Political risk in banks: A review and agenda

Mehdi Janbaz [a,1], M. Kabir Hassan [b,*,2], Josanco Floreani [c,3], Alberto Dreassi [d,4], Alfredo Jiménez [e,5]

[a] Department of Economics and Statistics, University of Udine & Department of Economics, Business, Mathematics and Statistics, University of Trieste, Italy
[b] Department of Economics and Finance, University of New Orleans, New Orleans, LA 70148, USA
[c] Department of Economics and Statistics, University of Udine, 33100 Udine, Italy
[d] Department of Economics, Business, Mathematics and Statistics, University of Trieste, 34127 Trieste, Italy
[e] KEDGE Business School, 33405 Talence, France

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ABSTRACT

Although political risk in banking has received much more attention in recent years, there is no review that synthesizes these incoherent studies and provides a comprehensive image of the field in the past, present, and future. This paper is a meta-synthesis literature review on political risk in banks over a 35-year period from 1985 to 2019. We summarize the studies on political risk in banks in terms of the underlying theories to highlight the research streams, trends, and thematic structure of the field. By applying bibliometric and content analyses, we identified four main clusters in the literature: (1) political interference in bank lending and its consequences, (2) effects of government and regulatory interventions on bank risk-taking, (3) effects of the institutional and political environment on banking development and performance, and (4) economic models related to political risk in banks. Finally, this study poses 14 questions for future research.

1. Introduction

Before the presence of Covid-19 pandemic especially during 2016 and 2020, political risk was one of the main sources of uncertainty and a growing concern of banks. Major central banks (US and EU) have explicitly expressed concerns about the critical influence of political and geopolitical instability on financial institutions.[6] At ECB, political risk factors were identified in terms of probability and impact on banks, with geopolitical uncertainties representing one of the most likely risks in 2017–2019 and becoming the most prominent banking risk driver for banks in Europe in 2020, ahead of the Covid 19 pandemic. Similarly, the FED considers geopolitical risks and major US political events as the most probable source of shocks on banks.

* Corresponding author.
E-mail addresses: janbaz.mehdi@spes.uniud.it (M. Janbaz), mhassan@uno.edu (M.K. Hassan), josanco.floreani@uniud.it (J. Floreani), adreassi@units.it (A. Dreassi), alfredo.jimenez@kedgebs.com (A. Jiménez).
[1] http://orcid.org/0000-0001-9380-1306
[2] http://orcid.org/0000-0001-6274-3545
[3] http://orcid.org/0000-0001-9474-1245
[4] http://orcid.org/0000-0003-3760-3254
[5] http://orcid.org/0000-0001-7811-5113
[6] See for instance annual reports on supervision and financial stability reports published by both the ECB and the FED from 2017 to 2020.

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According to the World Bank's definition, political risk is considered the prospect of disruption and impairment in an organization caused by uncertainties emanating not only from politicians, institutions, governments, and events, but also from internal groups and radical activities (World Investment and Political Risk 2011, World Bank). In general, "political risk is defined as the risk that government activities, faulty governors, and a poor legal and institutional environment will negatively affect investment value" (Bekaert et al., 2014, p.3).

In spite of political risk being considered a critical factor in the corporate sector (e.g., Faccio, 2006; Khwaja and Mian, 2005; Shleifer and Vishny, 1994), the sovereign sector (e.g., Bekaert et al., 2016; Henisz, 2000), and in financial markets (e.g., Stiglitz, 1993), the impact on banks has received less attention both theoretically and empirically. However, contributions in this direction have accumulated in recent years, with a remarkable growth in both breadth and depth (e.g., Bitar et al., 2017; Bitar, Hassan and Saad, 2020; Koetter and Popov, 2021; Isik and Hassan, 2002a, 2002b; Isik and Hassan, 2003a, 2003b; Tran et al., 2021).

This study is motivated by the need for a comprehensive systematic review to synthesize all of the incoherent literature on political risk in banking in terms of underlying theories and concepts in order to contribute with research directions for future studies that fill both the empirical and theoretical gaps and define and measure the forms of political risk that affect banking systems. As far as we know, therefore, we propose the first meta-synthesis literature review of political risk in banking.

Our contribution to the literature is primarily to highlight the leading research streams and provide a synthesis review of the field in terms of the identified clusters, as well as to identify the most influential studies, trends, constructs, and thematic structure of political risk in banking. We also review the main measurement methods and key indicators adopted so far to investigate political risk in the banking sector. Finally, we provide an agenda for future studies by providing a theoretical framework and identifying leading research questions on political risk in banks.

We also contribute to Jiménez and Bjorvatn (2018), which provides a bibliometric review of political risk in general. The impact of political risk on the banking sector is not addressed in this review, while our study focuses on political risk in the banking sector to adequately fill this gap. Using a only one keyword for systematic sample collection compared to 60 in this study, Jiménez and Bjorvatn (2018) analyzed the literature on political risk using historiography or citation mapping, which examines only the links between articles in the primary collection, while we focused on co-citation mapping to identify research streams that allow for a more in-depth analysis of the field by considering the link between primary collection and secondary collection. However, we also use historiography to identify and track research themes and trends over time.

We review 303 articles published in ISI WOK journals during 1985–2019 as the primary or local collection and 9334 cited references as the secondary or global collection. We apply multilevel bibliometric analysis based on the document, author, journal, and keywords, in addition to content analysis. Overall, this study provides a broad and detailed picture of political risk in banking, its past and suggestions for its future growth.

To synthesis the literature on political risk in banking, we need to create a taxonomy of political risk by reviewing the classic and influential studies on political risk. We are then in a position to conduct this research and develop a theoretical framework in terms of a generally accepted conceptualization and classification. Political risk can be classified differently contingent on the adopted definition (Fitzpatrick, 1983). Political risk is primarily characterized by government intervention (Aliber, 1975; Kobrin, 1979), political instability related to political events (Root, 1972), and the political and institutional environment (Nehrt, 1970; Robock, 1971). Bekaert et al. (2014) also refer to government actions, government policy instability, and the soundness of the legal environment as three different forms of political risk.

The remainder of our review study is organized as follows. In Section 2, we present our sample and methodology. In Section 3, we explain our results and address them separately. Section 4 contains a brief discussion of our main findings. Finally, Section 5 provides our concluding remarks.

2. Method

2.1. Sample selection process

Consistently with the aims of this paper, we follow a meta-synthesis literature review using a multilevel bibliometric analysis and a qualitative content analysis (Fig. 1).

First, we identify the influential and classic studies of political risk using *HistCite* software or by reviewing the reference lists of other leading works. After carefully reviewing these prominent reviews and articles on political risk, we extract the conceptual terms from the texts. We used a broader range of keywords to cover all aspects of political risk. In Table 1, we list 60 keywords assigned to the three categories of political risk or general concepts. Using general terms reduces the likelihood of overlooking an influential study.

Second, we search these keywords in combination with "banking", "banks" and "financial institutions" in the ISI Web of Sciences database, resulting in a raw sample of articles. Third, we rely only on articles and reviews published in ISI-WOK journals from 1985 to 2019. We set 1985 as starting point because of absence of any relevant article published before 1985. We also decided to exclude the most recent relevant publications (2020 and 2021) due to lack of enough time to be cited by subsequent papers and therefore this could underscore the results or lead to a bias in bibliometrics analysis. We also excluded contributions that are not written in English.

Finally, we refine the sample by excluding articles whose content did not fit the aims of this paper. This required us to have each

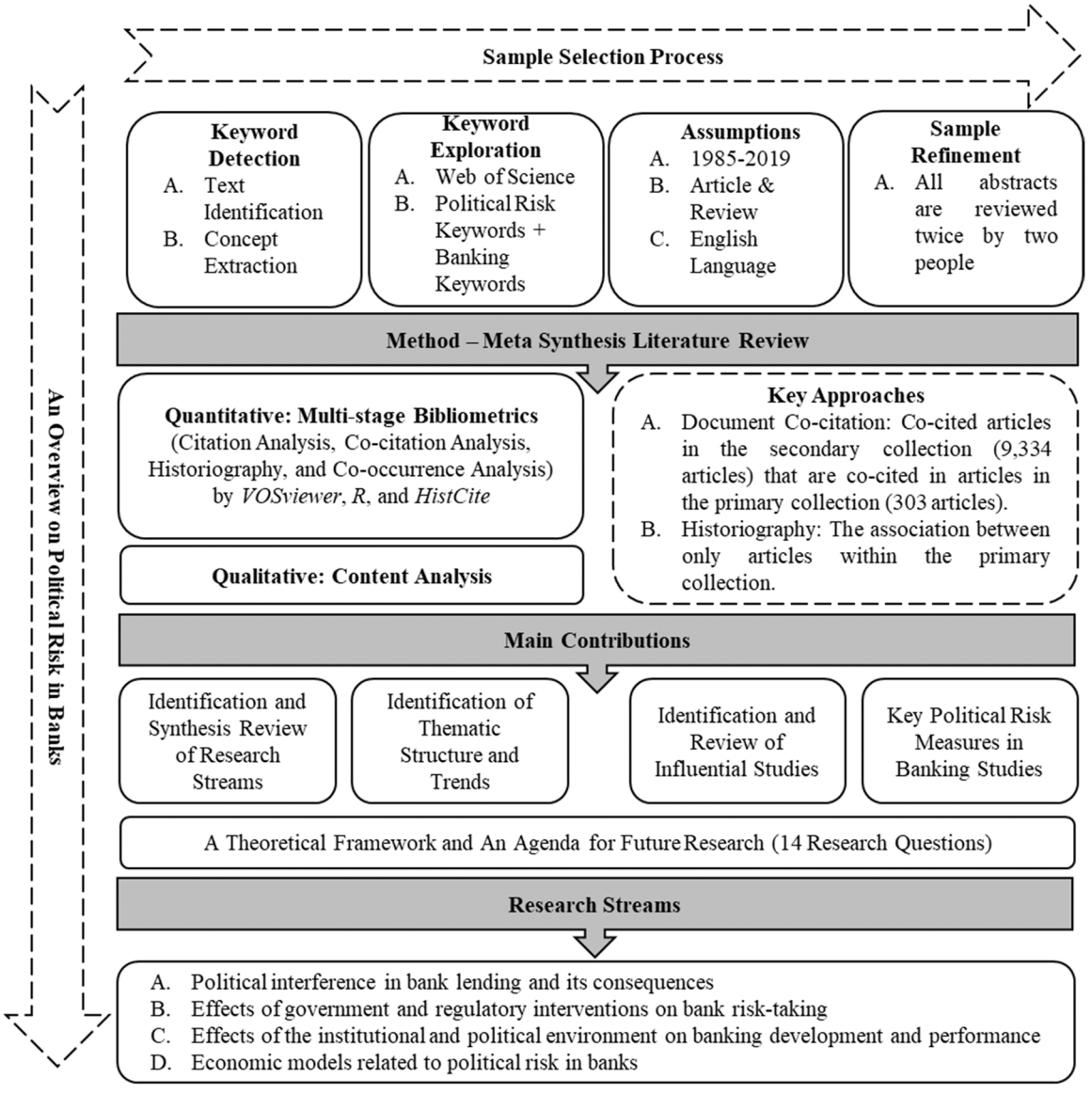

Fig. 1. Data collection and analysis processes This figure illustrates the process of data collection, the methodological approaches and the flow of the analysis followed in this paper.

article carefully reviewed twice by two people: In most cases, the abstract was sufficient for exclusion, but in some cases it was necessary to review the entire article. Following the exclusion and inclusion procedure, we obtained a primary sample of 303 articles.[7] The cited references of the 303 studies in our primary collection are 9334 studies that are considered our secondary collection.

To furtherly ensure that our process does not exclude influential studies, we also search within citations of influential articles. We do not find any new dominant articles outside our sample: our extended set of keywords proves sufficient to ensure comprehensive coverage of the field.

By recording the number of unique outcomes for each keyword, we find that only 33 of them are meaningful in the context of financial institutions. By comparing results for each keyword, Institutional Quality, Government Interventions, Election, Political Risk, Political Stability, and Regulatory Quality are respectively the most fitting keywords of political risk with respect to the banking sector. Referring to the macropolitical risk framework of Alon and Martin (1998), we can say that studies on political risk in banks focus mainly on the governmental aspect, compared to the economic and social dimensions.

[7] Due to the extensive number of references, the full list of analyzed papers is not included but remains available upon request.

Table 1
Political risk keywords. This table summarizes the political risk The classification is consistent with the literature (categories I, II and III), as well as the general terms listed in the first column. Each of the political risk keywords was searched individually in conjunction with banking keywords (Banking or Banks or "Financial Institutions").

