

Discussion for Assessing Reserve Adequacy

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Methodological Suggestions

Policy Implications

- | | |
|---------------------------|-----------------------|
| i. General Comments | v. Turkey thoughts |
| ii. Methodological Points | vi. Global Imbalances |
| iii. Questions | vii. The IMF |
| iv. Peer Pressure | v. Conclusion |

I. General Comments

Methodology

- i. General Comments
- ii. Methodological Points
- iii. Questions
- iv. Peer Pressure

- Summary: No index is perfect
- Why do countries hold reserves?
 - Precautionary savings
 - Result of policy choice:
 - China: Undervalued currency → Trade Surplus: Reserve accumulation as a residual (I'll come back to this residual idea)
 - Indonesia / Russia route
- What about investors?

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II. Methodological Points

Methodology

- i. General Comments
- ii. **Methodological Points**
- iii. Questions
- iv. Peer Pressure

- Because this one fit best:
 - Why 10% threshold
 - Why 100-150%?
- How to define reserves?
- What is short-term debt?
 - Should corporate credit be in?
 - How about trade credit?
- But then again no index is perfect?

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III. Questions

Methodology

- i. General Comments
- ii. Methodological Points
- iii. Questions**
- iv. Peer Pressure

- Why aren't alternatives to reserves so popular?
- Can the Fund's new toys (FCL) be altering reserve demand?
 - The same point could be made about other tools, like swap lines
- How does this fit into regional financing arrangements?
<http://blog-imfdirect.imf.org/2010/09/09/global-safety-nets-crisis-prevention-in-an-age-of-uncertainty/>
- How does cost benefit framework fit together?

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IV. Peer Pressure

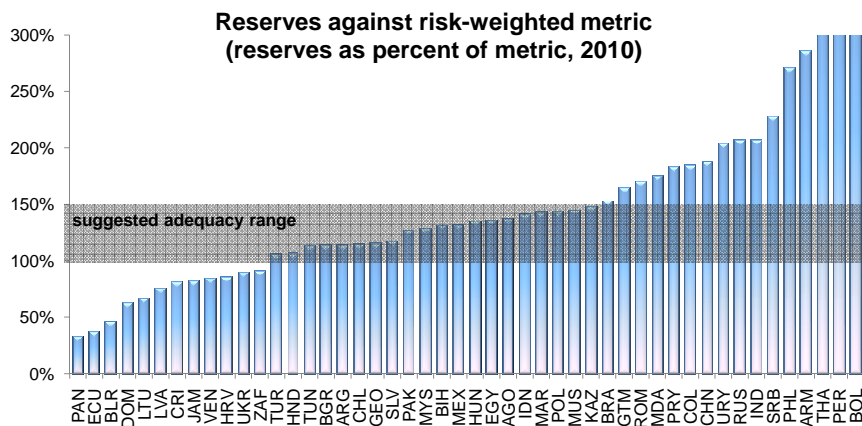
Methodology

- i. General Comments
- ii. Methodological Points
- iii. Questions
- iv. Peer Pressure**

- More emphasis could be given to peers.
- But just who are peers?

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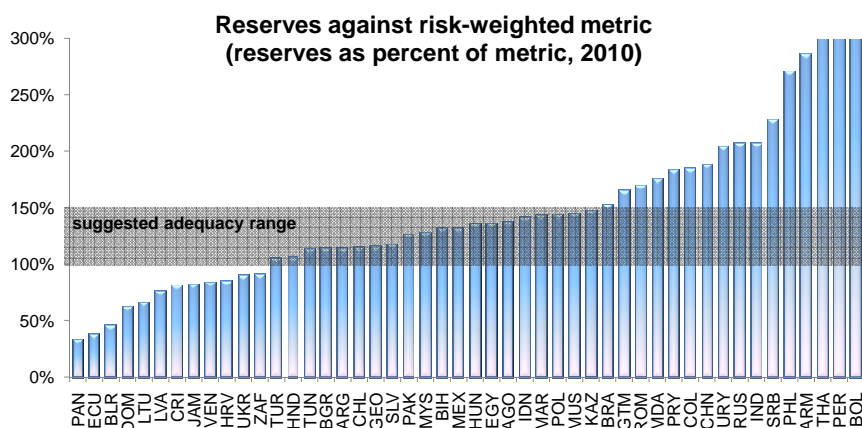
Around one-third of countries are within 100-150 percent of the metric.



Source: WEO and staff calculations.

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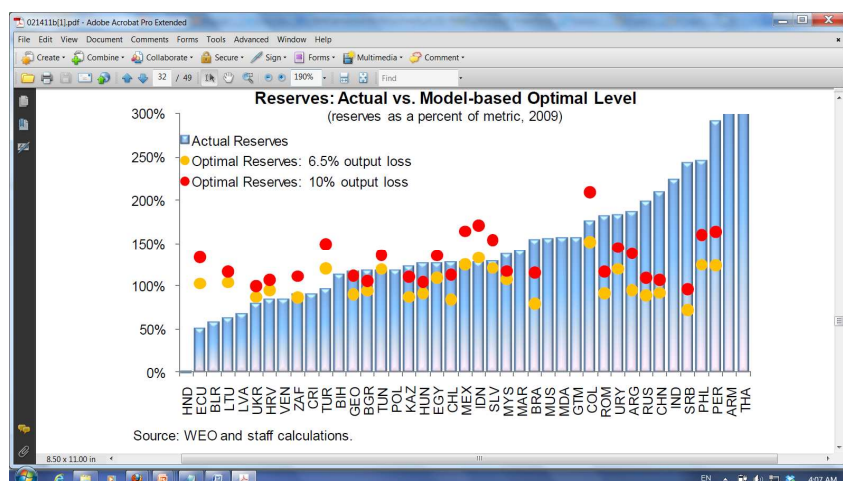
Of the 11 countries with cover below 100%, one is dollarized, two have currency boards, and another has extensive capital controls



Source: WEO and staff calculations.

