



## Session III: Reserve management

**XII BIS–CEMLA Roundtable: Reserve management and FX intervention**

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# Introduction

- Trends and challenges:
  - Changes in objectives in reserve management, returns
  - Shifts in composition of reserve portfolios, diversification
  - Cross-country heterogeneity
- Policy issues
  - Spillovers to international financial markets
  - Capital losses and distribution
  - Disclosure
- BIS and reserves in the Americas



# Objectives of reserve management

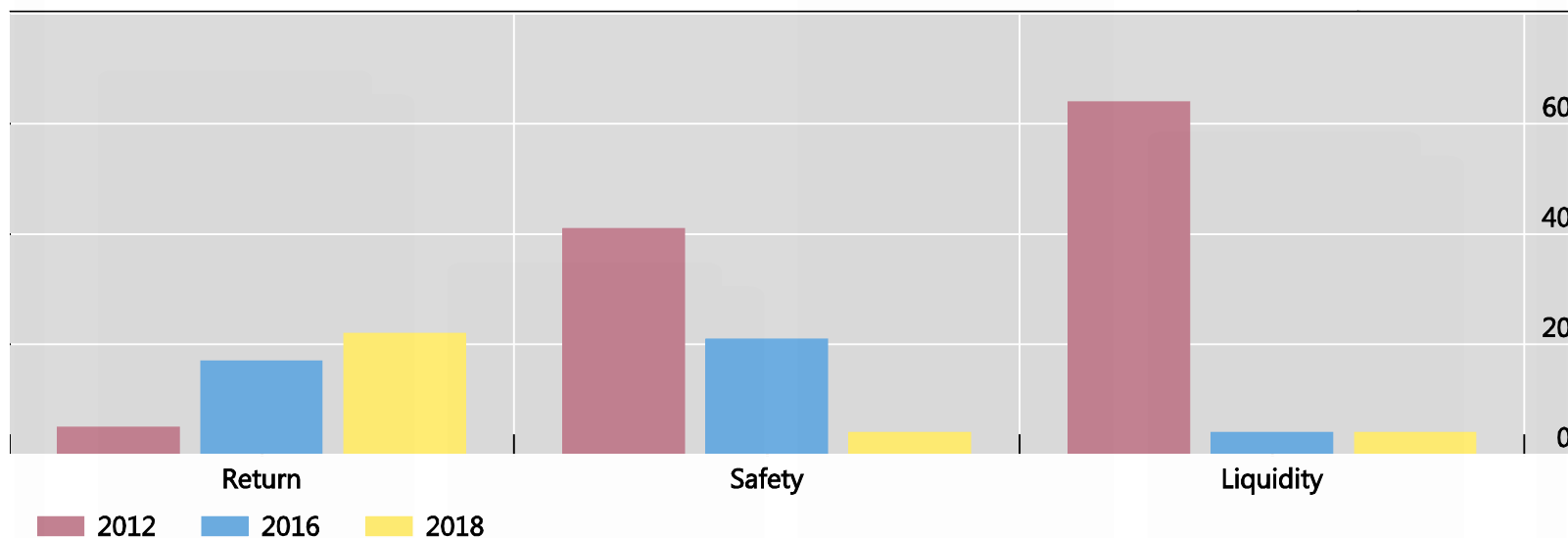
- **Objectives** have changed as a result of financial development, higher level and costs of reserves, and a certain search for yield.

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## A renewed emphasis on return generation

Change in the importance of the reserve management objective over the preceding few years<sup>1</sup>

Graph 1



<sup>1</sup> Balance of replies, in percentage points. Based on replies from 22–24 countries. In 2012, replies referred to the period following the GFC. If a country replied for only a certain objective, its missing replies are counted as no change.

Source: BIS survey of reserve managers (2012, 2016, 2018).

