

Central Banks Shore Up Gold Reserves

22nd January 2025

Background

The year 2024 saw many central banks around the world increasing the stock of their gold reserves. As per official data, the United States holds the largest gold reserves at 8133.5 tonnes as of November 2024 and India stands at the eighth position with 876.2 tonnes of gold reserves. India and China are the only two emerging market countries in the list of top 10 gold reserves holders in the world.

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Exhibit 1: Official Central Bank Gold Holdings (Top 10)

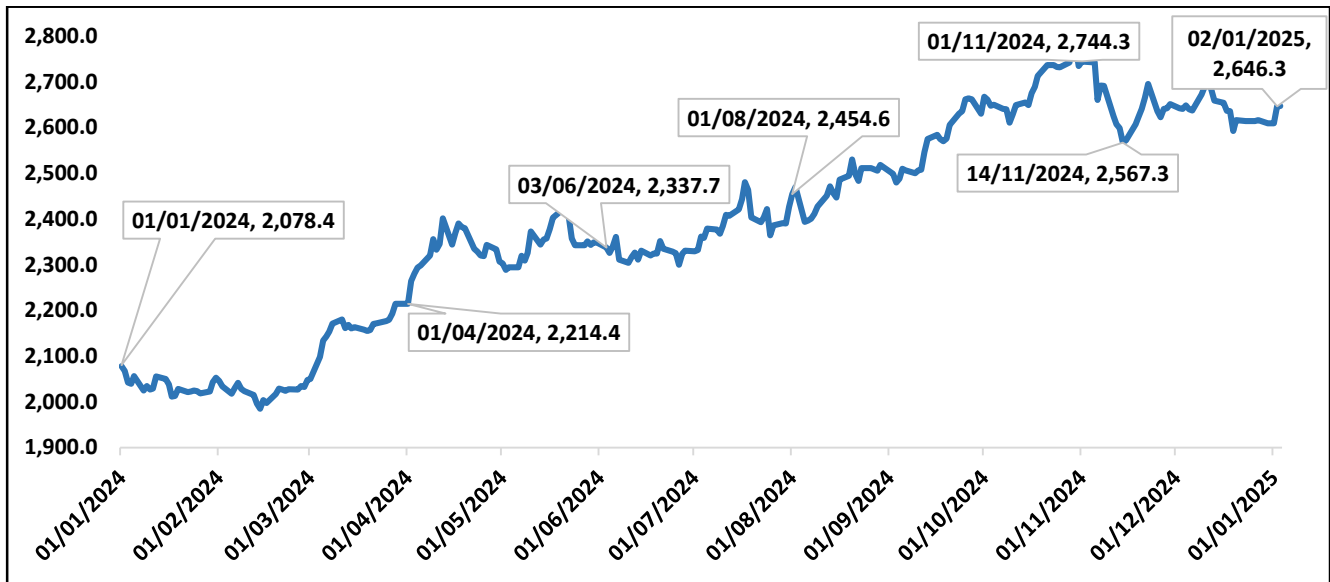
S.No.	Country	Gold Reserves (Tonnes)	% of Reserves*	Holdings as of
1	United States	8,133.5	75.1%	Nov 2024
2	Germany	3,351.5	74.1%	Nov 2024
3	Italy	2,451.8	71.0%	Nov 2024
4	France	2,437.0	72.5%	Nov 2024
5	Russian Federation	2,335.9	32.2%	Jun 2024
6	China, P.R.: Mainland	2,269.3	5.5%	Nov 2024
7	Switzerland	1,039.9	9.5%	Oct 2024
8	India	876.2	11.2%	Nov 2024
9	Japan	846.0	5.8%	Nov 2024
10	Turkey	615.0	36.1%	Nov 2024

*The percentage share held in gold of total foreign reserves, as calculated by the World Gold Council. The value of gold holdings is calculated using the end of month LBMA Gold price published daily by ICE Benchmark Administration. In **November 2024** the end of month gold price was **US\$2,651.05/oz.**

