

The Return of India's Gold Reserves

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Context: Over the past two and a half years, the **Reserve Bank of India (RBI)** has successfully repatriated nearly **130 metric tonnes** of gold that was previously stored under the secure custody of the **Bank of England**. This decision signifies a shift in the RBI's strategy for protecting its gold reserves, which have seen a **60% increase** in domestic holdings during this timeframe.

Increase in RBI's Domestic Gold Holdings

- As of **September 2024**, the RBI's domestic gold reserves have risen to **510.46 metric tonnes**, up from **295.82 metric tonnes** in **March 2022**.
- Currently, approximately **324 metric tonnes** of the RBI's gold remains with the Bank of England, a reduction from **453.52 metric tonnes** in **March 2022**.
- In terms of value (USD), the proportion of gold in India's total foreign exchange reserves has increased from **8.15%** at the end of **March 2024** to around **9.32%** by the end of **September 2024**.

Gold Held at the Bank of England

- The **Bank of England** houses one of the world's largest gold vaults, second only to the **New York Federal Reserve**.
- It stores around **400,000 bars** of gold and acts as a custodian for many central banks worldwide, incurring costs for gold safekeeping.

India's Gold at the Bank of England

- The RBI continues to retain **324 tonnes** of its gold reserves under the custodianship of the Bank of England and the **Bank for International Settlements**, which hold a significant portion of India's gold abroad.
- Additionally, around **20 tonnes** are managed through gold deposit schemes.
- Storing a portion of India's gold in London allows the RBI **immediate access** to the London bullion market, enhancing liquidity.
- Historically, in **1991**, India transferred **47 tonnes** of gold to the Bank of England during a balance of payments crisis to secure funds for repaying international creditors.

RBI's Strategy for Repatriating Gold Assets

Central Banks Increasing Gold Holdings

- Since the **U.S. imposed sanctions** on Russia in **2022** following its invasion of Ukraine, central banks globally have been **increasing their gold reserves** as a hedge against inflation and to reduce dependence on the U.S. dollar.

- India has accelerated its gold purchases since Russia's invasion, outpacing all other G20 countries, including Russia and China.
- This trend, referred to as "**de-dollarisation**," aims to diversify away from the dollar amid rising gold prices.

Significance of the Repatriation Strategy

Indicator of Economic Strength

- In **1991**, during a challenging economic phase, the RBI had to pledge some of its gold to raise funds, which was viewed as a sign of a weak economy.
- The current decision to bring back gold signifies **economic recovery** and reflects a significant change in the strength of the Indian economy.

Optimizing Financial Resources

- By repatriating gold deposits primarily held overseas, the RBI will reduce costs associated with **storage fees** paid to foreign banks.

Strategic Importance

- This move is part of a broader strategy to better utilize national assets amid **global instability**.
- Central banks worldwide are increasingly investing in gold as a **safe-haven asset** to reduce reliance on the U.S. dollar.
- India's decision to repatriate and store gold domestically aligns with this global trend and demonstrates confidence in the **resilience** of its economy.

Enhancing Storage Capacity

- The RBI has been progressively repatriating gold from the Bank of England, citing improvements in **domestic storage capacity**.
- According to the RBI Governor, the growing quantity of gold held within India is part of its **reserve management strategy**, underscoring the importance of maintaining domestic storage capabilities.
- As of **October 25, 2024**, India's total foreign exchange reserves have reached **\$684.8 billion**, sufficient to cover over **11.2 months** of imports (as of June 2024).

Diversification Benefits

- Increasing gold reserves allows India to **diversify** its foreign exchange holdings, reducing reliance on any single currency and mitigating risks from currency fluctuations and economic instability.
- Gold serves as a stable global asset that provides a **safe haven**, balancing the reserves portfolio and protecting the economy from shocks affecting specific currencies.
- This diversification enhances **financial security** and offers the government greater flexibility in economic management, contributing to overall stability and resilience.

Hedge Against Inflation

- Gold acts as a **hedge against inflation**, preserving or appreciating in value as currencies lose purchasing power.
- By boosting gold reserves, a country can safeguard its economy against the adverse effects of

inflation, ensuring stability for long-term financial planning and enhancing investor confidence.

- Substantial gold reserves protect against **currency devaluation**, preserving national wealth amid economic uncertainties.

Conclusion

The RBI's recent gold transfer from the UK is a pivotal step in strengthening India's economy. This initiative **preserves national assets**, prepares for future economic challenges, and aligns with global central banks' recognition of gold's role in ensuring **long-term stability**.



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