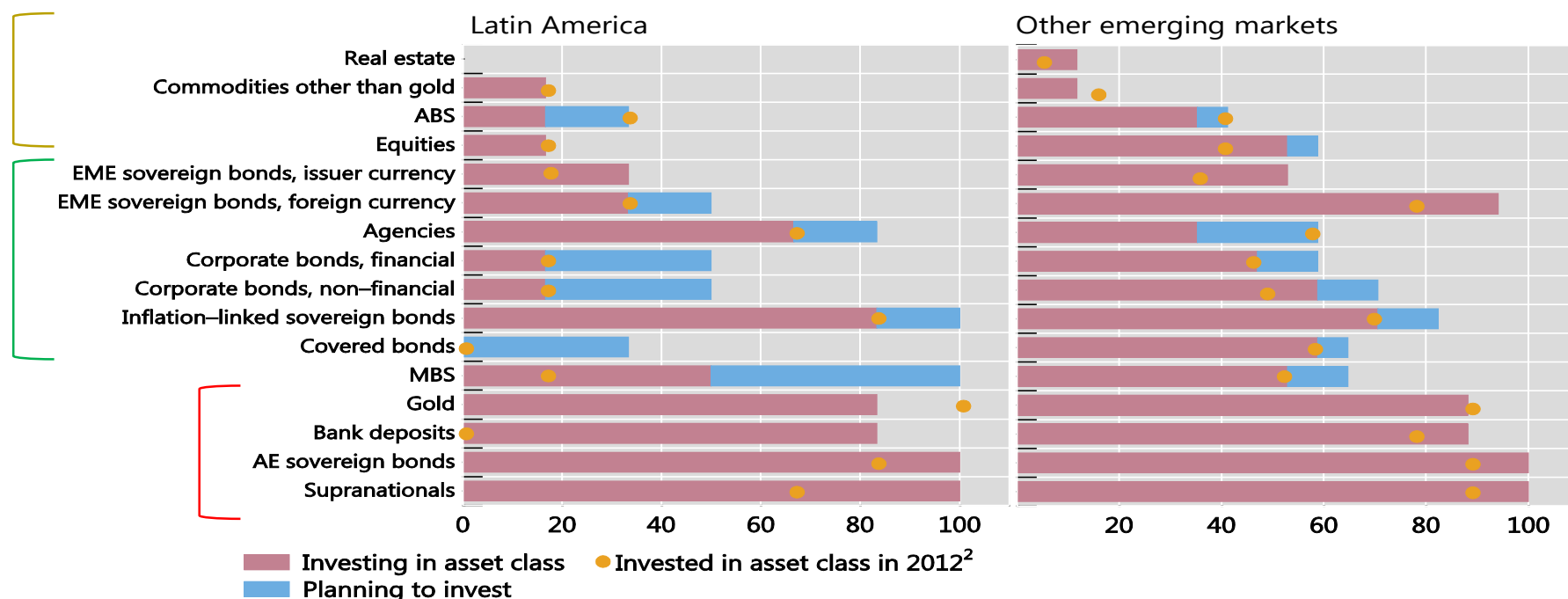
# Composition of reserve portfolios

- Change in objectives has favoured investment diversification
  - Latin America tracking rest of EMEs, but converging going forward

## A growing range of asset classes in FX reserve portfolios

Share of region survey respondents investing in the asset class<sup>1</sup>

Graph 1



<sup>1</sup> Based on the replies of 6 countries, for Latin America and 16 (in 2012) and 17 (in 2018) countries for other emerging markets, respectively. The red bars (yellow dots) show the share of survey respondents in 2018 (2012). The blue bars show the share of respondents in 2012 that are considering investing in the asset class. If a country provided information for at least one asset class, missing replies are counted as zero investment. <sup>2</sup> For other emerging markets invested in 2014.

Source: BIS survey of managers (2012, 2018)

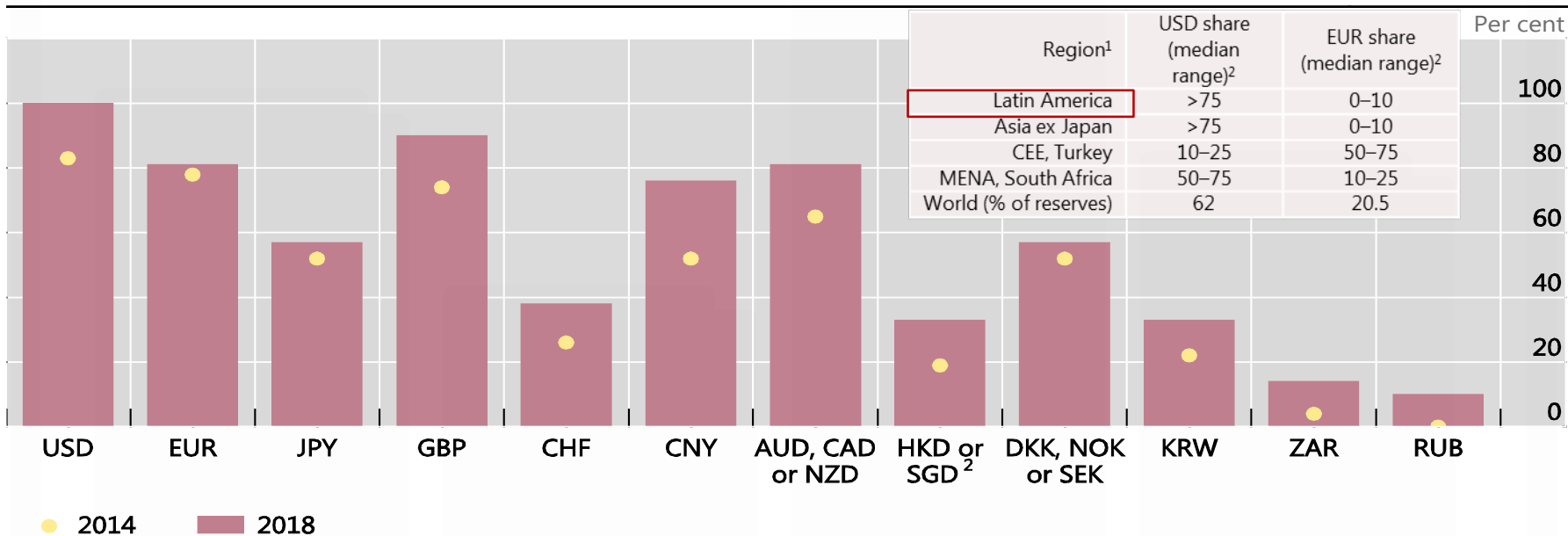
# Composition (Currencies)

