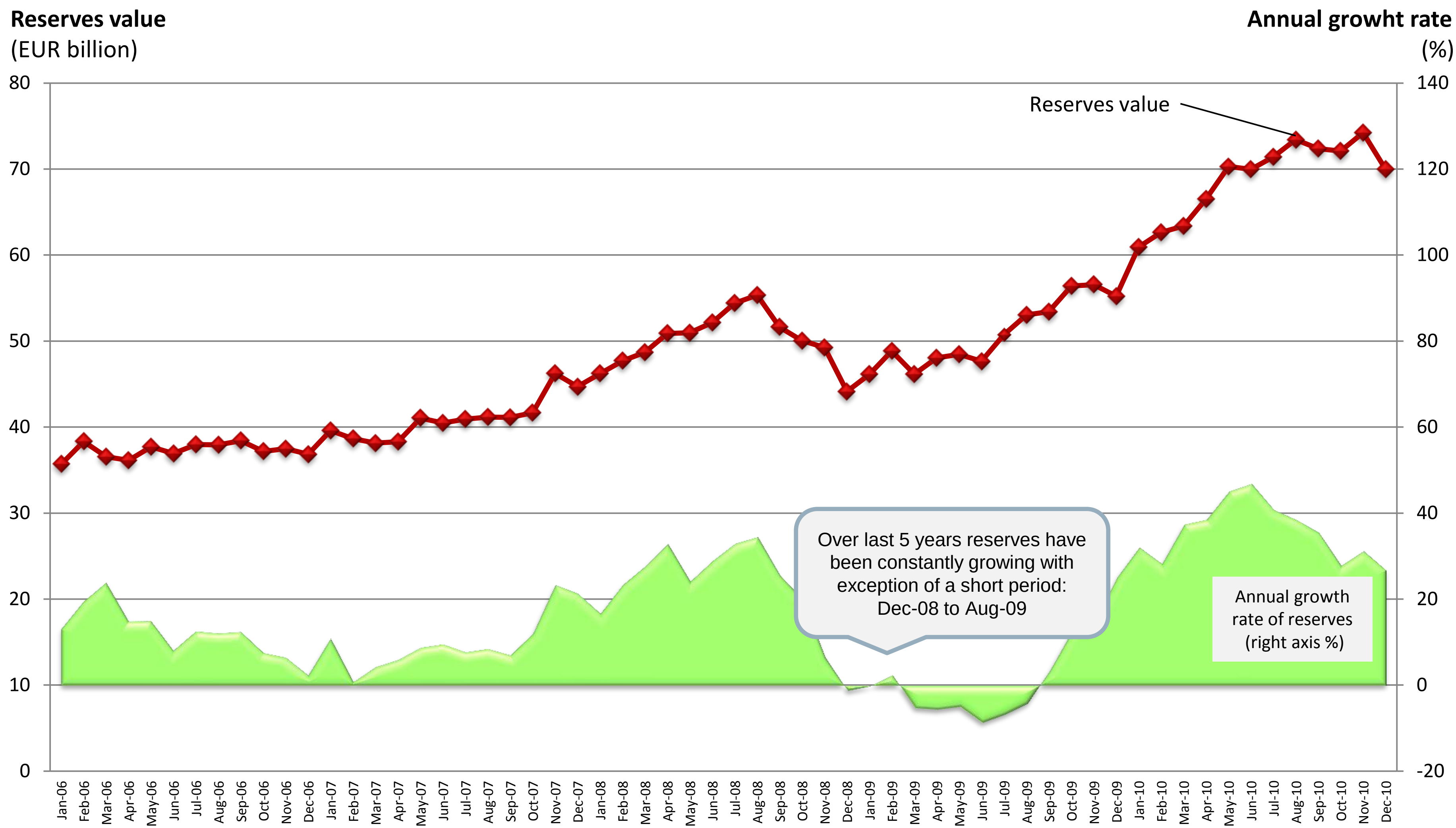
# FOREIGN EXCHANGE RESERVES OF THE NATIONAL BANK OF POLAND

