



# The reaction of Banco de la República since March 2020

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\*All opinions are from the author, and do not compromise the Banco de la República or its Board.



# Topics

REPO OPERATIONS

PURCHASES OF BONDS

RESERVE REQUIREMENTS AND MONETARY POLICY RATE

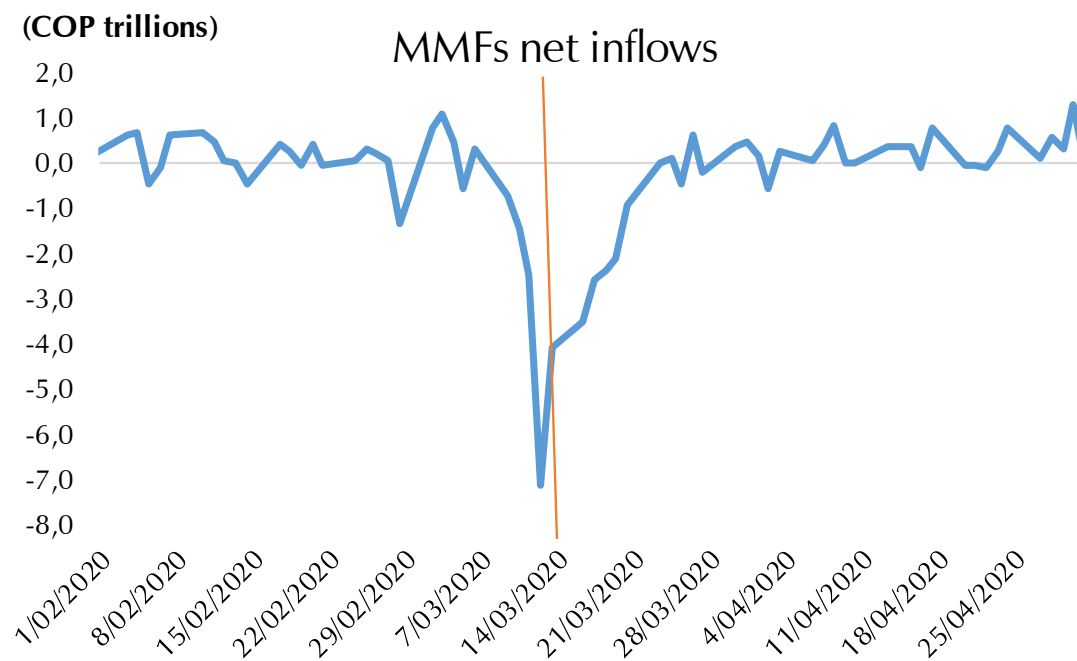
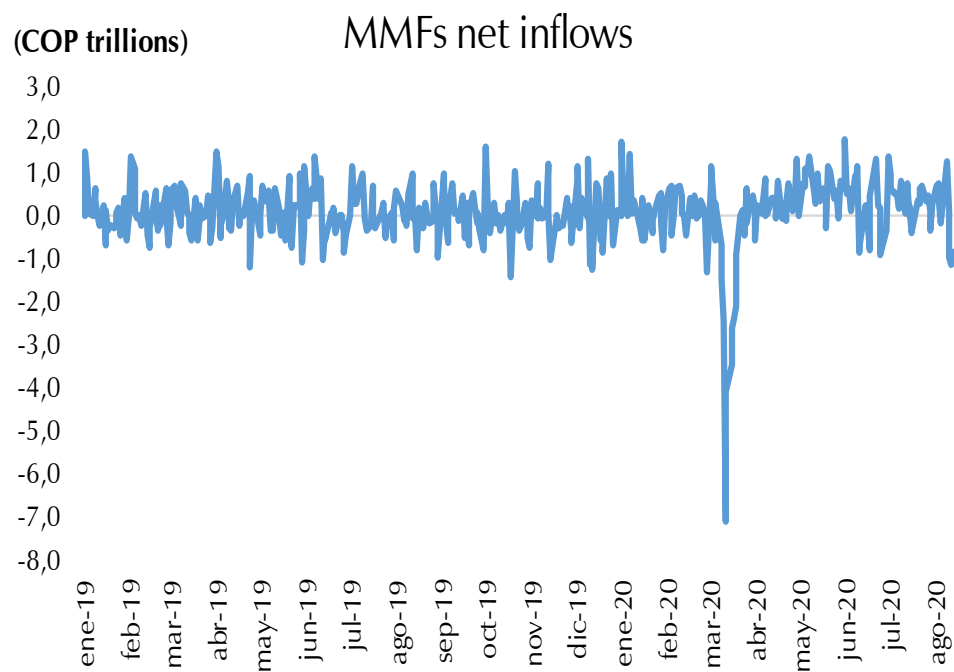
FX INTERVENTION

