



BANK FOR INTERNATIONAL SETTLEMENTS

Reserve accumulation: precautionary or by-product?

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*Views expressed are those of the authors and not necessarily those of the BIS.



Question

- A key question for financial safety nets: how much reserve accumulation is
 - Precautionary?
 - A by-product of exchange rate management?

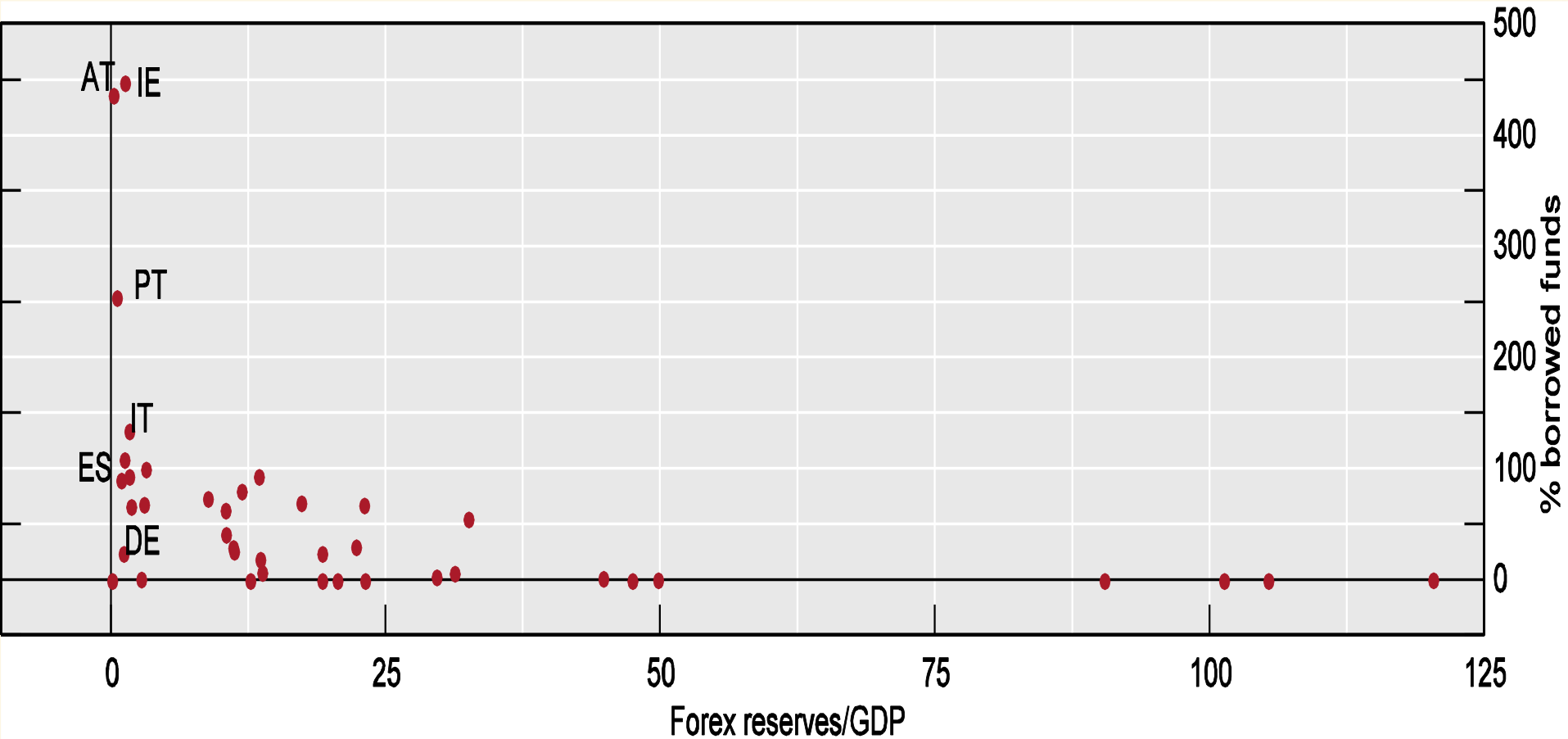


Two ways of accumulating reserves

- Borrow them by selling a sovereign bond denominated in dollar, euro or yen in the international bond market.
- Or buy them in the market against domestic currency.

