GEOPOLITICAL RISK, CLIMATE RISK, GOVERNMENT DEBT, FINTECH CREDIT, INVESTOR SENTIMENT, AND CORPORATE CASH HOLDINGS: A CROSS-COUNTRY ANALYSIS

Abstract

This study aims to examine the influence of geopolitical risk, climate risk, government debt, fintech credit, and investor sentiment on corporate cash holdings of non-financial firms from 2003 to 2023. Various Panel Data Models are used to investigate these issues. The estimation results reveal that geopolitical risk is negatively associated with corporate cash holdings. The influence of geopolitical risk on firm cash holdings is stronger for countries with low economic development, low financial development, weak investor protection, and low national governance quality. The study also shows that the effect of geopolitical risk on cash holdings is greater for financially unconstrained firms and those operating in industries with low market competition. Climate risk has a positive relationship with corporate cash holdings. The effect is significantly more for firms operating in low economic development countries, climate-vulnerable industries, and after the Paris Agreement period, as well as for firms from countries with high uncertainty avoidance, low individualism, and a high long-term orientation culture. Furthermore, financially constrained firms and those operating in industries with high market competition tend to hold more cash reserves as climate risk increases. Government debt is positively associated with firm cash holdings. This relationship varies across countries with differing levels of development status, financial development, national culture, investor protection, and national governance, as well as across firms facing varying degrees of financial constraints. The study finds that fintech credit has a negative influence on cash holdings around the world. This relationship is stronger for firms from countries with higher economic development, higher financial development, stronger investor protection, and higher national governance quality. The influence of fintech credit on cash holdings is more for financially constrained firms and those operating in industries with high market competition. This study finds that investor sentiment is negatively associated with corporate cash holdings. Firms in countries with low economic development and financial development, low uncertainty avoidance, collectivism, and masculinity cultures, and weak market integrity tend to accumulate fewer cash reserves in the presence of high investor sentiment. The influence of investor sentiment on cash holdings varies across sub-samples of firms and industries classified by financial constraints and market competition. The results remain robust to the use of different cash holdings measures, alternative proxies for all explanatory variables, various regression methods, alternative sample compositions, and after addressing potential endogeneity concerns. Overall, our findings have practical implications for corporate managers and policymakers in formulating appropriate cash management policies for non-financial firms across countries.

Keywords: *Corporate cash holdings, geopolitical risk, climate risk, government debt, fintech credit, investor sentiment, economic development, financial development, national culture, investor protection, national governance, market integrity, financial constraints, market competition, fixed effect model, weighted least squares*