FX Reserves Management – the Czech Experience Before and After 2013

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The National Bank of the Republic of Macedonia
Reinventing Bretton Woods Committee
Skopje, February 16, 2018
FX reserves Jan 2013 – Dec 2017

FX reserves (mil EUR)

Source: CNB
**FX reserves sources**

![Bar chart showing FX reserves sources](chart_image)

**Source:** CNB

<table>
<thead>
<tr>
<th>Period</th>
<th>Interventions</th>
<th>FX reserves returns sales</th>
<th>Privatizations</th>
<th>EU funds</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998 - 2002</td>
<td>5 896</td>
<td>0</td>
<td>3 882</td>
<td>0</td>
<td>3 813</td>
</tr>
<tr>
<td>2003 - 2008</td>
<td>0</td>
<td>-2 625</td>
<td>2 208</td>
<td>1 925</td>
<td>4 496</td>
</tr>
<tr>
<td>2009 - 3Q2013</td>
<td>0</td>
<td>-3 794</td>
<td>0</td>
<td>9 580</td>
<td>916</td>
</tr>
<tr>
<td>4Q2013 - 2Q2017</td>
<td>75 878</td>
<td>0</td>
<td>0</td>
<td>12 852</td>
<td>984</td>
</tr>
<tr>
<td>1998 - 2017</td>
<td>81 774</td>
<td>-6 419</td>
<td>6 090</td>
<td>24 356</td>
<td>10 209</td>
</tr>
</tbody>
</table>
FX reserves allocation – currencies

FX reserves currency allocation (31. 12. 2017)

- USD 18.1%
- CAD 6.6%
- AUD 3.7%
- JPY 2.2%
- GBP 2.4%
- SEK 1.2%
- XAU 0.2%
- EUR 65.6%

Source: CNB
FX reserves allocation – asset classes

Investment allocation
(31. 1. 2018)

- Government securities: 37.8%
- Central banks: 25.6%
- Agencies: 18.3%
- Equities: 8.5%
- BIS, IMF + supranational institutions: 6.6%
- Reverse repos: 3.0%
- Gold: 0.3%

Source: CNB

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

FX Reserves

Investment

Liquidity

Fixed-Income (<1Y)

EUR

USD

Fixed-Income

Equity

New asset classes

MBS

Covered Bonds

Source: CNB
USD 150 billion actively managed

- 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 six 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
Regulation – unintended consequences

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 payments calculation;

• overextends CNB staff even when the CNB is exempt from regulation (e.g. MiFID II/MiFIR).
Thank you for your attention!

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