General Terms	I: Government Interventions and Actions	II: Political Instability Caused by Events or Acts	III: Political and Institutional Environment
• Political Risk • Politics • Politicians • Political Factors • Political System	• Government Interventions/ Government Interference • Political Interference • Government Support • State Aid • Capital Injections • Government Grants • Political Connection • Political Influence • Political Power • Government Regulation • Regulatory Interventions • Central Bank Independence/CBI • TARP • Expropriation	• Political Instability • Political Transition/ Change • Election • Political Events/ Systemic Events • War/ Civil War • Revolution/Coup • Political Cycles • Elite Politics/ Elite Politicians • Party Politics • Brexit • Democratic Changes • Political Turmoil • Direct Violence • Terrorism • Civil Disturbance • Breach of Contract • Adverse Regulatory Change • Convertibility Constraints • Discriminatory Taxation • Restrictions on Remittance of Profit • Non-honoring of Sovereign Financial Obligations	• Political Environment • Political Institutions • Institutional Environment • Regulatory Environment • Regulatory Restrictions • Institutional Quality • Rule of Law • Creditor Rights/ Investor Rights Protection • Institutional Uncertainty • Policy Uncertainty • Democratic Accountability • Bureaucracy Quality • Regulatory Quality • Regulatory Change • Political Stability • Government Stability • Democracy • Political Corruption/Corruption • Economic Policy Uncertainty/ EPU • Public Sector Competition

2.2. Research design

Using a combination of qualitative and quantitative methods, we have constructed a meta-synthesis literature review of political risk in banks. We combine bibliometric methods such as co-citation analysis (Hassan et al., 2020; Zupic and Čater, 2015; Khan et al., 2021; Alhenawi et al., 2022), historiography (Garfield, 2009), citation analysis (De Bellis, 2009), and co-occurrence (Leung et al., 2017). We also use qualitative content analysis (Aliyu et al., 2017; Bahoo et al., 2021; Hassan, 1993, 1994, Hassan et al., 1994, 2020; Hassan and Aliyu, 2018; Zaher and Hassan, 2001) to integrate quantitative findings.

First, we use the *Bibliometrix R* package (Aria and Cuccurullo, 2017) for descriptive analysis, keywords evolution, and illustrations. We conduct the citation and co-citation analyses of documents, authors, and journals, as well as the co-occurrence of author keywords using *VOSviewer,* and perform the historiography using *Clarivate Analytics' HistCite*.

Second, we review the literature in our primary collection using a content analysis to identify key gaps and set an agenda for future research. We focus primarily on the future direction of influential studies and track their citations to see if there is a proposed direction that has not yet been addressed. Then we try to develop those research questions in addition to our own findings and suggestions. We also reviewed several recent publications (2020–2021) on the identified gaps to provide an indication of timeliness and update the latest contribution to the research direction.

The focus of this study is on document analysis through co-citation analysis of documents and historiography based on local citation score. These two approaches complement each other perfectly (Vogel et al., 2020). The focal point of document co-citation is co-cited references or articles in the secondary collection that are co-cited in articles in the primary collection, while historiography looks at the association between only articles in the primary collection. Historiography indicates the way documents in the primary collection cite other documents in the primary collection.

Document co-citation indicates the proximity and interconnection of different subfields and is therefore often used to identify the major clusters and building blocks of a field. In contrast, the historiography approach illustrates the trend and progress of key research topics over time. Consistent with this statement, we use document co-citation to identify the leading streams and subfields of political risk in banks, and use historiography to detect the major research topics of the field and to illuminate the progress of research themes over time.

Interpreting the results of these two bibliometric analyses using content analysis helps us to extract all the necessary information to achieve the research objectives. We also use content analysis to track the growth of articles and keywords in respect to clusters or thematic categories.

Accordingly to Garfield et al. (2009) and Van Eck and Waltman (2013), we use the following bibliometrics in the remainder of our paper. Total Global Citation (TGC) or Global Citation Score (GCS) symbolizes the overall amount of citations of an article by other documents present in the Core Collection of WOS. Total Local Citation (TLC) or Local Citation Score (LCS) signifies the amount of citations of cited documents within the collection. Total Link Strength (TLS) indicates the overall strength of a co-citation link. Finally, Links is the total number of links an article has with other articles.

3. Results

3.1. Summary statistics

The 303 papers included in our sample show a total quantity of cited references of 9334. Only 3 contributions are literature reviews, supporting our motivation for a comprehensive bibliometric assessment of this research field. Fig. 2 illustrates the evolution of annual publications and citations. We find that papers grew significantly in the last decade, with three major upward breaks (in 2009, in 2013 and in 2016).

3.2. Source analysis

Our sample is composed of contributions appearing in 140 different journals. Co-citation networks allow the mapping of 50 major journals across four different research clusters. Fig. 3 depicts the co-citation network of sources between these leading journals where the size of circles represents the weight of each source, and the lines mark the strongest co-citation links between journals. A closer proximity between two journals is associated to a higher relatedness in terms of co-citation links. Figs. 4 and 5.

Table 2 reports the main sources ranked by citations and the Total Link Strength with the latter being a standard weight attributes which captures the total strength of the links of a source with other sources. To discover the conceptual structure tied to each cluster of journals, our content analysis on all relevant articles published in the key journals within each cluster reveals how each cluster describes a research area that could be identified by key terms or concepts (Table 2).

3.3. Author analysis

3.3.1. Most cited authors

Our sample of research papers lists 605 different authors, of which 58 authored single-name contributions, with the average number of authors per document being 2.26. Fig. 6 illustrates the most local cited authors.

3.3.2. Co-citation of authors

The co-citation of authors illustrates the mapping of 40 leading authors. This analysis reveals how research fields lead to groups of different authors, as well as the connection strength of citations. Fig. 5 depicts the co-citation network of top co-cited authors.

Rafael La Porta, Thorsten Beck, and Ross Levine emerge as the main authors of the blue cluster, which focused on the impact of the legal environment, regulatory restrictions, and government intervention on bank lending and banking sector development.

In the red cluster, Asli Demirguc-Kunt, Allen N. Berger, Luc Laeven, and James R. Barth focused on the impact of banking regulation, governance, institutional environment, and regulatory intervention on bank performance and stability.

The green cluster, which includes Serdar Dinç , Andrei Shleifer, Paola Sapienza, Stijn Claessens, and Mara Faccio, focuses mainly on government interference, political connection, and bank lending.

Manuel Arellano, Richard Blundell, Alex Cukierman, and Daniel Kaufmann in the yellow cluster worked on prominent political risk measurement methods and frameworks, political risk indicators, and advanced econometrics and modeling approaches.

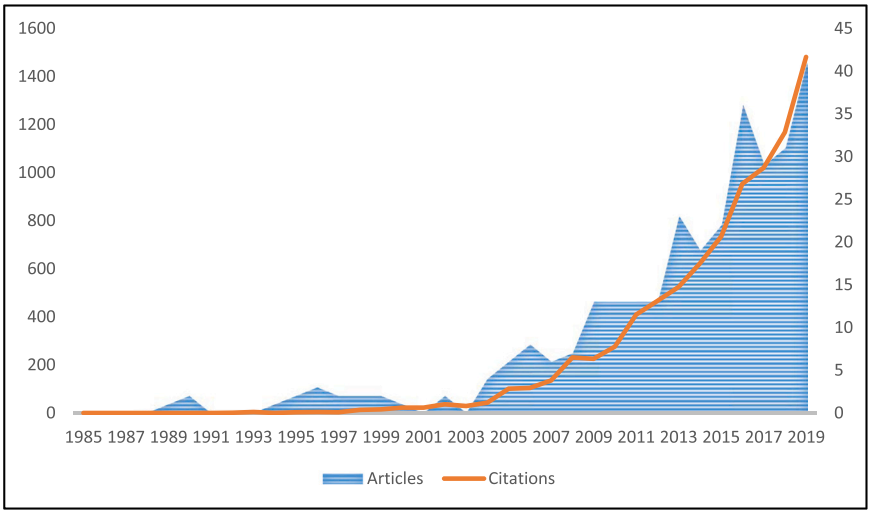

Fig. 2. Annual scientific production and total citations This figure illustrates the trend in annual publications and total citations per year in our sample for the period 1985–2019.

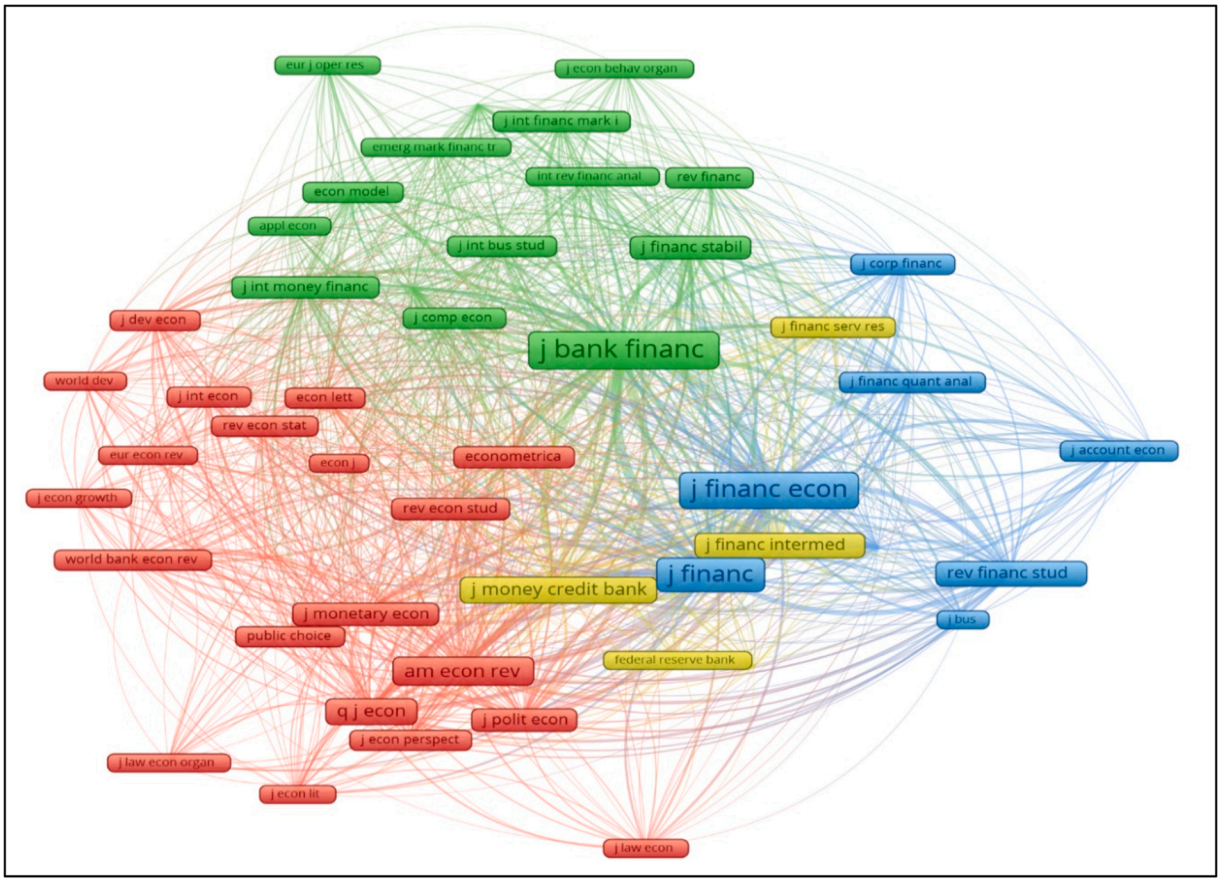

Fig. 3. Co-citation network of journals This figure shows co citation network of sources for the 50 leading journals in the field. The top journals are clustered into four groups in terms of their circulation area. The analysis checks how many times a pair of journals has been cited together in subsequent studies, hence showing journals' proximity (Table 4).

3.4. Article analysis

3.4.1. Most cited articles

The total citations of a research is considered a measure of the research's influence. Fig. 6 shows the most influential articles in terms of total citations of a study by subsequent studies in our sample (local citations) and by all subsequent studies in the WoS Core Collection (global citations). Based on the both citation scores, prominent studies of La Porta et al. (2002), Demirgüç-Kunt and Detragiache (2002), Sapienza (2004), and Dinç (2005) are the most influential studies on political risk in banks.

3.4.2. Co-citation of articles

As defined by Small (1973), co-citation analysis explores the link between articles in secondary collection and primary collection, co-cited references or articles in the secondary collection that are co-cited in articles in the primary collection. Document co-citation analysis reveals the proximity and interconnection of distinct subfields. Thus, it applied to identify the leading research streams or major clusters of the field.

We applied this perspective on the top 49 references (out of 9334 total citations) after excluding those with less than 14 citations. We have reached the best setting for co-citation analysis by trial and error. Based on the co-citation mapping (Fig. 7), all the most co-cited references are dispersed within four clusters.

Following a precise review of the dominant references and the connections within each cluster, we find a way to describe each of them and the key streams of research. Table 3 reports the most co-cited references within each cluster together with the TLCs, TLSs, and links. In particular content analysis on the topics, links, and link strength of articles in each cluster disclose the common characteristics of that cluster (Table 3).

