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Global version

# UBS Annual Reserve Manager Survey 2021

27th Reserve Management Seminar

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# 27th Annual RMS Survey

## Highlights

UBS RMS Survey is among the most authoritative depictions of official reserve management activities available. This survey was conducted during April – June 2021 and collected responses from close to 30 central banks from all regions globally.

- **Macro and Economic concerns:** Failure to end the pandemic is the main concern (79%), followed by soaring debt levels (71%) and fear of inflation (57%). Inflation was not mentioned at all in last year survey.
- **Macro and Financial Concerns:** Lower/Negative yields in fixed income markets is mentioned by 86% of respondents, inline with the survey results of the last three years. Rising interest rates & inflation is mentioned by 64% of surveyed institutions, a dramatic increase from only 6% in the previous year. 67% of participants expect the US FED to raise interest rates in 2023
- **Strategic Asset Allocation:** The "secular" trend towards more diversification of reserves across asset classes has continued during the pandemic. Equities is an eligible asset class for over 40% of central banks and Emerging Market Debt experienced a surge in eligibility (54%). 21% of participant banks consider investing in illiquid asset classes like real estate and infrastructure. A shift towards assets that protect against inflation is also visible in 2021.
- **Currencies:** The RMB continues its "marathon" of becoming a key reserve currency with the average long-term target allocation to the Chinese currency increasing to 5.7%. Reduced USD demand during the year and rising demand for euro denominated assets.
- **Sustainability:** 19% of participants considered adding sustainability as a fourth reserve management objective. 31% indicated that they have recently moved or considered to move from traditional to ESG benchmarks.
- **Central Bank Digital Currencies:** Nearly 40% of respondents expect wholesale CDBC to be launched within the next 3 years. Crime and money laundering prevention and pressure from crypto currencies are mentioned among the key drivers. 71% of respondents prefer a centralized setup instead of a decentralized (DLT) system. More than 60% of respondents do not believe that the launch of CDBC will lead to a diminished role of the USD and more than 50% do not know yet what will be the impact of a digital Yuan on the internationalization of the RMB.

Source: UBS Annual Reserve Manager Survey, results as of June 2021

# Macro and economic issues

## Key results of the 27th Annual Reserve Management Seminar Survey

- The top concern that the global economy is currently facing is a failure to end the pandemic which was mentioned by 79% of participants, followed by fear of global government debt levels (71%). The fact that participants still take the global pandemic very seriously is also reflected in the fact that half of participants believe that the pandemic will only be over after2022.
- Fear of inflation and an uncontrolled rise in long-term yields was mentioned by 57% of participants and came in at #3, a significant increase as this risk was not mentioned by a single participant in the previous year.
- When it comes to risks that are specifically related to the investment of FX reserves, the top concern which 86% of respondents cited remained lower and negative yields in the fixed income markets, which was also the top concern in the previous year. Rising US interest rates & inflation are now the second-most mentioned concern with 64% of participants, while this was only mentioned by 6% of survey participants in the previous year.
- 67% of participants expect the US FED to raise interest rates in 2023 and a further 30% expect the Fed to do so in 2022. Only 4% expect the FED to raise rates in 2024. In contrast, participants expect a later hiking cycle for the ECB with 33% of participants expecting the first interest rate increases in 2023, 41% in 2024 and only 26% later than 2024.
- We asked survey participants how far leading central banks like the Fed might go to support markets and the economy in their opinion.
  - 58% of respondents think that the US FED could turn to yield curve control if needed.
  - 16% of respondents think that the US FED could turn to negative interest rates if needed.
  - 42% of respondents think that the US FED could buy equities if needed.

Source: UBS Annual Reserve Manager Survey, results as of June 2021

# Strategic Asset Allocation

## Key results of the 27th Annual Reserve Management Seminar Survey

- The global trend towards FX reserve diversification is continuing, but this year, more conservative assets like Supranationals as well as inflation hedges (Inflation-protected bonds and Gold) were more frequently mentioned when it comes to instruments that participants have added over the past year or intent to add to their portfolio over the coming year.
- But with central banks still diversifying away from more conservative fixed income assets, Passive Equity were once again the most frequently mentioned item when it comes to the question which asset class central banks want to increase over the coming year on a net basis.
- Emerging Market debt experienced a surge in eligibility among participating institutions (from 33% to 54% eligibility). Also, 21% of participants indicated that they now consider investing in illiquid asset classes (infrastructure, real estate) to enhance returns, an increase from only 3% in the previous year.
- With sustainable investment strategies becoming mainstream, 19% of participants have considered adding sustainability as a fourth reserve management objective beyond the established objectives of liquidity, safety and return.
- Overall, 52% of participants have altered their Strategic Asset Allocation over the last 12 months and a further 56% indicated that they wish to implement further changes to their asset allocation in the next 12 months.
- 13% of respondents indicated that they recently moved or considered moving passively-managed assets back to active management strategies (unchanged from 13% in 2020).
- Finally, 38% of respondents (2020: 41%) indicated that they integrate gold holdings into the SAA of their reserve management portfolio, while 59% are treating gold separately.

Source: UBS Annual Reserve Manager Survey, results as of June 2021

# Management of FX reserves

## Key results of the 27th Annual Reserve Management Seminar Survey

- 89% of central banks consider the current level of their reserves as adequate, slightly down from 90% in the previous year.
- 78% of respondents say that their level of reserves increased or remained stable over the last 12 months (compared with 87% in the previous year), signaling that the period of stabilization in global FX reserves that we observed last year continued.
- Central banks use several measures to determine the adequacy of their reserves, with the majority measuring against months or % of imports.
- 68% of respondents split their assets in different tranches to better tailor their asset allocation, an increase from 58% in the previous year
- Five surveyed entities have recently considered setting up a Sovereign Wealth Fund, up from three in the previous year.
- 31% of respondents indicated that their institution recently changed or considered changing its benchmark(s) to reflect ESG.

Source: UBS Annual Reserve Manager Survey, results as of June 2021

# Currency Management

## Key results of the 27th Annual Reserve Management Seminar Survey

- The average share of USD holdings among all the participants was 69%, an increase from 67% in the previous year.
- The Renminbi was the most frequently mentioned currency when it came to the question which currencies were added on a net basis in the reserves of participating sovereign institutions during the past year. In contrast, the USD and the Euro were the most frequently mentioned currencies that participants reduced over the course of the previous year.
- However, while the Euro was the most frequently mentioned currency when it came to reductions this year and in the previous year, it now also ranked #2 after the Renminbi when it comes to currencies that central banks are planning to add over the coming year.
- Overall, 81% of survey respondents answered that they are invested, or consider investing, in the Renminbi, a slight decline from a high value of 83% in the previous year.
- The average long-term (10-year) target allocation for the RMB as a percentage of total reserves increased to 5.7% from 5.0% in the previous year, which implies further growth from levels currently reported to the IMF. Two participants indicated that they introduced the RMB as a new currency in their reserves.

Source: UBS Annual Reserve Manager Survey, results as of June 2021

# Survey special: Central Bank Digital Currencies

## Key results of the 27th Annual Reserve Management Seminar Survey

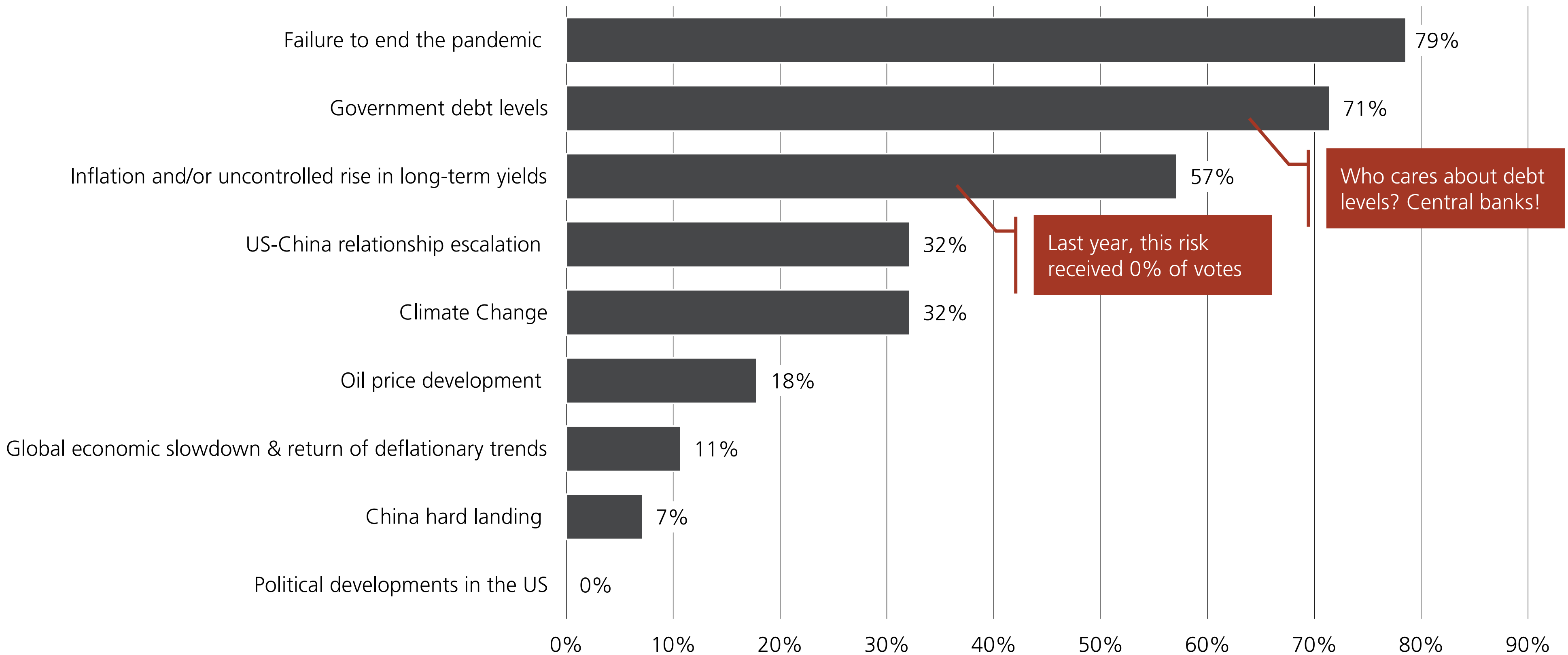
- The question by when central banks are expected to launch digital currencies must be split between widely available retail CBDCs on the one hand and CBDCs with access only for large financial institutions (wholesale) on the other hand. In total, participating central banks expect wholesale CBDCs to be introduced earlier than retail CBDCs.
- The motivation to improve retail payment systems and the overall wholesale financial architecture (payment, clearing, settlement) were among the top answers why central banks want to introduce CBDCs. Interestingly, central banks also see crime and money laundering prevention and pressure from private projects (stablecoins and cryptocurrencies) as one of the key motivations to pursue the development of CBDCs.
- Survey participants see the most important use cases for CBDCs in their economy in retail sales transactions and for remittance and cross-border payments, followed by improvements in international inter-bank clearing processes.
- The risk of disintermediation of the banking system and the resulting impact on financial stability, followed by operational and cybersecurity issues as well as potential disruptions on existing payment system providers were seen by participants as the key risks of CBDC adoption in their economies.
- 57% of participants see no meaningful impact for the reserve management at their institution from the introduction of CBDCs, while 24% indicate that there might be an impact on their back-office operations. 14% see increasing pressure to invest in cryptocurrencies.
- 64% of participants do not believe that CBDCs will lead to the fall of the USD as the dominant reserve currency.
- What would be the main motivation for central banks to invest in cryptocurrencies? 83% of participants believe that the learning process itself of investing and managing this new asset class would be valuable for their institution. 28% of participants see benefits coming from cryptocurrencies as an uncorrelated asset, and a further 11% would consider it as an alternative to gold.

