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Exploring the Nexus between Political Risk and Financial Risk in the Balkan Countries: A Wavelet-Based NARDL Coherency analysis

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ABSTRACT

The empirical investigation of which risk factor—political or financial—is the optimal driver of country risk in emerging economies in the twenty-first century has grown into a significant and volatile issue in recent decades. This paper investigates the linkages between political risk and financial risk in four Balkan economies (i.e., Greece, Albania, Bulgaria, and Romania) from 1984 Q3 to 2018 Q4, using non-linear autoregressive distributed lag co-integration (NARDL) and wavelet coherence approaches. As a result, findings from the links between political risk and financial risk are being used to provide significant insights into effective urban planning in Balkan cities. The outcomes of the NARDAL analysis indicate that there are short-term and long-term asymmetric links between political risk and financial risk in the Balkan countries except for Romania. The wavelet coherence study also revealed that there is significant vulnerability between political risk and financial risk at different frequencies in the region, also, political risk is a key for predicting financial risk over the selected study period at different frequencies in Albania and Bulgaria.

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1. Introduction

Country risk is an ancient global problem, while contagious diseases and cyber-attacks are considerably more recent occurrences threatening the world's economies. Regardless of how well-structured a nation's economy is, there is a chance that risk elements will exist (Hacker, 2019). Some risk factors can appear suddenly, while others might develop due to laws or regulations. Studies in recent years have indicated that factors related to bad governance, particularly after the 2008 global financial crisis, are linked to the fall of governing institutions, particularly in emerging economies (Humphrey & Michaelowa, 2019).

The dynamic relationship between political risk (PR) and financial risk (FR) is one of the issues that are mostly discussed in the macroeconomic literature. However, the methodology shows that the relation

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