Political Uncertainty and Credit Risk: An International Study

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Abstract

We find that political uncertainty, proxy by national elections, significantly amplifies the credit risk of a firm reflecting by the spreads of the single-name credit default swap contracts across 30 countries after a recent sub-prime financial crisis. We also document that the endogenous liquidity of CDS market is improved in election years, highlighting the role of CDS contracts on hedging or speculating on the credit risk related to the political uncertainty. The incremental magnitudes of CDS spread and liquidity in election years are determined by rating of contracts, election characteristics as well as legal origin in a country.

Keywords: Political Uncertainty, National Elections, Credit Risk, Credit Default Swaps, Liquidity

JEL Classification: E44, E63, G18, G32, G33

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1. Introduction

The policies and laws in a country shape the external environment under which firms operate. The likelihood of changing existing policies and laws, such as economic policy, competition laws, tax acts, etc., known as *political uncertainty*, affects firms' performance, risk profiles as well as the related financial markets. As documented by abundant literatures, political uncertainty generates significant turbulences in the stock (Bialkowski, Gottschak and Wisniewski, 2008, Boutchkova, et. al., 2011, Pastro and Veronesi, 2012, 2013), corporate bonds (Gao and Qi, 2013, Kaviani, Kryzanowksi and Maleki, 2014, Waisman, Ye and Zhu, 2015), sovereign debts (Cuadra and Saprize, 2008) as well as option markets (Kelly, Pastro and Veronesi, 2014). Compared to these traditional financial markets, the credit default swap (CDS) market, primarily reflecting the credit risk of a firm, is relatively new but grew dramatically in the past decades, especially before the recent financial crisis starting from late 2007. The CDS market is related to but very different from other financial markets in term of the entrance barrier[1], participants[2], market structure[3] as well as trading system[4]. Most importantly, the CDS

[1] The entrance barrier for the CDS market is high. First, the relatively large trading size blocks most of individual investors and even the small financial institutions. For example, Chen, Fleming, Jackson, Li and Sarkar (2011) show that the mean, median and mode of trade size for single-name corporate CDS contracts are $6.68, $5.00 and $5.00 million, respectively (see Table 2). Further, according to the credit default swap market report at the International Organization of Securities Commissions, the mean, median and modal of trade size for the top 1000 single-name corporate CDS are around $6.4, $5.8 and $5.0 million, respectively (see Table 2). Second, the complicity of the credit derivative instruments compared to the equity and bonds stops the investors with weak backgrounds.

[2] The CDS market are dominated by the informed traders (Acharya and Johnson, 2007), most of which are big financial institutions.

[3] Atkeson, Eisfeldt and Weill (2013) show that "*in the U.S., over ninety-five percent of the gross notional in credit derivatives is consistently held by only five bank holding companies*". Peltonnen, Scheicher and Vuilemey (2014) show that the CDS network is centred around 14 major dealers by studying a unique dataset consisted by 642 financial and sovereign reference entities. Kryzanowski, Perrakis and Zhong (2015) document market power in credit derivative markets by comparing the CDS and Loan CDS market and build an oligopoly equilibrium model to explain the abnormal profits captured by their CDS-LCDS parity.

[4] Before 2008 there was no central clearing house for CDS transactions and all the transactions are done over the counter. Starting from 2009, Intercontinental Exchange (ICE) created centralized clearing houses in Euro and U.S.. However, most of the transactions of CDS are still done over the counter as documented by the trading warehouse in Depository Trust & Clearing Corporation (DTCC).

market is much liquid and efficient in reflecting the credit risk of underlying firms compared to the secondary corporate bond market[5] for two main reasons. First, it is difficult to isolate the default component from corporate bond spreads because of the associated covenants, embedded options, tax codes, etc. Second, the secondary corporate bond markets are quite difference from one country to the other in view of the differences of religion, culture, political and legal system. While the CDS contracts are typically traded on standardized terms over the OTC market[6], providing an excellent proxy for the credit risk of a firm for an international study. Further, since the CDS contracts is designed as a derivative to transfer the credit risk from a party to the other, to understand how the political uncertainty affects this market also sheds lights on regulating and using CDS market to mitigate credit risk and maintain the financial stability globally.

This paper studies the impact of political uncertainty on the credit risk of a firm using single-name credit default swap contracts across 30 countries. We employ national elections as a proxy for political uncertainty[7]. Empirically, we find that the CDS spreads are significantly higher in election years internationally, consistent with the evidence that political uncertainty amplifies the credit risk of a firm documented in U.S. market only. Most importantly, by conducting difference-in-difference analysis, we find that the election characteristic, legislative system, legal origin, rating as well as maturity are critical elements in determining the credit risk of a firm during national election period. Moreover, we document an improved CDS liquidity during election periods, especially for the investment-grade contracts, highlighting the role of CDS contract as an instrument to hedge or speculate on credit risk as well as a channel to reveal

[5] Longstaff, Mithal and Neis (2005) document that the liquidity factor is accounted for a significant portion of corporate bond spreads. Huang and Huang (2012) shows that the credit risk can only explain partial corporate yield spreads where the unexplained part is so-called "credit spread puzzle".

[6] The corporate bond spreads are more likely to be affected by the differences in contractual terms, such as seniority, embedded options and guarantees.

[7] National election has been used in many literature to indicate the political uncertainty, such as Bialkowski, Gottschalk and Wisniewski (2008), Boutchkova *et. al.*(2011), Julio and Yook (2012) amongst others.

information when the political uncertainty is high. To the best of our knowledge, this is the first international study to examine the impact of political uncertainty on the credit risk of a firm as well as the structure of CDS market in the context of single-name CDS market.

Credit default swap contract essentially is a financial agreement between the protection sellers and buyers to transfer the credit risk of reference entities. The protection buyers pay periodic premiums to the protection sellers. Upon default, the buyers stop paying premium and claim for the losses given default (LGD), a difference between the protected value and recovery value, from sellers. The reference entities includes but not limited to sovereign debts, corporate bonds, syndicated loans, etc. In this study, we focus on the single name CDS contracts written on the senior unsecured corporate bonds. We use national election as a proxy for political uncertainty. Although national election is not a direct measure for political uncertainty, as shown in the literature, the political uncertainty is higher on average during the election periods compared to the other periods[8]. The national election year is identified as a year in which to elect for the national leaders who possesses the executive power in a country. For instance, we identify the presidential election year as national election year for a country with presidential system and the legislative election year for a country with legislative system. While for a country with hybrid system, we use the election year for a leader whose office has the superb power.

First, we find that the CDS spreads are significantly greater in election years after the recent sub-prime financial crisis starting from the end of 2007, suggesting that the political uncertainty amplifies the credit risk of a firm internationally. Using difference-in-difference analysis, we find that the incremental of CDS spread during election periods is determined by the election characteristics as well as legal origin. Specifically, the election characteristics related to higher

[8] The same assumption is also employed in Boutchkova et al (2011) and Julio and Yook (2012).

uncertainty, such as legislative election, flexible election timing, are associated with higher CDS spreads in election years. Further, the CDS spreads on average are greater for firms in common-law countries which have better investor protection[9] but are amplified more in national elections in a civil-law countries in which the change of executives possibly leads to a change of the codified principles, the primary source of law. We also note that the credit risk of investment grade contracts increases drastically in election years, reflecting in a significant increase of CDS spreads.

Second, taking advantage of the standardized CDS contracts across maturities and countries, we examine the impact of political uncertainty on the slope of term structure of CDS spreads, proxy by a difference between 5-year and 1-year CDS spread standardized by 1-year CDS spread as well. We find that the slope become more flat in countries with higher uncertainty in election years, for example, legislative election, flexible election timing as well as civil-law legal system, suggesting that the high political uncertainty affects short-term credit risk much severely compared to the long-term one.

Third, to examine the liquidity of CDS contracts, similar to Qiu and Yu (2012), we employ the number of distinct dealer who provides quotes on the 5-year CDS contracts as an indicator for the endogenous liquidity. We find that the endogenous CDS liquidity is significantly improved in election years, especially for the investment grade contracts. Moreover, the CDS liquidity is improved further in countries with legislative elections, flexible election timing as well as civil laws in election years.

Our findings are robust after alleviating the potential endogeneity and simultaneity problems. Specifically, we use the CDS information one year after an election year as well as a dynamic

[9] La Porta, Lopez-de-Silanes, Shleifer and Vishny (1998).

GMM estimation approach to check the robustness. Further, we incorporate the possibly omitted macro variables that may drive both national election and CDS spreads simultaneously, including financial risk rating, percentage of foreign debt over GDP, exchange rate stability, level of corruption, religion in politics as well as democratic accountability, to verify the robustness of our findings.

Our paper contributes to the on-going literature on political uncertainty and credit risk and enriches the empirical findings on credit default swap, which is elaborated in details in section 2. The rest of the paper is organized as follow: section 2 summarizes the related literatures and analyzes the impacts of political uncertainty on CDS spreads; section 3 describes the data sources and shows the descriptive statistics; section 4 reports the empirical findings in univariate and multivariate analysis; section 5 checks the robustness; and section 6 concludes. Appendix A reports the detailed information about the control variables.

2. Related Literatures and Hypotheses

2.1 Political Uncertainty and CDS Spreads

Credit default swap essentially is a financial derivative to shift the credit risk from one party to the other. This market is relatively new compared to the traditional financial markets, such as equity market, bond market, etc., but grew drastically since 2000s until a recent financial crisis starting at the end of 2007. Compared to corporate bond spread, a difference between corporate bond yield and risk free rate, the premium paid by the protection buyers, named *CDS Spread*, has several advantages in reflecting the default risk of reference bonds. First, as shown by many literatures (i.e. Norden and Weber, 2007, Forte and Pena, 2009), CDS market is much liquid and

efficient in capturing the new information compared to the corresponding corporate bond[10]. Second, the corporate bonds are very different across countries in term of the embedded features, tax code, etc., which affect the corporate bond spread significantly, especially across countries. While CDS contracts are much standardized and become to be an excellent proxy to examine the default risk of individual firms globally.

Political Uncertainty refer to the uncertainty of the political environment in a country, possibly lead to a change of existing policies that influent the firm's fundamental, financial market as well as the investors' behavior. In this study, we focus on how does political uncertainty indicated by national elections affect the credit risk of a firm in a country. In particular, our theoretical hypotheses are built on three channels through which an uncertainty of political environment affects the default risk of a firm.

[Please Insert Figure 1 about Here]

First, according to a standard framework of corporate security pricing originated from Merton (1974)' seminal work, the payoff structure of levered equity resembles the payoff of a call option, while the payoff structure of corporate debts is equivalent to that of writing a put option. The increase of policy related uncertainty is associated with an increase of stock return volatility as shown in both empirical and theoretical literature (Bouchkova, et al (2012), Pastor and Veronesi (2012)), which benefits the equity holders and reduces the value of debt holders because of the option nature. Thus, it suggests an increase of credit spreads and completes the volatility channel

[10] The CDS spread primarily reflects the default risk of a reference entity. Since most of the CDS contracts are traded in the OTC market before the establishing of the central clearing house, the searching costs is not low as shown in Tang and Yan (2007). Nonetheless, CDS market still quite liquid compared to the secondary corporate bond market.

depicted in Figure 1. Moreover, Campbell and Taksler (2003)[11] also report such a positive relationship between equity volatility and corporate bond yields, and argue that the upward trend of corporate bond yields in recent decades is mainly explained by the upward trend in idiosyncratic equity volatility.

