

Session 5:
Role of Liquidity in the Management of FX Reserves

Liquidity in FX Reserves Management

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Liquidity in FX Reserves Management

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Why Liquidity Matters

Liquidity ensures that reserves can be deployed in the required currency and within the required timeframe

Financial Stability

A buffer against systemic and market stress

International Obligations

Ability to meet external obligations fully and on time

Exchange Rate Management

Funds available for foreign exchange intervention at short notice

Economic Shocks

Ability to meet unexpected outflows without forced asset sales



The Liquidity-Return Trade-off

Greater liquidity usually means lower expected returns, in exchange for speed and reliable execution

More liquid → typically lower expected return

Cash, short-term deposits, T-Bills

Limited duration and credit risk; designed for rapid conversion into cash

Less liquid → potentially higher expected return, with greater risk

Longer-duration bonds, credit products

Greater duration and/or credit exposure, with potentially slower execution and higher transaction costs

This trade-off is deliberate and embedded in the design of our tranche mandates

Tranching as a Liquidity Management Framework

- 1 Separates day-to-day liquidity needs from return-seeking assets
- 2 Each tranche has its own limits and rebalancing rules; all tranches except Working Capital are benchmarked
- 3 Reduces the need to sell longer-term assets during short-term liquidity stress

This creates a clear hierarchy of liquidity across the reserve portfolio.



Structure of NBG FX Reserves

FX reserves are divided into three tranches, each with a distinct purpose

WORKING CAPITAL

Day-to-day operational liquidity; rebalanced frequently. Deposits, T-Bills and BIS FIXBIS

LIQUIDITY

A secondary liquidity buffer; rebalanced when required

INVESTMENT

Return-seeking assets with a longer investment horizon; rebalanced infrequently

Rebalancing frequency generally decreases from top to bottom

MOST
LIQUID

HIGHEST
RETURN

Working Capital Tranche

Three instrument types are used to combine market depth, flexibility and counterparty diversification

Short-Term Deposits

Approved bank panel; maturities aligned with projected cash flows

T-Bills

Deep secondary market and high liquidity; a primary source of rapid cash mobilisation

BIS FIXBIS

Tradable before maturity; BIS counterparty exposure provides additional diversification

Diversification across sovereign, commercial-bank and BIS exposures helps limit concentration risk in the tranche used for day-to-day liquidity

Liquidity Tranche - The Secondary Buffer

Sits between Working Capital and the Investment portfolio; drawn when Working Capital alone is insufficient

Used less frequently by design. It remains more liquid than the Investment tranche, while being less operationally active than Working Capital

Managed against a benchmark, unlike the unbenchmarked Working Capital tranche

Provides a liquidity buffer that allows longer-duration assets to remain invested during short-term volatility

Daily Liquidity Monitoring

Liquidity positions are reviewed each trading day across five dimensions.

Cash Position

Expected cash flows over the current and following days

Counterparty Limits

Current exposure relative to approved limits

Reinvestment

Reinvestment destination and maturity tenor

Maturity Ladder

Maturities and redemptions aligned with projected cash outflows

Intervention Readiness

Settlement-bank balance maintained for unexpected outflows

Credit Rating Floors and Limits

THE FLOORS

Under our internal policy, two separate eligibility floors apply: a minimum A rating for credit eligibility and a minimum USD 500 million issue size for liquidity. Both conditions must be met

Approved limits	Higher-rated issuers receive larger limits and longer maximum maturities; A-rated issuers are subject to tighter limits
Downgrade trigger	A breach triggers a defined reduction or exit period; the response is rule-based
Multiple agencies	Under our internal policy, we use ratings from three agencies and apply the second-best rating, reducing reliance on any single agency

Eligibility is determined by separate credit and liquidity thresholds; limits determine the permitted exposure

A KEY DISTINCTION

Credit Quality Is Not the Same as Market Liquidity

A credit rating primarily reflects credit/default risk; it does not measure how quickly or efficiently a security can be sold

A RATING TELLS YOU

- The issuer's creditworthiness and capacity to meet its obligations
- The credit-eligible investment universe
- A basis for setting exposure limits

A RATING DOESN'T TELL YOU

- The depth and liquidity of the secondary market
- How quickly a given position can be sold without materially moving the market
- How liquidity and pricing may behave under stressed conditions

Even highly rated securities can become less liquid under stressed conditions; therefore, credit quality and market liquidity are monitored separately

Stress Scenario: Sudden Liquidity Need

TRIGGER: An unplanned FX intervention or other urgent reserve need arises

- 1 Working capital first**
Use the most readily available T-Bills and deposits
- 2 Liquidity tranche next**
Tap only if Working Capital is insufficient
- 3 Keep the Investment tranche untouched**
Unless the liquidity shortfall is large and persistent

The drawdown sequence is approved in advance, making the response operational rather than discretionary during a stress event

Key Takeaways

- 01 Liquidity is a distinct reserve management objective**
It sits alongside capital preservation and return, ensuring reserves remain deployable when needed and supporting confidence in the central bank's capacity to meet its obligations
- 02 Tranching turns liquidity into an operational discipline**
Distinct limits, benchmarks and rebalancing rules make liquidity measurable, monitored and actionable
- 03 Credit quality and liquidity are different dimensions**
They should be assessed and constrained separately because strong credit quality does not guarantee immediate market liquidity
- 04 Define the drawdown sequence in advance**
A pre-approved sequence reduces discretion and supports timely action during a liquidity event



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Thank You