Source: UBS Annual Reserve Manager Survey, results as of June 2021

# Main concerns impacting the global economy

## What are the main risks that the global economy is currently facing?

**% of respondents, multiple answers possible**

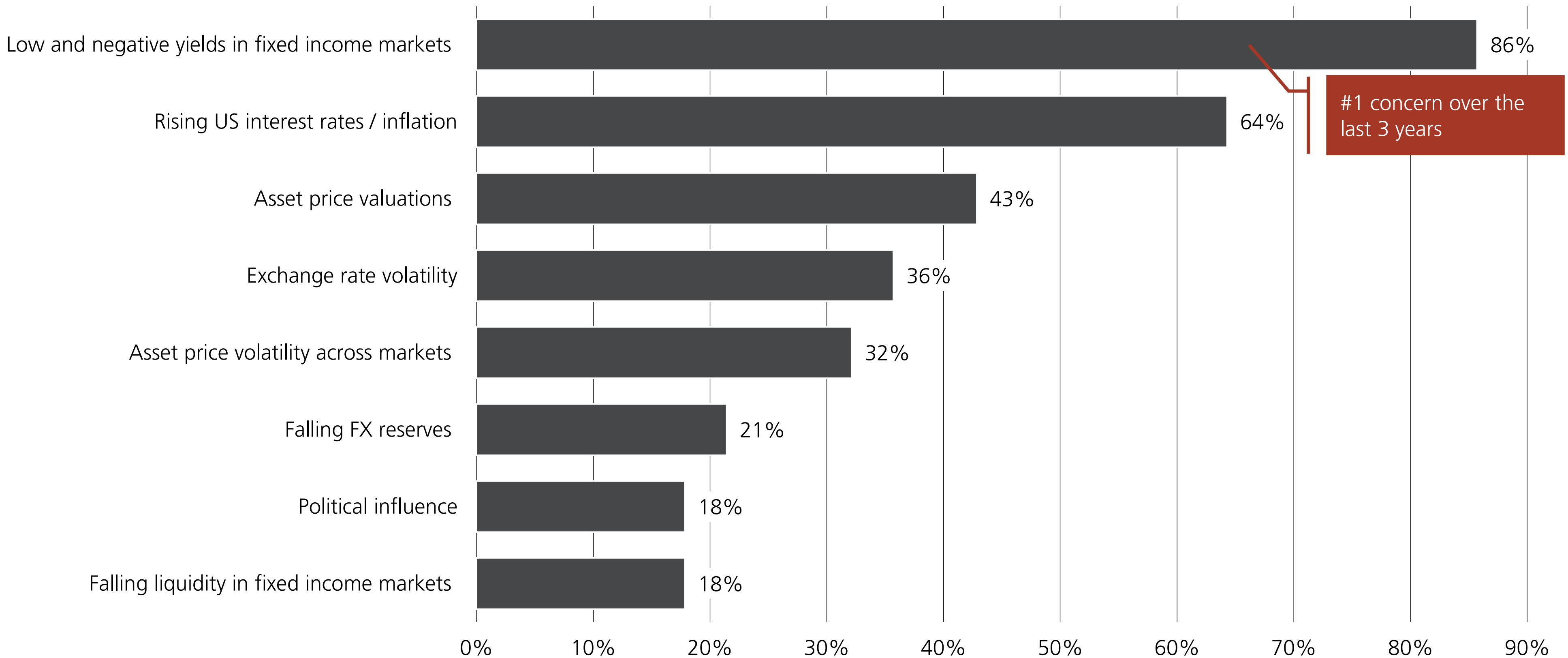



Source: UBS Annual Reserve Manager Survey, results as of June 2021

# Main concerns impacting the levels of FX reserves

## What are your main concerns when it comes to the investment of FX reserves?

**% of respondents, multiple answers possible**

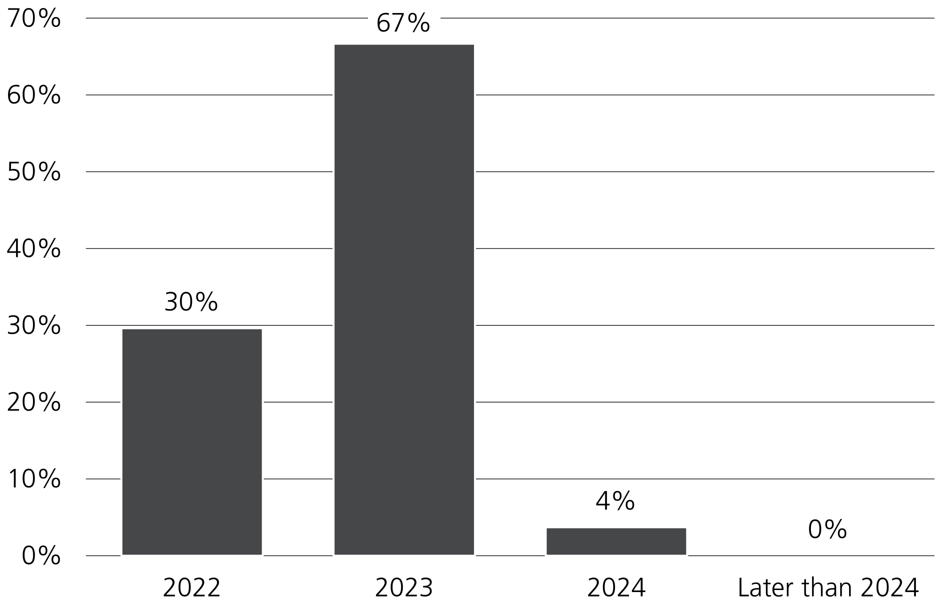



Source: UBS Annual Reserve Manager Survey, results as of June 2021

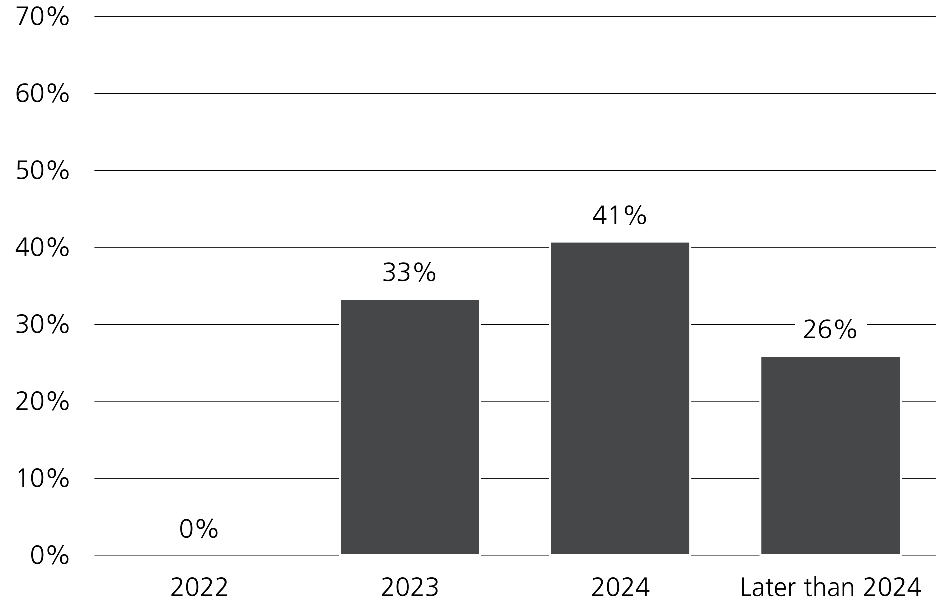
# Timing the turning point in the interest rate cycle

96% of participants agreed to the statement that inflation will rise in a post-pandemic world, but not much. What does this mean for the turning point in interest rates?

**By when do you expect the FED to raise interest rates?**




**By when do you expect the ECB to raise interest rates?**



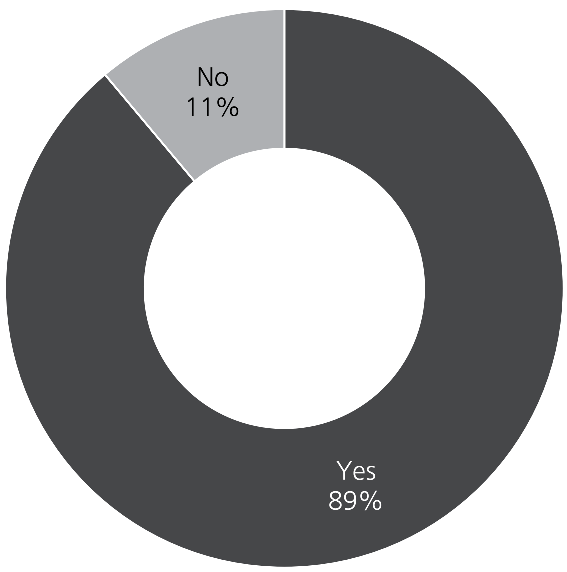

**What other measures could central banks implement?**

- 16% of survey participants think that the US FED will adopt negative interest rates if needed
- 58% of survey participants think that the US FED could turn to yield curve control if needed
- 42% of survey participants think that the US FED could buy equities if needed

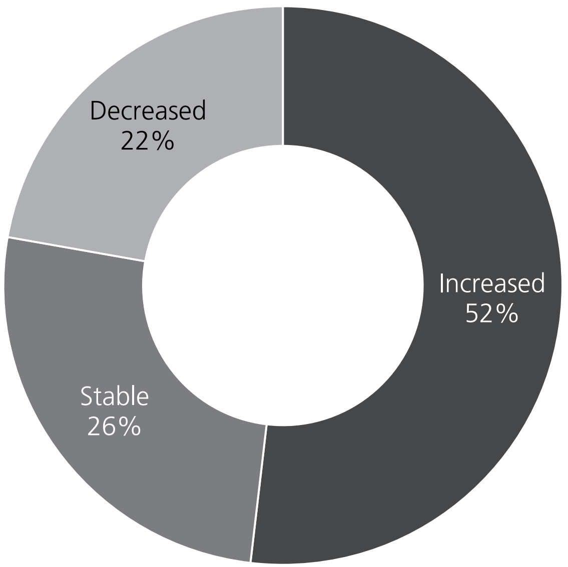
Source: UBS Annual Reserve Manager Survey, results as of June 2021

# Level and adequacy of FX reserves

**Do you see your current level of FX reserves as adequate?**




**How has the amount of your FX reserves changed over the last 12 months?**



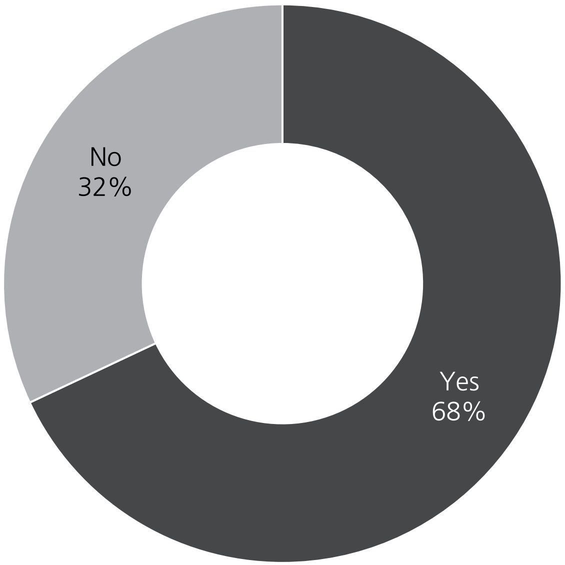

**How do survey participants assess their FX reserves?**

- The percentage of survey participants that see their level of FX reserves as not adequate has slightly increased to 11% from 10% last year.
- The number of participants who reported increased FX reserves increased to 52% from 40% last year.
- The majority of participants use several measures to determine the adequacy of their reserves, but the majority are measuring against months or % of imports (most frequent answer with 77%), followed by % of short-term external debt, and % of GDP as well as scenario analysis.

