

What Is Tomislav Thinking?



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Let's Invite Randy
To D.E.C.



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Let's Make Him
Discuss a Topic He
Knows Absolutely
Nothing About



Comments on Kathryn Dominguez

Randall K. Filer
CUNY and CERGE-EI

Papers focus on Reserve (defined as QUANTITY (LEVEL)) and Exchange Rate changes

I know the work is preliminary – I suggest where to go next is to think about COMPOSITION as an equally important policy decision

“valuation changes [are] the
passive component...”

Oversimplifies

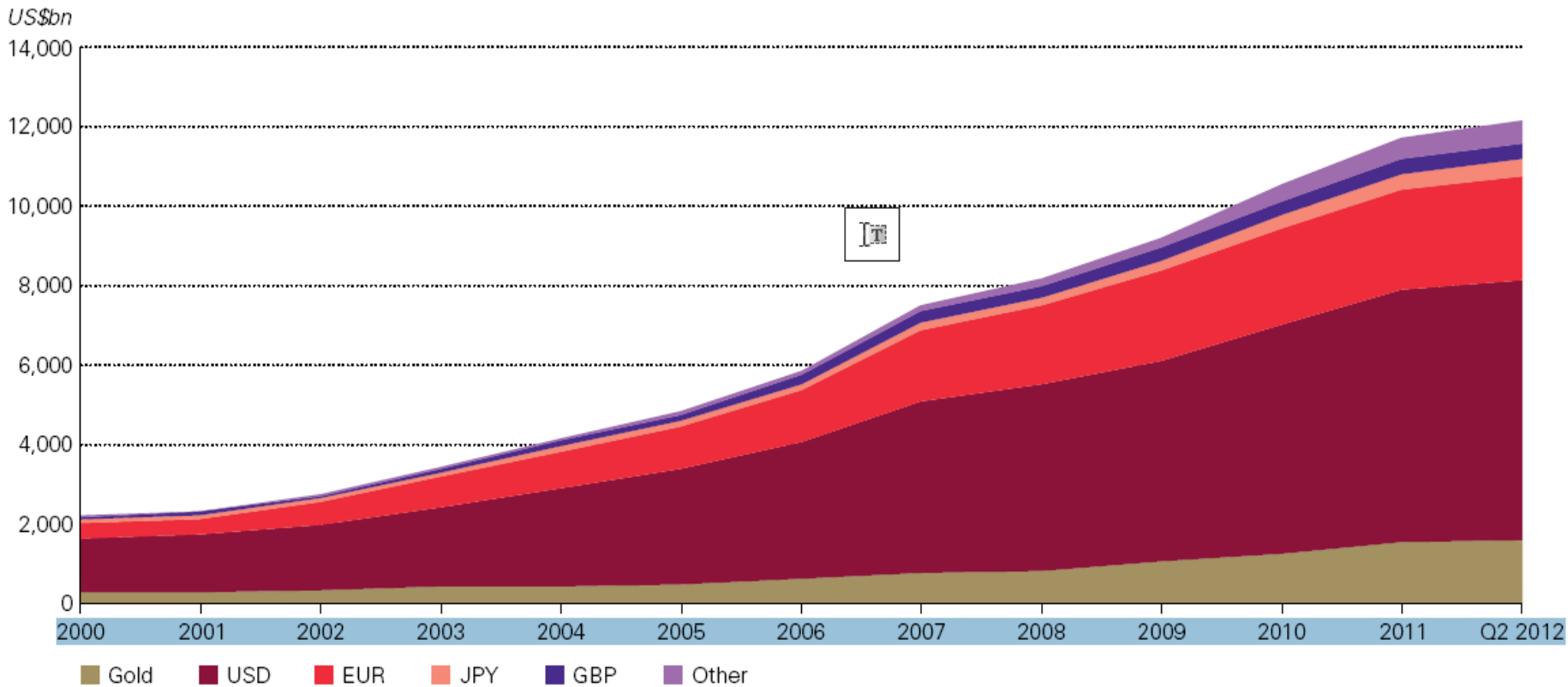
- Pre-Crisis Composition (and resulting change) is also an active policy decision.
- Jointly made with Expectation of vulnerability, choice of exchange rate regime, expected costs of capital controls, and possible alternatives.
- Management of exchange rate regime may not be free parameter. Some “floaters” have limited ability due to expected future actions (planning for ERM2/Euro Accession)