- EME CB are investing in a wider range of currencies but safety still plays a key role in currency selection.

Exposures to non-traditional reserve currencies have become more common

Share of EME survey respondents investing in the currency<sup>1</sup>

Graph 3



<sup>1</sup> Based on the replies of 21 (in 2014) and 23 (in 2018) countries, respectively. If a country provided information for at least one currency, missing replies are counted as zero investment. IMF COFER reports worldwide aggregate portfolio shares for some of the currencies shown: USD 62%, EUR 20.5%, JPY 5.0%, GBP 4.5%, CAD 2.0%, CNY 1.8% and AUD 1.7% (as of Q3 2018). <sup>2</sup> The yellow dot for "HKD or SGD" signifies responses for 2016.

Source: BIS survey of reserve managers (2014, 2016, 2018).

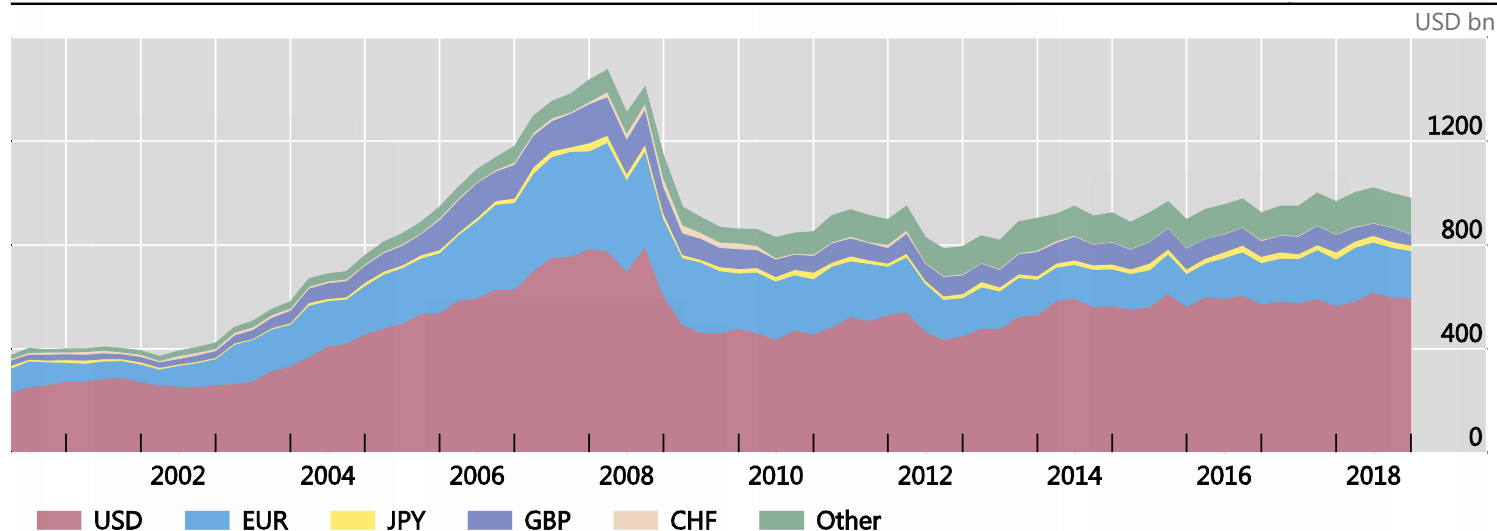


# Policy issues: international spillovers

- Joint and rapid liquidation of EME reserves can impact on global financial markets (see also presentation I).
  - Smaller effect when portfolio in assets that become more attractive when risk aversion spikes and EME currencies come under pressure (China episode 2015).

