

Session 8:
The Role of Gold in Reserve Management and Diversification

Increasing Role of Gold in Reserve Management and Diversification Beyond Traditional Reserve Assets

Mr. Erekle Tsivtsivadze
National Bank of Georgia

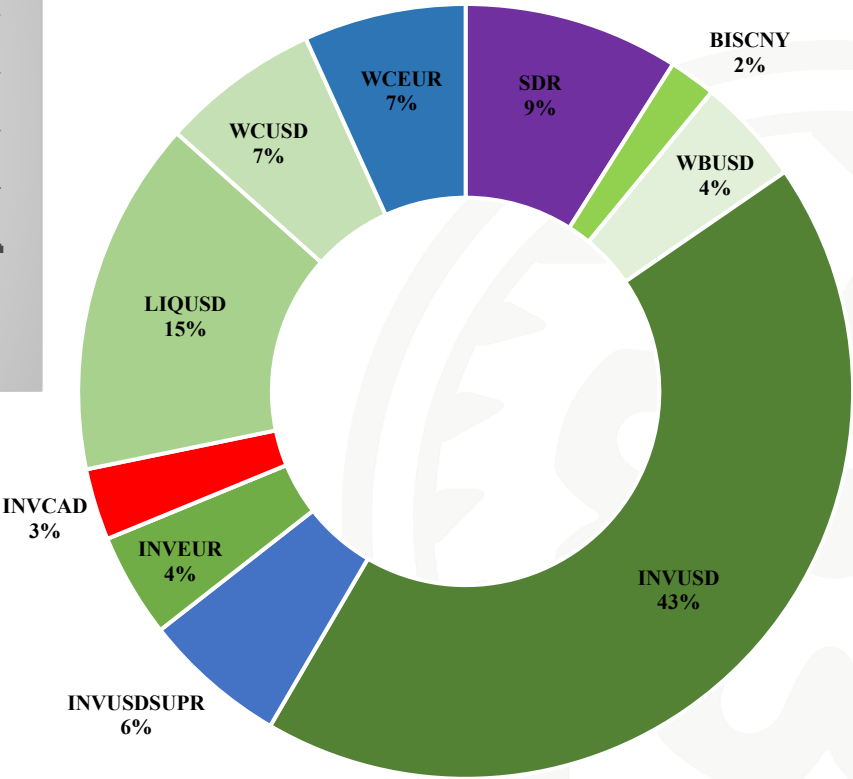
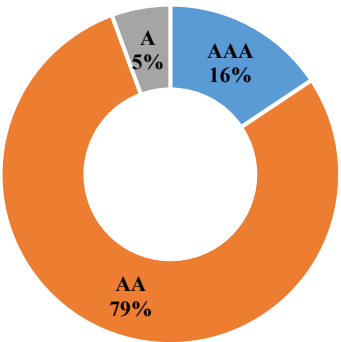
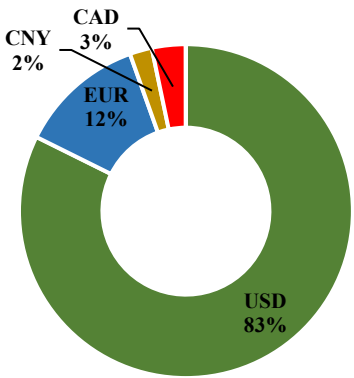
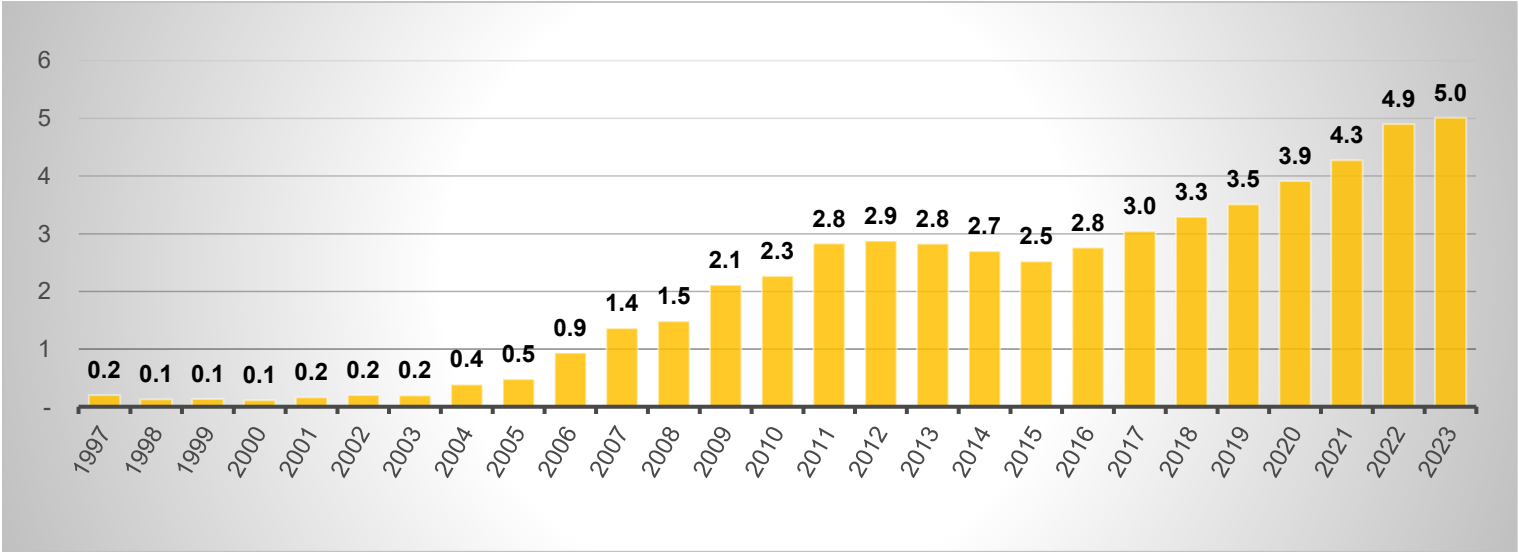


