

Session 3:

Trends in Reserve Management in times of
Geopolitical and Macroeconomic Uncertainty

Trends and Challenges in Reserve Management in times of Geopolitical and Macroeconomic Uncertainty

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Trends and Challenges in Reserve Management in times of Geopolitical and Macroeconomic Uncertainty

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**2026 Asian Regional Forum on Investment Management of FX Reserves
Hanoi, Viet Nam, 7–9 October 2026**



The Objectives are Timeless. The Environment is Not.

Safeguarding liquidity and preserving capital remain the primary objectives of reserve management. But the environment in which reserve managers pursue them has become significantly more complex — shaped by four converging forces.

RECENT DRIVERS · 2020–2026

Recent drivers by phase

Fed Funds Rate & USD COFER share, 2020–2026

— Fed funds rate (% , left axis) — USD COFER share (% , right axis)



2020 - 26
Geopolitical
fragmentation

2022-23
Rate-cycle
shock

2024-26
Dollar
diversification

ESG & climate: eligibility and transition-risk overlay

FUTURE PRIORITIES & PLAYBOOK

01 Geopolitical risk pricing

GEOPOLITICAL ADAPTABILITY

- › Sanctions risk and custody risk
- › Scenario-tail hedging
- › Diversified custody & settlement hubs

02 Duration & yield-curve management

LIQUIDITY

- › Fed-EM divergence in high yield environment
- › Bear-steepening hedge
- › Fine-tune duration across Fed and EM rate cycles

03 EM asset diversification

DIVERSIFICATION

- › Attractiveness of EMLC and Asian bonds
- › Intra-regional reserve arrangements to support investment
- › Yield pickup & geopolitical diversification

04 AI & US equity concentration risk

RESILIENCE

- › AI adoption & valuation multiples
- › Concentrated leadership risk
- › Valuation risk from hype cycles

