The Financial crisis of 2007-9 and emerging countries: the political economy of central banks in the Brazilian and Korean economies

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Abstract

This paper examines the effects of the crisis of 2007-9 on developing countries by considering international capital flows and reserve accumulation. Analytical focus lies on the role of central banks during the crisis, looking at the Brazilian and Korean experience. It is shown that the huge accumulation of international reserves, which is one of the main results of financialisation in recent years, has not been a guarantee against speculative and unstable capital flows as well as exchange rate volatility in developing countries.

Central banks have been key players in the implementation and spread of financialisation in developing countries. The financial crisis of 2007-9, as a fully-fledged crisis of the financialisation era, has presented new challenges for central banks. This point is established through the political economy of central bank interventions in Brazil and Korea in the course of the crisis. The theoretical understanding relies on the Marxist political economy approach. Attention is paid to the relation between international capital flows and domestic public debt, focusing on the central bank liquidity management. It is shown that central bank interventions dealing with the consequences of crisis have reinforced the process of financialisation instead of reducing the damage caused by this process.

*JEL classification:* B51; E44; E58; E65; F34; G15

Key words: capital flows, central banks, financialisation, reserve accumulation.