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ADB Forum on Investment Management of
Foreign Exchange Reserves

TRENDS IN RESERVE MANAGEMENT AT THE MAGYAR NEMZETI BANK

Bali, 26 October 2023



MAIN ELEMENTS OF FOREIGN RESERVE MANAGEMENT FRAMEWORK



Objectives of holding reserves

- Support of monetary policy and financial stability
- International collateral
- Transactional needs

Investment universe

- Wide range of fixed income instruments
- Plain vanilla derivatives
- Securities lending

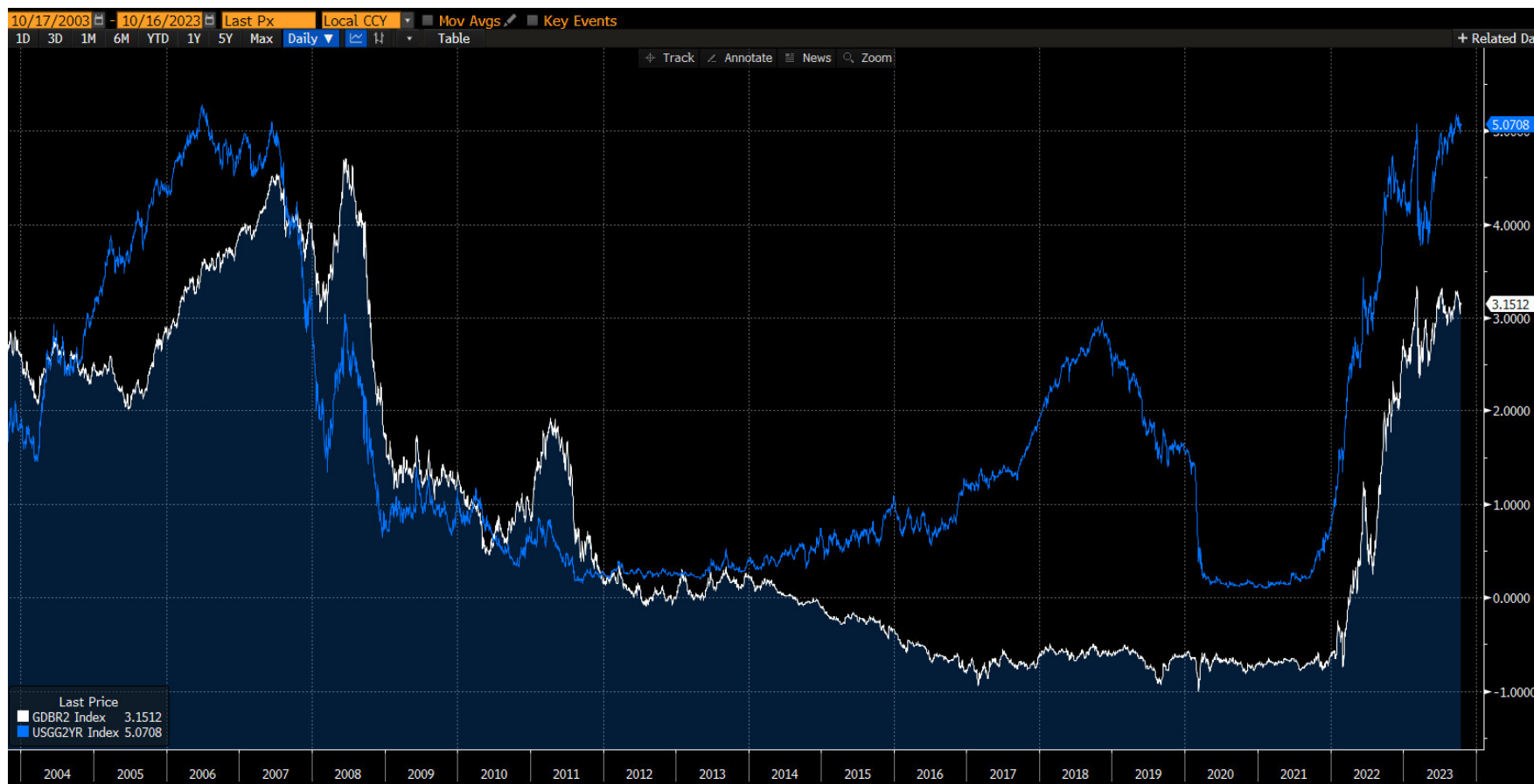
Investment style

- Active management vs benchmarks
- Mostly internally managed
- Tranching of portfolios by purpose