Overview

December2010/January 2011

**Intelace Research**

# FOREIGN EXCHANGE RESERVES OF THE NATIONAL BANK OF POLAND ARE GROWING QUICKLY





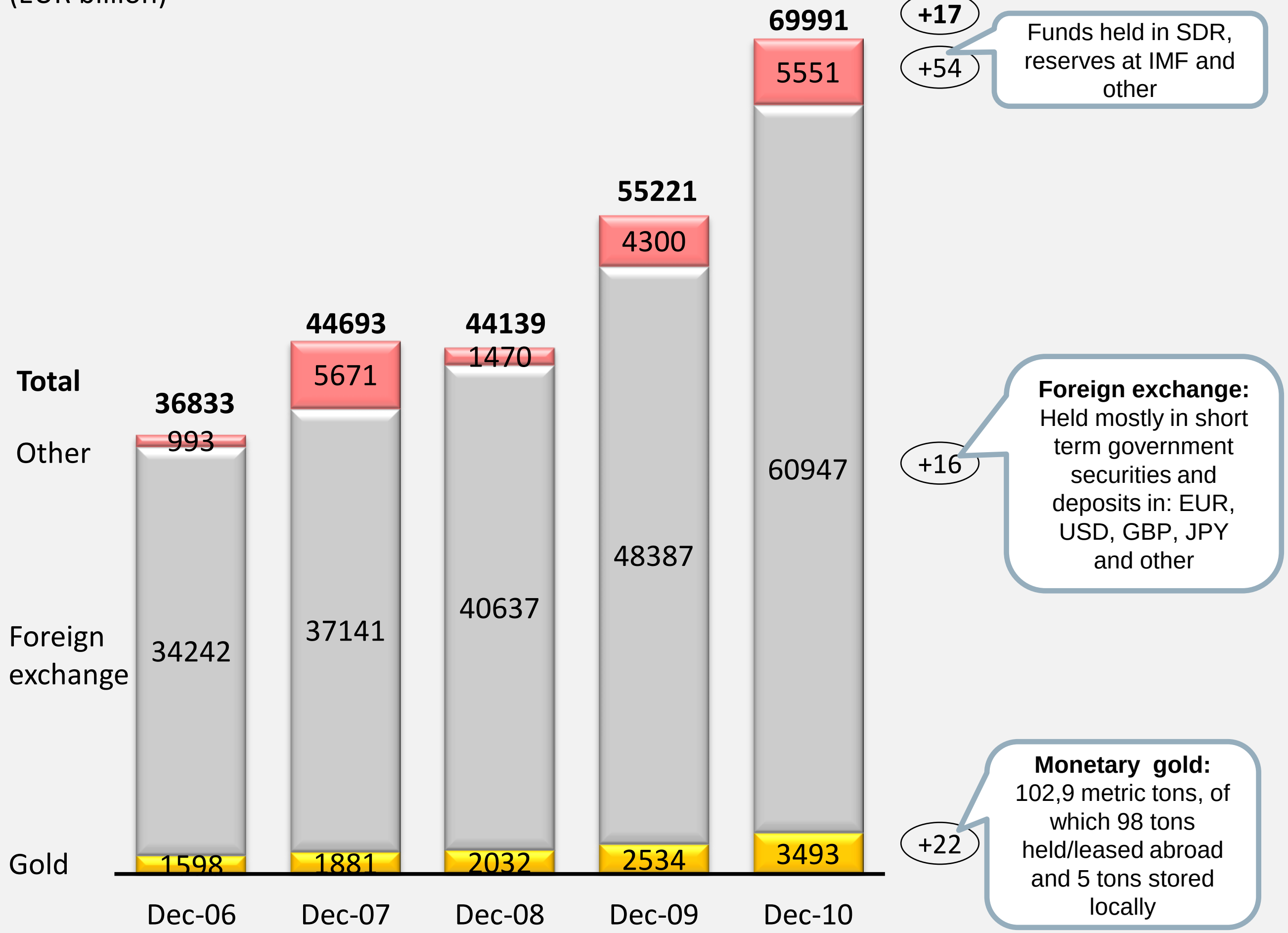




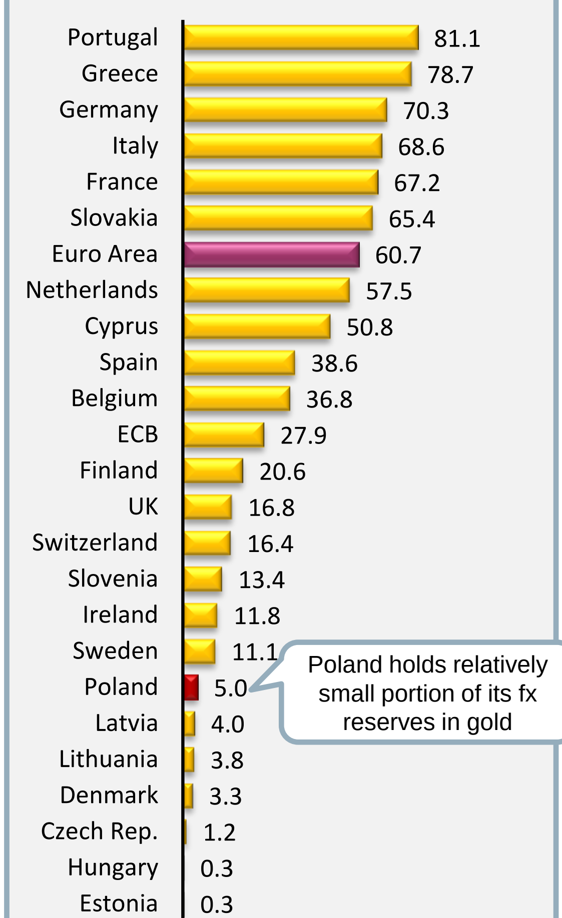

Source: NBP, Intelace Research

# MOST OF RESERVES IS HELD IN SHORT TERM GOVERNMENT SECURITIES DENOMINATED IN EUR, USD, JPY, GBP AND OTHER

**Composition of foreign exchange reserves, 2006-2010** (EUR billion)




**Share of gold in fx reserves by country, As of 2010** (in percent)






**GOLD WAS THE BEST PERFORMING ASSET WITHIN RESERVES IN THE LAST 5 YEARS**

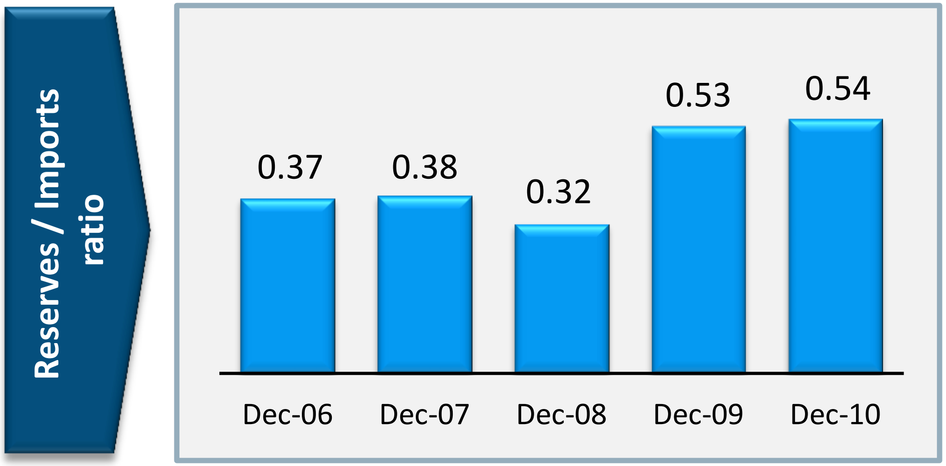


