India’s Position in Global Gold Reserves

Mains: *GS Paper III | Economy*

Why in News?

World Gold Council data suggests that India was the world’s largest gold jewellery market in the quarter, accounting for 27% of global demand.

What is the Importance of Gold in Global Economy?

- Gold has traditionally served as a ***store of value, a hedge against inflation and a safeguard against financial instability.***
- In recent years, central banks across the world, including the Reserve Bank of India (RBI), have increased their gold holdings amid geopolitical uncertainties and efforts to diversify foreign exchange reserves.

What is India's Position in Global Gold Reserves?

- India was the ***world’s largest gold jewellery market*** in the quarter, accounting for 27% of global demand.
- India followed by China, U.S., Saudi Arabia, Turkey, Russia, the U.A.E, Iran, Egypt, Hong Kong and Brazil.
- India possesses approximately **880 tonnes** of official gold reserves, making it one of the world's largest holders of gold.
- Gold constitutes an increasingly important component of India's foreign exchange reserves managed by the RBI.
- The RBI has simultaneously reduced its dependence on United States Treasury securities while increasing investments in gold.

What is the Strategic Significance of Gold?

Economic significance

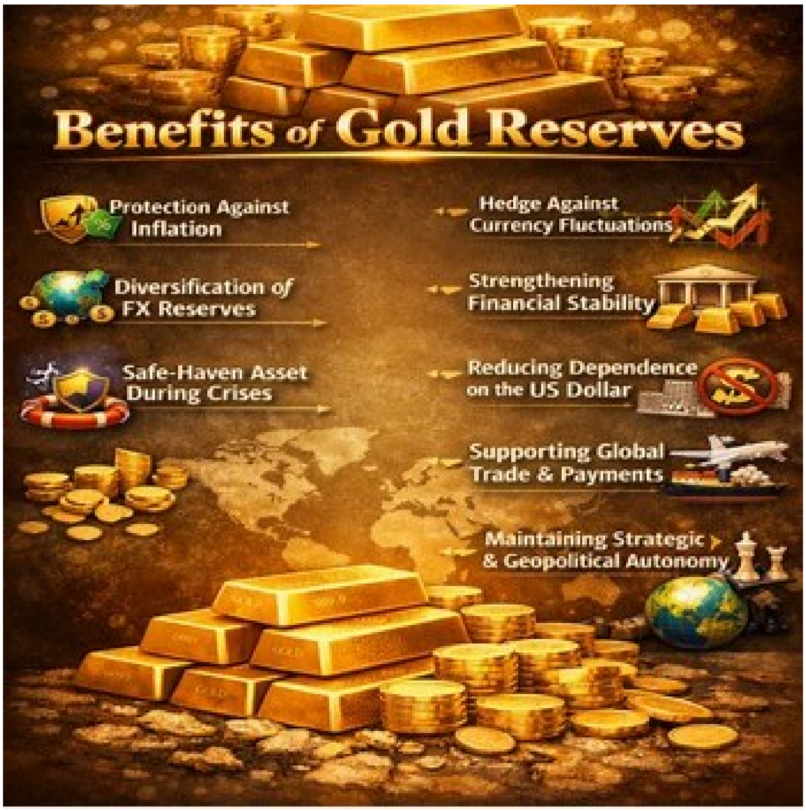
- It acts as a hedge against inflation and currency fluctuations.
- It strengthens investor confidence during periods of financial turbulence.
- It enhances the diversification of foreign exchange reserves.

Geopolitical significance

- It reduces dependence on the US dollar.
- It provides insulation against sanctions and external shocks.
- It strengthens India's financial sovereignty.

Monetary significance

- It serves as a highly liquid reserve asset.
- It supports the stability of the rupee during crises.
- It acts as a buffer against balance-of-payments pressures, as witnessed during the 1991 economic crisis.



What are the Challenges?

- India remains heavily dependent on imported gold.
- The rising imports contribute to the widening of the current account deficit.
- The excessive household investment in physical gold reduces the availability of productive capital for investment.

What is the Way forward?

- Promote gold monetisation schemes.
- Expand domestic gold recycling capacity.

- Encourage investment in sovereign gold bonds and digital gold assets.
- Maintain an optimal balance between gold holdings and foreign currency assets.
- Strengthen indigenous exploration and refining capabilities.

Reference

The Hindu | India’s position in global gold reserves