3.4.2.1. Synthesis review of clusters

3.4.2.1.1. ***Cluster 1 (red): government interventions in banks regarding the political theory of state ownership.*** Government interventions in banks are mainly discussed in the subject of government ownership. This part of literature illustrates the adverse

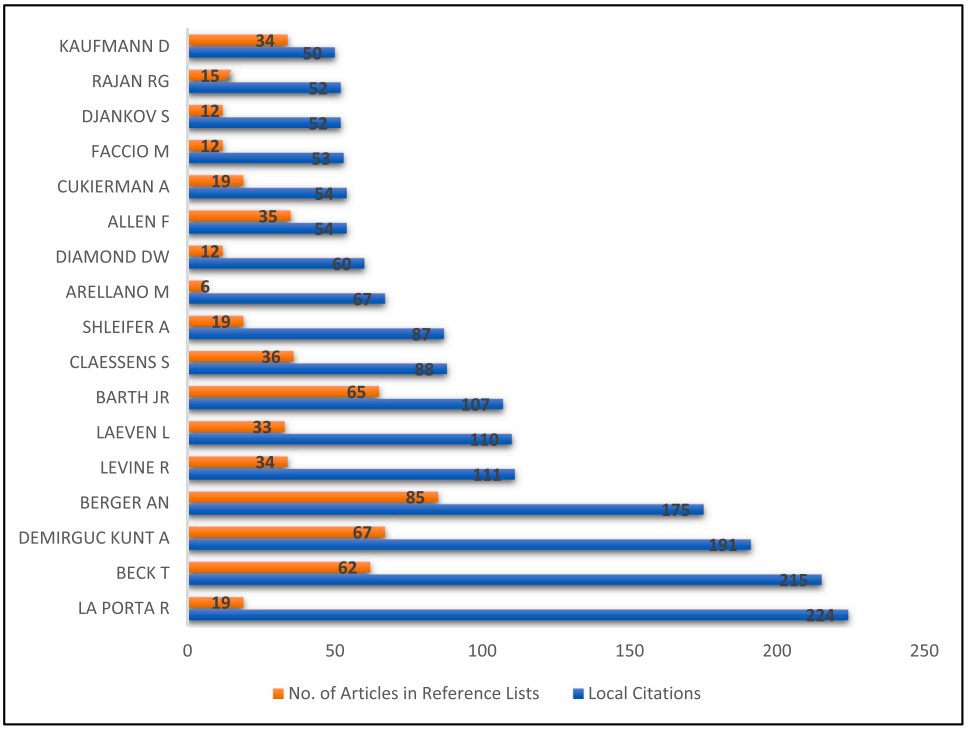

Fig. 4. Most local cited authors This figure shows the leading authors by both the number of publications and their local citations.

consequences of state ownership on productivity and development (La Porta et al., 2002), bank performance (Micco et al., 2007), and lending (Dinc, 2005; Sapienza, 2004) through the political view of state ownership. According to this viewpoint, the control of government or politicians over banks has the aim of delivering financial support and other benefits to allies, who support them in political events or in other ways depending on the target of politicians (Shleifer and Vishny, 1994). La Porta (2002) shows the prevalence of government ownership mostly in the less developed countries and those with lower government effectiveness and higher political interference.

Following La Porta (2002), the adverse consequences of state ownership on banks supported by the political theory of state ownership are shown for bank lending in Sapienza (2004) and Dinc (2005). The negative consequences of government ownership and interventionism behavior intensified in election years (Dinc, 2005), also due to the political ties of bank directors at the time of election (Sapienza, 2004). In addition, SOBs ask for a lower interest rate than private banks. This rate dropped even further due to political connections that show government ownership of banks is politically driven (Sapienza, 2004). Political connection and elections are two reasons that explain the higher probability of political interference by providing incentives for politicians and governors (Faccio et al., 2006). The political connection is predominantly noticeable in the context of bank lending. Although political connection facilitates access to credit, it also increases the level of default (Khwaja and Mian, 2005). The political connection also increases exposure to political corruption (Faccio, 2006).

Ownership is a key driver of bank productivity (Demirgüç-Kunt and Huizinga, 1999). The underperformance of government banks compared to private banks is pronounced in election years (Micco et al., 2007), which is consistent with the political view of government ownership. Micco et al. (2007) complement the findings of Dinc (2005) about the importance of political events in increasing the unfavorable effects of state ownership and political interference in banks.

3.4.2.1.2. ***Cluster 2 (green): How do the legal and institutional environment affect the development of banking and financial intermediation, taking into account institutional theory and the theory of law and finance?.*** The underlying theories of cross-country differences in financial and banking development explain the way that legal and institutional environment hinder or facilitate the operations. This cluster contains two subsets, a part of the literature that explains the impact of the legal environment on the nexus between banking development and economic development using the theory of law and finance (Beck et al., 2003; La Porta et al., 1998; La Porta et al., 1997) and part of the literature that discusses the nexus between banking development and economic development using differences in institutional environment and institutional theories (Acemoglu et al., 2001; La porta et al., 1999; Mauro, 1995; Qian and Strahan, 2007).

The development of financial intermediaries as a crucial determining factor of long-term economic growth (King and Levine, 1993; Rajan and Zingales, 1998) has been frequently employed in empirical studies to predict the subsequent economic growth mainly proxied by GDP growth (Beck et al., 2000; Levine et al., 2000). The development of financial intermediaries decreases the cost of capital and credit constraints that accelerate growth (Rajan and Zingales, 1998). The positive linkage between banking development and economic development (Levine et al., 2000; Levine and Zervos, 1998) vary in different countries in terms of the legal origin (Beck

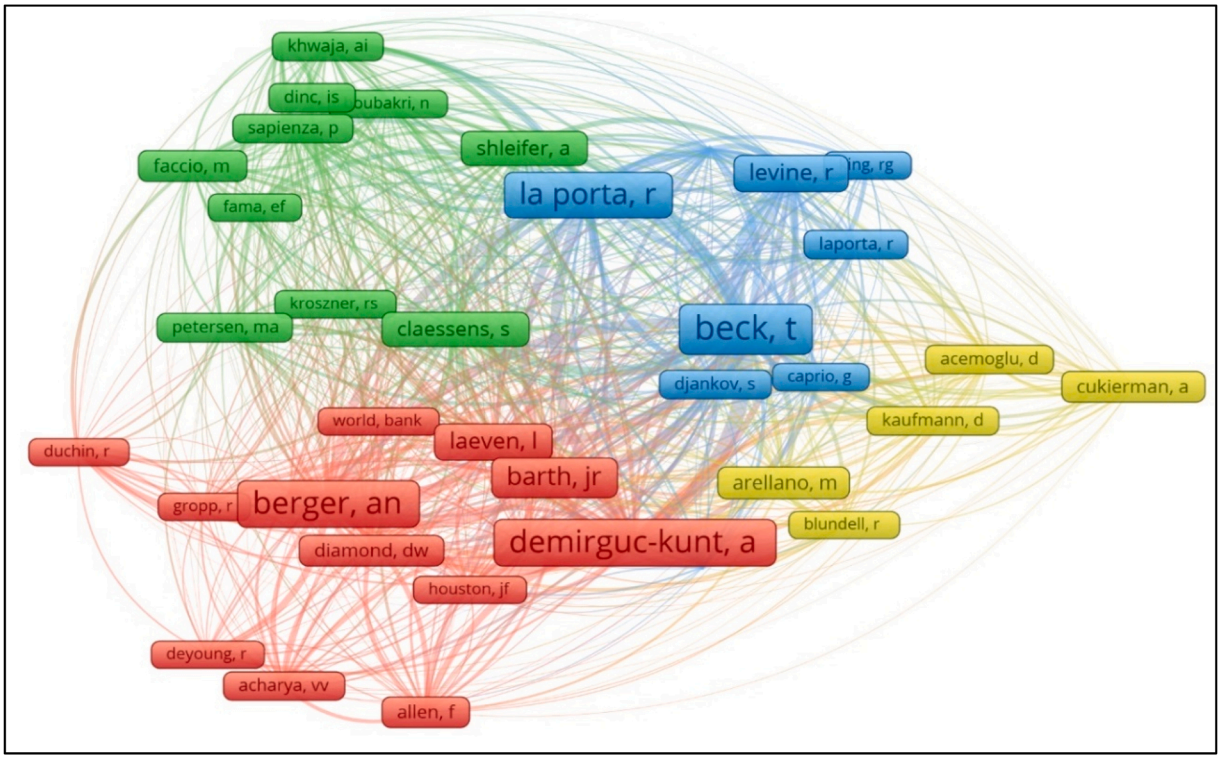

Fig. 5. Co-citation network of top co-cited authors This figure shows the co-citation network of prominent authors in the field, grouped into four clusters. The blue cluster refers to the impact of the legal environment, regulatory restrictions, and government intervention on banking development. The red cluster focuses on the impact of banking regulation, supervision, and the institutional environment on bank performance and stability. The green cluster refers to government interference, political connections, and bank lending. Finally, the yellow cluster points to the main methodologies and frameworks for measuring political risk and advanced econometric approaches.

Table 2
Conceptual structure tied to each cluster of leading journals This table maps key journals by total link strength and citations within each cluster identified in the co-citation analysis of journals. The latest column summarizes the most relevant concepts referring to each cluster.

Clusters	Major Journals	TLS	Citations	Most Relevant Concepts
Red	*American Economic Review (AER)*	385	416	Political Connection, Legal and Institutional Environment, Financial Development, Banking Development, Regulatory Uncertainty, Regulatory Restrictions, Deregulation, Bank Lending, and Corruption
	Quarterly Journal of Economics (QJE)	303	327	
	Journal of Political Economy (JPE)	193	202	
	Journal of Monetary Economics (JME)	181	190	
Green	*Journal of Banking and Finance (JBF)*	796	1012	Political Interference, Bank Risk-taking, Bank Performance, Crisis, Bank Systematic Stability, Bank Default Risk, Credit Risk, Bank Credit, Capital Flows, Central Bank Independence, Institutional Quality, Economy Policy Uncertainty, Political Connection, Regulatory Interventions, and Political Monetary Cycles
	Journal of Financial Stability (JFS)	176	191	
	Journal of International Money and Finance (JIMF)	128	135	
Blue	*Journal of Financial Economics (JFE)*	720	853	Government and Regulatory Interventions, Government Ownership, Bank Lending, Bank Risk-taking, Moral Hazard, Financial Intermediary Development, Legal Environment, Deposit Insurance, and Political Connection
	Journal of Finance (JF)	634	729	
	Review of Financial Studies (RFS)	216	230	
Yellow	*Journal of Financial Intermediation (JFI)*	259	275	Bank Regulation, Bank Supervision, Competition, Government Ownership, Performance, Bank Systematic Risk, Liquidity Creation, and Regulatory Interventions
	Journal of Money, Credit and Banking (JMCB)	275	296	

et al., 2003; La Porta et al., 1998; La Porta et al., 1997) and institutional characteristics or government qualities (Acemoglu et al., 2001; La porta et al., 1999).

Regulatory restrictions on banks' operations increase the cost of financial intermediation (Demirgüç-Kunt et al., 2004). Legal origin

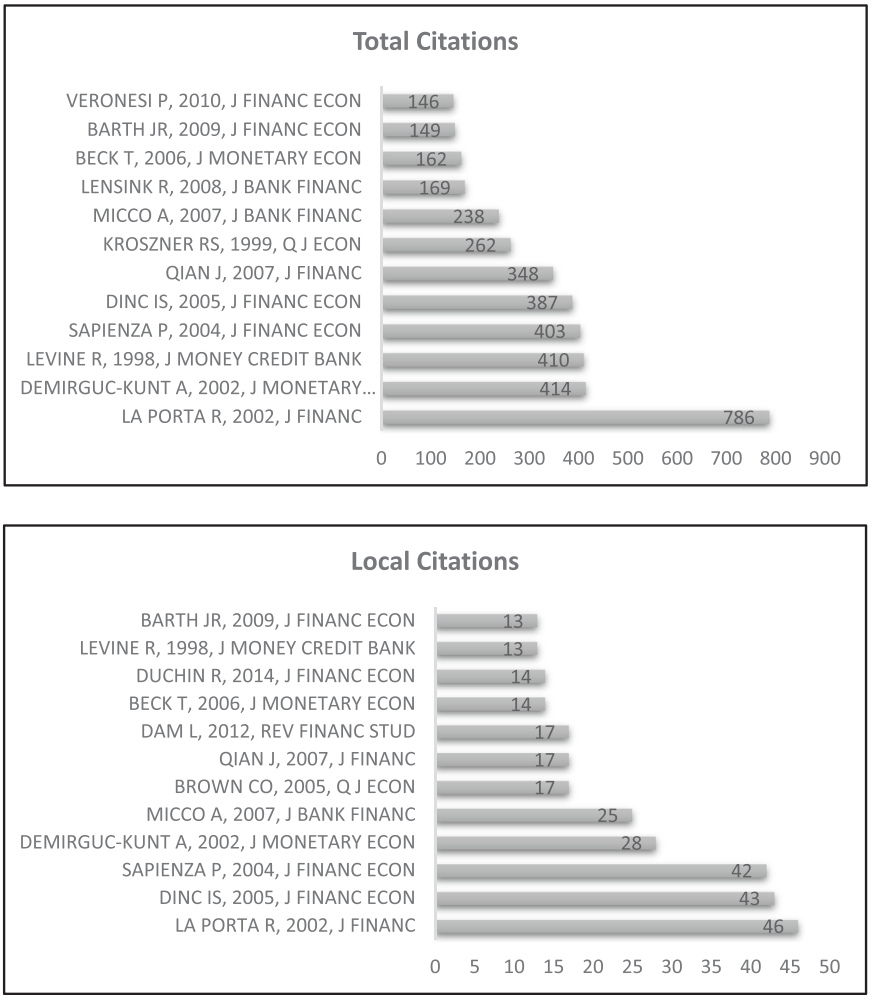

Fig. 6. Leading articles by total and local citations This figure shows the most popular articles in terms of total and local citations. Local citation indicates the number of times an article is cited within our sample, while total citation indicates the total number of times an article is cited by other articles that exist in the Core Collection of WOS.

determines creditor rights (Djankov et al., 2007), and strengthened creditor rights speed up the growth (Levine et al., 2000). As noted in the influential work of La Porta et al. (1997), the country-specific level of investor protection is positively related to the volume of the capital market, which is a driver of economic performance (Levine and Zervos, 1998). Furthermore, economic performance is affected by the institutional environment (Acemoglu et al., 2001). Corruption is a consequence of a poor institutional environment that hampers development by limiting investment (Mauro, 1995). Generally, a sound country's governance limits interventionism behavior (La porta et al., 1999). This is a key point that links this cluster to the others related to government interventions.

