

Bitcoin as a strategic reserve asset?



Image source: iStock/Velishchuk

President Donald Trump signed an executive order relating to cryptocurrencies. The US is now one step closer to the creation of a strategic bitcoin reserve. Overview below.

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History shows that early adopters often gain a strategic advantage. Nations that first embraced coal and steel led the Industrial Revolution, nations that were early to add gold to their reserves accumulated the most. Bitcoin, often referred to as “digital gold,” could be the next transformative asset.

Current global situation

Some countries already hold bitcoin, mainly from seizures linked to illegal activities. It is also likely that some governments are buying bitcoin, without officially including them in their reserves or disclosing these acquisitions.

Countries that Own Bitcoin

Country	Flag	Filings & Sources	# of BTC	Value Today	% of 21m
USA		News	207,189	\$22,477,816,512	0.987%
China		News	194,000	\$21,046,949,420	0.924%
UK		News	61,000	\$6,617,855,230	0.29%
Ukraine		News	46,351	\$5,028,593,569	0.221%
Bhutan		News	13,029	\$1,413,508,783	0.062%
El Salvador		Filing News	6,002	\$651,153,558	0.029%
Finland		News	1,981	\$214,917,560	0.009%
Georgia		News	66	\$7,160,302	0.0%
Germany		News	0.0	\$0	0.0%
Totals:			529,618	\$57,457,955,675	2.522%

Source: Bitcoin Treasuries by BITBO

As the first country to adopt bitcoin as legal tender, El Salvador is the most remarkable example of bitcoin’s integration into national reserves, where it now accounts for 10% of the country’s assets. In the United States, the bitcoin debate is also taking center stage. President Donald Trump is calling for the creation of a strategic bitcoin reserve. Legislators such as Senator Cynthia Lummis have proposed acquiring 200,000 bitcoins a year for five years. She has just been appointed chair of the Senate Banking Subcommittee on Digital Assets. The senator wants to “urgently pass” legislation for a strategic bitcoin reserve.

“Digital assets are the future, and if the United States wants to remain a global leader in financial innovation, Congress needs to urgently pass bipartisan legislation establishing a comprehensive legal framework for digital assets and that strengthens the U.S. dollar with a strategic bitcoin reserve. I am humbled my colleagues have placed their trust in me to chair this historic subcommittee and I look forward to shepherding bipartisan legislation to President Trump’s desk this year that secures our financial future.”

— Senator Cynthia Lummis
Chair of the Senate Banking Subcommittee on Digital Assets

Source: Bitcoin Treasuries by BITBO

Should this proposal come to pass, the United States would hold almost 5% of the total supply of bitcoin, capped at 21 million. This project envisages financing these acquisitions by selling part of the gold reserves and using Federal Reserve profits. However, the Federal Reserve remains reluctant, with Chairman Jerome Powell stating that the Fed was “not looking to change its position” on holding. Indeed, the Federal Reserve Act limits the assets held by the Fed to those offering liquidity, stability and low risk, which excludes bitcoin for the time being. Thus, any formal adoption would require a legislative amendment. It’s worth noting, however, that so far 11 states, including Florida, Wyoming and Massachusetts, have already introduced bills to include bitcoin in their national reserves.

Similarly, in Switzerland, the Swiss National Bank is considering adding bitcoin to its reserves alongside gold. The committee behind the proposal, entitled “For a financially strong, sovereign, and responsible Switzerland (Bitcoin Initiative),” has 18 months to gather the 100,000 signatures required to bring it to a public vote.

On the other hand, the European Union remains cautious about integrating bitcoin in their financial strategies. As the European Central Bank (ECB) focuses on the development of the Digital Euro, bitcoin’s potential role in European reserves remains highly contested. The ECB has criticised bitcoin for its volatility and lack of intrinsic value. In a recent report, the ECB described it as a speculative asset that “fuels division in society,” highlighting how early adopters have profited at the expense of late adopters. Former German Finance Minister Christian Lindner urged the ECB and the Bundesbank to consider bitcoin as a reserve asset, warning that Europe cannot afford to stay behind in the global cryptocurrency debate.

Rumours suggest that BRICS countries (Brazil, Russia, India, China, and South Africa), are potentially accumulating bitcoin in anticipation of President Trump’s proposed bitcoin reserve. Brazilian congressman Eros Biondini introduced a bill in November, proposing the Strategic Sovereign Bitcoin Reserve (RESBit). The initiative suggests allocating up to 5% of Brazil’s \$372 billion reserves to bitcoin, translating to an \$18.6 billion potential investment.