Risk management

- Risk budget for market risk
- Other limits for single risk factors

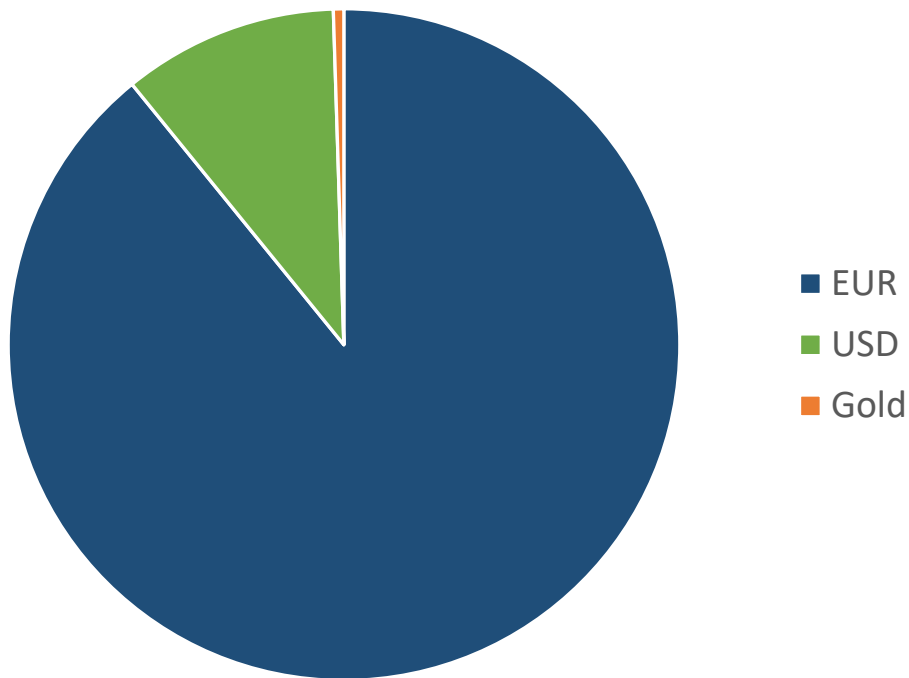
CHANGES IN MARKET ENVIRONMENT



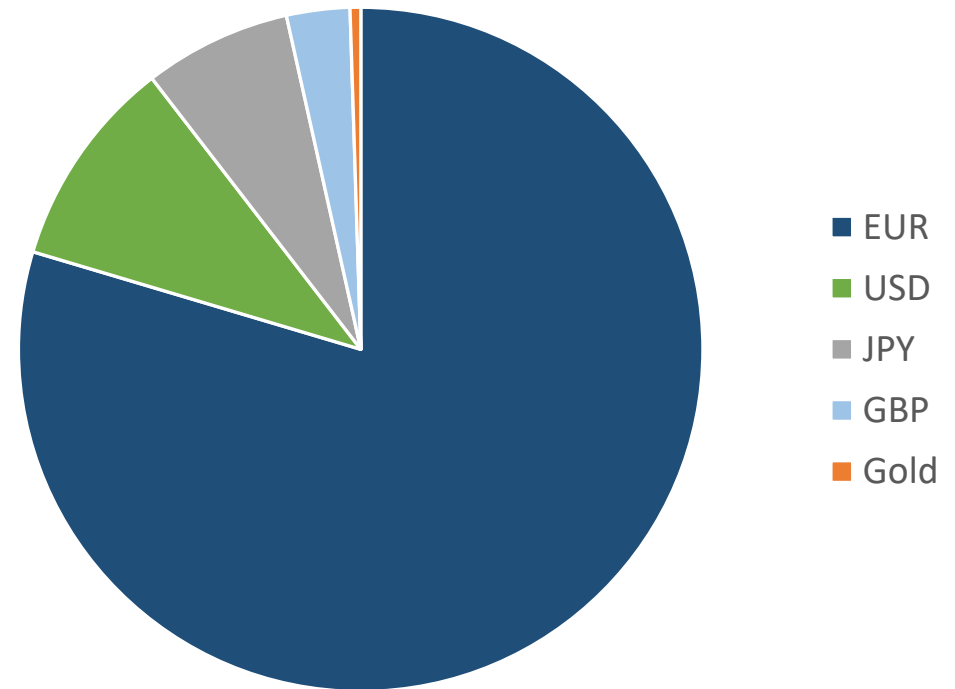
CURRENCY DIVERSIFICATION I.



