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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.

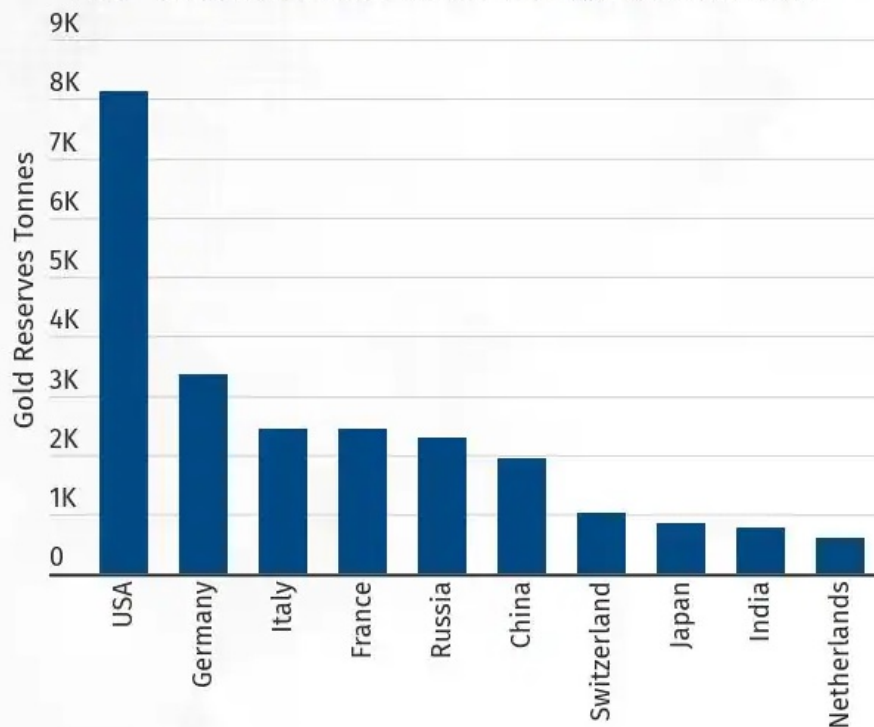
What is the trend about?

- 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.

TOP 10 CENTRAL BANKS IN TERMS OF HOLDING GOLD RESERVES



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](#)



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