

# CHALLENGES AND OPPORTUNITIES FOR INTERNATIONAL RESERVE MANAGERS AFTER THE MONETARY RESPONSE TO COVID

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XIV (DIGITAL) MEETING ON INTERNATIONAL RESERVES MANAGEMENT

CEMLA AND BANCO DE MEXICO

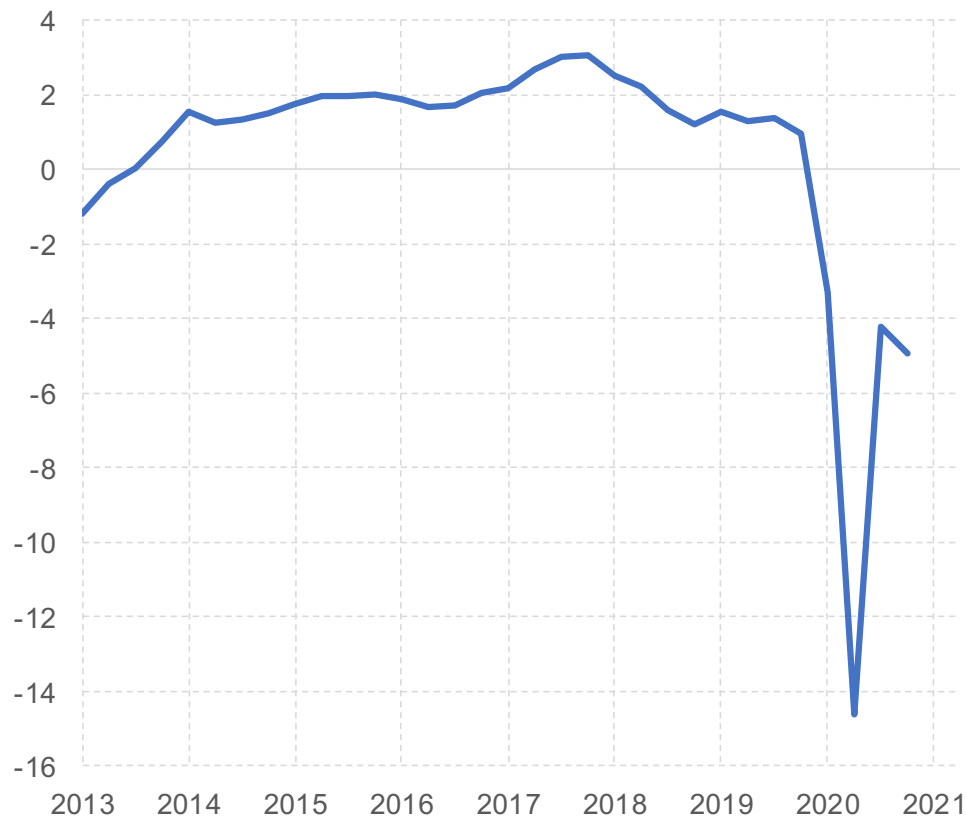
April 14<sup>th</sup>, 2021

OPERATIONS DEPARTMENT

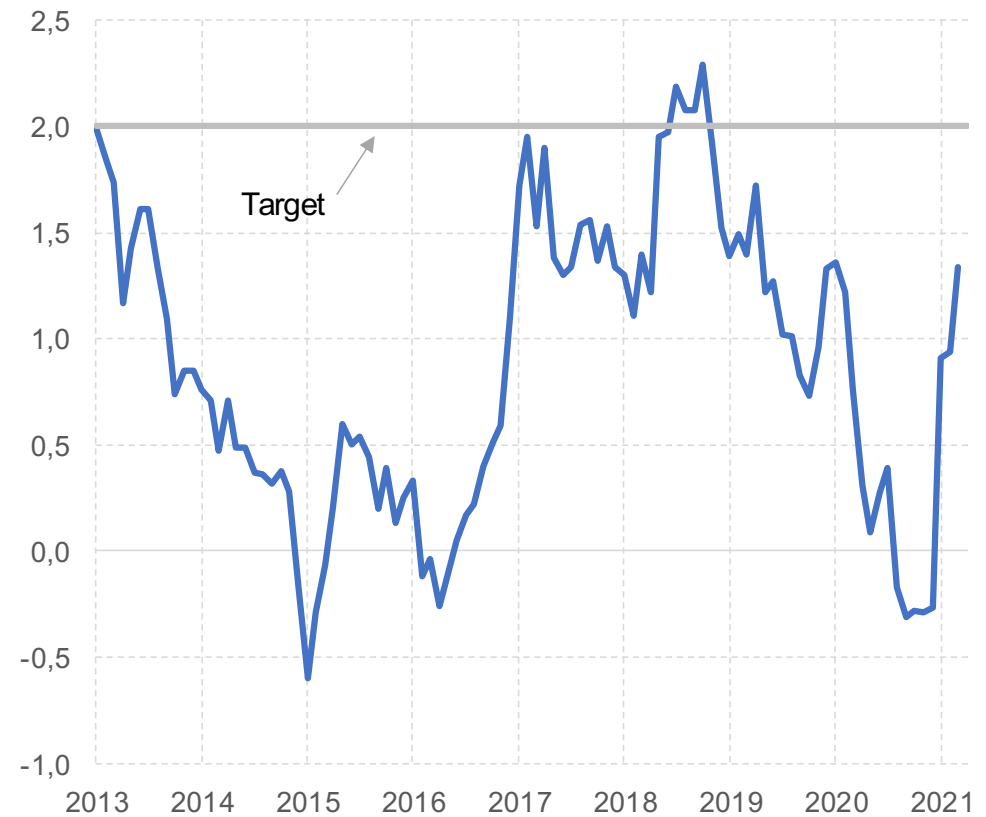


The COVID-19 pandemic provoked an unprecedented contraction of activity in 2020, and a reduction of inflation expectation not seen since the sovereign debt crisis.

Real GDP (% y-o-y)