Central banks withdrew deposits with commercial banks during and after the GFC<sup>1</sup>

Graph 4



<sup>1</sup> Cross-border liabilities of banks vis-à-vis central banks. Amounts outstanding at quarter-end. Liabilities denominated in currencies other than the US dollar are converted to US dollars at the exchange rate prevailing on the reference date. Data do not distinguish between collateralised and uncollateralised deposits.

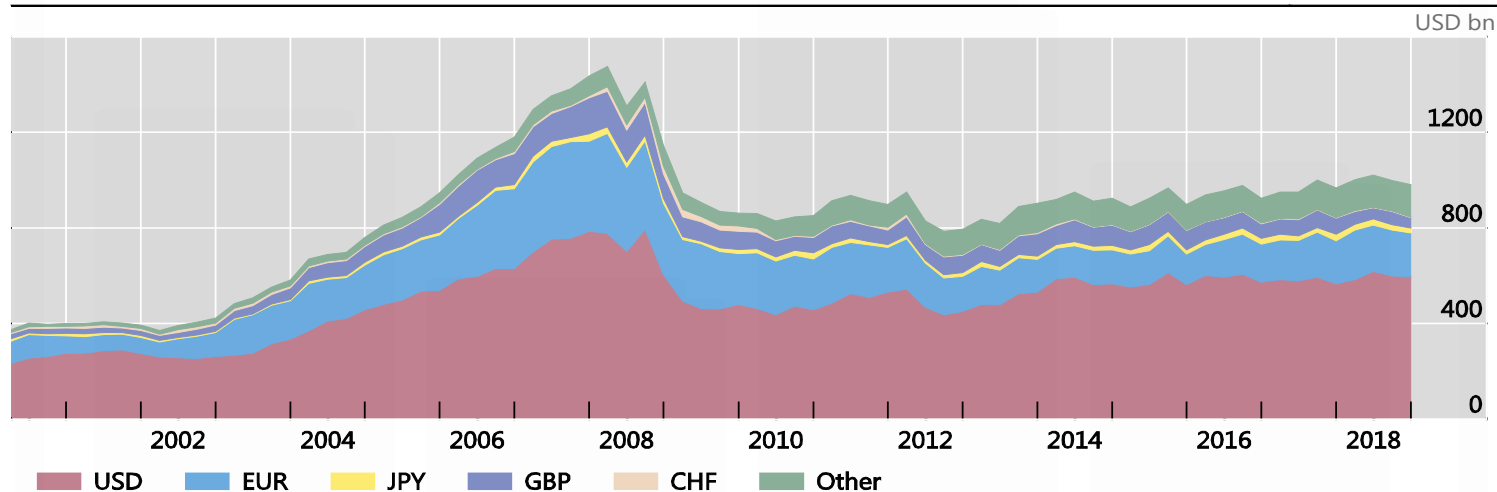
Sources: US Treasury; Bloomberg; BIS locational banking statistics.

# Policy issues: international spillovers

- Procyclicality of joint sales: CBs adding to others CBs and private sector
  - Currency or risk profiles, liquidity concerns etc
- Mitigating factors
  - Enhanced design of internal governance and risk management arrangements (Evaluation performance lengthening (most cases 1 to 12 months))
  - International coordination?

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Sources: US Treasury; Bloomberg; BIS locational banking statistics.