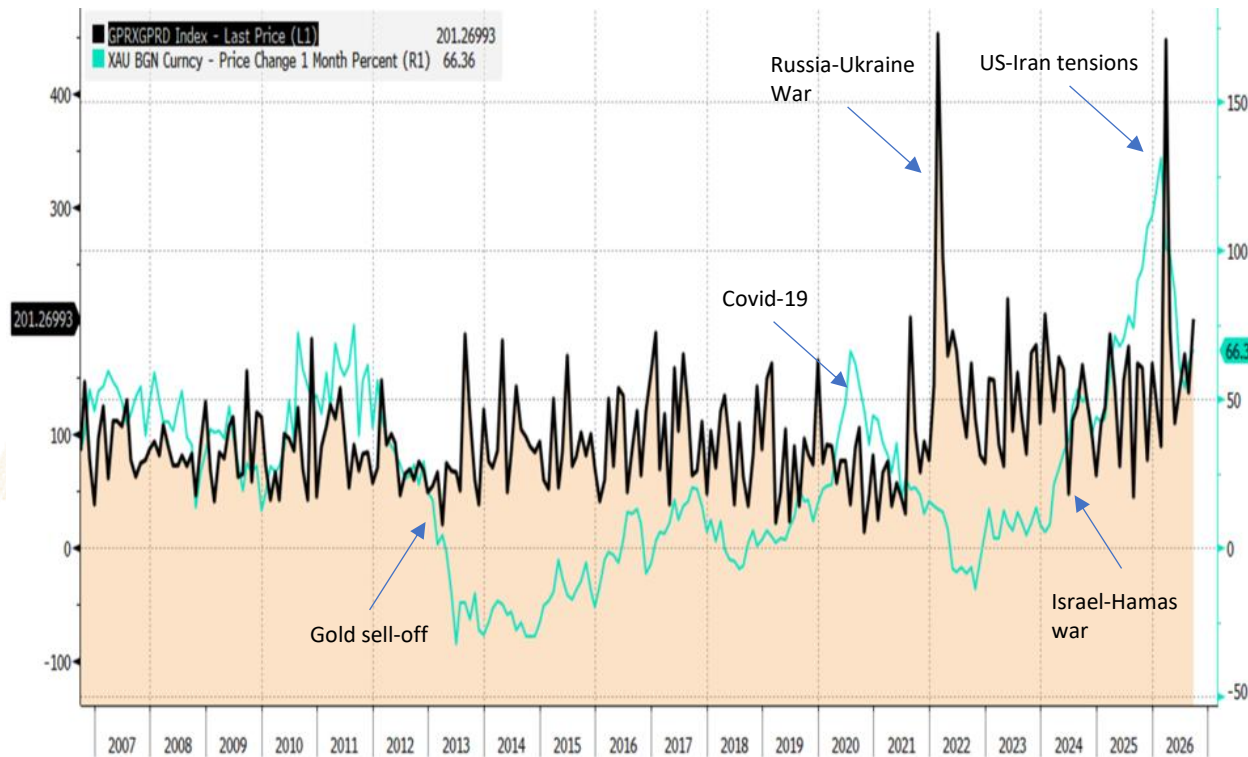


Geopolitical Fragmentation is Reshaping Diversification (1/2)

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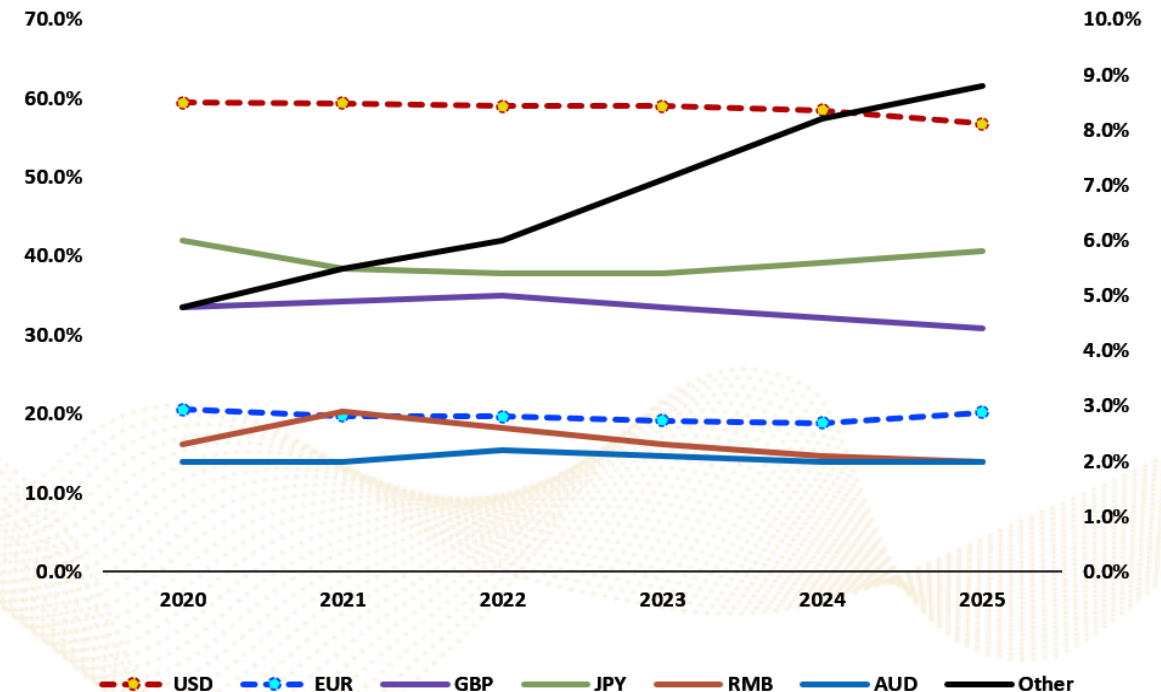
- **Gold has strengthened sharply amid successive geopolitical shocks, reinforcing its role as a hedge against heightened uncertainty, sanctions, and counterparty risk.**
- **The US dollar remains dominant — but its reserve share has drifted down in the last 5 years, and central banks are diversifying more deliberately into gold and non-traditional currencies as a hedge against sanctions and counterparty risk.**