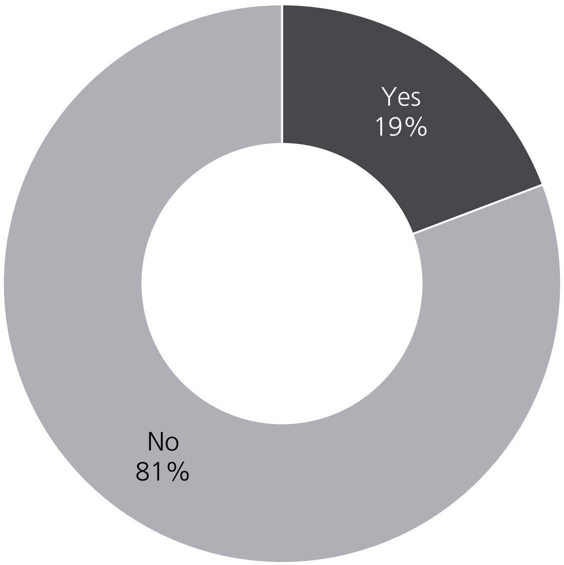
Source: UBS Annual Reserve Manager Survey, results as of June 2021

# Tranching and institutional setup

**Do you segment / tranche your reserves**
(e.g., in liquidity, liability and saving/total return/wealth portfolios)?




**Has your institution recently considered setting up a separate entity**
(e.g., Sovereign Wealth Fund) to manage assets?



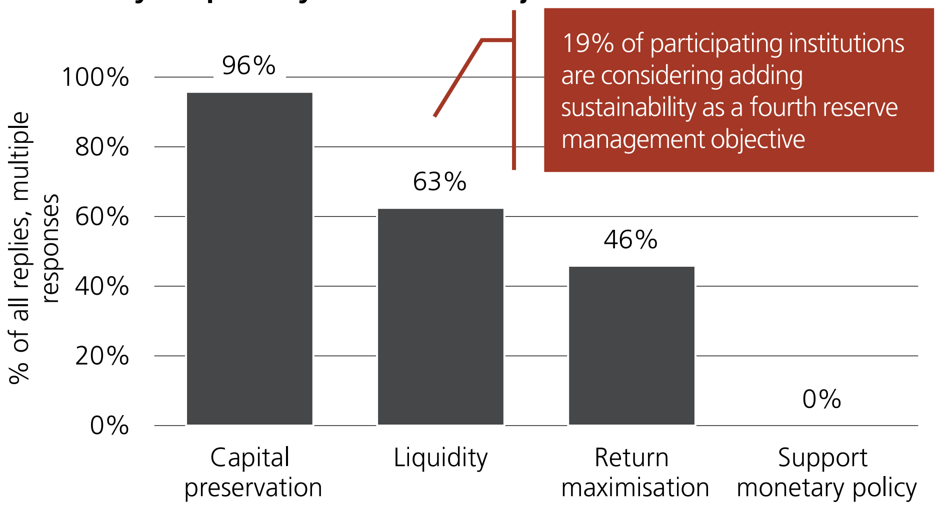

**Tranching and institutional setup**

- The number of participants who reported that their institution segments or tranches their reserves stood at 68% compared with 58% last year.
- The percentage of participating institutions that recently considered setting up a separate entity to manage assets stood at 19% compared with 16% last year.
- 31% of participants indicated that their institution recently changed or considered changing their benchmark(s) to reflect ESG.

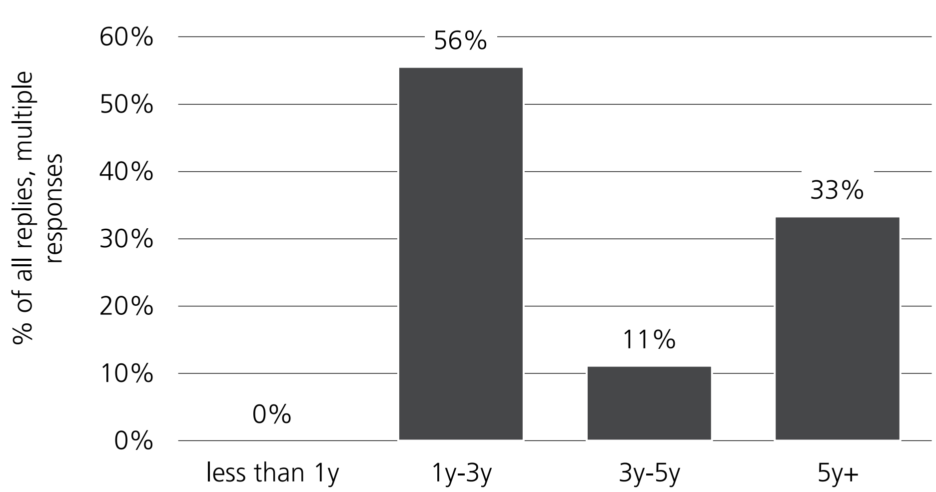
Source: UBS Annual Reserve Manager Survey, results as of June 2021

# Key asset allocation objectives

**What are your primary investment objectives?**




**What is your investment horizon?**




- Overall, 52% of participants altered their Strategic Asset Allocation over the last 12 months (previous year: 50%) and a further 56% (previous year: 56%) indicated that they wish to implement further changes to their asset allocation in the next 12 months.
- 21% of respondents indicated that they consider investing in illiquid asset classes (for example infrastructure or real estate) to enhance returns, compared with only 3% in the previous year.
- 13% responded that they recently moved or considered moving passively-managed assets to active management strategies compared with 13% in the previous year.
- 88% responded that CLOs are not an eligible asset class at their institution and that they are not planning to make them eligible compared with 91% in the previous year.
- 38% of respondents indicated that they integrate gold holdings in the SAA of their reserve management portfolio compared with 41% in 2020.

Source: UBS Annual Reserve Manager Survey, results as of June 2021

# Trends in approved asset classes

## Which of the following instruments are approved at your institution?

**In % of total respondents, multiple responses possible.**

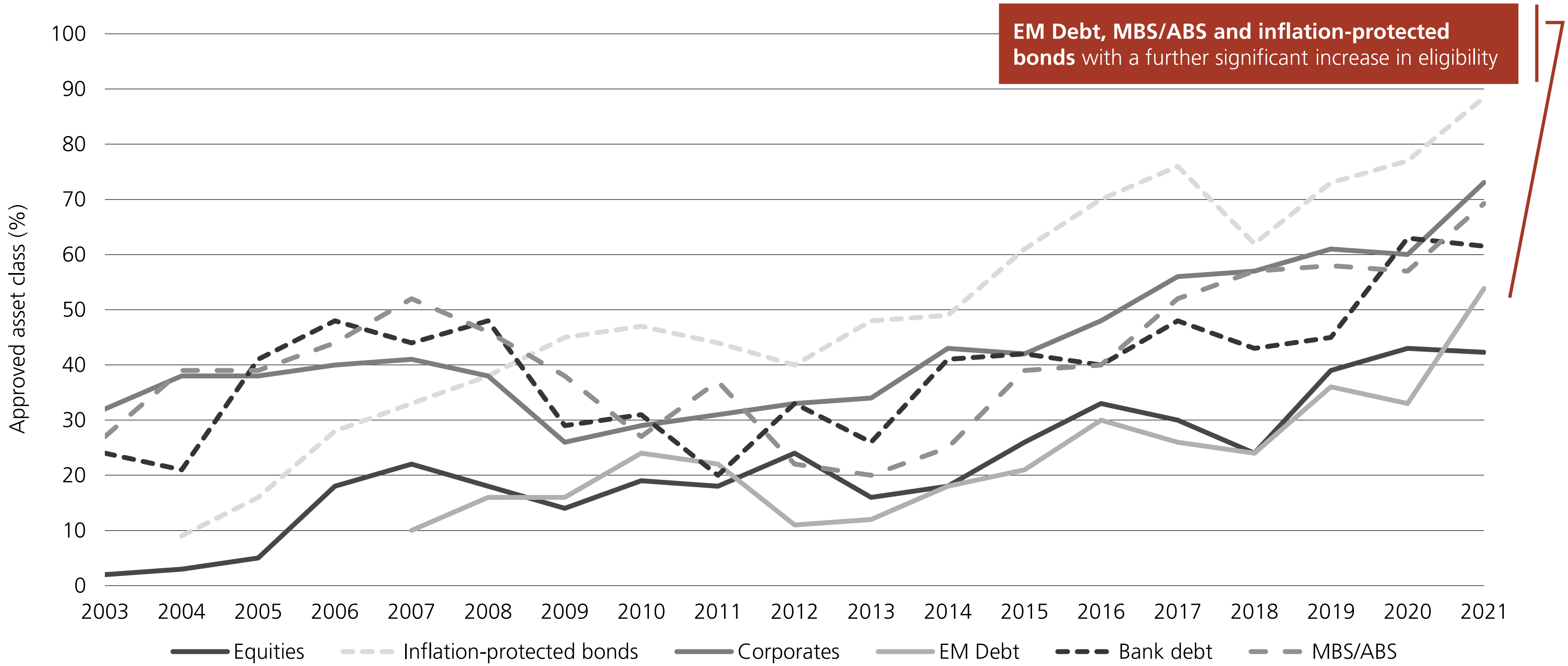
| Asset Class | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Supranationals | 100 | 100 | 94 | 95 | 93 | 90 | 89 | 94 | 82 | 87 | 76 | 70 | 68 | 70 | 72 | 70 | 74 | 63 | 62 | 60 | 62 | 54 | 63 | 60 |
| Sovereign Eurobonds | 88 | 100 | 85 | 86 | 89 | 93 | 92 | 90 | 78 | 73 | 64 | 68 | 65 | 66 | 66 | 64 | 60 | 60 | 58 | 58 | 61 | 60 | 66 | 66 |
| US agencies | 100 | 93 | 85 | 76 | 74 | 83 | 74 | 49 | 54 | 69 | 55 | 65 | 71 | 84 | 86 | 84 | 82 | 76 | 78 | 75 | 71 | 62 | 68 | 54 |
| Inflation protected bonds | 88 | 77 | 73 | 62 | 76 | 70 | 61 | 49 | 48 | 40 | 44 | 47 | 45 | 38 | 33 | 28 | 16 | 9 | na | na | na | na | na | na |
| Covered bonds | 65 | 50 | 45 | 43 | 48 | 53 | 34 | 43 | 40 | 45 | 30 | 38 | 40 | 53 | 58 | 50 | 48 | 44 | 38 | 35 | 37 | 34 | 28 | 12 |
| Bank debt | 62 | 63 | 45 | 43 | 48 | 40 | 42 | 41 | 26 | 33 | 20 | 31 | 29 | 48 | 44 | 48 | 41 | 21 | 24 | 21 | 26 | 20 | 16 | 4 |
| Corporates | 73 | 60 | 61 | 57 | 56 | 48 | 42 | 43 | 34 | 33 | 31 | 29 | 26 | 38 | 41 | 40 | 38 | 38 | 32 | 28 | 22 | 20 | 15 | 10 |
| MBS / ABS | 69 | 57 | 58 | 57 | 52 | 40 | 39 | 25 | 20 | 22 | 37 | 27 | 38 | 46 | 52 | 44 | 39 | 39 | 27 | 22 | 17 | 19 | 12 | 2 |
| Emerging Market debt | 54 | 33 | 36 | 24 | 26 | 30 | 21 | 18 | 12 | 11 | 22 | 24 | 16 | 16 | 10 | na | na | na | na | na | na | na | na | na |
| Equities | 42 | 43 | 39 | 24 | 30 | 33 | 26 | 18 | 16 | 24 | 18 | 19 | 14 | 18 | 22 | 18 | 5 | 3 | 2 | na | na | na | na | na |
| Private Equity | 15 | 7 | 18 | 5 | 19 | na | na | na | na | na | na | na | na | na | na | na | na | na | na | na | na | na | na | na |
| Hedge Funds | 12 | 0 | 15 | 0 | 11 | na | na | na | na | na | na | na | na | na | na | na | na | na | na | na | na | na | na | na |

