

INTERNATIONAL RESERVES AND GOVERNANCE: A COMPARATIVE STUDY FOR COLOMBIA ¹

RESERVAS INTERNACIONALES Y GOBERNANZA:
UN ESTUDIO COMPARATIVO PARA COLOMBIA

RESERVAS INTERNACIONAIS E GOVERNANÇA:
UM ESTUDO COMPARATIVO PARA COLÔMBIA

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ABSTRACT

This paper examines the relationship between the governance and the demand for international reserves in Emerging Economies (EE). The Database World Governance Indicators Project (Project WGI) available for the period 2002-2013 is employed. The main goal in this research is to examine the possible relationship between risk indicators and political stability, the strength of democratic institutions and legal regime to the accumulation of reserves in the EE in order to discern the matter to the Colombian case. Using panel data for 14 Emerging economies, it became clear how these variables of governance, the traditional determinants of the demand for international reserves and their level interrelate. The panel cointegration tests show the relationship between the behavior of political stability, strengthening of the institutions with the accumulation of international reserves of Colombia and other Emerging economies. The institutional characteristics such as corruption, political stability and violence can affect accumulation of reserves through the perception of uncertainty. The results suggest that in order to reduce the need to accumulate higher levels of reserves, Colombia could continue institutional strengthening so as to demand lower levels of reserves for precautionary reasons.

Keyword: international reserves, governance, political stability and institutions.

Content: 1. Introduction 2. Review of literature, 3. Methodology, 4. Stylized facts, 5. Results, 6. Conclusions of the panel.

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RESUMEN

En este trabajo se examina la relación entre la gobernanza y la demanda de reservas internacionales en Economías Emergentes (EE). Se utiliza la base de datos del Proyecto Mundial de Indicadores de Gobernanza (WGI Project) disponible para el periodo 2002-2013. El objetivo principal de esta investigación es examinar la posible relación entre los indicadores de riesgo y la estabilidad política, la fortaleza de las instituciones democráticas y el régimen jurídico de la acumulación de reservas en los EE. Mediante datos de panel para 14 economías emergentes, se evidenció cómo estas variables de gobernanza, los determinantes tradicionales de la demanda de reservas internacionales y su nivel se interrelacionan. Las pruebas de panel de cointegración muestran la relación entre el comportamiento de la estabilidad política, el fortalecimiento de las instituciones con la acumulación de reservas internacionales de Colombia y las otras economías emergentes. Las características institucionales como la corrupción, la estabilidad política y la violencia pueden afectar la acumulación de reservas a través de la percepción de incertidumbre. Los resultados sugieren que para reducir la necesidad de acumular mayores niveles de reservas Colombia podría continuar el fortalecimiento institucional a fin de poder demandar menores niveles de reservas por motivos de precaución.

Palabras clave: reservas internacionales, gobernanza, estabilidad política e instituciones.

RESUMO

Neste trabalho a relação entre governança e a demanda por reservas internacionais nas economias emergentes é examinado. Banco de Dados de Indicadores de Governança Mundial de Projetos (Project WGI) disponível para o período 2002-2013 é usado. Usando dados em painel para 14 economias emergentes, tornou-se claro como estas variáveis de governança, os determinantes tradicionais da demanda por reservas internacionais e seu nível inter-relacionam. Os testes de co-integração painel mostrar a relação entre o comportamento de estabilidade política, o reforço das instituições com a acumulação de reservas internacionais da Colômbia e outras economias emergentes. As características institucionais, tais como a corrupção, a estabilidade política ea violência pode afetar o acúmulo de reservas através da percepção de incerteza. Os resultados sugerem que a redução da necessidade de acumular níveis mais elevados de reservas Colômbia poderia continuar o fortalecimento institucional, a fim de exigir níveis mais baixos de reservas por motivos de precaução.

Palavras chave: as reservas internacionais, governança, estabilidade e instituições políticas.

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1. INTRODUCCIÓN

Current levels of international reserves (IR) in the case of the main Emerging Economies have exceeded the appropriate level metrics. Moreover, in the last financial crisis of 2008, the central banks were reluctant to draw on reserves to meet international payments in times of illiquidity; substitutes reserves as sovereign wealth funds and flexible credit lines were preferred to respond to external shocks. Countries like Colombia, Mexico and Poland made use of this possibility contingent financing to strengthen market sentiment.

This has risen questions about whether current levels of IR can be justified as optimal to tackle potential risks in times of crisis and, in particular, the marginal benefit of higher levels of IR in economies where acceptable levels in key metrics and models of optimal levels presented in the current literature are met. The concern is that domestic interest rates paid for sovereign debt are higher than international rates gain in IR investments, and the question is whether it is correct to accumulate more reserves if Colombia, like other Emerging countries, didn't used those in the recent financial crisis or whether they should invest in other socio-economic aspects.