Source: World Gold Council

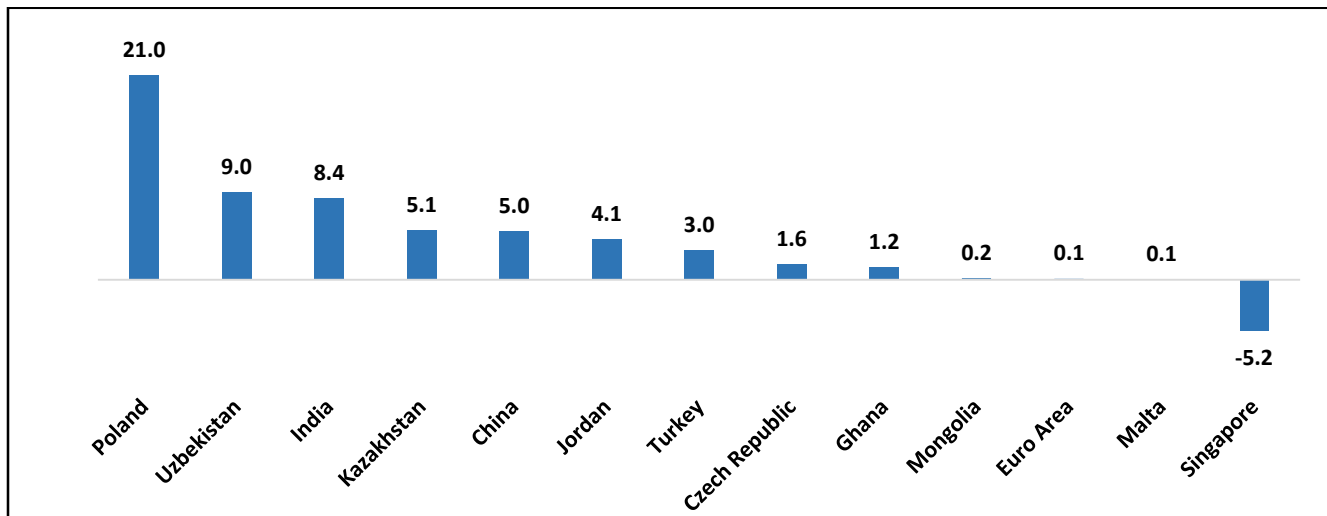
Gold prices globally fell in November, following the outcome of the US elections, which provided central banks with added impetus to accumulate gold reserves (exhibit 2).

Exhibit 2: Gold Price per troy ounce (USD)



Source: World Gold Council

Exhibit 3(a): Change in Central Bank Gold Reserves in Nov'24 (Tonnes)



