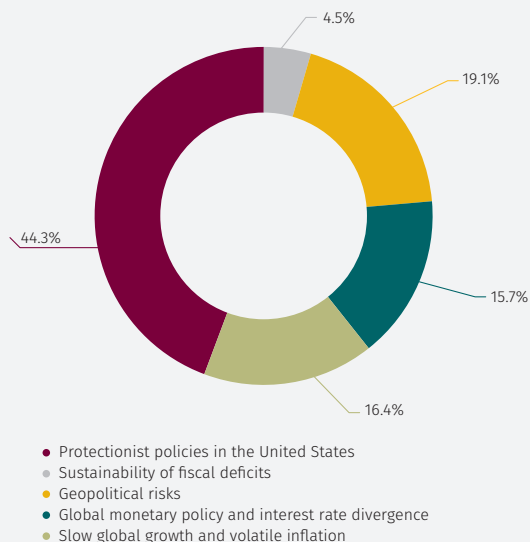


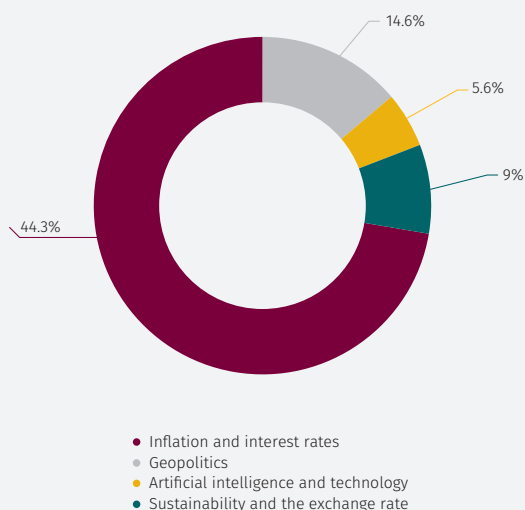
Box 4: Trends in Reserve Management

Graph B4.1
Risks and Relevant Factors in Reserve Management for Central Banks

A. In your opinion, what is the most important risk facing reserve managers in 2025?



B. What do you think will be the most important factor affecting the management of the reserves over the next five years?



Source: HSBC Reserve Management Trends, 2025.

Introduction

The management of foreign reserves has evolved with the objective of ensuring safety, liquidity, and return. Safety requires effective management of investment-related risks, while liquidity refers to the ability to convert assets into cash quickly and at low cost. In turn, return refers to the potential of financial assets to increase in value over time. To achieve these objectives, central banks and various international institutions implement asset allocation and currency distribution strategies across different sectors and markets. This section outlines the main trends in reserve management adopted by various central banks, based on information from the most recent surveys on reserve management practices and international portfolios of central banks and official institutions.

Macroeconomic Risks

In the current macroeconomic environment, investors perceive a range of significant risks that could affect reserve management and investment decisions in 2025. According to the Hong Kong and Shanghai Banking Corporation (HSBC) and the Central Banking¹ survey conducted among 88 central banks in the first quarter of 2025 and published in May, U.S. protectionist policies are identified as the main concern, reflecting fears of a potential fragmentation in global trade. Additionally, persistently high inflation and interest rates above pre-pandemic levels stand out as the most influential factor in medium-term planning (Graph B4.1). Reserve managers anticipate an interest rate divergence between the United States and the Euro zone that could exceed 175 basis points (bps), hindering duration and liquidity strategies. In response to the Federal Reserve’s (Fed) stance of maintaining high interest rates for an extended period, nearly half of the central banks have adjusted their portfolios. Finally, the shift toward a more multipolar world has intensified discussions around de-dollarization, with a growing number of countries exploring alternatives to the U.S. dollar in international trade, adding an additional layer of uncertainty to the global financial outlook.