3.4.2.1.3. ***Cluster 3 (blue): the influence of government and regulatory interventions on bank stability with respect to the moral hazard problem and competition-stability trade-off.*** The way in which banking stability is affected by regulation is described by different perspectives regarding the stability-competition trade-off. Although some refer to the impact of bank supervision and regulation, the focus of this cluster is on excessive risk taking due to regulatory and government intervention (Dam and Koetter, 2012; Duchin and Sosyura, 2014).

Keeley (1990) emphasizes that deposit insurance reduces the dominant force of regulation in alleviating the competition-stability trade-off, and that increased competition due to the lack of monopolistic control lowers the bank's charter value, which induces banks to hold less capital relative to assets and take further risks. Despite the impact of regulation on risk-taking, bank stability is also affected by bank supervision. Banks that are more heavily supervised are more likely to take more risks (Laeven and Levine, 2009). When there is a deposit insurance system, bank owners are more likely to switch to riskier securities (Keeley, 1990). Along the same lines, Barth et al. (2004) examined the effects of a broad set of governance and regulatory factors. Using the deposit insurance measure of Demirgüç-Kunt and Detragiache (2002), Barth et al. (2004) reported that the probability of a banking crisis is positively associated with both moral hazard and state ownership. Large government banks are less probable to experience the moral hazard problem (Dam and Koetter, 2012). The positive association between deposit insurance and crisis is strengthened when guarantees are provided by the

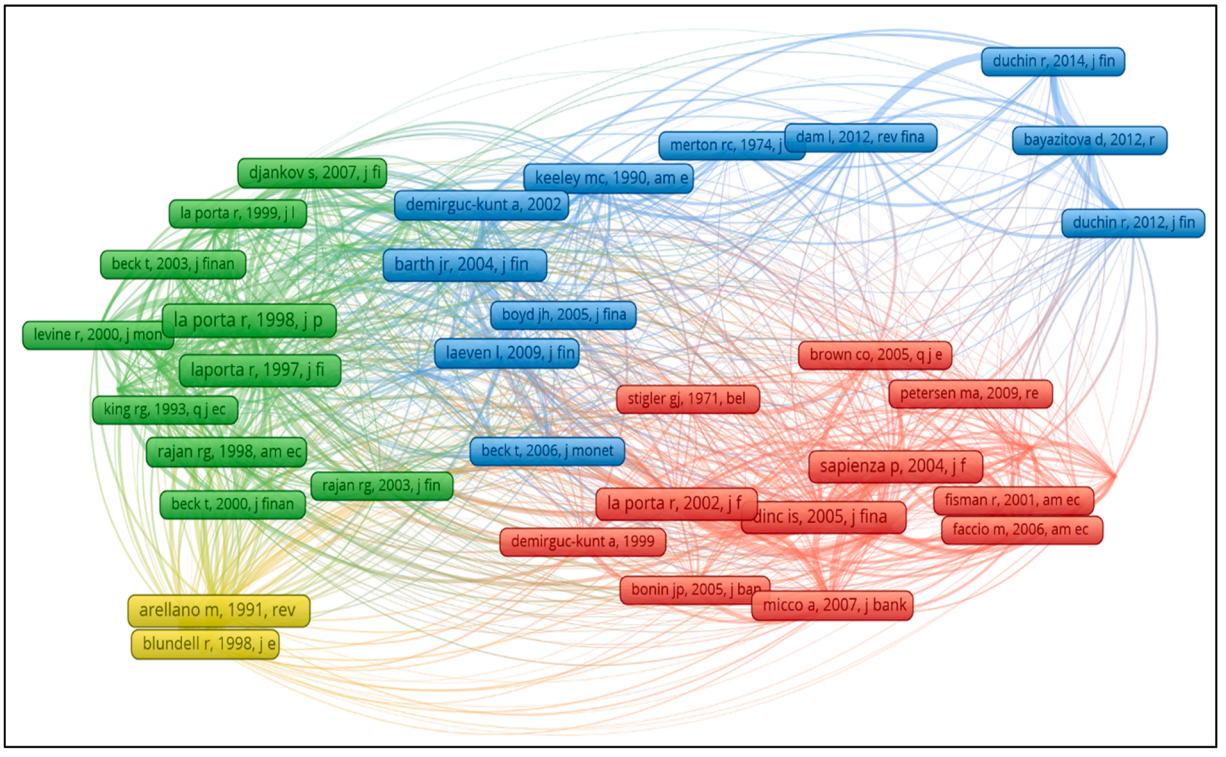

Fig. 7. Co-citation network of articles This figure shows co-citation mapping of the most influential references and divided into four major streams. The red cluster refers to the impact of politically motivated government interventions, state ownership, and political connections on bank lending and performance. The green cluster highlights how the legal and institutional environment affects banking and financial development. The blue cluster highlights the impact of government and regulatory interventions, bank regulation and supervision, and deposit insurance on bank risk-taking. The yellow cluster refers to the main measurement methods for political risk and advanced econometric methods.

government and in countries with inferior regulatory and institutional environments (Demirgüç-Kunt and Detragiache, 2002).

In contrast, some studies point to the competition-fragility trade-off. They argue that higher competition leads to higher creditworthiness by lowering lending rates and consequently promoting stability (Boyd and De Nicolo, 2005). Moreover, banks in countries with sounder regulatory environments that promote competition are expected to be more stable (Beck et al., 2006), which is inconsistent with the negative effects of competition on a bank's vulnerability (Keeley, 1990). Capital injections into banks based on TARP and CPP may not lead to higher risk-taking. For example, interventions in CEO compensation provide a disincentive to accept government guarantees for quite a number of banks (Bayazitova and Shivdasani, 2012). Moreover, the accessibility of bailouts increases with political connectivity (Duchin and Sosyura, 2014, 2012).

The influential study by Barth et al. (2004) linked this cluster to the previous clusters by expanding the scope of the study to include state ownership, ensuing La Porta et al. (2002), and by including the role of the legal environment in banking development, following La Porta et al. (1998).

3.4.2.1.4. ***Cluster 4 (yellow): measurement methods and econometric approaches.*** The last cluster is concentrated on measurement methods. Arellano and Bond (1991) proposed a dynamic difference panel estimator that has been used in a variety of studies within the collection such as Levine et al. (2000). Subsequently, Arellano and Bond (1991) formed a system GMM panel estimator that was further expanded by Blundell and Bond (1997) through Monte Carlo simulations.

A subordinate part of the cluster relates to measurement methods and indicators of political risk. In order not to overlook this important part of the literature and to overcome its limitations, we broaden our stance by providing an overview of political risk management in the banking literature.

Political risk has been measured through different approaches: macroeconomic measures (Baker et al., 2016; Hassan et al., 2019), perceptual measures (Kaufmann et al., 2003), their combination (Henisz and Zelner, 1999), and conventional measures (Rodrik, 1999).

Conventional measures are problematic since they do not cover economic implications; nonetheless they are the main reference for measuring political instability (Baker et al., 2016; Hassan et al., 2019; Pastor and Veronesi, 2012; Pástor and Veronesi, 2013).

According to Brunetti and Weder (1998), policy uncertainty refers to unpredictability and inconsistency caused by changes in government policy and institutional structure. Although aggregate government economic policy uncertainty (EPU) indicates both economic and policy uncertainty, this indicator is often used in banking studies as a leading indicator of political uncertainty. EPU is a macroeconomic news-based index based on newspapers, expiring tax bills, and analyst conflicts (see, e.g., Baker et al., 2016).

Table 3
Clusters, local citations, links, and references This table provides the outcomes of the co-citation analysis of references divided by clusters, in terms of total local citations (TLC), total local scores (TLS) and links. Red is identified by "the impact of political-driven government interventions, government ownership, and political connection on bank lending and performance mainly through political theory of state-ownership". Green represents "how legal and institutional environment affect the banking and financial development considering institutional theory and the theory of law and finance?". Blue is defined by "the impact of the government and regulatory interventions, bank regulations, bank supervision, and deposit insurance on excessive bank risk-taking behavior through moral hazard". Yellow focuses on "major measurement methods and frameworks of political risk, advanced econometrics methods, and modeling approaches".

Cluster	Most Co-cited References	TLC	TLS	Links
Red		**378**	**371**	**577**
	Bonin et al., 2005, j bank finance	15	12	30
	Brown and Dinc (2005), q j econ	17	17	32
	Demirguc-kunt & Huizinga, 1999, world bank econ rev	15	14	32
	Dinc is, 2005, j financ econ	41	41	45
	Faccio m, 2006, am econ rev	19	19	37
	Faccio et al. (2006), j financ	19	19	34
	Fisman r, 2001, am econ rev	20	20	33
	Goldman et al. (2009), rev financ stud	14	14	30
	Johnson and Mitton (2003), j financ econ	16	16	28
	Khwaja and Mian (2005), q j econ	39	39	45
	La Porta et al. (2002), j finance	49	49	46
	Micco et al. (2007), j bank finance	23	23	42
	Petersen (2009), rev financ stud	14	13	30
	Sapienza p, 2004, j financ econ	41	41	45
	Shleifer and Vishny (1994), q j econ	22	21	38
	Stigler gj, 1971, bell j econ	14	13	30
Green		**355**	**348**	**573**
	(Acemoglu et al., 2001, am econ rev	15	15	33
	(Beck et al., 2000, j financ econ	20	19	33
	(Beck et al., 2003, j financ econ	16	16	35
	(Beck et al., 2006, j bank finance	18	17	36
	Demirguc-kunt et al., 2004, j money credit bank	19	19	33
	(Djankov et al., 2007, j financ econ	26	25	39
	(King and Levine, 1993, q j econ	21	21	33
	(LaPorta et al., 1998, j polit econ	54	52	43
	(La Porta et al., 1999, j law econ organ	19	19	39
	(La Porta et al., 1997, j finance	41	40	43
	(Levine and Zervos, 1998, am econ rev	17	17	30
	(Levine et al., 2000, j monetary econ	21	21	28
	Mauro p, 1995, q j econ	14	13	30
	Qian and Strahan (2007), j finance	17	17	41
	Rajan and Zingales (1998), am econ rev	23	23	37
	Rajan and Zingales (2003), j financ econ	14	14	40
Blue		**282**	**259**	**503**
	Barth et al. (2004), j financ intermed	43	42	47
	Bayazitova and Shivdasani (2012), rev financ stud	16	15	26
	Beck et al. (2006), j bank finance	14	14	41
	(Boyd and De Nicolo, 2005, j finance	15	14	37
	Dam and Koetter (2012), rev financ stud	17	17	37
	Demirguc-kunt & Detragiache, 2002, j monetary econ	28	26	48
	Demirguc-kunt & Huizinga, 2010, j financ econ	14	13	38
	Diamond & Dybvig, 1983, j polit econ	18	14	33
	Duchin and Sosyura (2012), j financ econ	15	15	28
	Duchin and Sosyura (2014), j financ econ	14	14	20
	Houston et al., 2010, j financ econ	18	18	34
	Keeley (1990), am econ rev	23	21	42
	Laeven and Levine (2009), j financ econ	31	27	45
	Merton (1974), j finance	16	9	27
Yellow		**94**	**94**	**123**
	Arellano & Bond, 1991, rev econ stud	36	36	39
	Arellano & Bover, 1995, j econometrics	27	27	41
	Blundell & Bond, 1998, j econometrics	31	31	43

According to Baker et al. (2016), EPU increases during election periods. Elections have also been considered as an alternative proxy for the EPU (Ashraf and Shen, 2019).

The institutional quality index (Kaufmann et al., 2003; Kraay et al., 2010) is based on a large set of factors quantifying perceptions on the quality of governance from different organizational sources and surveys, aggregated in six components. The repetitive nature of perceptual measures represents its main limitation.

Henisz and Zelner (1999) propose that a combination of macroeconomic and perceptual measures is the appropriate method of

measurement if the country-specific political system has been considered as a control.

Bekaert et al. (2014) proposed political risk spreads, a new market-based measure extracted from sovereign yield spreads. Using the political risk rating (ICRG), they extract the fraction of sovereign spreads attributable to political risk. The spreads indicate the country-specific probability of an adverse political event. A key advantage of this method is that it solves the problem of double counting systematic risk.

Recently, Hassan et al. (2019) constructed an index of firm-level political risk using the percentage of quarterly earnings conference calls in which political risk was addressed. They showed that political risk is less predictable at the firm level than in the sovereign sector.

We summarize the leading measurement methods in Table 1.

3.4.2.2. Influential studies of clusters. According to the co-citation analysis, La Porta et al. (1998), La Porta et al. (2002), Barth et al. (2004), Sapienza (2004) and Dinc (2005) are the top five references in terms of total link strength (TLS) and total local citations (TLC). Below, we briefly review the most influential studies in each cluster.

In the first cluster, the articles developed the impact of government interventions and actions as the first category of political risk on the banking system by focusing on state ownership.