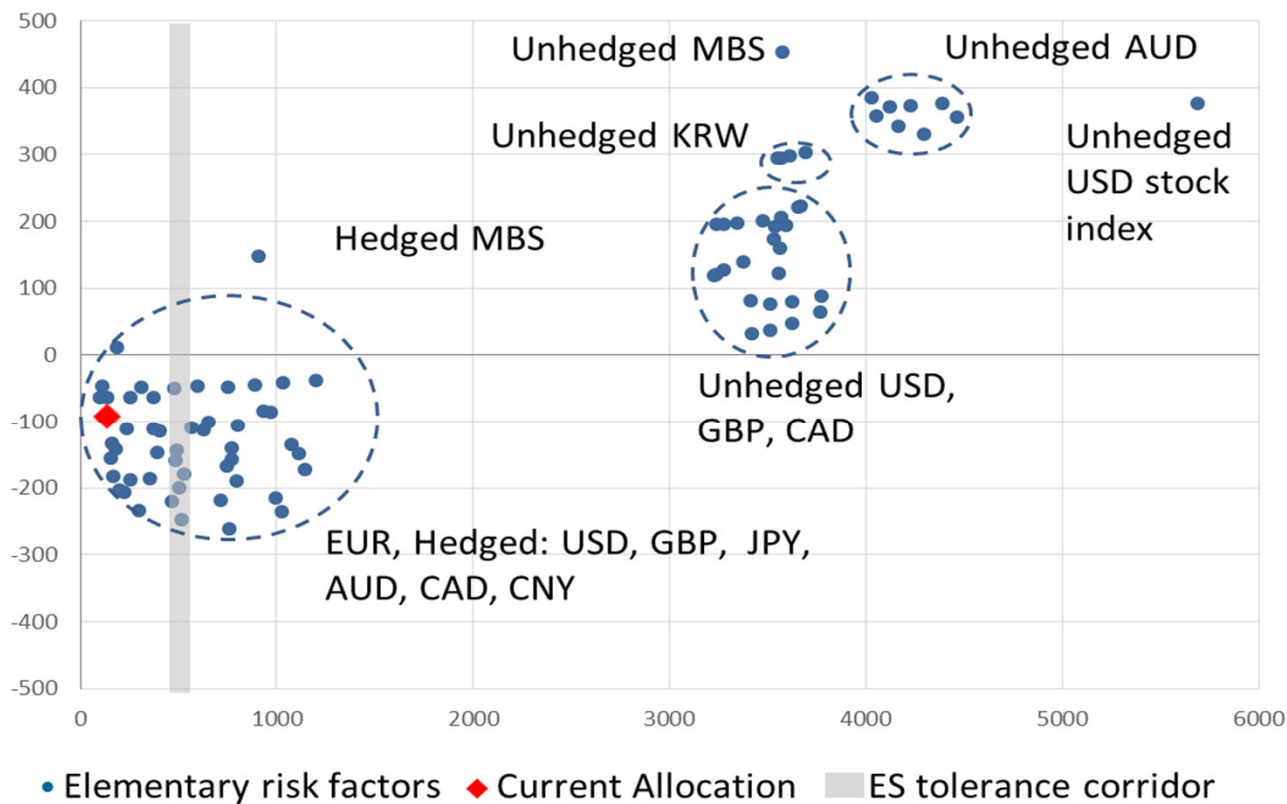
FX COMPOSITION OF MNB'S RESERVES (2008)



FX COMPOSITION OF MNB'S RESERVES (2012)