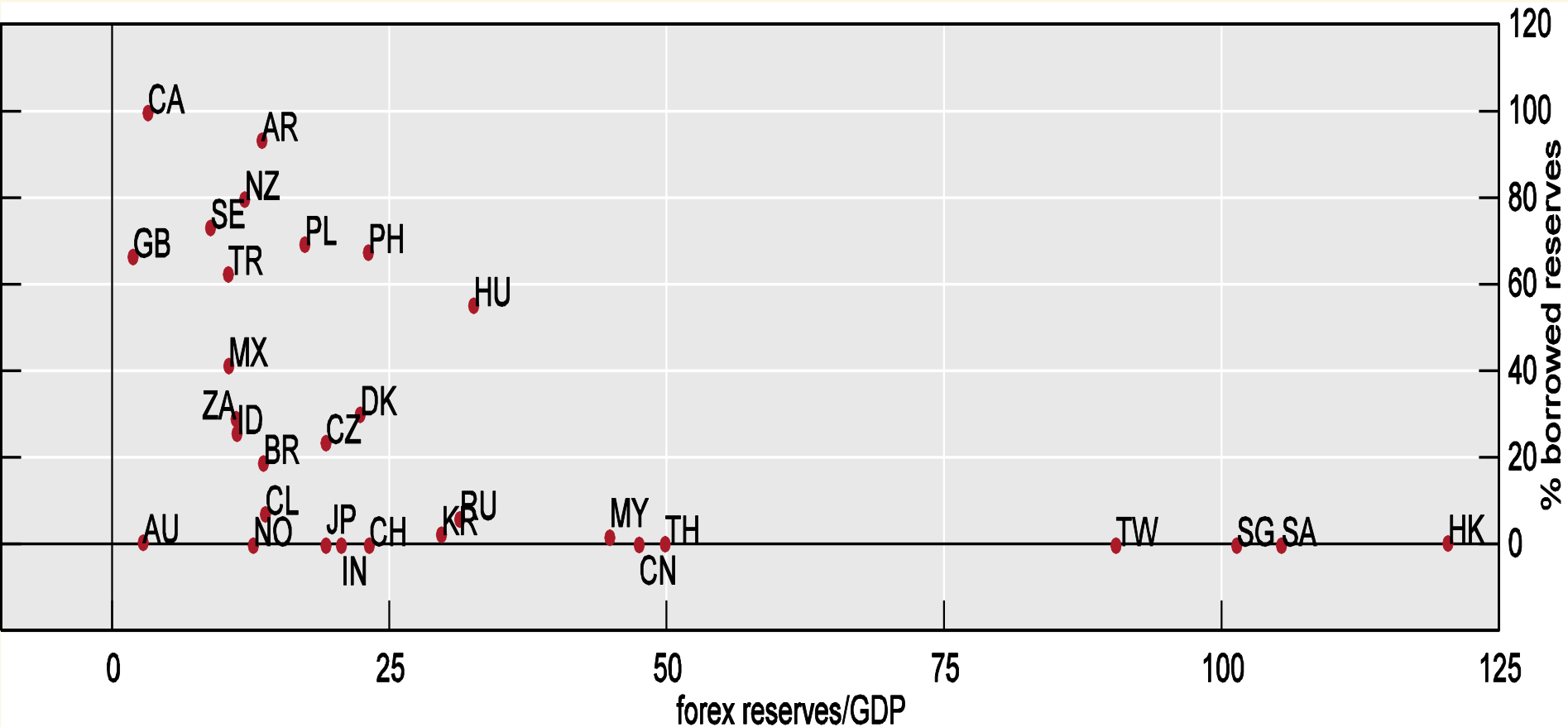


Borrowed reserves/total reserves and the scale of reserves



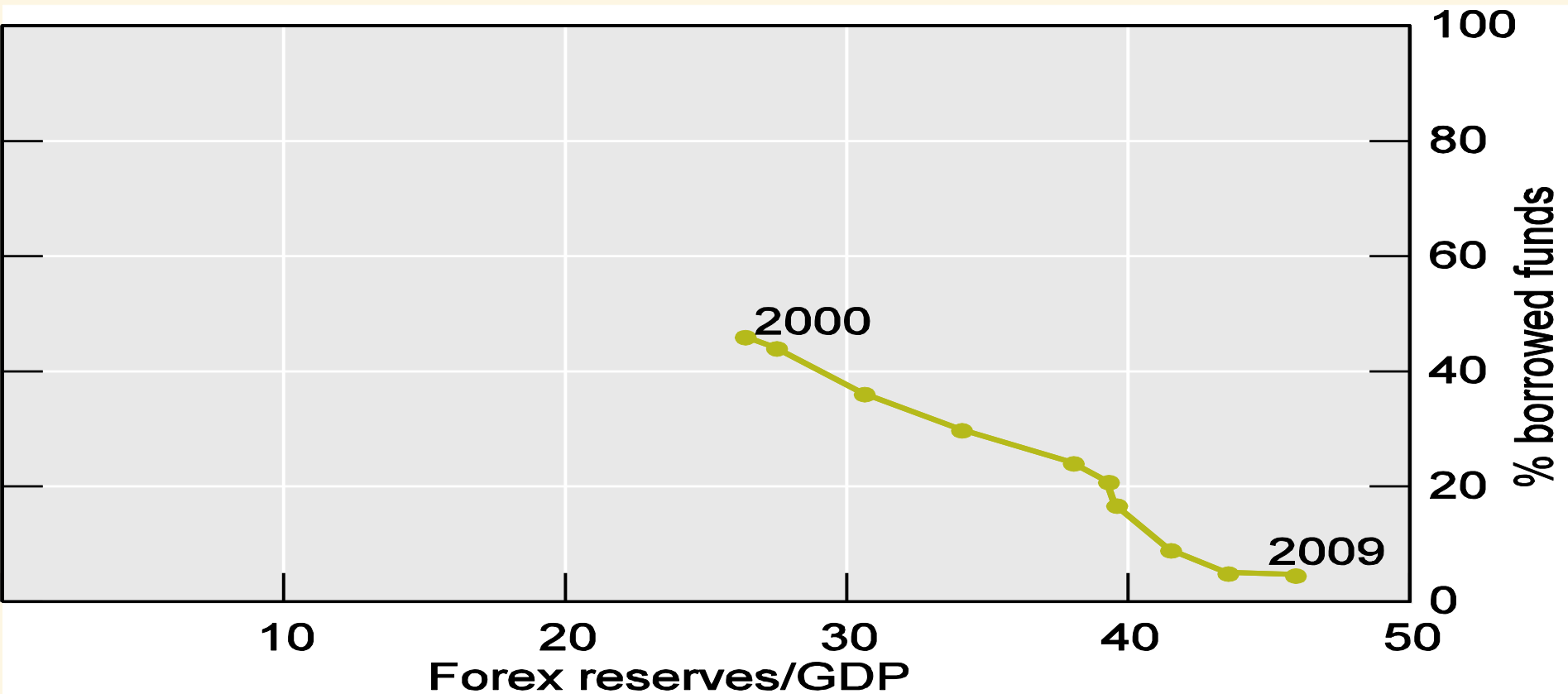