Source: UBS Annual Reserve Manager Survey, results as of June 2021

# Trends in approved asset classes

## Which of the following instruments are approved at your institution?

**In % of total respondents, multiple responses possible.**




Source: UBS Annual Reserve Manager Survey, results as of June 2021

# Key changes in asset allocation

## Which of the following instruments have you increased/decreased in your portfolio in the past year? Which of the following instruments would you want to own more or less of over the next year?

| % of respondents that plan a **decrease** in the **coming year** | % of respondents that reported a **decrease** in the **past year** | | % of respondents that reported an **increase** in the **past year** | % of respondents that plan an **increase** in the **coming year** |
|---|---|---|---|---|
| 0% | -9% | Supranationals | 32% | 32% |
| -21% | -23% | Sovereign eurobonds | 18% | 21% |
| -11% | -23% | US agencies | 14% | 26% |
| 0% | -9% | Inflation-protected bonds | 9% | 32% |
| -5% | -9% | Covered bonds | 5% | 11% |
| 0% | -5% | Green bonds | 14% | 32% |
| -16% | -14% | Bank debt | 9% | 5% |
| -11% | -23% | Corporates | 23% | 26% |
| -11% | -23% | MBS/ABS | 23% | 21% |
| 0% | -5% | EM hard currency debt | 14% | 21% |
| 0% | -9% | EM local currency debt | 9% | 5% |
| -5% | -5% | Equities passive | 23% | 37% |
| 0% | -5% | Equities active | 14% | 16% |
| 0% | -5% | Multi-asset products | 5% | 11% |
| 0% | -5% | Gold | 14% | 16% |
| 0% | -5% | Commodities (excl. gold) | 0% | 0% |
| 0% | 0% | Infrastructure (equity & debt) | 14% | 16% |
| 0% | -5% | Hedge Funds | 9% | 16% |
| 0% | 0% | Real Estate | 14% | 16% |

Increase in inflation hedges

Green bonds getting more popular

Move into equities continues

Rising interest in alternatives

Source: UBS Annual Reserve Manager Survey, results as of June 2021

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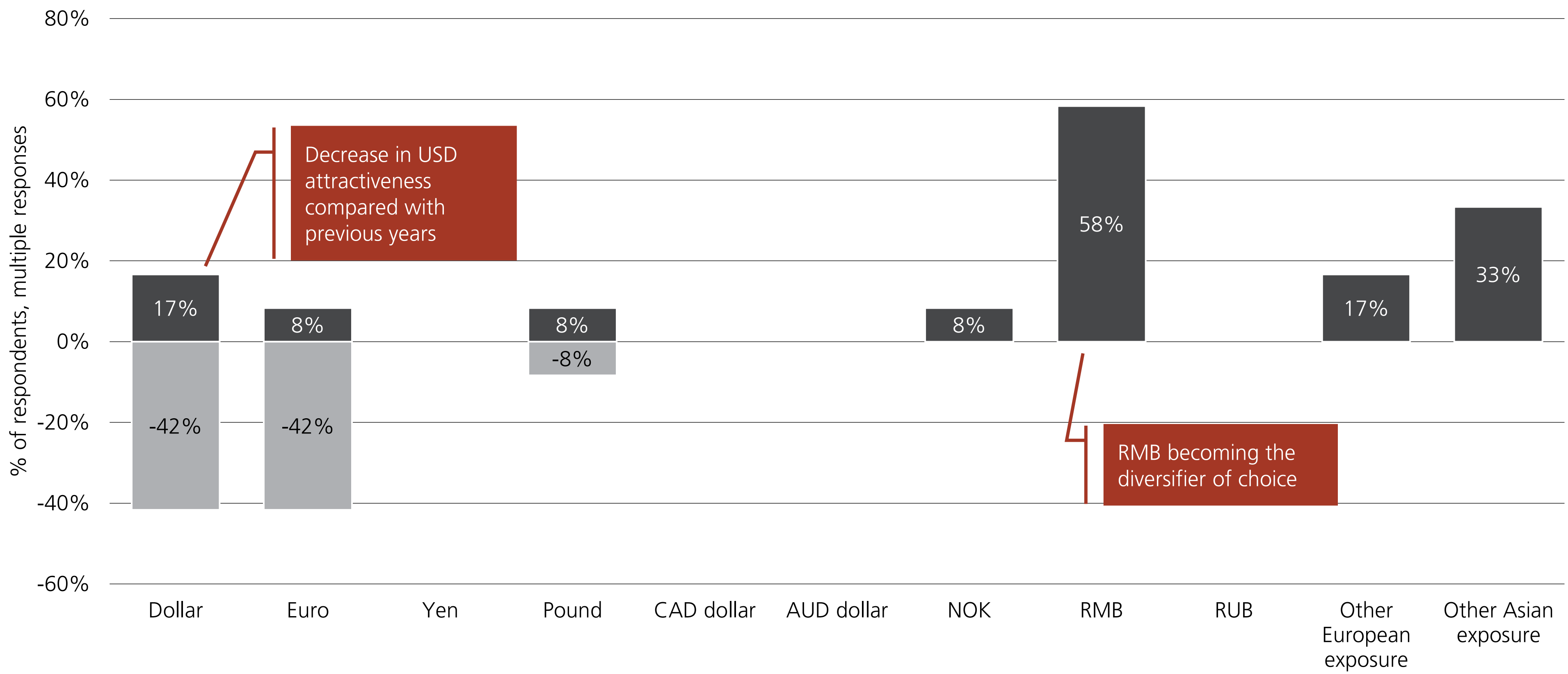
# Currency focus: Changes in 2020/21

Indicates the % of respondents that altered their allocations to each currency up or down.

How have survey participants altered their currency allocation during the past year?

**The average share of USD holdings among all participants was about 69%, up from 67% in the previous year.**

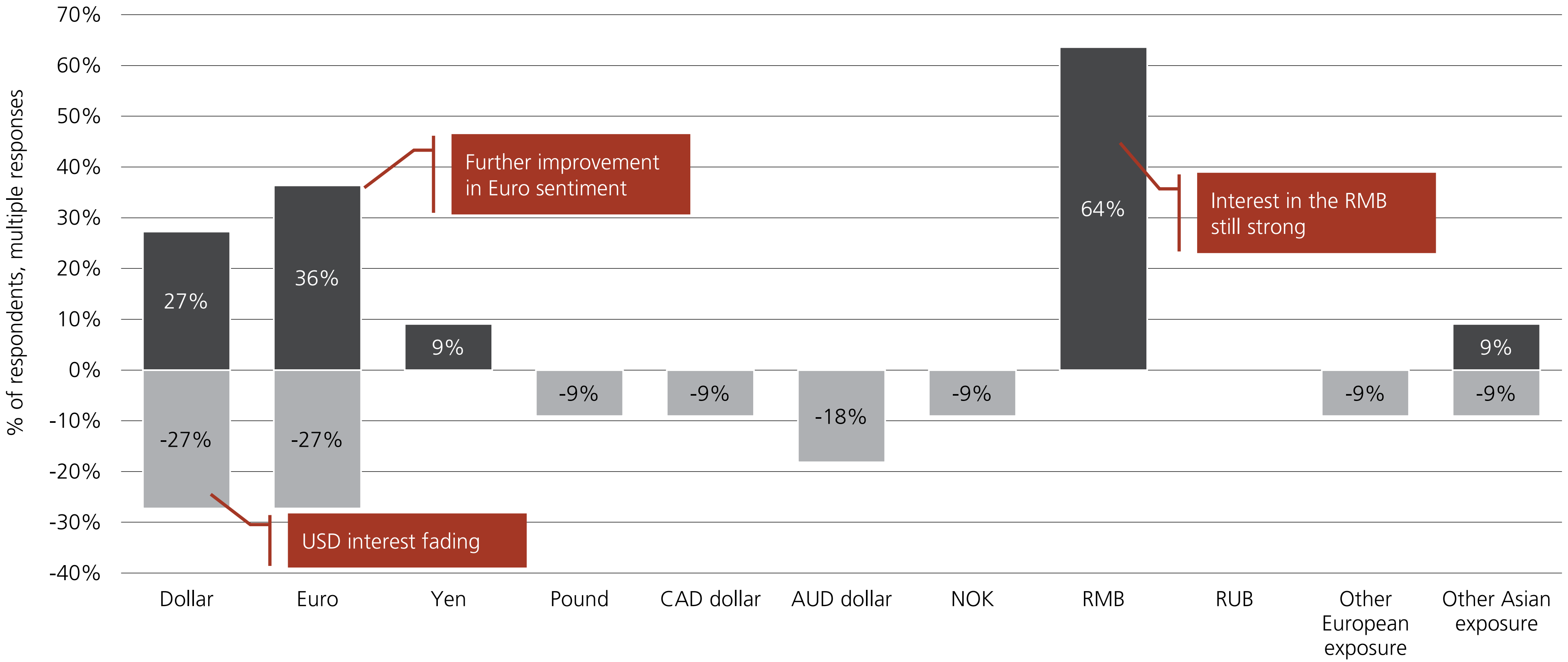



Source: UBS Annual Reserve Manager Survey, results as of June 2021

# Currency focus: Outlook

Indicates the % of respondents that expect their allocations for each currency to go up or down.

How do survey participants expect their currency allocations to change going forward?