Session 8: Increasing Role of Gold in Reserve Management and Diversification Beyond Traditional Reserve Assets

National Bank of Georgia Framework

Erekle Tsivtsivadze
Deputy Head of Financial Markets Department

Gold as an Investment asset for National Bank of Georgia - How it Started – End of 2023



Gold as an Investment asset for National Bank of Georgia - How it Started – SAA for 2024

SAA Process

- Determine Risk Tolerance Level
 - **How much risk can we tolerate (afford to lose?)**
- Liquidity Tranche (low risk tolerance)
 - **Max (X)% loss with 99% Confidence Level**
- Investment Tranche, moderate risk tolerance
 - **Max (X)% loss with 95% Confidence Level**
- Investment Horizon: 1 Month; 12 months; >1 year;
- Risk Measure:
 - **Expected Return/Duration**
- Rule of Decision Making:
 - **Maximize Expected Returns Subject to Constraint on Maximum Losses given a Specified Confidence Level over Investment Horizon**

During the preparation process, we consider the **liability structure** of the **central bank, government, and the broader economy, possible grants** from foreign donors, ongoing and planned projects, expected **inflows** and **outflows**, projections of future local market liquidity interventions, as well as the interest rate policy outlook and predefine scenario analysis.

Before board preliminary results are reviewed at the **Reserve Management Committee**.

Preparation: Middle Office

Approval: Recommendations submitted to the Board for approval

Board reviews and approves:

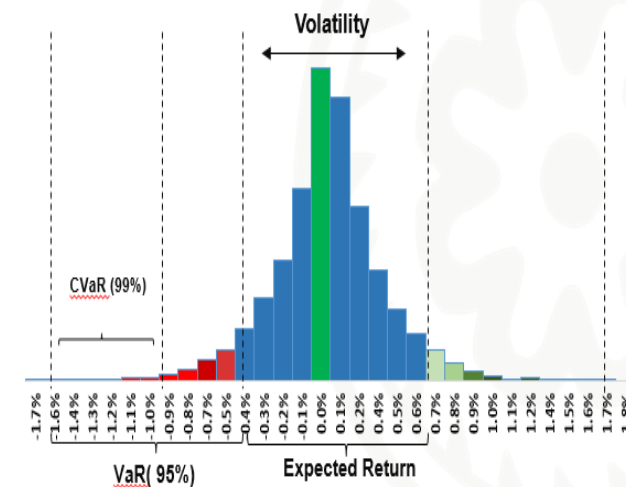
- Strategic Benchmark selection
- Risk tolerance, confidence level, and investment horizon
- Reserve tranching and its structure
- Currency entry/exit decisions determined at this stage
- Neutral FX currency composition
- Investments in new asset class

Review:

- Decisions remain in place until the next SAA review
- No predefined trigger events are set in the current policy

SAA Assumptions at NBG:

- Investment Horizon – 1 year
- Tranching –Working Capital, Liquidity, Investment
- Risk Tolerance:
 - Investment Portfolio in USD - CVaR (95%) = 0
 - Investment Portfolio in EUR - CVaR (95%) = 0
 - Investment Portfolio Supra - CVaR (95%) = 0
 - Liquidity Portfolio in USD – CVaR (99%) = 0
 - Review – Annually
 - Base Scenario – Forward looking (No consensus scenario)