Borrowed/total reserves outside the euro area





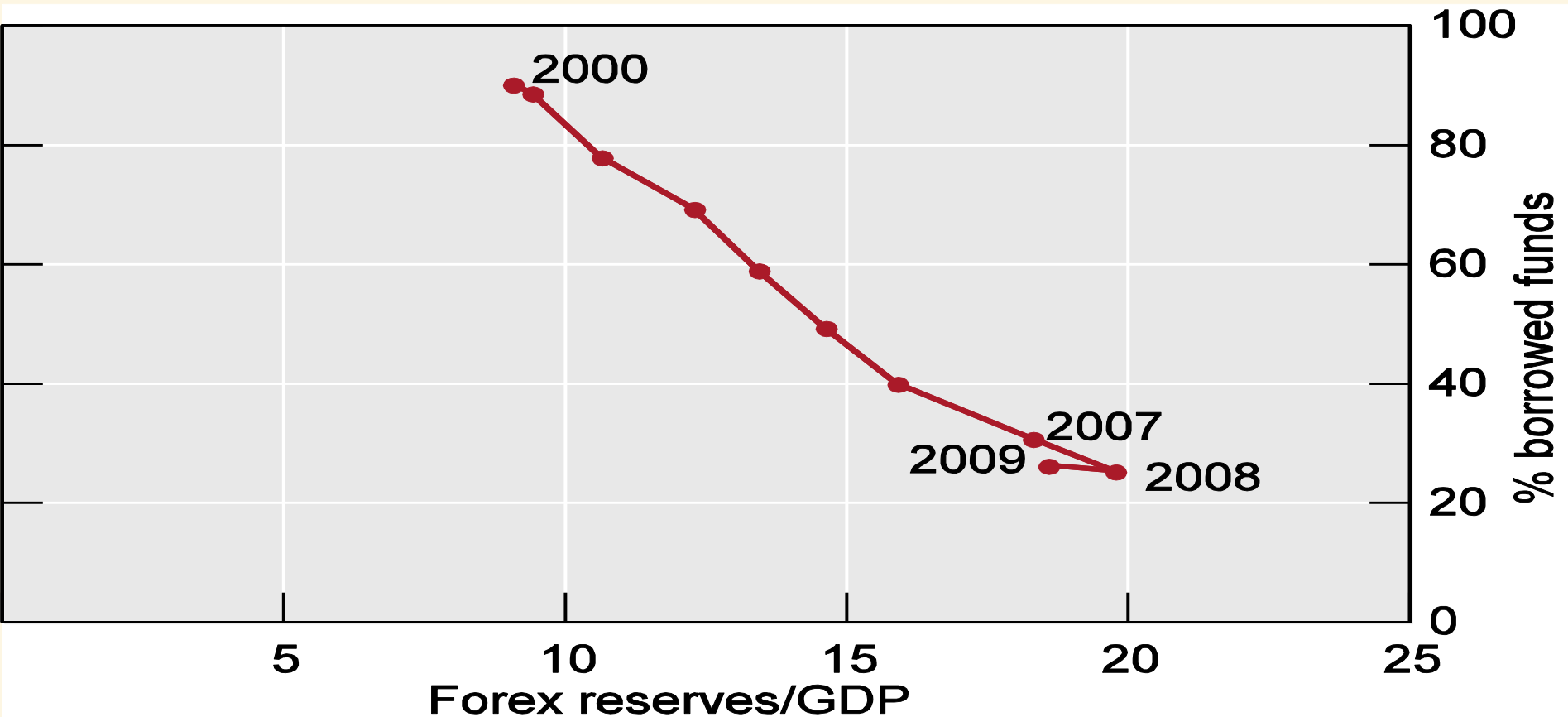
Borrowed/total reserves for top 10 reserve holders



Includes China, Japan, Russia, Saudi Arabia, Chinese Taipei, South Korea, Hong Kong SAR, Brazil, Singapore, Thailand.

