



## RBI's Gold Reserves

**For Prelims:** Forex and Gold reserve with [RBI](#), Bank of International Settlements (BIS), SDR, IMF.

**For Mains:** India's forex reserve and role of central bank in its management.

### Why in News?

As per [RBI's Half Yearly Report on Management of Foreign Exchange Reserves: October 2022 - March 2023](#), its gold reserves touched 794.64 metric tonnes in FY 22-23, an increase of nearly 5% over FY 21-22(760.42 metric tonnes)

- [Gold reserves](#) along with foreign currency assets, [special drawing rights](#) and reserve tranche position in the [International Monetary Fund](#) make up [India's forex reserves](#).

### How Much Gold has RBI Bought?

- **Total Reserves:**
  - As per RBI, **437.22 tonnes of gold are held overseas** are held with the Bank of England and the **Bank of International Settlements (BIS)**, and **301.10 tonnes of gold is held domestically**.
  - As on March 31, 2023, the **country's total forex reserves stood at \$578.449 billion**, and **gold reserves were pegged at \$45.2 billion**.
    - In value terms (USD), **the share of gold in the total forex reserves increased to about 7.81% at the end of March 2023**.
- **Recent Purchase:**
  - The RBI **bought 34.22 tonnes of gold in FY 23 (65.11 tonnes of gold in fiscal 2022)**.
    - Between FY 2019 - FY 2021, **RBI's gold reserves were 228.41 tonnes**.
  - According to the World Gold Council's regional CEO (India), the **RBI is among the top five central banks that are buying gold**.

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Forex Reserves Component	Billion \$	%
1. Foreign Currency Assets	519.5	88.22%
2. Gold	45.7	7.76%
3. SDRs	18.5	3.14%
4. Reserve Position in IMF	5.2	0.88%
<b>Total Forex Reserves</b>	<b>588.9</b>	<b>100.00%</b>

### Which Other Banks are Buying Gold?

- According to the [World Gold Council \(WGC\)](#), gold is being bought mainly by central banks of emerging market economies.
  - The WGC report said that in 2022, the People's Bank of China reported the first increase in its gold reserves since September 2019.
  - **China has been historically a large buyer of gold.**
- During 2022, the **central banks from the Middle East**, including Egypt, Qatar, Iraq, the UAE, and Oman **significantly boosted their gold reserves**.
  - By the end of 2022, the **Central Bank of Uzbekistan** became a net purchaser of gold, with its gold reserves rising by 34 tonnes.
- In January-March 2023, the **Monetary Authority of Singapore was the largest single buyer of gold** after it added 69 tonnes to its gold reserves

## Why is RBI Hoarding the Gold?

- **Counter Strategy against Negative Interest Rate:**
  - When the RBI has foreign currency (USD) in its reserves then it invests these dollars to purchase US Govt. bonds on which it earns interest.
    - The **real interest**, however, on these bonds has **turned negative due to the rise in inflation** in the US.
      - The real interest rate is the rate of interest an investor, saver or lender receives (or expects to receive) after allowing for inflation (**real interest = nominal interest minus inflation rate**).
  - At the time of such inflation, the demand for gold has increased and RBI being its holder can earn a good return even in stressed economic situations.
- **Good Hedge in Geopolitical Uncertainty: Due to the uncertainties arising amid the [Russia-Ukraine war](#) and [US' conflicts with China](#)**, there has been a decline in the acceptance of Dollar by some of the prominent global supplier of Goods like Russia and China.
  - If RBI holds dollars and it depreciates/weakens with respect to other currencies, then it's a loss for RBI.
  - However, due to the intrinsic value of gold and its limited supply, gold is able to retain its value much longer than other forms of currency.
- **Diversify Forex Reserves:** Gold is a safer, more secure and **more liquid asset** and it **performs better during times of crisis**, and as a long-term store of value.
  - Gold has an **international price which is transparent, and it can be traded anytime**.

## How is Gold Significant in the Economy?

- **Gold as a Reserve Currency:** For most of the 20<sup>th</sup> century, gold served as the world's reserve currency. **The US used the gold standard until 1971** where it was required to have equivalent reserves of gold to back up the paper money.
  - Due to the volatility of the US dollar and other currencies, some economists advocate returning to the gold standard since it has been discontinued.
- **Intrinsic Value:** Due to its inherent value and limited supply, inflationary periods see an increase in demand for gold. **Gold is able to keep its value much longer than other forms of currency because it cannot be diluted.**
- **Gold to Boost Value of Currency:** The value of a nation's currency starts depreciating when its imports exceed its exports. A country that is a net exporter, on the other hand, will see an increase in the value of its currency.
  - As this raises the value of the country's total exports, **a nation that exports gold or has access to gold reserves will see an increase in the strength of its currency when gold prices rise.**
- **Gold as a Substitute to G-Sec:** The central bank of a country can use **Gold as a medium to sterilize the market from the influence of foreign currency** (in case of FDI) or use as a **medium for open market operations (OMO)**.
  - In both of these operations Gold can be used in place of G-Sec.

## Note:

- The [Reserve Bank of India Act, 1934](#) provides the overarching **legal framework for deployment of reserves in different foreign currency assets and gold** within the broad parameters of currencies, instruments, issuers and counterparties.

## UPSC Civil Services Examination, Previous Year Questions (PYQs)

### **Prelims:**

**Q. What is/are the purpose/purposes of Government's 'Sovereign Gold Bond Scheme' and 'Gold Monetization Scheme'? (2016)**

1. To bring the idle gold lying with Indian households into the economy.
2. To promote FDI in the gold and jewellery sector.
3. To reduce India's dependence on gold imports.

**Select the correct answer using the code given below:**

- (a) 1 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

**Ans: (c)**

**Q. Which one of the following groups of items is included in India's foreign-exchange reserves? (2013)**

- (a) Foreign-currency assets, Special Drawing Rights (SDRs) and loans from foreign countries
- (b) Foreign-currency assets, gold holdings of the RBI and SDRs
- (c) Foreign-currency assets, loans from the World Bank and SDRs
- (d) Foreign-currency assets, gold holdings of the RBI and loans from the World Bank

**Ans: (b)**

**Source: IE**

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