

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

(paper by Prakash Kumar Shrestha)

The contribution of the paper:

Banking systems and central bank behavior is today an evidently important topic. However it is not pointed out, what the concrete contribution of this paper to current questions should be. Reserve accumulation might be especially relevant for currency crisis regarding the sustainability of fixed exchange rate regimes, which is today not a main issue.

The case of the Euro is a different one, because it is a currency union. If there are important lessons, the link should be described. Regarding emerging economies, a motivation might be to evaluate the effects of the reserve accumulation: Has it been a good idea regarding the stability of banking systems? Is reserve accumulation an effective policy against crisis? Such a concrete motivation could to be elaborated in greater detail.

The literature review contains a paper by Ho and McCauley (2009) that is closely linked to this analysis. A more detailed presentation of the methods and findings of that paper in this paper might be useful.

The value added by this paper is to analyze the impact of reserve accumulation to liquidity and deposits of the banking system in comparison to the paper by Ho and McCauley (2009). However, the importance of these variables could be explained in that context.

The paper applies a panel analysis and has no deeper theoretical foundation. However, it is not obvious how reserve accumulation affects banking system variables in a causal way. More theory (or a closer link to literature that contains theory) could add value.

Generally the analysis of the effects of reserve accumulation is relevant. Hence, an empirical analysis is relevant as well. Such an analysis of this question might be

especially important for policy makers in central banks who consider reserve accumulation.

The correctness of the analysis and unclear points:

In the analysis beginning in chapter 3 the term “NDA” is used. The meaning of that expression might be not evident.

The selection of the sample of the five countries could be explained.

The hypothesis could be explained and derived in greater more detail.

Generally the presentation of the data and the outputs of the panel analysis looks diligent. Few critical points of the empirical analysis might be:

The stationarity of variables could be a problem in some cases. A graphical introspection based on figure 3 suggests that international reserves are nonstationary. The application of a stationarity test should take under consideration.

Generally, nonstationarity could influence and limit the interpretation of the results.

A random-effects estimator might be more efficient. A Hausman test could deliver evidence in favor of a fixed effects model.

Although the application of a fixed estimator allows controlling for unobserved heterogeneity, it does not control all sorts of endogeneity. The possibility of reverse causality or a third variable that affects both the international reserves and the banking system variables might be the case. Such a possibility reflects the lack of theoretical foundation as well.