Gold as a Reserve Asset
Central bank gold demand trends

XIII Meeting on International Reserves Management
Lima, 11 September 2019
Central Bank Demand Up Sharply

Central bank demand in 2018 was the highest since Nixon closed the gold window.

Source: Metal Focus, Refinitiv GFMS, World Gold Council
Diversity Among Buyers has Increased Significantly

Source: World Gold Council, IMF
Highest level of H1 purchases since central banks became net buyers

Source: Metals Focus; Refinitiv GFMS; World Gold Council
Gold’s role in meeting reserve asset objectives
Foreign Exchange Reserves Management

- Safety
  - Capital preservation
  - Risk mitigation
  - Portfolio diversification
  - Valuable collateral

- Liquidity
  - Large market
  - Strong volumes
  - Universal acceptance

- Return
  - Steady, non-volatile
  - Strong performance
  - Portfolio enhancement
Safety – Notable Sovereign Debt Defaults Across Major Economies

United Kingdom (1932)  Most of the outstanding WWI debt was consolidated into a 3.5% perpetual annuity.

Germany (1948)  Monetary reform limiting 40 Deutschmark per person. Partial cancellation and blocking of all accounts.


Argentina (2001)  Defaulted on $155bn in public debt, the largest such default in history, at the time.

United States (1933)  Abrogation of the gold clause. In effect, the US refused to pay Panama the annuity in gold due to Panama according to a 1903 treaty.

Japan (1946–52)  After inflation, exchange of all bank notes for new issue (1 to 1) limited to 100 yen per person. Remaining balances were deposited in blocked accounts.


Source: Bloomberg; World Gold Council
Safety – An Effective Diversifier

Gold serves as a diversifier in periods of economic expansion/contraction


Source: Bloomberg, NBER, ICE Benchmark Administration, World Gold Council
**Liquidity - Large Market**

*Gold is the sum of the above-ground stock of bars and coins, ETPs and official sector (or “Financial Gold”). Gold Prices updated as of 01 August 2019.

Liquidity - Strong Trading Volumes
Gold trades more than many other major financial assets

Average Daily Trading Volumes in US Dollars*

- US Treasuries
- US$/Sterling
- JGBs
- S&P 500 (all stocks)
- Gold**
- Euro/yen
- UK Gilts
- Dow Jones (all stocks)
- German Bunds

*Based on one-year average trading volumes as of December 2018, except for currencies that correspond to full-year 2016 volumes due to data availability. **Gold liquidity includes estimates on over-the-counter (OTC) transactions, published statistics on futures exchanges, and gold-backed exchange-traded products. For Methodology details visit Goldhub.com.

Source: BIS; Bloomberg; German Finance Agency; Japan Securities Dealers Association; LBMA; UK Debt Management Office (DMO); World Gold Council
Liquidity - Valuable Collateral

Gold-related Products on the Balance Sheet of the Bank for International Settlements (BIS)

Note: BIS fiscal year (FY) ends in March. Thus, data for FY09, for example, covers the time period from April 2008 to March 2009.
Source: Bank for International Settlements

World Gold Council | Gold as a reserve asset | September 2019
Return - Gold has Historically Rallied in Periods of High Inflation

*Based on y-o-y changes of the LBMA Gold Price and US CPI between 1971 and 2018.
**For each year on the sample, real return = (1+nominal return)/(1+inflation)-1.

Source: Bloomberg; ICE Benchmark Administration; World Gold Council
Return – Gold Outperforms other Key Asset Classes
Gold has delivered positive returns over the long run

Average Annual Return of Key Global Assets in US Dollars*

Source: Bloomberg; ICE Benchmark Administration; World Gold Council
Drivers of gold
Dual nature of strategic demand

Average annual demand ≈ 4,350 tonnes* (approx. US$177bn)

Jewelry  Technology  Investment  Central banks

51%  9%  30%  10%

Expansion  Uncertainty  Both

*Based on 10-year average annual demand estimates ending in 2018. Includes jewelry, technology, bars, coins, and ETF demand. It excludes over-the-counter demand.
Figures may not add to 100% due to rounding. US dollar value computed using the LBMA Gold Price as of December 2018.
Source: Metals Focus, Refinitiv GFMS, World Gold Council
Gold is a global market

