



THE WORLD BANK

Treasury | RAMP

Inaugural RAMP Survey on Reserve Management Practices of Central Banks: Key Findings and Observations

CEMLA/Banco Central de Reserva del Perú
Meeting on Reserves Management

September 13, 2019

Key messages

- Most central banks continue to employ largely a traditional approach to investing their reserves
- Central banks in Latin America remain more conservative than in the rest of the world
- Governance, risk management, and transparency can still improve globally and in the region

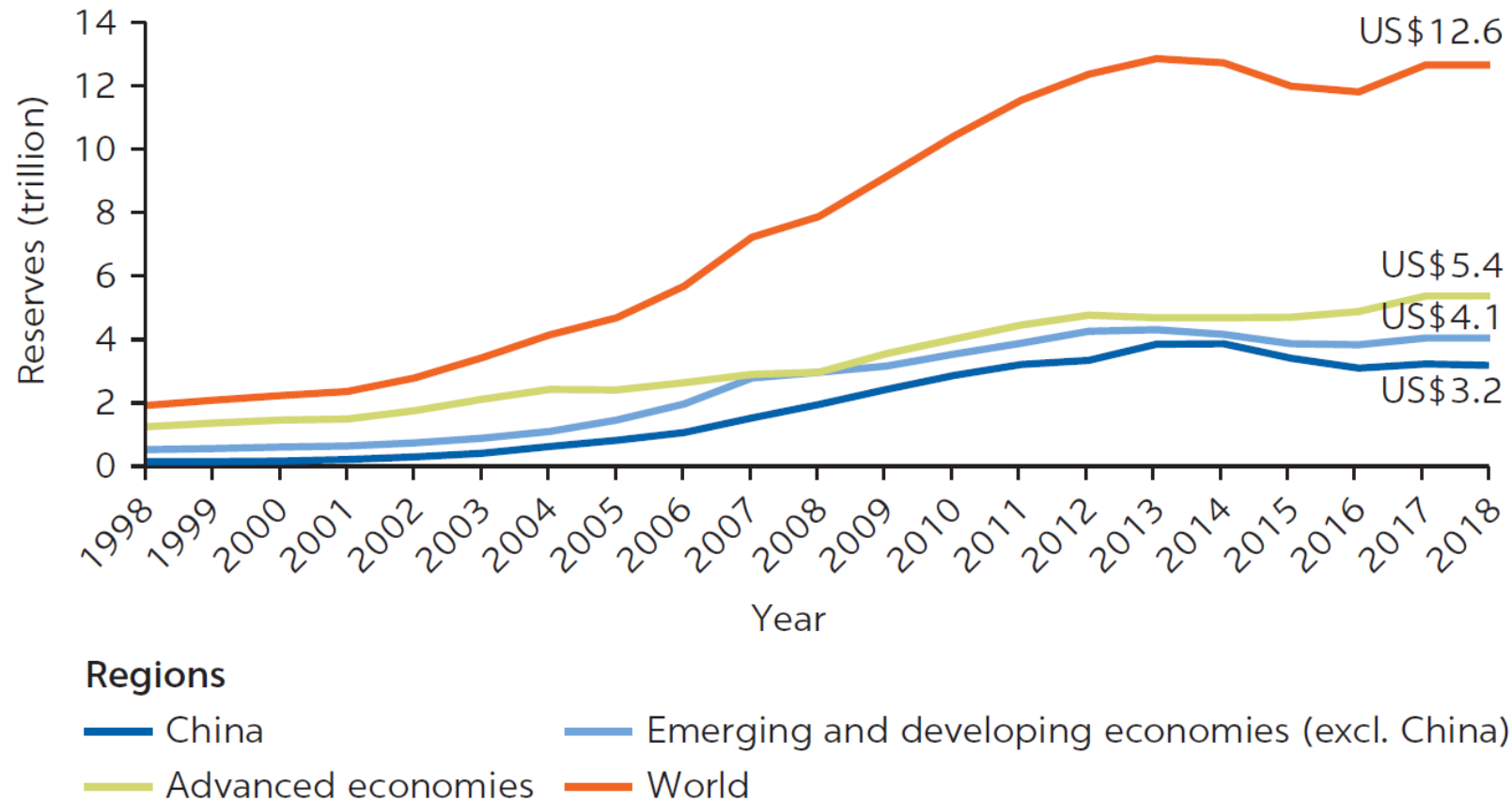
Roadmap for the presentation

- Backdrop for central bank reserves management operations
- Key survey findings
- Conclusions and policy recommendations

