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Assessing Reserve Adequacy: The Colombian Case

Working Paper No. 781 Keep in mind
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International reserves are very important for emerging economies, as they allow to buffer possible liquidity vulnerabilities within a countries' balance of payments. Consequently, the issue of how many reserves should each country hold is a relevant issue for economic policy. The literature has identified two different methodological approaches to deal with this issue, namely reserve optimality and reserve adequacy indicators, which are carefully reviewed in this paper to determine which is the most appropriate to guide policy decisions in the Colombian case. The indicator proposed by the IMF (2011) was adopted to find the adequate level that this country should hold by calibrating it with historical data for Colombia. This new conservative index suggests that the accumulated levels of reserves have been adequate in recent years and that only in very extreme scenarios there is room to acquire additional reserves. Finally, it is worth highlighting that the methodology developed in this article provides a complementary indicator to the existing ones in order to evaluate the international reserves levels that Colombia should accumulate to reduce its vulnerability to external shocks.

Resumen: Las reservas internacionales son muy importantes para las economías emergentes, ya que permiten amortiguar las posibles vulnerabilidades de liquidez que se puedan presentar en la balanza de pagos. En consecuencia, la cuestión de cuántas reservas debe acumular cada país es un tema relevante para la política económica. La literatura ha identificado dos enfoques metodológicos diferentes para hacer frente a este problema, a saber, nivel óptimo de reservas e indicadores de nivel adecuado, que son revisados cuidadosamente en este trabajo para determinar cuál es el más conveniente para orientar las decisiones de política en el caso Colombiano. Se adoptó el indicador propuesto por el FMI en 2011 para encontrar el nivel adecuado que se debe tener calibrando datos históricos para Colombia. Este nuevo índice conservador sugiere que los niveles de acumulación de reservas han sido adecuados en los últimos años y que sólo en casos muy extremos hay espacio para adquirir reservas adicionales. Por último, cabe destacar que la metodología desarrollada en este trabajo es un complemento a las medidas ya existentes para evaluar los niveles de reservas internacionales que Colombia debe acumular con el fin de reducir su vulnerabilidad a los choques externos.

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