All “Passive” Changes in Valuation Are Not Equal

- From the point of view of Laos there is limited flexibility – you are a price taker and can only decide target reserve level and composition.
- From the point of view of the BoC the value of your reserves, conditional on the composition, depends on your own active interventions in the Euro, Dollar, Yen and Gold markets.
- In NO WAY Passive
- Needs to be modeled as a full strategic game

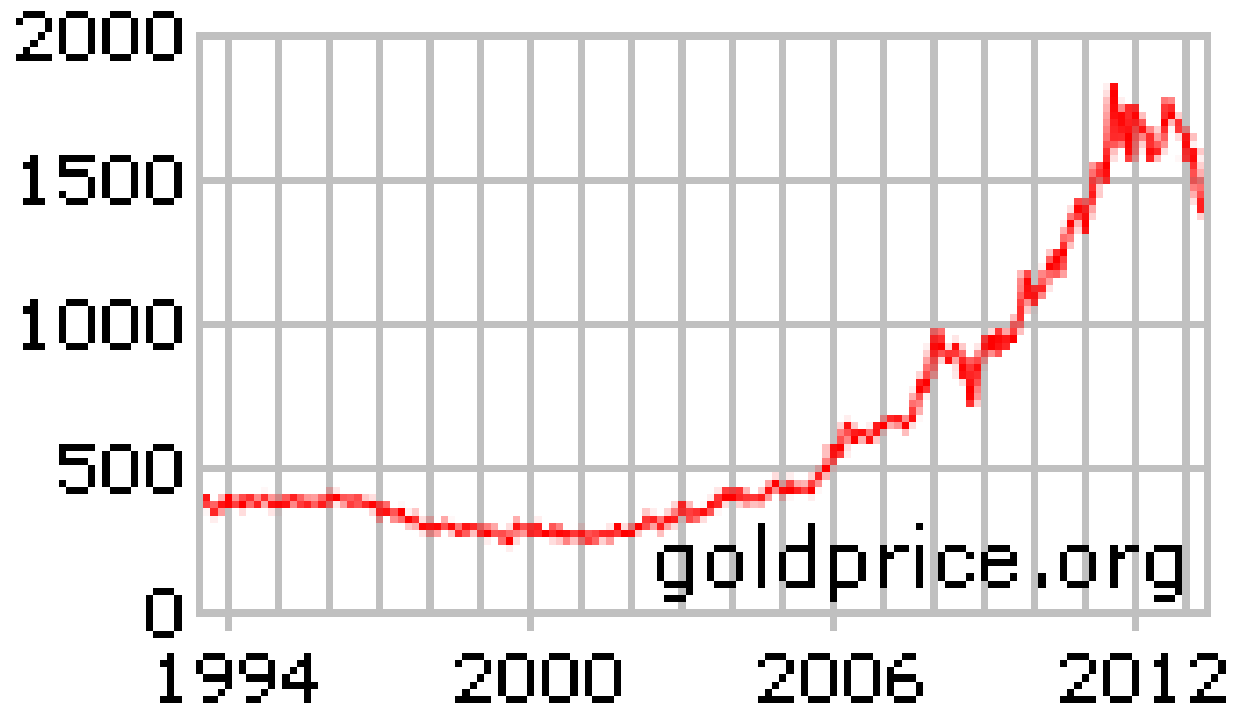