Developed market demand ≈ 30%*

Emerging market demand ≈ 70%*

*Based on 10-year average demand estimates ending in 2018. Includes jewelry, technology, bars, coins, and ETF demand. Excludes over-the-counter transactions and central bank purchases.
Source: Refinitiv GFMS, World Gold Council
Gold production is well diversified

Average annual mine production over last decade ≈ 2,800 tonnes* (approx. US$115bn)

*Based on 10-year average supply estimates ending in 2017.
Source: Refinitiv GFMS, Metal Focus, World Gold Council
Drivers of gold

- **Economic expansion**: periods of growth are very supportive of jewellery, technology, and long-term savings.

- **Risk and uncertainty**: market downturns often boost investment demand for gold as a safe haven.

- **Opportunity cost**: the price of competing assets such as bonds (through interest rates), currencies and other assets, influence investor attitudes towards gold.

- **Momentum**: capital flows, positioning and price trends can ignite or dampen gold’s performance.
Central bank demand trends – in detail
Factors driving central banks gold demand

1. Investment guidelines and political, economic and geo-political conditions.

2. Diversification from US assets.

3. De-dollarization for political reasons.

4. Structural changes in the international monetary system.

5. Higher levels of international reserves
Investment guidelines of Emerging vs Advanced economy central banks

Source: World Gold Council
2/3 year bonds are yielding negative rates

<table>
<thead>
<tr>
<th>Country</th>
<th>1Y</th>
<th>2Y</th>
<th>3Y</th>
<th>5Y</th>
<th>10Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Switzerland</td>
<td>-1.069</td>
<td>-1.070</td>
<td>-1.049</td>
<td>-0.998</td>
<td>-0.781</td>
</tr>
<tr>
<td>Germany</td>
<td>-0.693</td>
<td>-0.768</td>
<td>-0.804</td>
<td>-0.702</td>
<td>-0.430</td>
</tr>
<tr>
<td>Netherlands</td>
<td>-0.700</td>
<td>-0.766</td>
<td>-0.789</td>
<td>-0.665</td>
<td>-0.318</td>
</tr>
<tr>
<td>France</td>
<td>-0.636</td>
<td>-0.693</td>
<td>-0.714</td>
<td>-0.605</td>
<td>-0.169</td>
</tr>
<tr>
<td>Finland</td>
<td>-0.670</td>
<td>-0.720</td>
<td>-0.697</td>
<td>-0.627</td>
<td>-0.192</td>
</tr>
<tr>
<td>Belgium</td>
<td>-0.639</td>
<td>-0.684</td>
<td>-0.700</td>
<td>-0.521</td>
<td>-0.109</td>
</tr>
<tr>
<td>Austria</td>
<td>-0.630</td>
<td>-0.707</td>
<td>-0.684</td>
<td>-0.572</td>
<td>-0.213</td>
</tr>
<tr>
<td>Spain</td>
<td>-0.483</td>
<td>-0.496</td>
<td>-0.484</td>
<td>-0.250</td>
<td>0.313</td>
</tr>
<tr>
<td>Portugal</td>
<td>-0.550</td>
<td>-0.546</td>
<td>-0.376</td>
<td>-0.227</td>
<td>0.376</td>
</tr>
<tr>
<td>Italy</td>
<td>-0.195</td>
<td>-0.014</td>
<td>0.377</td>
<td>0.839</td>
<td>1.578</td>
</tr>
<tr>
<td>United States</td>
<td>1.972</td>
<td>1.892</td>
<td>1.854</td>
<td>1.862</td>
<td>2.051</td>
</tr>
</tbody>
</table>

Source: Bloomberg, World Gold Council; updated as of 01 August 2019
Currency composition of global FX reserves
US dollar exposure remains high

Source: IMF COFER, World Gold Council; updated as of Q1 2019
Gold is an effective dollar hedge