Second, political uncertainty leads to a well-known "Wait-and-see" effect under which investors choose to exercise the real option to reduce or delay investments when the future policies are ambiguous[12]. Such wait-and-see effect not only prominences in corporate investments but also in financial markets. For instance, Francis, Hasan and Zhu (2013)[13] document that institutional holders reduce the common stock holdings by 0.76% to 2.1%. Similarly in the secondary debt market, the "wait-and-see" effect reduces the motivation to hold the risky investments. Extremely, it possibly motivates the bond holders to try to exit the market by selling existing the bond holdings. The hesitation of investments and preference of holding cashes magnify the frictions of financial market by shrinking the supply of funds and enlarging the refinancing (or *rolling over*) costs. Consequently, the equity holders who absorb the additional rollover costs choose to let a firm default earlier by raising the endogenous default boundary optimally to maximize the total firm's value after balancing the anticipated capital gains and total costs to keep a firm alive, resulting a significant increase of credit spreads of a firm, as shown by a theoretical work in He and Xiong (2012)[14].

[11] Campbell and Taksler (2003) show that corporate debt and equity value is affected by the total volatility that is consisted by systematic and idiosyncratic components. Their empirical work shows that the increase of corporate bond yields in recent decades is mainly explained by the upward trend in idiosyncratic equity volatility

[12] Bernanke (1983) and Dixit (1989) show the real-option effects where uncertainty plays a role in delaying investment decisions. Julio and Yook (2012) show the empirical evidence that firms reduce their corporate expenditure investment during the election year.

[13] Colak, Durnev and Qian (2013) document a decrease of IPO activity under the political uncertainty surrounding gubernatorial elections in United States.

[14] He and Milbrate (2014) build a theoretical model to show that a default-liquidity loop boosts the credit spread of a corporate bond significantly.

Further, the "wait-and-see" phenomenon affects not only an external financing environment but also the internal capital expenditure investments and dividend payout policy. Julio and Yook (2012) document a decrease of corporate capital expenditure investment and an increase of cash holding during election years compared to the non-election years. Huang, Wu, Yu and Zhang (2013) find that past dividend payers are more likely to terminate dividends and that non-payers are less likely to initiate dividends during periods of high political uncertainty. In addition, the increase of cost of capital during the high uncertainty period provides an alternative possible explanation to the decrease of capital expenditure investments. Such irregular underinvestment strategy deteriorates a firm's fundamental and generates negative impact not only during election years but also the years afterwards because it takes time for capital expenditure investment to return to the "*normal*" level and produce profits. Thus, we expect that the impact of political uncertainty on the credit spreads could last more than one year.

Third, the political uncertainty also affects the credit spread through a risk premium channel. As shown empirically by Gao and Qi (2013), risk-averse investors facing political uncertainty demand a compensation for bearing the associated risk. Presumably, given the constant physical asset return, an increase of risk premium suggests a lower risk-neutral asset return that leads to a decrease in both equity and debt value under the standard structural model framework by lowering the drift of asset dynamics under a risk-neutral measure.[15] Moreover, as discussed earlier, the "wait-and-see" effect and increased cost of capital deteriorate fundamental of a firm, most probably implying an even lower physical asset return not only in election years but also in the years afterwards. Hence, the increased risk premium and lowered physical asset return magnify the credit risk of a firm, reflecting in an amplified CDS spread.

[15] If we use the observed risk-free rate, usually interest rates of treasury bills, and assume it is constant, an increase of risk premium leads to an increase of drift under the physical measure.

2.2 Political Uncertainty and CDS Liquidity

All of CDS contracts are primarily traded in the OTC market before 2009 and some of them start to be traded in the central clearing warehoused established in Europe and United States[16]. Compared to the corporate bond market, CDS market is more liquid and responses to the informational shocks much faster. Because of such a difference in liquidity, there is well documented CDS-Bond basis in the short run but such basis disappears in the long run[17]. However, on the other side, compared to the well-developed equity or option market, liquidity is one of the drawbacks of CDS market. As shown in the empirical work (Norden and Weber (2007), Forte and Pena (2009)), the equity market leads CDS market and corporate bond market. Berndt and Ostrovnaya (2008) also find that option price reveals information about the forthcoming adverse events at least as early as credit spreads. But Acharya and Johnson (2007) document significant incremental information revelation in the CDS market only for negative credit news and for entities that subsequently experience adverse shocks.

In earlier literatures, there are vary measures of liquidity for the CDS. Tang and Yan (2007) construct a liquidity proxies to capture the impact of adverse selection, search frictions and inventory costs. They also use the bid-ask spreads, liquidity betas and volume to measure liquidity risk and find an evidence to support that the liquidity risk is priced. Another line of research on CDS liquidity is using the number of distinct dealers providing quotes, a variable provided in Markit dataset. Markit counts the number of dealers who provides quotes on the same 5-year CDS contracts and uses these information to construct the composite quotes on

[16] The central clearing house in United states was established in March, 2009, operated by InterContinental Exchange (ICE). While in Europe, the single name CDS clearing house was launched in December, 2009 by IntercontinentalExchange's European subsidiary. See the details in link http://en.wikipedia.org/wiki/Credit_default_swap#cite_note-Report_Center_-_Data-74.

[17] Bai and Collin-Dufresne (2013) test several explanations for the violation of the arbitrage relation between cash bond and CDS contract and state that the basis should be zero in normal conditions.

single-name CDS contracts. Taking advantage of this measure, Qiu and Yu (2012) find that CDS liquidity is concentrated among large obligors and those near the investment/speculative cut-off and associated with obligors for which there is a greater information flow from the CDS market to the stock market ahead of major credit events.

In this study, we use the later one, number of distinct dealer providing the quotes, to measure the liquidity of CDS contracts. As the political uncertainty drives the credit risk of a firm upward, the demand for CDS contract to hedge the increased credit risk should be greater given the risk-averse investor assumption. Thus, the liquidity of CDS market should be improved during the uncertainty period. In addition, if the flight-to-quality argument holds in the bond market, the demands for the CDS contract with investment rating should be much higher than that for the speculative rating. Thus, we conjecture that CDS liquidity increases when the uncertainty of political environment is high.

Nodari (2013) finds that the uncertainty measured by financial regulation policy uncertainty index triggers flight-to-quality and flight-to-liquidity by widening the aggregated corporate credit spreads, which is verified by Kaviani, Kryzanowski and Maleki (2014) using individual corporate bonds in United States only. Hence, driven by flight-to-quality effect, the demand for the investment-grade enlarges while that for speculative bonds shrinks during a period with high uncertainty. Thus, we expect to have a positive relationship between the liquidity and political uncertainty, especially for the contracts with investment-ratings.[18]

3. Data Description

3.1 Credit Spread Data

[18] Kaviani, Kryzanowski and Maleki (2014) use the number of trades for a bond in a given month to measure the liquidity. They report the correlation between political uncertainty index and liquidity is positive, around 0.03 (See Table 2).

We use daily-end composite quotes provided by Markit Company[19] in this paper. Markit, as a leading dealer in the CDS market, collects the contributed quotes from its partner banks and financial institutions around the world and assembles the composite quotes by calculating an average of all contributed price and spread data for vary instrument types, entities, tiers, maturities, currencies, and doc clauses.

[Please Insert Table 1 and Figure 2 about Here]

We choose the single name CDS contracts with 5-year maturity and written on senior unsecured bonds. We remove the single-name contracts written on the firms that fall into financials, government and utilities sectors[20] and eliminate the countries with less than 10 single-name contract-year observations after merging with the relevant financial database. Our final sample includes 3528 single-name contracts and 14,194 year-contract observations across 30 countries spanning from January 2003 to December, 2012, where the detailed country, rating and industry distributions are reported in Table 1 and Figure 2, respectively. We winsorize all the variables at 1% and 99% quantiles.

[Please Insert Table 2 about Here]

We use the mean of daily-end CDS quotes in a year as annual CDS spreads and the standard deviation of daily-end CDS quotes divided by annual CDS spreads as CDS volatility. The descriptive statistics are reported in Table 2. The means of annual CDS spread and volatility, approximately 166 *bps* and 25%, are greater than the corresponding medians, approximately 66

[19] Markit's CDS data has been used widely in the literature, such as Zhang, Zhou and Zhu (2009), Jorion and Zhang (2009), Carlson and Lazrak (2010), Berndt, Ritchken and Sun (2010), Longstaff (2010), McConnell and Saretto (2010), Kapadia and Pu (2012), Qiu and Yu (2012), Friewald, Jankowitsch, Subrahmanyam (2012) etc.

[20] Our results hold for the firms that fall into financial, government and utilities sectors. See details in the robustness check.

bps and 5%. The CDS depth (or liquidity), measured by the average number of distinct dealers who provide quotes[21], shows that a 5-year single-name composite quote is supported by 6.46 independent dealers on average, while the minimum number is 2 to generate a valid composite quote. The majority of observations in our sample fall into A, BBB and BB rating categories, suggesting relatively intermediate credit risk. In term of the industry, most of single-name contracts belong to consumer goods, consumer services, industrials and basic materials sectors. In addition, to study the term structure of CDS spreads, we incorporate the CDS contracts with 1, 3, 7 and 10 year maturity, which shrinks the cross-sectional sample size to 13,803 due to the illiquidity of these contracts.

3.2 Political Uncertainty Data

We use national election as a primary measure of political uncertainty. A national election year is defined as a year in which national election is held. Although national election is not a direct measure of political uncertainty, the political uncertainty is much higher during an election year as shown in many literatures[22]. The primary source of national elections data is Constituency-Level Elections Archive (CLEA) and World Bank Database of Political Institutions[23]. We verify and supplement the election data with existing literature[24] and various

[21] Qiu and Yu (2012) study the endogenous liquidity in the single-name CDS market as measured by the number of distinct dealers providing quotes.

[22] Bialkowski, Gottschalk and Wisniewski (2008) and Boutchkova et al. (2011) show that the stock market volatility is significantly higher than normal during the election period. Gao and Qi (2013) study the impact of U.S. gubernatorial elections on municipal bond market.

[23] See Beck, Demirgue-Kunt and Levince (2003), Beck, Clarke, Groff and Keefer (2004), Keefer (2007), http://www.electiondataarchive.org/index.html and http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/0,,contentMDK:20649465~pagePK:64214825~piPK:64214943~theSitePK:469382,00.html.

[24] We use the timing and type of election (See Table 1) collected by Julio and Yook (2012) for some countries that miss information.

internet sources including but not limited to Wikipedia, Election Resources and government official websites[25].

Similar to Julio and Yook (2012), we identify national elections associated with a selection of a chief executive in a country. Specifically, a presidential election is considered as a national election in a country with presidential system because generally the office of president has the supreme executive power in such country, while a legislative election is used for a country with parliamentary system under which a cabinet responsible to parliament has the executive power. For the countries with hybrid system combining both parliamentary and presidential democracy, we select the elections for an leader who exerts more executive power[26]. The election timing, another critical style factor of national election, varies across countries. Under the flexible election timing system, a government can be dissolved before the expiry of its full term for certain reasons, such as economic performance, internal confliction, scandal etc.[27]. We categorize the election timing into fixed and flexible referring to the election laws and practices as well as the classification provided in Alesina, Cohen and Roubini (1992) and Julio and Yook (2012). By merging the financial information dataset, our final sample covers 104 national elections spanning from 2002 to 2012 in 30 countries around the world, as showed in Table 1. Approximately, one thirds of countries has presidential system with presidential election and half of countries has the fixed national election timing. The distribution of observations across countries is not even. For instance, the number of observations in U.S. and Japan, two of the largest economy, takes approximately two thirds of the full sample.