Central banks face a challenging environment

Substantial increase in foreign exchange reserves and more wealth to manage

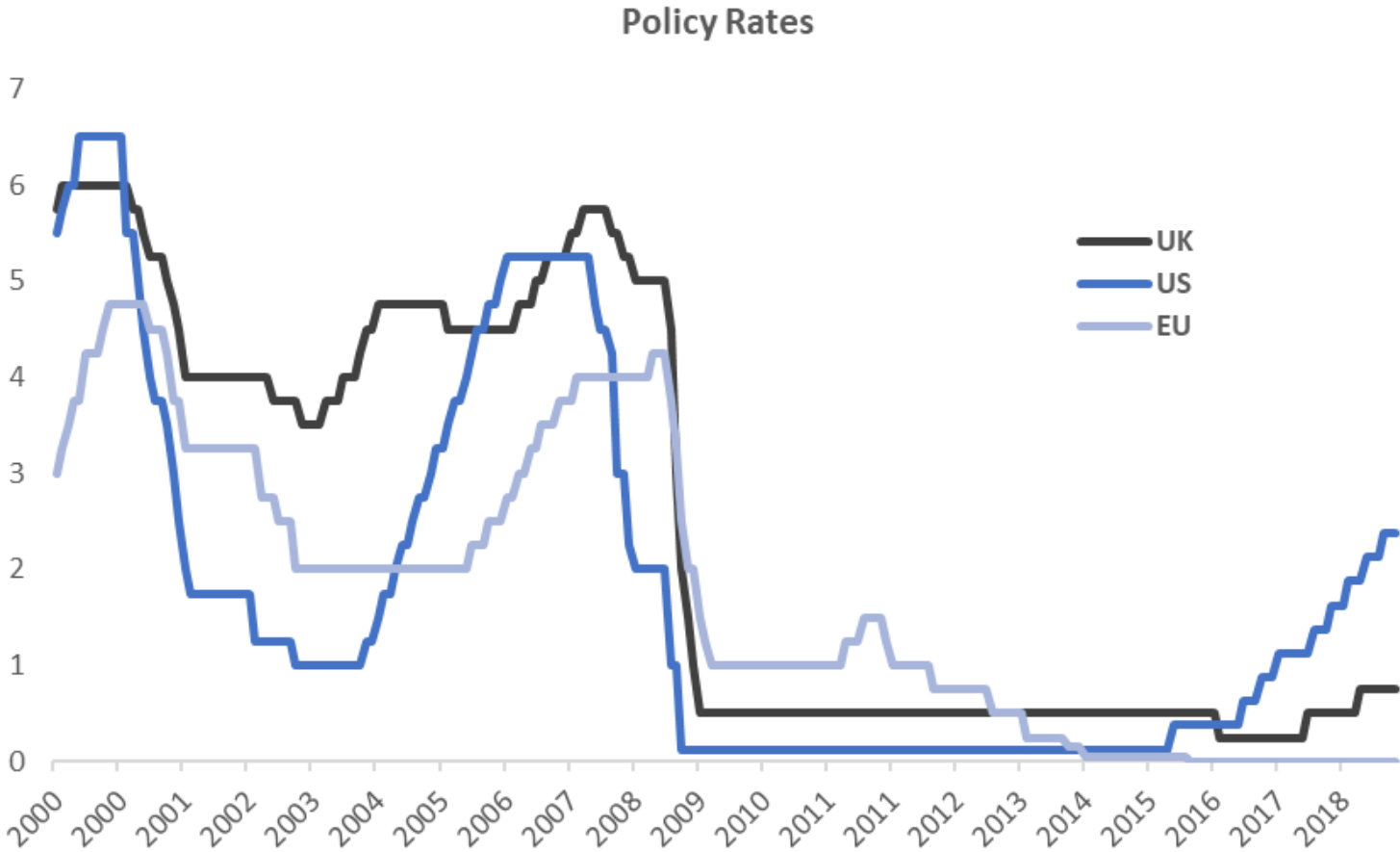
Global foreign exchange reserves, 1998–2018



Source: IMF, International Financial Statistics.

