

## The Czech National Bank gets enthusiastic about crypto

The Czech Republic could become the first Western central bank to hold cryptocurrencies



Czech National Bank Governor Ales Michl wants to create bitcoin reserves worth billions of euros. He will present his idea to the Board at Thursday's monetary policy meeting. The Czech Republic could become the first Western central bank to hold cryptocurrencies.

"For diversifying our assets, bitcoin seems good. The board is making the decision and the decision is not close. Thoughtful analysis is needed," Michl said. He said the central bank could hold up to 5% of its total reserves of 140 billion euros in bitcoin.

Central bank reserves are more conservative assets. Gold has been growing in popularity in recent years, and the CNB has been buying it in large quantities. Then there are US government bonds or other forms of highly valued bonds and, to a lesser extent, equities.

Indeed, nowadays bitcoin may still be perceived as an exotic asset for central bank portfolios, but this may be seen very differently in 10 years' time. The Bundesbank Chief Joachim Nagel suggested steering clear of crypto, likening bitcoin to the seventeenth-century tulip bubble. Well, it seems Germany may once again be lagging behind technological advancements. The principle of credibility applies to any asset: its acceptance relies on collective belief.

## In G10, the focus will be on the SNB

If the Czech National Bank has typically been one of the more progressive in the EM space when it comes to asset management, then in the G10 space the focus will be on the Swiss National Bank (SNB).

Like the CNB, the SNB has amassed huge FX reserves. And also like the CNB, the SNB FX reserve build-up accelerated greatly with the temporary use of an FX floor.

With huge FX reserves comes huge responsibility, however. The SNB's FX reserve stockpile, which hit \$1 trillion in 2021, wreaks havoc on the SNB's balance sheet when the Swiss franc appreciates. Back in 2022, the SNB reported a loss of CHF132bn on its FX reserves as the Swiss franc surged when Russia invaded Ukraine. This resulted in political repercussions, as SNB profits are usually partly allocated to fund the budgets of the Swiss cantons.

We mention the above because the big FX reserve holders have a greater interest in the 'return' segment of the 'safety, liquidity and return' mandate central to any FX reserve manager. And historically the SNB has been the most progressive of the G10 central banks in its management of FX reserve assets.

Typically, most central banks will have a very conservative investment approach - keeping FX reserves in liquid deposits and high-rated government bond markets. The SNB was the first of the G10 central banks to move out of the credit curve into corporate debt and then increasingly into equity markets too.

As of the third quarter of last year, the SNB held 64% of its FX reserves in government bonds, 11% in 'other bonds' and 25% in equities. In terms of credit ratings of its bond holdings, 31% are in AAA, 49% in AA, 16% in A and 4% in other.

If any of the G10 central banks were to discuss holding bitcoin as part of their Reserve Assets, we'd guess the SNB would be at the forefront.

Some might also argue that the US should be included, given that the Trump administration is looking at setting up a strategic bitcoin reserve and has commissioned the Digital Asset Working Group to deliver a feasibility study by July. Whether any central bank is prepared to accept the volatility of bitcoin in its reserves remains to be seen. But the discussion that it is even under consideration potentially legitimises the use of digital assets still further.

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