3.3 Control variables

[25] See http://www.wikipedia.org/, http://www.electionresources.org/, etc.
[26] We consider Julio and Yook (2012)'s classification as a reference as well.
[27] Ito (1990) studies Japanese election and finds that Japanese government opportunistically selects the timing of election endogenously.

In the multivariate analysis, we control a firm's fundamental performance, equity performance, the liquidity of CDS contracts, year effect, industry effect, CDS restructure clause and country effect.

The fundamental variable data is extracted from the OSIRIS international dataset that provides comprehensive financial reports information around the worlds. We choose cash ratio to measure the ability of firm to pay off the short-term debts with cash or equivalent short term investments, leverage to reflect capital structure, return on asset (ROA) to show profitability, logarithm of total asset value to control size and market to book ratio to indicate the pricing status. Since Cao, Yu and Zhong (2010) shows that historical volatility has explanation power to explain the credit spreads, we also control the historical annual equity volatility calculated by monthly equity return. Moreover, we use the number of distinct dealers providing quotes on 5-year CDS contracts to control the liquidity of CDS contracts. The detailed explanation of each control variables is reported in Appendix A.

We winsorize all the control variables at 1% and 99% quantiles to mitigate the impact of extreme values. In our sample, leverage ratio is around 33% on average with standard deviation about 20%. The profitability, ROA, is about 3.6% on average with very negative skewness, about -1.84. The cash ratio shows a big variation in our sample from the lowest, 7.1E-5, to the highest, 553, indicating the adequacy of cash to pay off the short term debt is very different across firms in our sample. The distribution of equity volatility is around 17% on average and shows a positive skewness, about 1.95.

[Please Insert Table 3 about Here]

Table 3 reports the correlations between the control variables. Note that the election dummy is positively related to the CDS spreads and volatility with correlation 0.05 and 0.06, respectively, which is consistent with our conjecture. We document a significant positive correlation between the election dummy and CDS liquidity as well, about 0.04, at conventional level.

4. Empirical Results

4.1 Univariate Analysis

We conduct an univariate analysis to check the aggregated changes of CDS spreads around national elections. The national election year is defined as year 0. Since the number of years between two national elections is around four in most of countries. We calculate the average CDS spreads two years before and after the election years and plot the graphs in Figure 2. As expected, we visualize that CDS spreads increase significantly in election years and continue remain at such high level in a year following. Then, it returns to the "normal" level without elections. While the fluctuation pattern of CDS volatility is different, which start to rocket up one year before a national election. Then it follows the trace of CDS spread afterwards.

[Please Insert Figure 2 about Here]

The movements of CDS liquidity, measured by the average number of distinct dealers providing the quotes, around an election year are exhibited in Panel B. Consistent with our expectation, we observe an increasing trend of CDS liquidity starting from one year before an election year. The CDS liquidity reaches the peak during an election year and starts to drop afterwards. It returns to the normal level around two years after the national election.

4.2 Multivariate Analysis

A. Political Uncertainty and CDS Spreads

We construct the following multivariate model to examine the impact of national election on CDS spreads,

$$\begin{aligned} logrithm\ of\ CDS\ Spread_t \\ &= \alpha + \beta Election\ Dummy + \gamma Interaction\ Terms \\ &+ \delta Firm\ level\ Controls + \theta Country\ level\ Controls + \varphi_1 Year \\ &+ \varphi_2 Industry + \varphi_3 Country + \varphi_4 CDS\_Clause + \varepsilon_t \end{aligned} \tag{4.1}$$

We calculate all the t-values using the clustering standard error approach by firm and report the regression results in Table 4.

[Please Insert Table 4 about Here]

According to Model 1 in Table 4, we find that CDS spreads increase significantly in election years at conventional level, suggesting a greater default risk in an election year at a firm-level, which is consistent with our conjecture. Since the structure of CDS market changes dramatically after the sub-prime financial crisis, we introduce a crisis dummy that equals one in or after 2008 and zero otherwise. We note that CDS spreads are amplified in election years only after the financial crisis but decrease before the crisis.

The earlier empirical literatures document a flight-to-quality effect in U.S. corporate bond market when political uncertainty is high[28]. Does CDS exhibit different behavior for different rating categories facing high political uncertainty? If bond holders prefer to switch from speculative to investment grades upon on the arrival of high political uncertainty, the demand for investment-grade bond will increase, suggesting a better liquidity and a lower corporate bond spread, and *vice versa* for speculative-grade bond. Since corporate bond spread is consisted by a

[28] See Nodari (2013) and Kavian, Kryzanowski and Maleki (2014) in the early discussion.

default component and non-default component, primarily liquidity components, if the decrease of corporate bond spread mainly due to the improvement of liquidity, we expect to see an increase of the default component that is reflected in CDS spreads.

To address this research question, we introduce a rating dummy that equals one for the investment group includes all ratings from *AAA* down to *BBB* and zero for the rest of ratings that fall into the speculative group. As reported in Model 3, we find that the increase of CDS spreads in an election year is mainly for the investment grade CDS contracts, suggesting that the default risk of investment grade bond are more sensitive to external political environment.

Our sample covers 30 countries with various legislation system and election characteristics, leading to various uncertainty levels in a national election year. To examine how do the election characteristics and legislative systems affect CDS spreads, we introduce an *Election Type Dummy*, an *Election Timing Dummy* and a *Legal Origin Dummy*, respectively.

There are two election systems in our sample, presidential and legislative (or parliamentary). Presidential system in general is associated with a relatively greater number of veto players, suggesting a high degree of checks and balances, compared to parliamentary systems. Also, usually, legislative election simultaneously changes the control in both the executive and legislative branches of government while presidential election only changes the executive of a country. Such differences suggest that it is relatively harder to change existing laws, regulations and economic policies after presidential election compared to that after legislative election. In other words, the legislative election generally induces higher uncertainty of political environment. Hence, we expect to observe a greater increase of both CDS levels and volatilities. Election Type

dummy equal to 1 for legislative system and 0 for presidential system. As shown in model 4 in Table 4, CDS spreads increase under legislative system while decrease under presidential system.

Election timing is another important characteristic of national election which affects the political uncertainty level. The election timings are fixed in some countries, for instance, the presidential election occurs every four years in most of countries. While it is flexible for the other countries, for example, in Japan, the incumbent government is able to select the timing of election and call a national election. Ito (1990) and Cargill and Mutchison (1991) document an evidence that the opportunistically selected timing of election is highly related to economic expansion and real GNP growth, respectively. According to the results in Model 5, CDS spreads increase in an election year under flexible election timing but decrease under fixed election timing. There are two possible reasons to explain such opposite results. First, compared to fixed election timing, the flexible national election may hit the market as an information shock, generating much severe impact on the financial markets. Consequently, it leads to a much higher increase of CDS spreads. Second, we note that all the countries in the flexible timing sub-samples use legislative election and a majority of the countries in the fixed timing group experience presidential election, about 8 out of 11. As discussed above, the legislative election changes the executive and legislative committee simultaneously, which suggests a higher political uncertainty.

As shown in La Porta, Lopez-de-Silanes and Shleifer (1998), legal origin is an important style factor of politics to affect financial markets. Specifically, the common-law countries generally have the strongest investor protections compared to the civil-law countries, especially French-

civil-law countries. Following their work[29], we identify the legal origins of almost all the countries in our sample, except Poland, Russian Federal and Luxembourg. We set legal origin dummy to one for common-law countries and zero for civil-law countries. As reported in Table 4, in general, CDS spreads are relatively higher in the countries with common-law. However, in an election year, CDS spreads increase in civil-law countries but decrease in common-law countries significantly.

For the control variables, as expected, CDS spreads is negatively related to the CDS liquidity, indicating the importance of illiquidity component in the spreads. We note that strong fundamental is associated with relatively lower CDS spreads. For instance, both return on assets and firm size are negatively correlated with spread levels and volatilities at conventional level. The risk measures, leverage and equity volatility, are positively correlated with the CDS spreads and volatilities, which is consistent with the findings in the literature (Ericsson, Jacobs and Oviedo, 2009).

B. Political Uncertainty and Term Structure of CDS Spreads

The CDS contracts with vary maturities provide an excellent dataset to analyze the credit term structure[30]. Compared to the corporate bond market in which not all bonds have multiple maturities with exact same features, the CDS contracts are easily comparable across both firm and time. In this section, we use following regression model to examine how political uncertainty affects the credit term structure in CDS market.

[29] La Porta, Lopez-de-Silanes and Shleifer (1998) report detailed classification of legal origin for each country in Table 2 and Table 4.

[30] Han, Subrahmanyam and Zhou (2015) studies the term structure of CDS and find that the slope of CDS spread term structure is affected by a firm's fundamental.

$$
\begin{aligned}
&Standardized\ CDS\ Slope_t \\
&= \alpha + \beta Election\ Dummy + \gamma Interaction\ Terms \\
&+ \delta Firm\ level\ Controls + \theta Country\ level\ Controls + \varphi_1 Year \\
&+ \varphi_2 Industry + \varphi_3 Country + \varphi_4 CDS\_Clause + \varepsilon_t
\end{aligned}
\tag{4.2}
$$

[Please Insert Table 5 about Here]

We use the spreads between 5-year and 1-year CDS contract written on the same firm divided by 1-year CDS spread as a proxy for the *standardized* slope of credit term structure. Since the contracts are less liquid with maturity other than 5-year, it shrinks the sample to 13803 year-contract observations. As reported in Table 5, the standardized slope are affected by the election characteristics as well as the legislative systems. Specifically, the high political uncertainty environment, such as legislative elections and flexible election timing, rockets the short-term default risk up drastically and leads to a decrease of slope. Regarding to the legal origin, we document that the slope decrease in election years in common-law countries, suggesting a greater sensitive of short-term CDS contracts compared to that of the long-term ones. After breaking down our sample according to ratings, we note that the CDS spreads for short-term investment-grade contract are more sensitive to the uncertainty of political environment. While for the speculative grades, we observe that the long-term CDS spreads increase more compared to that of the short-term ones. In addition, we also note that the short-term CDS contracts are more sensitive to the political uncertainty after the financial crisis.

C. Political Uncertainty and CDS Volatility

The volatility of CDS spread measures the standard deviation of the percentage change of daily CDS spreads in a year. It primarily reflects the fluctuation of the default risk of a firm. To examine how CDS volatility is affected by national election, we propose the following regression,

$$\begin{aligned} &Standardized\ CDS\ Volatility_t \\ &= \alpha + \beta Election\ Dummy + \gamma Interaction\ Terms \\ &+ \delta Firm\ level\ Controls + \theta Country\ level\ Controls + \varphi_1 Year \\ &+ \varphi_2 Industry + \varphi_3 Country + \varphi_4 CDS\_Clause + \varepsilon_t \end{aligned} \tag{4.3}$$

[Please Insert Table 6 about Here]

According to the results reported in Table 6, CDS volatilities significantly decrease in an election year, suggesting that the variation of default risk is relatively smaller when political uncertainty is high. In other words, the investors have less disagreement about that the default risk should be high during an election year, especially after the financial crisis. Regarding to the control variables, we note that rating dummy, CDS liquidity and firm size are positively associated with CDS volatility.