La Porta et al. (2002) is the most influential study that makes government ownership a trend in the banking literature. Using an extensive cross-country dataset of large banks from ninety-two countries, La Porta et al. (2002) show that state ownership of banks is widespread in the 1990 s and is more common in countries with lower income and financial development, lower property rights protection, less effective governance, and higher interventionism. Moreover, they show that government control of banks in 1970 slowed financial and economic development, consistent with the political view of government ownership. Bank overhead relative to total assets, commercial bank assets relative to total bank assets, bank soundness, net interest spread, credit accessibility, and the value of banks' private loans relative to GDP are key indicators of financial development in this study.

To measure the impact of government intervention on banks, they used a number of indicators, including the bank openness index, the democracy index, the political rights index, the likelihood of government price control, the extent of business regulation, the black market premium, government consumption expenditure as a share of GDP, government subsidies, the marginal government tax rate, and economic freedom.

Although this article has focused primarily on government intervention and the political theory of state ownership, the effects of the legal and institutional environment and political instability have also been considered. This holistic approach highlights the phenomenon that the various forms of political risk in banks are interrelated and mutually reinforcing.

Sapienza (2004) is another notable study that concentrates on the impact of state ownership on bank lending of 85 Italian banks between 1991 and 1995. The results show that SOBs set a lower interest rate than private banks. SOBs are also more likely to lend to larger firms and to those located in the south of Italy. The study also examines how the political connections of directors and top managers of SOBs affect their lending behavior in times of elections. Sapienza (2004) indicates that the political influence of the party associated with the bank has a negative impact on the interest rate charged, which is consistent with the political theory of state ownership. The study mainly emphasizes the perspective that the government's control over the bank has the objective of providing political patronage.

Similarly, Dinç (2005) examines how banks' lending behavior is affected by political influences on SOBs, especially in emerging markets. To do so, he uses data from 462 banks, including 163 SOBs, in 43 countries from 1994 to 2000. The sample shows that state ownership is more prevalent in emerging markets. The study examines the impact of politically motivated actions by SOBs on lending in the context of political events, as elections trigger opportunistic behavior by politicians to use state-owned banks for political patronage. To achieve a higher degree of precision, we also account for cross-country institutional differences and the previously identified gap between private and state bank productivity. The results show that SOBs are more prone to lend in election years than private banks.

Khwaja and Mian (2005) is another influential study that looks at the fact that state-owned banks grant political favors in lending. They test this hypothesis in a different way using loan-level data from 1996 to 2002. They highlight that banks lend 45% more to politically connected firms and that such behavior occurs only among SOBs. In other words, political lending increases when the party associated with the firms is in power. The study provides empirical evidence for the political view of state ownership. It also argues that the presence of a political preference in lending leads to political corruption.

In the second cluster, we identified several influential articles on the impact of the political, institutional, and legal environment as the third classical category of political risk on the banking and financial development, and some of these papers are noteworthy.

La Porta et al. (1997) is a key seminal work in this area, proposing a theory of law and finance and constructing a composite index of creditor rights. It examines the origins and qualities of legal systems protecting creditors and investors in 49 countries. When legal systems originate in common law rather than civil law, the country is more responsible for protecting creditors' rights. This study also assesses the legal enforcement quality based on five components, including corruption, rule of law, effectiveness of the legal system, risk of contract rejection by the government, and expropriation risk. They point out that the level of law enforcement varies from country to country, depending on the origin of the legal system. Finally, they confirm previous evidence from the literature documenting the negative impact of a poor legal environment and weak protection of investor and creditors' rights on financial development, but note that this is not an insurmountable obstacle and that there are exceptions such as France, which is one of the high-income countries.

In the same vein, La Porta et al. (1997) examine the inconsistancy in the quality of the legal environment across countries and their

impact on capital markets. They explore the effects of the legal environment on specific forms of external finance such as stock market capitalization and total bank credit to the private sector (both as a percentage of GNP) for 49 countries in 1994. The results suggest that countries with a sounder legal environment or better protection of investors' rights, characterized in particular by a higher degree of rule of law and better law enforcement, have larger stock and debt markets. In contrast, countries with French civil law, which provide inadequate protection of investor and creditor rights, tend to have smaller debt and equity markets than common law countries.

Qian and Strahan (2007) argue in an extensive study that the institutional and legal environment differs across countries and how it affects bank credit. They examine how creditor rights protection affects ownership and loan terms. They focused on loans made during 1994–2003 in 43 countries. The results show that greater protection of creditor rights leads to greater concentration of ownership of bank loans, lower interest rates, longer loan maturities, and greater participation of foreign banks. Moreover, greater protection of creditor rights in developed countries (with the exception of the U.S.) is associated with higher government ownership and lower government ownership in emerging markets.

The third cluster discusses banks' risk-taking behavior and the theories that explain this behavior in response to government intervention, expected government support, deposit insurance, bank regulation, and government ownership.

Demirgüç-Kunt and Detragiache (2002) is the leading article examining the impact of deposit insurance on bank stability using data from 61 economies from 1980 to 1997. Using a logit probability model to measure banking crises, they found that banking crises are more likely in countries with a deposit insurance system and that this positive relationship is strengthened in a weak institutional environment or in the presence of interest rate deregulation. They examined deposit insurance by its design features, including the presence of unlimited explicit coverage, foreign currency deposit coverage, interbank deposit coverage, and no coinsurance in addition to the explicit coverage limit. All of these features significantly increase the probability of a crisis. They also developed a composite index of moral hazard through principal component analysis based on deposit insurance characteristics and found that moral hazard is less probable in a sound institutional environment. They also argue that the negative consequences of deposit protection are likely to be amplified when the system is operated by the government, when it is funded, and when it is open to depositors.

An influential and multidimensional study in this area, Barth et al. (2004) document the influence of banking regulation and supervision on risk-taking, crises, development, and performance indicators of banks in 107 countries. The data are mainly from 1999 and were obtained through a survey they conducted and funded by the World Bank. Interestingly, they use a wide range of regulatory and supervisory factors, such as regulatory restrictions on banking activities, severity of capital constraints, banking system openness and barriers to entry, political and legal independence of supervision, supervisory intervention, regulatory intervention, explicit deposit insurance schemes, moral hazard, and state ownership.

They discuss the impact of regulatory constraints on banking activities using several theoretical explanations, including openness to a wider range of activities due to higher risk-taking as a result of moral hazard, the agency problem, higher supervisory costs due to increased bank complexity, deteriorating competition from large financial conglomerates, and "too big to discipline." Although the results show that non-performing loans (NPL) are positively affected by government ownership and adversely affected by the severity of capital constraints, NPL is not affected by regulatory constraints. The results also show that higher regulatory constraints and interventions in bank operations increase the likelihood of a banking crisis. Moreover, crises occur more often in banks with less stringent capital constraints.

Barth et al. (2004) observed that moral hazard increases the probability of a banking crisis occurring, which attenuated with higher political openness and rule of law. The study finds no evidence that government ownership significantly affects bank stability, performance, or development, especially after controlling for other regulatory factors, while government banks are more corrupt. Moreover, they provide evidence of a negative link between bank stability and deposit coverage excellence, which is consistent with the findings of Demirgüç-Kunt and Detragiache (2002). They emphasized that deposit coverage intensifies the moral hazard problem and the lottery behavior of banks.

Finally, Laeven and Levine (2009) is an important research that focuses on the underlying principles that explain risk-taking behavior regarding country-specific bank regulation and ownership structure. Using a sample of 251 private listed banks with large assets in 46 countries over the period 1996–2001, they found that bank risk-taking increases with increasing shareholder control in bank governance. This is consistent with the theoretical explanation that managers who hold equity tend to take more risk than those who do not. In addition, they argue that dominant bank owners with better cash flow rights are more prone to be engaged in excessive risks.

They also point out that banks with minimum capital requirements, higher regulatory restrictions, and deposit coverage are more likely to take risks. Their results suggest that bank regulation moderates the impact of bank ownership on risk taking and that ignoring ownership structure in the link between bank regulation and stability may lead to inaccurate results. Moreover, they reveal that deposit insurance, regulatory restrictions on banking activities, and stringent capital regulation mitigate the tendency of larger owners to be more risk-taking.

The fourth cluster refers to seminal methodological and econometric studies, as well as those related to political risk measures, whose mainly described in Section 2 and Table 1.

The JF and JFE each have 3 influential studies in the top 10 articles. Overall, JFE, JF, AER, QJE, JBF, and RFS are the leading journals in this field with 12, 6, 6, 5, 4, and 4 influential articles, respectively, among the top 49 most cited references.

3.5. Historiography and research themes

The method of historiography allows us to make a complementary analysis of the field in terms of thematic structure and trends by focusing on the primary collection. This method is based on the way documents in the primary collection cite other documents in the

primary collection.

For this purpose, we perform historiography in the form of Local Citation Scores (LCS) using HistCite software. The historiography shows the most influential studies in our sample with a Local Citation Score greater than 40 (Fig. 8). To detect research themes, we examined the topics of all nodes and their interrelationships.

According to the historiography, we identified eight major research themes on political risk in the banking sector (Fig. 8).

La Porta et al. (2002) show that more government ownership in the banking sector leads to a slowdown in the development of the banking and financial sector, which is consistent with the political theory of government ownership. Following this study, Sapienza (2004), Dinc (2005), and Micco and Panizza (2006) examined the destructive effects of state ownership on bank lending, which are mitigated by the influence of elections. Subsequently, Micco et al. (2007), Cornett et al. (2010), and Shen and Lin (2012) also studied the destructive effects of political interference on government-owned banks, but on performance rather than lending. In contrast to the first and second themes, the impact of government intervention on risk-taking is usually argued through moral hazard. Unjustified risk-taking in response to expected government support and interventions associated with moral hazard is the third line of research in this area (Brown and Dinc, 2005; Dam and Koetter, 2012; Duchin and Sosyura, 2014).

The fourth theme relates to the impact of political instability through elections or political transitions on bank performance (Cole, 2009; Baum et al., 2010; Jackowicz et al., 2013; Ghosh, 2016). This topic is mostly studied in the context of the political theory of state ownership and following the dominant studies of the first and second topics. It can be noted that variables related to political instability, such as elections, are mainly used as moderators alongside variables related to government interventions or the political environment.

The other four themes relate to the influence of various features of institutional and legal environment on the banking system. The influence of regulatory and institutional environment on bank and economic performance (Levine, 1998; Andrianova et al., 2008; Park, 2012) is the oldest line of research of political risk in banking (5th theme). The negative consequences of a fragile institutional environment on bank productivity (Barth et al., 2004, 2013; Lensink et al., 2008; Haw et al., 2010), bank stability (Gonzalez, 2005; Fang et al., 2014; Ashraf, 2017) and lending (Beck et al., 2006; Qian and Strahan, 2007; Barth et al., 2009) are considered as other trending topics in this field.

Taking a holistic view, we decode the historiography in terms of the three classical categories of political risk (Table 2). According to the mapping, we found that components of the political, institutional, and legal environment as the third category with 19 nodes and variables related to government interventions as the first with 17 nodes are the most important aspects of political risk studied in relation to the banking system. The subcomponents of political risk characterized as the second category, mainly known as political instability, are less used as predictors in banking studies (4 nodes).

To expose the trends of these three major thematic categories of political risk in financial institutions, we have extracted the annual production of each through content analysis (Fig. 9).

The evolution of political risk categories in banking shows that the political and institutional environment is the most developed

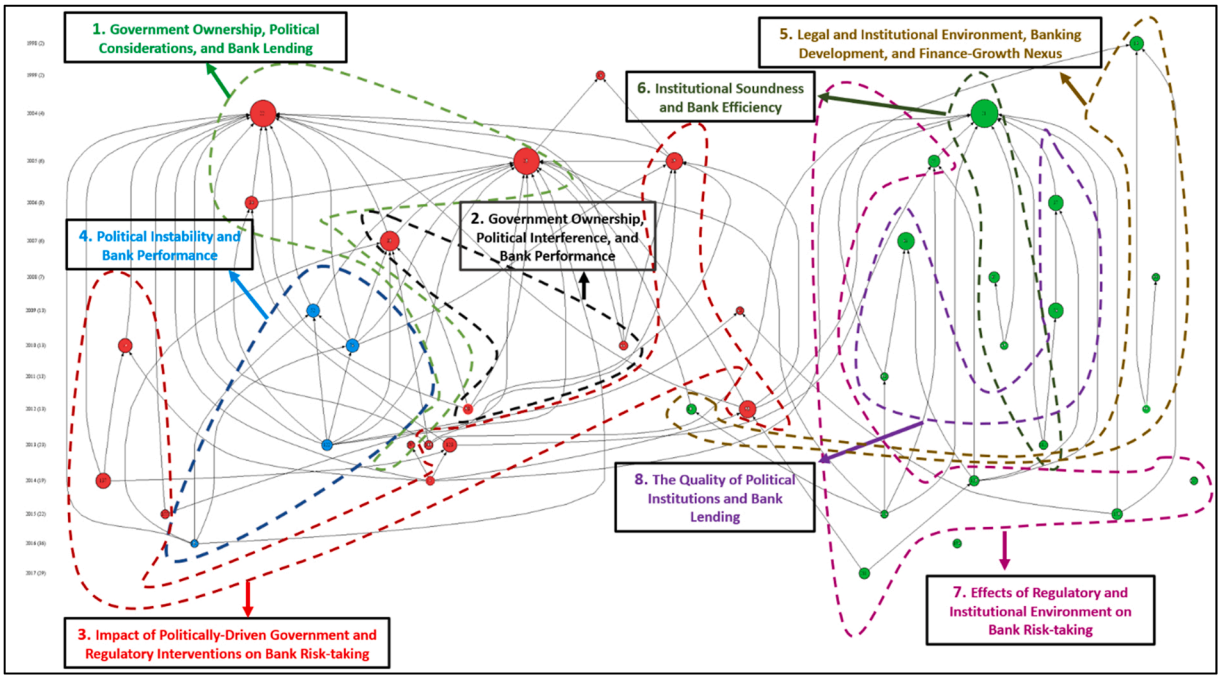

Fig. 8. Historiograph: research themes, links, and trends This figure provides the historiography, based on papers with a local citation score greater than 40 and using HistCite software. It allows the detection of major research themes through a content analysis on nodes and links across topics, together with their trend across time.

category of political risk in banking in recent years. Although the influence of political instability on financial institutions has become increasingly popular in recent years, when one speaks of political risk in banking, one is likely to refer to characteristics of political risk that relate to the first and third categories.