Gold Price Performance and Geopolitical Risk Index (2007–2026)



Source: Bloomberg

Currency Composition of Global FX Reserves (2020–2025) - Share of reserves (%)



Source: IMF COFER, International Reserves and Foreign Currency Liquidity IMF Data & Stat. 2026

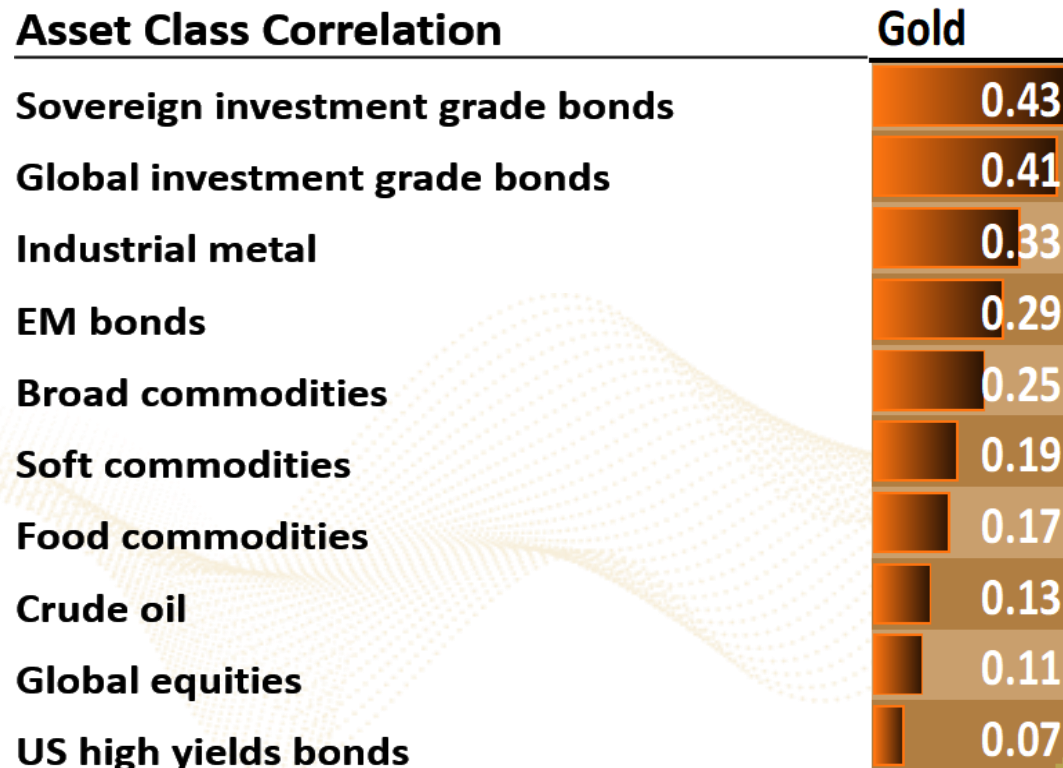


Geopolitical Issue: The Rise of Gold, the “Reserved” metal (2/2)