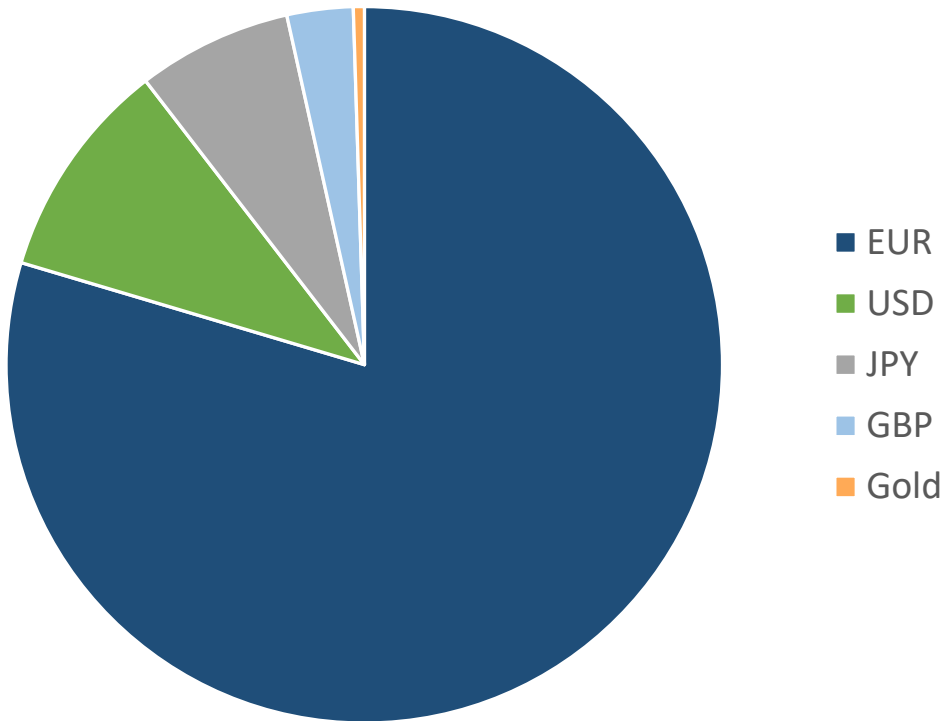
RISK VERSUS RETURN (IN 2016)



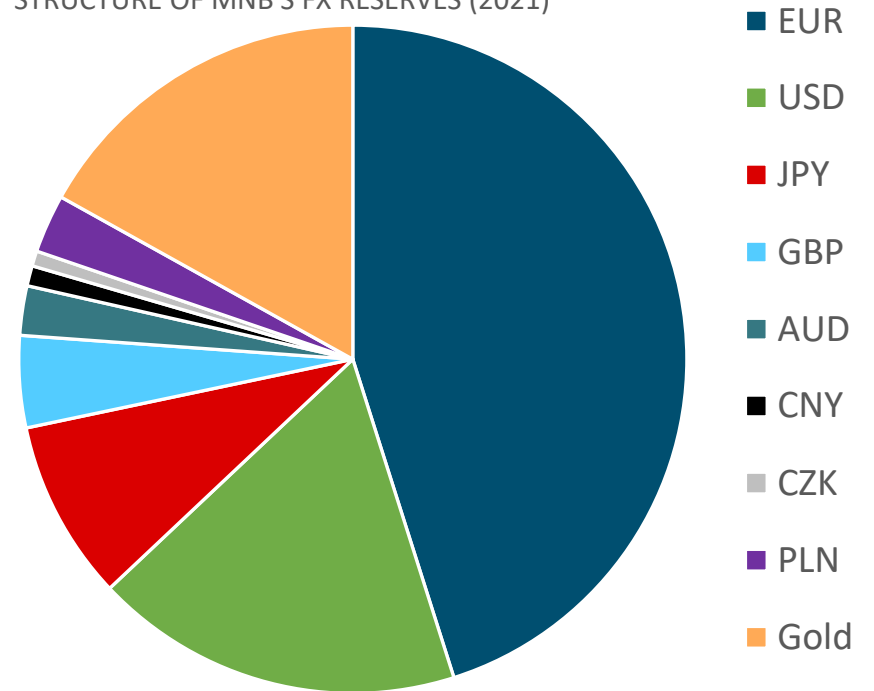
CURRENCY DIVERSIFICATION II.



FX COMPOSITION OF MNB'S RESERVES (2012)



STRUCTURE OF MNB'S FX RESERVES (2021)