Correlation between Gold and Dollar Index

Source: Bloomberg, World Gold Council; updated as of 01 August 2019
De-dollarization as opposed to diversification

Sanctions undertaken by US, EU and Russia from 2014; diplomatic events include but not limited to the Ukraine crisis, shooting down of MH17, Minsk II talks, closing of Russian consulate in California, Skripal poisoning

Source: Bloomberg, IMF IFS, Brookings, The European Council, World Gold Council; updated as of 01 August 2019
## Select central bank gold purchases (2017 to present)

<table>
<thead>
<tr>
<th>Country</th>
<th>Gold reserves (tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>591.8</td>
</tr>
<tr>
<td>Turkey</td>
<td>198.0</td>
</tr>
<tr>
<td>Poland</td>
<td>125.2</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>117.3</td>
</tr>
<tr>
<td>China</td>
<td>84.0</td>
</tr>
<tr>
<td>India</td>
<td>60.4</td>
</tr>
<tr>
<td>Hungary</td>
<td>31.5</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>22.7</td>
</tr>
<tr>
<td>Mongolia</td>
<td>15.2</td>
</tr>
<tr>
<td>Colombia</td>
<td>13.2</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>8.6</td>
</tr>
<tr>
<td>Iraq</td>
<td>6.5</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>5.8</td>
</tr>
<tr>
<td>Ecuador</td>
<td>5.2</td>
</tr>
<tr>
<td>Egypt</td>
<td>3.2</td>
</tr>
<tr>
<td>Serbia</td>
<td>2.2</td>
</tr>
<tr>
<td>Jordan</td>
<td>2.2</td>
</tr>
<tr>
<td>Qatar</td>
<td>1.6</td>
</tr>
<tr>
<td>Philippines</td>
<td>1.6</td>
</tr>
<tr>
<td>Thailand</td>
<td>1.6</td>
</tr>
<tr>
<td>Guinea</td>
<td>1.3</td>
</tr>
<tr>
<td>Belarus</td>
<td>0.9</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.6</td>
</tr>
<tr>
<td>Suriname</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Source: IMF, World Gold Council. Data reflects cumulative net purchases amongst select central banks from January 2017 to March 2019. Only includes countries with net purchases greater than 0.5 tonnes.

Turkey data reflects gold purchases outside of the Reserve Option Mechanism programme.

Certain countries are excluded because their gold accumulations were the result of accounting changes, or because changes were the result of regular swap activity.
Re-balancing
Total reserves have grown tremendously despite the growth of multilateral support and bilateral swap lines.

Source: World Gold Council, IMF IFS; updated as of Q1 2019
Survey results - 2019
## Results from the Central Bank Survey

### Why do central banks hold gold?

<table>
<thead>
<tr>
<th>Category</th>
<th>ALL</th>
<th>ADVANCED</th>
<th>DEVELOPING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Historical position</td>
<td>78%</td>
<td>100%</td>
<td>70%</td>
</tr>
<tr>
<td>Long-term store of value</td>
<td>78%</td>
<td>67%</td>
<td>83%</td>
</tr>
<tr>
<td>Effective portfolio diversifier</td>
<td>63%</td>
<td>44%</td>
<td>70%</td>
</tr>
<tr>
<td>No default risk</td>
<td>59%</td>
<td>22%</td>
<td>74%</td>
</tr>
<tr>
<td>Performance during times of crisis</td>
<td>59%</td>
<td>44%</td>
<td>65%</td>
</tr>
<tr>
<td>Lack of political risk</td>
<td>50%</td>
<td>33%</td>
<td>57%</td>
</tr>
<tr>
<td>Highly liquid asset</td>
<td>41%</td>
<td>33%</td>
<td>43%</td>
</tr>
<tr>
<td>Anticipation of changes in the international monetary system</td>
<td>28%</td>
<td>-</td>
<td>39%</td>
</tr>
<tr>
<td>Policy tool</td>
<td>28%</td>
<td>11%</td>
<td>35%</td>
</tr>
<tr>
<td>Serves as valuable collateral</td>
<td>25%</td>
<td>11%</td>
<td>30%</td>
</tr>
<tr>
<td>Part of de-dollarisation policy</td>
<td>13%</td>
<td>-</td>
<td>17%</td>
</tr>
</tbody>
</table>

### Source: World Gold Council, YouGov

For the second consecutive year, the World Gold Council has worked with YouGov to conduct a survey of central banks. The questionnaire was designed by World Gold Council and set-up on YouGov’s secure survey system before links to the survey were sent to central banks around the world. 39 central banks completed the survey.