1. Strategic Asset Allocation

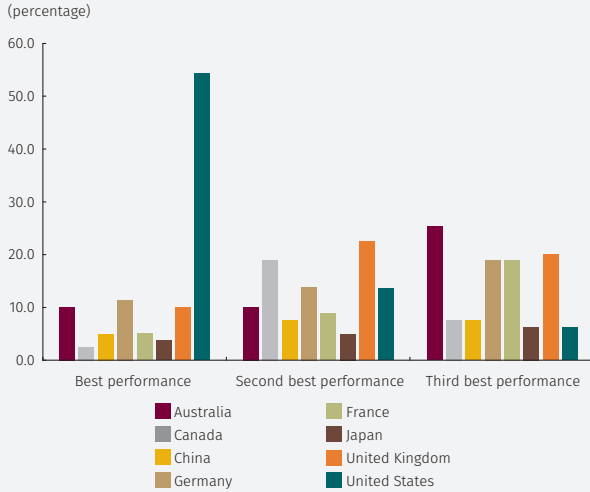
According to the Central Banking survey, the most favorable performance expectations are concentrated in markets within the U.S., the United Kingdom, Australia, Canada, France, and Germany. Graph B4.2 shows that 54% of the surveyed central banks expect the United States to perform the strongest, while 22% identify the United Kingdom as the second best-performing market. Consistent with this outlook, the benchmark index of *Banco de la República’s* foreign reserve portfolio allocates a significant share to these markets, reflecting their relevance within the investment strategy.

Regarding sectors and asset types, government bonds, supranational bonds, deposits, and Treasury bills continue to play a predominant role in the preferences of central banks. Graph B4.3 shows that 85.9% of the central banks surveyed report investing in government and

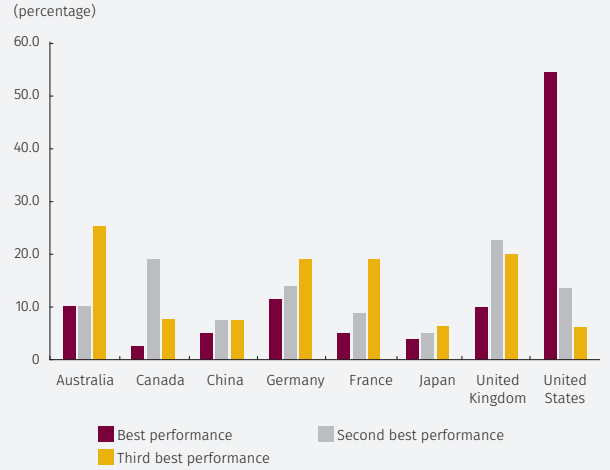
¹ HSBC Reserve Management Trends, 2025: <https://www.centralbanking.com/hsbc-reserve-management-trends-2025>

Graph B4.2
Performance Expectations Across Fixed-Income Markets

A. Which of the bond markets of the following countries do you believe will experience superior relative performance?



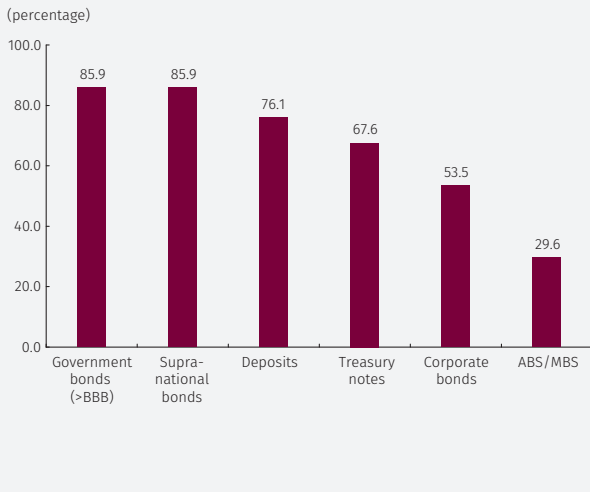
B. Which of the bond markets of the following countries do you believe will experience superior relative performance?



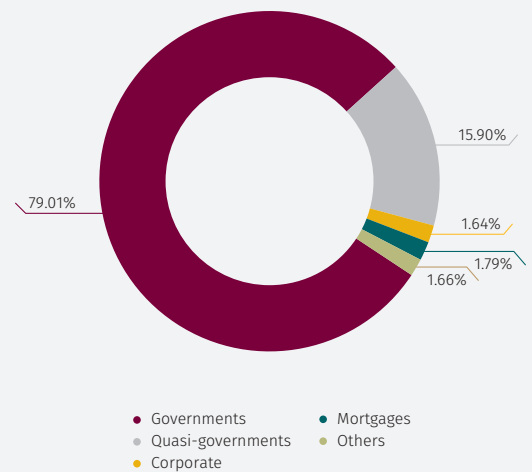
Fuente: HSBC Reserve Management Trends, 2025.

