The loonie continues to grow in foreign exchange reserves

Each quarter, the International Monetary Fund releases aggregate data on the make-up of foreign exchange reserves. The reserves are composed of foreign debt held by monetary authorities, usually in the form of government securities.

Initially, data on foreign exchange reserves were only broken down for the U.S. dollar, yen, euro, pound and Swiss franc. Separate data for Canadian and Australian dollars only started to be published last year. Even though data for these two currencies only starts in the fourth quarter of 2012, an initial picture can still be drawn.

As graph 1 shows, growth in reserves since the end of 2012 was sharply higher for reserves denominated in Canadian dollars, Australian dollars and Swiss francs. However, their proportion of total reserves remained low, at 1.90%, 1.74% and 0.27%, respectively. The U.S. remains by far the main currency, with 60.94% of the total foreign exchange reserve.

Graph 1 also shows that growth in the reserves has mainly occurred in the advanced countries group. The challenges emerging countries faced in 2013, forcing some to support their currencies by selling part of their foreign exchange reserves, likely explains this phenomenon. Nevertheless, it is interesting to note that the emerging countries still increased their holdings of Canadian-dollar and Australian-dollar assets during the period.

However, a closer look at the quarterly changes reveals unequal growth. In particular, a break was observed in mid-2013 in the growth of reserves denominated in Canadian dollars (graph 2). This moment falls in line with a particularly difficult period for emerging countries, as well as the start of a depreciating trend for the loonie. But since data on foreign exchange reserves are converted into U.S. dollars to facilitate presentation, exchange rate movements systematically impact the recorded value of the reserves.

Implications: It is interesting to note that despite the difficulties encountered by emerging countries and its depreciation, the Canadian dollar grew in foreign exchange reserves. This trend is expected to continue, especially if the exchange rate stabilizes and the economic and financial situation gradually improves in emerging countries.