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World Gold Council | Gold as a reserve asset | September 2019
Central Bank Gold Investment Plans

How do you expect global central bank gold reserves to change over the next 12 months?

- Global central bank gold reserves will increase: 54%
- Global central bank gold reserves will decrease: 38%
- Global central bank gold reserves will remain unchanged: 0%
- Don't know: 8%

How do you expect your institution's gold reserves to change over the next 12 months?

- We will increase our gold reserves: 8%
- We will decrease our gold reserves: 11%
- We are not planning to change our gold reserves: 74%
- Don't know: 15%

Source: World Gold Council, YouGov
Base: All central banks (39); Advanced economies (11); Emerging markets and developing economies (28).
The Latin American Context
Macro conditions in Latin America

• The norm in Latin America
  – Sound public finances, stable prices and sustained growth: Mexico to Uruguay and Peru to Chile

• Anomalies
  – Hyperinflation: Venezuela
  – Currency crisis: Argentina

• Pending challenges:
  – considerable increase in the volatility of capital flows
  – Adequate liquidity provision is crucial to absorb shocks efficiently
  – Sound macro management, strengthening institutions and incentivizing the economy to be productive
Reserve Management in the Latin American Context

- Reserve Management
  - Broader universe of financial assets to tackle low interest rates in AEs
    - Higher yielding but riskier and less liquid
  - Focus on diversification while extending investment universe
  - Increased relevance of return performance in reserve currency: USD
  - Asset allocation tends to be in USD
  - Liquidity and investment portfolios: availability vs returns
  - Long investment horizon key: to benefit return and volatility predictability
  - Being able to invest considering longer horizon than typically is favourable
  - Gold is the answer!
H1 gold demand boosted to a three-year high by record central bank buying

Source: Metals Focus; Refinitiv GFMS; World Gold Council
US$ gold price rise was matched – or exceeded – by the price in other currencies

Index level

Index level 01/01/2018 = 100
Source: ICE Benchmark Administration; Datastream; World Gold Council
Continued ETFs inflows; highest AUM in 6 years

Gold-backed Exchange Traded Fund holdings

Sources: Bloomberg, Company Filings, ICE Benchmark Administration, Shanghai Gold Exchange, World Gold Council
Global jewellery demand steady

Global jewellery demand

Source: Metals Focus, Refinitiv, World Gold Council
H1 bar and coin demand fell to its lowest level since 2009 due to profit-taking

Source: Metals Focus; Refinitiv GFMS; World Gold Council
Gold reserve operations
Adding gold to reserves

- Purchase GD gold in the global OTC market.

- Buy local production (either dore from miners, from refiners or from local banks).
Custody Options

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Primarily offers gold accounts to central bank customers</td>
<td>• Gold custody for central banks.</td>
<td>• Acts as the guardian and custodian of the gold on behalf of account holders, which include the U.S. government, foreign governments, other central banks, and official international organizations.</td>
<td></td>
</tr>
<tr>
<td>• Allocated gold accounts only</td>
<td>• Execution services.</td>
<td>• No individuals or private sector entities are permitted to store gold in the vault.</td>
<td>• Gold purchases and sales, outright forwards, swaps and options</td>
</tr>
<tr>
<td>• Consider providing gold accounts to certain commercial firms to facilitate access for central banks to the liquidity of the London gold market</td>
<td>• Gold deposits and swaps</td>
<td></td>
<td>• Gold upgrading and investments (including swaps and dual currency deposits)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Gold location exchange, safekeeping and settlement: loco London, Berne or New York</td>
</tr>
</tbody>
</table>
Central Bank Custody Locations