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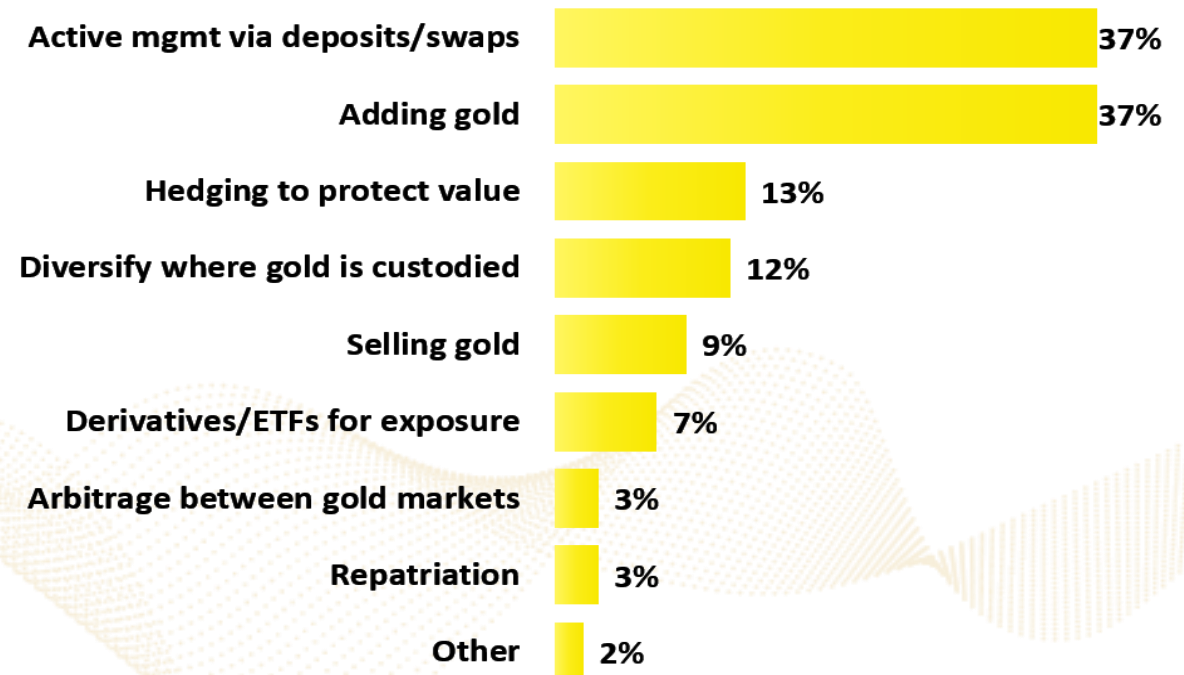
- *Gold’s low correlation with major asset classes strengthens its role as a reserve diversifier, with 37% of surveyed institutions considering additional holdings and 37% pursuing more active management.*
- *However, gold is not a predictable safe haven, as its price responds unevenly to the US dollar, interest rates, equities, and geopolitical shocks.*

Gold generally exhibits low correlations with major asset classes over the long term (1978-2026)



Source: DBS

What strategies are you considering with respect to gold holdings in the coming year?