Source: UBS Annual Reserve Manager Survey, results as of June 2021

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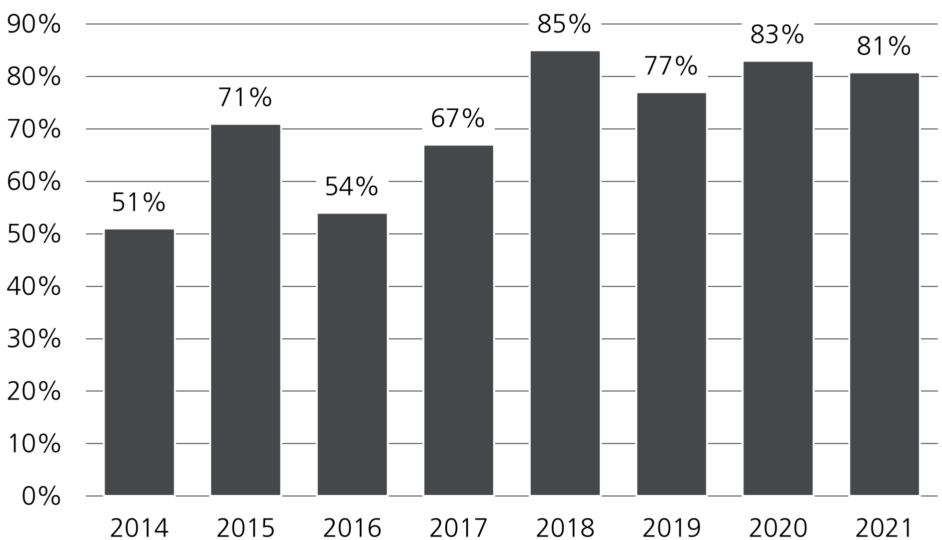
# Currency focus: RMB

## Please describe your attitude towards the RMB!

**% of survey respondents that are invested, or consider investing, in the RMB**




The average long-term target allocation (not the actual allocations) to the RMB is around 5.7% among survey participants, another significant increase from 5.0% in the previous year

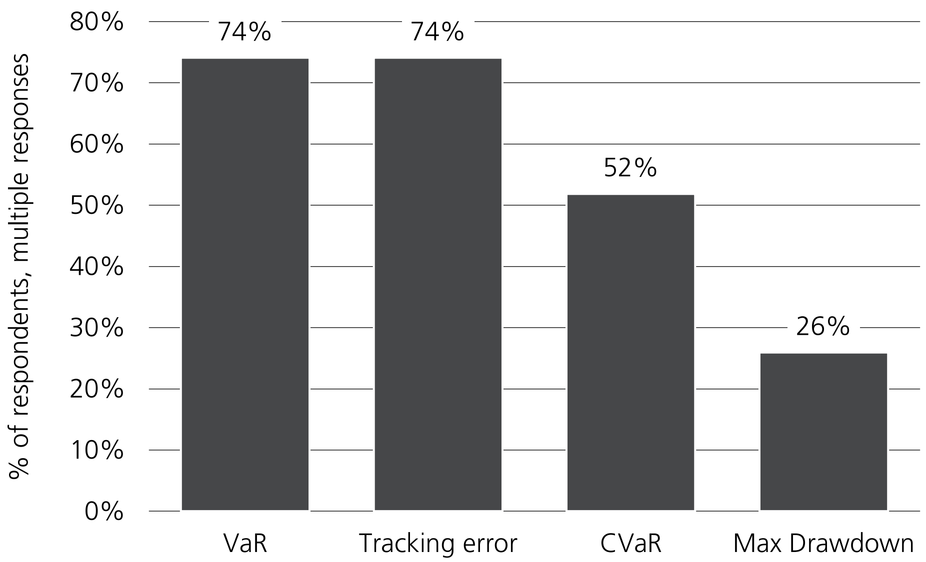
- 2 participants reported that they introduced the RMB this year into their reserve portfolio
- The number of participants that are invested, or consider investing, in the RMB decreased slightly from high levels last year


UBS has issued the White Paper
"RMB's march to reserve currency status
- A reality check"
on the occasion of the Reserve Manager Seminar 2018.

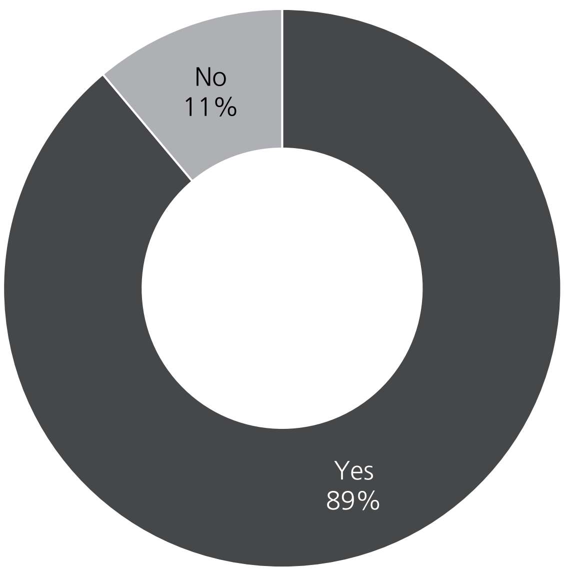
Source: UBS Annual Reserve Manager Survey, results as of June 2021

# Performance and Risk management

**How do you measure risk in your portfolios?**




**Do you take any tactical positions compared to the benchmark?**



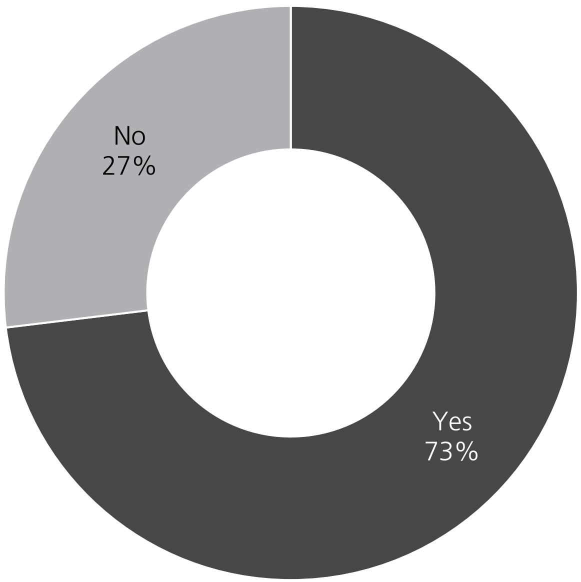

**Risk and performance measurement**

- 60% of the survey respondents review their investment policy at least on a quarterly basis.
- Four survey participants increased maximum drawdown levels to enhance returns in the past year, in two cases by an additional minus 3-5%.
- 29% of survey respondents indicated that no negative returns are tolerated in their investment policy. 24% indicated that they tolerate a maximum drawdown of up to 5% and an additional 18% accept a drawdown of minus 5-10% in their investment policy.

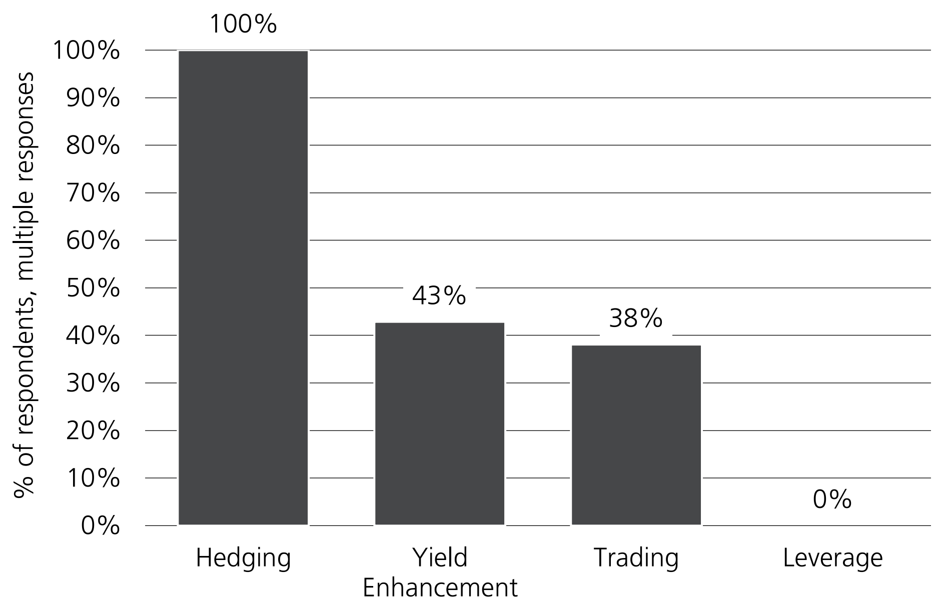
Source: UBS Annual Reserve Manager Survey, results as of June 2021

# Derivatives

**Do you use derivatives within your reserve portfolio?**




**If you use derivatives, what are the main objectives for using them?**

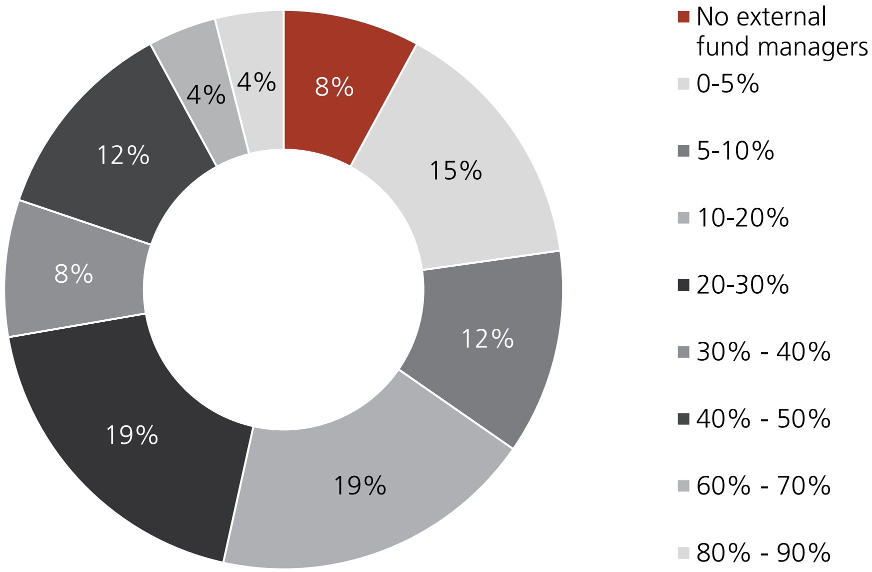



- Additional survey participants reported the use of derivatives to reduce FX risk, but not to manage reserve assets.

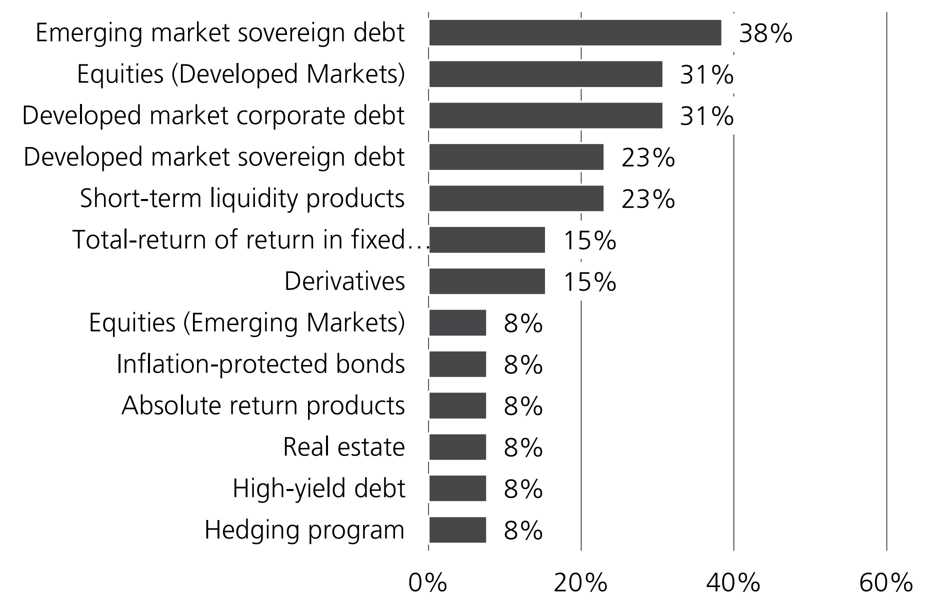
Source: UBS Annual Reserve Manager Survey, results as of June 2021

# External asset management

**What percentage of your reserves are currently externally managed?**




**What asset classes of external fund management interests you the most?**




**What assets are externally managed?**

- External mandates currently exist mainly in the area of DM sovereign, MBS and DM corporate debt, as well as inflation-protected bonds and short-term liquidity products.
- 36% of respondents indicated that they are currently looking into tail-risk hedging strategies.

