Central banks are on gold buying spree!

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Gold continues to lure savers away from productive, job-creating and growth enhancing investments.

As faith in government economic policies fades, savers are disillusioned with the declining paper wealth in terms of stocks and bonds.

Though policy makers exhort savers to put their savings in domestic financial institutions and boost investment by buying stocks, the savers seek avenues elsewhere.

The central banks are no exception. They too are running away from money and capital markets.

Some Pacific island countries including Tuvalu have lost some portion of their trust funds built through past foreign aid and remittance inflows, which were invested in international bonds and stocks. Following the financial crisis of 2008, a proportion of paper wealth Tuvalu trust funds evaporated as some stocks became junk.

The latest to join the fray of gold purchases is the Central Bank of Solomon Islands (CBSI).

On December 13, CBSI announced that it invested part of the country's foreign reserves in gold held in the form of gold bars and in gold metal accounts with recognized Bullion Bank in Hong Kong.

As it is concerned with "heightened uncertainties in the global financial markets", CBSI opted "not to continue to invest heavily in the money market, but to diversify further into safe investments which include investing in gold".

For the first time CBSI has invested in gold and the total gold investment holdings to date is 17,681.96 ounces (oz.) worth around Solomon Dollars 222.0 million (US$31.5 million). Of the total holdings of gold, 6,030 ounces were held in gold bars – totaling 15 gold bars worth about Solomon Island dollars 75.0 million (US$ 10.6 million) and the rest held in gold metal accounts.

The World Gold Council (WGC) says that during January-September 2012, gold bought by central banks is a record 373.9 tons, higher than 343.9 tons in 2011. By December, it will be up : 450 to 500 tons (1 metric tonne equals 1.1023 tons).

Major buyers are from Latin America: Mexico, Bolivia, and Brazil; followed by Russia, Kazakhstan, Ukraine; and by Asian countries, including India, Thailand, Philippines and South Korea.

The WGC reports 52 percent of world's holdings are for jewellery purposes, 16 percent are held as investment, 18 percent for industrial purposes; and 20 percent by central banks.

Why do central banks want gold?

The former chairman of the US central bank, Allan Greenspan raised and answered the question himself:

"You always have to ask the question why is it that central banks hold so much gold which earns them no interest and which costs them money to store. The answer is obvious: they consider it of significant value, and indeed they consider it the ultimate means of payment, one which does not require any form of endorsement."

During World War II, the Allies going into North Africa found that gold was insisted on in the payment of bribes! Germany in 1944 could buy materials during the war only with gold. Fiat money paper was not accepted then

The European Union including European Central Bank is holding the maximum: 11,000 tonnes of gold, followed by USA (8100 tonnes), IMF (3000 tonnes) and China (1100 tonnes) and Switzerland (1000 tonnes).

The Fed is pumping trillions of dollars into the economy under the name of quantitative easing, until the unemployment rate is brought down to 6.5 percent. Growing global monetary stimulus has added to the concerns debasing the currencies. Worries about inflation and concerns about currency depreciation are the main reasons.

The ultimate bubble

The uncrowned king of currency speculators, George Soros who brought down the fall of British pound in 1992 is increasing his investment in gold. He says: "Gold is the ultimate asset bubble."

The US Congressman, Ron Paul, an unsuccessful Republican candidate for nomination in the latest 2012 the Presidential election, wanted the US to return to gold standard.

Greenspan agreed: "Under the gold standard, a free banking system stands as the protector of an economy's stability and balanced growth. The abandonment of the gold standard made it possible for the welfare statists to use the banking system as a means to an unlimited expansion of credit... In the absence of the gold standard, there is no way to protect savings from confiscation through inflation"

Writing in his memoir, *The Age of Turbulence*, Greenspan admits that people have for the most part "tolerated the inflation bias as an acceptable cost of the modern welfare state".

He claims: "There is no support for the gold standard today, and I see no likelihood of its return."

So we have to live with the gold bubble!

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