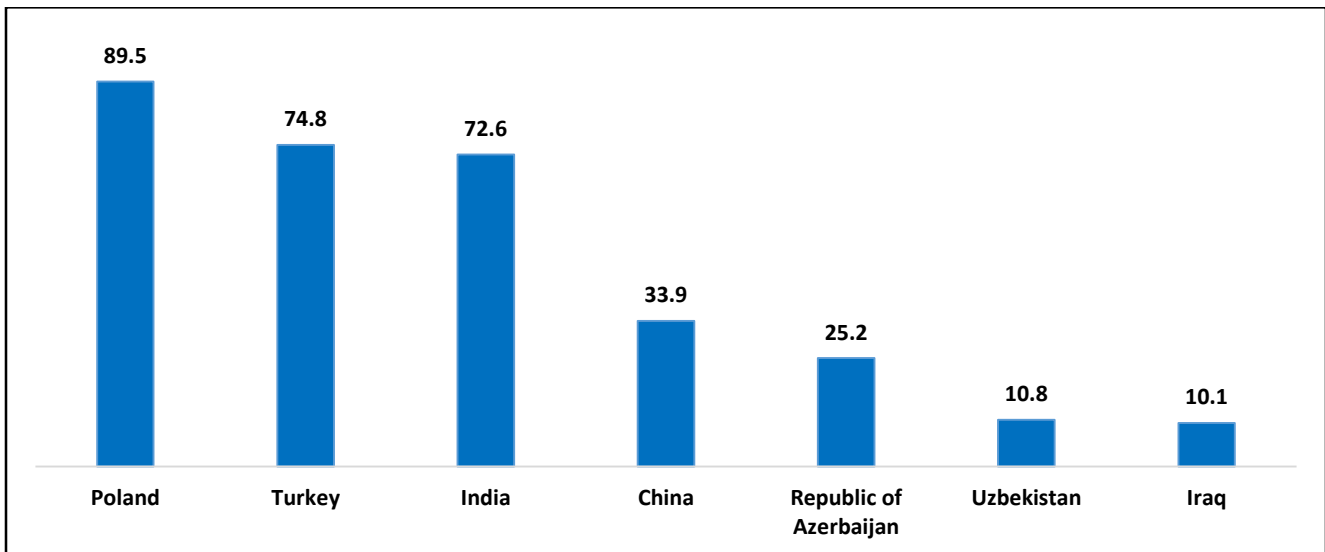
Source: World Gold Council

In November 2024, countries especially Poland, Uzbekistan, India, Kazakhstan, and China witnessed volatility in their respective currencies (exhibit 9), so in order to maintain their reserves they bought large quantity of gold (exhibit 3a).

Overall, central banks around the world bought a net of 53.5 tonnes of gold in November'24 with only Singapore depleting its gold reserves by 5.2 tonnes. India was the third largest gold buyer with the RBI purchasing 8.4 tonnes of gold in November'24.

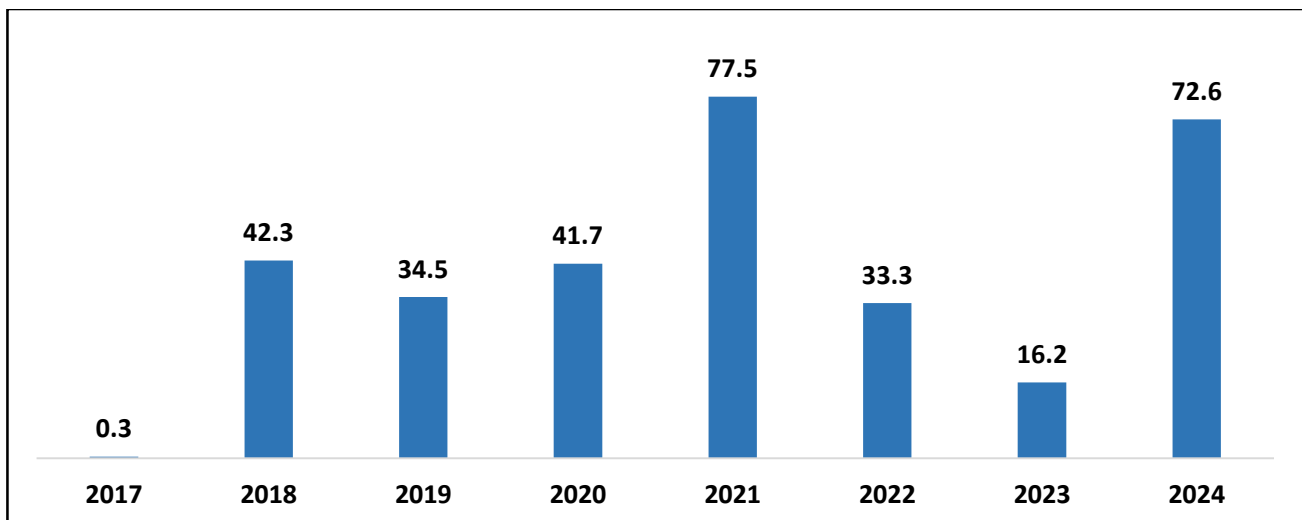
Further, in the year 2024 (upto Nov'24), central banks bought a net of 326.5 tonnes of gold- with India being the third largest net buyer of gold at 72.6 tonnes (exhibit 3b).