# Collaterals and maturities of repo operations

- By Law, only public debt 1999-July 15,2009.
- From July 2009 any collateral authorized by the Board... but the CB continued to use only public debt.
- In 2012 CB began repos at reference rate with authorized broker dealers using private debt. This in response to collapse of major broker.
  - This decision, in conjunction with actions from the MoF and the Supervisor, calmed the markets.
  - The use of those repos was scarce (0.27%).
  - It was announced as a temporary instrument. Opened from Nov 2012-March 2013.
- During the taper tantrum, MMF experienced outflows. The CB was pressed to open repo with private debt, but it didn't.
  - Since then the CB monitors outflows from MMF... but with a lag.
  - MMFs must comply now with a liquidity requirement.

# Collaterals and maturities of repo operations

- March 9<sup>th</sup>, 2020: the oil price collapsed (25%) after no OPEP agreement. Previous liquidity forecasts showed that the CB would need to contract the monetary base for the rest of the year. The CB increased (and announced it) the amount auctioned in repos. Since then, the CB is auctioning more liquidity than needed.
- March 12<sup>th</sup>: many alarmed calls saying that MMF were experiencing outflows, and that the CB should offer repos with private debt (MMFs have access to CB liquidity with public bonds and at a high interest rate: reference rate + 200 b.p; but their holdings are small:  $\approx 5\%$ ) → The CB began repos with private debt at the reference rate. The system did not work, the back office was done manually. Initially, settlement took until 2 a.m. Tenor: 30- and 7-day. Longer term did not attract demand.