Central banks face a challenging environment

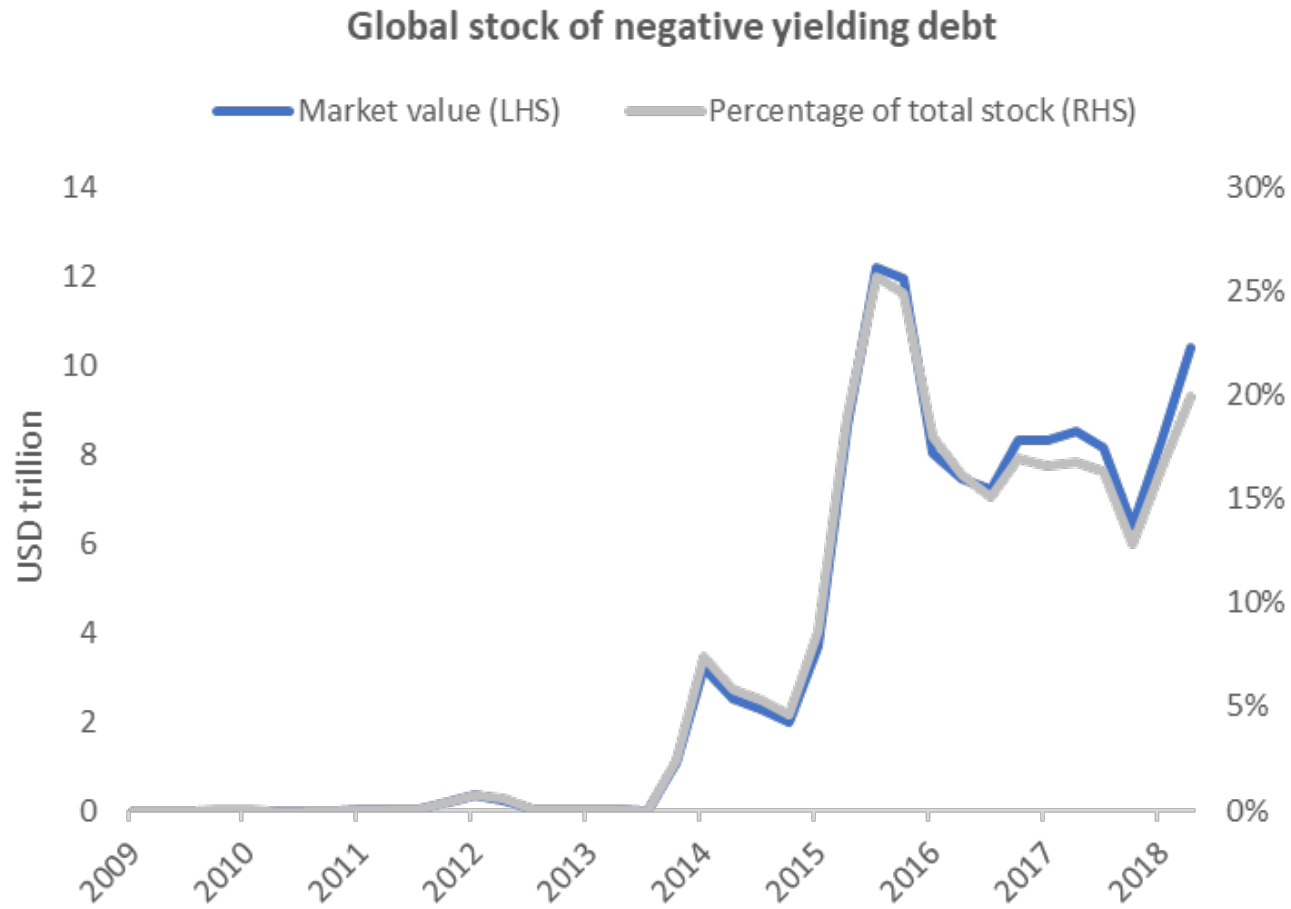
Extraordinary low policy rates in major economies create headwinds to central banks' achievements of their objectives