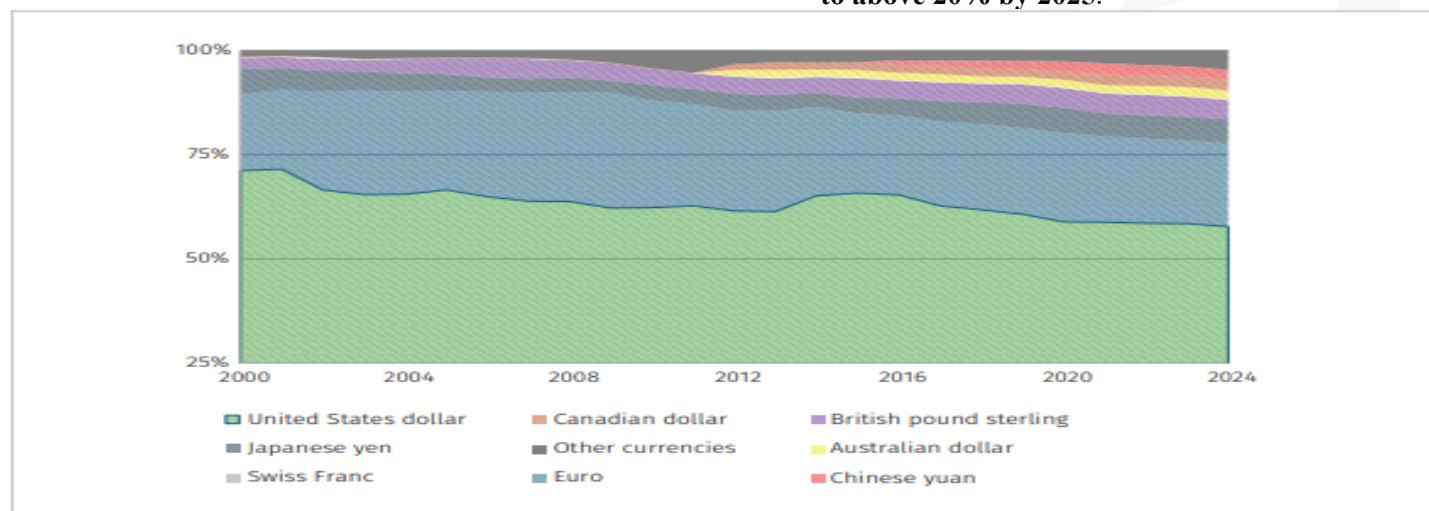


Gold as an Investment asset for National Bank of Georgia - Statistics

Year	USD	EUR	GBP	JPY	CNY/RMB	Gold
2019	60.75%	20.59%	4.64%	5.87%	1.94%	12.3%
2020	58.92%	21.29%	4.73%	6.03%	2.29%	14.2%
2021	58.80%	20.59%	4.81%	5.52%	2.79%	13.1%
2022	58.52%	20.37%	4.90%	5.54%	2.69%	13.9%
2023	58.42%	19.95%	4.86%	5.69%	2.45%	15.3%
2024	57.80%	19.83%	4.73%	5.81%	2.18%	18.6%
2025	56.77%	20.25%	4.41%	5.84%	1.95%	>20%

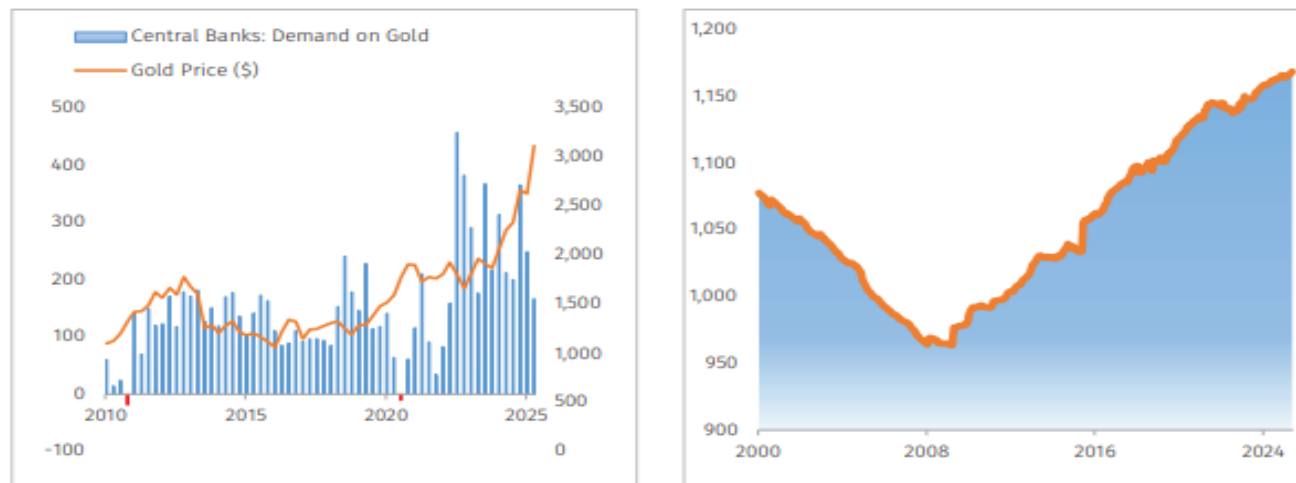
- USD:** declined from about **60.7% in 2019** to **56.8% in 2025**.
- EUR:** remained relatively stable, around **20%–21%**.
- JPY:** remained around **5.5%–6%**.
- GBP:** remained around **4.5%–5%**.
- CNY:** increased from roughly **2%** after its inclusion in COFER to around **2.5%–2.6%** in 2021–22, but was **1.95% in 2025Q4**.
- Gold:** moved in the opposite direction, rising substantially as a share of total international reserves from roughly **12% in 2019** to **above 20% by 2025**.

Currency Composition of Official Foreign Exchange Reserves



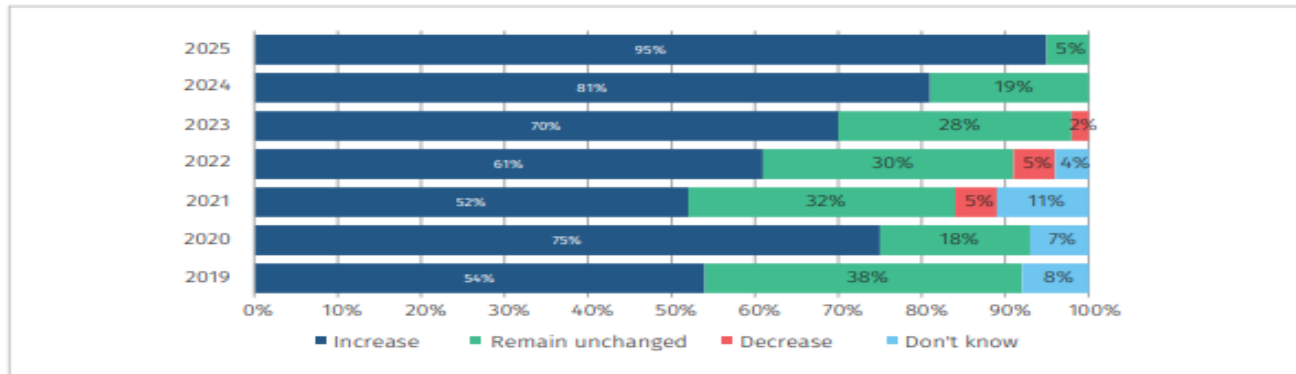
Source: IMF.

