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Gold as International Reserves: A Barbarous Relic No More?

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ABSTRACT: After moving slowly downward for the better part of four decades, central bank gold holdings have risen since the Global Financial Crisis. We identify 14 "active diversifiers," defined as countries that purchased gold and raised its share in total reserves by at least 5 percentage points over the last two decades. In contrast to the diversification of foreign currency reserves, which has been undertaken by advanced and developing country central banks alike, active diversifiers into gold are exclusively emerging markets. We document two sets of factors contributing to this trend. First, gold appeals to central bank reserve managers as a safe haven in periods of economic, financial and geopolitical volatility, when the return on alternative financial assets is low. Second, the imposition of financial sanctions by the United States, United Kingdom, European Union and Japan, the main reserve-issuing economies, is associated with an increase in the share of central bank reserves held in the form of gold. There is some evidence that multilateral sanctions imposed by these, and other countries have a larger impact than unilateral sanctions on the share of reserves held in gold, since the latter leave scope for shifting reserves into the currencies of other non-sanctioning countries.

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