

RBI's Hoard of Gold Now Almost 800 Tonnes

May 10, 2023 • vajiramandravi.com



What's in today's article?

- **Why in news?**
- **India's Gold Market**
- **Statistics**
- **Impact of Gold on the Economy**
- **Financialization of Gold**
- **News Summary: RBI's hoard of gold now almost 800 tonnes**
- **How much gold has RBI bought?**
- **Why is RBI buying so much gold?**
- **Are other central banks too buying gold?**

Why in news?

- The Reserve Bank of India's (RBI) gold reserves touched 794.64 metric tonnes in fiscal 2023.
- This is an increase of nearly 5 per cent over fiscal 2022, when it held 760.42 metric tonnes of gold.

India's Gold Market

Statistics

- The data on gold industry in terms of its' size, direct contribution to GDP and employment, is not easily available.
- However, as per the World Gold Council report (released in January 2023):
 - India is the second largest gold jewellery consumer in the world.
 - In 2021, India bought 611 tonnes of gold jewellery, second only to China (673 tonnes).
- The report further highlighted that gold jewellery exports in India have grown from US \$7.6 billion in 2015 to US \$12.4 billion in 2019.
- This report also highlighted that **rural India is the largest consumer of gold jewellery** occupying 55-58 per cent of the market share, and the middle class is the primary gold consumer in India.

Impact of Gold on the Economy

- **Business/employment opportunities:**
 - Gold is used as a raw material for jewellery fabrication and making coins. This in turn creates business opportunities, value addition and employment.
 - The industry provides employment to a significant number of people in India, including miners, artisans, and retailers.
- **Current account deficit (CAD):**
 - India is the world's second-largest importer of gold, which contributes to the country's current account deficit.
 - The import of gold requires foreign currency, which puts pressure on the country's foreign exchange reserves.
 - It should be noted that the gold imports are also used for export of gold jewellery, it has the potential to mitigate the adverse impact of imports on CAD.
- **Inflation:**
 - Gold is often used as a hedge against inflation, which means that during times of high inflation, demand for gold increases.
 - This can lead to an increase in the price of gold, which can contribute to inflation.
- **Savings and investments:**
 - Gold is considered a safe-haven asset and a store of value in India, which means that many people use it as a means of savings and investment.

Financialization of Gold

- A report by NITI Aayog estimated that around 23,000-24,000 tons of gold lies unused with the households and religious institutions throughout the nation.
- It is with the view to monetise this unutilized gold that the Government introduced the **Gold Monetisation Scheme (GMS)** in the Union Budget, 2015.
 - The gold accumulated under the GMS was to be used productively and profitably, by banks through the Gold (Metal) Loan (GML).
 - GML was introduced as a low interest rate financial product for meeting inventory financing needs of the borrower.
- The Government had launched the **Sovereign Gold Bonds Scheme (SGBS)** on November 5, 2015.
 - The main objectives of this scheme were to reduce the demand for physical gold and shift a part of the gold imported every year for investment purpose into financial savings.

News Summary: RBI's hoard of gold now almost 800 tonnes

- The recent purchases have swelled RBI's total gold reserve to just under 800 tonnes, marking a new record for the central bank.
- It acquired about 10 tonnes of gold in the March quarter, placing it among the top five gold buyers in that period.

How much gold has RBI bought?

- The RBI bought 34.22 tonnes of gold in fiscal 2023; in fiscal 2022, it had accumulated 65.11 tonnes of gold.
- Between the fiscal year ended June 30, 2019 and fiscal 2023, the RBI's gold reserves swelled by 228.41 tonnes.
 - The RBI used to follow the July-June accounting year in 2019. This was changed to April-March starting 2020-21.

Why is RBI buying so much gold?

- As part of the diversification process, the RBI has been adding gold to its reserves.
- This change in strategy has been driven by negative interest rates in the past, the weakening of the dollar and growing geopolitical uncertainty.
- Gold is a safe asset to have as it is liquid, has an international price which is transparent, and as it can be traded anytime. So, central banks are buying gold.

Are other central banks too buying gold?

- Many other central banks, including the Monetary Authority of Singapore (MAS), the People's Bank of China (PBoC) and the Central Bank of the Republic of Turkey have been buying gold.
 - Gold has been in fashion with central banks since they became net purchasers on an annual basis in 2010.
 - The two key drivers of central banks' decisions to hold gold are its performance during times of crisis, and its role as a long-term store of value.
-

Q1) What is Sovereign Gold Bonds Scheme?

Sovereign Gold Bonds (SGBs) are a type of government securities denominated in grams of gold. The scheme was launched by the Government of India in 2015 as an alternative to physical gold. The purpose of the scheme is to reduce the demand for physical gold in the country and shift it to a more productive asset class.

Q2) What is World Gold Council?

The World Gold Council is a market development organization that aims to promote and develop the demand for gold across the globe. It is an international organization formed by leading gold mining companies to promote gold as an important asset class for investment purposes, as well as for use in technology and industry. The World Gold Council was founded in 1987 and is headquartered in London, United Kingdom. Its members include leading gold mining companies from around the world, and it has offices in key global markets, including the United States, India, China, and Singapore.

Source: [RBI's hoard of gold now almost 800 tonnes: What's behind the gold rush by central banks?](#) | [NITI Aayog](#) | [Live Mint](#)

Source: <https://vajiramandravi.com/current-affairs/rbis-hoard-of-gold-now-almost-800-tonnes/>

© Vajiram & Ravi. For personal use only.