* Compound annual growth rate

Source: NBP, Intelace Research

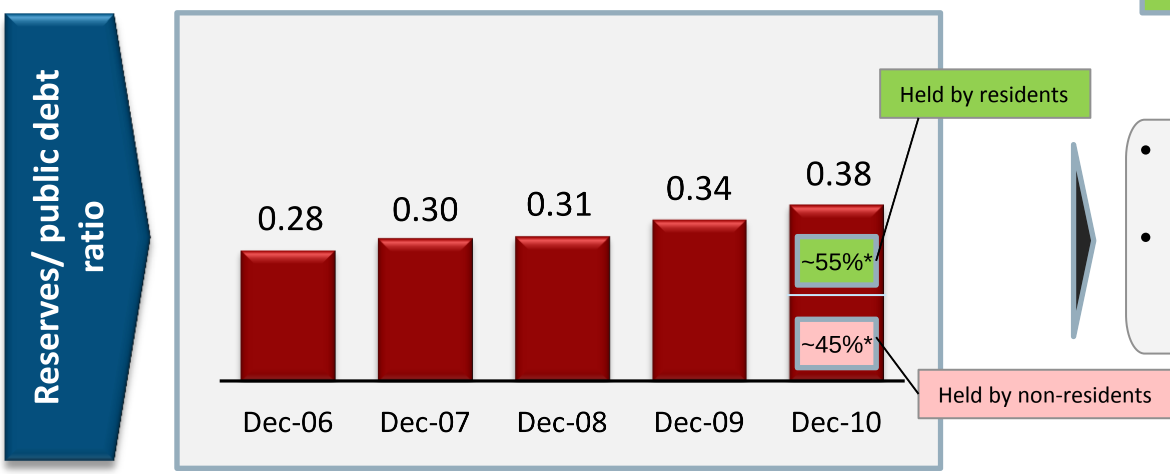
# FOREIGN EXCHANGE RESERVES ARE ON A SATISFYING LEVEL IN RELATION TO BOTH IMPORTS AND PUBLIC DEBT






- Ratio of fx reserves to imports is increasing over the long term
- Fx reserves could cover more than six months' worth of imports

Adequate level of foreign exchange reserves




- Ratio of fx reserves to public debt is also increasing
- Fx could cover more than 80% of public debt held by non-residents

