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IN IT TOGETHER OR APRÈS MOI, LE DÉLUGE?
INTERNATIONAL BURDEN-SHARING DURING THE IRISH AND LATVIAN FINANCIAL CRISES

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Abstract

The financial crisis of 2008-10 has to a large extent been the consequence of an expansion of cross-border banking activities. Yet, while some countries have been successful in sharing the costs for financial stabilisation with foreign banks, others were left alone with the costs. This thesis contributes to the academic understanding of the processes according to which costs for financial stabilisation are allocated between countries. A model that combines insights about banks' business models and the timing of financial stabilisation is developed to describe the extent to which losses from a financial crisis are shared. Cross-border exposure via bond markets enables investors to reduce their exposure quickly, but if foreign banks hold illiquid assets, they are likely to remain committed to the stability of their host market. As a consequence, the home countries of cross-border banks with long-term involvements are more likely to contribute to financial stability in the host country at an earlier point in the crisis if it is clear that their own financial stability would suffer from later stabilisation. This model is tested in a comparative case study on the success of international burden-sharing during the Irish and Latvian financial crises.