Exhibit 3(b): Change in Central Bank Gold Reserves from Jan-Nov'24 (Tonnes)



Source: World Gold Council

Exhibit 4: RBI's Gold Purchases since 2017 (tonnes)



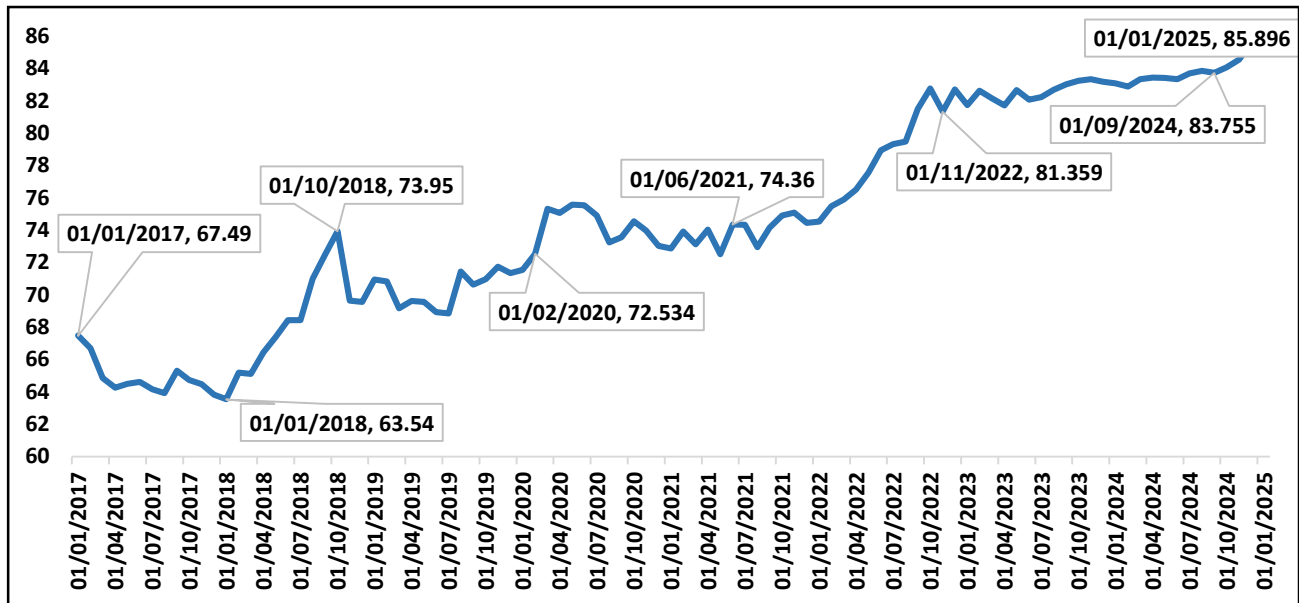
Note: Data for 2024 is upto Nov'24

Source: World Gold Council

In 2024, RBI has already purchased 72.6 tonnes of gold up to November'24. With December data awaited, 2024 may be the year that sees the largest addition to the central banks' gold reserves since 2021.

For India, the RBI's addition of 8.4 tonnes in November raised its total gold holdings to 876 tonnes. This brings the RBI's year-to-date gold purchases to 72.6 tonnes, securing its position as the third-largest buyer of gold in 2024, behind Poland and Turkey.