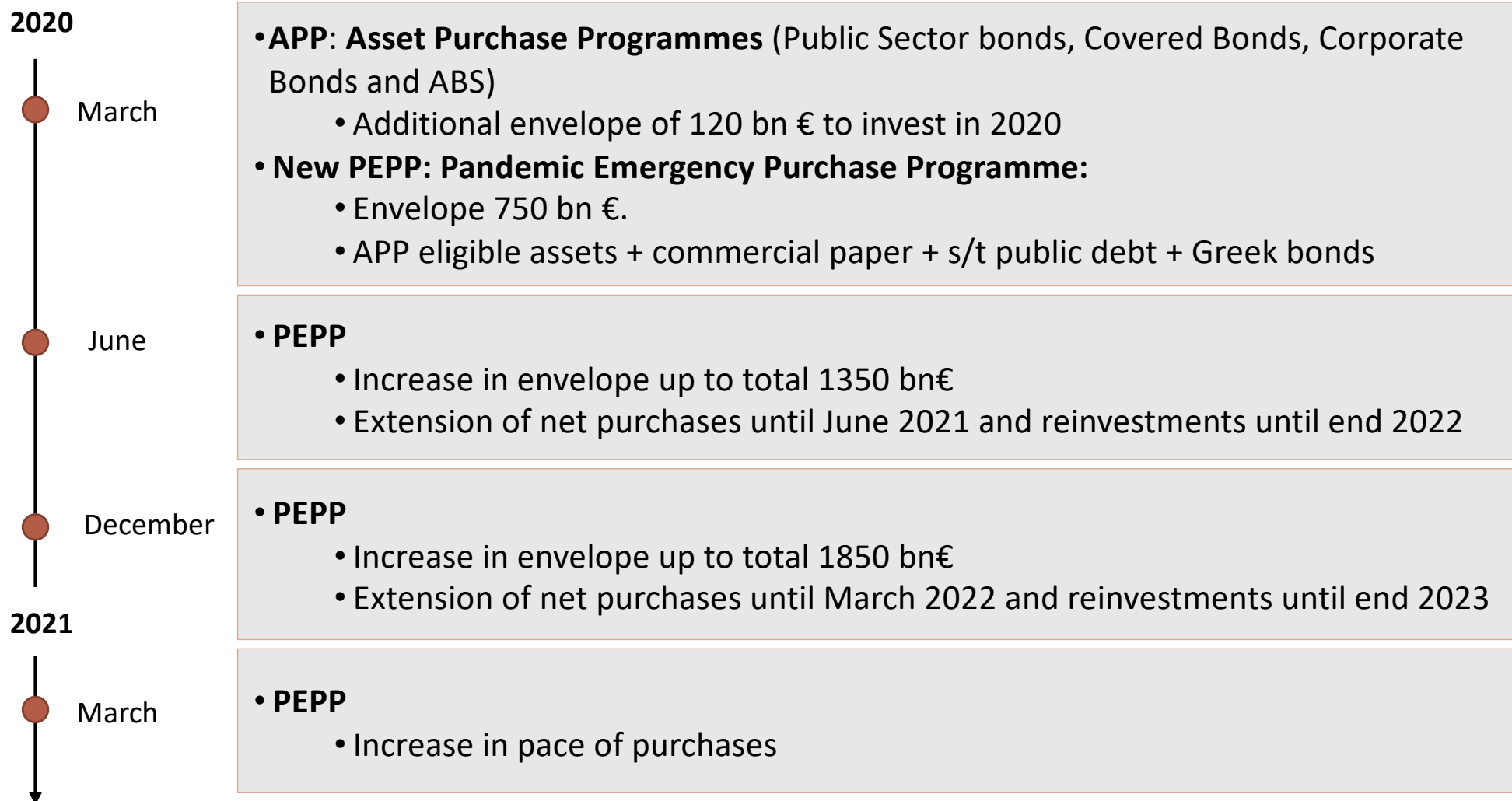


Harmonised Inflation (% y-o-y)



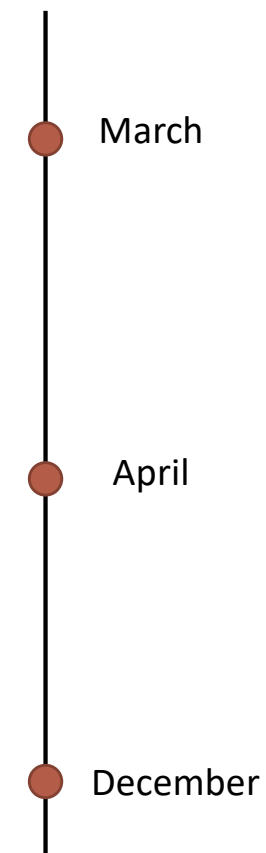
Source: Datastream.

## I. Asset Purchases



## II. Liquidity providing operations

2020



March

- Additional **Longer Term Refinancing Operations (LTRO)** at DFR rate
- Improvements in **Targeted Longer Term Refinancing Operations (TLTRO III)** conditions:
  - Rate for period June 20-June 21 as low as DFR-25 bps
  - Increase in borrowing allowance
- 
- Additional **USD liquidity operations**

April

- Improvement in **TLTRO III** conditions:
  - Rate during June 20-June 21 as low as DFR-50 bps
- **Pandemic Emergency Longer Term Refinancing Operations (PELTRO)**

December

- Improvement in **TLTRO III** conditions:
  - Rate during June 20-**June 22** as low as DFR-50 bps
  - Increase in borrowing allowance
  - Additional TLTROs
- Additional **PELTROs**

2021



## III. Collateral framework

2020



April

- **Collateral easing Measures:**
  - Reduction in haircuts applied in securities and loans posted as collateral
  - Grandfathering of securities downgraded below Investment Grade
  - Expansion of eligible loans (in particular to Covid related loans)

December

- Extension of **collateral** easing measures until June 2022

## IV. Fx swaps & repo lines with Central Banks

2020



March

- Coordinated action of 6 CBs (ECB,US,CA,JP,CH,UK) for **USD liquidity provision**
- Reactivation **swap line** with CB of Denmark

April

New **swap lines** with CBs of Croatia and Bulgaria

June

- **Repo Line** with CB of Romania
- **EUREP:** new temporary repo facility to provide EUR to non Euro Area CBs