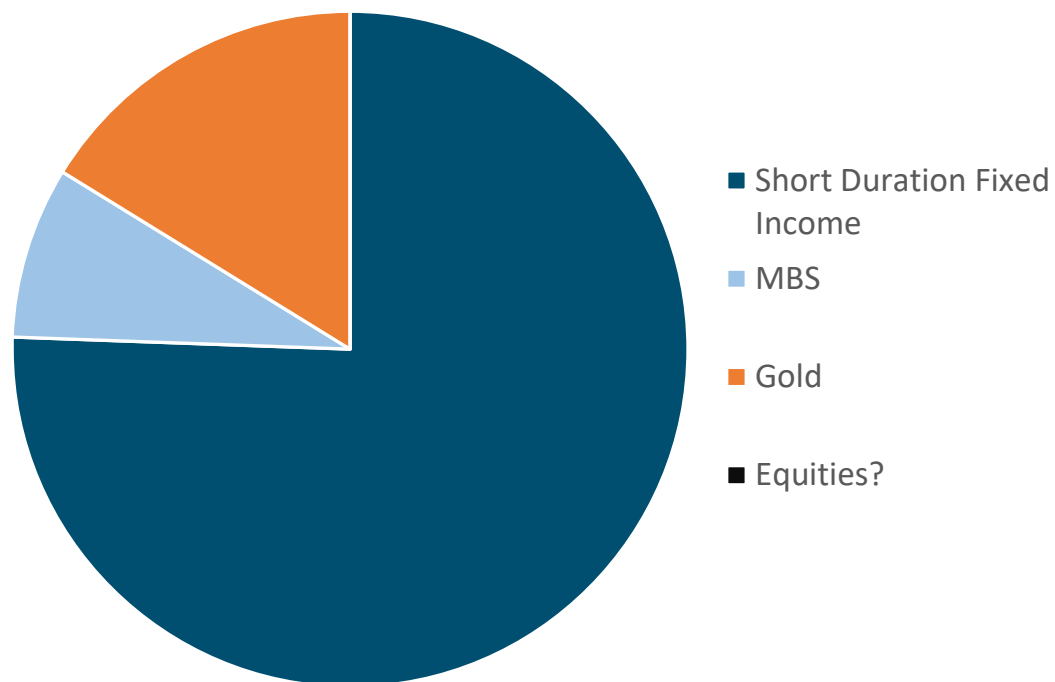
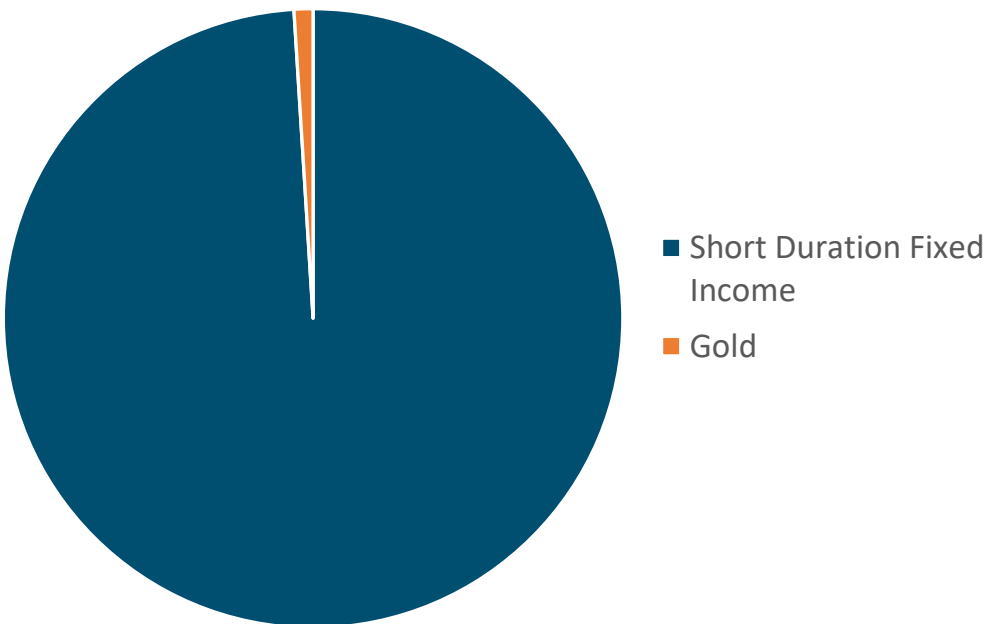