Source: UBS Annual Reserve Manager Survey, results as of June 2021

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# Central Bank Digital Currency (CBDC) Special

## Summary (I)

**What actions can we expect from G7 central banks in the future?**

- The question by when central banks are expected to launch digital currencies must be split between widely available retail CBDCs on the one hand and CBDCs with access only for large financial institutions (wholesale) on the other hand.
- In total, participating central banks expect wholesale CBDCs to be introduced earlier than retail CBDCs.
  - When it comes to retail CBDCs, a period of 3-5 years was the most often mentioned answer from participants.
  - When it comes to wholesale CBDCs, while a period of 3-5 years was the most often mentioned answer from participants, an even shorter time frame (1-3 years) was almost as frequently mentioned, and more frequently than for retail CBDCs.

**Key motivations and risks**

- The motivation to improve retail payment systems and the overall wholesale financial architecture (payment, clearing, settlement) were among the top answers why central banks want to introduce CBDCs. Interestingly, central banks also see crime and money laundering prevention and pressure from private projects (stablecoins and cryptocurrencies) as one of the key motivations to pursue the development of CBDCs.
- Survey participants see the most important use cases for CBDCs in their economy in retail sales transactions and for remittance and cross-border payments, followed by improvements in international inter-bank clearing processes.
- The risk of disintermediation of the banking system and the resulting impact on financial stability, followed by operational and cybersecurity issues as well as potential disruptions on existing payment system providers were seen by participants as the key risks of CBDC adoption in their economies. Only 17% of respondents see a risk for reserve management activities coming from CBDC adoption.

Source: UBS Annual Reserve Manager Survey, results as of June 2021

# Central Bank Digital Currency (CBDC) Special

## Summary (II)

**Preferred architecture of CBDCs**

- For most participants (76%) a general purpose (retail) CBDC that is available also to private households and businesses instead of only a select number of financial institutions and service providers (wholesale CBDC) is the preferred solution
- When it comes to the technical setup of central bank digital currencies, 71% of participants prefer a centralized setup instead of a decentralized (DLT-based) system.
- The majority (76%) of participants want to issue their own CBDC instead of joining multi-lateral projects to do so.
- 54% of survey participants indicate that privacy and anonymity are very important for the acceptance among the general public when it comes to general purpose CBDCs.

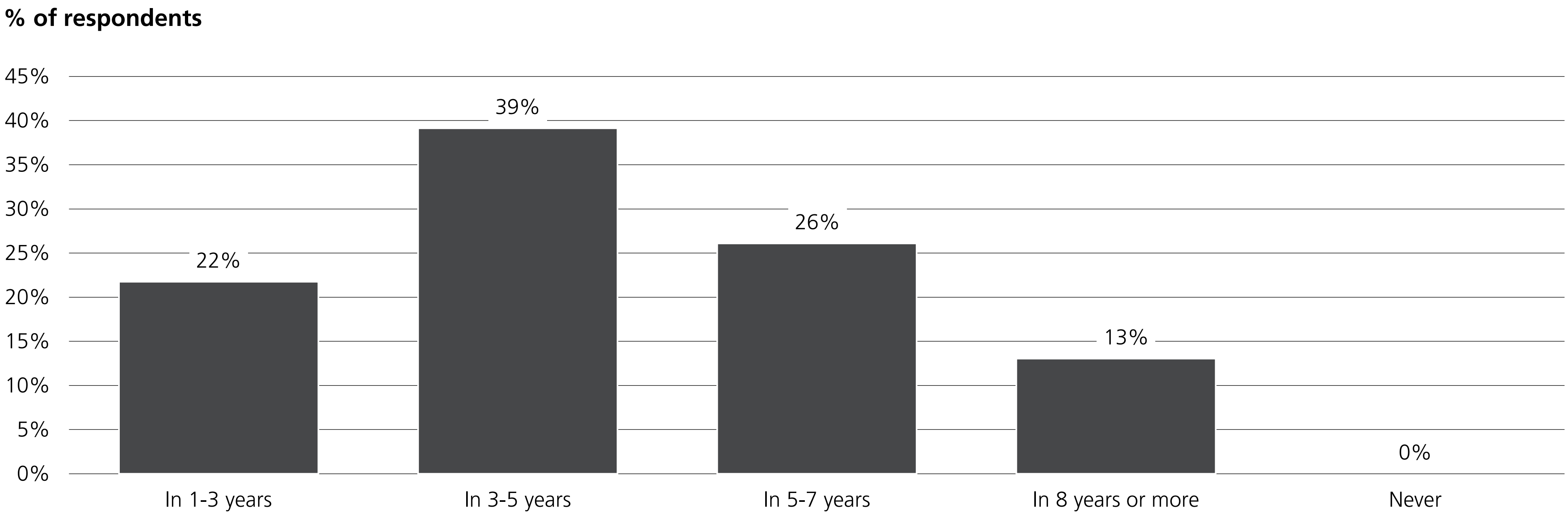
**Investment implications**

- 57% of participants see no meaningful impact for the reserve management at their institution, while 24% indicate that there might be an impact on their back-office operations. 14% see increasing pressure to invest in cryptocurrencies. The majority of participants are not yet able to make predictions whether reserves will be invested in CBDCs issued by other central banks in the foreseeable future.
- 64% of participants do not believe that CBDCs will lead to the fall of the USD as the dominant reserve currency. More than half (52%) of participants indicate that they do not know yet if a digital Yuan will accelerate the internationalization of the RMB and help it on its way of becoming a leading reserve currency.
- What would be the main motivation for central banks to invest in cryptocurrencies? 83% of participants believe that the learning process itself of investing and managing this new asset class would be valuable for their institution. 28% of participants see benefits coming from cryptocurrencies as an uncorrelated asset, and a further 11% would consider it as an alternative to gold. But a majority of 84% of participants do not believe that cryptocurrencies will displace gold as a safe haven.

Source: UBS Annual Reserve Manager Survey, results as of June 2021

# Expected launch date for Retail CBDCs

By when do you expect the first official Retail CDBC to be launched by a G7 central bank?

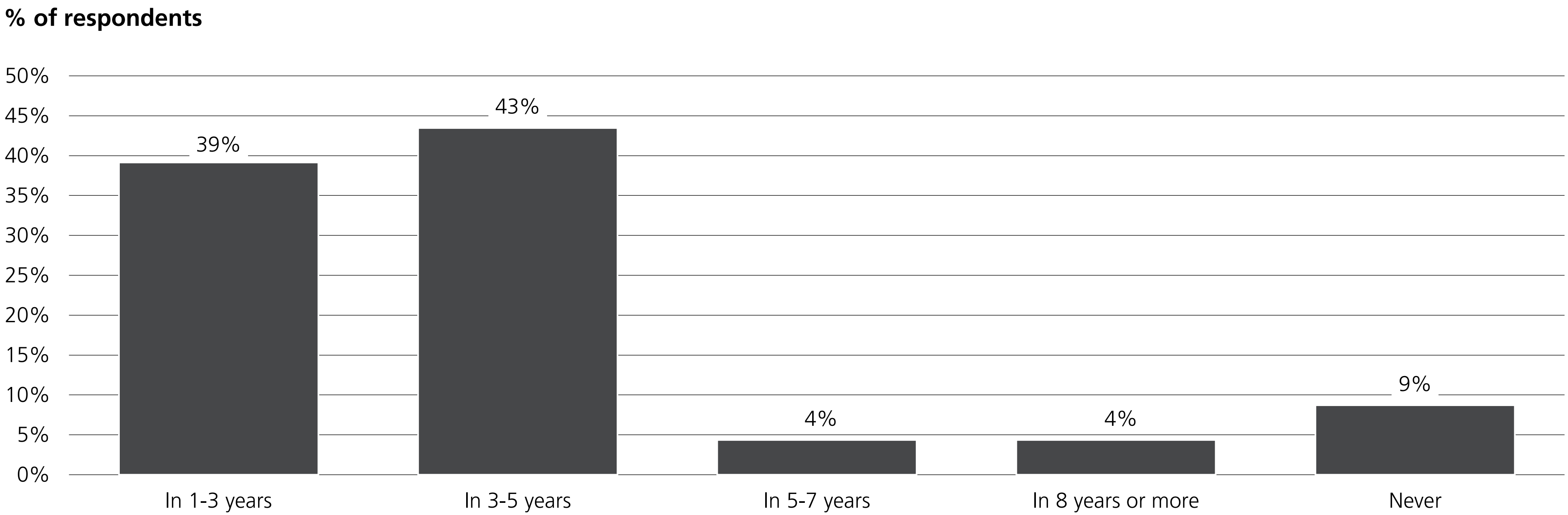



- The question by when central banks are expected to launch digital currencies must be split between widely available retail CBDCs on the one hand and CBDCs with access only for large financial institutions (wholesale) on the other hand.
- When it comes to retail CBDCs, a period of 3-5 years was the most often mentioned answer from participants.

Source: UBS Annual Reserve Manager Survey, results as of June 2021

# Expected launch date for Wholesale CBDCs

By when do you expect the first official Wholesale CDBC to be launched by a G7 central bank?

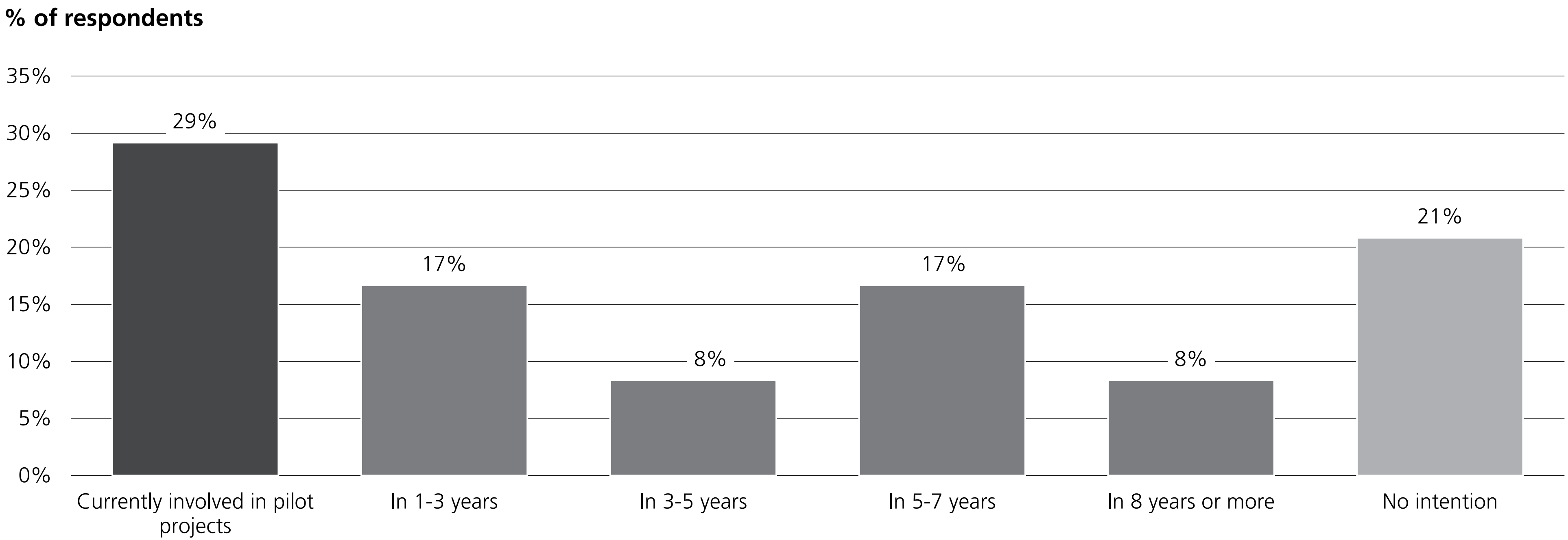



- The question by when central banks are expected to launch digital currencies must be split between widely available retail CBDCs on the one hand and CBDCs with access only for large financial institutions (wholesale) on the other hand.
- When it comes to wholesale CBDCs, while a period of 3-5 years was the most often mentioned answer from participants, an even shorter time frame (1-3 years) was almost as frequently mentioned, and more frequently than for retail CBDCs.
- In total, participating central banks expect wholesale CBDCs to be introduced earlier than retail CBDCs.

