Working Paper No. 727I
Keep in mind

AUTHOR OR EDITOR
Gerencia Técnica

When managing international reserves, central banks generally face the problem of determining what their optimum or adequate level is. A critical review of some methodologies for calculating the optimum amount of reserves is presented in this document. Also, a combination of international liquidity indicators is shown to shed light on the proper level of international reserves, based on a method recently proposed by the International Monetary Fund (IMF). Different exercises are used to illustrate the high sensitivity of the optimum level or reserves when feasible variations in the models' parameters are considered. In addition, these models rely on the questionable assumption that the country has a level of short term external liabilities that is independent of the level of reserves. These factors significantly limit the practical usefulness of these models in assessing the adequate level of international reserves.