D. Political Uncertainty and CDS Liquidity

To measure the liquidity (depth) of CDS contract, we use the number of distinct dealers who provides quotes on the same contract. On average, there are six distinct dealers on average to quote on each CDS contract with the range from 2 to 23 in the full sample as shown in Table 2.

$$
\begin{aligned}
CDS\ Liquidity_t \\
&= \alpha + \beta Election\ Dummy + \gamma Interaction\ Terms \\
&+ \delta Firm\ level\ Controls + \theta Country\ level\ Controls + \varphi_1 Year \\
&+ \varphi_2 Industry + \varphi_3 Country + \varphi_4 CDS\_Clause + \varepsilon_t
\end{aligned}
\tag{4.4}
$$

Similar to the regression model for CDS spreads and volatilities, we construct a regression model (4.4) by controlling a firm's fundamental, economic condition at country level.

[Please Insert Table 7 about Here]

As reported in Table 7, firstly, we document a significant increase of CDS liquidity in an election year, numerically, approximately 0.35 dealers per contract on average. Such increments of liquidity rules out the argument that an increase of CDS spread in election years is because of the liquidity components completely although we had already control the liquidity factor in regression (4.1), which verifies our conjecture that the default risk of a firm become greater when the uncertainty of political environment is high. After incorporating the interaction term with rating, we find that CDS liquidity increase even more for investment-grade contracts.

We note that the election characteristics, legislative system and legal origin affect the influence of national election on CDS liquidity. In particular, the high political uncertainty is associated with high liquidity, for instance, the number of dealers who provides quotes on average is 0.33 more and -0.39 less for a firm in a country under legislative election and fixed election timing, respectively. Moreover, CDS contracts on a firm in a country with common law, better investor protection, have relatively lower liquidity on average according to Model 7 and 8 in Table 7. As essentially CDS contracts is a derivative to transfer default risk, a better endogenous liquidity of CDS contract sheds a light on the increased supplies in this market when

political uncertainty is high. As we cannot identify the purpose of trading, it is hard to tell whether the increased supplies is motivated by hedging or speculating activities.

Regarding to the control variables, we find that a firm's financial leverage and size are positively related to CDS liquidity, while the profitability, measured by return on asset, and the adequacy of cash to pay off the short term debt are negatively related to the liquidity. Consistent with Qiu and Yu (2012)'s findings, we find the equity market performance is significantly correlated with the CDS liquidity as well. In particular, the equity volatility is negatively related to CDS liquidity.

5. Robustness

5.1 CDS contracts with other maturities

We only focus on the 5-year CDS contracts in previous sections. Compared to 5-year CDS contracts, the CDS contracts with other maturities are less liquid and contain more missing observations. In this section, we choose the 1-, 3-, 7- and 10-year CDS contracts to check the robustness of our findings and report the regression results in Table 8.

[Please Insert Table 8 about Here]

Consistent to the evidence documented for 5-year CDS contracts, the CDS spreads increase significantly in election years after the sub-prime financial crisis across all the maturities but the magnitude decreases as the maturity increases, suggesting that the political uncertainty caused by national elections affects the short-term contracts much severely compared to the long-term ones. As shown in Panel B in Table 8, the negative relationship between CDS volatility and election dummy after the sub-prime financial crisis are robust as well.

5.2 Endogeneity and Simultaneity Analysis

In previous sections, we show how national elections affect the CDS spreads. Since CDS market itself is a channel to reveal information about the economic status of a country, the fluctuation of CDS spreads may have a reverse impact on the national elections with flexible timing although such reverse impact is quite weak. In addition, economically, unobservable heterogeneity is another source of endogeneity if there are unobservable factors that affect both CDS spreads and the timing of national elections. To check the robustness of our findings after controlling the endogeneity, we perform a long-term analysis and a dynamic GMM estimation as well as incorporate the possible omitted macro variables.

[Please Insert Table 9 about Here]

A. Long-term Impact

As shown in Figure 2, the impact of political uncertainty on CDS spread not only occurs in election years but also one year after, suggesting that there might be a long-term impact on the default risk of a firm. In this section, we employ the same model to regress on the CDS spreads, volatilities and liquidity one year after national elections and report the results in Panel A in Table 9. As expected, the CDS spreads and liquidity increase significantly at conventional level but the magnitudes are relatively smaller compared to these in election years, respectively, while CDS volatility is reduced further one year after the national election compared to that in election year. All the evidence shows that the impacts of political uncertainty on the CDS market are persistent in the year after election but become weaker.

In addition, as the future behavior of CDS contracts has no impact on the timing of past national elections, which strongly alleviates the endogeneity as well as the simultaneity problem,

the results reported in Panel B verify the causality of political uncertainty on the credit risk of a firm.

B. Dynamic GMM Estimation

An alternative solution to control the potential endogeneity problem is using dynmiac GMM estimation approach. This approach was introduced by Holtz-Eakin, Newey and Rosen (1988) and Arellano and Bond (1991), and further developed in Arellano and Bover (1995) and Blundell and Bond (1998). Under the dynamic GMM estimation approach, it uses the historical information of variables as instruments for the explanatory variables and produce consistent and unbiased estimates under the assumption that unobserved heterogeneity exists but is fixed or time invariant. This approach is widely implemented in finance and economic studies, such as Whited (1991), Bond and Meghir (1994), Caselli, Esquivel and Lefort(1996) , Blundell and Bond (1998), Wintoki, Linck and Netter (2012), etc.

We take the first lag of the dependent variables and perform the dynamic GMM estimation[31]. As reported in Panel B in Table 9, the CDS spreads and liquidities are still significantly positively related to the political uncertainty, respectively, while CDS volatility is negatively related to the uncertainty.

C. Possibly Omitted Macro Variables

An important source of endogeneity are the possibly omitted variables that drives both dependent and independent variables. Since the timing of national elections is usually affected by the country-level macro variables that might also affect the default risk of single firms, we choose the following macro variables to represent the country-level information from vary

[31] Because of the discontinuity in our panel data, we lose many observations when we perform dynamic GMM estimation.

aspects. In particular, we use financial risk rating from ICRG to reflects the integrated financial risk, percentage of foreign debt over GDP to reflect the country-level insolvency risk, exchange rate stability to reflect the stability of local currency that is important for a firm to explore the international market, corruption to reflects the internal governance of a government in power, religion in politics to reflects the impact of local culture on the politics, democratic accountability to reflects the response of government to the voice of residences.

[Please Insert Table 10 about Here]

As reported in Table 10, these variables are sort of positively or negatively related to the CDS spreads but most importantly the positive relationship between national election dummy and CDS spreads are always significant at conventional level across all the regression models, which verifies the robustness of our findings.

6. Conclusion

This paper studies the impacts of political uncertainty, proxy by national elections, on the credit risk of a firm in the context of single name CDS contracts across 30 countries. We document a significant increase of CDS spread in an election year, especially for the firms in a countries with higher uncertainty in election years, after the recent sub-prime financial crisis. Further, we find CDS volatility decrease and liquidity increase in election years, which rules out the possibility of that the incremental of CDS spreads is caused by the liquidity or volatility risk premium. All the evidence points to the conclusion that the default risk of a firm is higher in an election year. By conducting difference-in-difference tests, we find that the election characteristics, legislative system as well as legal origin affect the relationship between default risk and political uncertainty. In particular, the credit risk of a firm in a country with legislative

election, flexible election timing or civil-law becomes even greater in election years compared to the others, especially for a CDS contract with investment grade and short-term maturity.

As the first study to examine credit risk of a firm internationally in the context of credit default swap, our findings reveal the impact of the uncertainty of political environment on the default risk of a firm, as well as shed a light on the importance of political uncertainty in the CDS pricing practice and theory. Further, an improved liquidity of CDS market we documented when political uncertainty is high highlights the role of CDS as an instrument to transfer credit risk and a channel for information revelation. However, the improved liquidity is cause by hedging or speculating is unclear because of the limitation of data in this study, which provides an interesting research venue for further studies.

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Appendix A: Variable Definitions

Variables	Definitions	Data Sources
Election Dummy	Election dummy equals to one for an election year and zero otherwise.	CLEA, World Bank Author Calculated
Election Type Dummy	Election type dummy equals to one for a legislative election and zero otherwise	CLEA, World Bank Author Calculated
Election Timing Dummy	Election timing dummy equals to one for a fixed election timing and zero otherwise.	CLEA, World Bank Author Calculated
Legal Origin Dummy	Legal origin dummy equals to one for common law and zero otherwise.	La Porta, Lopez-de-Silanes and Shleifer (1998) Author Calculated
Crisis Dummy	Crisis dummy equals to one in 2008 and afterwards and zero otherwise.	Author Calculated
Rating Dummy	Rating dummy equals to one for rating greater than or equal to BBB and zero otherwise.	Markit Author Calculated
CDS Depth (CDS Liquidity)	The average number of 5-year CDS quotes providers for a single name contract during a typical time horizon. It is a measure of CDS liquidity and provided by Markit.	Markit
Cash Ratio	(Cash or cash equivalent + short term investment)/Total short term debt. The total short term debt is the sum of short term loan, debt and other debts.	OSIRIS Author Calculated
Leverage	(Book value of total debts + Book value of preferred equity)/Total asset value. The total asset value equals to the sum of book value of total debts, book value of preferred equity, market value of common equity.	OSIRIS Author Calculated
ROA	Return on assets. It equals to net income divided by the total value of asset.	OSIRIS Author Calculated
Log asset	The logarithm of total asset value.	OSIRIS Author Calculated
Market to book	Market value of equity divided by the book value of equity.	OSIRIS Author Calculated
Equity volatility	The annualized equity volatility calculated by monthly equity returns.	OSIRIS Author Calculated
Equity volatility (M)	The annualized monthly equity volatility calculated by the previous three month returns.	OSIRIS Author Calculated
Financial Risk Rating	Measure a country's ability to finance its official, commercial, and trade debt obligations.	ICRG
Foreign Debt/GDP	The estimated gross foreign debt in a given year, converted into US dollars at the average exchange rate for that year, is expressed as a percentage of the gross domestic product converted into US dollars at the average exchange rate for that year.	ICRG
Religious Tensions	Stem from the domination of society and/or governance by a single religious group that seeks to replace civil law by religious law and to exclude other religions from the political and/or social process.	ICRG

Corruption	Corruption within the political system.	ICRG
Democratic Accountability	This is a measure of how responsive government is to its people, on the basis that the less responsive it is, the more likely it is that the government will fall, peacefully in a democratic society, but possibly violently in a non-democratic one.	ICRG
International Liquidity	The total estimated official reserves for a given year, converted into US dollars at the average exchange rate for that year, including official holdings of gold, converted into US dollars at the free market price for the period, but excluding the use of IMF credits and the foreign liabilities of the monetary authorities, is divided by the average monthly merchandise import cost, converted into US dollars at the average exchange rate for the period	ICRG
GDP Growth Rate	The annual change of real GDP.	ICRG
Industry Dummies	Based on the industry definition provided by Markit, it categorizes all the firms into 10 industries, including basic materials, consumer services, consumer goods, energy, healthcare, industrials, technology, telecommunication services, financial service, utilities and governments. We remove the last three sectors from our sample.	Markit Author Calculated
CDS Clause Dummies	There are four type of CDS clauses: Modified-Modified (MM), Modified-Restructuring (MR), No-Restructuring (XR) and Full-Restructuring (CR).	Markit Author Calculated

Figure 1: Political Uncertainty and Credit Spreads

This figure depicts three channels through which the political uncertainty affects the CDS spreads and liquidity.

