Stocking up of Gold by Central Banks

Why in news?

According to the World Gold Council (WGC), the demand for gold has risen by 28% this year.

What is the trend about?

- Gold has always been a critical component of a country's reserves.
- Central banks bought 399.3 tonnes of the yellow metal compared to 90.6 tonnes in the same quarter of 2021.
- The Reserve Bank of India (RBI) was the **third largest** buyers in Q3 of 2022.

Reasons for stocking up of gold by Central Banks

- Economic uncertainty and reserves rebalancing seem to be the prominent reasons.
- **Safety factor -** Historical position was the top reason cited by central banks to buy gold.
- During a crisis, gold acts as a tool to hedge against inflation and has no risk of default.
- Gold's durability, scarcity and finite supply are some features that provide central banks with surety and trust during times of uncertainty.
- **Dollar rebalancing** - Since the dollar has rallied significantly, the weight of it in the overall reserves would have gone up.
- The dollar index has appreciated 16% in October 2022.
- Therefore, central banks might want to add gold to rebalance their reserves to their preferred strategic level.

What is the case with India?

- RBI was the third largest among the known buyers in Q3 of 2022 as it added 17.5 tonnes to the reserves.
- RBI is also the largest buyer since the pandemic.
- The central bank hold gold both domestically and in other countries.
- According to the WGC, gold as a percentage of the RBI's total reserves stood at nearly 8% at September end.
- **Reasons for stockpiling gold**
    - Fluctuation in the rupee-dollar exchange rate
    - Trade deficit concerns
    - Geopolitical uncertainties
    - Diversification of assets

India owns 781 tons of gold, ranking it as the 9th largest gold-holding country in the world.

What are the other findings of the report?

- **Outlook** - Jewellery demand led by India and China also saw a surge in Q3.
- But, the average price of gold was down 3% year on year in Q3.
- **Price down** - Significant outflows from global gold ETFs (Exchange Traded Funds) have weakened the price.

Quick facts

The World Gold Council

- The World Gold Council was formed in 1987 by some of the world's most forward-thinking mining companies.
- There are three core pillars to their mission in serving the gold market and its participants.
    1. Improving understanding
    2. Improving access
    3. Improving trust

References

1. The Hindu Businessline | Central banks stock up on gold
2. Schiff gold | Central Banks Continue to Have an Appetite for Gold
3. Moneycontrol | What's the reason for recent gold rush among central banks
4. World Gold Council | About the World Gold Council

SHANKAR IAS PARLIAMENT
Information is Empowering