

Where is Germany's Gold?

“Gold in the vault” vs. “gold receivables”. It’s time for an accurate accounting

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One of the most important assets of the German people is the gold that has been accumulated over the years through their hard work and savings. Individuals hold some of this gold, but much of it is kept with the Bundesbank as an essential rainy-day reserve, held just in case monetary turmoil requires its use to re-establish a stable currency.

This gold has been entrusted to the Bundesbank and provides peace of mind knowing that it is there. But where is it really? And just as important, how much is there? Unfortunately, we do not know the answer to these questions.

The Bundesbank’s latest Annual Report states: “As of 31 December 2009, the Bundesbank’s holdings of fine gold (ozf) amounted to 3,406,789 kg or 110 million ounces. The gold was valued at market prices at the end of the year (1 kg = €24,638.63 or 1 ozf = €766.347).” The total value therefore reported by the Bundesbank on its balance sheet is €83,939 million. There have been, however, repeated claims suggesting that the Bundesbank’s gold vault is empty. The reporting by the Bundesbank in its Annual Report does nothing to disprove these claims.

The Annual Report states that the Bundesbank owns €83,939 million of “Gold and Gold Receivables”. Surprisingly, it does not distinguish between these two fundamentally different assets, nor does it report how much of each it owns.

Clearly, gold stored safely and securely in the Bundesbank’s vault in Frankfurt has a different level of risk than gold that has been loaned out. Physical gold is a tangible asset, and therefore does not have counterparty risk. But a loan – regardless whether you are lending euros, dollars or gold – is only as good as the creditworthiness of the borrower. This lesson was learned the hard way, for example, by the central bank of Portugal. It had loaned gold to Drexel Burnham Lambert, and that gold receivable was still outstanding when this bank failed two decades ago.

By not reporting “gold in the vault” and “gold receivables” separately as two different assets, the Bundesbank is saying in effect that cash and accounts receivables are the same thing. Of course they are not, and their fundamental difference is made clear by Generally Accepted Accounting Principles, which highlights a deficiency in the Bundesbank’s Annual Report.

Section 26(2) of the Bundesbank Act states: “The accounting system of the Deutsche Bundesbank shall comply with generally accepted accounting principles.” By reporting “gold in the vault” and “gold out on loan” as one item, the Bundesbank is not reporting its two

different gold assets according to generally accepted accounting principles.

There have been reports that the Bundesbank believes the way it accounts for gold is required by International Monetary Fund rules, which they contend supersede Section 26(2) of the Bundesbank Act. But if so, one can reasonably ask, who controls the Bundesbank? The German people or the IMF? Until these questions are answered, the public may never learn how much gold the Bundesbank has stored safely and securely in Frankfurt, and how much it has loaned, thereby perpetuating the rumour that the Bundesbank's gold vault is empty.

Given the ongoing monetary turmoil and the growing worries about the inflationary impact of rising commodity prices, those rainy-day gold reserves may soon be needed. So when will the Bundesbank provide an accurate accounting of Germany's gold reserves?

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