

Accumulation of reserves in emerging and developing countries: mercantilism versus insurance

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Motivated by the significant increases in international reserves during the 2000s, this paper analyzes the reasons why emerging and developing countries choose to accumulate them. In addition to a traditional measure of mercantilism, we add the terms of trade, and the speculation-deterrent motive. The results show that the mercantilist motive was a significant factor behind the massive accumulation of reserves before the global financial crisis, and it was almost as important as the precautionary motive. It is shown that commodity-exporting countries increased reserves for a fundamentally mercantilist motive. Finally, the speculation-deterrent motive was also an important factor during the 2000s.