Source: UBS Annual Reserve Manager Survey, results as of June 2021

# Expected involvement in digital currency projects

## By when do you expect your institution to get involved in digital currency projects?



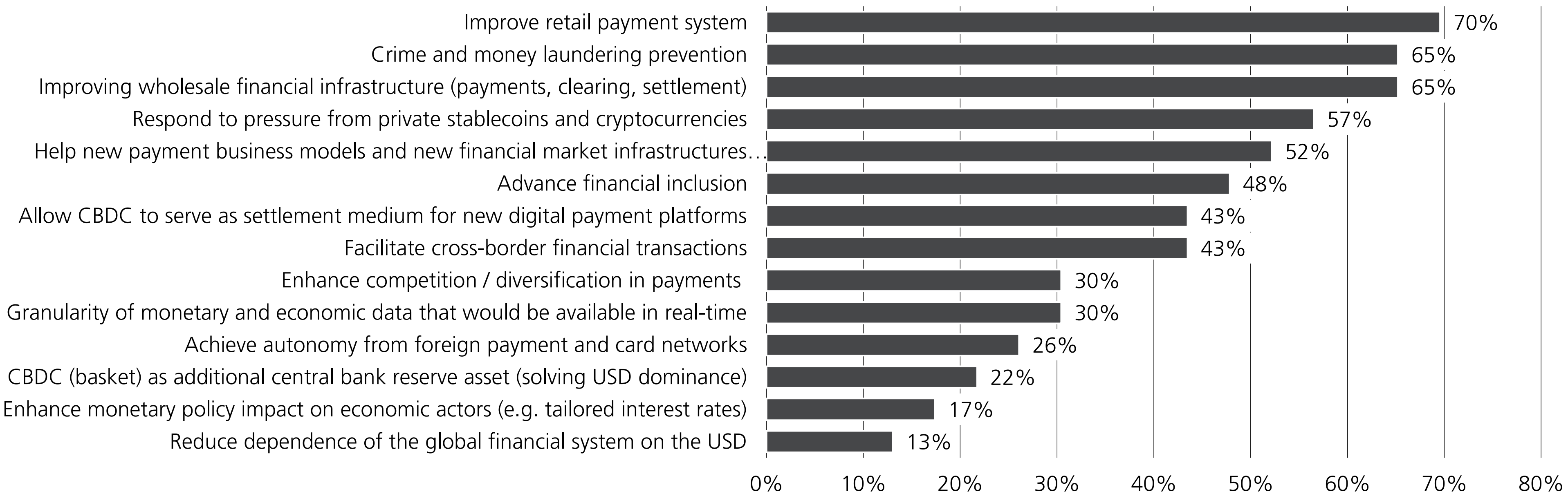

- Central banks seems to be split into two groups, one that wants to act relatively quickly when it comes to CBDCs and another that has little or no interest to do so over the next 5 years or even at a later date.
- 46% of participants indicated that their central bank is already involved in CBDC pilot projects or is expected to do so over the next 1-3 years.
- In contrast, central banks that expect their institution to wait a relatively long time (5-7 years and more than 8 years) make up 25% of respondents, and those that indicate that they have no intention to run CBDC projects stand at 21%.

Source: UBS Annual Reserve Manager Survey, results as of June 2021

# Key motivations for central banks to issue CBDCs

## What will be the key motivation for central banks for issuing CBDCs?

**% of respondents, multiple answers possible**



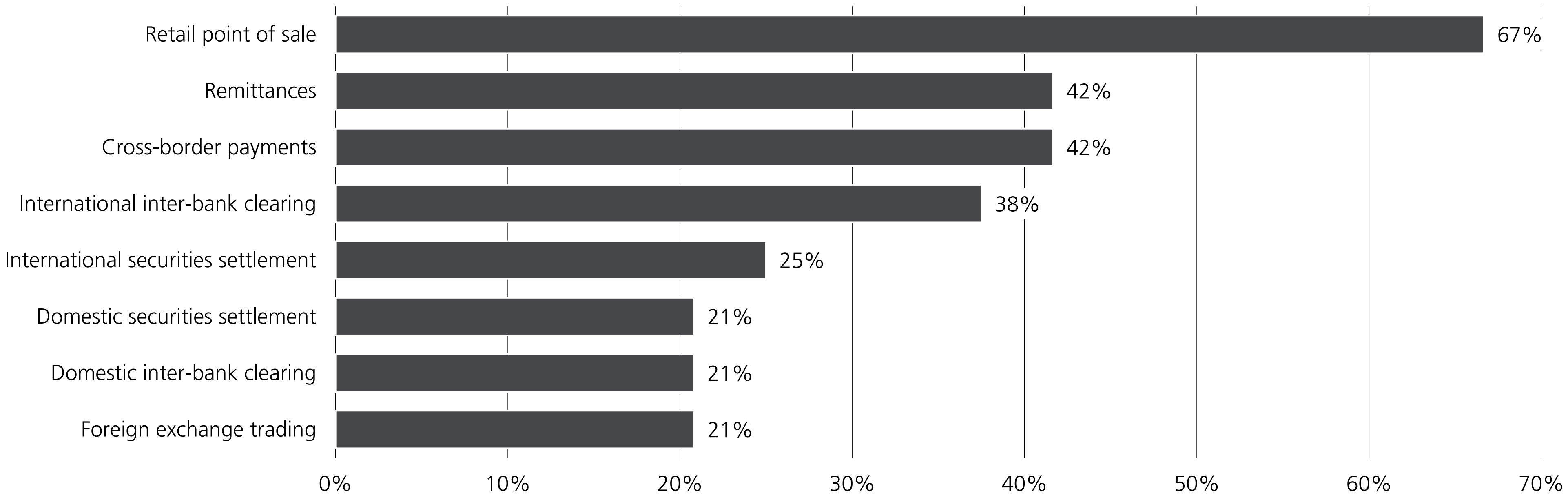

- The motivation to improve retail payment systems and the overall wholesale financial architecture (payment, clearing, settlement) were among the top answers why central banks want to introduce CBDCs.
- Interestingly, central banks also see crime and money laundering prevention and pressure from private projects (stablecoins and cryptocurrencies) as one of the key motivations to pursue the development of CBDCs.

Source: UBS Annual Reserve Manager Survey, results as of June 2021

# Key use cases for CBDCs

## Where do you see the most important use cases for CBDCs in your economy?

**% of respondents, multiple answers possible**



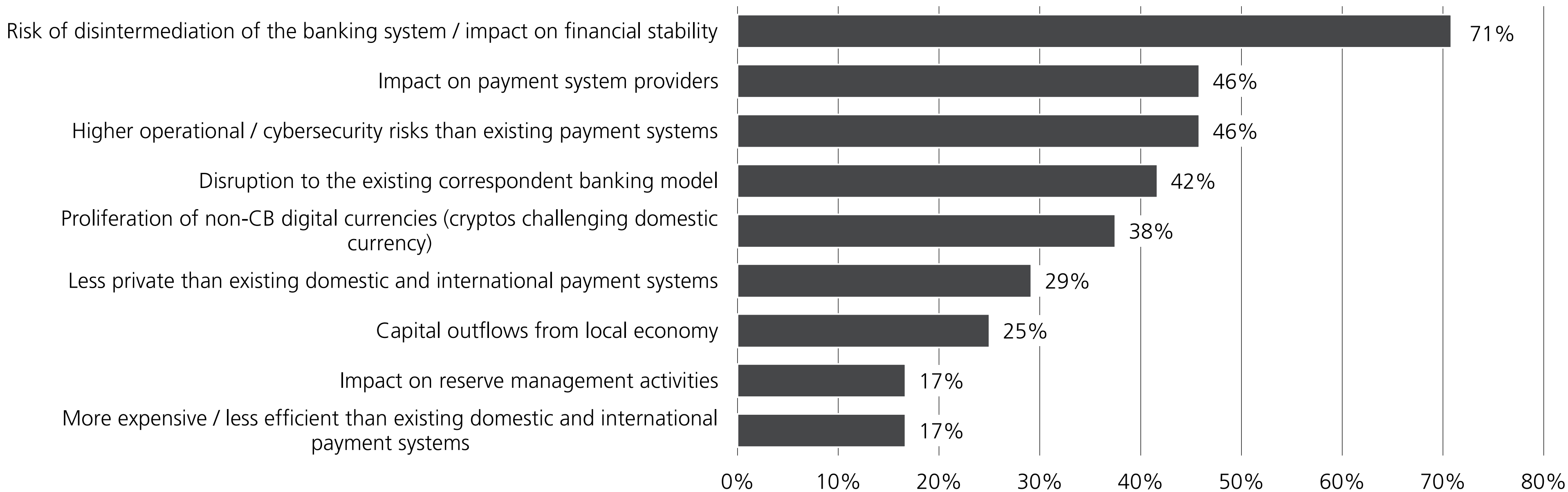

- Survey participants see the most important use cases for CBDCs in their economy in retail sales transactions and for remittance and cross-border payments, followed by improvements in international inter-bank clearing processes.

Source: UBS Annual Reserve Manager Survey, results as of June 2021

# Key risks coming from CBDCs

## What do you see as the key threats coming from CBDCs?

**% of respondents, multiple answers possible**

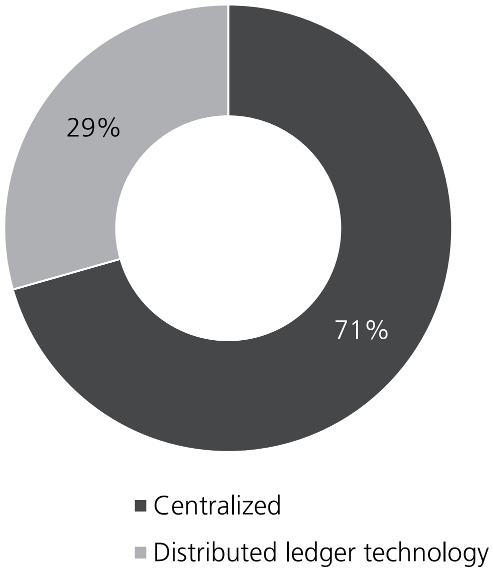


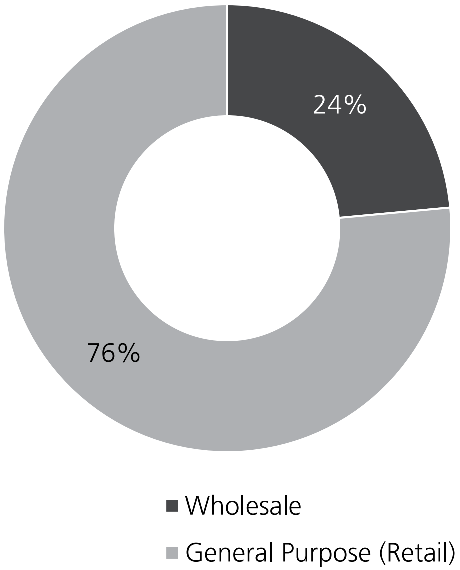

- The risk of disintermediation of the banking system and the resulting impact on financial stability, operational and cybersecurity issues as well as potential disruptions on existing payment system providers were seen by participants as the key risks of CBDC adoption in their economies.
- Only 17% of respondents see a risk for reserve management activities coming from CBDC adoption.