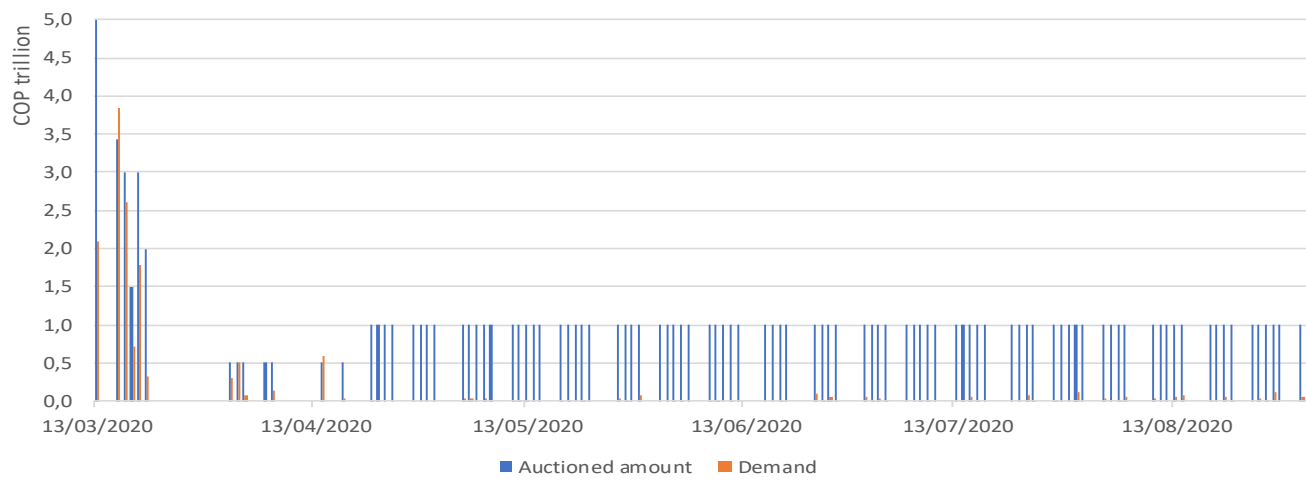


Source: SFC

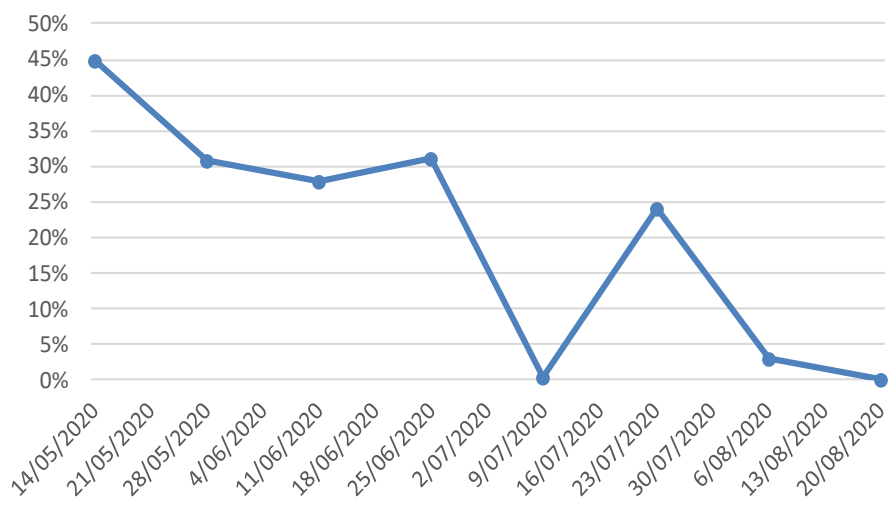
# Collaterals and maturities of repo operations

15/09/2020

Repos with private debt: demand and auctioned amount



Repos with loans: demand/amount auctioned



- **Repos with loans**

- Objective: to provide support to credit
- Began on May 14, 2020. A 3-month program was announced for COP \$6,3 trillion (estimated liquidity needed for the next 3 months under an adverse scenario, in which credit establishments did not receive interest from their loans). One auction every two weeks for COP \$1 trillion. Interest rate: reference rate + 200 b.p. Maturity: 6 months.
- June 30: the CB announced this facility was going to be opened until needed

- **One-year and 9-month repos with public bonds**

- Objective: to provide support to credit
- Started in July 2020. One auction every two weeks for COP \$1 trillion at the reference rate
- 5 auctions so far. Low demand (90%, 28%, 0%, 0%,0%)

# Collaterals and maturities of repo operations

When Colombia returns to “normality” should the CB

- receive private debt as collateral, restricted to a small percentage of the repo, to help in the development of the private debt market?
- continue to do overnight repos, or should it move some of them to 7- or 14-day maturity?

# Repo counterparties

- In 2015 CB reduced the # of counterparties to promote development of interbank market
  - Repo operations (auction and the window): credit establishments and broker dealers (in its own position) that were public bond market dealers. These are the ones that transmit most the monetary policy.
  - Intraday repos with overnight conversion for the adequate functioning of the payment system (reference rate + 200 b.p): repo operations counterparties + entity types with liquidity risk (trust companies\*, they manage MMFs, broker dealers\*) or relevant in the payment system (pension funds\*).
- Covid: the CB expanded its counterparties for repo operations.
  - Credit establishments, broker dealers, trust companies, pension funds, insurance companies, securitizers, and special public entities.

\*On their own position or managed funds.

