

The Central Bank as Manager of the External Reserves

By CBSI media

Last week we learned some tips about savings. This week we will look at one of the mandatory functions of the Central Bank of Solomon Islands which is, “**Managing the External Reserves.**”

External reserves are also called international or foreign exchange reserves.

According to the International Monetary Fund (IMF), “International reserves (or reserve assets in the balance of payments) are those external assets that are readily available to and controlled by a country’s monetary authorities.

External reserves are the foreign currencies held by any country’s central banks.

In Solomon Islands, the country’s external reserves are managed by the Central Bank of Solomon Islands (CBSI), the premier financial institution of the country.

Managing the external reserves is a mandatory function of the Bank.

The Bank is empowered to conduct transactions in international reserves and manage such reserves consistent with international best practices.

The Bank is empowered to maintain foreign reserves deposits (investments) in approved foreign financial institutions and draw on these foreign deposits (investments) to settle all foreign exchange transactions on the country’s account or its own account for the benefit of the country.

The Central Bank is required to hold and maintain its portfolio of external reserves in all or any of the following assets:

- Gold;
- Foreign Banknotes and coins (freely Convertible currency);
- Balances payable on demand (foreign investment deposits) held with financial institutions abroad
- Bills of exchange and promissory notes denominated in foreign currency
- Treasury bills issued by foreign governments;
- Readily marketable debt securities issued or guaranteed by foreign governments or international financial institutions;
- Any internationally-recognized reserve asset eg. SDR (“Special Drawing Rights”). CBSI Reserves balances Position with IMF.

The above specification of asset type or financial instruments, forms the external portfolio asset classes of external reserves.

This forms the basis of the Bank Reserves Management Policy and Investment guidelines, principals and objectives for the management of the country’s foreign reserves.

The primary objective of reserve management shall be to ensure safety of its international reserves or the preservation of the value of the international reserves; this requires a strict financial market analysis and credit risk management.

Secondly, CBSI must ensure that enough foreign currencies are available to meet the liquidity needs of the country and the external obligations of Solomon Islands.

Thirdly, CBSI Shall invest in interest-bearing, Asset classes and securities and fixed income securities for earning of reasonable return for CBSI.

In conducting foreign exchange operations and in acquiring foreign securities the Central Bank follows sound investment principles.

These sound investment principals are stipulated in the banks approved Reserves Management Policy (RMP) and investment guidelines.

Further to that, there is an Investment Committee in the Bank that meets monthly and quarterly or as required. The Investment Committee endorses, approves/reject, decide and propose new investments in accordance to the Bank RMP and Investment Guidelines.

The Investment Committee also assess, analyze, recommend and decide on the risk and compliance report on foreign reserves management and as well as monitors the Investment performances of external reserves.

The Bank's Investment Committee reports to the Board on investment performance and decisions in regards to the international reserves safety, liquidity needs, returns on investments, international exchange rate and interest rate developments, and economic trends in the major currency markets to which SI trade is directly related.

This is how CBSI manages the country's external reserves.

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