Foreign Exchange Reserves Accumulation in Latin America during the Current Crisis

Acumulación de Reservas de divisas en América Latina durante la actual crisis

Resumen

A pesar del mínimo crecimiento económico en los países de América Latina de 2006 en adelante, muchos de ellos han acumulado reservas internacionales. En la literatura se pueden encontrar tres causas por las cuales se acumulan reservas: (1) el pago de la deuda a corto plazo, (2) el pago de por lo menos tres meses de importaciones, y (3) la protección de una eventual salida de capitales y problemas en el tipo de cambio. No obstante, la mayoría de los países de América Latina cumple los tres criterios. ¿Por qué entonces algunos países latinoamericanos siguen acumulando reservas? Nuestra respuesta es que para algunos gobiernos, el ahorro podría representar una expresión social de la riqueza en el corto plazo, distinción que hizo Marx para economías no consideradas capitalistas.

Palabras clave:
- Finanzas internacionales
- Bancos centrales y sus políticas
- Prestamos Internacionales

Abstract

Even though several Latin American countries have shown recently poor economic performance, many of them have accumulated foreign exchange reserves from 2006 onwards. Conventionally, three reasons are given for international reserves accumulation: (1) payment of short-term debt, (2) payment of at least three months of imports, and (3) protection for an outflow of capital. However, the majority of the Latin American countries meet all three criteria. Why then do some Latin American countries continue to accumulate reserves? Our answer is that for some governments, hoarding might represent a social expression of wealth, following Marx’s ideas.

Keywords:
- International Finances
- Central Banks and their Policies
- International Lending and Debt Problems

JEL: F3, E58, F34

Introduction

Even though several Latin American countries have shown recently poor economic performance, many of them have accumulated foreign exchange reserves from 2006 onwards. Conventionally, three reasons are given for international reserves accumulation: (1) payment of short-term debt, (2) payment of at least three months of imports, and (3) protection for an outflow of capital. However, the majority of the Latin American countries meet all three criteria. Why then do some Latin American countries continue to accumulate reserves? Our answer is that for some governments, hoarding might represent a social expression of wealth, following Marx’s ideas. After this introduction, Section 2 describes the economic performance of Latin America, the US, Germany, and Japan. In Section 3, we highlight the increasing amount...
in reserves as percent of GDP in Latin America and some developed countries. Section 4 advances a theoretical explanation for accumulating foreign exchange reserves. In Section 5, we present concluding remarks.

**Economic growth performance**

In 2007, the deepest world crisis since the Great Depression started and has continued with neither a theoretical nor a practical solution to date. However, in contrast to the 1980s and 1990s, the crisis was precipitated by advanced countries— not poor countries. Analyzing economic growth during the period of neoliberalism, the following patterns can be distinguished (see Table 1):

1. Latin America lost decade from 1981 to 1990 after debt crises; growth rates were on average 1.4 percent. Never has the area undergone a period of stagnation of that magnitude after WWII. From 1991 to 1995, Latin America experienced a recovery, due to implementation of neoliberal policies. However, after a short-term boom, economies plummeted for nearly a decade, from 1996 to 2005. During this time, the growth rate averaged 2.8 percent. In spite of a sharp decline of GDP in 2009 in the region, from 2006 onwards the area has grown, with disparities, 3.5 percent.

2. The performance of advanced countries during the 1980s was far better than that of Latin American countries. However, from 1991 onwards, advanced economies, especially Germany and Japan, slowed drastically. Germany from 2001 onwards has grown 1.1 percent and Japan 0.87 percent. The US has seen 1.78 percent growth. Even though the US performance has been better than that of Europe and Japan, 1.78 percent was the worst performance under neoliberalism.

3. Latin America is growing faster than the US as an area in the last 9 years. However, Table 1 shows that Brazil and Mexico have grown at a very slow rate. Brazil and Mexico have, historically, accounted for around 70 percent of Latin America’s GDP, so the recent slow rate of growth is not good news.

4. In 1980, A. Lewis (1980) proposed that the engine of growth for underdeveloped countries was trade. As long as advanced economies underwent expansion, underdeveloped economies could grow at a high level. Also, as long as the majority of the Latin American countries had weak domestic markets, the

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1 Roberts (2009) notes two trends under neoliberalism in the US economy. First, from 1982 to 1997, profit rate increased, and then growth rate was 3.5 percent. Second, from 1998 to present day, profit rate has declined, and then growth rate was 2.6 percent. At the moment, the US would be at the bottom of the crisis.
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