Gold Rush by Central Banks

Why in news?

The RBI has been increasing its gold reserve as part of the diversification process and a precaution to growing global financial uncertainty.

What is the status of RBI gold reserve?

- As of financial year 2023 the RBI have 794.64 metric tons of gold an increase of nearly 5 % financial year 2022.
- Of total 794.64 metric tons of gold, 437.22 tons of gold is held overseas in safe custody with the Bank of England and the Bank of International Settlements (BIS) and 301.10 tons of gold is held domestically.
- As on March 31, 2023 the country's total foreign exchange reserves stood at USD 578.449 billion, and gold reserves were pegged at USD 45.2 billion.
- Central banks across the world are increasing its gold reserve due to the increasing global uncertainty.

Why RBI is increasing the gold in foreign exchange reserve?

- **Long term benefits** - Since gold is safe and secure and liquid assets it has long term benefits.
- **Diversification -** RBI is diversifying its foreign exchange reserve because of the growing global uncertainty.
- **Negative rates** - To overcome the negative rates in the past.
- **Dollar** - Since dollar has been weakening gold can be good alternate.
- **Transparency** - Since gold have standard international price which is transparent.
- **Low confidence in Swiss financial centers** - Because of the demise of Credit Suisse and the total loss of its ***AT1 bonds***.

Why gold is an important component in foreign exchange reserve?

- **Commodity-linked currencies** - Gold has performed even better when expressed in terms of commodity-linked currencies.
- **Increasing value of gold** - The rate of the gold has been ***increasing more*** than the US dollar.
- **Weak global financial system** - The financial system is expected to face several crisis because of more volatility.
- **Foundation for the rupee** - Gold reserves coupled with a strong economy, balanced current account deficit and good balance of payment lay the foundation for the rupee in long term.

Quick facts

Bank of International Settlements (BIS)
• BIS was established in 1930. • BIS is owned by ***63 central banks including RBI*** that account for 95% of the GDP. • BIS's head office is in Basel, Switzerland and it has two representative offices in Hong Kong and Mexico City. • The ***mission*** of BIS is to support central banks' pursuit of monetary and financial stability through international cooperation, and to act as a bank for central banks. • ***Basel Committee on Banking Supervision*** of BIS provides the Basel norms.

References

1. The Indian Express | Status Of RBI's Gold Reserve
2. The Mint | Importance Of Gold In Forex

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