Exhibit 5: USD/INR Fluctuation since 2017

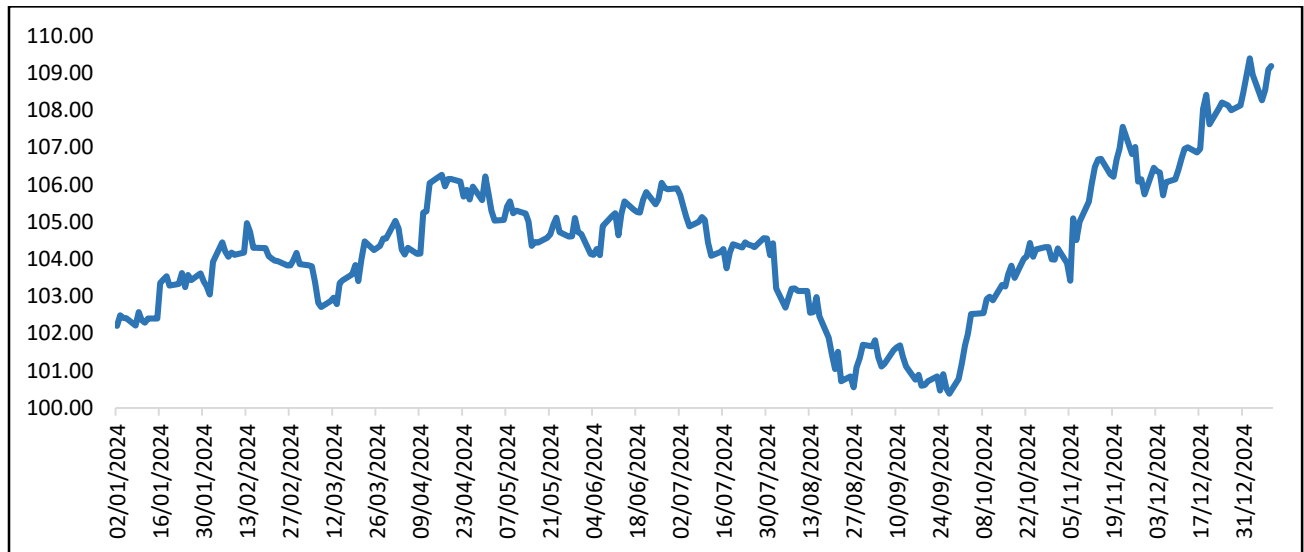


Source: Investing

The Indian Rupee lost about 2.8% against the dollar in 2024 (Jan-Dec) as compared to only 0.6% in 2023, which was a stable year in terms of currency volatility.

TREND IN 2024

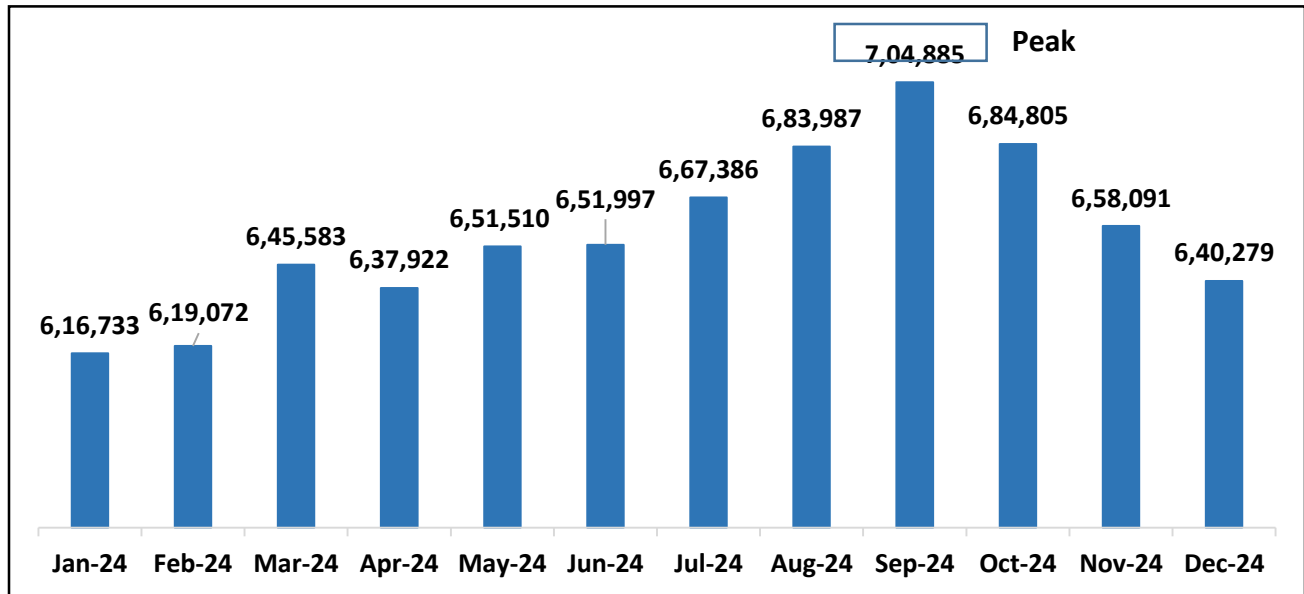
Exhibit 6: Movement in US Dollar Index since Jan'24



Source: Investing

Exhibits 6 & 8 indicate that as the US Dollar strengthened, the RBI had to deplete its foreign exchange reserves in order to stabilize the Indian Rupee. Further, RBI has been increasing its gold reserves in order to preserve excess depletion in its foreign currency assets. This strategy has helped the central bank maintain the country's foreign exchange reserves to the above USD 600 billion level.