*Estimates according to Ministry of Finance

Source: NBP, Intelace Research

# IF ADOPTING EURO, THE POLISH CENTRAL BANK WOULD NEED TO TRANSFER ~6%* OF ITS TOTAL FX RESERVES TO ECB



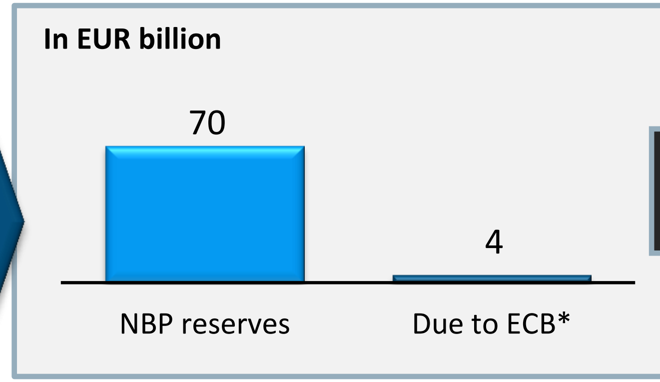


When adopting Euro the National Bank of Poland will need to transer part of its reserves (fx and gold) to ECB. In particular NBP will need to :

- *Pay its share in the capital of the ECB*
- *Contribute to ECB foreign exchange reserves in foreign currencies and gold*
- *Contribute to ECB other reserves and provisions*

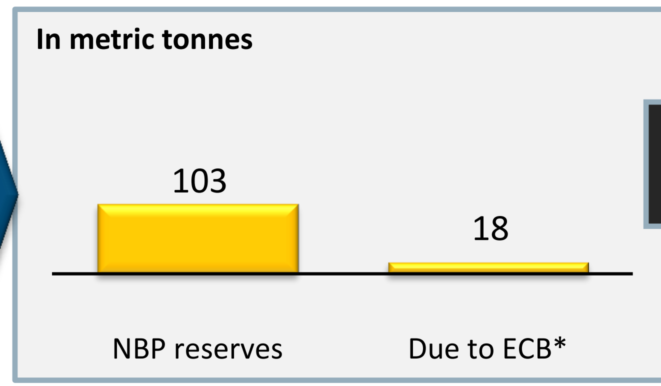
In total:
~ 4,5* billion EUR

**In foreign currency ) USD, JPY** etc.)**




~ 5.5%

**In monetary gold**




~ 17.5%

**As percent of total NBP fx reserves and monetary gold:** ~ 6.4%

* Estimation as of 1 January 2011
** To be negotiated between NBP and ECB
Source: NBP, Intelace Research

# FOREIGN EXCHANGE RESERVES MANAGEMENT: KEY CHALLENGES

## Key Challenges

### 1 Changes in global economy

- Countries like USA and Japan are loosing their financial superpower status. At the same time the role in the global economy of China, India and many countries in South-East Asia and South America is growing rapidly.
- China already surpassed Japan as the world's second-largest economy in 2010. According to economic institutes* China will surpass USA in terms of nominal GDP around the year 2018.

### 2 Changes in risk patterns

- High public debt levels combined with weak economic growth ratios increase sovereign default risks. Ratings of major economies go down (eg. S&P cut the credit rating of Japan from AA to AA- in Jan. 2011). Also the US is likely to lose its triple-A soon, due to large budget deficits.
- Multiple asset classes including mortgage backed securities, municipal debt etc., are today perceived much more riskier than ever.
- No riskless assets. Need to accept the risk of either default or inflation

### 3 Risk of inflation

- Several large central banks including Federal Reserve, Bank of Japan, Bank of England and also ECB have exhausted their traditional policy instruments by cutting interest rates to near zero. Pressured for further move in reviving economies, central banks are implementing non-standard policy measures (direct asset purchases) on a smaller or larger range. Unfortunately this policy is likely to ignite high inflation at some point.

### 4 Gold and commodities as reserve assets

- Central banks of advanced economies stopped sales of gold holdings and do not use limits allowed by the third „Central Bank Gold Agreement „
- Central banks in emerging economies (e.g. China, Russia, India) are adding gold to their reserves since trust in quality of traditional reserve currencies (USD, JPY) is falling
- Gold is still the key part of foreign reserves for many developed countries (Germany: 70%, Italy 69%, France 67%, Spain 38%)

## Implications for NBP

FOR DISCUSSION

- Need to rebalance foreign exchange reserves according to present and expected role of Issuer's country in the global economy
- Consider adding assets issued in South-East Asia and South America. Consider adding new assets from low-debt emerging markets
- Consider higher exposure to assets in commodity rich/exporting countries
- Further increase holdings denominated in EUR in relation to US$ and JPY
- Reduce holdings of assets that are already loosing or may soon loose value due to inflation (e.g. assets denominated in US$ ). Take exceptionally rigorous risk-based approach to securities issued by countries where non-standard policy measures are implemented on a large scale.
- Consider increasing holdings of monetary gold and adding commodity related investments



* eg. The Economist 2010
Source: Intelace Research