July-Nov

**Repo Lines** with Albania, Hungary, Serbia, San Marino and North Macedonia

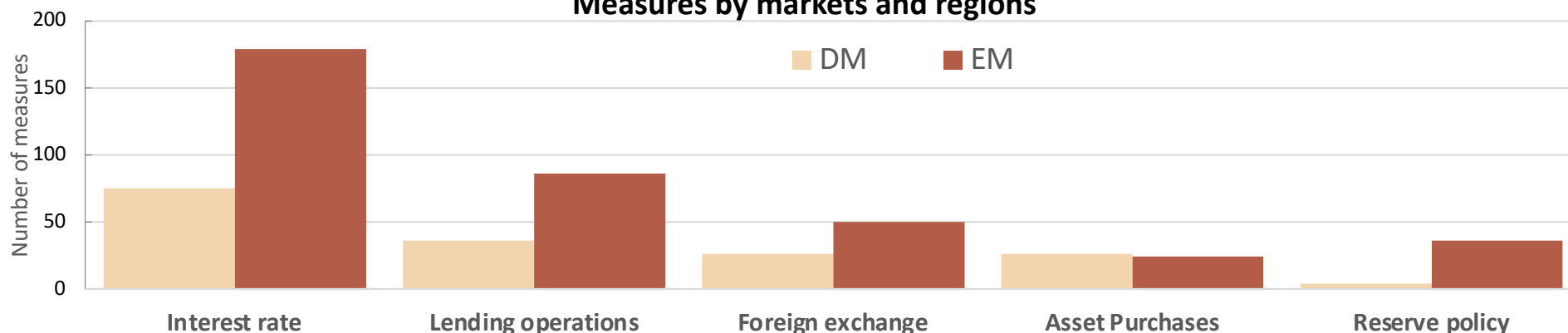
December

- Extension of swap & repo lines and EUREP until March 2022

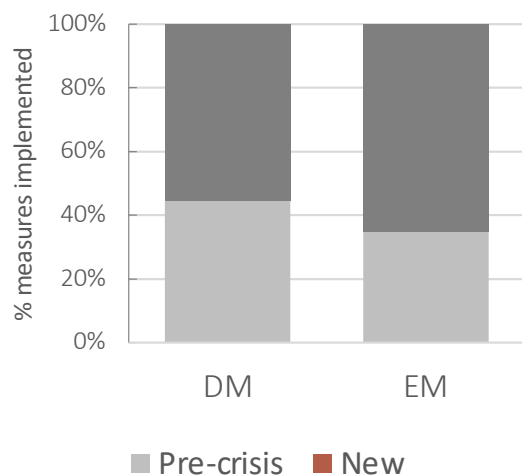
# MONETARY POLICY MEASURES NOT DIFFERENT FROM THOSE ADOPTED IN OTHER JURISDICTIONS

There has been a widely use of new **Lending Operations**, interest rate **cuts**, **asset purchases** and **Swap Lines\*** across regions