Gold as an Investment asset for NBG - Safe Reserve Asset



Source: World Gold Council and authors' calculations.

Figure 5. Central Banks' Expectations Regarding Changes in Gold Reserves Over the Next 12 Months



Source: World Gold Council.

Since the Global Financial Crisis, and more sharply after the COVID-19 pandemic, central banks' demand for monetary gold has increased, contributing to the rise in its price. Identified two main factors that drive central banks to increase the share of gold in their official reserves.

The first is the interest in gold as a “safe-haven” asset, which tends to rise during periods of global economic crisis, when returns on alternative financial assets decline.

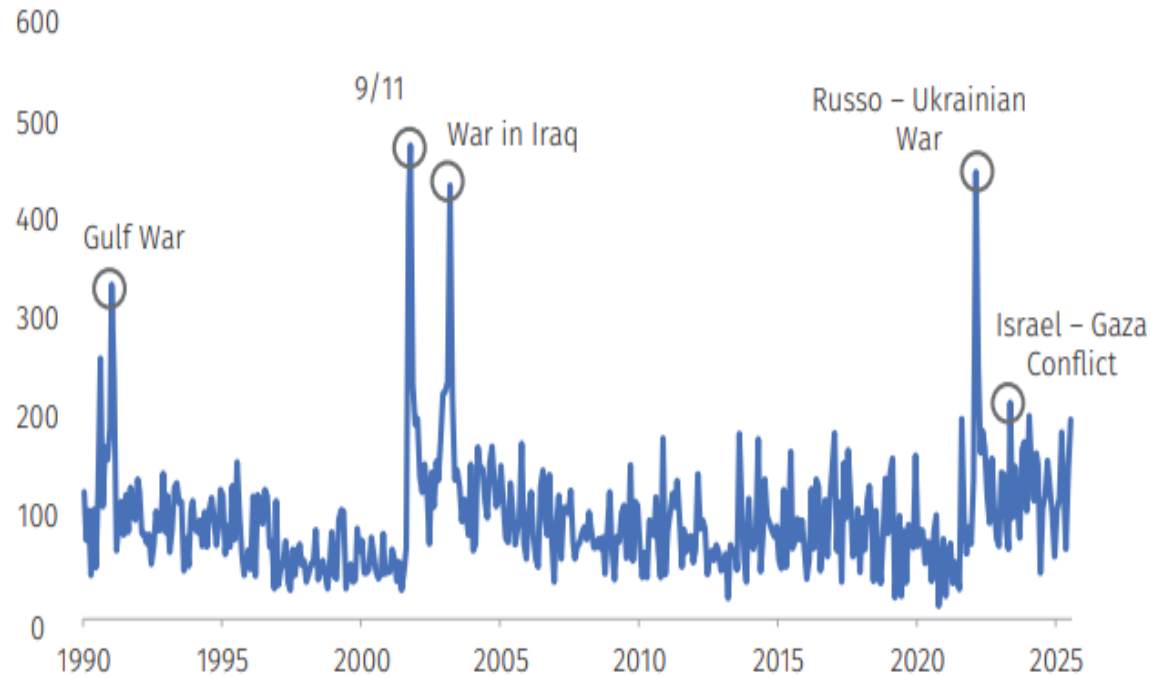
The second factor is the introduction of multilateral sanctions by the issuers of leading reserve currencies against other countries.

All else being equal, central banks in both emerging and advanced economies may share a common motivation for purchasing gold. While in advanced economies rising geo-economic uncertainty has a positive influence on monetary gold purchases, in emerging economies this is compounded by geopolitical risk.

Emerging economies, investing reserves in gold serves as a form of response to the risk of facing potential sanctions. In this sense, gold functions not only as a financial asset but also as an instrument for hedging geopolitical risk.

Gold as an Investment asset for NBG - Geopolitical Risks

Geopolitical Risk Index, 1990–2025



Gold as an Investment asset for NBG – Hedging Asset

Gold is widely regarded as a strategic hedging asset in international reserve management because its return drivers differ from those of traditional reserve assets such as government bonds and major currencies. Its role is particularly relevant during periods of financial-market stress, inflation uncertainty, geopolitical tensions, and currency depreciation.

For a central bank reserve portfolio, gold can provide several potential hedging functions:

- Inflation hedge:** Gold can help preserve purchasing power during periods of elevated or unexpected inflation, although its relationship with inflation is not constant over shorter horizons.

- USD and currency diversification:** Gold is not a liability of another sovereign and therefore can reduce dependence on any single reserve currency.

- Geopolitical and tail-risk hedge:** Gold can retain value during periods of geopolitical uncertainty, sanctions, sovereign-credit concerns, or disruption in international financial markets.

- Market-stress hedge:** Gold has historically exhibited different performance characteristics from many traditional fixed-income assets, potentially improving portfolio diversification during certain stress episodes.

