

Session 5:
Role of Liquidity in the Management of FX Reserves

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ROLE OF LIQUIDITY IN THE MANAGEMENT OF FX RESERVES

OUTLINE

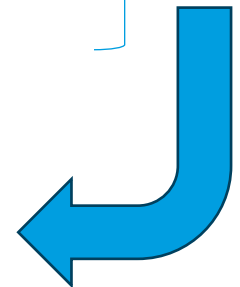


- Objectives of holding foreign exchange reserves
- Internal model for determining the minimum level of liquidity
- Liquidity limits
- Definition of liquid assets
- Portfolio structure
- External liquidity sources

OBJECTIVES OF HOLDING FX RESERVES

- Ensure a level of reserves that meets the expectations of market participants (“international collateral”)
- Support monetary and exchange rate policy (providing intervention capacity)
- Provide foreign exchange liquidity to the banking system
- Secure the government’s foreign exchange needs for transactions

Liquidity element



BUILDING BLOCKS OF FX LIQUIDITY NEEDS

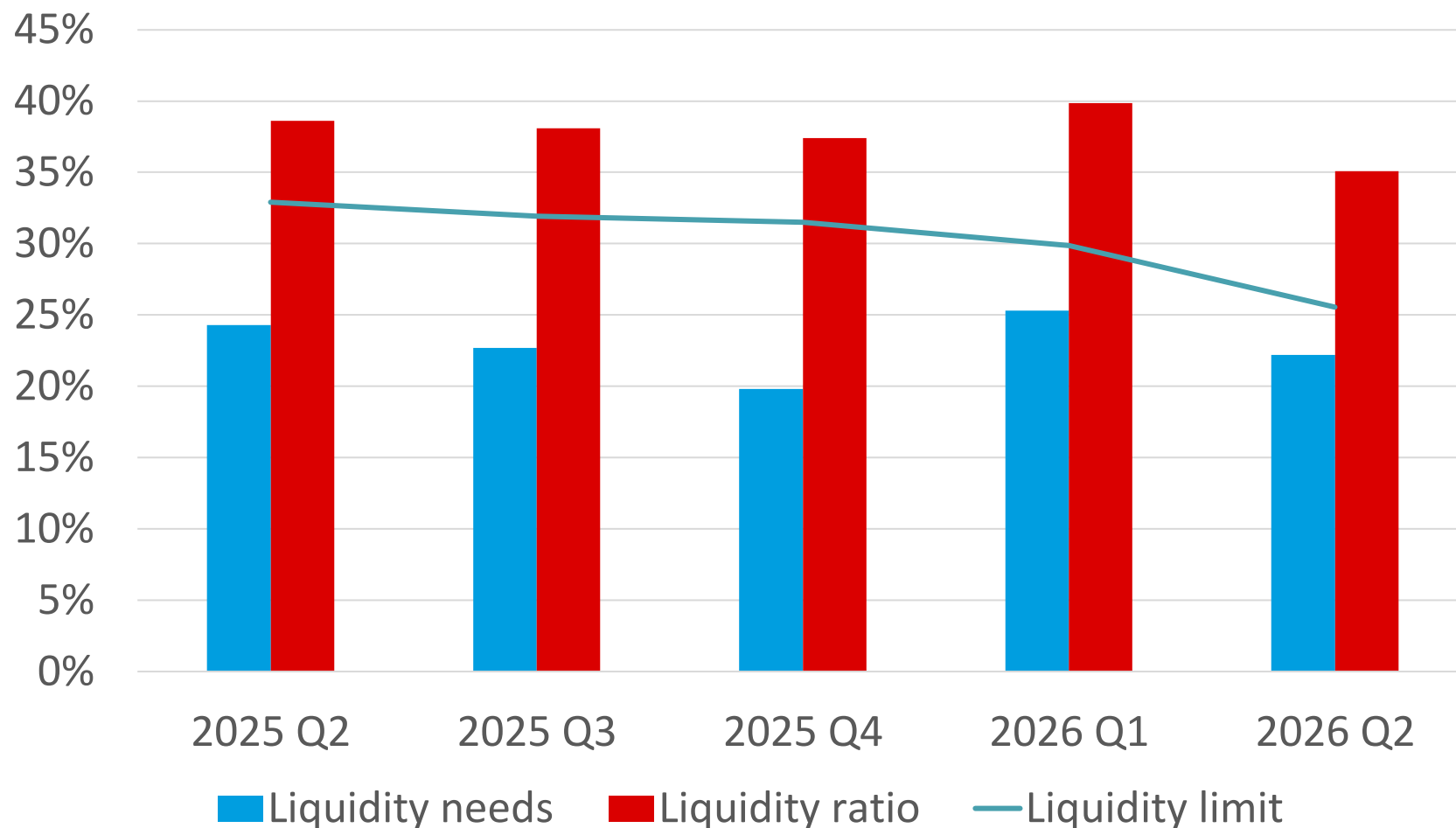
- Potential FX markets intervention
- Liquidity needs of the state
- Margin requirements
- Banking system's foreign exchange swap market position
- Banking system's short term foreign debt

- A nominal limit set by the MPC

THE BANK'S LIQUIDITY MEASURES



% of the total reserves



PORTFOLIO STRUCTURE

- HQLA assets: cash, short term MM, certain government bonds
- Tranching
 - Short term portfolios
 - Government portfolios
 - Investment portfolios

EXTRENAL SOURCES OF LIQUIDITY

- Central Bank repo and FX swap facilities: BIS, Fed, ECB, PBoC
- Market repo
- Differences in several aspects
- Main advantage: no effect on the level of the reserves

Thank you for you attention!