2019 Survey Results

Central Banks’ responses when asked where they stored their gold reserves

- **Bank of England**: 56% (33% Advanced, 22% Developing)
- **Domestic storage**: 52% (30% Advanced, 22% Developing)
- **Bank for International Settlements**: 28% (22% Advanced, 22% Developing)
- **Federal Reserve Bank of New York**: 22% (22% Advanced, 22% Developing)
- **Other official sector vault located outside of your country**: 13% (9% Advanced, 4% Developing)
- **Swiss National Bank**: 6% (9% Advanced, 3% Developing)
- **Banque de France**: 9% (9% Advanced, 1% Developing)
- **Bank of Canada**: 9% (9% Advanced, 1% Developing)
- **Other**: 11% (9% Advanced, 2% Developing)
- **Prefer not to answer**: 19% (13% Advanced, 6% Developing)

Base: All central banks with gold holdings (32); Advanced economies (9); Developing economies (23)
Central Bank Custody Locations
2019 Survey Results

How, if at all, have your custody arrangements changed over the past 12 months?

<table>
<thead>
<tr>
<th>Change in Domestic Storage</th>
<th>Increase</th>
<th>No Change</th>
<th>Decrease</th>
<th>Prefer Not to Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>88%</td>
<td>89%</td>
<td>87%</td>
<td>13% 11% 13%</td>
</tr>
</tbody>
</table>

How, if at all, do you intend to change your custody arrangements change over the next 12 months?

<table>
<thead>
<tr>
<th>Change in Domestic Storage</th>
<th>Increase</th>
<th>No Change</th>
<th>Decrease</th>
<th>Prefer Not to Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>78%</td>
<td>74%</td>
<td>22%</td>
<td>26%</td>
</tr>
</tbody>
</table>

Base: All central banks with gold holdings (32); Advanced economies (9); Developing economies (23)
## Custody locations
### Domestic vs International

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Holdings (Tonnes)</th>
<th>Domestic</th>
<th>BoE</th>
<th>NY Fed</th>
<th>SNB</th>
<th>BoC</th>
<th>BdF</th>
<th>BIS*</th>
<th>Swaps</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>8133.5</td>
<td>100.0%</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Germany</td>
<td>3369.7</td>
<td>50.7%</td>
<td>12.6%</td>
<td>36.7%</td>
<td></td>
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<tr>
<td>IMF</td>
<td>2814.0</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Italy</td>
<td>2451.8</td>
<td>44.9%</td>
<td>5.8%</td>
<td>43.3%</td>
<td>6.1%</td>
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<td></td>
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</tr>
<tr>
<td>France</td>
<td>2436.1</td>
<td>91.0%</td>
<td></td>
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<td></td>
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<tr>
<td>Russia</td>
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<td></td>
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<tr>
<td>China</td>
<td>1926.5</td>
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</tr>
<tr>
<td>Switzerland</td>
<td>1040.0</td>
<td>70.0%</td>
<td>20.0%</td>
<td>10.0%</td>
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<tr>
<td>Japan</td>
<td>765.2</td>
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</tr>
<tr>
<td>India</td>
<td>618.2</td>
<td>48.2%</td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>612.5</td>
<td>31.0%</td>
<td>18.0%</td>
<td>31.0%</td>
<td>20.0%</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>ECB</td>
<td>504.8</td>
<td></td>
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<tr>
<td>Taiwan</td>
<td>423.6</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Portugal</td>
<td>382.5</td>
<td>45.1%</td>
<td>15.9%</td>
<td>1.0%</td>
<td></td>
<td></td>
<td></td>
<td>5.2%</td>
<td>32.8%</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>375.3</td>
<td></td>
<td></td>
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<td></td>
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<td></td>
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<tr>
<td>Uzbekistan</td>
<td>351.5</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>323.1</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>310.3</td>
<td>100.0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lebanon</td>
<td>286.8</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>281.6</td>
<td></td>
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<td></td>
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</tr>
</tbody>
</table>

*BIS provides gold location exchange, safekeeping, and settlement services loco London, Berne, or New York. The BIS does not operate its own vaults, however.