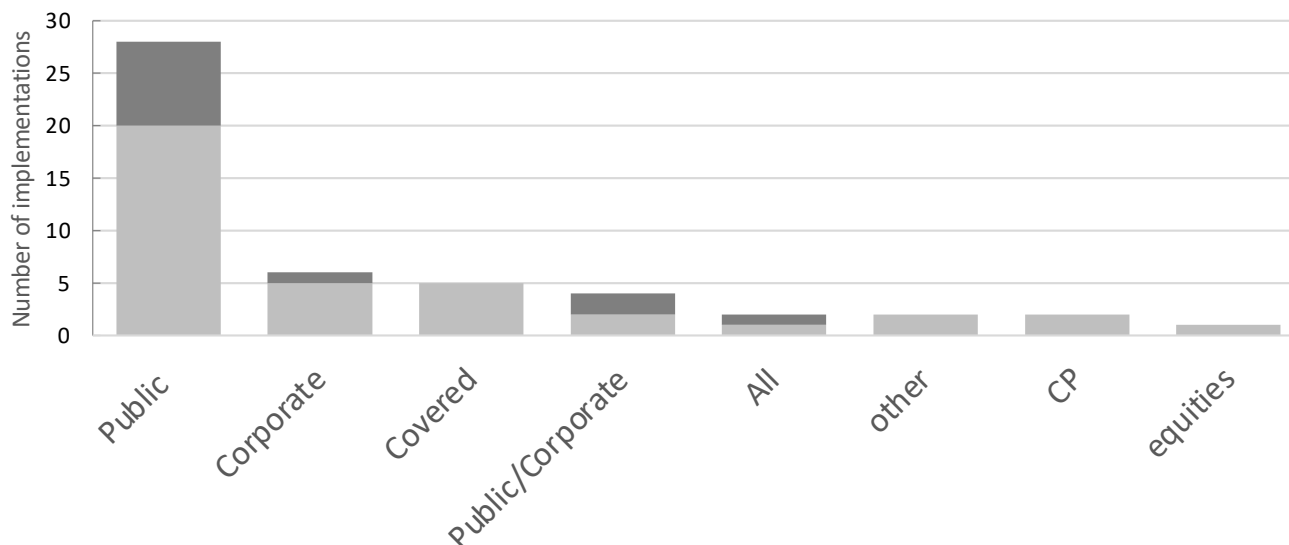
Measures by markets and regions



Lending operations

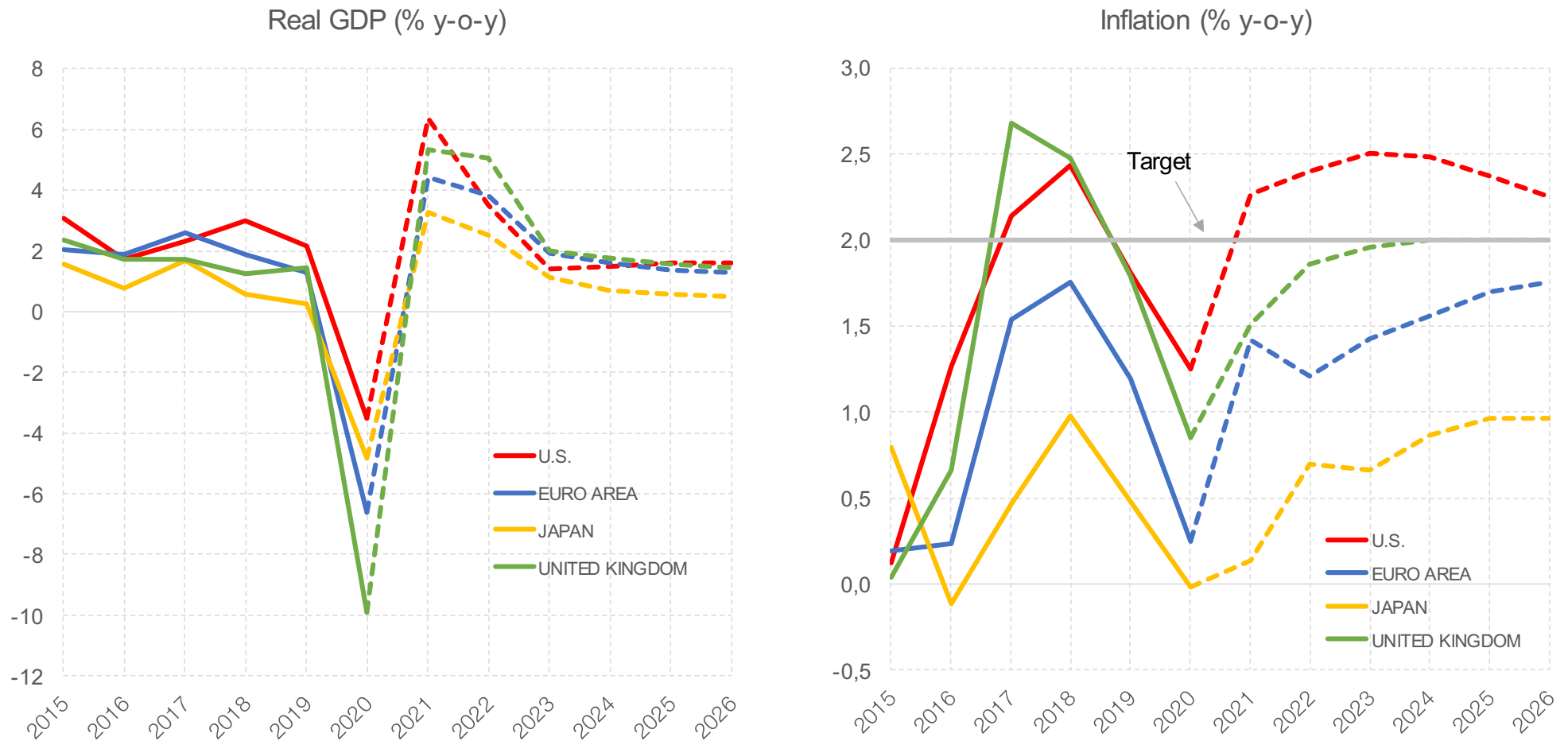


Purchase Programs

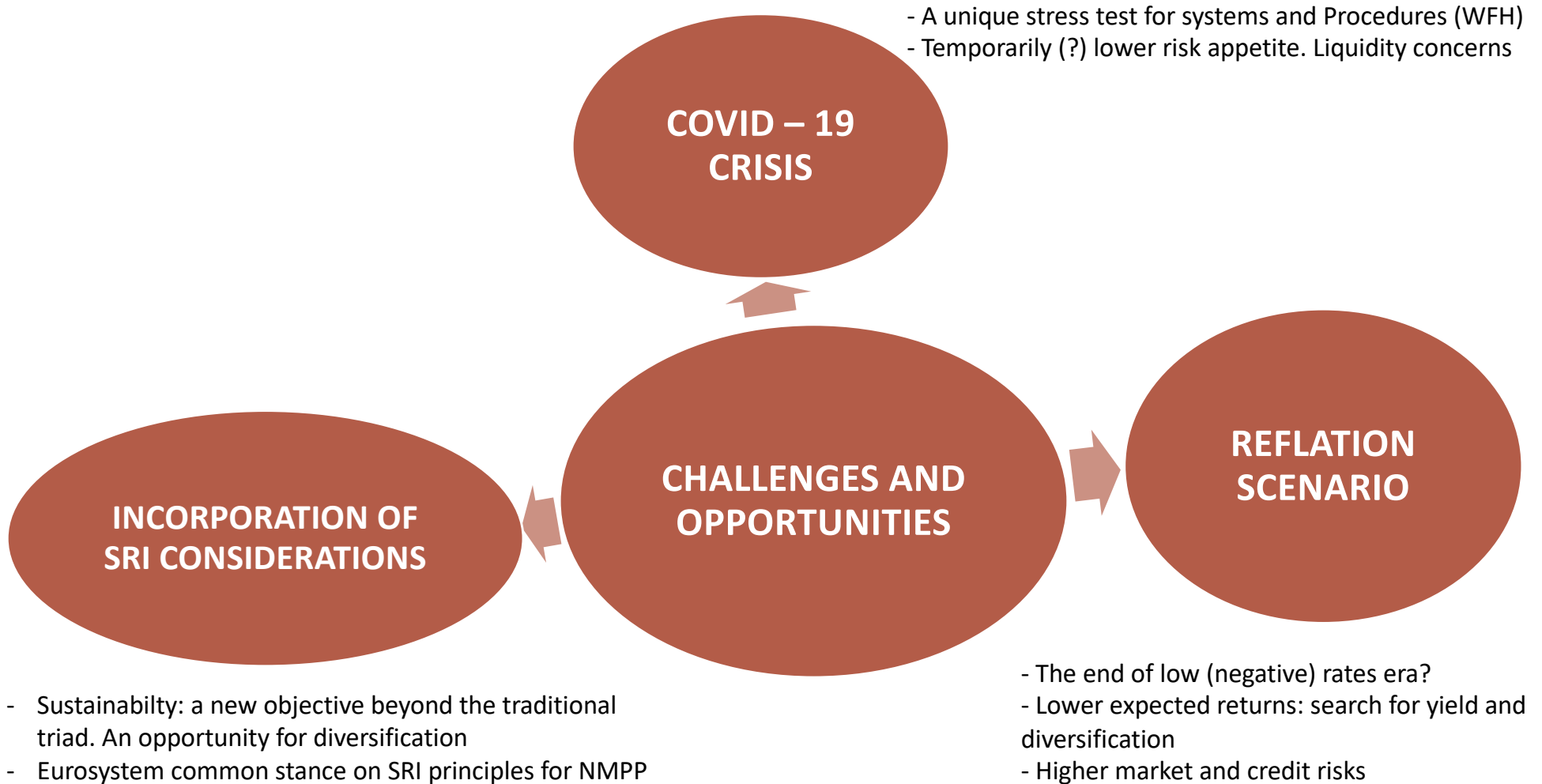


Source: Central Banks. **DM**: developed Markets, **EM**: emerging Markets. Pre-crisis: measures taken before Covid-19. \*Swap lines are included in Foreign Exchange

Projections point to a global economic recovery in the short term.