Composition of Reserve Portfolios

Chart 1: Official sector foreign exchange reserves and gold

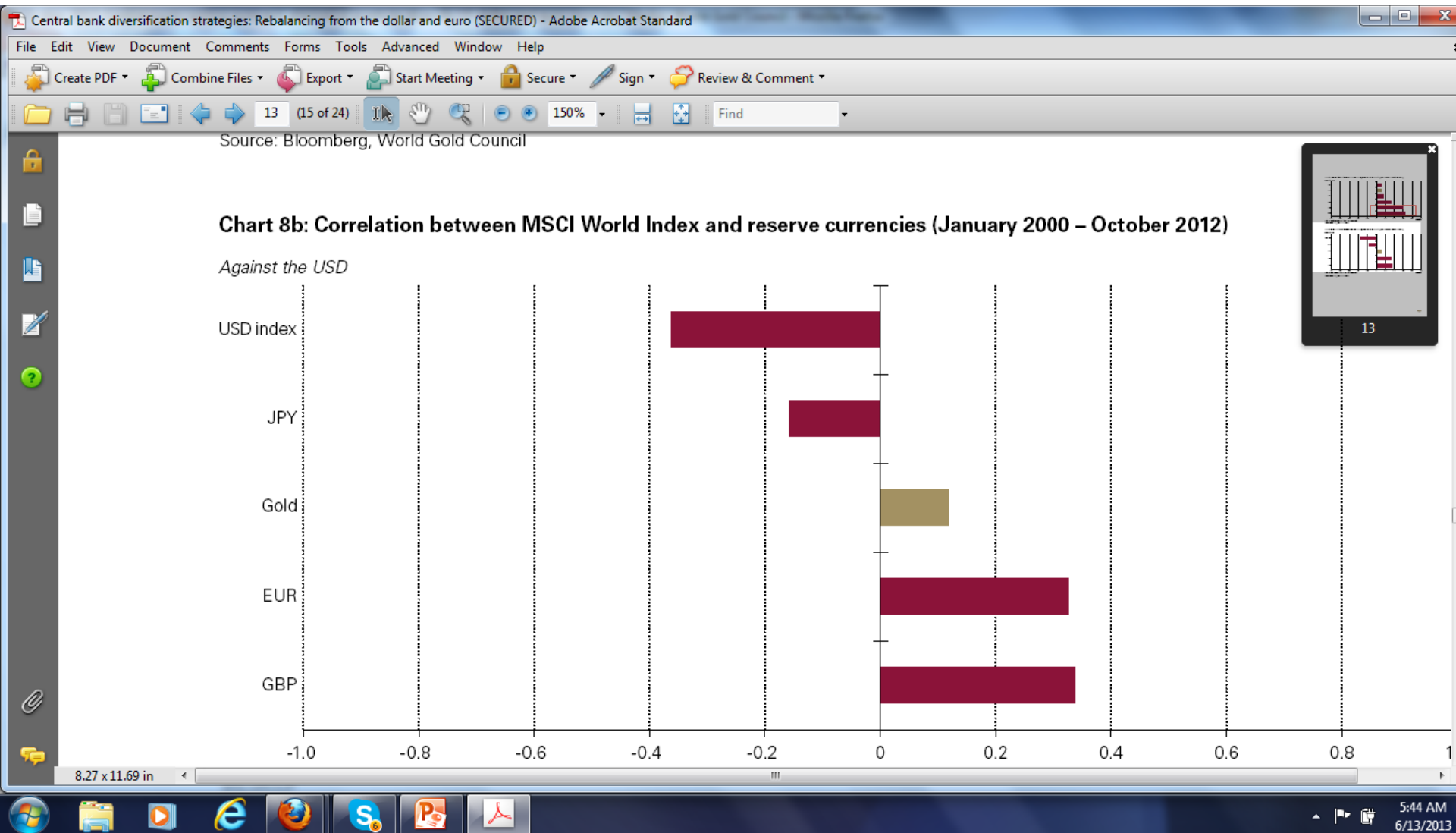


The \$/€ Rate Has Been Much More Stable Than \$/ 

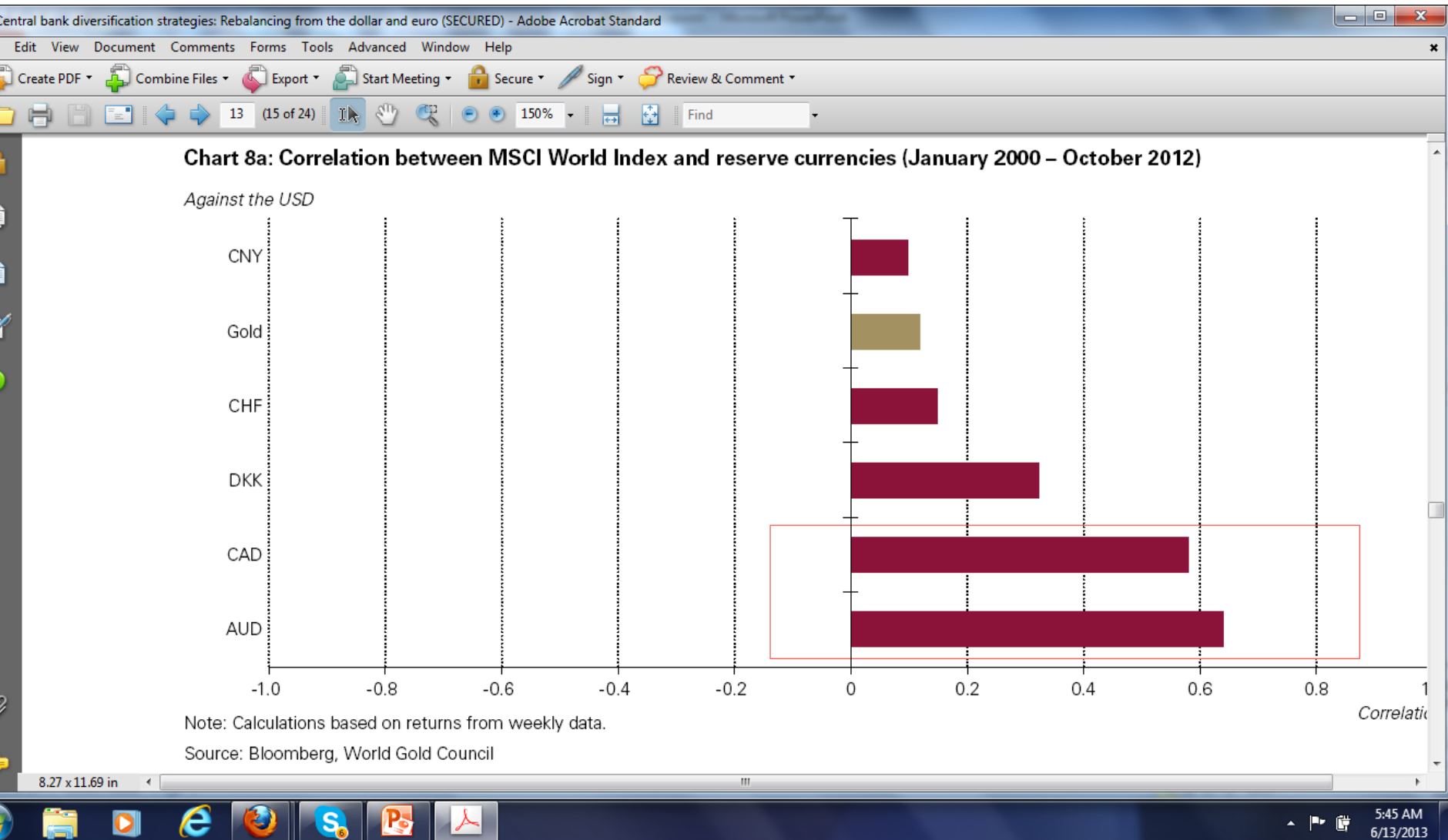