Exhibit 7: India's Total Forex Reserves (USD Mn)



Source: CMIE

There has been substantial reduction in India's forex reserves between September'24 and December'24 from \$704.9 billion to \$640.3 billion. Although RBI is a net buyer of gold in the month of November 2024, RBI's gold reserves in USD terms has declined on account of valuation changes (reduction in value of gold) (Exhibit 8)

Exhibit 8: MoM Change in India's Reserve Assets (USD Mn)

	Gold	Foreign currency assets
Jan-24	-847	-5,471
Feb-24	367	2,044
Mar-24	4312	22,430
Apr-24	3373	-10,917
May-24	968	12,863
Jun-24	27	317
Jul-24	1167	13,996
Aug-24	4164	12,160
Sep-24	3937	17,117
Oct-24	2731	-22,403
Nov-24	-1548	-24,899
Dec-24	-711	-16,931

Conclusion

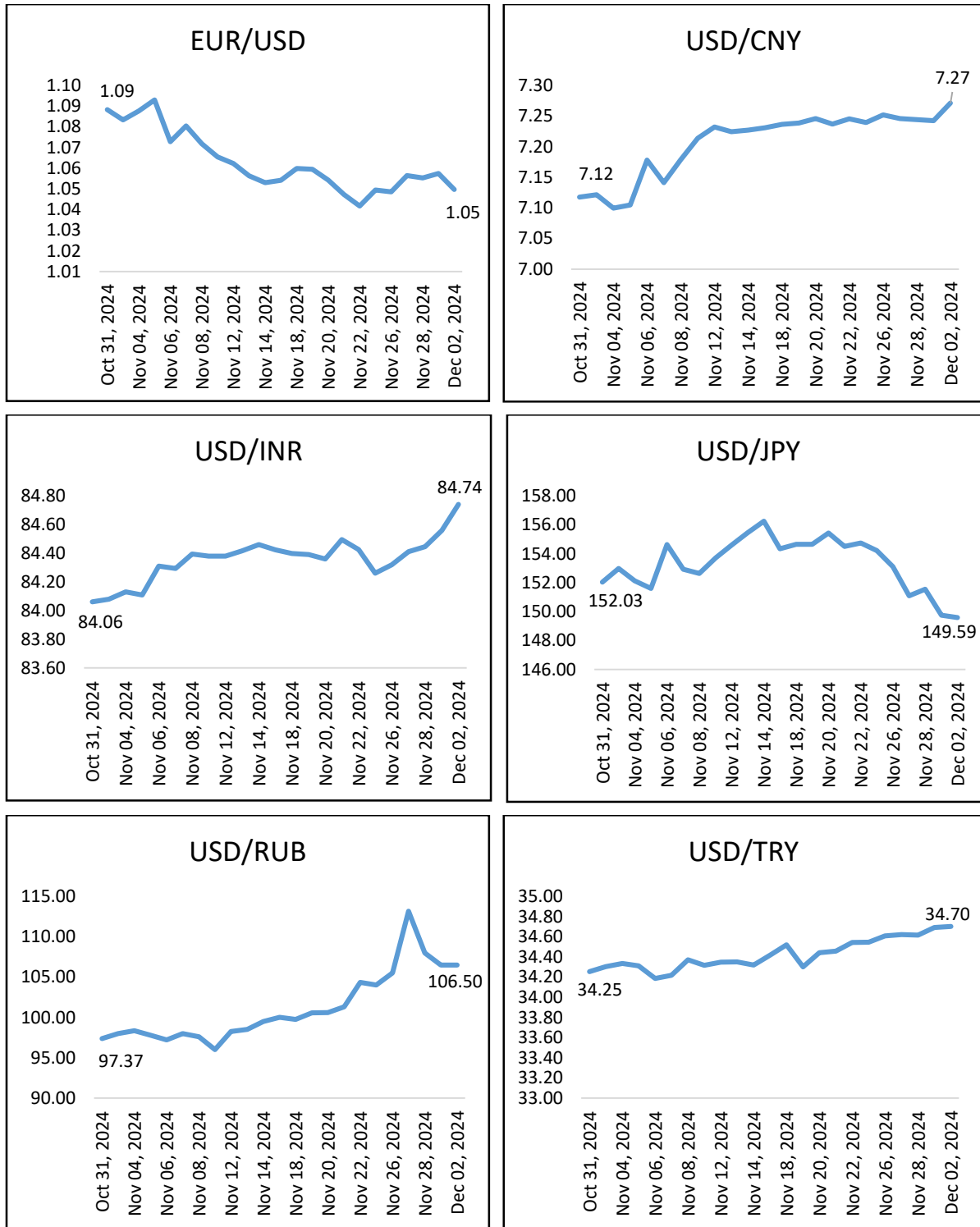
The Reserve Bank of India (RBI) has been systematically increasing its gold reserves as a component of its reserves management strategy since December 2017. However, its approach has intensified following the COVID-19 pandemic, positioning it as one of the leading purchasers of gold among central banks worldwide.