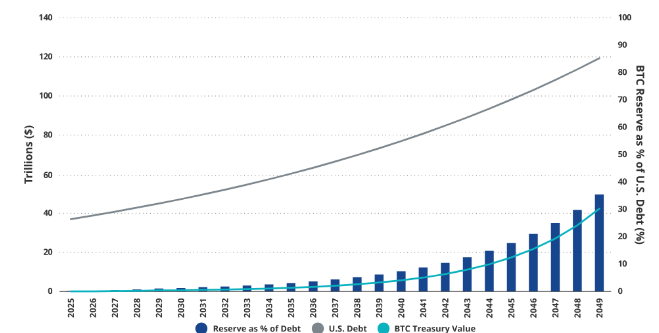
Russia, amidst sanctions and economic pressures, is considering bitcoin as an alternative reserve asset. In December 2024, President Vladimir Putin praised bitcoin as a viable substitute for traditional reserves, stating, “Who can prohibit it? No one”. Russian lawmakers are currently evaluating the feasibility of a strategic bitcoin reserve to diversify state holdings.

China’s stance on bitcoin remains ambivalent. While the country enforces strict controls on private cryptocurrency use, speculation surrounds its accumulation of bitcoin reserves. In Hong Kong, Wu Jiexuang, a Legislative Council member, advocated for bitcoin integration into financial reserves, citing the potential global implications of the US’s bitcoin strategy.

Reasons why central banks might consider bitcoin

› National debt reduction

Bitcoin’s rising value could theoretically help reduce the countries national debt. VanEck proposes a strategic reserve of one million bitcoins, aiming for a 35% reduction in the US national debt (\$36 trillion) by 2049. Their analysis estimates that bitcoin’s price would need to grow at a compounded annual growth rate (CAGR) of 25%, reaching \$42.3 million per unit by 2049. This reserve, financed without monetary creation or public funds, would leverage the 198,100 bitcoins already seized by the government and utilise part of the \$455 billion in gold reserves to acquire bitcoins. If this optimistic scenario unfolds, bitcoin could represent 18% of global financial assets by 2049, compared to its current 0.22%, offsetting approximately \$42 trillion in liabilities.



Dette nationale estimée des États-Unis avec la croissance de la réserve de bitcoin de 2025 à 2049. Source : VanEck

Source: US national debt with bitcoin reserve growth from 2025 to 2049, VanEck

› **Portfolio diversification**

Bitcoin serves as an effective tool for portfolio diversification due to its low correlation with traditional assets and unique risk-return dynamics. A study by Cheng (2023) show that bitcoin's correlation with major asset classes like the S&P 500, MSCI indices, and gold is below 0.2, and often negative, making it valuable for portfolio diversification.

› **Hedge against inflation**

Bitcoin's capped supply creates scarcity, a fundamental trait for assets used to combat inflation. This was evident during hyperinflation in countries like Venezuela and Turkey, where bitcoin offered short-term financial relief. Its ability to gain value during inflationary shocks also makes it a useful tool for central banks looking to protect against currency devaluation.

› **Geopolitical flexibility**

Bitcoin offers an alternative to traditional banking networks. This aspect makes it particularly attractive to the BRICS nations, who are actively seeking to reduce their dependence on the US dollar for trade. At their last summit in 2024, BRICS leaders proposed integrating bitcoin into international payments to support their de-dollarisation strategy.

By exploiting the decentralised nature of bitcoin, these countries aim to build an alternative financial system capable of bypassing Western sanctions and reducing their dependence on dollar-dominated infrastructures such as SWIFT. In 2023, the Russian exchange platform Garantex processed 82% of crypto transactions linked to sanctioned entities. These uses illustrate the potential interest of bitcoin for countries seeking to evade international sanctions.

› **Properties superior to gold**

Intrinsic properties such as portability and divisibility make it a potentially superior reserve asset to gold. Bitcoin enables instant transactions and 24/7 exchanges.