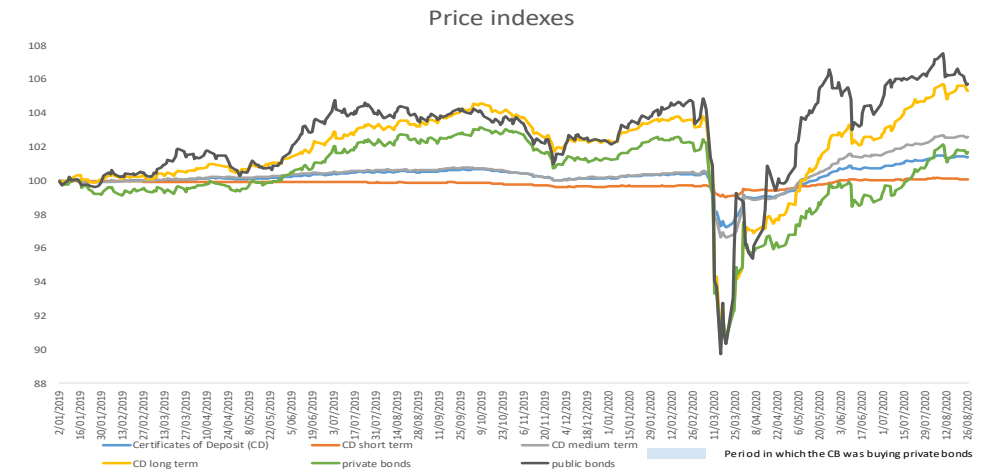
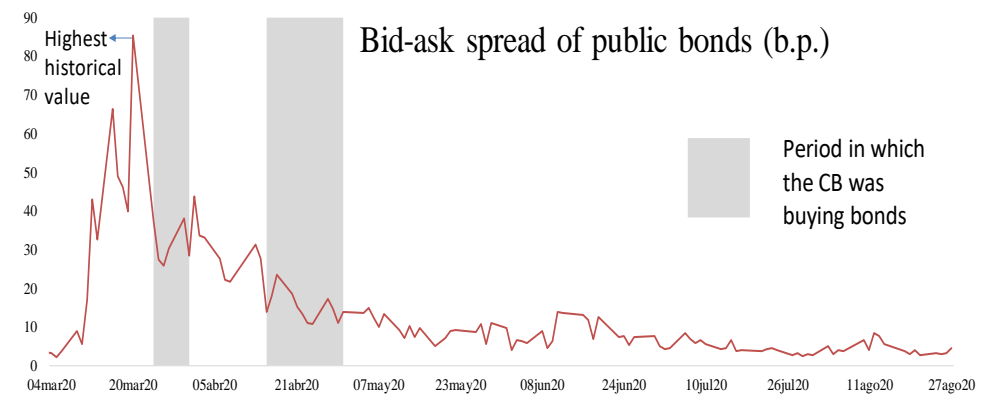
# Purchases of bonds

## Public bonds

- The CB buys/sells when it needs to expand/contract the monetary base for a long time period.
- In March interest rates rose and liquidity disappeared.
- On March 23 and April 16, 2020 the CB announced it was going to buy COP \$2 trillion (0.6% of the stock) each month. It bought COP \$2 trillion in March, and COP \$0.8 trillion in April.
- The CB approved the “purchase” of public bonds through NDF. It has not been used. Advantage: effect on monetary base is small.

## Private bonds

- First purchase of private bonds (certificates of deposit and bonds from credit establishments) by CB.
  - On March 23 it announced it was willing to buy COP\$10 trillion (6% of the stock; the amount of repos with private debt the CB had at that time) through auctions. The latest auctions were under-subscribed. The CB bought COP\$8,3 trillion.
  - Everything had to be done manually. At the beginning, the back offices worked on average until 1 a.m.



Purchases of private bonds





# Reserve requirement and monetary policy rate

## Reserve requirement

- To support credit, the CB reduced the reserve requirement. From 7% to 5%, liberating liquidity of COP \$ 10 trillion (9.4% of the monetary base).
- When Colombia returns to “normality” should the reserve requirement be set to 0%, and instead should the CB impose an intra day liquidity requirement for the good functioning of the large value payment system?

