Graduate Seminar

Department of Economics and Finance

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Empirics of emerging markets international reserves holding under high capital mobility, commodity trade shocks and short-term external debt

In the context of accounting for high capital mobility, commodity trade shocks and short-term external debt in international reserves accumulation, we use the modified buffer stock model by Flood and Marion (2002) and extend it to investigate demand for reserves in Emerging Market Economies (EMEs). The modified buffer stock model serves as the base estimation equation using panel data for 18 EMEs from 2000 to 2016. We then estimate three separate extended equations each under commodity trade shocks, short-term external debt and commodity trade shocks-cum-short-term external debt. Fixed effects regression results from all the models suggest that trade factors are stronger determinants of the demand for reserves than financial factors. In particular commodity gross domestic product shows a robust, significant and consistent direct effect on international reserve holdings in EMEs. We find that financial factors become significant in the demand for reserves by increasing accessibility to international capital markets and more specifically short-term external debt, but the build-up of short-term external debt leads to a decline in the level of reserves in EMEs covered in this paper. Our paper identifies important complementary roles of debt management and international reserves management to reduce risks of external crises in EMEs. Effective reserve management cannot be achieved without effective debt management.

Date: Friday August 18th 2017
Time: 2:00pm
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