time periods. At the same time, we control for a range of standard push and pull factors, which behave in line with established findings in the capital flows literature.

Our analysis demonstrates that gross private capital inflows into emerging market economies are significantly lower during the election quarter. These results are also broadly confirmed across different types of capital flows, although the impact is not uniform. FDI and other flows appear more sensitive to election-related uncertainty compared to portfolio flows.

Crucially, the uncertainty associated with elections has varying implications for countries, depending on their level of political stability and the quality of their institutions. Higher political stability, as measured by ICRG political stability index, appears to cushion the adverse effects of electoral uncertainty. Our analysis shows that countries in the bottom quartile of the ICRG political stability index experience, on average, a 28 percent decline in gross capital inflows during election quarters. Notably, this negative effect is absent in countries with above-average political stability scores.

Negative effects associated with elections can persist for up to two quarters when uncertainty remains elevated after the election, particularly in cases involving electoral violence, snap elections triggered by political crises, or leadership changes resulting from the vote. We also find that such circumstances tend to coincide with more pronounced declines in capital inflows. Particularly, elections held outside the regular electoral cycle (i.e., non-predetermined elections) and those resulting in the defeat of the incumbent leader or ruling party are typically accompanied by larger negative effects. In countries in the bottom quartile of the ICRG political stability index, such events are associated with over 50 percent declines in gross capital inflows during the election quarter.

In addition, our analysis shows that countries with strong governance, characterized by effective control of corruption, high regulatory quality, government effectiveness, and a well-established rule of law, are less affected by election-related uncertainty in capital flows. These findings underscore the macroeconomic stability benefits of structural reforms. Strengthening institutional quality not only supports long-term development goals but also functions as a buffer against episodic shocks, such as those triggered by electoral cycles. By reducing uncertainty, such reforms can bolster investor confidence and enhance greater financial resilience. Our analysis also indicates that favorable socioeconomic conditions and better investment risk profiles can help mitigate the adverse effects of political uncertainty. Therefore, sustaining the attractiveness of economies to

capital inflows across different phases of electoral cycles would require strengthening macroeconomic fundamentals and protecting investor rights.

To sum up, our findings suggest that election-related political uncertainty is associated with temporary declines in private capital inflows. However, the magnitude of this effect varies substantially with the degree of political stability and the broader institutional context, with more stable and better-governed countries experiencing a smaller adverse impact. Our findings provide a contribute to a growing literature on the interaction between political developments and international capital flows and underscore the importance of considering institutional characteristics when assessing financial vulnerabilities around electoral events.

Appendix

Appendix A: Countries and data sources

Countries	Indicator	Frequency	Data sources
Albania	Capital flows	Q	IMF BOPS
Argentina	Real GDP growth	Q	IMF IFS, Haver
Armenia	Nominal GDP	A	IMF WEO
Bolivia	Nominal GDP	Q	Haver
Brazil	CPI	Q	IMF IFS, CEIC
Bulgaria	Nominal interest rates (policy rates)	Q	IMF IFS, CEIC, BIS, Haver
Chile	Shadow Federal Funds Rate	Q	Haver
Colombia	VIX index	Q	Haver
Costa Rica	Money supply	Q	IMF IFS, national sources
Croatia	Political risk index	Q	International Country Risk Guide (ICRG)
Czech Republic	Chinn-Ito Index	A	Authors' website
Dominican Republic	Financial Development Index	A	IMF's Financial Development Index page
Estonia	Elections	Q	DPI
Ghana	Majority	A	DPI
Guatemala	Checks	A	DPI
India	Polarization	A	DPI
Indonesia	Polls	Q	NELDA
Jamaica	Incumbent lost	Q	Constructed using data from DPI
Kuwait	Violence	Q	NELDA
Latvia	Predetermined and non-predetermined elections	Q	NELDA
Lithuania	Polity V index	A	The Polity Project, Center for Systemic Peace
Malaysia	Governance	A	World Bank
Mexico	World Uncertainty Index (WUI)	Q	World Uncertainty Index
Paraguay	Economic Policy Uncartainty	M	Authors' website
Peru			
Philippines			
Poland			
Romania			
Russia			
Slovak Republic			
Slovenia			
South Africa			
Sri Lanka			
Thailand			
Türkiye			
Ukraine			
Vietnam			
Zambia			

Appendix B: Descriptive statistics

Variable	Measure	Mean	Std. dev.	Min	Max
Private inflows	% of trend GDP	5.2	6.5	-23.6	44.9
Private outflows	% of trend GDP	1.7	4.2	-28.1	34.4
Net private flows	% of trend GDP	3.6	6.3	-21.8	45.4
FDI inflows	% of trend GDP	2.5	3.1	-5.0	28.1
Portfolio inflows	% of trend GDP	1.1	3.3	-17.3	37.1
Private other inflows	% of trend GDP	0.6	3.4	-36.2	19.3
Debt inflows	% of trend GDP	2.6	5.5	-24.4	39.3
Non-debt inflows	% of trend GDP	2.8	3.4	-11.2	29.3
VIX index	index	18.9	5.2	12.0	29.9
Global liquidity growth	% qoq	1.2	3.0	-4.4	8.8
Real interest rate differential	%	-0.7	24.5	-238.5	276.8
Growth differential	%	1.1	5.1	-20.4	21.3
Financial market development index	index	0.2	0.2	0.0	0.6
Chinn-Ito	index	-0.2	1.4	-1.9	2.3
Stability	share	0.2	0.3	0.0	1.0
Polarization	unit	0.6	0.9	0.0	2.0
Victory margin	% point	21.6	21.1	0.3	80.0
WUI (World Uncertainty Index)	index	0.1	0.2	0.0	1.3
EPU (Economic Policy Uncertainty)	index	76.0	13.8	59.3	112.9
ICRG_Political	index (0,100)	64.2	10.2	22.0	87.0
ICRG_Institutions	index (0,16)	8.8	2.3	2.0	14.0
ICRG_Tensions	index (0,36)	28.4	5.3	7.0	36.0
ICRG_Political_Pillar	index (0,24)	15.3	3.4	4.0	23.0
ICRG_Investment_Risk	index (0,12)	6.6	1.9	1.0	11.0
ICRG_Soc_Cond	index (0,12)	5.5	1.7	0.0	10.0
Polity	index (-10,10)	5.2	4.9	-9	10
WB control of corruption	percentile	48.3	20.9	1	91
WB government effectiveness	percentile	52.6	17.9	11	87
WB political stability and absence of violence	percentile	43.7	23.0	3	93
WB rule of law	percentile	47.8	18.2	16	87
WB regulatory quality	percentile	56.6	17.6	22	94
WB voice and accountability	percentile	53.9	17.7	10	88

Sources: See Table A

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