3.6. Keyword analysis

Co-occurrence and co-citation are two complementary analyses (Leung et al., 2017). Following this approach, we conduct a co-occurrence network of author keywords with at least six occurrences that illustrates the top 25 keywords out of 698 author keywords. In terms of the terminology, there are four clusters throughout the existing body of literature.

The green cluster refers to the bailout-crisis nexus and impact of economic policy uncertainty (EPU) on lending. The relationship between political connection and bank governance and the effects of the institutional environment on banks are related to the yellow cluster. In the blue cluster, the effects of the institutional environment on economic growth and banking crises is the fitting topic. Lastly, the effects of institutional soundness on bank stability, corruption-banking development nexus, and the link between central bank stability and banking development are the main links in the red cluster (Fig. 10).

After clusters are identified, we check the annual progress of related keywords across time. For this purpose, we generate the annual frequency of keywords by using the R package and search the key terms of each cluster within keywords. Then, we create an annual aggregate index for each stream and compare them across time (Fig. 11).

According to the keyword growth, we reveal that the cluster on the effects of the legal and regulatory environment on economic growth and banking crises (blue) is less trendy in the recent years compared to others. The one on the influence of EPU and Political Risk on banking is the leading stream (green), with significant growth since 2014, when Baker et al. (2016) proposed a measure for EPU.

To reveal which specific keywords are trendy, we check how leading keywords evolve across time. Fig. 12 shows that Political Risk, Economy Policy Uncertainty, Islamic Banks, Bank Stability, and Institutional Quality are the leading keywords related to political risk in banking. Regarding both frequency and trend, EPU and Institutional Quality emerge from other keywords.

3.7. Future research agenda

By reviewing the literature and listing relevant publications over time, as well as content analysis of suggestions for future research in the primary collection especially the influential studies, it is possible to identify gaps in the literature and a possible agenda for future studies. We also reviewed several recent publications (2020–2021) on the identified gaps to provide an indication of timeliness and the latest contribution to the research direction. The results are summarized in Table 5.

3.7.1. Political considerations in state-owned banks (SOBs)

Government interference in banks' operations is mainly discussed in the context of government ownership and under three perspectives.

Firstly, participation or ownership of government in the banking system and other enterprises are inevitable as development is not attainable by the private sector in less advanced countries or those with inferior institutional soundness (e.g., Stiglitz, 1993). This development or social perspective argues that control of the government over banks speeds up financial development and economic growth (e.g., Andrianova et al., 2008). Secondly, government power on banks and firms may aim at delivering benefits to allies by

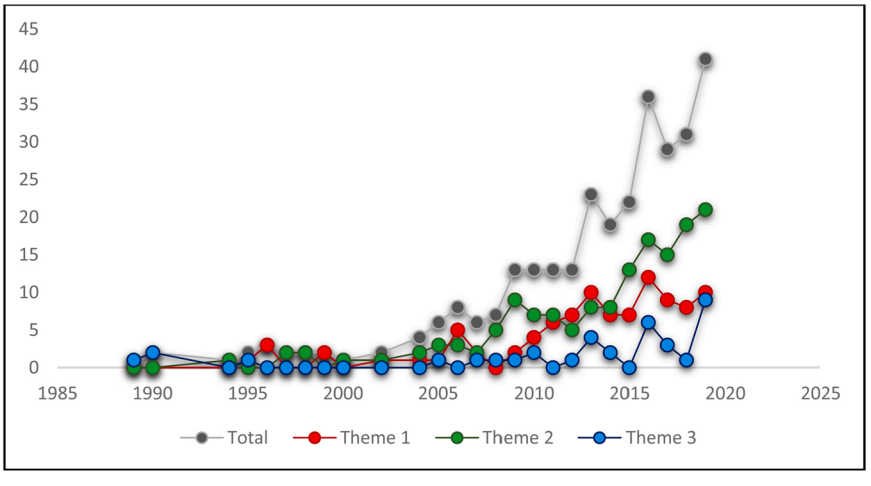

Fig. 9. Trends in research themes by cluster This figure shows thematic trends in the banking literature on political risk categories, including government interventions (red), political and institutional environment (green), and political instability (blue), as well as the total number (black). Data on annual production of each category were extracted through content analysis.

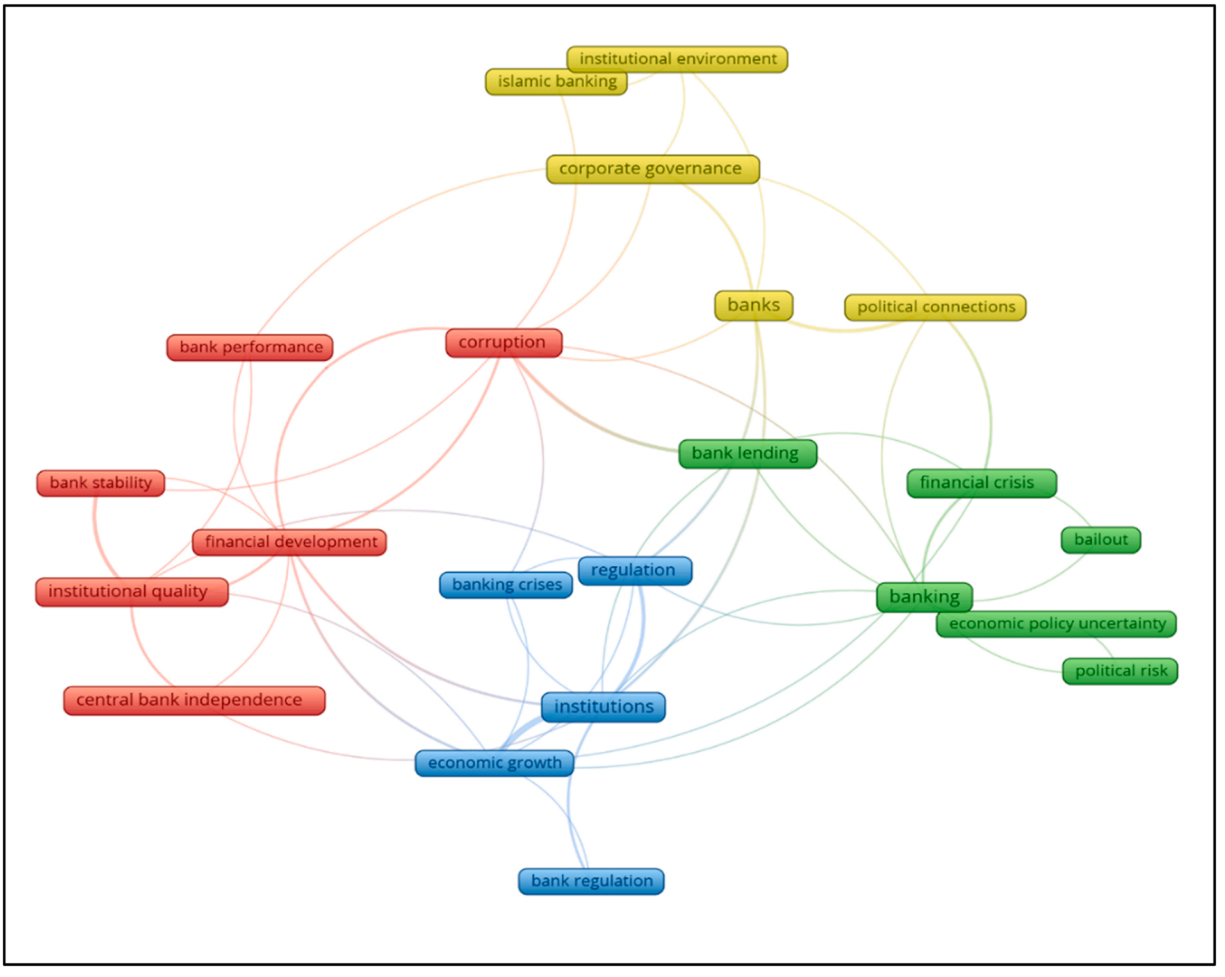

Fig. 10. Co-occurrence network of most frequent keywords. This figure shows the co-occurrence network of the 25 most frequent keywords. The proximity of the key terms in each cluster implies the cluster focus.

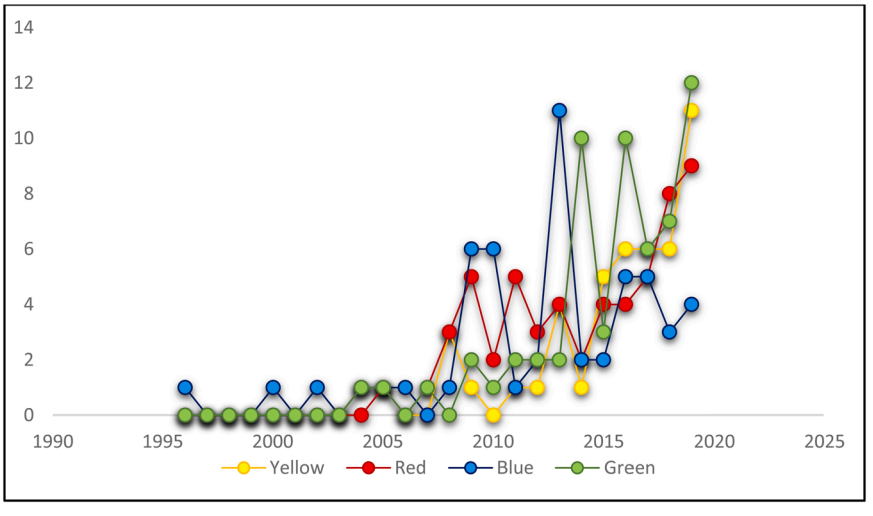

Fig. 11. Evolution of co-occurrence clusters. This figure illustrates the growth of co-occurrence clusters. We compute an annual aggregate index for each co-occurrence cluster by extracting the annual frequency of keywords in each cluster. The colors refer to the color of the clusters in the co-occurrence network (Figure 13).

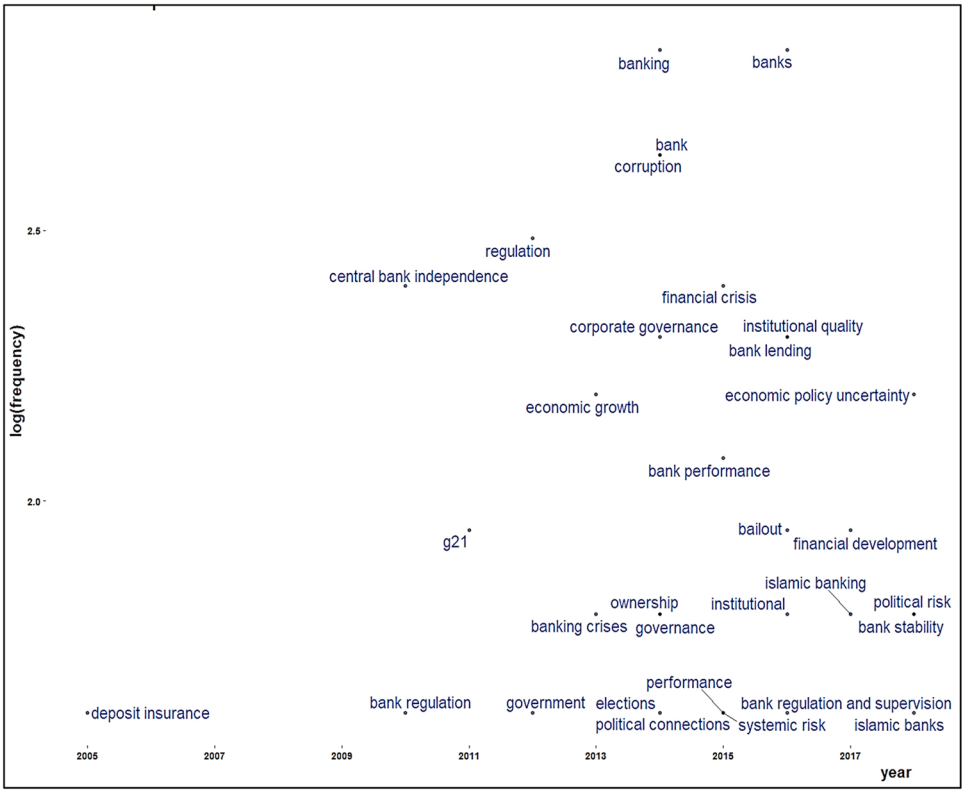

Fig. 12. Keyword trend This figure shows how keywords evolved across time. The horizontal axis shows the timespan and the vertical axis is the rate of occurrence.

acquiring credit and resources. Political theory of state ownership posits that government ownership limits the banking system development (e.g., Beck and Levine, 2002; La Porta et al., 2002), lending (Dinc, 2005; Sapienza, 2004), performance and efficiency (e.g., Cornett et al., 2010; Micco et al., 2007), and stability (Brown and Dinç, 2005; Iannotta et al., 2013). Thirdly, seeing government ownership as a double-edged phenomenon, it may have deleterious consequences such as corruption (Hart et al., 1997).

