

Session 7:

Internal Capacity Building and Resilient Reserve Management Institutions

A Practical Approach to Strengthening Foreign Reserve Management Capacity

From skilled people to strong institutions

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**2026 ASIAN REGIONAL FORUM
ON INVESTMENT MANAGEMENT
OF FOREIGN EXCHANGE RESERVES**

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Why Strengthen Reserve Management Capacity?

Primary mandate

**Safety
+
Liquidity**

National financial buffer in times of
external stress



But many central banks also need

better long-term returns

while preserving safety and liquidity

**That requires higher investment capacity — and
stronger institutions.**

Heavy Investment, Different Outcomes – Why?

Most central banks invest heavily in

Training

Technical assistance

Consulting

IT systems

Yet outcomes diverge

Some improve rapidly

Stronger SAA
Diversification
Better risk management

Others make little progress

Despite significant
Time and resources

What explains the difference?

Can the institution convert individual knowledge into institutional capacity?

Capacity Is Institutional, Not Individual

“Bring in the best Wall Street portfolio manager — even if we pay \$1 million.”

→ “A star manager cannot substitute an institutional ecosystem”

Capacity Formula:

People

×

Governance

×

Empowerment

×

**Process &
Systems**

×

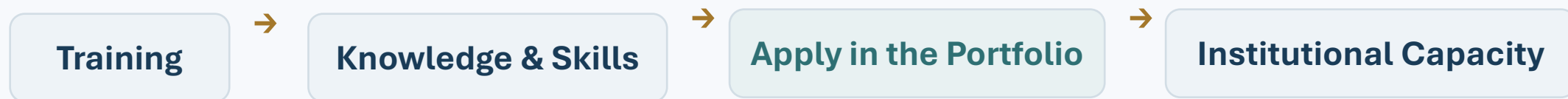
Learning

The multiplication effect: One critical weakness can constrain the whole institution.

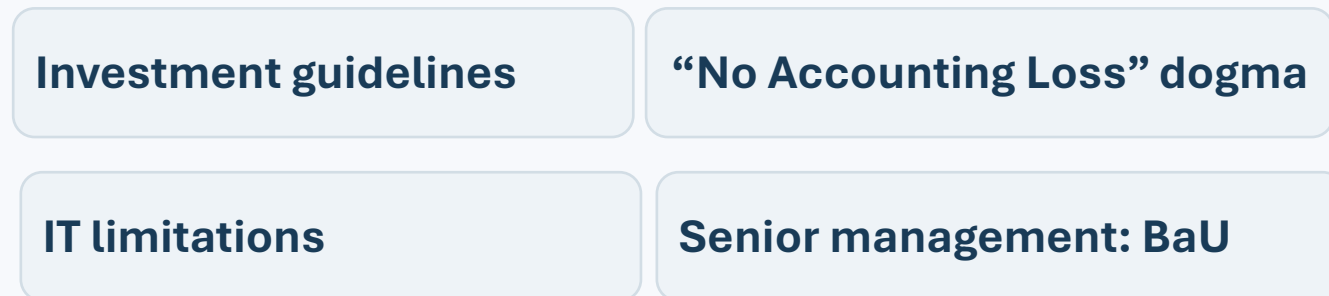
Training Is Not Enough - Empowerment is the Key

The real challenge is whether the institution can use what people have learned.

Individual knowledge becomes institutional capacity only with Empowerment.



Where do we find obstacles?



Field reality (Example)

Relative-value trade rejected because selling would realize an accounting loss.

Knowledge existed.
The institution could not use it

The Decision Bottleneck

Why does BaU often become the default choice for senior management?

Different expertise

Senior leaders bring deep expertise in monetary policy, economics, financial stability or banking supervision

But global portfolio management is a different, specialized discipline.

The asymmetry of change

Benefits are long-term (5–10 years)
Risks can appear tomorrow.