*Tonnage as of August 2019, source: World Gold Council. Percentages may not add up to 100% due to rounding effects. The gold holdings of the US held at the NY Fed, the gold holdings of the UK held at the BoE, and the gold holdings of France held at the BdF are classified as “Domestically Vaulted” and not as gold held at the NY Fed, BoE, or BdF, respectively. Switzerland reports that its gold holdings that are in Switzerland are “decentralized”, so they are also classified as “Domestically Vaulted” and not as gold held at the SNB.
Upgrading Gold Holdings - Old versus New

- Legacy gold (old melts) may not meet Good Delivery standards in terms of purity, weight and other deleterious matter
- In most cases, they will not be acceptable for delivery and settlement of gold transactions (spot, swap, etc.)
## Gold Deposits

<table>
<thead>
<tr>
<th>Description</th>
<th>Place gold on deposit with counterparty (unsecured) to earn yield paid in cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objectives</td>
<td>Generate income on gold reserves</td>
</tr>
<tr>
<td>Benefits</td>
<td>Central bank also eliminates storage costs on gold while it is on deposit, adding to the income generated by the deposit</td>
</tr>
</tbody>
</table>
| Considerations | Counterparty risk, deposit is unsecured  
|              | Need for gold custodian and cash correspondence accounts  
|              | The weight of the gold returned at the end of the deposit may vary, with the difference compensated in cash |
| Gold Location | Gold located in a major gold trading center can minimize costs and maximize ease of transaction  
|              | Alternative arrangements are possible for gold located outside of major gold trading centers |
## Gold Swaps

<table>
<thead>
<tr>
<th>Description</th>
<th>• Gold is used as collateral and exchanged for foreign exchange deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objectives</td>
<td>• Generate liquidity in hard currency without selling gold&lt;br&gt;• Generate income by lending hard currency against gold</td>
</tr>
<tr>
<td>Benefits</td>
<td>• Central bank can manage dollar funding strains without having to sell or deploy foreign currency reserves&lt;br&gt;• Avoids portfolio liquidation&lt;br&gt;• Allows longer duration investments</td>
</tr>
<tr>
<td>Considerations</td>
<td>• Counterparty risk, ISDA not common with CBs (refer BIS)&lt;br&gt;• Haircut on collateral (gold has15% haircut under Basel 3)</td>
</tr>
<tr>
<td>Gold Location</td>
<td>• Gold located in a major gold trading center can minimize costs and maximize ease of transaction&lt;br&gt;• Alternative arrangements are possible for gold located outside of major gold trading centers</td>
</tr>
</tbody>
</table>
Gold Can Be Deployed as Collateral in Times of Need

- **Italy (1974)**
  - US$2bn bailout from Bundesbank,
  - Used gold as collateral

- **Portugal (1975-77)**
  - Raised over US$1bn in central bank credits

- **Romania (1974)**
  - Used gold as collateral on foreign currency loan

- **South Africa (1981)**
  - Swapped 5mn ounces of gold for foreign exchange

- **India (1991)**
  - Raised cash using gold bullion, pledging 20 tonnes via UBS, and 40 tonnes via BoE

- **Sweden (2008)**
  - Swapped gold to raise cash, provide liquidity to banks

- **Venezuela (2015-16)**
  - Reportedly swapping part of its gold reserves for cash

- **South Africa (2013)**
  - Swapped 5mn ounces of gold for foreign exchange

- **Ecuador (2014)**
  - Swapped 14 tonnes for US$580mn in financing
Accounting for monetary gold
Accounting for Gold
The Issue

• Over half of the world’s central banks include monetary gold in their reserves to help diversify foreign reserve portfolios.

• General purpose financial reporting frameworks lack appropriate guidance on accounting for monetary gold.