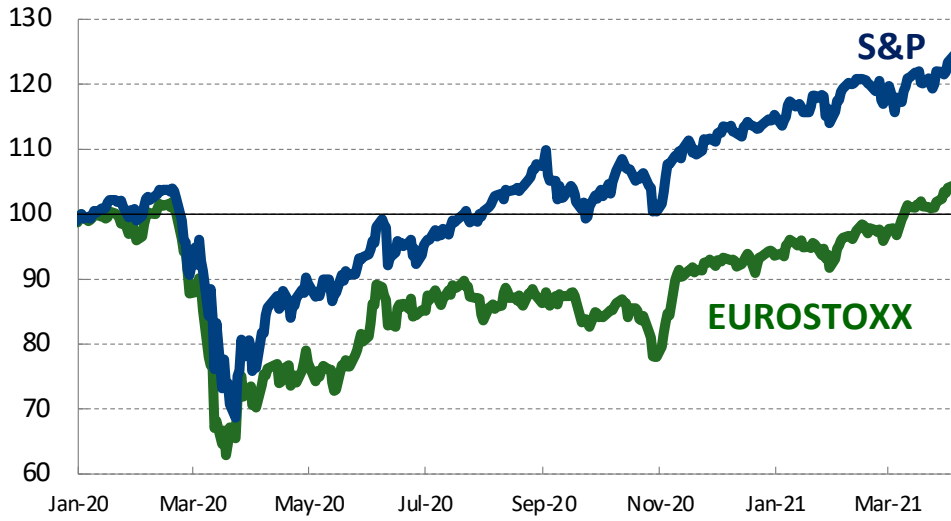


Source: IMF World Economic Outlook April-2021.