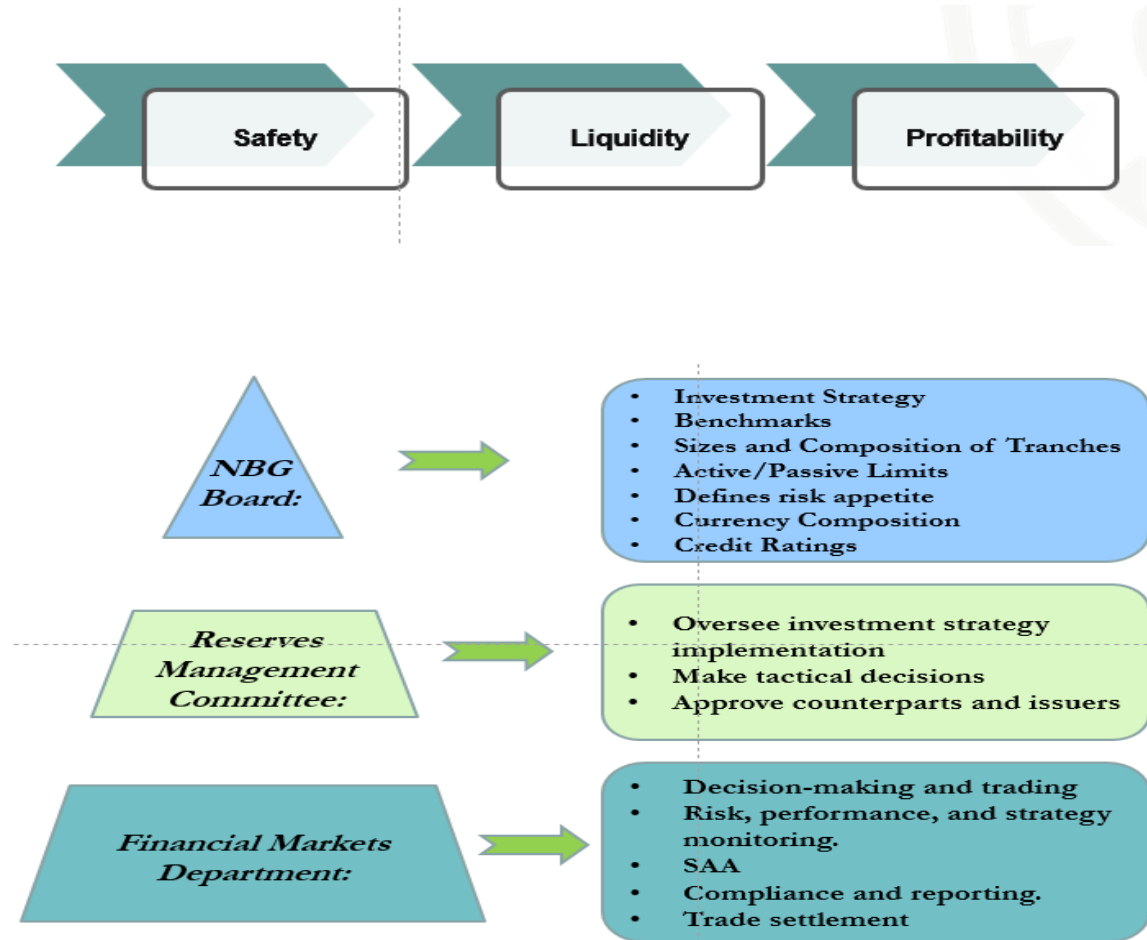
- Credit-risk diversification:** Unlike deposits, bonds, or other debt instruments, physical monetary gold does not represent a claim on a private or sovereign issuer.

- Liquidity:** Gold is traded in deep international markets and can generally be converted into major currencies, although liquidity and transaction costs can vary during periods of severe market stress.

- Long-term reserve diversification:** Gold can serve as a strategic asset alongside foreign-currency assets, particularly where the objective is to diversify the sources of reserve value rather than maximize short-term income.

Risk	Potential role of gold
Inflation risk	Hedge
USD concentration risk	Diversification
Currency depreciation	Potential hedge
Geopolitical risk	Potential hedge
Sovereign/credit risk	Diversification
Market stress	Potential hedge
Liquidity risk	Generally liquid, but not risk-free
Interest-rate risk	Different risk driver from bonds
Portfolio income	No regular income
Long-term diversification	Strategic asset

Gold as an Investment asset for National Bank of Georgia - How it Started – Governance



Support the existing FX regime and policy

Facilitate Government of Georgia FX payments (e.g., foreign debt payments)

Meet the foreign currency needs during external shocks, crisis, emergencies

NBG Board

The supreme body of the National Bank shall be the Board of the National Bank which consists of 9 members.

- ✓ Governor/Head of NBG Board
- ✓ First Vice Governor
- ✓ 2 Vice Governors
- ✓ 5 non executive members

Reserves Management Committee

- ✓ Governor/Head of NBG Board – Head of Committee
- ✓ First Vice Governor – Deputy Head
- ✓ Head of Financial Markets Department
- ✓ Head of reserves management division, Financial Markets Department
- ✓ Head of risk management and control division, Financial Markets Department
- ✓ Head Macroeconomics and Statistics Department

