Insights
Asset Allocation

October 2024

Post-Pandemic Normal of Central Bank Reserve Management

More Gold, Fewer Bonds

Elliot Hentov, PhD
Head of Macro Policy Research

Vladimir Gorshkov, CFA
Macro Policy Strategist

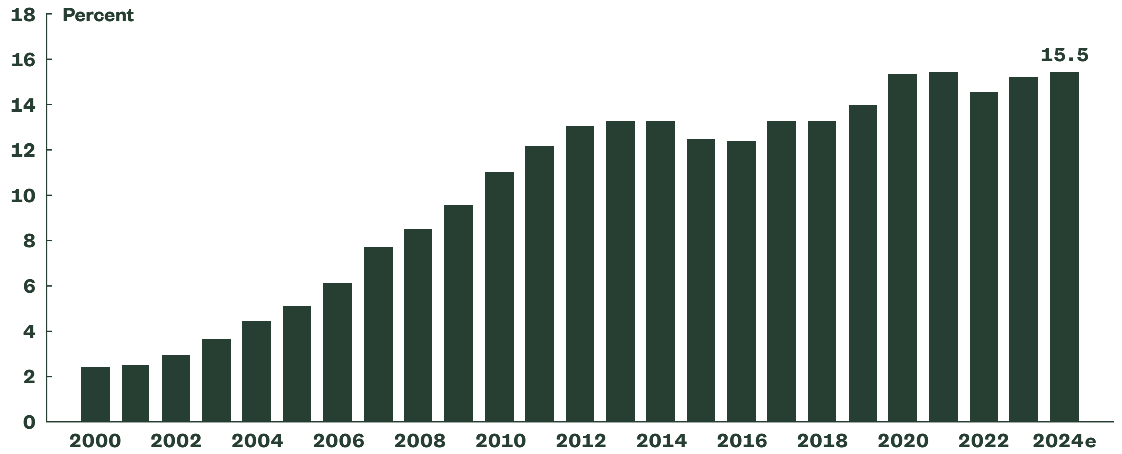
Our last report on how global central banks allocate their reserves was published in 2019, before the pandemic and the geopolitical ruptures of 2020–2022. Since then, substantial monetary easing, slowing of reserve growth, foreign reserve confiscation and the rapid rise in global interest rate levels have all left their mark.

While central banks in aggregate remain a major investor class in global markets, nowhere more so than in fixed income, how they invest is changing. These changes are the topic of this report. It follows the same structure as our 2019 piece. We first look at the global reserve portfolio before diving into patterns and drivers of change within individual asset classes.[1]

The Global Reserve Portfolio

The backdrop to reserve analysis is shown in Figure 1. Overall reserves have been largely flat since 2019 — continuing a decade-long plateau. In real terms, they have actually shrunk somewhat. This stands in sharp contrast with the long period of rapid reserve accumulation during the first 15 years of the 21st century; itself an outcome of the Asian financial crisis in the late 1990s, one of the lessons from which was the need for EM banks to hold bigger reserve buffers.

Figure 1
Total Global FX Reserves 2000–2024

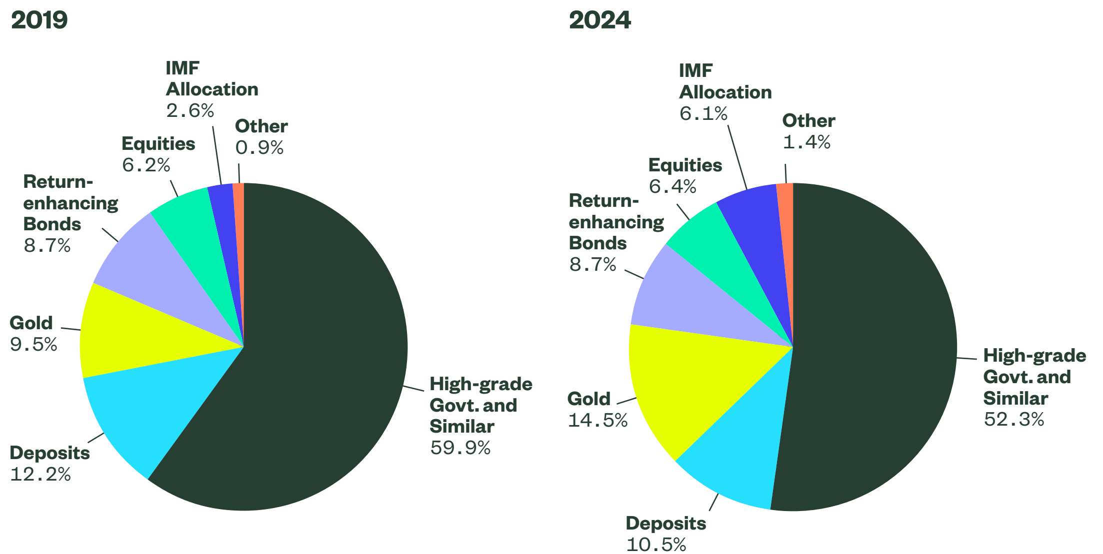


Source: IMF, State Street Global Advisors Macro Policy Research and Central Bank of the Republic of China, as of September 2024.

