

Central Banks become net gold buyers

By Deborah Spicer

For the first time in 21 years, Central Banks have become net buyers of gold.

This is according to The World Gold Council's Gold Demand Trends Report, which notes that Central Banks' purchasing and buying habits changed fundamentally in 2010, when the official sector became a net purchaser of 87t of gold, having been a net seller of 30t of gold the year before.

The report notes that many advanced countries have 40% of their external reserves in gold, while developing countries typically have about 5% of their reserves in gold.

Developed countries have traditionally sold some of their gold reserves each year, since their large gold reserves are a product of the historic gold standard monetary system, which required countries to allow paper money to be redeemed for gold.

However, the World Gold Council notes that as a result of the global recession, European Central Banks did not have a great appetite for gold sales in 2010, while several developing economies decided to purchase gold in an attempt to diversify their gold reserves.

Russia, Thailand, Bangladesh, Venezuela and the Philippines were among the countries with confirmed purchases of gold, while China may also have purchased some of its local gold production, some speculate.

Venmyn welcomes Central Banks' decisions to buy additional gold reserves or to hold on to existing gold reserves. It has seen this Central Bank trend, in addition to trends in jewellery, investment and industrial demand, benefit the gold price and, in turn, result in an increasing number of gold projects coming on stream.

Libya, South Africa and Egypt are among the top 40 countries with official gold holdings, with holdings of 143.8t, 124.9t and 75.6t, respectively. Of these African countries, South Africa, although it has significantly reduced its reliance on the gold sector for export earnings since the 1980s, still regards the gold sector as an important contributor to the gross domestic product as well as an important provider of jobs.