20 Year Gold Price in USD/oz



Traditional \$ or ¥ Reserves Protect in Crisis



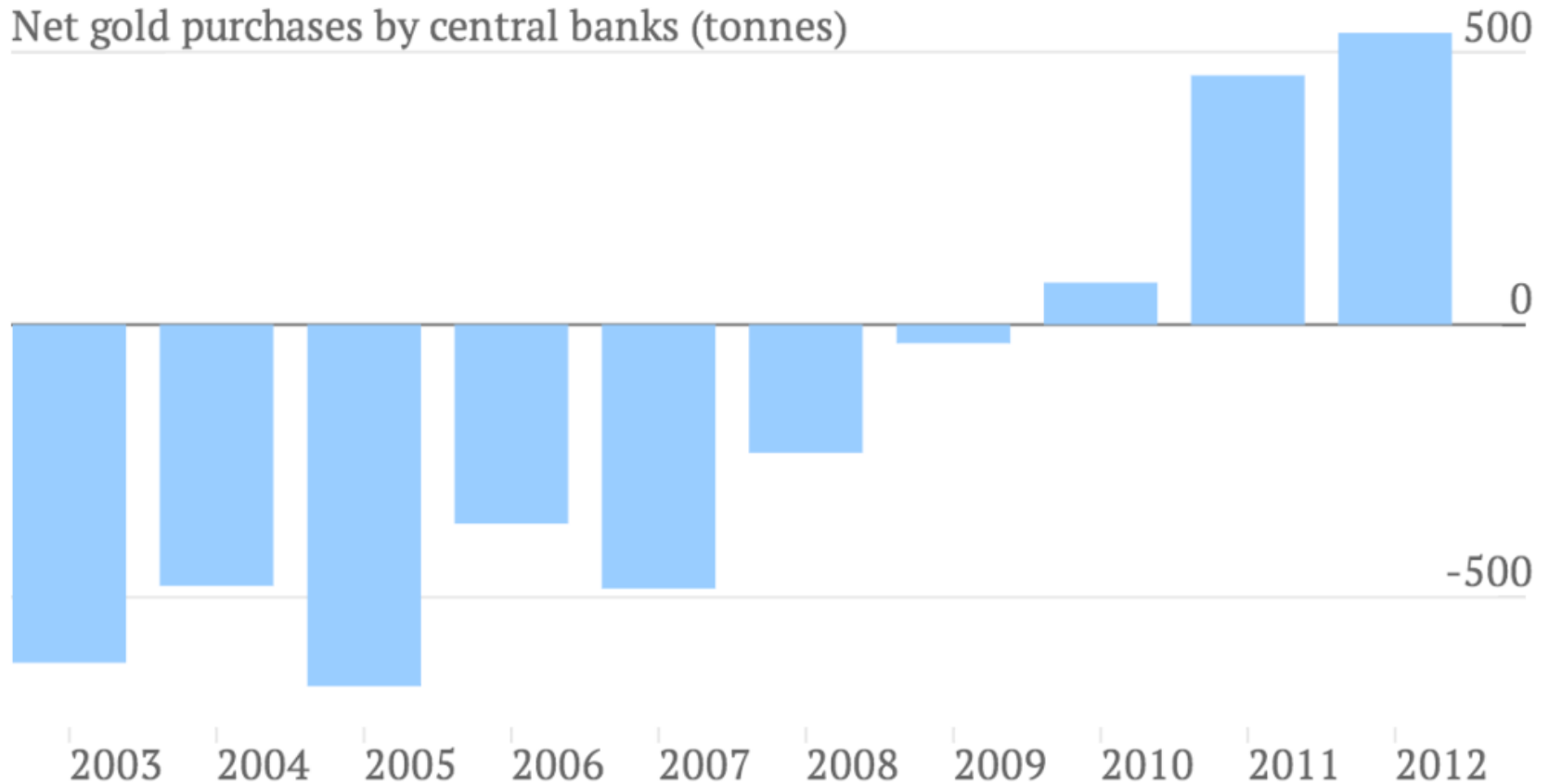
“Sexy” New Alternatives Do Not



But HUGE Variation in Importance

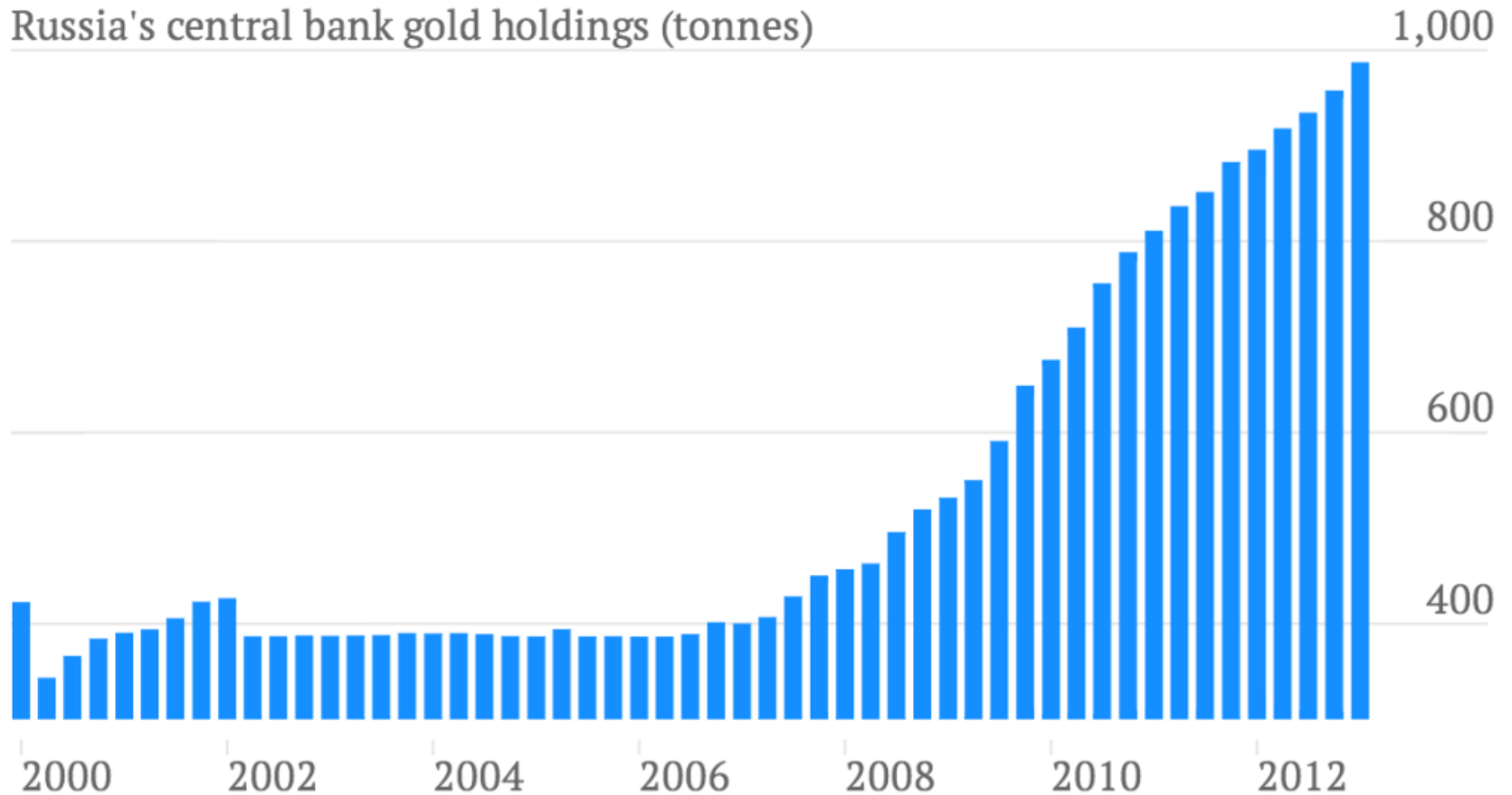
- Gold as share of Forex Reserves
 - Portugal = 90%
 - Greece = 82%
 - Germany = 73%
 - Slovakia = 68%
 - Belarus = 44%
 - ECB = 33%
 - BoE = 16%
 - Romania = 12%
 - Poland = 5%
 - Denmark = 4%
 - Czech Rep. = 2%