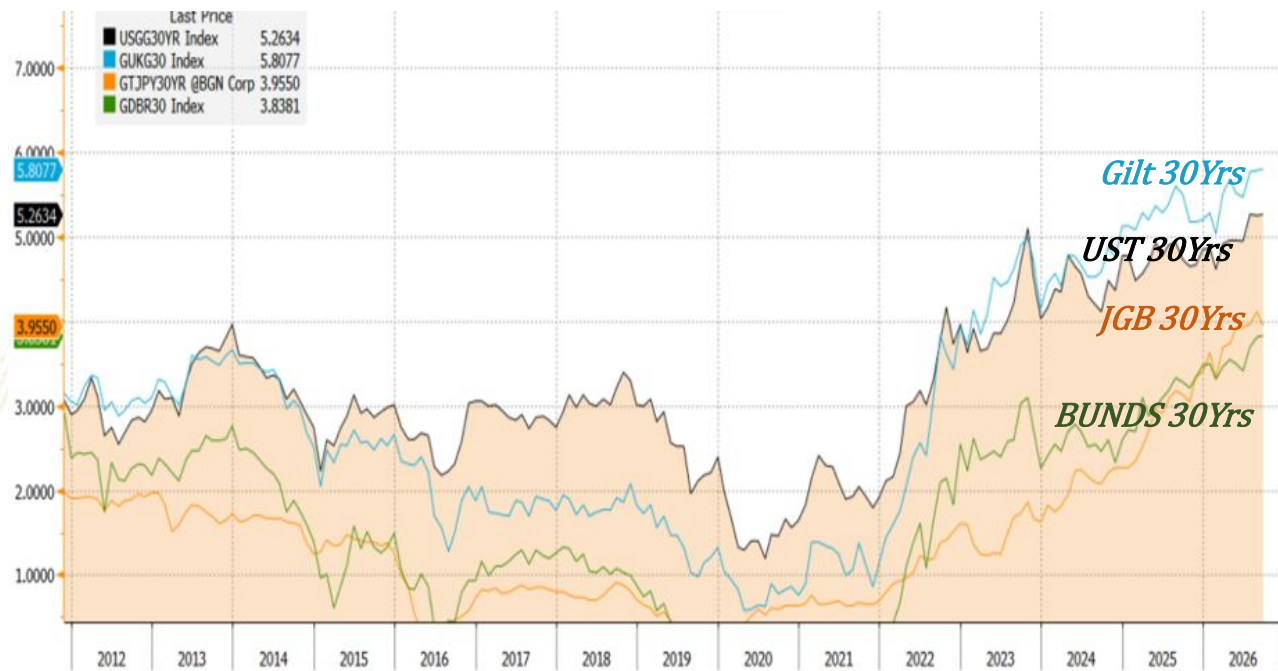
Source: HSBC FX Reserves Management Survey 2026



High Yield Era : multi-decade highs

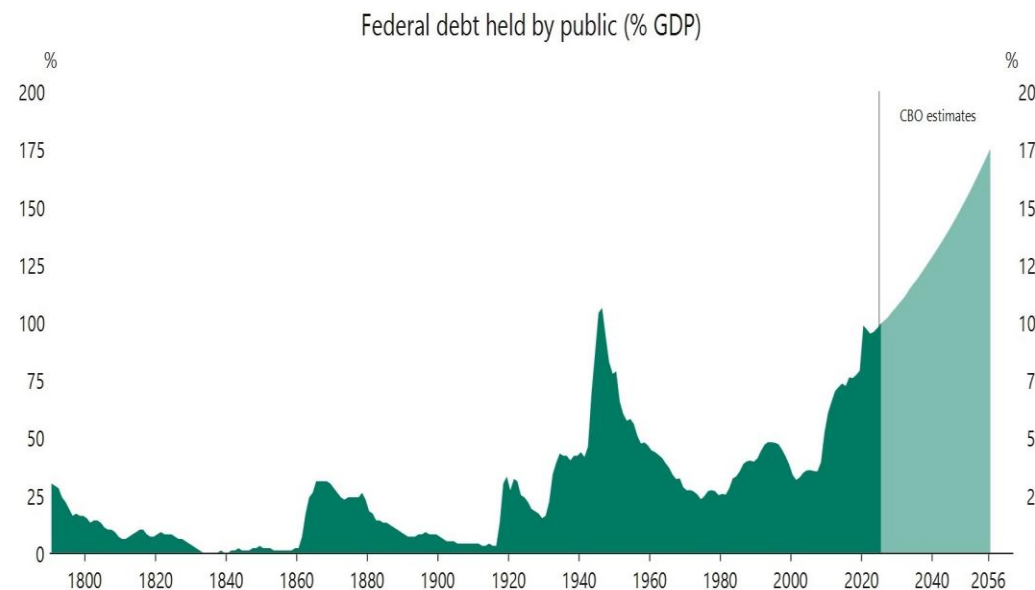
- **Long-term yields are rising primarily on higher real yields, driven by fiscal deterioration and growing borrowing needs rather than inflation expectations. Moreover, heavy long-duration issuance, including from hyperscalers funding AI investment, is adding to supply pressures and keeping yields elevated.**
- **Meanwhile, UST buybacks may offer only temporary relief, with investors sceptical that the programme can meaningfully offset broader supply pressures.**
- **The backdrop could steepen the yield curve further, reinforcing investors' preference for shorter-duration assets.**

30-Year Government Bond Yields: United States, United Kingdom, Japan, and Germany (2011–2026)



Source: Bloomberg

CBO Projections: US Govt. Debt / GDP



Source: Apollo



EM Asset Diversification...