Political influence on bank lending is a prominent issue in emerging markets (Dinç, 2005) and even in developed countries (Sapienza, 2004). This line of research is again proving to be a challenging topic in banking research (Koetter and Popov, 2021; Kumar, 2020). Government ownership, political interference, political connections, and political events are the building blocks of this line of research. Government ownership is very common and substantial in low-income countries (La Porta et al., 2002). The control of elite politicians and political parties over SOBs is more attractive and less problematic than for other state-owned enterprises (see Dinç, 2005; Rajan and Zingales, 2003).

The political view assumes that state ownership leads to lobbying behavior, abandonment of regulatory and budgetary constraints, lopsided resource allocation, and deterioration of financial productivity as politicians seek to influence financial institutions to pursue their political objectives (Shleifer and Vishny, 1994). Some of the most influential studies in this area find evidence for the political theory of state ownership (Dinç, 2005; La Porta et al., 2002; Sapienza, 2004).

Dinç (2005) pointed out that determining the total cost of political pressure on SOBs in emerging economies would be an important future direction. To date, this gap has not really been explored. Although the real costs of political interference in bank lending have been studied for the manufacturing sector in Brazil (Carvalho, 2014) and the agricultural sector in India (Kumar, 2020), the total costs of these distortions in bank lending have not yet been studied for state-owned or even private banks. These government interventions in banks can lead to lower bank development (La Porta et al., 2002), weaker bank performance and efficiency (Micco et al., 2007), and higher operational risks (Iannotta et al., 2013).

3.7.2. Political cycle lending

Political pressures on bank lending behavior are likely to intensify before and during election years or because of the bank's political connections.

Do state political parties use their power to grant bank loans to state government in election years? Are these state interventions mitigated when the party in power is not the dominant force? When the political party in power is not powerful, politicians are more likely to put the brakes on policy interventions in a tense political contest. The second question coincides with one raised by Brown and Dinç (2005) that points to the future.

Table 4
Leading measures of political risk in banking studies This table highlights the leading measures of political risk in banking studies, together with their indicators or components, a brief description, the source and the main references.

Framework	Components	Description	Source
Institutional Quality	(1) Control of Corruption, (2) Rule of Law, (3) Political Stability, (4) Governance Effectiveness, (5) Regulatory Quality, and (6) Voice and Accountability	The Worldwide Governance Indicators (WGI) reports aggregate and individual governance indicators for over 200 countries and territories over the period 1996–2018, for six dimensions of governance.	World Bank – WGIDaniel Kaufmann and Aart Kraay (Kaufmann et al., 2007; Kaufmann et al., 2005;Kaufmann et al., 2003; Kaufmann et al., 1999;Kraay et al., 2010)
Political Risk Rating	(1) Government Stability 12p, (2) Socioeconomic Conditions 12p, (3) Investment Profile 12p, (4) Internal Conflict 12p, (5) External Conflict 12p, (6) Corruption 6p, (7) Military in Politics 6p, (8) Religious Tensions 6p, (9) Law and Order 6p, (10) Ethnic Tensions 6p, (11) Democratic Accountability 6p, and (12) Bureaucracy Quality 4p	ICRG produces monthly ratings for 140 countries and for another 26 countries on an annual basis under a different title. The Political Risk Rating includes 12 weighted variables covering both political and social attributes. The composite scores, which range from zero to 100, are then divided into categories from very low risk (80–100 points) to very high risk (0–49.9 points).	PRS Group – ICRG
The Political Constraint Index	(1) The number of independent veto points over policy outcomes (2) The distribution of preferences of the actors that inhabit them	POLCON is an objective and comprehensive measure of institutional commitment based on positive political theory. It uses a quantitative model to capture the competition part of the definition of democracy (competition and participation).	Witold Henisz(Henisz, 2000
Political Risk Spreads	(1) Government Actions, (2) Company-Specific Risks, and (3) Country-Specific Risks	Political Risk Spreads is a market- and news-based measure of political risk, which is the yield spread between a country's U.S. dollar debt and a corresponding U.S. bond. Variations in these sovereign bond yield spreads are explained by global economic conditions, country-specific economic factors, the liquidity of the country's bonds, and political risk. Finally, they extract the fraction of the sovereign bond spread attributable to political risk using political risk scores. The measure derives the probability of an adverse political event for a country.	Geert Bekaert, Campbell R. Harvey, Christian T. Lundblad, and Stephan Siegel (Bekaert et al., 2014
EPU	1st component quantifies newspaper coverage based on search results from 10 major newspapers, 2nd component reflects the number of provisions of the federal tax code that will expire in the coming years, and 3rd component uses disagreement among economic forecasters as an indicator of uncertainty based on the Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters	The economic policy uncertainty (EPU) index is based on the frequency of newspaper coverage frequency. EPU is based on an index of three types of underlying components. The EPU website provides data for 26 countries on a monthly basis. The data series cover the period from January 1997 to the present.	Economic Policy Uncertainty Index Scott R. Baker, Nick Bloom, and Steven J. Davis (Baker et al., 2016; (Baker et al., 2015); (Baker et al., 2013)

To support the value of this research question, we also refer to a recent influential study. Koetter and Popov (2021) studied the politically motivated savings banks lending to German state governments. These banks, which were established to strengthen economic development in their regions, can be influenced by political party changes in elections. As Koetter and Popov (2021) suggest, one could also examine how government-induced lending evolves with election cycles for savings banks in other European economies, notably Spain (Cajas), Italy (Casse di Risparmio), and Norway (Sparebank).

Another issue that future studies could address concerns the phenomenon that political cycle lending and its consequences are more pronounced in SOBs than in their private counterparts. Cyclical lending is not limited to SOBs. Evidence of cyclical lending in state-owned banks is documented, but the comparison between state-owned and private banks is rarely studied. Baum et al. (2010) show that Turkish banks' lending and performance are strongly influenced by general election cycles in Turkey, but fail to demonstrate a significant difference between state-owned banks' lending and that of other counterparties in the political cycle. Micco et al. (2007) document that political cycles cause a meaningful difference in performance between private and government counterparties.

Do SOBs change their lending behavior in the context of a local or regional political event such as an election relative to local private banks? Depending on a range of factors such as macroeconomic characteristics, political and institutional development, CBI,

Table 5
Suggestions for future research This table contains our suggestions for future research arising from the content analysis of our primary collection, focusing on the influential studies.

No.	Proposed Future Research Questions	Main References
1	How to quantify the total cost of political pressure on state-owned banks in emerging markets?	Dinç (2005)
2	Do state political parties use their power to provide bank credit to state government during election cycles? Are these state interventions mitigated when the party in power is not the dominant power?	Brown andDinç (2005),Koetter and Popov (2021)
3	Are political cycle lending and its consequences more pronounced in state-owned banks than in their private counterparts?	Baum et al. (2010)
4	Whether state-owned banks with politically connected CEOs had poorer credit quality and solvency during the Covid 19 crisis than state-owned banks with non-political CEOs?	Chen et al. (2018),Boateng et al. (2019)
5	Are banks with stronger political connections less at risk of a selective loan default by government compared to banks with fewer political connections?	Hung et al. (2017),Gao et al. (2021)
6	Does pressure on banks from political promotion of local politicians increase bank risk, especially when local politicians sit on the bank's board? Do the lobbying behavior of a bank's CEO, increasing information asymmetry, and the problem of agency costs strengthen the link between political advancement and bank risk?	Wang et al. (2019),Barth et al. (2009)
7	Is the link between national or regional political instability and the risk faced by banks likely to be stronger in countries with higher levels of sovereign exposure and lower levels of CBI?	Klomp and De Haan (2009)
8	Is the link between political instability and bank credit risk mediated by credit growth and liquidity? How do endogenous shocks mitigate the negative effects of political instability on bank stability? Higher exposure to political risk vs. more hedging and flight to quality.	Cheng et al. (2021)
9	How can a bailout system mitigate the unintended effects of government support on bank stability? What is the role of the size of the capital injections and the quality of the bailout mechanism?	Ashraf (2017),Hryckiewicz (2014)
10	Does the soundness of political institutions lead to excessive risk-taking by exacerbating the moral hazard problem, especially in countries with deposit insurance schemes? How can we distinguish whether this positive effect is explained by the moral hazard problem or by a competition-stability trade-off?	Ashraf (2017), Demirgueç-Kunt and Detragiache (2002), Allen et al. (2015)
11	Are capital injections efficient enough in times of crisis, given the possibility of a negative effect?	Black and Hazelwood (2013)
12	Under what circumstances are the negative effects of government intervention in bank lending and political corruption negligible compared to their positive aspects for banking and economic development? Do political developments actually mitigate the negative effects of state ownership on banking risk due to state control?	Micco et al. (2007),Chen et al. (2018), La porta et al. (1999),Bermpei et al. (2018)
13	Do ideological and political characteristics of the political party in power significantly influence bank lending and credit spreads? Do the political frameworks of autocratic or communist regimes increase political corruption in bank lending relative to democracies by placing fewer restrictions on politically motivated government intervention or providing less information transparency?	Brown and Dinç (2005),Delis et al. (2020)
14	How does bank communication reflect political risk? Can bank-level political risk provide a novel explanation for the political risk sign paradox and the lower returns on bank stocks in response to higher political risk in a developed market? Does the increase in bank-level political risk increase the volatility of bank stocks and the likelihood of a systemic banking crisis by increasing the bank's cost of equity?	(Hassan et al., 2019;Perotti and Van Oijen, 2001;Bekaert et al., 2014,Pastor and Veronesi, 2012

bank supervision and governance, political connections with state politicians, and political conflicts between national and state politicians, various scenarios could be considered to test this hypothesis.

3.7.3. Political connections and banks loan defaults

First, one might ask whether state banks with politically connected CEOs have worse credit quality and solvency than state banks with non-political CEOs. The vulnerability of SOBs to crises is highly related to state banks' credit standards, which are primarily influenced by CEOs (Sapienza, 2004). Politically tied chief executives may exploit the authority to soften lending standards to extend credit to their allies and facilitate political corruption. In addition, excessive risk-taking by a bank's CEO can lead to excessive lending behavior (Acharya and Naqvi, 2012). Chen et al. (2018) suggest that SOBs with a political CEO perform worse during the GFC, while this is not true for banks with non-politically connected CEOs. Politically connected SOBs are more prone to sacrifice credit quality for political considerations (Chen et al., 2018). Boateng et al. (2019) also suggest that the positive association between a bank CEO's political connection and credit risk is likely to be strengthened for SOBs. Moreover, political corruption due to political connections increases information asymmetry, which affects bank lending and efficiency.

Second, the scenario that financial institutions with greater political ties are less vulnerable to government loan defaults compared to other banks in emerging markets is also an important direction for future study. The ultimate goal of politicians is to rise in the political system, and this goal is tied to the power and financial performance of their allies. Therefore, selective loan defaults to banks with large political affiliations could be very costly and destructive to their development. Moreover, politically associated banks are expected to generate more deposits than non-politically tied banks (Nys et al., 2015), which reduces the probability of default. Hung et al. (2017) highlight that Chinese banks with a politically linked chief executives face a lower probability of default and a higher

creditworthiness. For recent work in this direction, see Gao et al. (2021). Using data on sub-sovereign debt in China, Gao et al. (2021) document that less politically influential banks have a higher probability of being selected in the event of a selective government loan default. Therefore, the real cost of a nonpolitical bank in a highly corrupt country or in a less politically and institutionally developed environment would be substantial.

3.7.4. *Political ascendancy, bank risk exposure, and bank governance*

This hypothesis that the rise of politicians up the political ladder and the associated pressure on banks lead to higher risk, especially when local politicians hold the chairmanship or a seat on the board of the bank, can be tested for several developing countries. Wang et al. (2019) suggest that promotional pressure from local Chinese politicians increases bank risk by increasing poor-quality lending and reducing liquidity, especially for local commercial banks and when active politicians rule as bank governors. Investigating the nexus between political ascendancy and risk through the profitability channel, especially in countries with less diversified banking income, would be another contribution to the relevant literature.

The pressure that political sponsorship exerts on banks is likely to increase risk-taking by weakening competition in terms of competition- fragility view. The effect of bank competition on controlling corruption control is mitigated by the increase in information asymmetry (Barth et al., 2009). Thus, the effects of political sponsorship on risk exposure could be reconsidered by increasing information asymmetry and the agency problem. In addition, the lobbying behavior of a bank's CEO may reinforce the link between political sponsorship and risk, as lobbying behavior may increase the bank's lottery behavior, especially through the agency cost problem.