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Simple cost-benefit model



Emre Deliveli
TUSIAD Projects Plan

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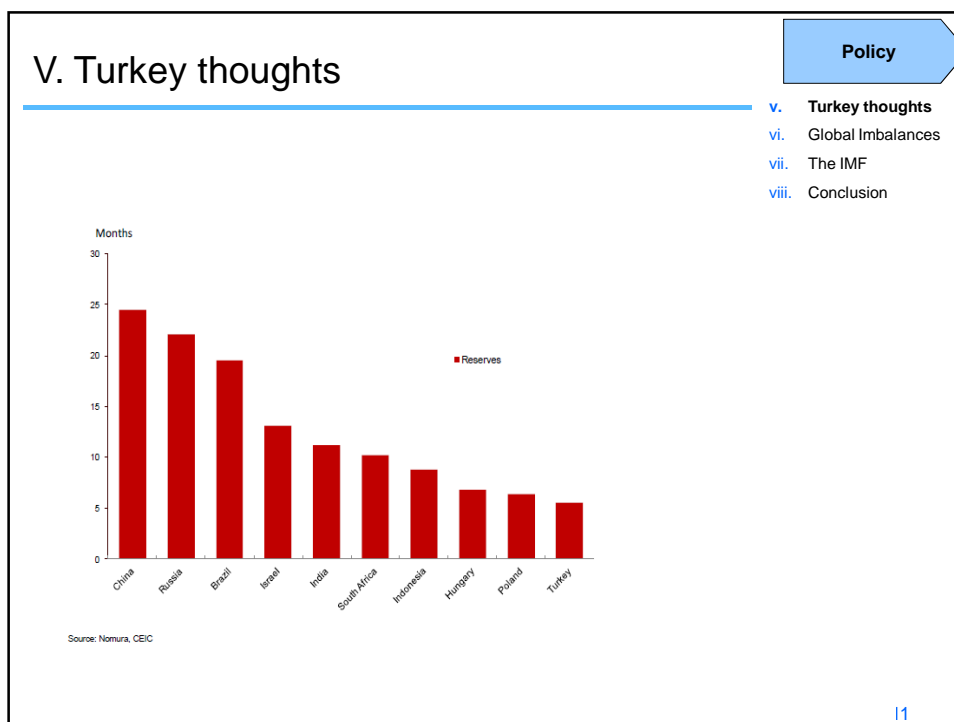
V. Turkey thoughts

Policy

- Upppsssss.....
- Upss also for your friendly neighborhood economist:
 - Upcoming HDNER column, if I don't fall into the CHP trap first: "The suspicious delay of the IMF's latest Turkey Staff Report tells me we are not the only ones who are worried about the fiscal stance."
 - So maybe it is not **just** the fiscal stance that is causing the delays.
 - But Staff Reports usually mute on reserves, so?
- What about implications for monetary policy? Let's look at some peers in detail:

- v. Turkey thoughts
- vi. Global Imbalances
- vii. The IMF
- viii. Conclusion

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V. Turkey thoughts

Policy

- v. Turkey thoughts
- vi. Global Imbalances
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- Will the Central Bank engage in more aggressive in more aggressive reserve accumulation?
 - And if it does, how much of it is really priced in? Not much!
- What about liquidity?
- Sterilize?
- But then what about market rates?

Circular Reference!!!

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VI. Global Imbalances

Policy

- Seeing reserves as a residual: Domestic versus external demand-based growth.
- A stick with both ends in mud?: A generalization of the Turkey case:
 - What should a country with low reserves do?
 - What should a country with lots and lots lots of reserves do?
 - Imaginary country with enough reserves to buy Italy, 25 bn barrels of Brent crude, or the entire Nikkei 225?
 - So if you sell your reserves, you'll appreciate your currency. Is this good or bad?
 - Hinder exporters
 - Strengthen domestic demand (end of problem)

- v. Turkey thoughts
- vi. **Global Imbalances**
- vii. The IMF
- viii. Conclusion

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VII. The IMF

Policy

- Seeing this paper (and bunch of precedents) as IMF's efforts, rather successful I must add, at reinventing itself.
- What next?

- v. Turkey thoughts
- vi. Global Imbalances
- vii. **The IMF**
- viii. Conclusion

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VIII. Conclusion

Policy

- Summary and main points

- v. Turkey thoughts
- vi. Global Imbalances
- vii. The IMF
- viii. **Conclusion**

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THANK YOU!

QUESTIONS

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<http://www.economonitor.com/EmreDeliveli>

<http://www.hurriyetdailynews.com/c.php?c=emre-deliveli>

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