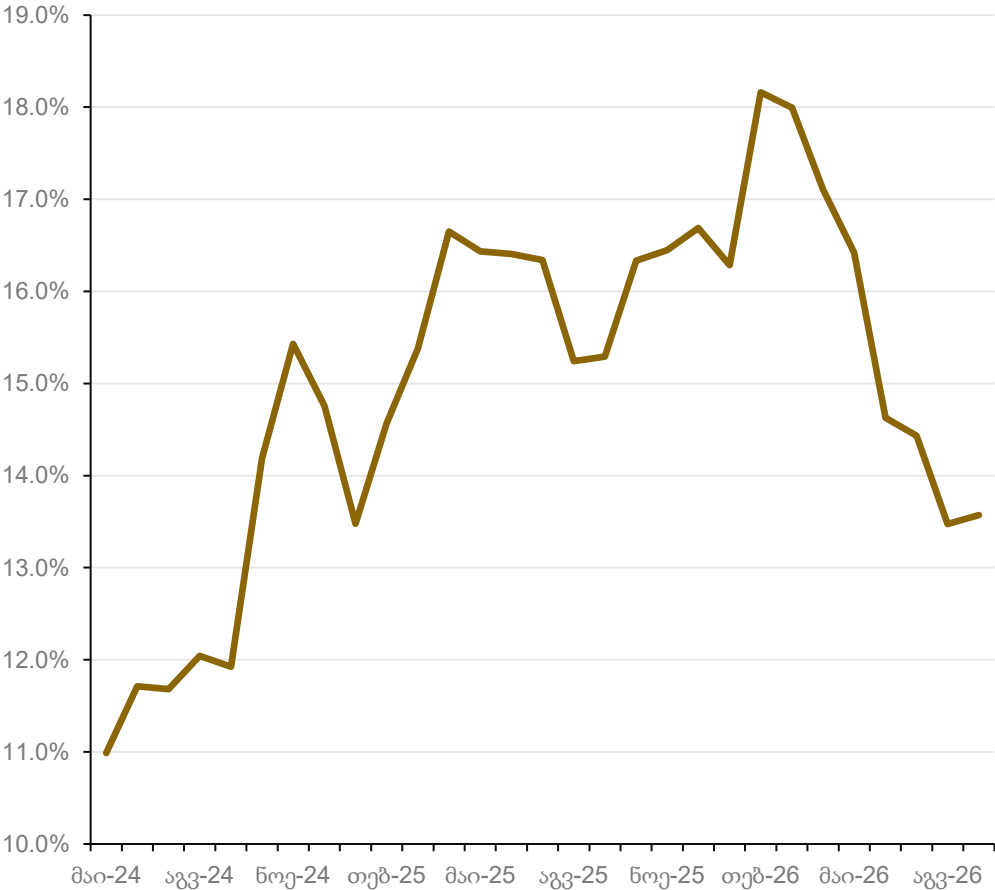
Financial Markets Department

- International Reserves Management Division (Front Office)
 - Reserves management related operations on International Markets
- Risk Management Division (Middle Office)
 - SAA
 - Market, Credit, Liquidity Risk management
 - Compliance and Reporting
- International Settlements and Corresponding Banking Division (Back Office)
 - Foreign Currency Transactions
 - Reserve Management Transactions
 - Corresponding Banking
- Critical Systems Management and Development Division
 - Systems – SWIFT; WSS; Bloomberg; GSSS
 - Static Data Management
- Monetary operations Division (Front Office)
 - Monetary Operations related operations on Internal Market

