



EUROPEAN CENTRAL BANK

EUROSYSTEM

# ECB's foreign reserves management

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# Overview

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- 2 ECB's foreign reserves management

# 1

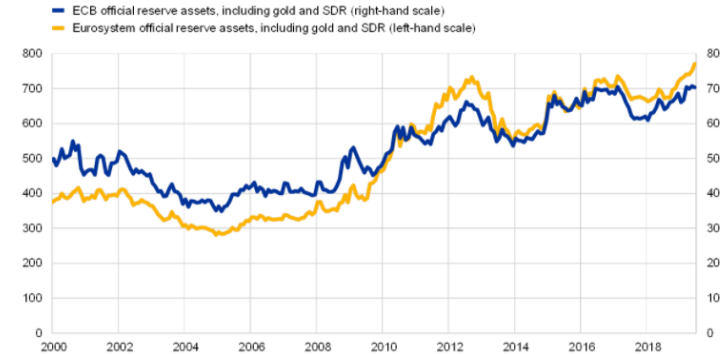
## General information on ECB's foreign reserves

# Origin of the ECB's foreign reserves

- Since 1 January 1999 (launch of the euro)
- Established by transfers of foreign reserves from the national central banks (NCBs) when joining the Eurosystem
  - The last NCB (for now) joined in 2015 (Lithuania)
- The contribution of each NCB is fixed in proportion to its share in the subscribed capital of the ECB
- Further calls of foreign reserve assets may be requested by the ECB
- Each NCB also has its own foreign reserves

Official reserve assets of the ECB and the Eurosystem

(EUR billions, monthly data)



Source: ECB

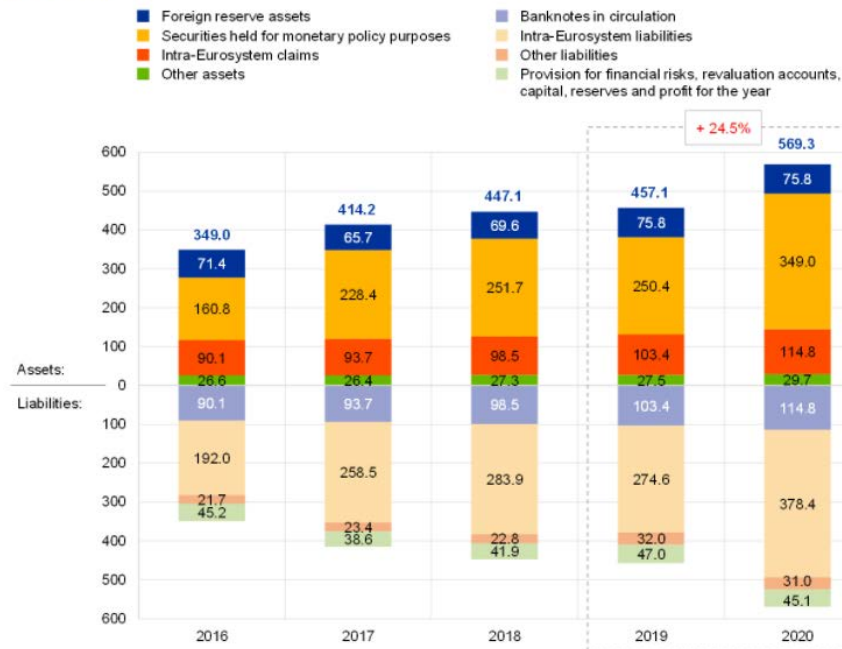
# ECB's foreign reserves mostly consist of foreign currency reserves

- Total reserves: EUR 75.8bn (end-2020)
  - Foreign currency reserves: EUR 50.1bn
  - Gold: EUR 25.1bn
  - SDR: EUR 0.7bn
- Main purpose:
  - to ensure that the ECB can, at any time, conduct foreign exchange operations, if needed
  - Very few FX interventions so far (some coordinated):
    - September and November 2000
    - 18 March 2011 (earthquake in Japan)

# ECB's foreign reserves as shown on the ECB's balance sheet

## Main components of the ECB's Balance Sheet

(EUR billions)



← Foreign reserves

# US dollar is the main component of the ECB foreign currency holdings

## Foreign currency holdings

(EUR billions)