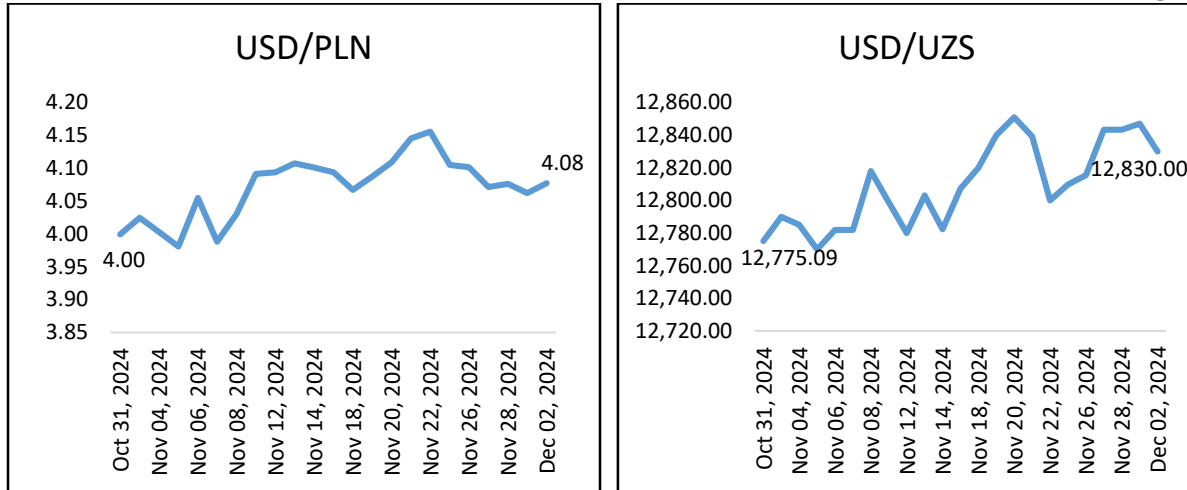
The primary aim of the central bank in holding gold is to diversify its foreign currency asset portfolio, serving as a safeguard against inflation and foreign currency volatility. In the wake of the Russia-Ukraine conflict that began in February 2022, central banks around the world have notably escalated their gold accumulation efforts, a trend that the RBI has also embraced.

Gold's role as a hedge against market volatility and geopolitical risks has largely fueled its success. Looking ahead, the global economy's future under Trump's second term is uncertain. While initial risk-on flows may benefit investors, potential trade wars and inflation could lead to sluggish economic growth.

According to the World Gold Council, the market consensus predicts modest gold growth in 2025, but upside potential exists if central banks increase demand or financial conditions deteriorate. Conversely, higher interest rates from monetary policy changes could challenge gold's growth. China's gold market contribution will also be crucial, depending on trade policies, stimulus, and risk perceptions.

Exhibit 9: Movement of Exchange Rates in November 2024





Source: Investing

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