• In the absence of a suitable framework, monetary authorities adopted a variety of different treatments, which limit the comparability of financial statements and risks a reduction in their credibility.

Objective: establish an internationally recognized standard for gold accounting for monetary authorities that could significantly improve gold’s status as an integrated asset in many central bank reserve portfolios.
Accounting for Gold
Our Research

• In June 2016, we officially released a discussion paper on a “Common accounting framework for gold”.

• The paper was authored by Kenneth Sullivan, a well-known expert on central bank accounting practices and former IMF official.

• The foreword was written by Deutsche Bundesbank Executive Board Member, Carl-Ludwig Thiele, and technical assistance was provided by PWC, the World Bank, and a former accounting official from the Bank of England.
Accounting for Gold

Our Guidance

To match accounting for gold to its functional objectives, monetary authorities require a framework that recognizes the several reasons they may hold gold and reflects the economic substance of these holdings.

February 2018

This guidance, in the form of recommended practice, aims to help standardize accounting practices of monetary authorities with respect to gold, by establishing a suitable framework that is consistent with the conceptual framework of current financial reporting standards.
Appendix
A History of the Central Bank Gold Agreements

• The first Agreement (CBGA 1) lasted from September 27, 1999 to September 26, 2004 and covered sales of 2,000 tonnes of gold over that period.

• The second Agreement (CBGA 2) lasted from September 27, 2004 to September 26, 2009 and provided for a maximum of 500 tonnes to be sold in each agreement year for a maximum total of 2,500 tonnes. Total sales under CBGA 2 amounted to 1,884 tonnes, well under the limit.

• The third Agreement (CBGA 3) covered sales for a period of five years from September 2009 and allowed a maximum of 400 tonnes to be sold in each agreement year for a maximum total of 2,000 tonnes. These limits in CBGA3 accommodated the market sale of 181.3 tonnes of gold by the IMF. The IMF completed its programme of sales in December 2010.

• The fourth Agreement (CBGA 4) came into effect on September 26, 2014. No limits to annual gold sales were specified under CBGA 4, but no countries have announced any planned sales under the agreement.
A History of the Central Bank Gold Agreements

• On the 26\textsuperscript{th} of July, 2019, the European Central Bank (ECB) and 21 other central banks that are signatories of the Central Bank Gold Agreement (CBGA) decided not to renew the Agreement upon its expiry in September 2019

• Signatory banks concluded that a formal agreement was no longer necessary as the market has developed and matured

• The banks also confirmed that gold remains an important element of global monetary reserves, as it continues to provide asset diversification benefits and none of them currently has plans to sell significant amounts of gold

Source: ECB press release
Spot Gold Purchase
LGD gold - priced in US$ per fine ounce, quoted on a T+2 settlement basis

• The central bank buys 1000 oz from the bullion bank at $1,309.19

• The bullion bank instructs the BOE to debit its gold account with 1,000 oz gold and credit the central bank`s account at T+2.

• The central bank instructs its USD clearing bank to pay $1,309,190 (1000oz*$1,309.19) to the bullion bank`s US dollar account in NY at T+2.

• The gold leg of the transaction settles by 4pm London time on T+2.

• The dollar leg of the transaction does not occur until 5 hours later at close of business in New York on T+2.

• This creates a credit risk exposure for central banks, until both legs of the settlement take place, and should be managed accordingly.
Gold Deposits

- A central bank lends 1,000 oz gold with a bullion bank loco-London, 3-month at 20bp, spot date of 4\textsuperscript{th} February.
- The base price i.e the current spot rate: $1,309
- The exact weight: 807.92 oz
- The interest is in US$ and paid on the maturity date (4\textsuperscript{th} May)

\[
\text{Interest earned} = \frac{(807.92\text{oz} \times \$1309 \times 0.0020 \times 90)}{360}
\]
\[
= \$528.78
\]
- The exact amount of gold returned: 810.20 oz
- An additional 2.28 oz: purchase against $3692.23 ($1309.30 \times 2.28 \text{ oz})
- The central bank settles the net cash with the bullion bank: sends a money transfer order for $3163.44