ASSET CLASS DIVERSIFICATION

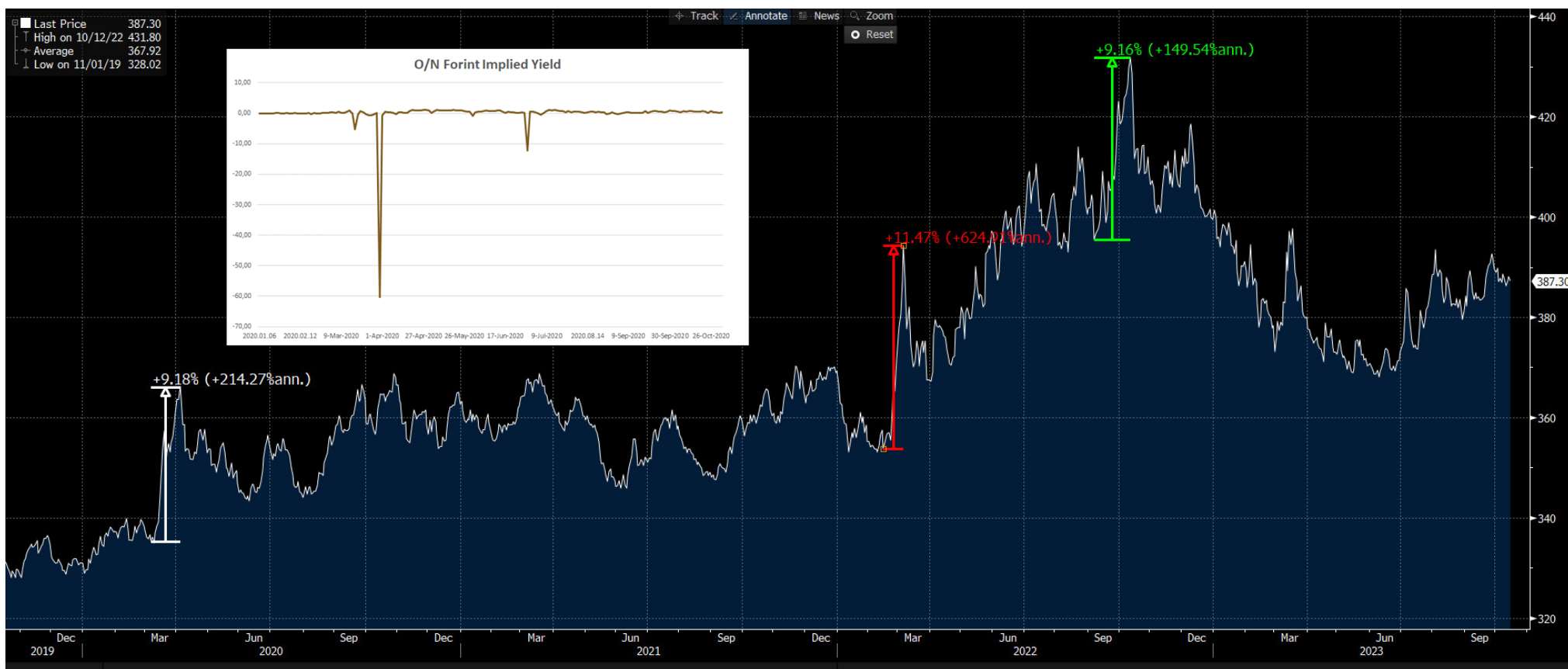


STRUCTURE OF MNB'S FX RESERVES (2008)

STRUCTURE OF MNB'S FX RESERVES (2021)