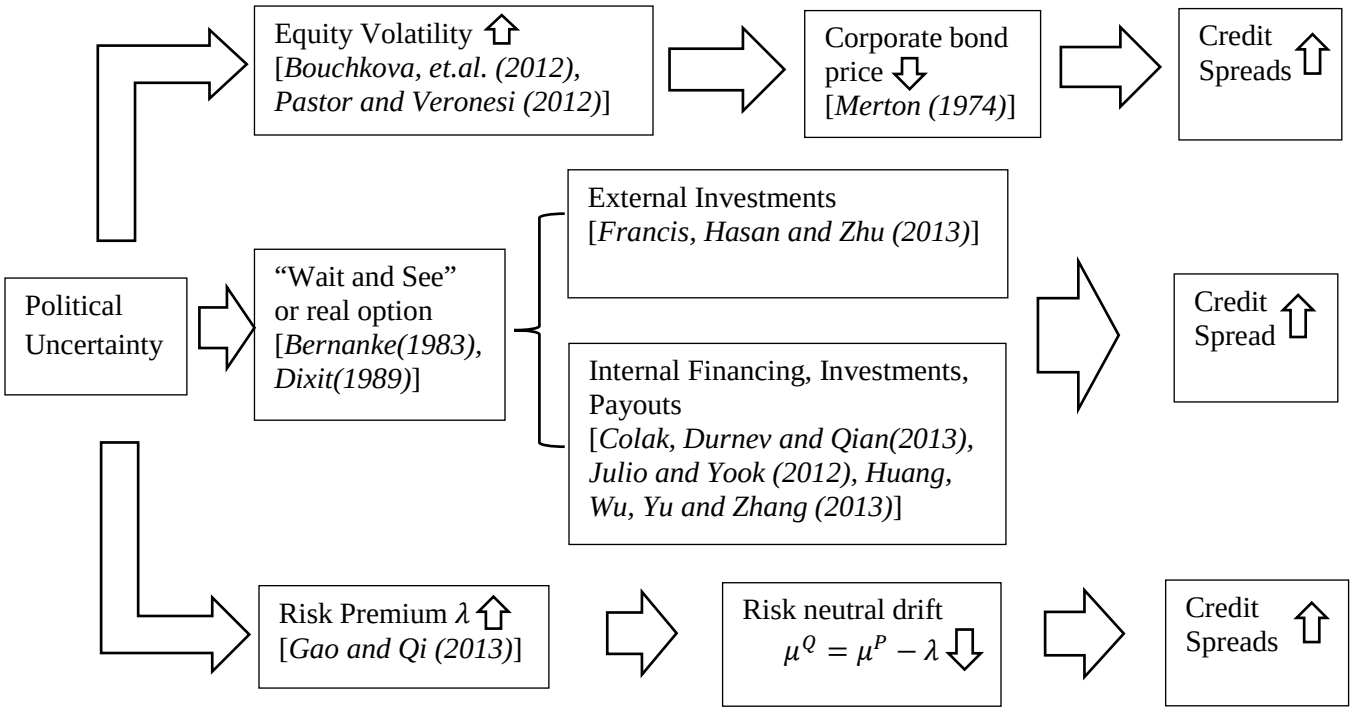


Table 1: Country Election Characteristics

Country Name	Legal Origin	Election System	Election Type	Election Timing	No. of Observations	No. of Elections
Argentina	Civil Law	Presidential	Presidential	Fixed	11	5
Australia	Common Law	Parliamentary	Legislative	Flexible	321	5
Austria	Civil Law	Parliamentary	Legislative	Flexible	42	4
Belgium	Civil Law	Parliamentary	Legislative	Fixed	64	3
Brazil	Civil Law	Presidential	Presidential	Fixed	123	3
Canada	Common Law	Parliamentary	Legislative	Flexible	583	4
Finland	Civil Law	Hybrid	Legislative	Flexible	135	3
France	Civil Law	Hybrid	Presidential	Fixed	601	3
Germany	Civil Law	Parliamentary	Legislative	Flexible	523	4
Greece	Civil Law	Parliamentary	Legislative	Flexible	15	4
India	Common Law	Parliamentary	Legislative	Flexible	20	2
Indonesia	Civil Law	Presidential	Presidential	Fixed	13	2
Ireland	Common Law	Parliamentary	Legislative	Flexible	12	3
Italy	Civil Law	Parliamentary	Legislative	Flexible	98	4
Japan	Civil Law	Parliamentary	Legislative	Flexible	2509	3
Korea (Republic of)	Civil Law	Hybrid	Presidential	Fixed	171	3
Malaysia	Common Law	Parliamentary	Legislative	Flexible	55	3
Mexico	Civil Law	Presidential	Presidential	Fixed	57	4
Netherlands	Civil Law	Parliamentary	Legislative	Flexible	244	5
New Zealand	Common Law	Parliamentary	Legislative	Flexible	18	4
Norway	Civil Law	Parliamentary	Legislative	Fixed	89	3
Philippines	Civil Law	Presidential	Presidential	Fixed	35	4
Portugal	Civil Law	Parliamentary	Legislative	Flexible	49	4
Singapore	Common Law	Parliamentary	Legislative	Flexible	71	3
South Africa	Common Law	Parliamentary	Legislative	Flexible	44	2
Spain	Civil Law	Parliamentary	Legislative	Flexible	106	3
Sweden	Civil Law	Parliamentary	Legislative	Fixed	222	3
Thailand	Common Law	Parliamentary	Legislative	Flexible	42	5
United Kingdom	Common Law	Parliamentary	Legislative	Flexible	981	3
United States	Common Law	Presidential	Presidential	Fixed	6940	3
Total					14194	104

Table 2: Descriptive Statistics

This table reports the descriptive statistics of all the variables for the full sample. All the variables are winsorized at 1% and 99% quantiles.

	Min	Q25	Q50	Q75	Max	Mean	Standard Deviation	Skewness
CDS Level	8.28	55.76	100.07	202.38	1633	166.25	183.22	2.65
CDS Volatility	3E-4	0.12	0.20	0.36	1.53	0.25	0.19	1.23
CDS Depth	2.00	3.41	6.13	8.22	23.21	6.46	3.56	0.86
Cash Ratio	7.1E-5	0.20	0.80	3.71	553	15.92	67.66	6.55
Leverage	0.94%	17.49%	29.29%	46.10%	87.00%	33.07%	20.24%	0.66
ROA	-25.36%	2.04%	4.18%	6.05%	19.1%	3.58%	5.87%	-1.84
Log Asset	13.59	15	16	17	19.18	16.31	1.19	0.30
Market to Book	0.4	1.00	2.00	3.00	20.00	2.73	2.89	3.78
Equity Volatility	4.93%	10.16%	14.46%	20.90%	63.63%	17.01%	10.01%	1.95

Figure 1: Distribution of Observations

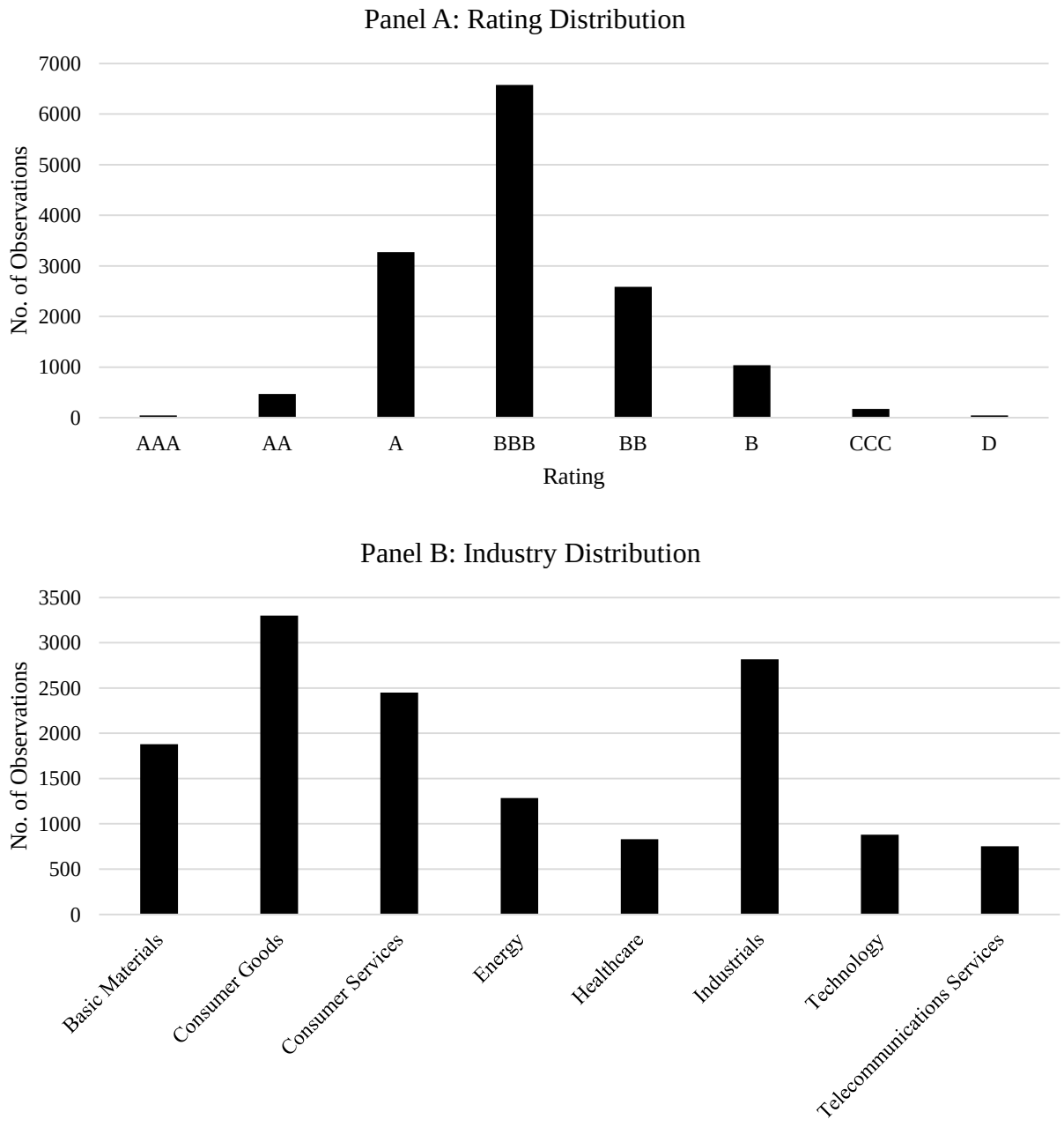
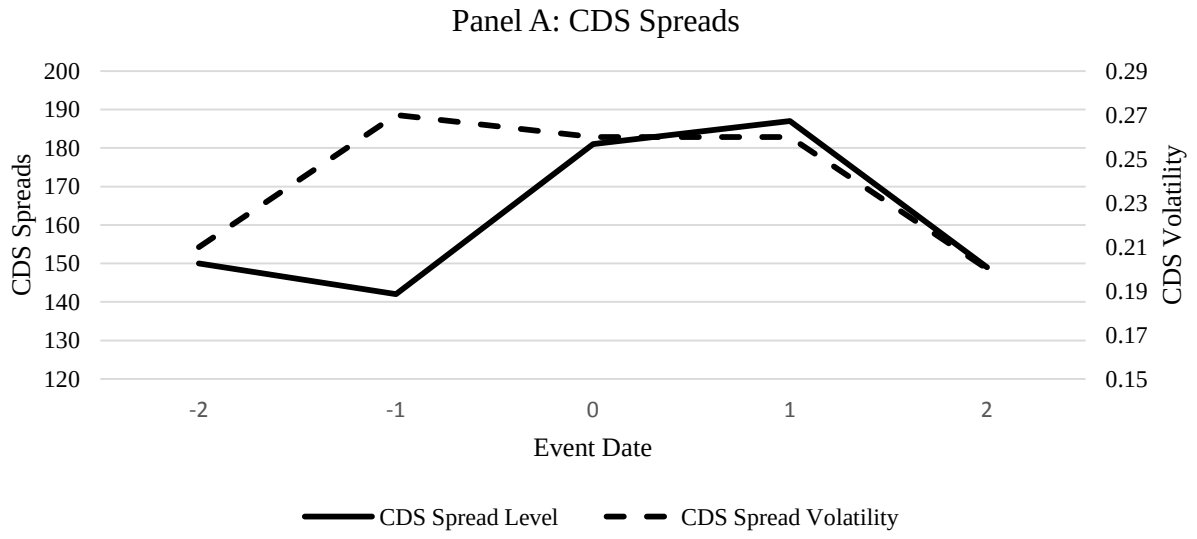