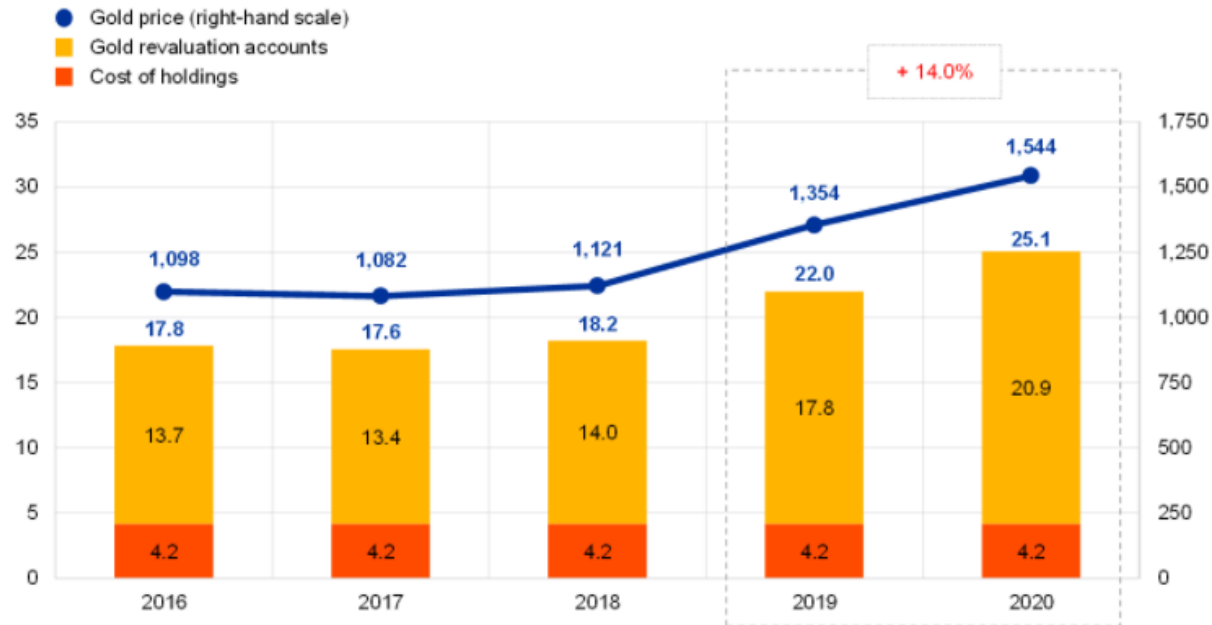
Currency composition:

- USD: 76%
- JPY: 23%
- CNY: 1% (since 2017)

# Gold is not actively managed, holdings have been increasing due to the increasing price

## Gold holdings and gold prices

(left-hand scale: EUR billions; right-hand scale: euro per fine ounce of gold)