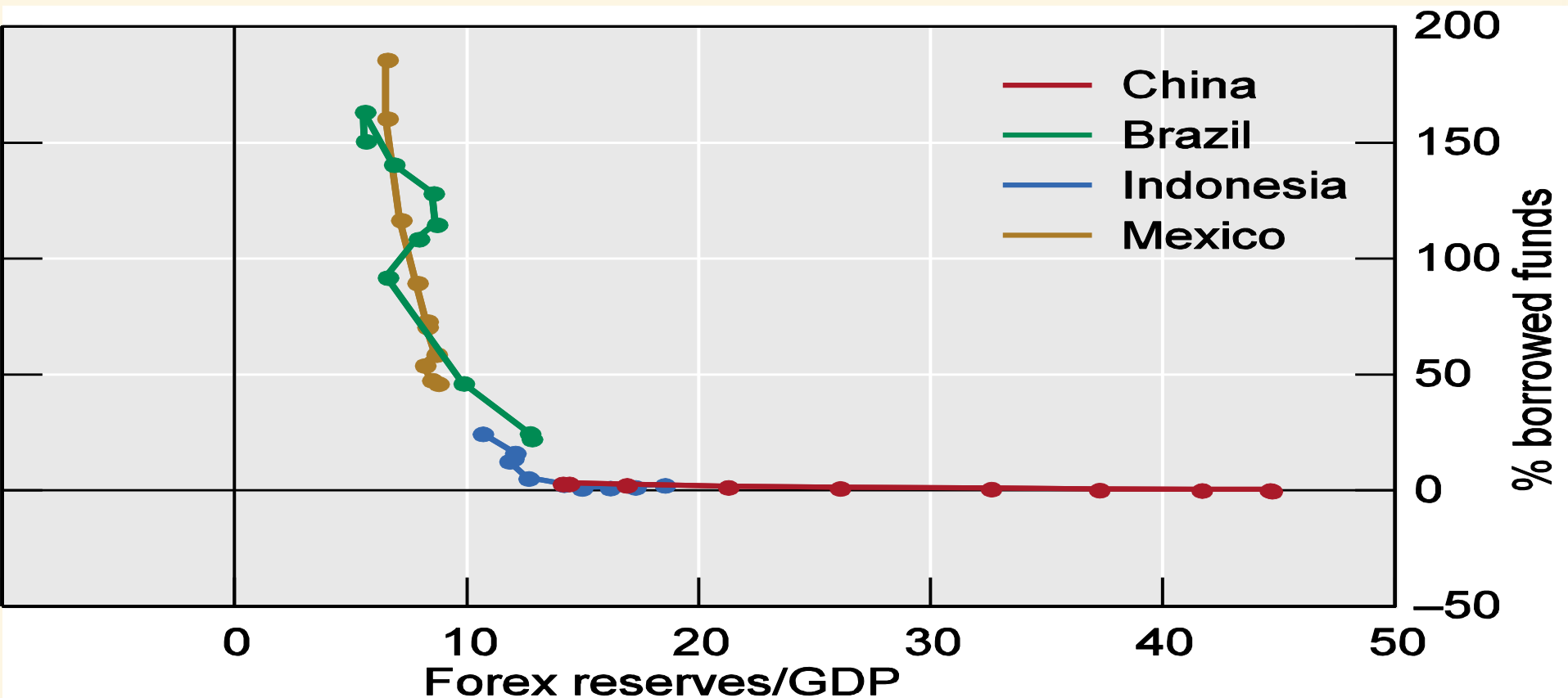


Borrowed/total reserves for G20 emerging markets



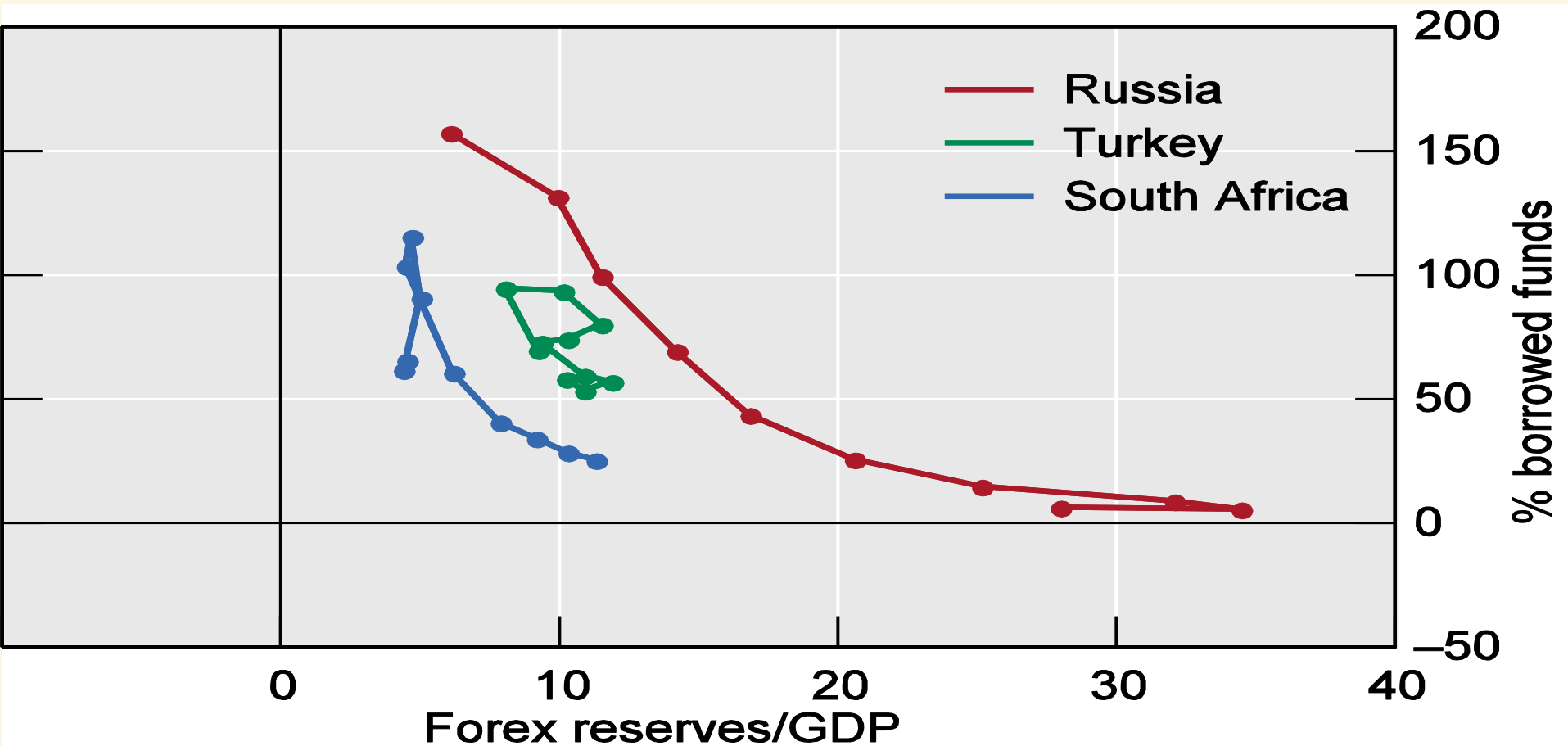


Borrowed/total reserves: China, Brazil, Indonesia & Mexico





Borrowed/total reserves: Russia, Turkey & South Africa





Conclusions

- In the cross-section, the larger reserve holders in relation to GDP have a lower fraction of borrowed reserves.
- In the time series, the growth of reserves in relation to GDP has been associated with a lower fraction of borrowed reserves.
- These facts should be taken into account in assessing how financial safety nets can alter reserve accumulation.