Gold as an Investment asset for NBG – Decision

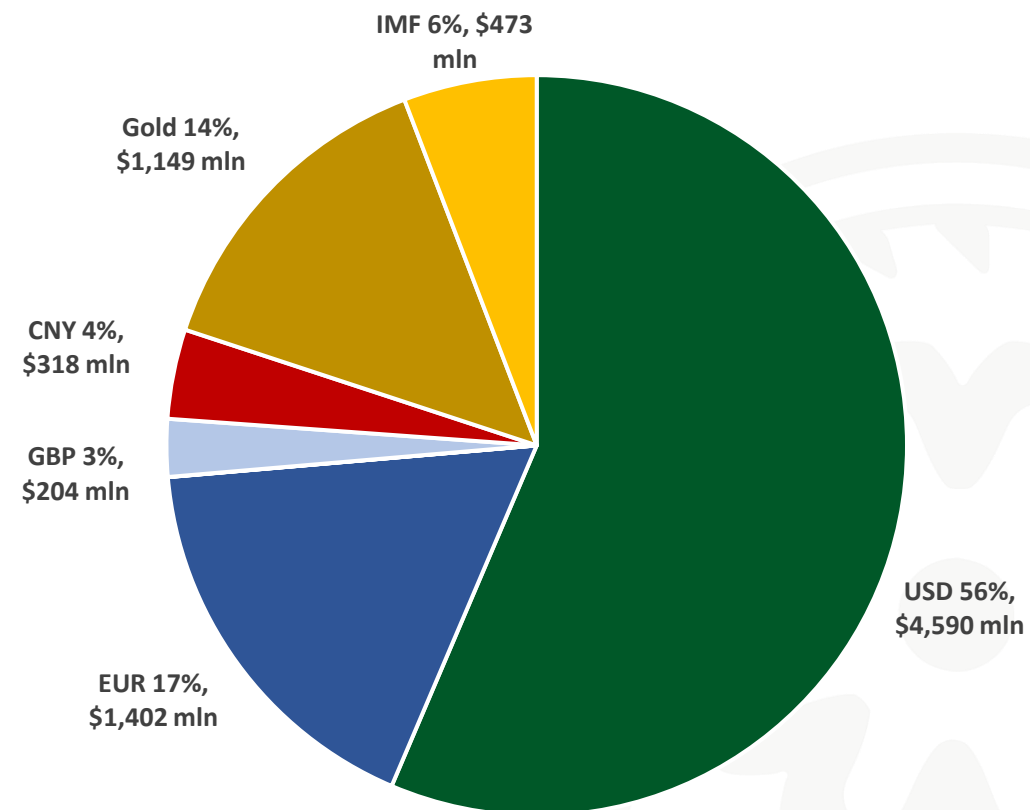
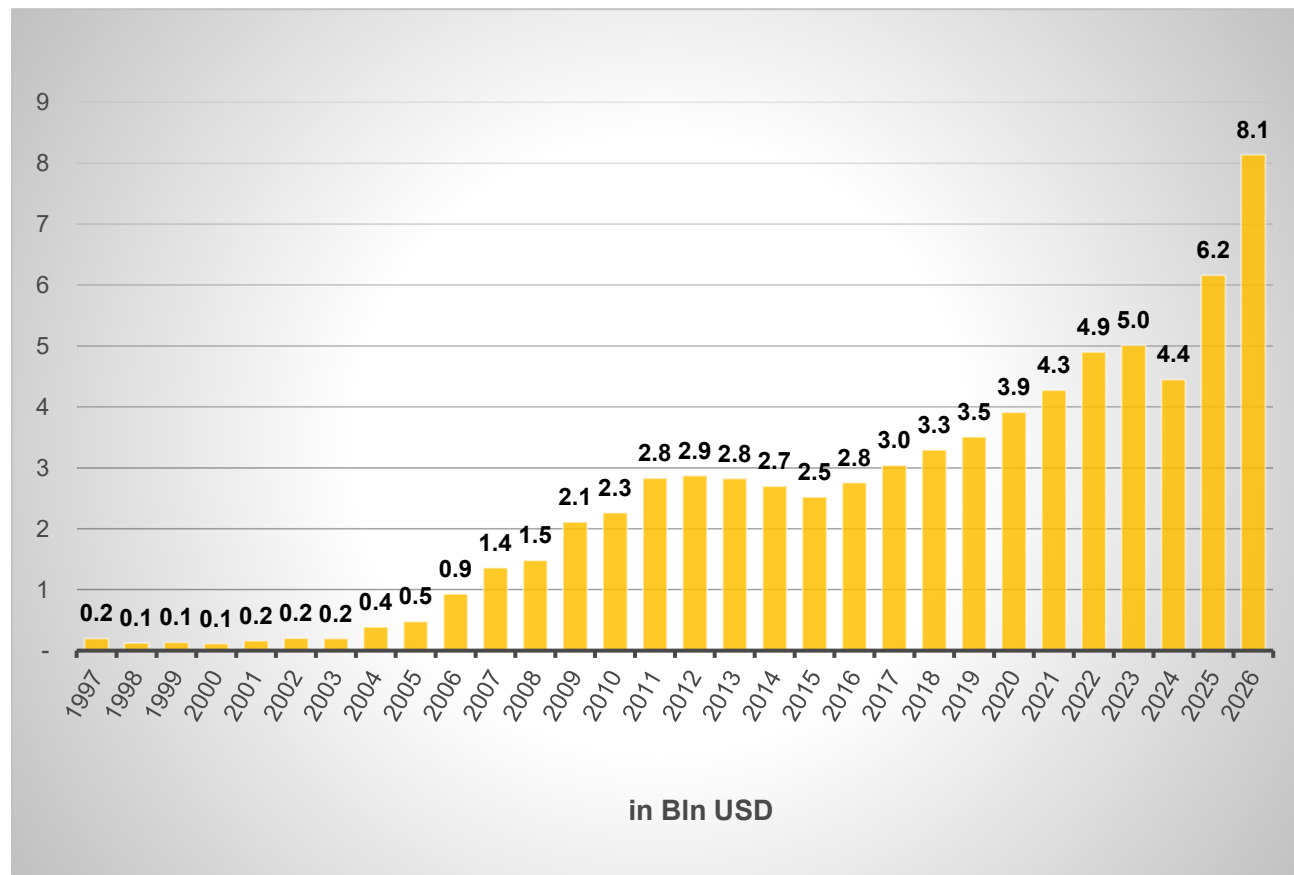
- **National Bank of Georgia decided to create separate portfolio for Monetary Gold Assets**
- **Strategic value**
- **Investment tranche (long term investment)**
- **Starting investment 500 mln USD**
- **Gold bars will be allocated at NBG Vaults**
- **No trading is allowed (sell or buy) – only NBG Board is responsible to take such decisions**
- **Gold limit 20% of NBG International reserves (January 2026 it changed to – 25%)**
- **Gold as a asset class will be out of SAA**

Gold share at NBG Reserves



	2024 May	2026 Sep	Cange
Total reserves	\$4.81 bln	\$8.08 bln	
Gold Value	\$0.53 bln	\$1.10 bln	+108%
Gold share	10.99%	13.57%	+2.6
Gold weight	~7.1 tones	~7.9 tones	+0.8 tones
Max weight (12 month)	—	18.16%	2026 Feb
Min weight (12 month)	—	13.47%	2026 Aug

National Bank of Georgia total reserves (Aug. 2026)



Gold as an Investment asset for NBG – Domestic vs External Vaults

For a **central bank / official reserve manager**, the choice between holding physical gold in **own vaults** and with an **external custodian** involves a trade-off between **control, liquidity, security, cost, and operational resilience**.

Factor	Own vaults	External custodian
Control	High – direct physical control and access	Lower – access depends on custodian arrangements
Counterparty risk	Very low regarding custody	Higher, depending on legal structure and custodian
Security	Institution bears full responsibility	Professional custodian provides security infrastructure
Operational burden	High – staffing, security, insurance, systems, maintenance	Lower – many operational functions outsourced
Cost	High initial CAPEX + ongoing OPEX	Usually custody/storage fees; potentially lower infrastructure costs
Liquidity / mobilization	Potentially very high if operational processes are established	Generally high, especially with established market infrastructure
Confidentiality	Potentially greater control over information	Information is shared with third party
Audit / verification	Institution controls inventory and verification processes	Requires reliance on custodian reporting + independent verification
Business continuity	Institution must maintain its own resilience arrangements	Can benefit from custodian's established BCP arrangements
Diversification of location	Can be limited to domestic facility	Easier to diversify across jurisdictions/vaults
Legal / jurisdictional risk	Primarily domestic	May introduce foreign legal/jurisdictional considerations
Repatriation	Already physically under own control	May require transportation/repatriation arrangements

Gold as an Investment asset for NBG – Domestic vs External Vaults

Sanctions and Sovereign immunity

In recent history, the freezing of a central bank's assets has been a relatively rare occurrence; for example, the freezing of Iran's assets in 2012 and the sanctions imposed on Libya in 2011. These were isolated cases, mainly linked to specific events, and did not have a systemic impact. It was generally assumed that reserves that were placed in the assets of countries issuing traditional reserve currencies enjoyed a form of sovereign immunity. As a result, within the framework of strategic asset allocation, jurisdictional or geopolitical risk was considered immaterial.

