

BILATERAL FINANCIAL RESCUES

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RESEARCH QUESTION

- IMF rescues oftentimes accompanied by bilateral rescues
- Great variation in the provision of bilateral rescues across countries and time
- Bilateral financial rescues can. . .
 - ▶ promote openness (Kindleberger 1986, Broz 2005)
 - ▶ minimize exposure (Lipsy 2003, Broz 2012)
- But: Germany delayed Greek rescue in 2010

⇒ Electoral politics of bilateral financial rescues

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DOMESTIC POLITICS OF FINANCIAL RESCUES

Financial crisis exerts negative externalities on 'home' country:

- Banks that hold debt in the crisis country
- Companies that invest in the crisis country
- Companies that export to the crisis country

⇒ Exposure increases pressure on government to act.

FINANCIAL RESCUES IN HARD TIMES

- Bilateral financial rescues have a re-distributional effect.
- Opposition grows when home economy is affected:
 - ▶ Unemployment in the exposed sectors
 - ▶ Demand for stimulation packages in the home country

⇒ Opposition to bailout increases.

FINANCIAL RESCUES IN HARD TIMES

Hypothesis 1

The greater trade interdependence between the home country and the crisis country, the more likely is a bilateral financial rescue, *ceteris paribus*.

Hypothesis 2

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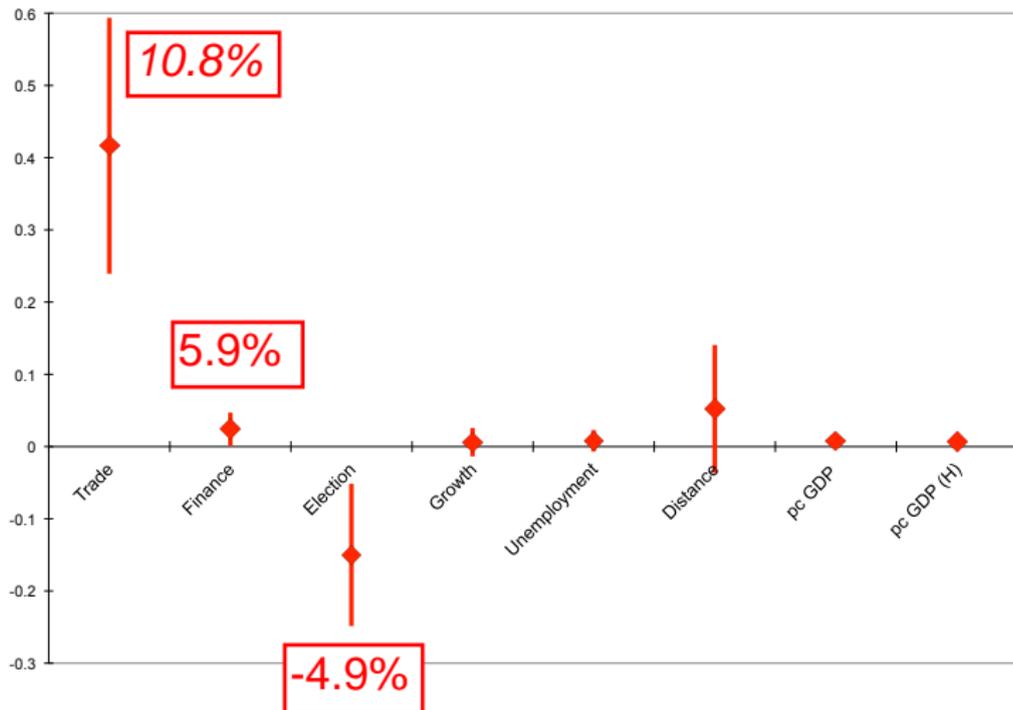
Hypothesis 3

The closer domestic elections in the home country, the less likely is a bilateral financial rescue, particularly if the home country's economy is not doing well, *ceteris paribus*.

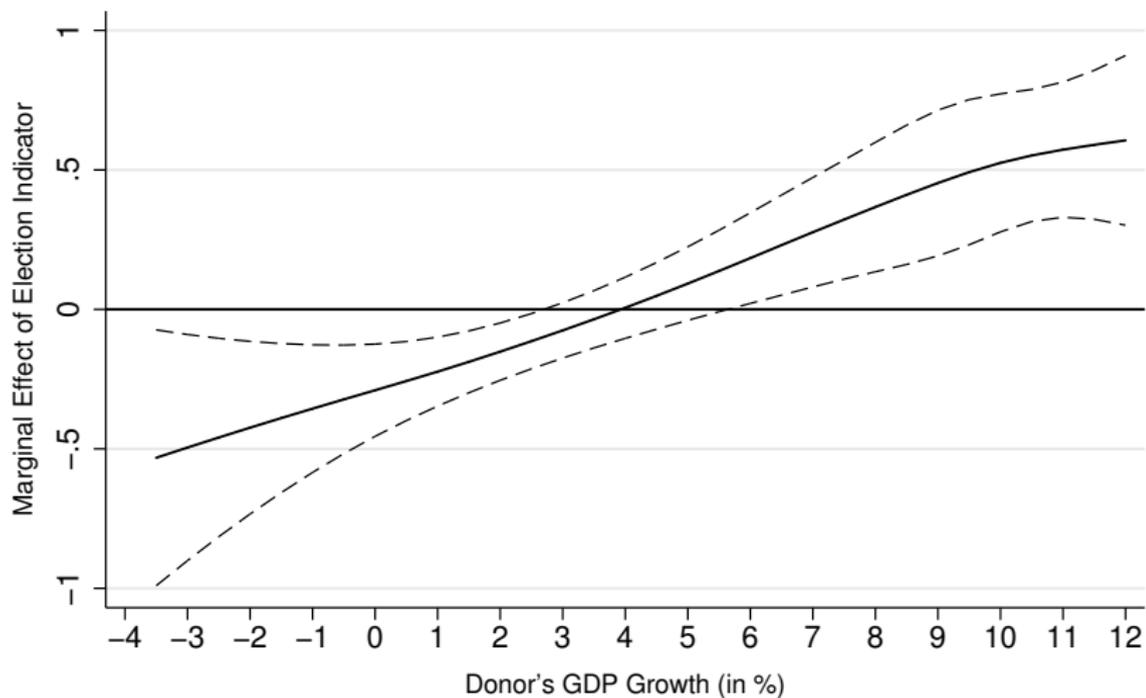
RESEARCH DESIGN

- Data on bilateral rescues by OECD countries, 1995-2010
- 13 crises
- Level of analysis: home country–crisis country
- DV: Bilateral financial rescue (dichotomous)
- Main IVs:
 - ▶ Trade dependence
 - ▶ Bank Holdings
 - ▶ Election indicator (Home)
 - ▶ GDP growth (Home)
- Bunch of control variables
- Bunch of robustness checks
- Logit models (regional FE)

EMPIRICAL FINDINGS



EMPIRICAL FINDINGS



— Marginal Effect of Election Indicator
- - - 90% Confidence Interval

CONCLUSIONS

- Economic and financial exposure increases likelihood of bilateral rescues
- Close elections have negative effect if home economy is not doing well
- Domestic politics and bilateral financial rescues