EM is no longer merely a “carry trade.” The strategic case for EM is now confirmed across four reserve-relevant dimensions — making it a core allocation, not just a yield enhancer.

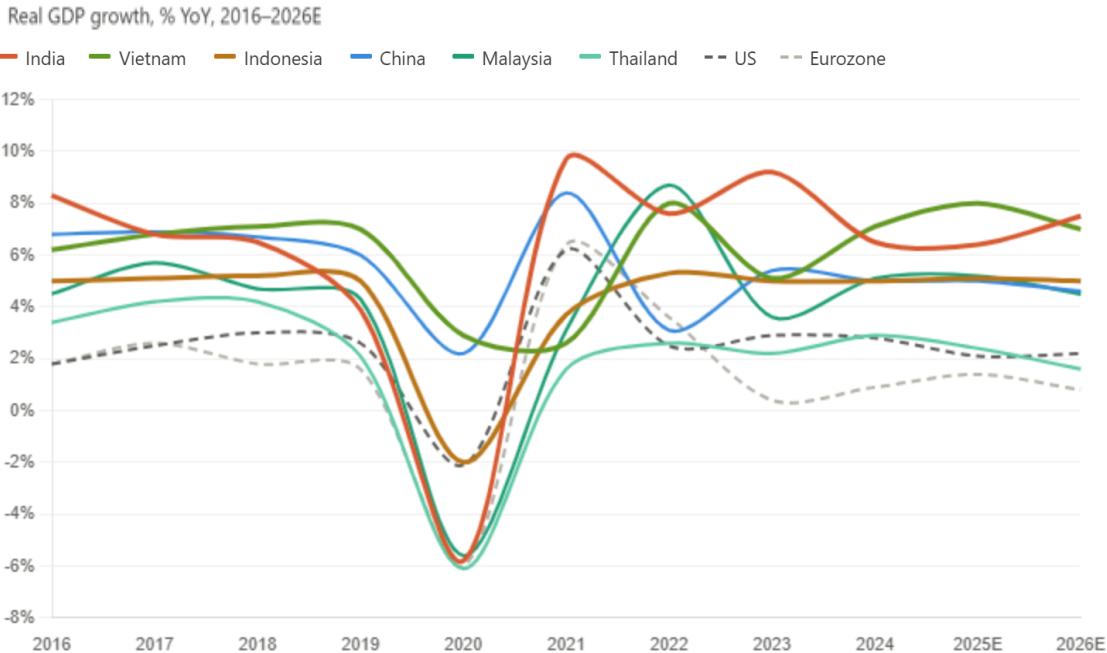

Higher Growth Potential


Stronger Fiscal Trajectory vs DM


External Resilience


Healthier Demographics

EM Asia growth decisively outpaces DM: India & Vietnam at 7–8% vs US/Eurozone at ~2%



Source: National statistical agencies, IMF WEO, Bloomberg consensus for 2025E–2026E. Compiled by Bank Indonesia, Reserve Management Department.

