Essays on Economic Policy (ESPE in Spanish) - The External Risks of financial Integration for Emerging Economies

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The integration of emerging economies in world financial markets allowed these countries to import foreign capital. In some cases, however, the capital inflows have been interrupted by sudden reversals and severe financial crises. Although excessive borrowing is a necessary condition for a financial crisis, the dynamics leading to excessive borrowing and subsequent reversal can also be connected to external factors, that is, changes that take place in the rest of the world and are not under the control of the borrowing country (external risks). In this article I discuss some of these risks. In particular, I show how the growth of the financial sector in advanced economies can lead to the buildup of imbalances that increase the financial fragility of emerging countries. I also discuss how the origin of the imbalances can sometimes be connected to the business cycle in industrialized countries.

Fuente: https://www.banrep.gov.co/en/publications-research/espe/the-external-risks-of-nancial-integration-for-emerging-economies