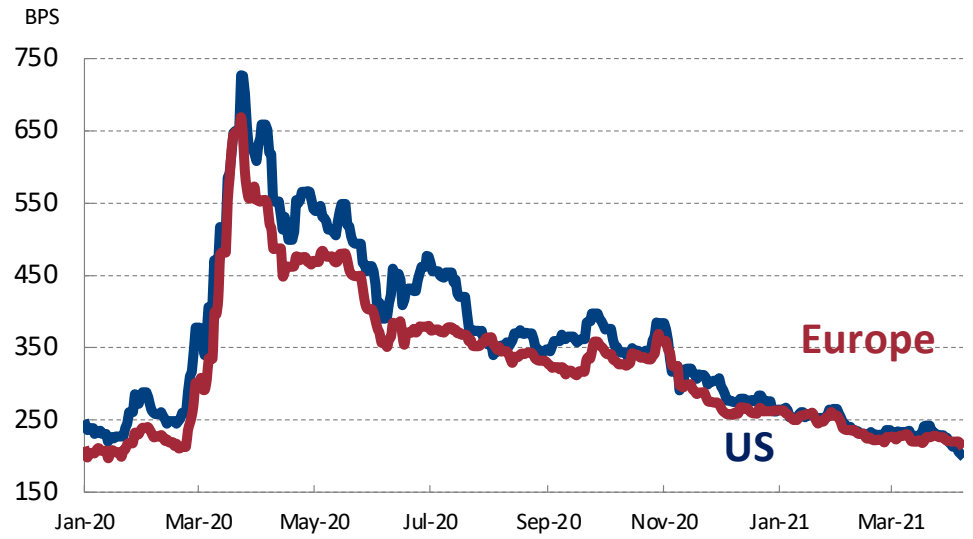




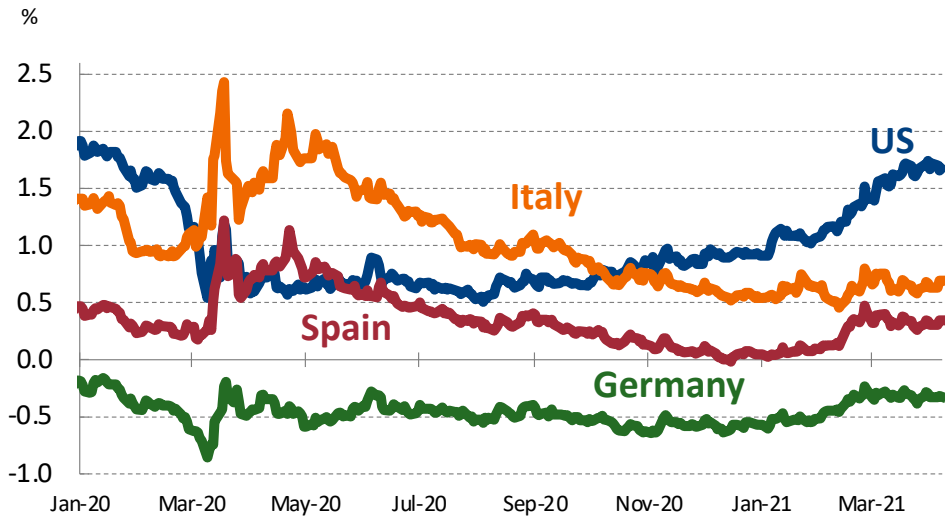
Equity normalized as of January 2020 (INDEX 100)



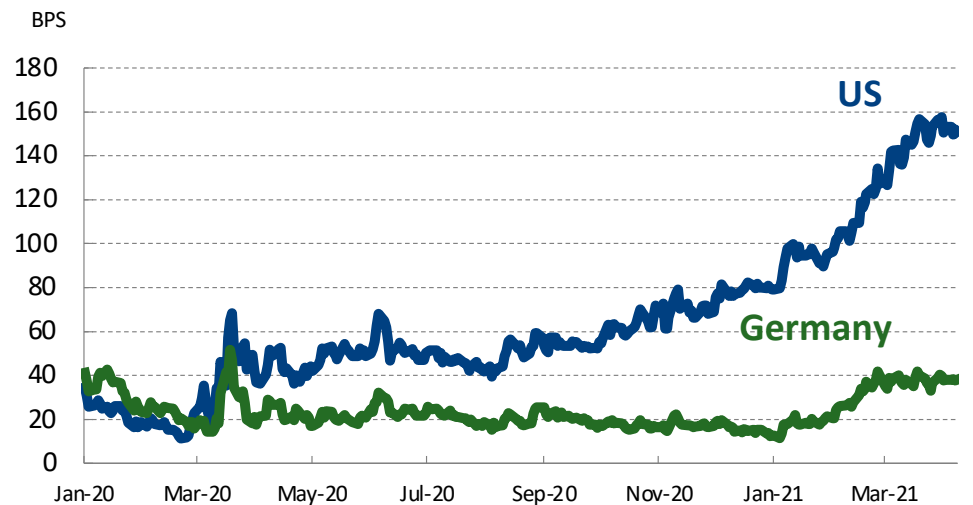
SPREAD HY-IG (Bloomberg Barclays)



10-year sovereign bonds



2y10y Yield Spread



Source: Bloomberg

- **Challenging typical reserve management:**
  - ✓ Lower expected returns
  - ✓ Higher tolerance for both market and credit risks in a (still) low volatility context
  
- **Reinforcing the need for:**
  - Defensive strategies: lower duration & HTM portfolios, FRNs, TIPS, +MM activity
  
  - Keep on diversification efforts (assets & currencies) despite changing correlations
  
  - Return enhancers: Sec Lending, Hedged Swaps...
  
  - More active management
  
  - External mandates as diversifiers

- **Climate change and NGFS recommendations:** one of the greatest challenges for this century and a source of financial risk for central banks, who have accelerated action towards Climate Change mitigation
  
- **The Eurosystem central banks have agreed on a common stance for applying SRI principles in the euro-denominated NMPP**
  - ✓ aligned with NGFS recommendations
  - ✓ promotes disclosures and understanding of climate-related risks
  - ✓ Eurosystem to start climate-related disclosures for some NMPP in the next 2 years, using TCFD recommendations
  
- **Banco de España has subscribed to the Eurosystem common stance**
  - In 2018, BdE joined NGFS and in 2019 incorporated SRI principles in NMPP investment framework
  - BdE has direct green bond investments and participates in open-ended investment funds for green bonds launched by the BIS in different currencies

THANKS FOR YOUR ATTENTION

