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DOES WORLD TRADE UNCERTAINTY AFFECT FOREIGN EXCHANGE RESERVES? EVIDENCE FROM BRICS+ COUNTRIES

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ABSTRACT

Foreign exchange reserves serve as a crucial indicator for maintaining the stability of a country's external sector. They play a vital role in bolstering national resilience against trade uncertainty. However, the impact of trade uncertainty on foreign exchange reserves across different quantiles remains underexplored. This study analyzes the influence of the world trade uncertainty on the foreign exchange reserves of BRICS+ nations and evaluates whether this effect is uniform across the distribution of reserves. Utilizing panel data from seven countries from 1997Q1 to 2023Q4, the study employs a Quantile Regression for Panel Data (QRPD) approach. The findings reveal that the impact of trade uncertainty on foreign exchange reserves is heterogeneous across the distribution of reserves. Specifically, the effect of the world trade uncertainty on reserves is positive and significant across all quantiles (lower, middle, and upper). However, the magnitude of the impact varies; it is relatively strong at lower quantiles and weakens at higher quantiles. These results indicate that trade uncertainty can affect the foreign exchange reserves of any country. Consequently, policymakers need to exercise greater prudence in determining optimal foreign exchange reserve levels.

Keywords: Forex Reserves, World Trade Uncertainty, Geopolitical, QRPD

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