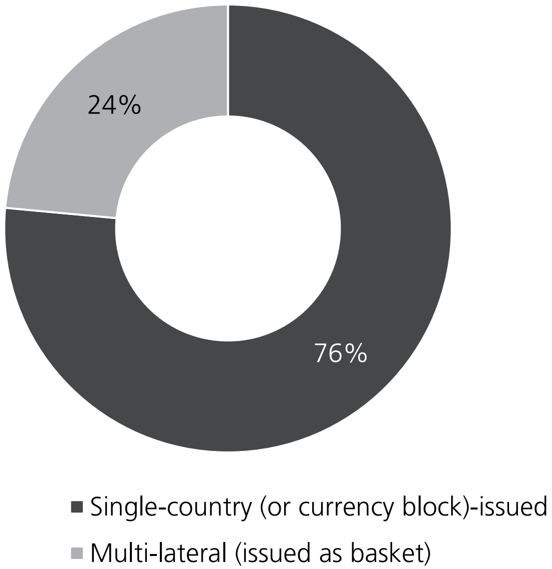
Source: UBS Annual Reserve Manager Survey, results as of June 2021

# Preferred architecture of CBDCs

## What would be the preferred (back-end) architecture of CBDCs at your institution?



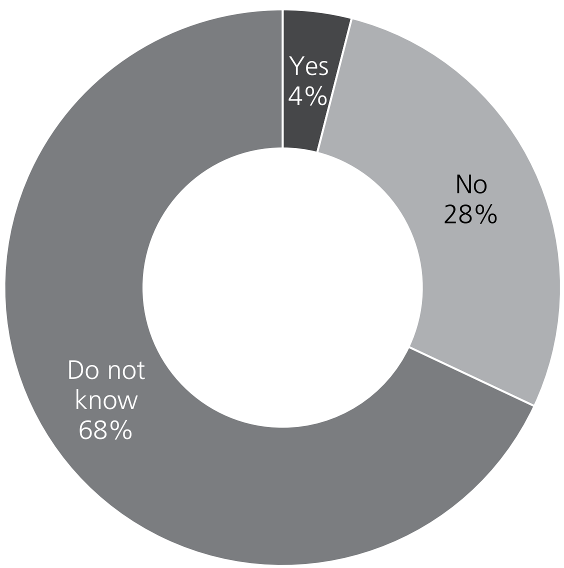




- When it comes to the technical setup of central bank digital currencies, 71% of participants prefer a centralized setup instead of a decentralized (DLT-based) system.
- For the majority of participants (76%) a general purpose (retail) CBDC that is available also to private households and businesses instead of only a select number of financial institutions and service providers (wholesale CBDC) is the preferred solution.
- The majority (76%) of participants want to issue their own CBDC instead of joining multi-lateral projects to do so.
- 54% of survey participants indicate that privacy and anonymity are very important for the acceptance among the general public when it comes to general purpose CBDCs (Moderate importance: 29%, Less important and/or it would weaken key purposes including crime prevention: 17%).

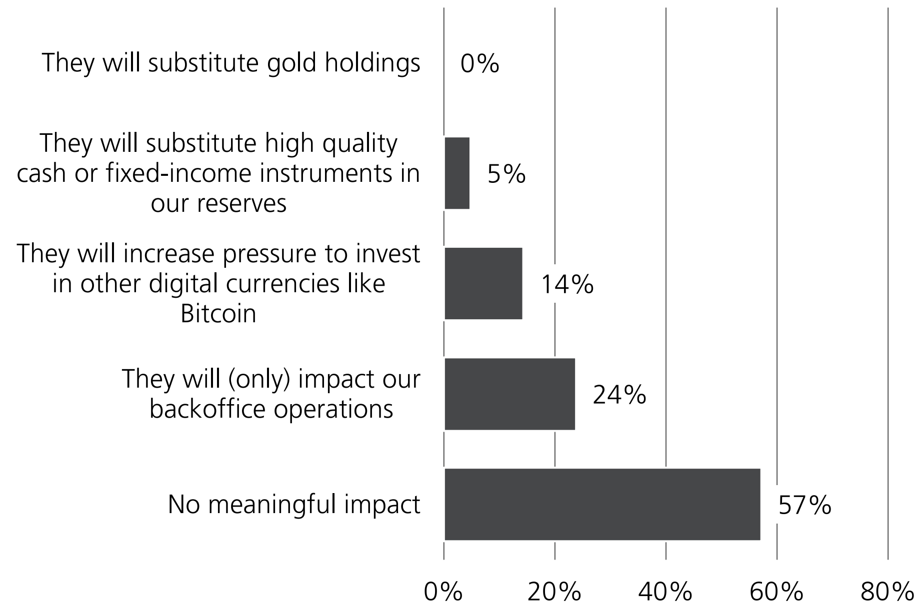
Source: UBS Annual Reserve Manager Survey, results as of June 2021

# Investment implications

**Do you expect your institution to invest its reserves in CDBCs once issued?**




**What will be the most likely investment implications for your institution once CBDCs are issued?**

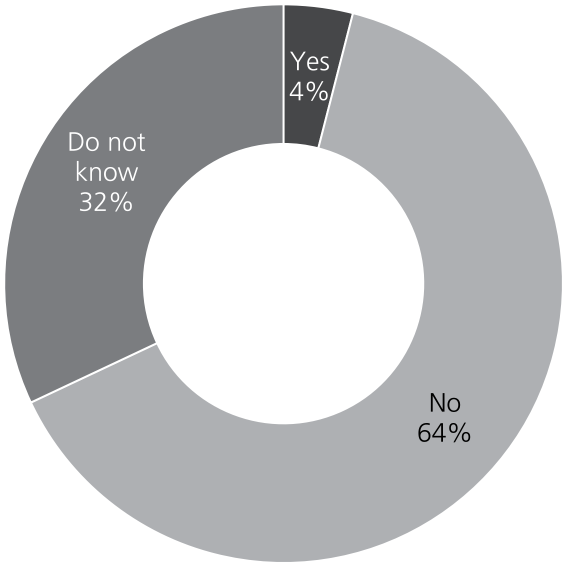



- The majority of participants are not yet able to make predictions if reserves will be invested in CBDCs issued by other central banks in the foreseeable future.
- 57% of participants see no meaningful impact for the reserve management at their institution, while 24% indicate that there might be an impact on their back-office operations. 14% expect increasing pressure to invest in cryptocurrencies.

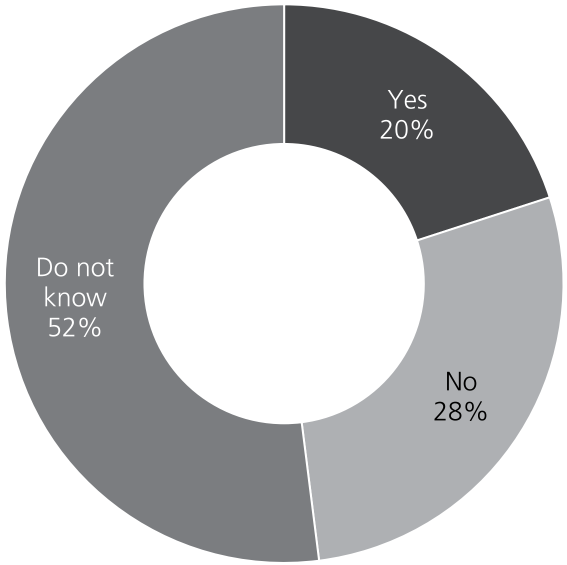
Source: UBS Annual Reserve Manager Survey, results as of June 2021

# Currency impact

**Will CBDCs lead to the fall of the USD as the dominant reserve currency?**




**Will a digital Yuan accelerate the internationalization of the RMB and make it a leading reserve currency?**

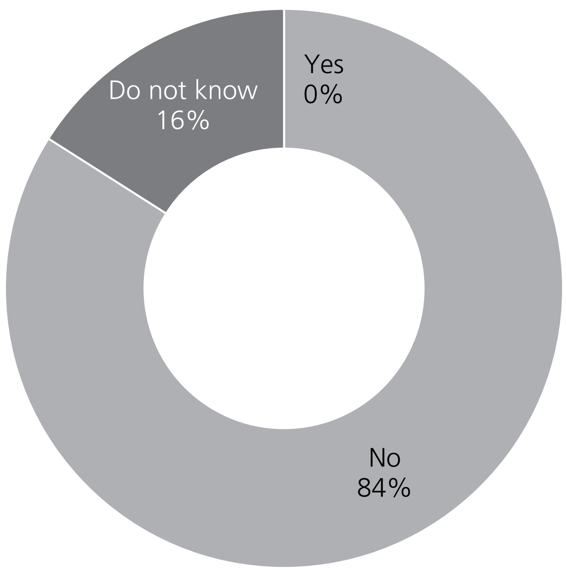



- A majority of 64% of participants do not believe that CBDCs will lead to the fall of the USD as the dominant reserve currency.
- More than half (52%) of participants indicate that they do not know yet if a digital Yuan will accelerate the internationalization of the RMB and help it on its way of becoming a leading reserve currency

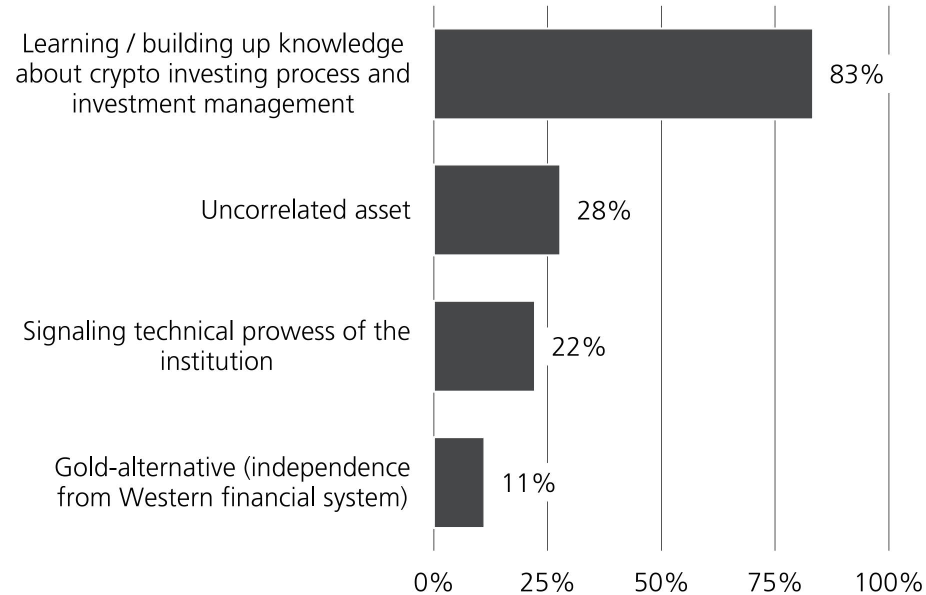
Source: UBS Annual Reserve Manager Survey, results as of June 2021

# Cryptocurrencies as investments for central banks

**Will cryptocurrencies displace gold as a safe haven?**




**What would be the motivation for central banks to invest in cryptocurrencies like Bitcoin (multiple answers possible)?**




- A majority of 84% of participants do not believe that cryptocurrencies will displace gold as a safe haven.
- What would be the main motivation for central banks to invest in cryptocurrencies? 83% of participants believe that the learning process itself of investing and managing this new asset class would be valuable for their institution. 28% of participants see benefits coming from cryptocurrencies as an uncorrelated asset, and a further 11% would consider it as an alternative to gold.
- Still, survey participants believe that CDBCs and cryptocurrencies will continue to co-exist, with 46% indicating that in their opinion, Bitcoin and other cryptocurrencies will not be displaced by CBDCs (Yes: 33%, Do not know: 21%).

Source: UBS Annual Reserve Manager Survey, results as of June 2021

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