Graph B4.3
Trends in Investment Instruments and Sectors

A. Main Investment Instruments Used by Central Banks



B. Portfolio Composition by Sector (percentage of total)

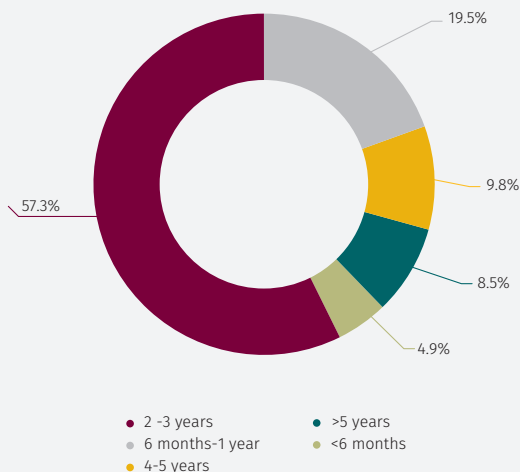


Source: HSBC Reserve Management Trends, 2025.

supranational bonds. Consistent with this international trend, the sector exposure of *Banco de la República's* reserve portfolio, as of May 2025, exhibits a preference for these instruments: 79% is allocated to government instruments, while 16% remains in quasi-government instruments.

It is worth noting that other assets, such as digital assets (e.g., cryptocurrencies, stablecoins, etc.), are not yet included in the portfolios of surveyed central banks, nor in *Banco de la*

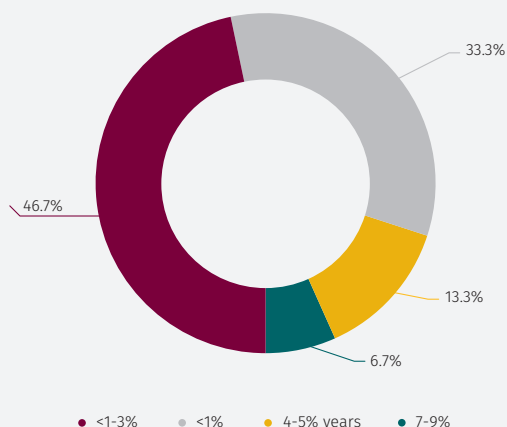
Graph B4.4
Duration Profiles of Central Bank Fixed-Income Portfolios



Fuente: HSBC Reserve Management Trends, 2025.

Graph B4.5
Central Banks Exposure to the Renminbi

If you invest, what proportion of your reserves is allocated to renminbi?



Source: HSBC Reserve Management Trends, 2025.

República's portfolio. According to a World Bank study, high volatility, limited liquidity, elevated transaction costs, operational risks, and the lack of adoption in global trade and financial flows make these assets incompatible with the objectives of stability and immediate availability required by central banks. Additionally, the absence of a clear and coordinated international regulatory framework reinforces these institutions' reluctance to include crypto-assets in their investment portfolios².

Exposure to interest rate risk is relevant because it reflects market participants' expectations regarding market performance. An increase in interest rates can adversely affect portfolio values; as a result, central banks rigorously control this risk. According to the surveys analyzed, the portfolios of most central banks exhibit a duration of between two and three years (see Graph B4.4), implying a relatively low exposure to interest rate risk compared to other types of portfolio managers. As of May 2025, *Banco de la República's* reserve portfolio records a duration of 2.86 years, in line with trends observed among other central banks.

The strategic asset allocation by central banks has shown a significant evolution regarding their exposure to China. The renminbi (RMB) continues to attract interest as an investment currency, and expectations remain that its share in global reserves will gradually increase over the next decade. Currently, most reserve managers investing in RMB maintain a share between 1.0% and 3.0% (Graph B4.5). In line with this trend, as of May 2025, *Banco de la República* holds an exposure to China of approximately 2.15%, which has increased in recent years. This dynamic suggests that, while strategic interest in China remains in place, central banks are adopting a more selective, gradual, and prudent approach to its inclusion in reserve portfolios. In turn, investments in Australian and Canadian dollars remain an attractive alternative for most central banks, although with exposures lower than 10% of their portfolios.

