

Dear Anonymous,

Thank you for your valuable comments on my discussion paper. My responses to your suggestions to improve technical analysis are as follow.

- (i) I followed the conventional approach in panel data econometrics as done by Cheung and Qian (2009), Bird and Mandilaras (2010), and Obstfeld et.al (2010). Considering the possible serial correlation, I have corrected for it in final estimation. Hence, results do not seem to be spurious. However, I can extend the paper by incorporating panel unit root tests.
- (ii) I agree that an inclusion of non-performing assets (NPAs), capital adequacy ratio (CAR) and provisioning will be appropriate for private sector credit equation. However, I doubt that we could get comparable country level data for these variables. In my estimation, the ratio of international reserves to GDP is not found impacting private sector credit anyway. And, my main concern here is to look the impact of international reserves. However, I would be happy to incorporate and study the empirical results if I could obtain these data.
- (iii) I have selected five East Asian countries because these are the countries which were seriously affected by the 1997 East Asian financial crisis, to see their changing behavior of the banking systems in these countries in the aftermath of the Asian financial crisis of 1997. However, it can be extended by including other countries and regions, given the availability of data. I have taken this as a future research agenda.

**Reference:**

Cheung, Y.-W. and Qian, X. (2009). Hoarding of international reserves: Mrs Machlup's wardrobe and the Joneses. *Review of International Economics*, 17(4):824–843.

Bird, G. and Mandilaras, A. (2010). Revisiting Mrs Machlup's wardrobe: the accumulation of international reserves. *Applied Economics Letters*, 17:467–471.

Obstfeld, M., Shambaugh, J. C., and Taylor, A. M. (2010). Financial stability, the trilemma, and international reserves. *Journal of Macroeconomics*, 2(2):57–94.