Source: Bloomberg

Central banks face a challenging environment

Government debt with negative yield further restricts reserve managers' options



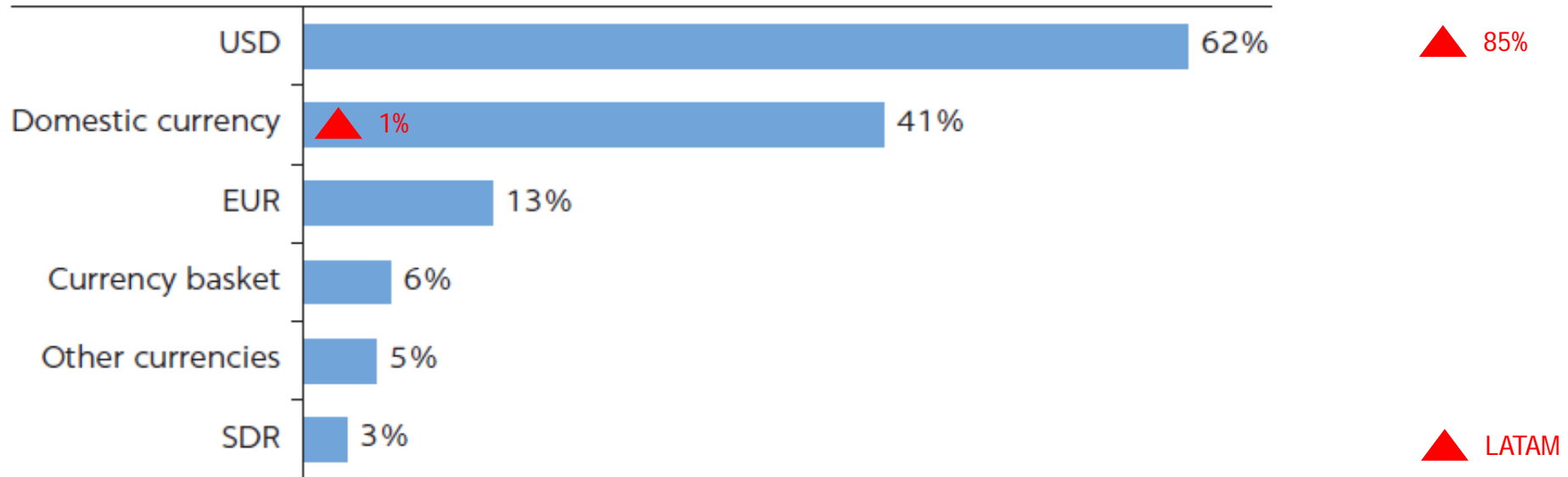
Source: Bloomberg

Key survey findings

The US dollar is the most important numeraire. Particularly in Latin America

Nuimeraire

Currencies



25 central banks selected two or more of the above currency options

N = 98

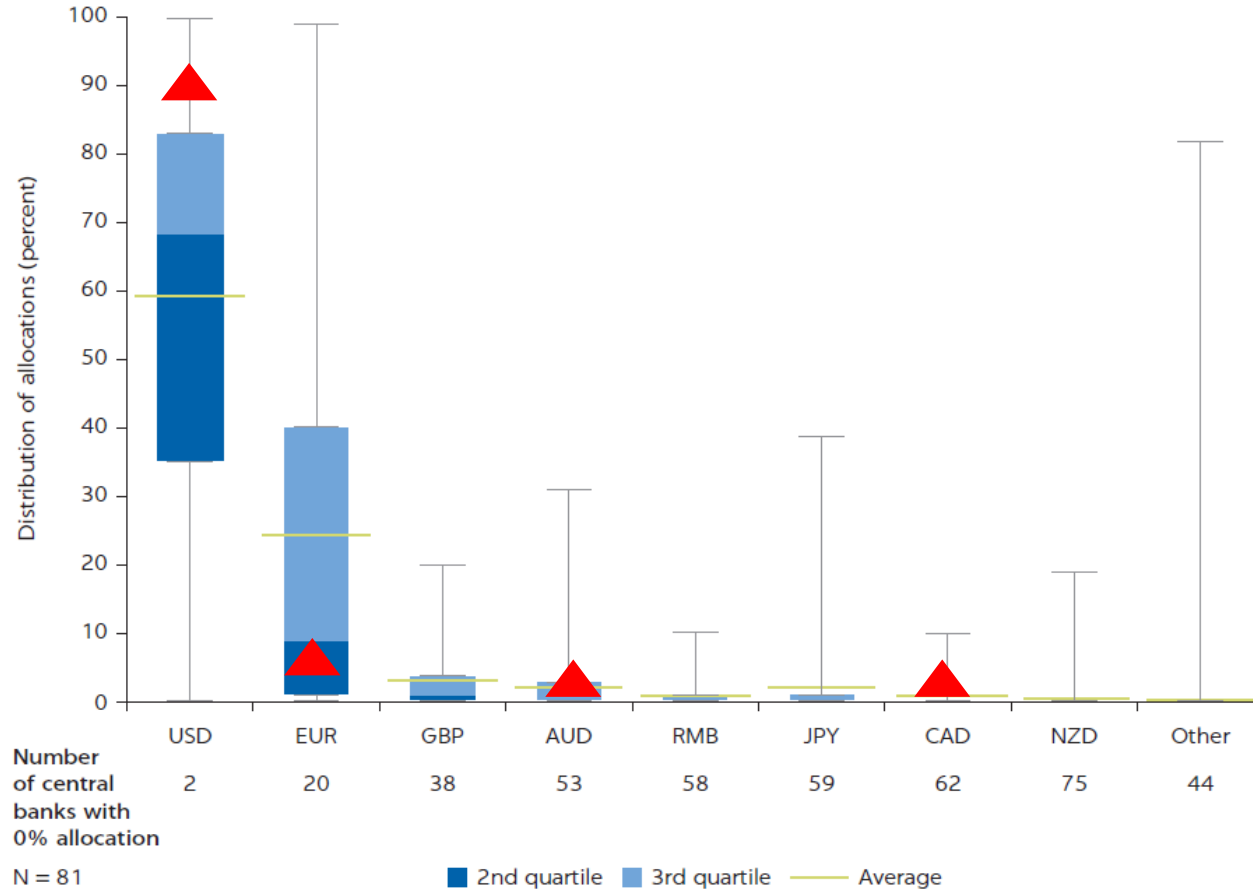
Source: RAMP Survey on the Reserve Management Practices of Central Banks.

Note: Euro-area central banks that use the euro as numeraire are reported in the “domestic currency” basket only. Non-euro-area central banks that use the euro as numeraire are reported in the “euro” basket. SDR = special drawing rights.

Key survey findings

Central banks in the region have relatively small allocations to other currencies