# Policy issues: losses and distribution

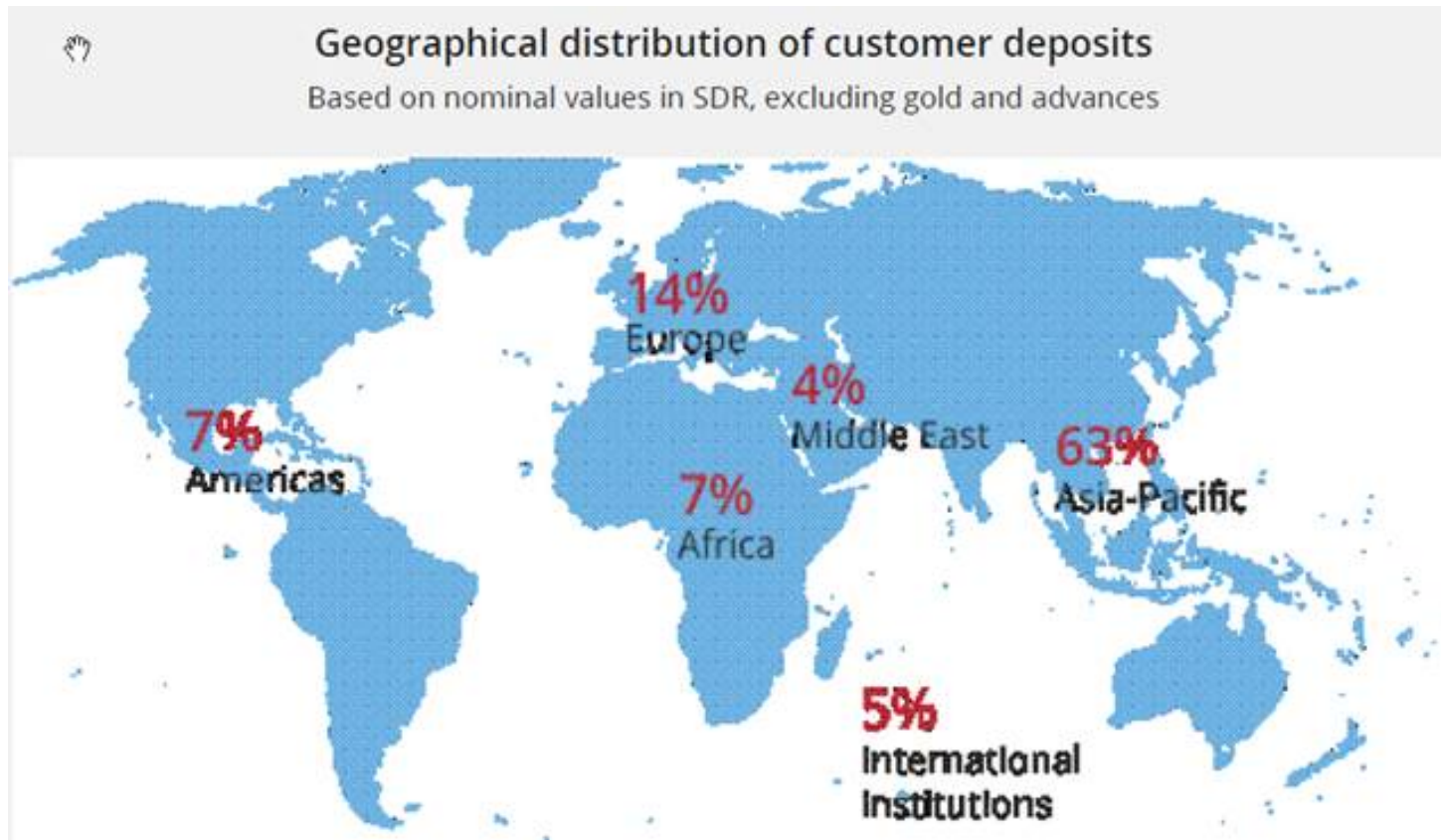
- Exposure to losses may jeopardise central banks' performance
  - *N.B 80% of CB assets*
  - Reputational costs, political exposure, balance sheet management
- Risks
  - Inherent position risks, even AE assets
  - Costs of carry
    - Can be seen as an insurance prime
- Materialisation
  - Realisation of market risk into capital shortfalls depend on accounting rules
  - Partially borne by the government?
    - Depend on risk sharing arrangements, distribution rules
      - Rules tend to be asymmetrical
      - Even when they are symmetrical, CBs are not insulated from political pressures.

## Policy issues: disclosure and communication

- **Pros of disclosure:** enhances the effectiveness of both external governance and the central bank's pursuit of monetary and financial stability.
- **Cons of disclosure:** information about changes in the currency composition might enable the detection of discreet interventions or even be interpreted as foreshadowing changes in exchange rate regimes.
- Disclosure policies in EMES reflect how jurisdictions balance perceived benefits and costs (eg. wrongly interpreted disclosure can trigger unnecessary controversy vs explaining choices and implications as part of a broader communication strategy).

# BIS and reserves in the Americas

- Management of CB reserves
  - Americas somewhat underweight



## New BIS trading floor in Americas Office

- Upgrade of banking services in BIS Innovation 2025
  - Global outreach
- Closer to American clients
- Project has started
  - Office expansion with creation of trading floor
  - Head of Treasury Americas
  - Staffing
- ....mid 2020

