FX Reserve Management Challenges for the Future – a View from a Small European Country with Huge Reserves

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ASSET AND RISK MANAGEMENT FORUM
South African Reserve Bank, Pretoria, June 14, 2018
Interventions FX reserves returns sales Privatizations EU funds Others
1998 - 2002 5 896 0 3 882 0 3 813
2003 - 2008 0 -2 625 2 208 1 925 4 496
2009 - 3Q2013 0 -3 794 0 9 580 916
4Q2013 - 2Q2017 75 878 0 0 12 852 984
1998 - 2017 81 774 -6 419 6 090 24 356 10 209

Source: CNB
FX reserve allocation – currencies

FX reserves currency allocation
(30. 4. 2018)

- USD 19.1%
- CAD 6.3%
- AUD 3.5%
- JPY 2.4%
- GBP 2.4%
- SEK 1.1%
- XAU 0.2%
- EUR 65.0%

Source: CNB
FX reserve allocation – asset classes

Investment allocation
(30. 4. 2018)

- Government securities: 36.9%
- Central banks: 25.7%
- Agencies: 8.6%
- Equities: 8.0%
- BIS, IMF + supranational institutions: 3.0%
- Reverse repos: 0.3%
- Gold: 17.5%

Source: CNB

Agencies: KfW, ÖKB, EDC etc.
FX reserves – tranching

Source: CNB
Seven portfolios: → investment USD, EUR, CAD, AUD, SEK → liquidity USD, EUR

Currency overlay portfolios in GBP and JPY

About 10% of reserves externally managed in equities

All internal portfolios managed by 7 people

Investments in new asset classes – covered bonds, MBS

Further alternatives being investigated (asset classes, currencies)
FX reserves – returns

FX reserves total return

FX reserves return
Fixed Income vs Equities

Source: CNB
Thank you for your attention!

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Regulatory “avalanche”:

- limits the ability of banks to operate in the markets, take risks, and thereby absorb various shocks/flows. The result is, for example, flash crash episodes even on very liquid markets such as US Treasuries, FX GBP;
- stays behind enormous efforts of banks to eliminate legal and regulatory risks at the expense of profitability (buoyant compliance units vs squeezed profit ones). Banks are then unable to make use of arbitrage opportunities. Example: abnormality over the turn of the year due to BRRD resolution fund payment calculation;
- overextends CNB staff even when CNB is exempt from regulation (e.g. MiFID II/MiFIR).