Figure 2: CDS Spreads and Liquidity around Election Dates

The figure in Panel A depicts the average CDS spread levels (solid line) and volatilities (dash line) around the national election years. The figure in Panel B depicts the average CDS liquidity level (solid line) and volatilities (dash line) around the national election years. The CDS liquidity is measured by the number of distinct dealer providing the quote.



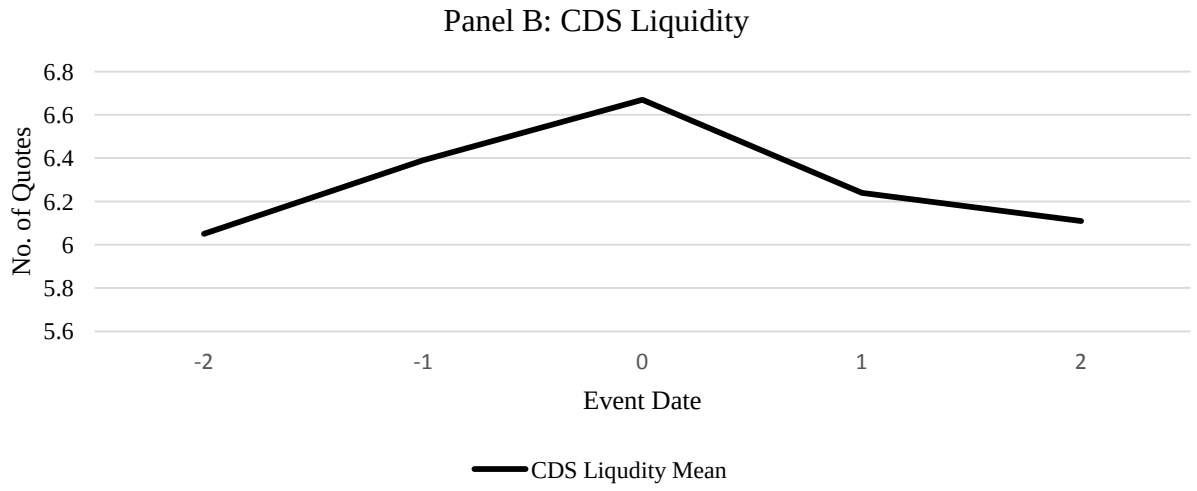


Table 3: Correlation Matrix

	CDS Level	CDS Volatility	Election Dummy	Legal Origin	Rating	CDS Liquidity	Cash ratio	leverage	ROA	log asset	Market to Book	Equity volatility	GDP Growth
CDS Level	1.00												
CDS Volatility	0.68	1.00											
	(<.0001)												
Election Dummy	0.05	0.06	1.00										
	(<.0001)	(<.0001)											
Legal Origin	0.11	0.04	0.02	1.00									
	(<.0001)	(<.0001)	-0.04										
Rating	-0.57	-0.34	0.00	-0.11	1.00								
	(<.0001)	(<.0001)	-0.75	<.0001									
CDS Liquidity	-0.13	0.05	0.04	0.03	0.12	1.00							
	(<.0001)	(<.0001)	(<.0001)	0.00	(<.0001)								
Cash ratio	0.00	-0.02	-0.01	0.14	-0.02	-0.07	1.00						
	-0.68	-0.02	-0.33	(<.0001)	-0.03	(<.0001)							
leverage	0.46	0.32	-0.01	-0.25	-0.36	-0.04	-0.15	1.00					
	(<.0001)	(<.0001)	-0.50	(<.0001)	(<.0001)	(<.0001)	(<.0001)						
ROA	-0.28	-0.15	0.06	0.03	0.27	0.06	0.02	-0.32	1.00				
	(<.0001)	(<.0001)	(<.0001)	0.00	(<.0001)	(<.0001)	-0.04	(<.0001)					
log asset	-0.19	-0.04	0.01	-0.17	0.37	0.36	-0.12	0.06	0.14	1.00			
	(<.0001)	(<.0001)	-0.08	(<.0001)	(<.0001)	(<.0001)	(<.0001)	(<.0001)	(<.0001)				
Market to Book	-0.09	-0.07	0.03	0.24	0.05	0.08	0.01	-0.26	0.08	-0.10	1.00		
	(<.0001)	(<.0001)	0.00	(<.0001)	(<.0001)	(<.0001)	-0.30	(<.0001)	(<.0001)	(<.0001)			
Equity volatility	0.44	0.23	-0.05	-0.02	-0.30	-0.29	0.01	0.33	-0.26	-0.22	-0.15	1.00	
	(<.0001)	(<.0001)	(<.0001)	-0.01	(<.0001)	(<.0001)	-0.21	(<.0001)	(<.0001)	(<.0001)	(<.0001)		
GDP Growth	-0.12	-0.23	-0.04	0.17	-0.07	0.10	0.03	-0.18	-0.04	-0.07	0.10	-0.21	1.00
	(<.0001)	(<.0001)	(<.0001)	(<.0001)	(<.0001)	(<.0001)	(<.0001)	(<.0001)	(<.0001)	(<.0001)	(<.0001)	(<.0001)	

Table 4: Political Uncertainty and CDS Spreads

This table reports the panel regression results for the logarithm of 5-year CDS spread level for the full sample. Election Dummy equals to 1 if the year is national election year otherwise equals to 0. The detailed explanations of other variables are showed in Appendix A. The values in the parentheses are t-values clustered by the CDS contracts.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Intercept	6.546***	6.562***	6.571***	6.518***	6.508***	6.449***	6.465***	6.456***
	(42.63)	(42.43)	(42.96)	(42.25)	(42.17)	(41.56)	(41.37)	(41.28)
Election Dummy	0.052***	-0.111***	-0.006	-0.039***	0.134***	0.169***	-0.098***	-0.000
	(6.07)	(4.03)	(0.38)	(3.28)	(10.77)	(12.74)	(2.83)	(0.01)
Election *Crisis		0.189***					0.182***	0.183***
		(6.51)					(6.25)	(6.27)
Election *Rating			0.079***				0.049***	0.049***
			(4.53)				(2.78)	(2.81)
Election* Election Type				0.169***			0.090***	
				(10.32)			(4.95)	
Election* Election Timing					-0.165***			-0.099***
					(10.08)			(5.71)
Election* Legal Origin						-0.202***	-0.158***	-0.161***
						(12.07)	(8.36)	(8.91)
Legal Origin Dummy	0.201**	0.156*	0.191**	0.205**	0.205**	0.276***	0.212**	0.213**
	(2.38)	(1.80)	(2.29)	(2.39)	(2.39)	(3.17)	(2.37)	(2.38)
Rating Dummy	-0.753***	-0.753***	-0.777***	-0.752***	-0.752***	-0.753***	-0.767***	-0.767***
	(32.16)	(32.14)	(32.51)	(32.11)	(32.10)	(32.17)	(32.26)	(32.29)
CDS Depth	0.010***	0.010***	0.010***	0.010***	0.010***	0.009***	0.009***	0.009***
	(4.02)	(4.00)	(3.99)	(3.91)	(3.88)	(3.80)	(3.76)	(3.74)
Cash Ratio	0.000***	0.000***	0.000***	0.000***	0.000***	0.000***	0.000***	0.000***
	(2.88)	(2.90)	(2.82)	(2.83)	(2.84)	(2.75)	(2.75)	(2.75)
leverage	1.389***	1.387***	1.391***	1.393***	1.394***	1.390***	1.391***	1.392***
	(27.55)	(27.53)	(27.57)	(27.65)	(27.65)	(27.64)	(27.65)	(27.66)
ROA	-0.569***	-0.587***	-0.566***	-0.584***	-0.590***	-0.594***	-0.613***	-0.618***
	(5.25)	(5.42)	(5.21)	(5.39)	(5.43)	(5.45)	(5.62)	(5.66)
Log Asset	-0.119***	-0.118***	-0.119***	-0.119***	-0.119***	-0.118***	-0.118***	-0.118***
	(14.35)	(14.32)	(14.37)	(14.37)	(14.37)	(14.33)	(14.33)	(14.33)
Market to Book	-0.012***	-0.012***	-0.011***	-0.011***	-0.011***	-0.012***	-0.012***	-0.012***
	(4.09)	(4.12)	(4.04)	(3.99)	(4.01)	(4.12)	(4.05)	(4.06)
Equity Volatility	1.407***	1.410***	1.399***	1.392***	1.390***	1.388***	1.383***	1.381***
	(14.90)	(14.94)	(14.82)	(14.70)	(14.68)	(14.65)	(14.60)	(14.57)
GDP Growth Rate	-0.067***	-0.067***	-0.067***	-0.063***	-0.062***	-0.058***	-0.058***	-0.057***
	(12.81)	(12.75)	(12.70)	(11.97)	(11.82)	(10.68)	(10.53)	(10.38)
Year Dummy	YES	YES	YES	YES	YES	YES	YES	YES
Industry Dummy	YES	YES	YES	YES	YES	YES	YES	YES
Country Dummy	YES	YES	YES	YES	YES	YES	YES	YES
CDS Clause Dummy	YES	YES	YES	YES	YES	YES	YES	YES
Firm Clustering	YES	YES	YES	YES	YES	YES	YES	YES
R^2	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
N	14,194	14,194	14,194	14,194	14,194	14,194	14,194	14,194