	 Cash	 Gold	 Bitcoin
Durability	○	●	●
Portability	●	○	●
Divisibility	●	○	●
Uniformity	●	●	●
Scarce Supply	○	●	●
Acceptability	●	●	●

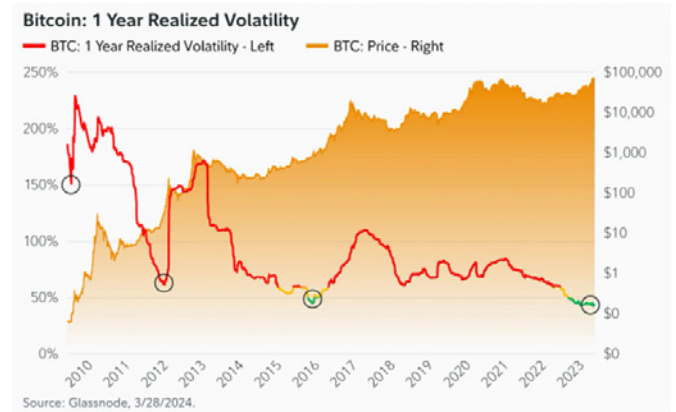
Source: Newton

Challenges and risks of bitcoin as a reserve asset

› **Volatility**

Bitcoin's extreme volatility poses the biggest challenge for adoption as a reserve asset due to its unpredictable price swings and market sensitivity. Its volatility is 3.9 times higher than gold and 4.6 times greater than global equities. Since 2014, bitcoin has faced four major drawdowns over 50%, with some exceeding 80% and taking years to recover.

However, the realised volatility of bitcoin has decreased over time, with one-year volatility dropping to below 50% in 2024, from over 100% in 2018 and now converges with high-risk stocks. Bitcoin's volatility has been lower than many large-cap stocks, such as Netflix, where realised volatility averaged 53% compared to bitcoin's 46%. Nevertheless, bitcoin's volatility remains substantially higher than bonds or equities, making it an unpredictable and risky choice for governments.



Source: Glassnode

› **Regulation**

Bitcoin's adoption as a financial asset is hindered by the lack of universal classification for bitcoin, which varies by jurisdiction. In the US, bitcoin is treated as a commodity by the Commodity Futures Trading Commission (CFTC), bringing it under pre-existing commodity trading regulations.

On the other hand, the European Union introduced the Markets in Crypto-Assets (MiCA) framework, set to be fully implemented in 2025. MiCA recognises bitcoin and other cryptocurrencies as unique crypto-assets, distinct from traditional financial instruments or commodities. Each has tailored regulatory requirements based on their characteristics and uses.

The lack of investor protection mechanisms, common in traditional securities markets, compounds the problem. For instance, the Celsius Network insolvency in 2022 impacted over 40,000 users across 150 countries, leaving customers classified as unsecured creditors and resulting in \$4.7 billion in losses. Without coordinated global standards and transparent legal frameworks, bitcoin's potential to serve as a stable and trustworthy financial asset will remain constrained.

› **Custodial risks**

Custodial risks in cryptocurrency management centre on securing private keys, as their loss or theft can result in the total loss of the associated funds, leaving owners with no way to recover their assets. A striking example is the QuadrigaCX case, where the CEO's death rendered \$190 million in cold wallet funds irretrievable. Solutions such as multi-signature wallets or secure custodial services should be considered by central banks if they aim to include bitcoin as an integral part of their reserves, to mitigate risks associated with private key management.

› Barriers to using bitcoin as a medium of exchange

As things currently stand, bitcoin is not in a position to serve as a major cross-border payment currency, for a number of reasons. First of all, the Bitcoin network is unable to process enough transactions to meet the demands of the global financial system. The daily number of bitcoin transactions varies but is currently around 700,000 per day. In comparison, Visa processes almost 660 million transactions per day, almost 1,000 times as many.

Additionally, the Bitcoin software that governs the network doesn't support complex smart contract languages, so users can't create sophisticated financial applications. Last but not least, since bitcoin's rate of inflation (or marginal supply) is limited, for miners to cover their expenses, bitcoin transactions must end up constituting the overwhelming majority of fees paid to miners to compensate for the reduction in inflation. This will put the brakes on transactions for the foreseeable future. The solution could one day come from so-called Layer 2 (see article on the lightning network).

Conclusion

Despite certain limitations, bitcoin's intrinsic properties, growing adoption, historical performance and current macroeconomic and geopolitical situation make the world's largest digital currency an attractive alternative for national reserves. Its adoption as a reserve asset by a powerful country could trigger a domino effect, prompting other countries to follow suit.

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