Regarding de-dollarization, most of the surveyed central banks stated that this trend is increasing and being implemented gradually (77%), while 17% consider it is not growing (Graph B4.6). In this regard, *Banrep* has gradually reduced its exposure to the United States by updating its benchmark index.

As for gold, despite record-high prices, only 37.5% of central banks indicated that they expect to increase their allocation to this asset over the coming year. Among those planning to increase this allocation, the majority consider gold as a portfolio diversification instrument. In 2024, the primary buyers were China and India, with purchases totaling 116 tons of gold bars.

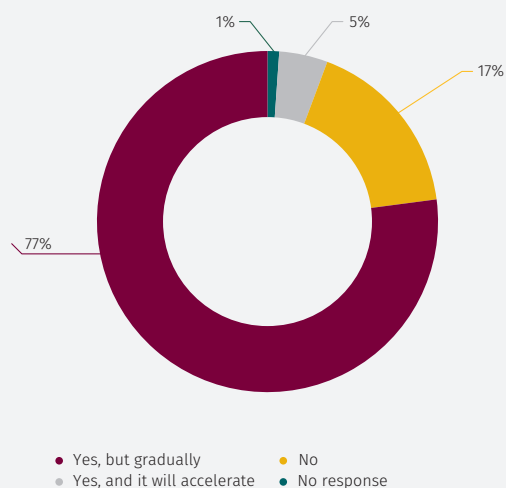
Additionally, according to the Official Monetary and Financial Institutions Forum's (OMFIF)³ survey conducted among ninety official institutions between March and May 2025 (and published in May), regarding assets beyond traditional foreign currencies, although the shift toward public equities and corporate bonds has temporarily stalled, their relevance is expected to strengthen over the next decade. These asset classes are projected to be in the highest demand over the long term (five to ten years), with a net appetite exceeding 25%. In addition, exchange-traded funds (ETFs) are considered as a diversification

2 The World Bank-International Bank for Reconstruction and Development, 2024. Can Crypto-Assets Play a Role in Foreign Reserves Portfolios? Available at: <https://documents1.worldbank.org/curated/en/099553102232444409/pdf/IDU1c16366af173fa148931a28b189e8eca412f3.pdf>

3 Global Public Investor, 2025: <https://www.omff.org/global-public-investor-2025/>

Graph B4.6
De-dollarization Trends

Do you believe that the pace of de-dollarization is increasing?



Source: HSBC Reserve Management Trends, 2025.

tool. About 21% of central bank reserve administrators intend to increase the share of ETFs in their portfolios.

2. Sustainability

The management of foreign reserves continues to evolve in response to changes in the global economic and financial environment, with one of the most significant developments over the past decade being the incorporation of sustainability criteria into investment decisions. This transformation has driven interest in instruments such as green, social, and sustainability bonds, and has led central banks to adopt socially responsible investment (SRI) practices. Indeed, a share of survey respondents (18%) reported an increased prioritization of these practices over the past year, while another group (36%) indicated that sustainability has been incorporated as the fourth objective in reserve management, although allocations remain limited. According to Graph B4.7, 81% of the surveyed banks have incorporated, or are considering incorporating, some SRI elements, and the vast majority of the sample currently invests in “green instruments.”

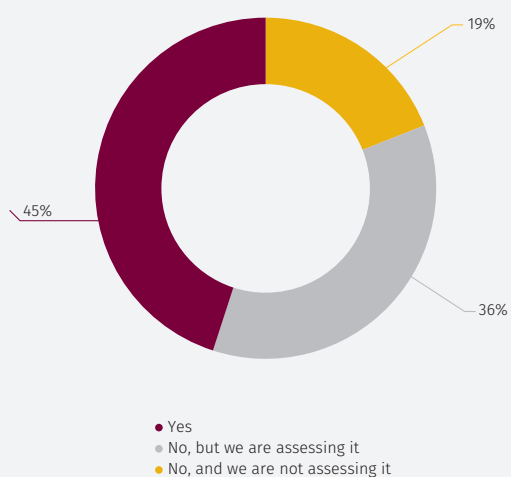
In line with this global trend, *Banco de la República* has initiated discussions on incorporating environmental, social, and governance factors into its investment criteria and is currently measuring and monitoring these factors within its portfolio. This reflects a growing commitment to a more responsible management of reserves, aligned with sustainability principles.