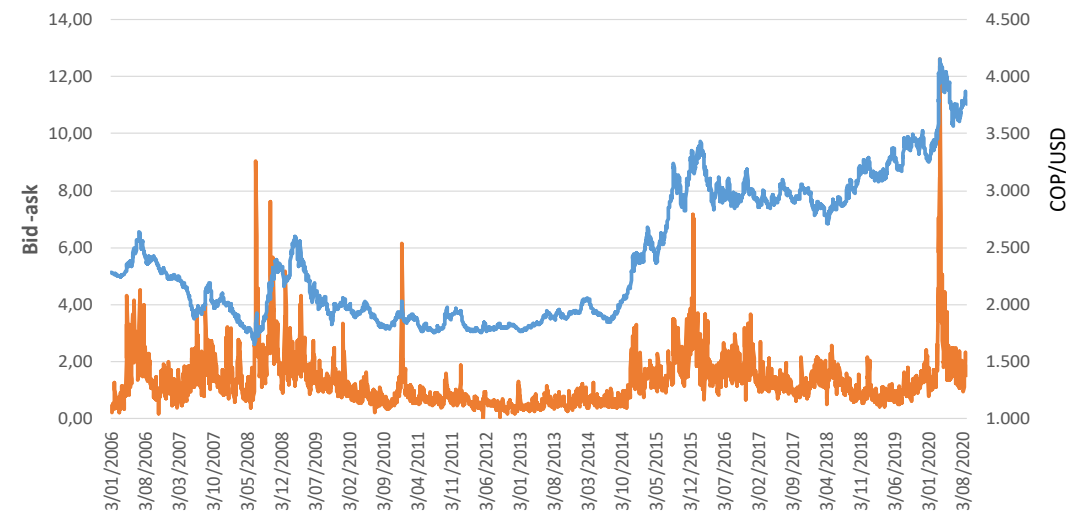
## Interest rate cuts

- From 4.25% to 2%
- What is the relationship between monetary policy rate and foreign portfolio investment?

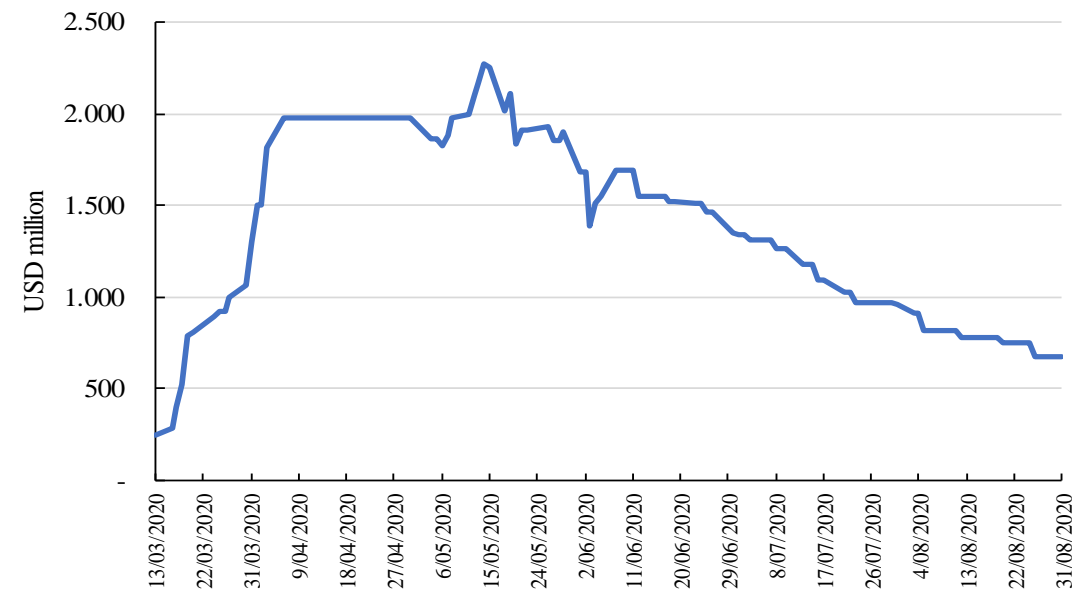
# FX intervention

- March 2020: bid-ask spread and COP/USD reached their highest value
- The CB sold FX-swaps (USD 400 million) to mitigate the pressure from margin calls
  - Pension funds were authorized as counterparties.
  - Minimum price for the purchase of the USD in the future: market price
- The CB offered FX-swaps (USD 400 million) to support external credit
  - Minimum price for the purchase of the USD in the future: below market price
  - No demand
- The CB sold NDF USD 1000 million per month March-May
  - Advantage: international reserves are not affected
  - Has been auctioning the roll-over of the contracts
  - Demand has been lower than offered roll-overs
  - Minimum forward price: market price (since May; before below market price)
- The CB bought USD 2000 million from the government
  - The government sold USD from external funding and from the loan it took from the sovereign wealth fund

Exchange rate and bid-ask spread



CB's stock of NDF



Thank you