Feedback on paper entitled

"Banking Systems, Central Banks and International Reserve Accumulation in East Asian Economies"

By

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<u>Brief Summary:</u>

The paper attempts to empirically analyse the implications of foreign exchange reserves accumulation on some selected bank balance sheet items in a set of emerging economies viz., South Korea, Thailand, Malaysia, Indonesia and the Philippines. It begins with a textbook type of explanation of how the accumulation of international reserves affects the balance sheet of the central bank and the banking system. Particularly, emphasis was placed to highlight how international reserve accumulation will influence various balance sheet items, particularly banking systems' liquidity. Using panel data analysis for the above mentioned economies, the study examined how net liquidity assets, deposits and private sector credit of the banking sector responded to reserve accumulation. It was observed that even after taking into account the impact of other potential factors, the study could find statistically significant impact of international reserves on liquid assets and deposits of the banks. However, there was no discernible impact on private sector credit.

Based on the empirical results, the study concluded that reserve accumulation not only provides international liquidity, it also generates domestic liquidity in the banking system. Such a holding of liquid assets provides a cushion to withstand any external shocks by the banking system. It also recognises that any serious unwinding of global imbalances will have serious implication for the banking systems of these countries.

<u>Comments:</u>

The present study is an interesting and valuable contribution to analyse the impact of international reserve accumulation on domestic banking system of emerging countries, particularly in the context of phenomenal reserve accumulation in some central banks. In a simple but detailed manner it explains the channels and inter-linkages in transmission of the impact of reserve accumulation to various bank balance sheet items. The empirical analysis is

rigorous and meticulous. I recommend that the paper be considered for publication for benefit of wider dissemination and learning.

However, the following will further improve the technical analysis of the study, if suitable and possible to incorporate.

- The variables used in the study may be examined for stationarity by employing panel unit root tests
- The private sector credit equation may include some Basel prudential variables such as non-performing assets (NPAs), Capital Adequacy Ratio (CRAR), provisioning, etc which are crucial in determination of bank credit in recent years. This may also change the statistical significance of the coefficient of international reserves in that equation.
- Some justification on the selection of just five countries (or exclusion of Singapore, etc) will be helpful.