Distribution of all respondents' allocations to individual currencies



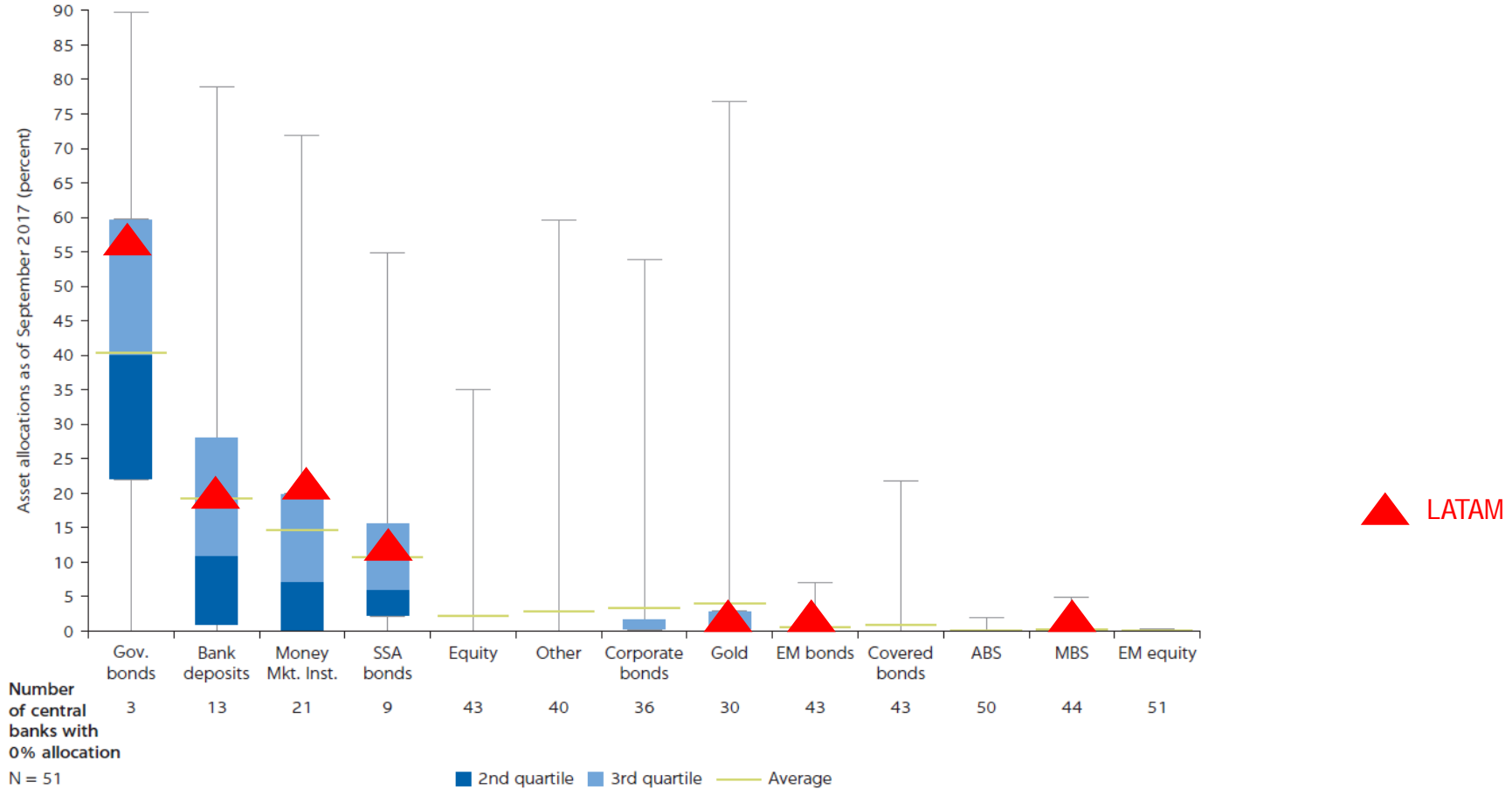
▲ LATAM

Source: RAMP Survey on the Reserve Management Practices of Central Banks.

Key survey findings

In Latin America, the allocation to government bonds is much higher than the average

Distribution of all respondents' allocations to individual asset classes



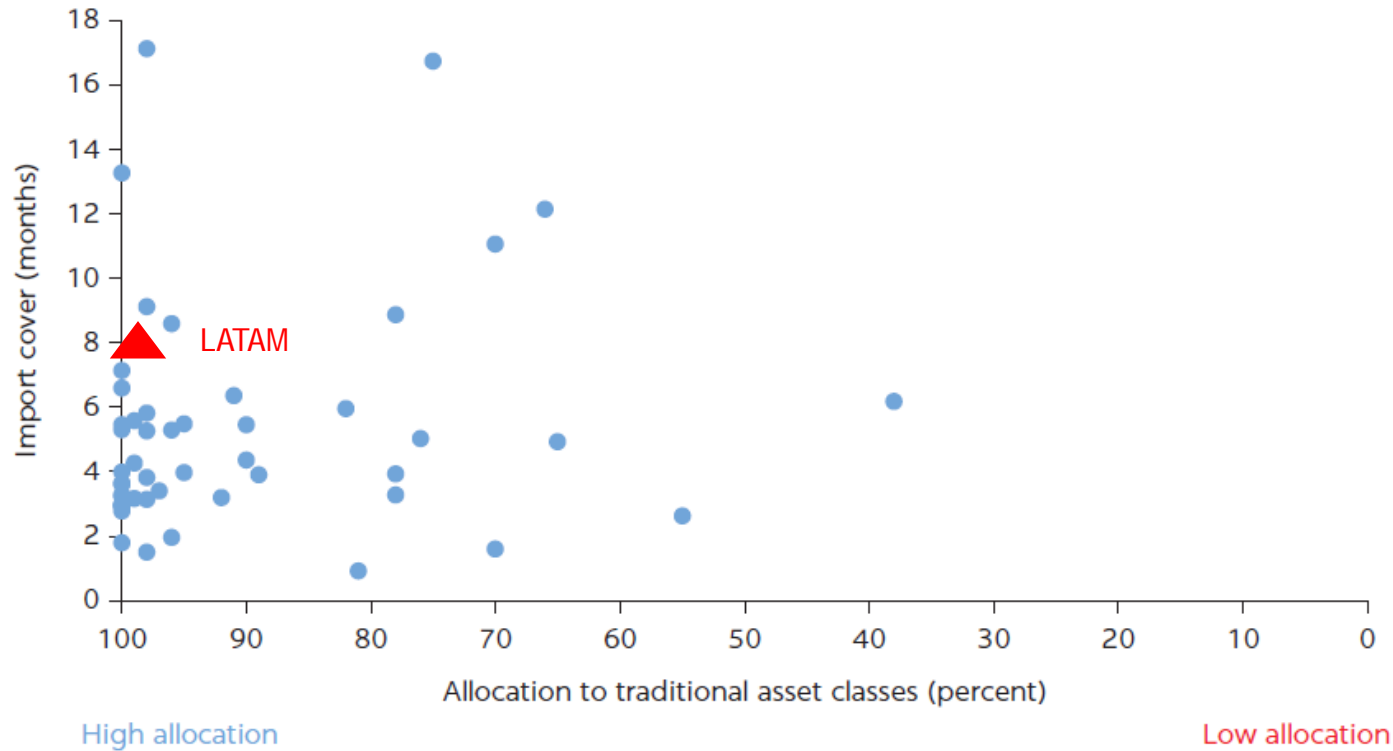
Source: RAMP Survey on the Reserve Management Practices of Central Banks.