Table 5: Political Uncertainty and Term Structure of CDS Spreads

This table reports the panel regression results for the slope of the term structure of CDS Spreads, a difference between 5-year and 1-year CDS spreads divided by 1-year CDS spreads, for the full sample. Election Dummy equals to 1 if the year is national election year otherwise equals to 0. The detailed explanations of other variables are showed in Appendix A. The values in the parentheses are t-values clustered by the CDS contracts.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Intercept	1.394***	1.377***	1.367***	1.422***	1.431***	1.354***	1.308***	1.326***
	(9.28)	(9.08)	(9.09)	(9.49)	(9.54)	(8.98)	(8.61)	(8.73)
Election Dummy	0.019*	0.144***	0.085***	0.090***	-0.046***	0.061***	0.388***	0.182***
	(1.74)	(3.59)	(3.58)	(5.03)	(3.00)	(3.67)	(8.30)	(4.16)
Election *Crisis		-0.145***					-0.122***	-0.125***
		(3.50)					(3.07)	(3.13)
Election *Rating			-0.088***				-0.077***	-0.080***
			(3.38)				(2.92)	(3.04)
Election* Election Type				-0.131***			-0.201***	
				(5.23)			(7.18)	
Election* Election Timing					0.132***			0.182***
					(5.35)			(6.83)
Election* Legal Origin						-0.072***	-0.169***	-0.149***
						(3.12)	(6.75)	(6.07)
Legal Origin Dummy	0.142	0.128	0.133	0.137	0.138	0.181	0.208	0.198
	(0.68)	(0.68)	(0.66)	(0.62)	(0.62)	(0.86)	(1.01)	(0.96)
Rating Dummy	0.185***	0.185***	0.212***	0.184***	0.184***	0.185***	0.208***	0.208***
	(8.65)	(8.64)	(9.21)	(8.61)	(8.60)	(8.67)	(9.00)	(9.03)
Cash Ratio	0.042***	0.042***	0.042***	0.042***	0.042***	0.042***	0.042***	0.042***
	(15.60)	(15.59)	(15.61)	(15.66)	(15.68)	(15.50)	(15.53)	(15.56)
leverage	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000
	(1.27)	(1.27)	(1.22)	(1.24)	(1.25)	(1.31)	(1.27)	(1.28)
ROA	-0.315***	-0.314***	-0.317***	-0.317***	-0.317***	-0.315***	-0.318***	-0.319***
	(7.26)	(7.23)	(7.28)	(7.30)	(7.30)	(7.26)	(7.32)	(7.32)
Log Asset	0.018	0.031	0.011	0.031	0.036	0.011	0.023	0.030
	(0.16)	(0.27)	(0.09)	(0.27)	(0.32)	(0.09)	(0.20)	(0.27)
Market to Book	-0.017**	-0.017**	-0.017**	-0.017**	-0.017**	-0.016**	-0.016**	-0.016**
	(2.38)	(2.42)	(2.38)	(2.38)	(2.38)	(2.36)	(2.37)	(2.37)
Equity Volatility	0.003	0.003	0.003	0.003	0.003	0.003	0.002	0.003
	(1.13)	(1.15)	(1.06)	(1.05)	(1.06)	(1.11)	(0.94)	(0.97)
International Market Liquidity	-0.621***	-0.626***	-0.614***	-0.612***	-0.610***	-0.628***	-0.620***	-0.616***
	(7.42)	(7.47)	(7.31)	(7.29)	(7.26)	(7.49)	(7.37)	(7.32)
GDP Growth Rate	0.042***	0.042***	0.041***	0.038***	0.038***	0.045***	0.044***	0.043***
	(5.62)	(5.65)	(5.53)	(5.12)	(5.00)	(6.05)	(5.93)	(5.71)
Year Dummy	YES	YES	YES	YES	YES	YES	YES	YES
Industry Dummy	YES	YES	YES	YES	YES	YES	YES	YES
Country Dummy	YES	YES	YES	YES	YES	YES	YES	YES
CDS Clause Dummy	YES	YES	YES	YES	YES	YES	YES	YES
Firm Clustering	YES	YES	YES	YES	YES	YES	YES	YES
R^2	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
N	13,803	13,803	13,803	13,803	13,803	13,803	13,803	13,803

Table 6: Political Uncertainty and CDS Spread Volatility

This table reports the panel regression results for the logarithm of standardized 5-year CDS volatility for the full sample. Election Dummy equals to 1 if the year is national election year otherwise equals to 0. The detailed explanations of other variables are showed in Appendix A. The values in the parentheses are t-values clustered by the CDS contracts.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Intercept	-5.301***	-5.317***	-5.282***	-5.308***	-5.319***	-5.330***	-5.321***	-5.325***
	(15.27)	(15.20)	(15.16)	(15.30)	(15.35)	(15.35)	(15.14)	(15.16)
Election Dummy	-0.069***	0.098**	-0.112***	-0.090***	-0.030	-0.034	0.076	0.107**
	(4.40)	(2.33)	(3.37)	(3.81)	(1.44)	(1.50)	(1.41)	(2.06)
Election *Crisis		-0.194***					-0.203***	-0.204***
		(4.23)					(4.40)	(4.40)
Election *Rating			0.059*				0.065*	0.064*
			(1.69)				(1.87)	(1.83)
Election* Election Type				0.040			0.015	
				(1.28)			(0.43)	
Election* Election Timing					-0.077**			-0.063*
					(2.50)			(1.88)
Election* Legal Origin						-0.060**	-0.045	-0.028
						(1.99)	(1.33)	(0.84)
Legal Origin Dummy	0.112	0.158	0.104	0.113	0.114	0.134	0.169	0.164
	(0.28)	(0.40)	(0.26)	(0.28)	(0.29)	(0.34)	(0.42)	(0.41)
Rating Dummy	0.093***	0.092***	0.075***	0.093***	0.093***	0.093***	0.072**	0.073**
	(3.43)	(3.41)	(2.62)	(3.43)	(3.44)	(3.42)	(2.53)	(2.56)
CDS Depth	0.059***	0.059***	0.059***	0.059***	0.059***	0.059***	0.059***	0.059***
	(18.90)	(18.90)	(18.89)	(18.90)	(18.87)	(18.81)	(18.80)	(18.79)
Cash Ratio	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	(1.06)	(1.06)	(1.04)	(1.06)	(1.05)	(1.04)	(1.01)	(1.01)
leverage	0.017	0.019	0.018	0.018	0.019	0.017	0.021	0.022
	(0.32)	(0.36)	(0.34)	(0.34)	(0.36)	(0.32)	(0.40)	(0.43)
ROA	-0.020	-0.002	-0.019	-0.024	-0.030	-0.028	-0.006	-0.011
	(0.13)	(0.01)	(0.12)	(0.15)	(0.19)	(0.17)	(0.04)	(0.07)
Log Asset	0.158***	0.158***	0.158***	0.158***	0.158***	0.158***	0.158***	0.158***
	(18.39)	(18.34)	(18.38)	(18.39)	(18.39)	(18.40)	(18.33)	(18.32)
Market to Book	-0.001	-0.000	-0.000	-0.000	-0.000	-0.001	-0.000	-0.000
	(0.19)	(0.16)	(0.15)	(0.17)	(0.16)	(0.20)	(0.11)	(0.09)
Equity Volatility	-0.102	-0.106	-0.108	-0.105	-0.109	-0.107	-0.118	-0.121
	(0.89)	(0.92)	(0.94)	(0.92)	(0.96)	(0.94)	(1.03)	(1.06)
GDP Growth Rate	-0.027***	-0.027***	-0.026***	-0.026***	-0.025***	-0.024***	-0.024***	-0.023**
	(3.00)	(3.01)	(2.96)	(2.88)	(2.72)	(2.65)	(2.65)	(2.57)
Year Dummy	YES	YES	YES	YES	YES	YES	YES	YES
Industry Dummy	YES	YES	YES	YES	YES	YES	YES	YES
Country Dummy	YES	YES	YES	YES	YES	YES	YES	YES
CDS Clause Dummy	YES	YES	YES	YES	YES	YES	YES	YES
Firm Clustering	YES	YES	YES	YES	YES	YES	YES	YES
R^2	0.32	0.32	0.32	0.32	0.32	0.32	0.32	0.32
N	14,194	14,194	14,194	14,194	14,194	14,194	14,194	14,194

Table 7: Political Uncertainty and CDS Liquidity

This table reports the panel regression results for the 5-year CDS liquidity, a number of distinct dealers who provides quotes on CDS contracts, for the full sample. Election Dummy equals to 1 if the year is national election year otherwise equals to 0. The detailed explanations of other variables are showed in Appendix A. The values in the parentheses are t-values clustered by the CDS contracts.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Intercept	-7.207***	-7.204***	-7.157***	-7.257***	-7.290***	-7.452***	-7.406***	-7.420***
	(4.24)	(4.24)	(4.22)	(4.27)	(4.29)	(4.38)	(4.36)	(4.36)
Election Dummy	0.354***	0.319*	0.242***	0.178***	0.545***	0.662***	0.481***	0.616***
	(9.54)	(1.82)	(3.14)	(3.49)	(10.77)	(13.00)	(2.65)	(3.21)
Election *Crisis		0.041					0.029	0.028
		(0.22)					(0.15)	(0.15)
Election *Rating			0.151*				0.102	0.099
			(1.85)				(1.28)	(1.24)
Election* Election Type				0.325***			0.093	
				(4.92)			(1.18)	
Election* Election Timing					-0.388***			-0.211***
					(5.91)			(2.84)
Election* Legal Origin						-0.535***	-0.483***	-0.443***
						(7.59)	(5.82)	(5.60)
Legal Origin Dummy	0.578	0.564	-5.195***	0.592	0.588	-5.119***	-5.159***	-5.161***
	(0.35)	(0.34)	(2.97)	(0.36)	(0.35)	(2.92)	(2.94)	(2.94)
Rating Dummy	0.311**	0.311**	0.265**	0.312**	0.313**	0.310**	0.279**	0.281**
	(2.48)	(2.48)	(2.10)	(2.49)	(2.50)	(2.48)	(2.22)	(2.23)
Cash Ratio	-0.001**	-0.001**	-0.001**	-0.001**	-0.001**	-0.001**	-0.001**	-0.001**
	(2.45)	(2.45)	(2.48)	(2.48)	(2.47)	(2.53)	(2.55)	(2.55)
leverage	0.790***	0.789***	0.793***	0.797***	0.800***	0.791***	0.795***	0.798***
	(3.32)	(3.32)	(3.33)	(3.35)	(3.36)	(3.33)	(3.34)	(3.36)
ROA	-2.735***	-2.739***	-2.730***	-2.764***	-2.782***	-2.799***	-2.801***	-2.814***
	(5.18)	(5.19)	(5.17)	(5.23)	(5.26)	(5.30)	(5.30)	(5.32)
Log Asset	1.066***	1.066***	1.066***	1.066***	1.065***	1.065***	1.065***	1.065***
	(26.06)	(26.07)	(26.05)	(26.05)	(26.04)	(26.04)	(26.04)	(26.03)
Market to Book	0.013	0.013	0.014	0.014	0.014	0.013	0.013	0.014
	(0.90)	(0.89)	(0.91)	(0.93)	(0.93)	(0.88)	(0.90)	(0.91)
Equity Volatility	-2.993***	-2.992***	-3.007***	-3.018***	-3.029***	-3.038***	-3.050***	-3.059***
	(8.30)	(8.29)	(8.34)	(8.37)	(8.39)	(8.44)	(8.46)	(8.49)
International Market Liquidity	-0.151**	-0.149*	-0.152**	-0.154**	-0.152*	-0.157**	-0.156**	-0.155**
	(1.97)	(1.94)	(1.98)	(1.99)	(1.95)	(2.05)	(2.02)	(2.01)
GDP Growth Rate	0.007	0.007	0.008	0.015	0.018	0.031	0.032	0.034
	(0.26)	(0.26)	(0.30)	(0.56)	(0.70)	(1.16)	(1.18)	(1.26)
Year Dummy	YES	YES	YES	YES	YES	YES	YES	YES
Industry Dummy	YES	YES	YES	YES	YES	YES	YES	YES
Country Dummy	YES	YES	YES	YES	YES	YES	YES	YES
CDS Clause Dummy	YES	YES	YES	YES	YES	YES	YES	YES
Firm Clustering	YES	YES	YES	YES	YES	YES	YES	YES
R^2	0.44	0.44	0.44	0.44	0.44	0.44	0.45	0.45
N	14,194	14,194	14,194	14,194	14,194	14,194	14,194	14,194