Central Banks Are Active In This Market



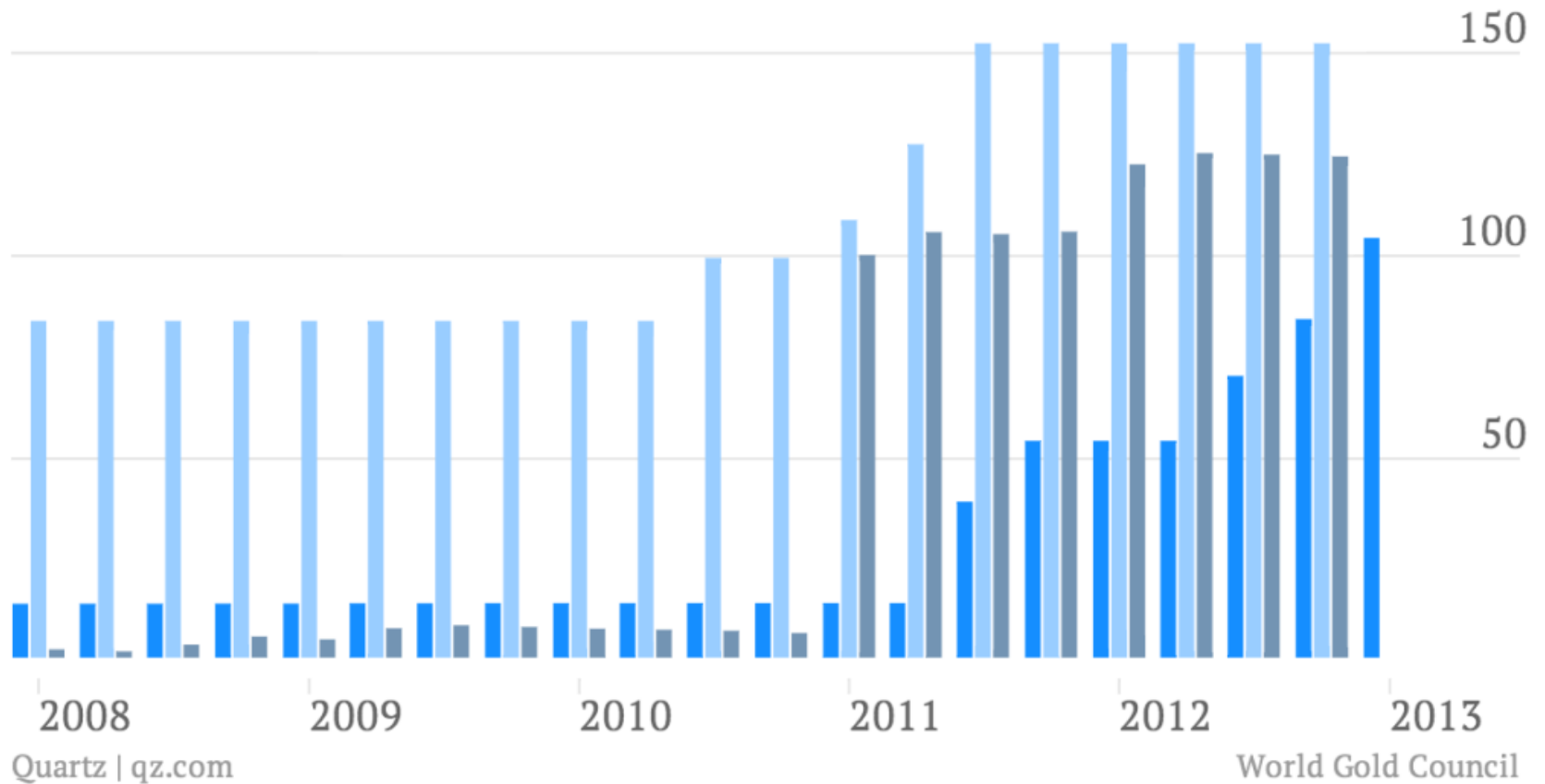
Who Are the Buyers?

Russia's central bank gold holdings (tonnes)



More Buyers

■ South Korea ■ Thailand ■ Mexico



Who Are the Sellers?

IMF & European banks have been net sellers although the amount has been limited by a series of “Central Bank Gold Agreements” (aka “Washington Agreements”) (1999, 2004 & 2009).

The Federal Reserve is NOT a party to these

Recent History

On a single day (April 12, 2013) the Fed sold 500 metric tons of naked gold shorts to support the dollar's value.

Estimated 2-day reduction in world Central Bank Reserves = \$560 billion from resulting market crash

This was not the “reserve policy” of the affected banks but of the Fed (and probably BoJ)

Last Point: Some Important “Reserve” Changes Are Not in the Official Statistics

Changes in account balances only show up when that are cleared.

Especially important in the Euro Zone.

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