Looking at the composition of the global reserve portfolio, 2024 initially looks comparable to 2019 with the main ingredients in similar proportions. A closer look, however, reveals a clear shift — away from deposits and securities on the one hand to higher IMF reserve positions and gold holdings on the other.

The shift towards IMF reserves is somewhat mechanistic, given the increased IMF allocation of Special Drawing Rights in 2021 that forced CBs to increase their holdings.[2] In contrast, the rise in gold is intentional. Moreover, despite being the single biggest portfolio shift, it is entirely due to a small number of large central banks. We review gold later in detail, so instead would like to draw attention to changes within the securities portfolio.

Figure 2
Total Reserve Portfolio
% of Total



Source: State Street Global Advisors and Official Monetary and Financial Institutions Forum.

Figure 3
Composition of Total Reserve Portfolio 2019 versus 2024

	Holdings, 2019 ($B)	2019 (% of Total)	Holdings, 2024 ($B)	2024 (% of Total)
Total AUM	**13,261**	**100.0**	**15,269**	**100.0**
IMF Allocation	347	2.6	928	6.1
Gold	1,265	9.5	2,212	14.5
Securities, Deposits and Other Investments	11,649	87.8	12,126	79.4
Deposits	1,618	12.2	1,603	10.5
Securities	9,914	74.8	10,286	67.4
High-grade Govt. and Similar	7,943	59.9	7,993	52.3
Government	6,875	51.8	7,309	47.9
Supra	364	2.7	328	2.1
Agency/Guaranteed	704	5.3	357	2.3
Return-enhancing Bonds	1,152	8.7	1,323	8.7
Asset-backed	459	3.5	553	3.6
IG Corp Bonds	670	5.0	716	4.7
HY Bonds	0	0.0	0	0.0
EM Debt	24	0.2	55	0.4
Equities	819	6.2	971	6.4
DM Equities	781	5.9	955	6.3
EM Equities	38	0.3	16	0.1
Other	117	0.9	212	1.4

Source: State Street Global Advisors and Official Monetary and Financial Institutions Forum.

High-grade Securities

Changes in the securities portfolio have occurred at the expense of lower-risk assets — high-grade government, supra-national and agency bonds. Supra and agency bonds grew strongly during the low-rate environment of the 2010s. They had offered slight yield pickup versus government bonds, and central banks were comfortable with the reduction in liquidity that these holding entailed. With interest rates higher, their shares of the portfolio are returning to historical averages.

Government bond reduction, for its part, is very much a geopolitical story. Sanctions against Russia were the main catalyst. The bulk of Russia's bonds were held with G7 counterparties, and the central bank lost access to them following the country's invasion of Ukraine. Central banks weary of potential geopolitical stress would therefore have taken steps to limit their exposure. Note, however, that government bond holding grew in nominal terms; just much slower than reserves in aggregate. It is, therefore, the decrease of their appeal for the marginal dollar that is notable.

Geopolitical risk is also the dominant explanation for the rotation into gold.

Gold

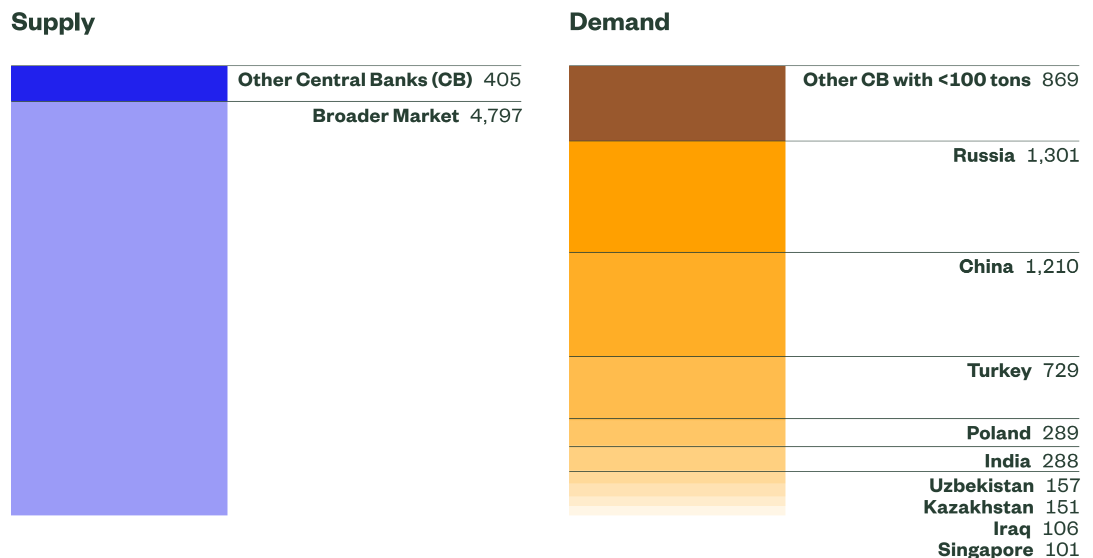
The share of gold in central bank reserve allocation increased by 50% between 2019 and 2024, from an already material 10% of reserves to nearly 15%. Indeed, central bank demand has been so strong as to exert a major influence on global supply/demand dynamics in the gold market. It helped lift global prices near all-time highs and contributed to a departure from the traditional correlation with real rates.[3]

