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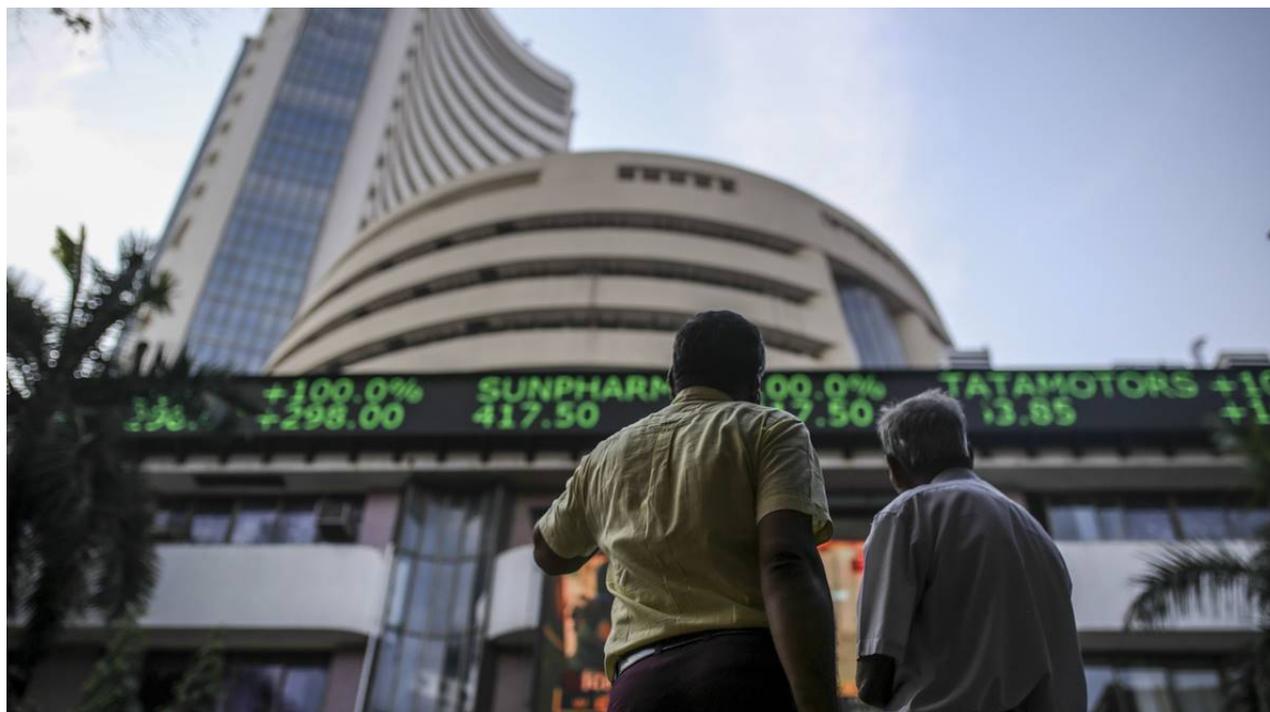
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# As FPI exits hit forex reserves, RBI stepped up gold purchases

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Written by [George Mathew](#) | Mumbai |

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India's gold holdings have gone up to 760.42 tonnes, with the Reserve Bank of India (RBI) adding another 16.58 tonnes of the yellow metal to the country's foreign exchange kitty during the six months ended March 2022.

RBI's gold acquisition happened at a time when foreign portfolio investors (FPIs) were exiting India and forex reserves declined by \$44.73 billion from \$642.45 billion in September 2021 to \$597.72 billion on April 29, 2022, as per Reserve Bank data.

While 453.52 metric tonnes of gold are held overseas in safe custody with the Bank of England and the Bank of International Settlements, 295.82 metric tonnes of gold are held domestically. In value terms (USD), the share of gold in the total foreign exchange — or forex — reserves increased from about 5.88 per cent as at end-September 2021 to about 7.01 per cent as at end-March 2022, says the RBI's Report on Management of Foreign Exchange Reserves.

The value of the RBI's holdings has gone up by \$5.162 billion in six months to \$42.55 billion as of March 2022. India's gold holdings have now gone up by 65.11 tonnes from 695.31 tonnes in March 2021 and by 142.18 tonnes in the last two years, making India the ninth-largest holder of gold reserves. While gold no longer plays a

direct role in the international monetary system, **central banks and governments still hold extensive gold reserves to preserve national wealth and protect against economic instability.** Central banks are buying gold at an ever-increasing pace.

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**Gold is the third largest reserve asset globally, following US dollar- and euro-denominated assets.** It is also **increasingly used as collateral** in financial transactions, much like other high-quality, liquid assets like government debt, as per World Gold Council (WGC).

**However, a sizeable gold holding is expected to add stability to the forex reserves at a time when capital outflows are putting pressure on India's reserves.** Bank of England continues to be the most popular storage location, with 63 per cent of respondents vaulting there, says a WGC survey. This marks a significant increase from last year and may indicate growing importance attached to keeping gold in liquid trading centres.

Domestic storage has also grown to 39 per cent of respondents, also higher than previous years.

According to the 2021 Central Bank Gold Reserves (CBGR) survey, 21 per cent of central banks intend to increase their gold reserves over the next 12 months. Central banks are also increasingly valuing gold's performance during periods of crisis as this attribute now tops their rationale for holding gold. **Gold has long formed an important part of India's currency reserves.** Even with a substantial

stock of gold reserves, gold's share in total reserves had declined over the past decade due to the vast growth in dollar-denominated assets.

This led the RBI to rebalance its reserves through the purchase of 200 tonnes of gold in late November 2009, taking its stock of gold to 558 tonnes, or 8.5 per cent of total reserves, and making it the eleventh largest official sector holder of gold in the world, WGC said. RBI's gold reserves have gone up further since then.



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