Note: ABS = asset-backed securities; EM = emerging market; MBS = mortgage-backed securities; SSA = supranational, sovereign, and agency.

Key survey findings

Latin American reserves are little diversified despite reserve adequacy measures

Comparison of allocation to traditional asset classes and months of import coverage of foreign exchange reserves



N = 50

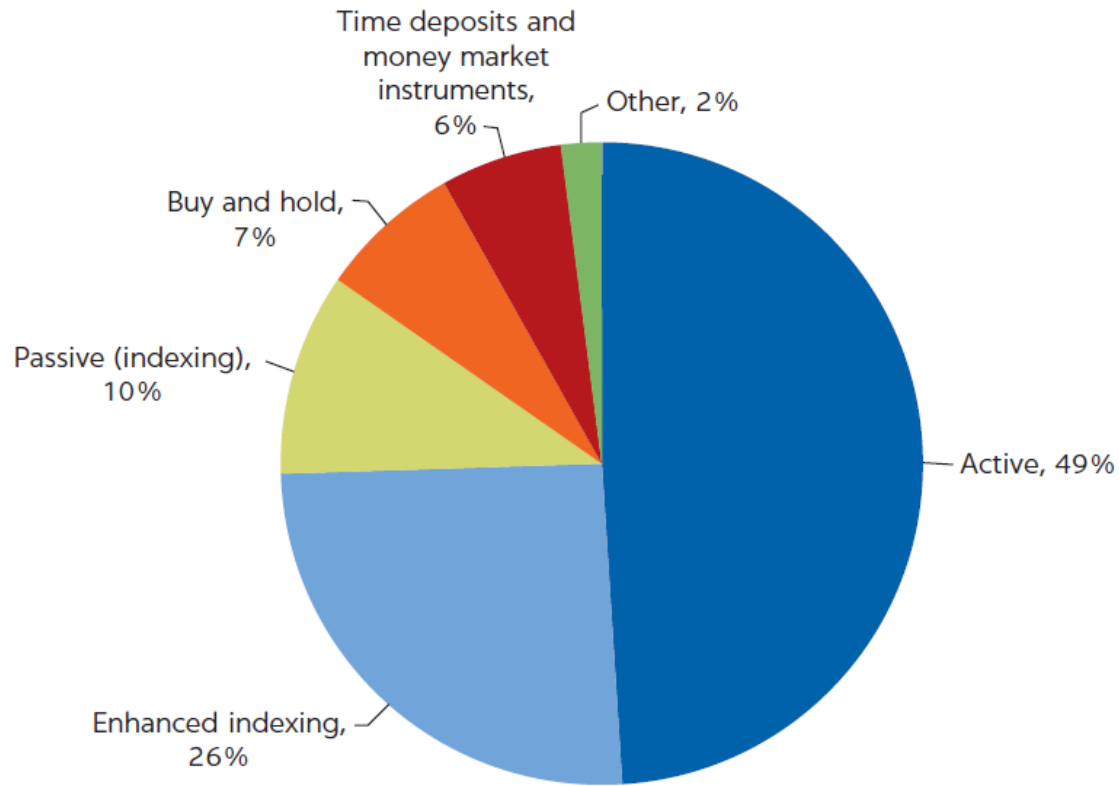
Source: World Bank and RAMP Survey on the Reserve Management Practices of Central Banks.

Note: Traditional asset classes comprise bank deposits, government bonds, money market instruments, gold, and supranational, sovereign, and agency bonds.