3.7.5. *Political instability and banking stability*

Robock (1971) distinguishes between political instability and political risk. He states that political instability, such as a regime change that alters the business environment, is political risk. Although the impact of systematic political instability, especially electoral instability, on bank failure is rarely studied (e.g., Liu and Ngo, 2014), the literature seems to say too little about how different forms of political instability affect bank risk, credit growth, and liquidity creation.

Despite political instability triggered by global and multinational political events such as Brexit and Trump's victory, political instability can also be measured under the headings of different events such as national and state elections, political transition, revolution, war, and referendum. Political instability is described as a channel that explains how the economy is affected by politics (Julio and Yook, 2012). Increasing political uncertainty poses risks and increases borrower monitoring, which provides an incentive for banks to slow loan growth (Bordo et al., 2016). Ghosh (2016) finds that the Arab Spring is reducing the stability and productivity of both commercial and Islamic banks in the MENA.

The negative impact of political instability on banking stability are amplified in times of endogenous risk crises by a higher probability of default, greater reliance on politics and government intervention, a higher expectation of bailouts, and moral hazard, while endogenous shocks can mitigate the destructive effects of political instability on bank stability as banks opt for hedging and flight to quality. Moreover, an institutional environment may establish a motivational system to decrease political uncertainty and boost effectiveness (North, 1991).

Banks in countries with less independent central banks and greater government involvement are more vulnerable to the risk of national or regional political instability. Greater central bank political independence can lead to greater financial and banking stability (Klomp and De Haan, 2009). Politically independent central banks face fewer political restrictions and can more effectively prevent and combat a crisis. An independent central bank alleviate the adverse effects of political instability on banking stability. The underperformance of SOBs, especially before and during elections because they charge lower interest rates (Jackowicz et al., 2013; Micco et al., 2007; Shen and Lin, 2012), is a threat to banking stability. In countries where banks are often state-owned, the negative impact of political instability on banking stability seems to be exacerbated by increasing political patronage and corruption.

In a recent work in this direction, Cheng et al. (2021) reveal that instability due to the change of city governors reduces the creditworthiness of Chinese banks as the lending of city banks increases. Investigating whether the link between political uncertainty and credit risk is mediated by credit growth and liquidity would be another future research direction.

3.7.6. *Moral hazard problem of government support*

The unintended consequences of government capital injections are a growing concern for financial institutions. Government guarantees, intended to restore stability and confidence to banks, can adversely affect the stability and lead to excessive risk-taking through the moral hazard problem (Dam and Koetter, 2012; Duchin and Sosyura, 2014). How can a bailout system mitigate the unintended effects of government support on bank stability? Do the volume of capital injections and the quality of the bailout mechanism matter? This unintended effect could be modified by considering some assumptions such as bailout mechanism (Hryckiewicz, 2014), bank size (Dam and Koetter, 2012), political institutions (Ashraf, 2017), political connections (Duchin and Sosyura, 2014), and during elections (Iannotta et al., 2013).

A sound political environment reduces information asymmetries and the risk of expropriation, leading to greater bank stability. In contrast, sound political institutions can lead to less stability by increasing competition and raising banks' expectations of government support in times of crisis. Ashraf (2017) provides evidence to support this assumption that political institutions soundness induce banks to take more risks, especially in countries with deposit insurance schemes. However, this study does not distinguish whether this positive effect is explained by the moral hazard problem or a competition-stability trade-off.

Distinguishing the channels explaining the impact of political institutions on bank stability through mediation analysis would be a good contribution to this issue. We could then examine whether the moral hazard problem of government bailouts and excessive bank

risk-taking is amplified in a weak political environment. Is this unique effect amplified in countries that are fully protected by deposit guarantee? As Demirgüç-Kunt and Detragiache (2002) have found, the positive effects of deposit protection on banking crises are likely to be amplified when the quality of political institutions is low.

Now may be a good time to support the point raised by Black and Hazelwood (2013) as a future research question. Are capital injections efficient enough in times of crisis, given the possibility of a negative effect? Allen et al. (2015) critique the view that government support leads to additional risk-taking and moral hazard. They provide a new theoretical framework by considering both the direct and indirect effects of government support on different types of banking crises, which allows for a better assessment of the trade-off between restoring stability and the moral hazard of government support.

3.7.7. Political environment and interventionist behavior of government and regulations

Any change in the political and institutional environment that leads to a change in the business environment is a political risk (Robock, 1971). According to the theory of financial intermediation, bank development is related to the soundness of the political environment, especially political stability (Aggarwal and Goodell, 2009).

As Micco et al. (2007) stated, finding the circumstances that the adverse effects of government intervention in lending and political corruption are negligible compared to their positive aspects for banking and economic development is an important argument for future studies. This optimal condition could be rooted in the soundness of the policy and institutional framework. Government interventionist behavior tends to be lower in countries with sound governance and institutional frameworks (La porta et al., 1999). Do policy and institutional developments actually reduce the adverse effects of government ownership on bank risk due to state control? Chen et al. (2018) show that political interference in SOBs does not lead to SOB failure in countries with sound governance and institutional quality and low corruption.

Despite government intervention, the adverse effects of banking supervision and regulation on stability might be mitigated by the soundness of political institutions. A banking crisis is more likely in countries with higher regulatory constraints (Barth et al., 2004). Regulatory constraints raise the financial intermediation cost (Demirgüç-Kunt et al., 2004). Bermpei et al. (2018) find weak evidence that the adverse effects of bank supervision on bank stability are moderated by institutional quality. The downside of the relationship between regulation and stability appear to be stronger in environments with lower corruption control, lower political stability, and lower regulatory quality.

Do ideological and political characteristics of the political party in power particularly influence bank lending and credit spreads? Are there more constraints on government intervention in a democratic regime than in an autocratic or communist system? Since democracies are likely to increase information transparency (Hollyer et al., 2011), a democratically developed system is more likely to limit bank lending corruption. The role of ideology in political interference in banks is suggested as a future direction by Brown and Dinç (2005). In a recent article, Delis et al. (2020) document that the cost of credit is significantly affected by democratization. Consistent with political risk frameworks, lack of democratic accountability or democracy is considered a characteristic of the political environment and a subcategory of political risk.

3.7.8. Bank-level political risk measurement and bank stock return volatility

Most of the developed measures of political risk and political uncertainty are country-specific measures (Baker et al., 2016; Kaufmann et al., 2003). Recently, Hassan et al. (2019) proposed a simple and interesting measure of political risk at the firm level. Following Hassan et al. (2019), future studies can use textual analysis and computational linguistics (pattern-based sequence classification) to develop news-based bank-level measures for different banks and central banks. First, they can carefully develop the political risk keywords used in this study or those proposed by Bekaert et al. (2014) by adding some more general keywords that can be expected in bank communications. Second, they need to collect all the texts of the press conference and the bank CEO's speeches in a timely manner. Finally, they can check the frequency of keyword matches in the texts and use them to create a time series-based index. This quantifies the political risk of bank i at time j based on the frequency with which the bank's communications reflect the key political concepts. This will help subsequent studies and policymakers better measure their bank's political risk, or the bank's perception of political risk, and quantify the cost of political risk to bank performance and stability.

In the case of significant political uncertainty in developed countries related to a presidential election or even a non-systematic event such as a war, perceptions of real political risk and its impact on stock returns, stock volatility, asset valuations, and the cost of capital could be very different across sectors. In this situation, a bank is more likely to consider and respond to political risk as perceived in central bank communications than to use country-specific or global political risk assessments.

By using a bank-level measure of political risk, future studies will be in a better stance to revisit an important, long-unanswered research question, the so-called sign paradox of political risk (Perotti and Van Oijen, 2001), and provide a novel explanation for why higher political risk in a developed market leads to lower bank stock returns? Or provide evidence of a parabolic relationship between bank-level political risk and bank stock returns in developed markets.

In general, the literature on the impact of political risk and political uncertainty on asset volatility, asset valuation, and bank systematic risk is more than sparse. Political risk is likely to drive stock volatility and valuation because political risk is a component of systematic risk (Bekaert et al., 2014; Perotti and Van Oijen, 2001). An increase in political risk is likely to increase bank stock volatility and valuation because of an increase in the bank's cost of equity, which is the discount factor in the firm valuation model. Pastor and Veronesi (2012) also emphasize that political changes leading to an economic crisis lead to higher stock volatility.

4. Discussion

The adverse effects of social actions, government activities, and policies on investments and operations are referred to as political risk (Simon, 1982). The ambiguous concept of political risk is generally limited to the dark side of government and political interference in business operations (Aliber, 1975). As Fitzpatrick (1983) and Kobrin (1979) have noted, the concept of political risk can be defined in terms of government intervention, event-driven political instability, and the political environment. In a broader definition, political risk is defined not only as "undesirable consequences of government intervention" (Fitzpatrick, 1983, p. 249) and "manifestations of a political nature" (Fitzpatrick, 1983, p. 250), but also comprises "restrictions on doing business and changes in the business environment due to changes in the political environment" (Kobrin, 1979, p. 68).

Although the above definitions highlight the main criteria of political risk, the concept of political risk has become much broader in recent years. Given this multidimensional nature of political risk, we refer to it in this paper as any impairment, restriction, or disruption of banking operations due to opportunistic behavior by politicians and governors through government involvement, political instability due to political events and transitions, or unsound legal, institutional, and policy frameworks. In short, any change in the political environment, the consequences of political instability, or government actions and interventions that adversely affect banks can be defined as political risk for banks.

Using a meta-synthesis literature review based on a combination of bibliometric analysis and content analysis, we studied the literature on political risk in banks from different aspects and in terms of the underlying theories and frameworks. The focus of our study is to identify and review the main streams of political risk in banks by document co-citation mapping. However, we also used historiography or citation mapping to capture the main research themes in the field and the evolution of the topic over time.

The results show four main streams in the literature and eight trending research topics in the field. Leading streams include political considerations in bank lending and their negative impact on bank performance, the impact of government and regulatory intervention on bank risk-taking, the impact of the institutional and political environment on bank development and performance, and economic models and measurement methods related to political risk in banks.

This study also highlights the influential aspects of the field, such as the leading studies and authors. Finally, we developed a theoretical framework that shows the dispersion of the literature on political risk in banking and set an agenda for future research with fourteen research questions. The future agenda shows that the field is evolving mainly toward the first and third clusters and by focusing on emerging markets.

Political risk in banks is mainly studied from the perspective of how banks are affected by political and government interventions or changes in the political and institutional environment, especially during and before periods of systematic political events, while the literature on the direct impact of political instability on financial institutions is more than scarce. Interestingly, indicators of the policy environment and government intervention are rarely used together in banking research. Our results highlight how little political risk factors are studied in the banking literature compared to other financial literature.

5. Conclusions

The significant and recent advances in the field of political risk in financial institutions and the growing concern about political risk in financial systems, which has not abated even during the Covid 19 pandemic, have led us to undertake the first comprehensive review of political risk in banks using bibliometrics and content analysis. In this meta-synthesis literature review, we consider all disjointed studies to provide a coherent and detailed image of the field. Our findings provide a pathway for future developments in research streams, trends, and themes, as well as a comprehensive and structured source of references for scholars interested in the field.

We provide a multilevel bibliometric analysis based on 60 keywords on political risk in conjunction with keywords on banking, complemented by a content analysis of political risk in banking covering 303 publications in ISI WOK journals over a period from 1985 to 2019, to provide suggestions for future research. We review articles primarily using two complementary methods, co-citation mapping and historiography, to uncover the structure of this field and its trends over time. We also analyzed the field in terms of journals, authors, and keywords.

We have identified four research clusters. The first refers to the influence of political interference on bank lending, particularly in the context of political cycles through the political theory of state ownership (Dinc, 2005; La Porta et al., 2002; Sapienza, 2004). The second group addresses how the policy environment affects banking and the role of financial institutions as financial intermediaries, considering institutional theory (Barth et al., 2004; Lensink et al., 2008) and law and finance theory (La Porta et al., 1998). The third group addresses the impact of government and regulatory intervention, bank supervision, and deposit insurance on bank risk-taking through moral hazard (Ashraf, 2017; Dam and Koetter, 2012), the competition-stability trade-off (Keeley, 1990), the competition-fragility trade-off (Boyd and De Nicolo, 2005), or government ownership (Iannotta et al., 2013). Finally, a fourth area relates to econometrics and political risk measurement. We also set an agenda for future research in this area by identifying and discussing fourteen research gaps.

As a direction for future bibliometric or systematic reviews, we should elucidate the lack of a review of the impact of political events on financial markets and institutions. Such a survey could address the question of how the response of banks to political risk associated with non-systematic political events such as wars or the actions of elite politicians differs from the political risk triggered by systematic political events such as elections.

The concept of political risk in banks is somewhere puzzling that should be problematic for future studies. This is precisely the point that illuminates the importance of the contributions, especially the development of a conceptual framework for political risk in banks that could also be relevant for policymakers.

The main limitations of this study relate to the non-universal scope of the ISI WOK database. Although articles are the most common way to disseminate research results nowadays, there are also books, book chapters, etc. Besides, another limitation is that we focused on publications in English. Although this is what most review articles do for logistic reasons, we have to acknowledge that there might also be interesting contributions published in other languages. A third limitation of our study lies in the temporal coverage that we were able to analyze. Although broad, covering from 1985 to 2019, publications after this year could not be included and therefore it would be interesting for future studies to extend our analysis and examine the directions in which the field is evolving.

Data Availability

Data will be made available on request.

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