This paradigm shifted in February 2022, when the G7 countries, acting in coordination and on the basis of a joint agreement, froze nearly half of the official reserves of the Central Bank of the Russian Federation, amounting to assets equivalent to USD 300 billion. This was the first case at such scale where the ability to conduct financial operations with reserve assets was simultaneously restricted across multiple jurisdictions. The decision was taken in response to the Russian Federation's invasion of Ukraine. Russia's previous occupation of parts of Georgia in 2008 and the 2014 occupation and annexation of Ukraine's Crimea had led to the introduction of sanctions; however, until 2022 the reserves of the Russian central bank had remained untouched.

A separate case worth noting is the dispute regarding the repatriation of gold held by the Central Bank of Venezuela in the Bank of England. In 2018 and early 2019, the Venezuelan central bank requested the return of its gold reserves to the country, but the Bank of England declined to act on those instructions.

These developments have challenged the previously accepted view that international reserves enjoy sovereign immunity and are protected from political risks. Recent experience has shown that access to central banks' assets may be used as a tool in international relations. The creation of such a precedent has raised concerns within the governing bodies of various central banks.

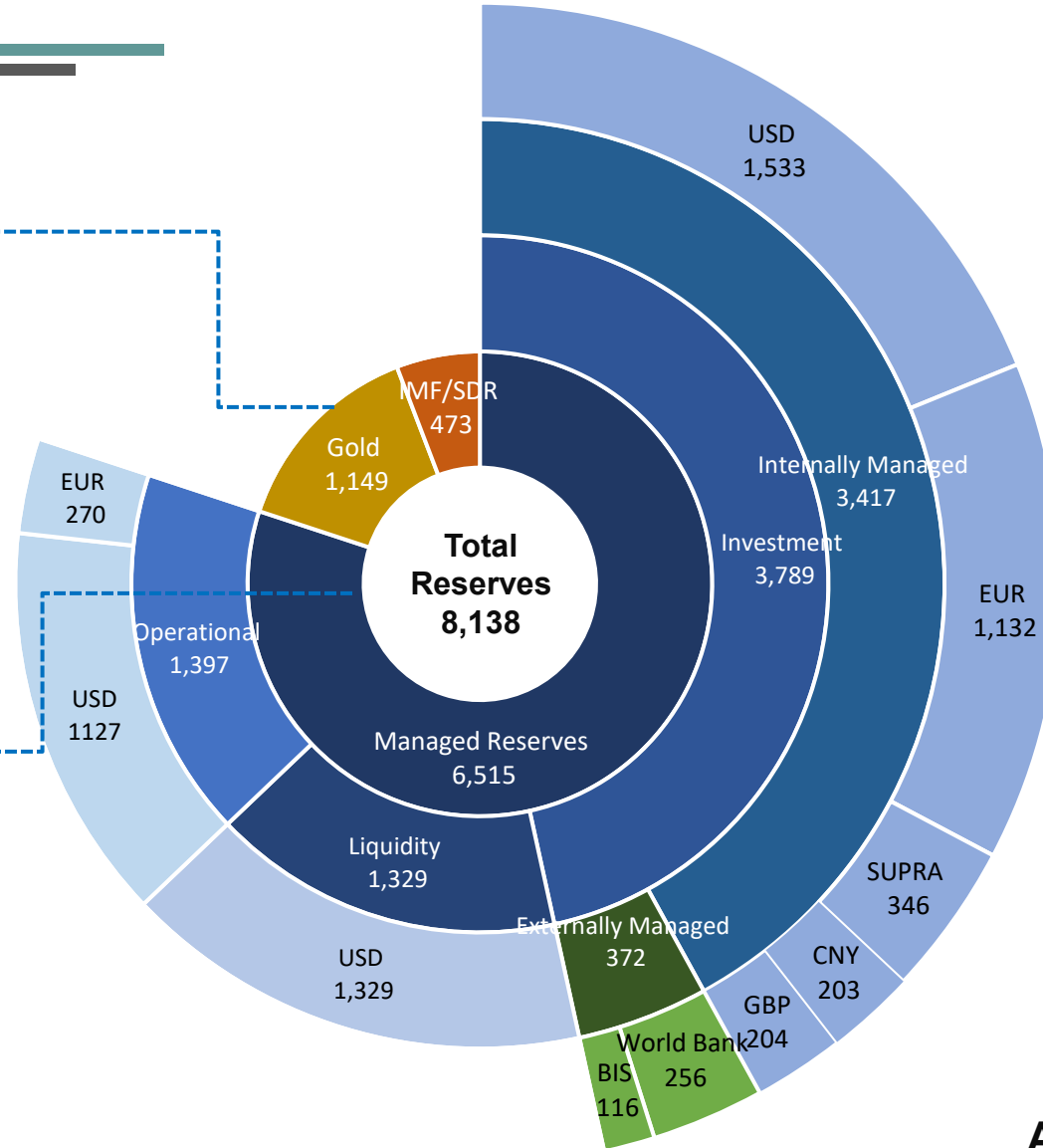
NBG Portfolio Structure



Gold recorded a ↑
\$135M MtM gain



Total Reserves increased
by ↑ \$623 M MtoM



As of 8/31/2026

All figures are in \$m

Thank You