Key survey findings

Most central banks adopt portfolio management styles that use active approaches

Portfolio management styles



LATAM has a similar distribution (slightly more in active management)

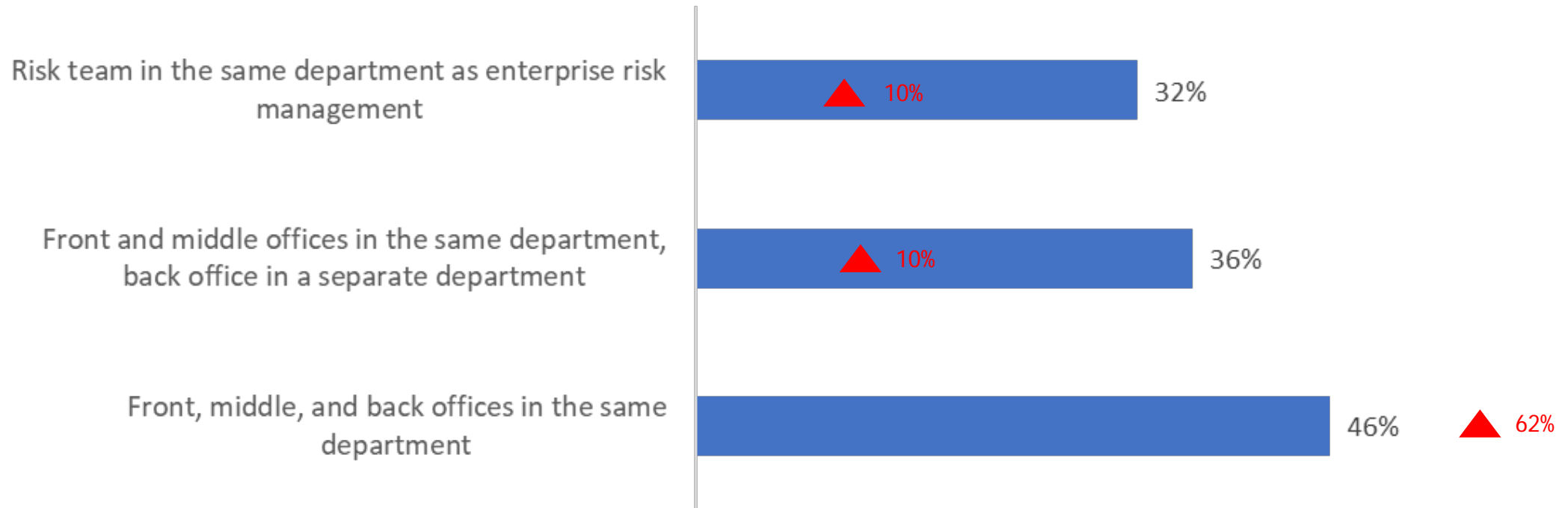
N = 98

Source: RAMP Survey on the Reserve Management Practices of Central Banks.

Conclusions and policy recommendations

Various approaches to governance require appropriate checks and balances

Percentage of central banks with following organizational structure



▲ LATAM

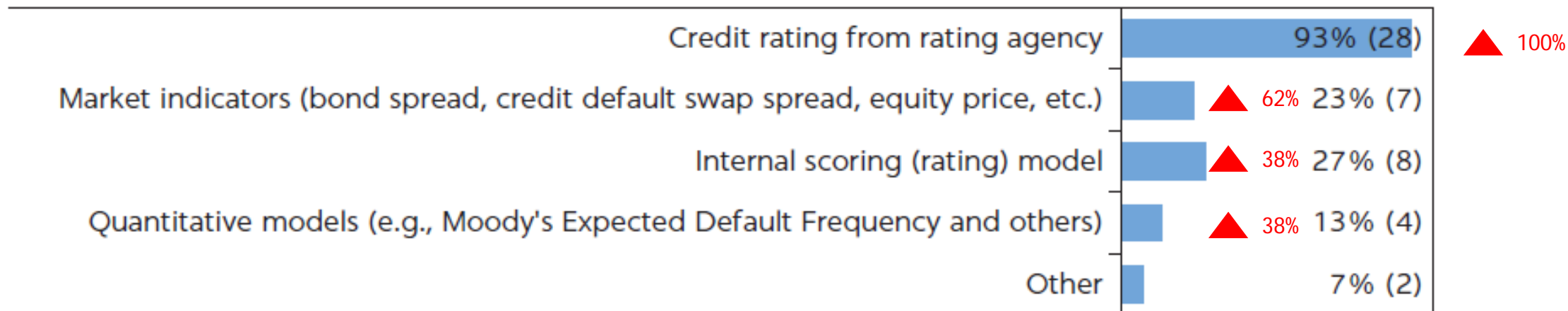
N = 98

Source: RAMP Survey on the Reserve Management Practices of Central Banks

Conclusions and policy recommendations

Credit risk management can be improved

Credit analysis techniques of respondents with minimum credit ratings of BBB- for at least one asset class