3. Geopolitical Risk and Alternative Markets

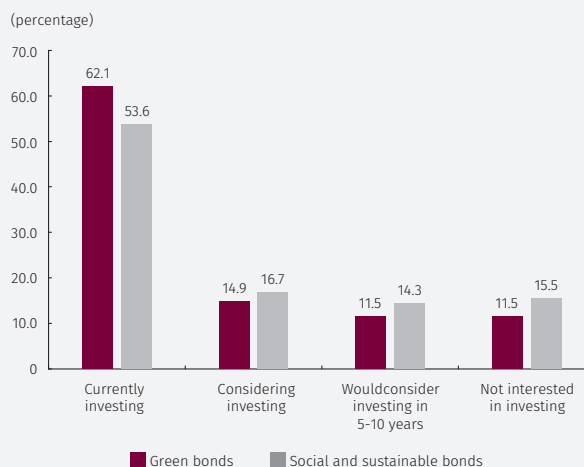
Geopolitical risks have become increasingly significant in the management of foreign reserves, reflecting a global environment that is progressively more fragmented and uncertain. In 2025, a large share of the surveyed central banks reported that they have been

Graph B4.7
Trends in Responsible and Sustainable Investment Practices

A. Does your central bank incorporate any elements of SRI (Socially Responsible Investment) in reserve management?



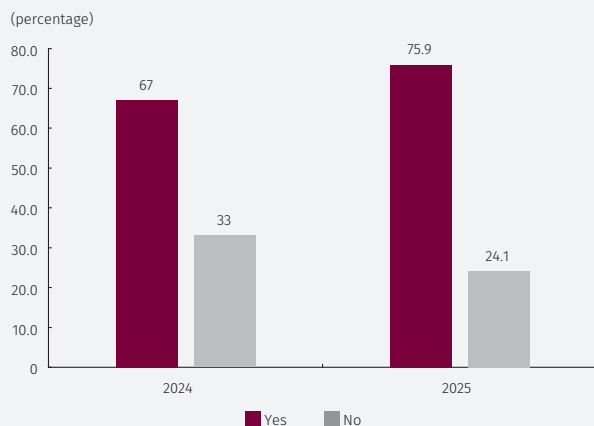
B. Which view best describes your approach toward the following asset classes?



Source: HSBC Reserve Management Trends, 2025.

Graph B4.8
Importance of Geopolitical Risks in Reserve Management

Is geopolitical risk incorporated into your risk management and asset allocation process?



Source: HSBC Reserve Management Trends, 2025.

incorporating these risks into their asset allocation and risk management decisions, representing a significant increase compared to the level recorded in 2024 (Graph B4.8). This trend is particularly pronounced in regions such as Africa, Asia-Pacific, Europe, and the Euro zone.

Reserve managers are assessing the implications of geoeconomic fragmentation, including the decoupling between the United States and China, as well as the imposition of economic sanctions, which could reshape foreign currency preferences and encourage greater diversification of reserves. In addition, geopolitical conflicts, such as tensions in the Middle East and the South China Sea, along with energy security-related risks, are directly influencing asset valuation and the development of investment strategies that are more resilient to high-volatility scenarios. In line with global trends, *Banco de la República* has strengthened systematic monitoring of geopolitical conflicts and their potential impact on international financial markets. This ongoing monitoring enables timely assessment of risks associated with events such as regional tensions, economic sanctions, or shifts in trade dynamics, with the aim of incorporating these factors into strategic investment decisions and the prudent management of foreign reserves.

4. Conclusion

The management of foreign reserves is undergoing continuous transformation, driven by a global environment marked by macroeconomic uncertainty, geopolitical fragmentation, and rising demand for sustainable investment practices. Central banks, including *Banco de la República*, have responded to these challenges through more sophisticated strategies for asset allocation, exchange rate diversification, and risk management. Attention to factors such as persistent inflation, interest rate divergence, gradual de-dollarization, and exposure to emerging economies, such as China, reflects a more strategic and adaptive approach. At the same time, the gradual incorporation of ESG criteria and the active monitoring of geopolitical tensions demonstrate a commitment to responsible and resilient management aligned with the principles of financial sustainability. In this context, strengthening analytical capabilities and continuously updating investment frameworks will be relevant to preserving stability and efficiency in the management of foreign reserves in the coming years.