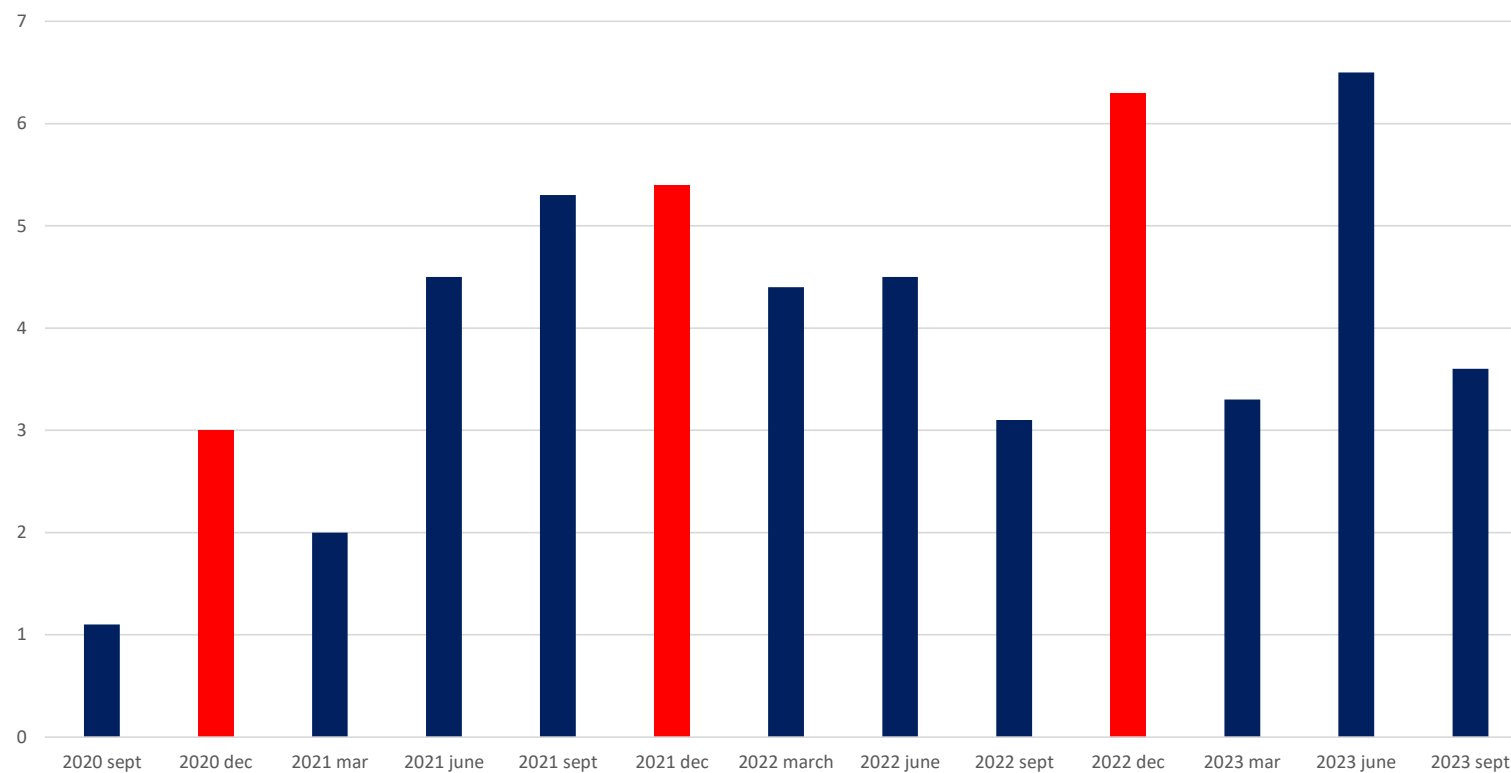
DOMESTIC MARKET TURBULENCES





FX PROVIDED TO BANKING SYSTEM

EUR bn

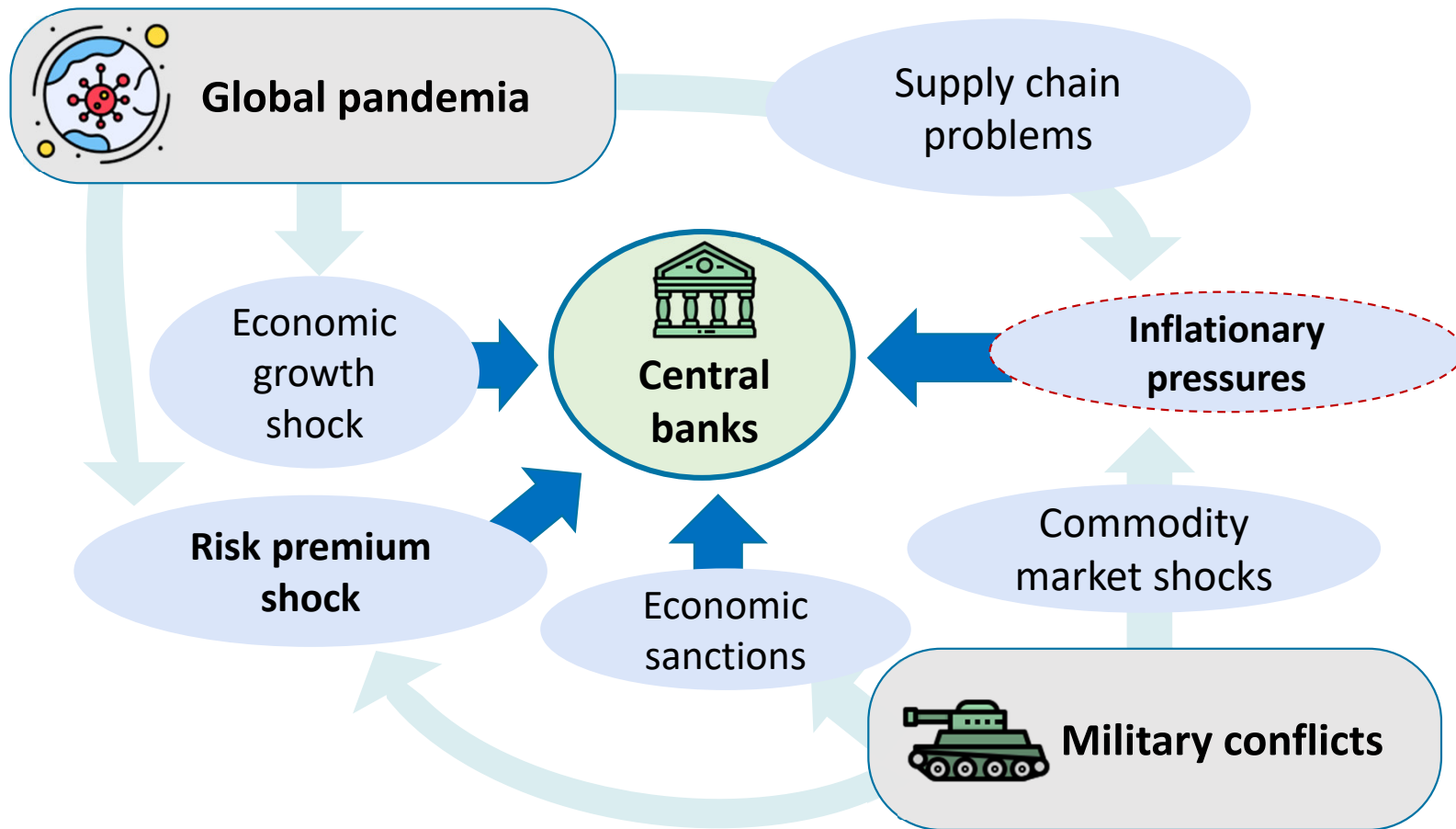


INCREASED IMPORTANCE OF LIQUIDITY



- Liquidity versus return – shift back to more conservative approach
- Building a „safety net” of repo agreements
- Revision of liquidity strategy

AN UNCERTAIN WORLD



THE HUNGARIAN „GOLD STORY” IN ONE SLIDE



March 2018

3.1 tonnes of gold holdings
~ 0.25% of total foreign reserves
Unallocated, held in London



March 2021

94.5 tonnes of gold holdings
~ 15% of total foreign reserves
Physical gold, held in Hungary

GOLD AS A RESERVE ASSET



Definition of reserves assets by IMF

- *External assets*
- *Readily available (liquid)*
- *Controlled by the monetary
authorities for*

- balance of payments
- intervention
- other (maintaining
confidence)

- ***MONETARY GOLD IS
PART OF THE RESERVES***

- **Safe haven asset**
- **Effective portfolio diversifier**
- **Universally accepted**
- **Historical position**
- **Political risk**
- **No default risk**
- **Highly liquid asset**
- **Limited correlation to other asset classes**

*(Results from WGC Survey-"Why do central banks hold
gold?")*

GOLD IS USED TO BUILD TRUST AND CONFIDENCE



Bundesbank, 2013: *“The two primary functions of the gold reserves are to **build trust and confidence domestically** and the **ability to exchange gold for foreign currencies** at gold trading centres abroad within a short space of time”*



De Nederlandsche Bank, 2014: *„Following this adjustment, DNB is in line with other central banks holding a greater part of their gold stock in their own countries, (...) this may also have a **positive effect on public confidence.**”*



The Oesterreichische Nationalbank, 2016: *„Gold has traditionally played an important role in the international monetary system. Foreign reserve assets and gold holdings are key elements of a central bank’s strategy for **crisis prevention** and management and have, indeed, repeatedly proved their ability to **build confidence in difficult times.**”*



Alan Greenspan, 2014: *„Today, the acceptance of **fiat money** — currency not backed by an asset of intrinsic value — **rests on the credit guarantee of sovereign nations** endowed with effective taxing power, **a guarantee that in crisis conditions has not always matched the universal acceptability of gold.**”*



Thank you!