Table 8: Political Uncertainty and CDS Spreads of Other Maturities

This table reports the panel regression results for the 1-, 3-, 7-, 10-year CDS spreads (Panel A) and volatilities (Panel B) for the full sample. Election Dummy equals to 1 if the year is national election year otherwise equals to 0. The detailed explanations of other variables are showed in Appendix A. The values in the parentheses are t-values clustered by the CDS contracts.

	Panel A: CDS Spread				Panel B: CDS Volatility			
	1-year	3-year	7-year	10-year	1-year	3-year	7-year	10-year
Intercept	5.840***	6.299***	6.543***	6.575***	-4.027***	-4.510***	-5.043***	-4.828***
	(30.22)	(36.33)	(44.14)	(47.05)	(8.75)	(11.32)	(16.30)	(18.33)
Election Dummy	-0.238***	-0.153***	-0.073**	-0.049	0.077	0.024	0.014	-0.017
	(5.34)	(4.01)	(2.15)	(1.54)	(1.47)	(0.48)	(0.26)	(0.32)
Election *Crisis	0.185***	0.171***	0.138***	0.130***	-0.253***	-0.233***	-0.257***	-0.236***
	(4.95)	(5.30)	(4.78)	(4.74)	(6.00)	(5.41)	(5.82)	(5.30)
Election *Rating	0.081***	0.070***	0.056***	0.045***	0.143***	0.111***	0.146***	0.142***
	(3.30)	(3.46)	(3.31)	(2.81)	(3.90)	(3.29)	(4.24)	(4.02)
Election* Election Type	0.192***	0.130***	0.096***	0.091***	-0.043	0.044	0.039	0.058
	(7.64)	(6.36)	(5.38)	(5.45)	(1.20)	(1.37)	(1.12)	(1.60)
Election* Legal Origin	-0.094***	-0.124***	-0.159***	-0.164***	-0.038	-0.055*	-0.038	-0.036
	(3.84)	(6.05)	(8.76)	(9.54)	(1.13)	(1.80)	(1.17)	(1.09)
Legal Origin Dummy	0.412***	0.635***	0.791***	0.791***	0.001	-0.083	-0.079	-0.046
	(3.85)	(7.02)	(12.13)	(13.59)	(0.00)	(0.23)	(0.30)	(0.22)
Rating Dummy	-0.823***	-0.802***	-0.722***	-0.683***	-0.009	0.057**	0.042	0.030
	(28.49)	(31.04)	(31.59)	(31.36)	(0.30)	(2.14)	(1.47)	(1.04)
CDS Depth	-0.007**	0.004	0.008***	0.008***	0.052***	0.048***	0.054***	0.048***
	(2.41)	(1.47)	(3.67)	(3.54)	(16.14)	(16.36)	(16.98)	(14.85)
Cash Ratio	0.000***	0.000***	0.000***	0.000***	0.000**	0.000**	0.000**	0.000
	(3.03)	(3.24)	(3.23)	(2.96)	(2.20)	(2.32)	(2.00)	(1.34)
leverage	1.601***	1.507***	1.348***	1.261***	0.138***	0.091**	0.096*	0.082*
	(26.75)	(28.08)	(28.50)	(28.16)	(2.67)	(2.00)	(1.90)	(1.70)
ROA	-0.766***	-0.727***	-0.626***	-0.599***	-0.220	-0.005	0.130	0.123
	(5.77)	(6.32)	(6.12)	(6.16)	(1.55)	(0.03)	(0.85)	(0.81)
Log Asset	-0.118***	-0.121***	-0.117***	-0.113***	0.120***	0.130***	0.131***	0.115***
	(12.65)	(13.93)	(15.01)	(15.13)	(15.20)	(17.25)	(15.78)	(13.88)
Market to Book	-0.014***	-0.012***	-0.011***	-0.010***	0.004	0.002	-0.000	-0.002
	(3.85)	(3.90)	(3.83)	(3.93)	(1.40)	(0.67)	(0.11)	(0.79)
Equity Volatility	1.838***	1.686***	1.466***	1.401***	0.017	0.156*	0.137	0.112
	(15.67)	(16.08)	(15.93)	(16.11)	(0.17)	(1.75)	(1.28)	(1.06)
GDP Growth Rate	-0.071***	-0.060***	-0.051***	-0.050***	-0.020**	-0.022***	-0.013	-0.010
	(9.66)	(9.90)	(9.68)	(9.98)	(2.38)	(2.89)	(1.49)	(1.09)
Year Dummy	YES	YES	YES	YES	YES	YES	YES	YES
Industry Dummy	YES	YES	YES	YES	YES	YES	YES	YES
Country Dummy	YES	YES	YES	YES	YES	YES	YES	YES
CDS Clause Dummy	YES	YES	YES	YES	YES	YES	YES	YES
Firm Clustering	YES	YES	YES	YES	YES	YES	YES	YES
R^2	0.73	0.72	0.70	0.69	0.26	0.33	0.32	0.30
N	13,656	13,656	13,656	13,656	13,625	13,646	13,637	13,628

Table 9: Long Term Impacts and Dynamic GMM Estimation

This table reports the panel regression results for the 5-year CDS spread, volatility and liquidity one year after election in Panel A, while the results for dynamic GMM estimation are reported in Panel B. Election Dummy equals to 1 if the year is national election year otherwise equals to 0. The detailed explanations of other variables are showed in Appendix A. The values in the parentheses are t-values clustered by the CDS contracts.

	Panel A: 1-year After Election			Panel B: Dynamic GMM Estimation		
	CDS Spread	CDS Volatility	CDS Liquidity	CDS Spread	CDS Volatility	CDS Liquidity
Intercept	5.681***	-4.918***	-3.933***	1.651***	-0.100	1.989
	(30.47)	(14.50)	(5.20)	(3.32)	(0.10)	(1.00)
Election Dummy	0.050***	-0.120***	0.325***	0.030***	-0.046***	0.321***
	(3.58)	(4.76)	(5.52)	(3.62)	(2.79)	(9.82)
Lag CDS Spread				0.496***		0.029
				(21.72)		(0.15)
Lag CDS Volatility					0.064***	
					(3.17)	
Lag CDS Liquidity						0.601***
						(49.44)
Legal Origin Dummy	0.050***	-0.120***	-2.872***			
	(3.58)	(4.76)	(4.97)			
Rating Dummy	-0.033	-0.598**	0.351***			
	(0.24)	(2.31)	(5.47)			
CDS Depth	0.013***	0.094***		0.040***	-0.032***	
	(5.77)	(22.80)		(12.03)	(4.79)	
Cash Ratio	0.000	0.000**	-0.001***	0.000***	-0.000	-0.000
	(1.16)	(2.36)	(3.02)	(3.02)	(1.32)	(1.25)
leverage	1.266***	0.280***	0.666***	0.536***	-0.500***	-0.446**
	(36.39)	(4.43)	(4.72)	(9.29)	(4.42)	(1.99)
ROA	-0.440***	0.162	-2.555***	0.332***	-0.144	0.179
	(4.61)	(0.94)	(6.61)	(4.21)	(0.92)	(0.58)
Log Asset	-0.091***	0.166***	1.005***	0.038	-0.097	0.109
	(14.65)	(14.73)	(42.91)	(1.26)	(1.61)	(0.90)
Market to Book	-0.016***	-0.004	0.014*	-0.007**	-0.000	-0.002
	(8.00)	(0.98)	(1.69)	(2.01)	(0.03)	(0.15)
Equity Volatility	1.193***	0.298**	-2.340***	-0.188***	-0.710***	-0.584**
	(16.48)	(2.26)	(7.98)	(2.91)	(5.48)	(2.28)
International Market Liquidity			-0.277***			-0.156**
			(3.30)			(2.02)
GDP Growth Rate	-0.052***	-0.038***	0.103***	-0.029***	-0.008	-0.584**
	(6.94)	(2.78)	(3.41)	(6.54)	(0.94)	(2.28)
Year Dummy	YES	YES	YES	YES	YES	YES
Industry Dummy	YES	YES	YES	YES	YES	YES
Country Dummy	YES	YES	YES	YES	YES	YES
CDS Clause Dummy	YES	YES	YES	YES	YES	YES
Firm Clustering	YES	YES	YES	YES	YES	YES
R^2	0.61	0.26	0.44			
N	11,963	11,963	11,963	7224	7224	7224

Table 10: CDS Spreads and Possibly Omitted Macro Variables

This table reports the panel regression results for the logarithm of 5-year CDS spreads for the full sample. Election Dummy equals to 1 if the year is national election year otherwise equals to 0. The detailed explanations of other variables are showed in Appendix A. We only reports the coefficients of the key variables and omit the coefficients for other control variables. The values in the parentheses are t-values clustered by the CDS contracts.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Intercept	7.735***	6.726***	7.039***	6.185***	6.913***	4.490***
	(45.98)	(43.50)	(43.32)	(39.95)	(31.49)	(8.72)
Election Dummy	0.057***	0.052***	0.082***	0.053***	0.054***	0.055***
	(6.71)	(6.05)	(9.02)	(6.13)	(6.24)	(6.33)
Financial Risk Rating	-0.041***					
	(16.64)					
Foreign Debt/GDP		-0.065***				
		(7.63)				
Exchange Rate Stability			-0.051***			
			(10.54)			
Corruption				0.183***		
				(13.21)		
Religion in Politics					-0.071**	
					(2.45)	
Democratic Accountability						0.342***
						(4.17)
Control Variables	YES	YES	YES	YES	YES	YES
Year Dummy	YES	YES	YES	YES	YES	YES
Industry Dummy	YES	YES	YES	YES	YES	YES
Country Dummy	YES	YES	YES	YES	YES	YES
CDS Clause Dummy	YES	YES	YES	YES	YES	YES
Firm Clustering	YES	YES	YES	YES	YES	YES
R^2	0.44	0.44	0.44	0.44	0.44	0.44
N	14,194	14,194	14,194	14,194	14,194	14,194