EM Asia resilience tiers: fiscal trajectory, debt/GDP & yields vs DM — supporting the case for selective allocation

CATEGORY	COUNTRY	FISCAL (DEFICIT) /GDP	DEBT /GDP	2Y YIELD	FX YTD %	POPULATION GROWTH %	AGING POPULATION (65+) %
Developed	US	(6.40%)	137.0%	4.023%	+0.65%	+0.981%	18.4%
	Eurozone	(2.92%)	87.5%	2.551%	-0.79%	+0.357%	20.4%
	Japan	(2.26%)	206.9%	1.358%	-1.55%	-0.435%	29.4%
More resilient <i>Stable economy, lower yield, FX appreciation</i>	China	(4.3%)	88.3%	1.227%	+3.12%	-0.241%	15.9%
	Singapore	+0.44%	177.0%	1.574%	+0.68%	+1.231%	20.0%
Middle ground <i>Slightly less stable, middle yield, mixed FX</i>	Korea	(3.14%)	52.5%	3.616%	-3.34%	+0.074%	19.3%
	Malaysia	(3.72%)	70.4%	3.069%	+1.99%	+1.228%	8.5%
	Thailand	(3.9%)	57.2%	1.260%	-3.02%	-0.048%	17.0%
Potential growth <i>Less stable, high yield, FX depreciation</i>	India	(4.4%)	81.3%	6.298%	-6.08%	+0.895%	7.0%
	Indonesia	(2.59%)	40.2%	6.634%	-6.49%	+0.817%	7.5%
	Philippines	(5.4%)	62.2%	5.683%	-4.45%	+0.829%	5.0%

FX YTD vs USD; US = DXY index 2 Jan – 28 May 2026. Malaysia 2Y = nearest MGS bond.
Source: Bloomberg, as of 28 May 2026 Aging population from several research (2024–2026), approximate.



What Can Support Greater Diversification into EM Local Currency Bonds?

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Greater EMLC allocation requires a stronger markets ecosystem that are accessible, liquid, hedgeable, operationally efficient and friendly to official-sector reserve managers.

Key enablers for reserve-manager participation

- 1 Broader investor access** Tax exemptions, central-bank investment guideline, and simplified KYC, supported by sound settlement, custody, and interoperable payment infrastructure`
- 2 Increasing market liquidity** LCT, repo and secondary-market development to support local-currency trading activity.
- 3 Hedging instruments** CCS, IRS and FX hedging tools to manage currency and duration risk more effectively.
- 4 Reserve manager friendliness** Central-bank facilitation to reduce operational frictions and improve investability.

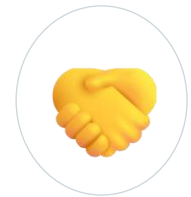
Central Bank-to-Central Bank EMLC Investment Facilitation

Central banks can help turn EMLC bonds into a more investable asset class.



INVESTOR

Selective EMLC allocation for diversification and reserve resilience.



FACILITATOR

Support market access, market deepening and hedging tools.



The Role of FX Reserves in Bank Indonesia's Policy Mix

- *Foreign exchange reserves are not managed as a standalone investment pool — they are part of Bank Indonesia's broader policy toolkit.*
- *Reserves support monetary and exchange-rate policy, external obligations, and financial stability — so safety and liquidity come before return. Framework 5.0 operationalizes that mandate.*

THREE ROLES IN THE POLICY TOOLKIT

1

Monetary & FX policy

Supports implementation of monetary and exchange-rate policy decisions.

2

External obligations

Helps fulfil Indonesia's external payment obligations as they come due.

3

Resilience buffer

Provides a buffer that strengthens resilience when global conditions turn adverse.

GUIDING PRINCIPLE

1. SAFETY & LIQUIDITY

2. OPTIMAL INCOME

3 Layers Of Defenses:

1st Reserve Man. Dept

2nd Risk Man. Dept

3rd Internal Audit Dept

FRAMEWORK 5.0: THREE STRUCTURAL UPGRADES

1

Adequacy Guardrails

Two thresholds anchored to the IMF ARA benchmark

2

Decision Cycles

Long-term horizon sets strategic direction, Short-term horizon reviews positioning often

3

Total-Portfolio Approach

Provides a buffer that strengthens resilience when global conditions turn adverse.

Thank You
Terima Kasih

