Central Banks Net Buyers of Gold for First Time in 20 Years

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European central banks have become net buyers of gold for the first time in more than two decades, the latest sign of how the turbulence in the currency and debt markets has revolutionized the bullion market.

The purchases are minuscule compared with the size of the global gold market, but highlight a remarkable turnaround from a wave of heavy selling by European central banks.

The role of central banks in the gold market will be a central topic of debate at the annual London Bullion Market Association conference, the largest gathering of the gold industry, in Montreal this week.

The switch from large selling to buying has helped propel the gold price more than 25 percent higher so far this year, hitting a nominal record of $1,920 a troy ounce this month. The shift in Europe comes as central banks in emerging markets are also loading up on gold.

Mexico, Russia, South Korea and Thailand have all made large purchases this year, in a move to reduce their exposure to the dollar. Globally, central banks are set to buy more gold this year than at any time since the collapse of the Bretton Woods system 40 years ago – the last time the value of the dollar was linked to gold.

"We're going back to a time when gold is seen very much as money," Jonathan Spall, director of precious metals sales at Barclays Capital, told FT.com in a video interview. "It has been a complete reversal of the attitudes we saw during the 1990s."

European central banks have added about 25,000 ounces, or 0.8 tonnes, of gold to their reserves in the year to date, according to data from the European Central Bank and the International Monetary Fund.

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