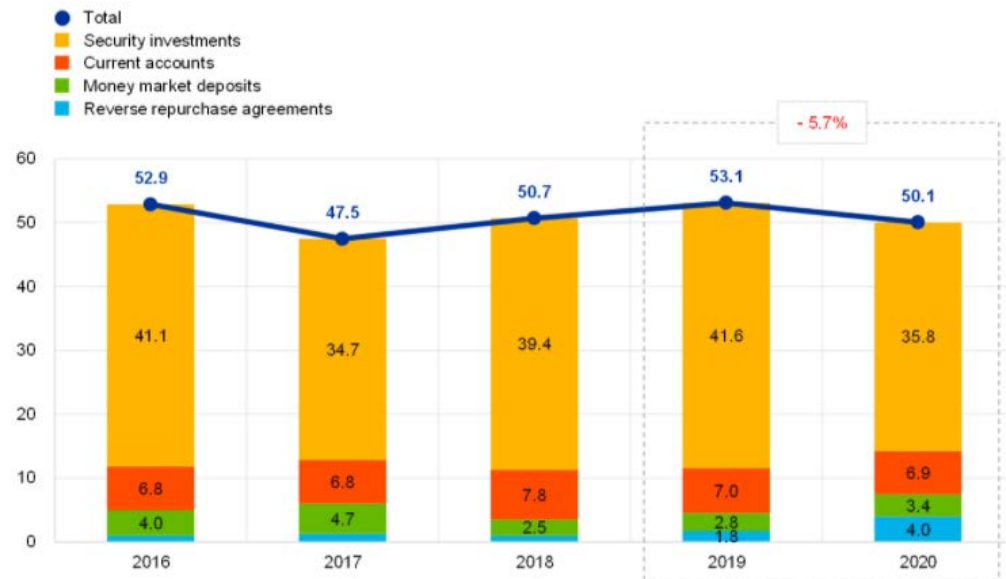




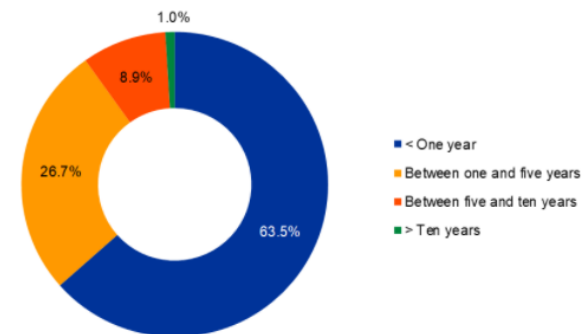
# Foreign currency reserves invested in highest quality instruments with relatively low residual maturity

## Composition of foreign currency investments

(EUR billions)



## Maturity profile of foreign currency-denominated securities



Eligible instruments:

- Government bonds
- Supras, agency bonds
- Commercial bank deposits
- Repos, reverse repos
- Certain derivatives

# 2

## ECB's foreign reserves management

# Liquidity the most important principle, decentralised management

- Main principles in the order of importance:
  - **Liquidity** – has priority in order to fulfil the main purpose
  - **Safety** – high creditworthiness of the issuers and the relatively short duration
  - **Return** → active portfolio management with incentives to make use of risk budget
- Involvement of the ECB + all Eurosystem NCBs
  - NCBs act as agents of the ECB → “internal external” managers
  - Dedicated working group

Country	Capital key
Germany	26%
France	20%
Italy	17%
...	
Cyprus	0.2%
Malta	0.1%

# The management of ECB's foreign reserves has three layers



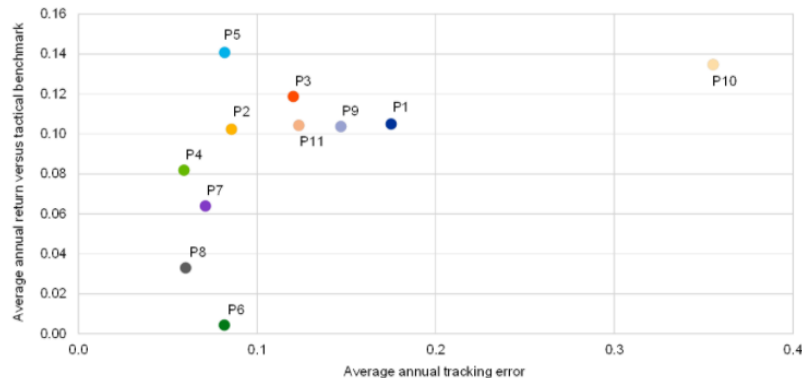
Internal target for outperforming the SB set each year for each currency → important element in the overall performance of ECB portfolio managers

# Actual management (3<sup>rd</sup> layer) and its incentives to outperform the TB

- Returns measured against the tactical benchmark
- Some pooling arrangements
- Diversification of portfolio styles
- Performance-based ranking of NCBs
  - Provides for competition
  - Important tool in fostering risk-taking
  - Monthly ranking
  - At the end of each year the final ranking is shared with GovC
- Benefits: information sharing, promoting best practices

Risk and return in NCB portfolios for the USD portfolio

(percentage points, annual averages 2006-18)



**Result:** Over time, all active layers have made a positive contribution to the SB returns for all reserve currencies

# Prudent risk management

- Centralised: ECB's independent risk management function
- Various limits: individual issuer limits, sector limits etc.
- Active portfolio management (2<sup>nd</sup> and 3<sup>rd</sup> layer) takes place within a specific risk budget
- Defined in terms of relative value-at-risk (VaR)
- Minimum usage target set for the relative VaR budget
- The risk usage is monitored and discussed periodically

Thank you!