N = 30

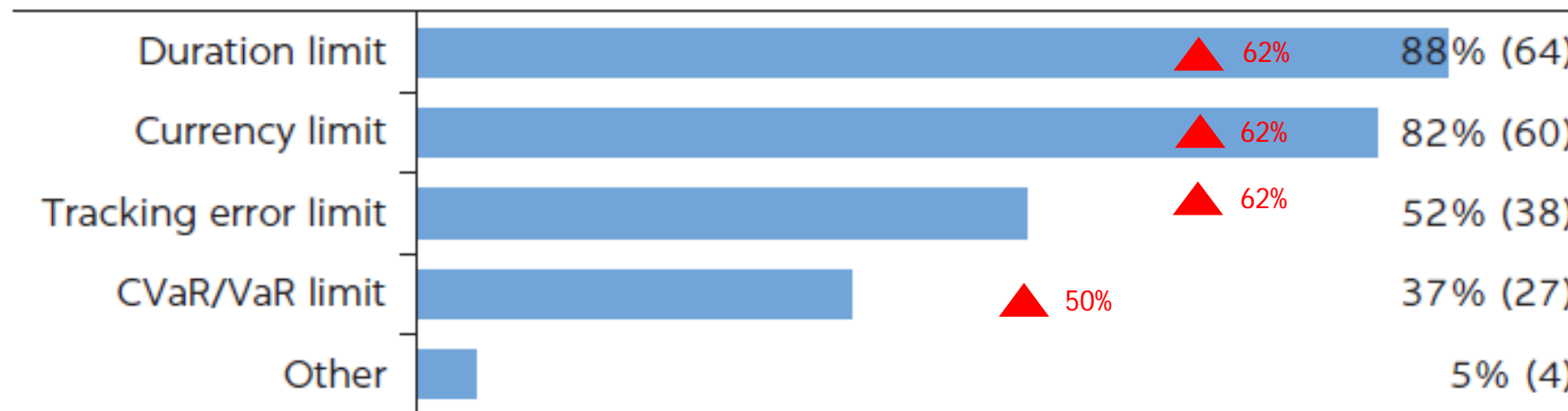
▲ LATAM

Source: RAMP Survey on the Reserve Management Practices of Central Banks.

Conclusions and policy recommendations

The region has better risk management policies. However, there is still room to improve

Market risk measurement metrics for respondents that use active or enhanced indexing styles



N = 73

▲ LATAM

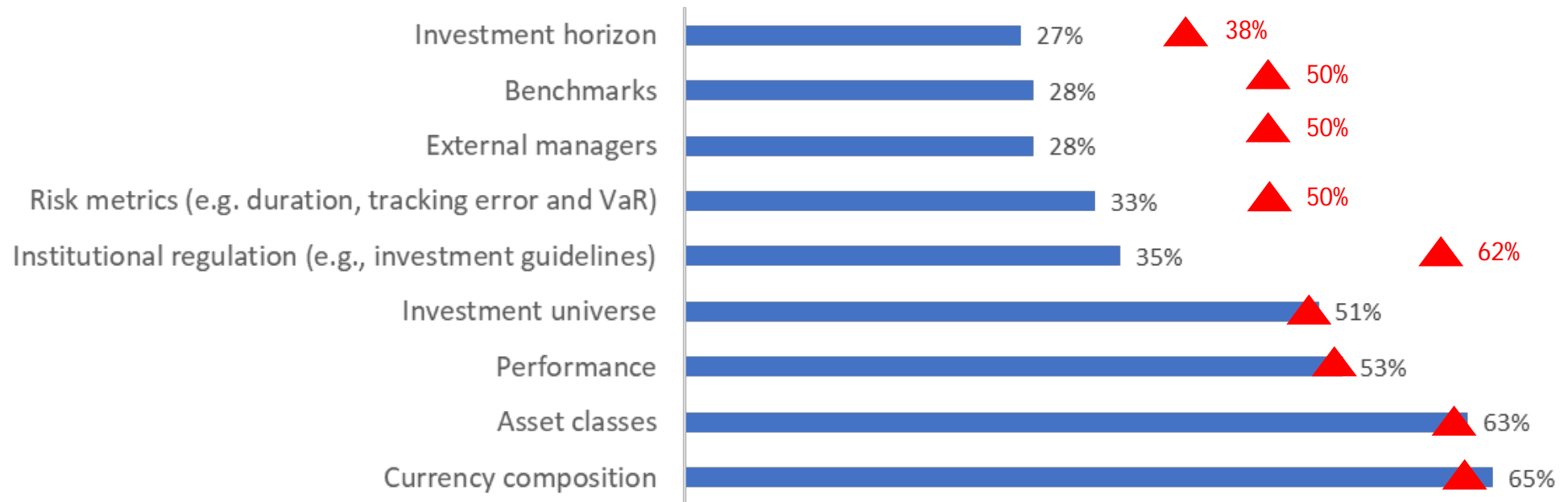
Source: RAMP Survey on the Reserve Management Practices of Central Banks.

Note: CVaR = conditional value at risk; VaR = value at risk.

Conclusions and policy recommendations

Enhanced public disclosure could increase the credibility of central banks

Percentage of central banks that disclose information (mandatory or voluntary)



▲ LATAM

N=97

Source: RAMP Survey on the Reserve Management Practices of Central Banks

Note: VaR = value at risk

Main takeaways

- Central banks largely maintain a traditional approach for investing their reserves
- Latin American central banks are diversifying less than the rest of the world
- Reserve adequacy measures are better than average. Do institutional factors explain low diversification?
- Despite having better governance, risk management, and transparency, central banks in the region can still improve in those areas

Next steps

- RAMP plans to have this central bank survey every two years
- Responses received in August 2019. Next survey will be published in April 2020