Demand remains driven by just a handful central banks. In the period of 2008–2014, Russia and China alone had constituted over two-thirds of net global central bank purchases. Figure 4 shows that from 2014–2024 demand came from a broader set of central banks, though these two still constituted roughly half.

That said, there are limits to how useful gold is for FX reserve management purposes. Russia's experience in 2022 also demonstrated that gold holdings can be protected from sanctions if physical holdings are custodied domestically. But at the same time, such holdings are significantly less liquid. Moreover, for large gold producers, large gold stocks are also less useful as a buffer against balance of payment shocks due to the correlation between the value of a country's reserves and exports. Whereby, the value of reserves fall at the same time as export revenues.

These limits suggests that this trend is likely to slow, despite ongoing geopolitical frictions. In our view, most of the possible shift out of securities into gold has already occurred.

Figure 4
Total Central Bank Net Gold Buyers 2014–2024
Tons



Source: State Street Global Advisors Macro Policy Research; World Gold Council.

Investment Sleeve

The origin of the investment sleeve, which includes return-enhancing bonds and equities, lies in the accumulation of reserves in excess of what is required for central banks to maintain their core objectives of maintaining liquidity and market confidence. These excess reserves grew during the period of rapid reserve accumulation in the 2000s and early 2010s (see Figure 1). And they continued to grow even as overall reserve growth plateaued in the mid-2010s, driven by continued excess accumulation by select large central banks and the overall pressure to offset the negative carry arising from near-zero interest rates on ultra-safe DM assets.

The overall stability of the risk portfolio between 2019 and 2023 is therefore somewhat surprising. There was a modest increase in exposure to DM equities, whereas IG corporate bond share has dropped. This is unlikely to have been an active portfolio choice or even a common one; rather likely a function of the rapid rise in equity valuations, especially compared to corporate bonds.[4]

Looking ahead, any further embrace of additional risk assets is only likely to occur in select few central banks where reserve growth remains steady. The normalization of interest rates in developed markets removes a strong driver to take on higher-risk assets. Allocation to this portfolio will therefore likely to stagnate or decrease in the coming years. And any discussion of expanding the pool of eligible risk assets, such as illiquid private markets, has been muted by the same forces.

Separately, the continued dominance of DM currencies, even within the investment sleeve, parallels overall currency exposure in IMF COFER data, reaffirming that 95% of all reserves remain in G10 currencies.

Conclusion

Central bank reserve managers today face a macroeconomic and geopolitical backdrop that is very different from 2019; and these changes have been reflected in their reserve allocation decisions.

Taken in aggregate, we see a material tilt towards gold, a decrease in the share allocated to low-risk securities, which nevertheless continue to dominate portfolio allocation, and the relative stability of the investment sleeve. Looking ahead, we expect allocation to stabilize, reflecting limits on the diversification benefits of gold and a whittling away at the relative size of the portfolio devoted to enhancing returns.

Endnotes

1 Together with OMFIF, we analysed the balance sheet of the 58 largest reserve holding central banks, representing 95% of global central bank assets and combined it with estimates for the remainder.

2 Special Drawing Rights (SDRs) are conceptually similar to a currency that is issued by the IMF. In 2021, the IMF issued about $650 billion of new SDRs to its members as part of its COVID response. These new funds were added to central banks' reserves, boosting their liquidity positions.

3 Gold is a non-interest bearing asset. Therefore when interest rates rise, the price of gold would normally fall; due to lower demand for the asset. Gold does work as an inflation hedge, however, so the interest rate here is the *real* rate, not the nominal rate.

4 We found no evidence of significant holdings of high-yield bonds and, therefore, estimate virtually all of the bond portfolio to be developed unless classified as EM debt.

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* Pensions & Investments Research Center, as of December 31, 2023.
† This figure is presented as of June 30, 2024 and includes ETF AUM of $1,393.92 billion USD of which approximately $69.35 billion USD is in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

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North America:

Canada: State Street Global Advisors, Ltd., 1981 McGill College Avenue, Suite 500 , Montreal, Qc, H3A 3A8, T: +514 282 2400 and 30 Adelaide Street East Suite 1100, Toronto, Ontario M5C 3G6. T: +647 775 5900.

United States: State Street Global Advisors, 1 Iron Street, Boston, MA 02210-1641. T: +1 617 786 3000.

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