The asymmetry of reward vs. consequence

Success → Recognition may be limited
Short-term loss/Operational Incident → Significant personal consequences

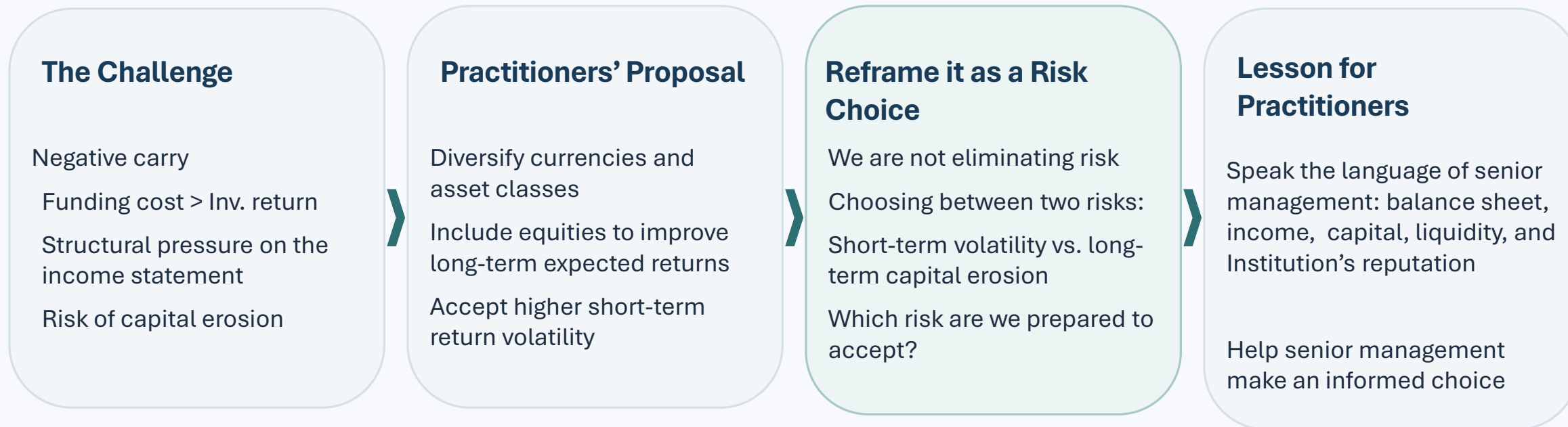
Business as usual can become the safer default.

But business as usual is also a risk decision.

→ Doing nothing = Continuing **to accept the risks** already embedded in the current portfolio.

Help Senior Management Make Informed Risk Decisions

Bank of Korea, 2004 — turning a structural challenge into an explicit risk choice



Our job is not to eliminate risk

- It is to make the trade offs visible and help senior management make an informed choice.

Organizational Resilience: The Ability to Keep Evolving

Operational resilience

Survive shocks → return to normal

- Business continuity
- Cybersecurity
- Key-person risk
- Institutional memory



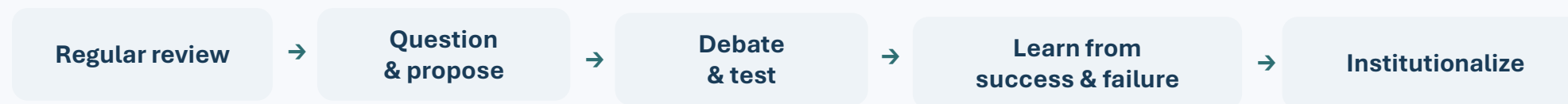
Evolutionary resilience

Confront new questions and adapt

- Reserve Adequacy
- Risk Tolerance
- Sustainable Investing
- Geopolitical Shifts
- Artificial Intelligence

Environment changes → the institution must adapt.

“Evolutionary DNA” = institutionalized adaptation



Built into the culture — across levels, not dependent on a single visionary leader.

Resilience = survive shocks + keep learning, adapting, and improving.

Turning Knowledge into Institutional Capacity

- 1 **Capacity is institutional, not individual.**
 - 2 **Training without empowerment does not build capacity.**
 - 3 **Business as usual is also a risk decision.**
 - 4 **Resilience is the ability to keep evolving.**
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