



By: Daniel Lacalle

Why Central Banks Need More Gold Than Ever?



The record-high gold purchases by central banks have shocked many analysts. The Keynesian mainstream, which held the fallacious belief that developed countries could perpetually increase their debt because global central banks required their sovereign bonds as reserves, is shocked. That myth is gone. The preferred reserve asset in the world is no longer sovereign bonds.

Gold is now the largest asset held by central banks around the world, surpassing both the US dollar and the euro.

Concerned about the growing risks of insolvency, nations ranging from China to Poland to Turkey are abandoning sovereign debt as a reserve, which is speeding up this trend.

Despite rate cuts by their central banks, the yield on French, German, UK, and Japanese debt has **increased**, and gold prices have **hit** all-time highs.

These actions are linked by the fall in demand for sovereign debt and the increase in yields demanded because of fiscal imbalances and damaged public finances.

Many central banks reject the debt issued by governments that have outgrown their economic, fiscal, and inflationary limits because it offers negative real returns, and the risk of ongoing fiscal difficulties makes debt unappealing.

The seemingly unstoppable rise of gold

The demand for gold by central banks is not a passing fashion. Price movements don't drive it. Gold's place in central bank portfolios has changed due to a structural shift fuelled by currency instability, ongoing government deficits, and the changing global monetary order. This is a long-term trend with worldwide ramifications rather than a brief surge.

In recent years, central banks' demand for gold has increased dramatically. The World Gold Council **reports** that central banks bought more than 1,037 tonnes of gold in 2022, the most since 1967.

This rapid pace persisted in 2023 and 2024, when holdings surpassed 36,700 tonnes worldwide.

People no longer trust paper promises, and gold's seemingly unstoppable rise continues

Central banks **increased** their reserves by 166 tonnes in just the second quarter of 2025. As of right now, net buying is 41% higher than the historical quarterly average from 2010 to 2021.

Official reserves continue to serve as a strong floor on prices and anchor overall demand for gold, with net central bank gold additions of 415 tonnes during the first half of 2025.

Gold demonstrates how much fiat money has been destroyed and how many central banks no longer use sovereign debt as a reserve asset.

People no longer trust paper promises, and gold's seemingly unstoppable rise continues.

The inevitable welfare state crisis

The need for central banks to protect themselves from the fallout from the governments of developed nations' reckless fiscal policies and ongoing deficit spending is what motivates their demand.

These days, gold and bitcoin serve the same purpose that central banks no longer do: to remind governments that they are limited in how much money they can spend and print.

In developed countries, independent central banks were crucial in reducing governments' propensity to continuously raise debt and

deficits.

However, most large central banks decided to focus all their policy efforts on masking fiscal imbalances and maintaining the public debt bubble. Policymakers have recently abandoned their inflation and employment targets.

Poland is currently the largest buyer of gold in Europe and holds more than the European Central Bank

Why is there such a demand for gold? To avoid political and financial vulnerabilities, many central banks—most notably China and Russia—are diversifying away from US dollar assets.

According to estimates, the People's Bank of China may have off-the-books reserves twice as large as reported—more than 5,000 tonnes—after reporting eight consecutive months of gold accumulation.

But the reasoning goes beyond BRICS and Western political tensions.

With gold making up about 22% of its reserves, Poland is currently the largest buyer of gold in Europe and **holds** more than the European Central Bank.

Like Turkey, Oman, and other countries, Poland has a strong reason for preferring gold over euro area sovereign debt. The inevitable welfare state crisis.

An essential insurance policy

Gold's function as an inflation hedge and store of value is still important as fiat purchasing power declines due to government waste.

Gold is once again at the centre of the reserve strategy because of the post-pandemic monetary base expansion and ongoing fiscal deficits.

Furthermore, unlike currency reserves, gold cannot be seized or confiscated, which makes it an essential insurance policy during times of global unrest and trade disputes.

As part of a larger plan to lessen the effects of geopolitical tensions, nations like Singapore, Kazakhstan, and Turkey have increased their gold purchases. The increase in gold purchases by central banks is changing the dynamics of supply and price.

The demand for gold increased 3% year over year to 1,249 tonnes in Q2 2025, while the average quarterly price **reached** a record US\$3,600 per ounce.



The increase in gold purchases by central banks is changing the dynamics of supply and price - Daniel Lacalle

Strong demand lowers supply, establishes a stable floor price, and lessens volatility in gold even as market stress increases.

Institutional investors and retail buyers are boosting their ETF inflows and bar-and-coin investments to reach their highest first-half levels since 2013, following five years of actual losses in sovereign bonds and apprehension about future fiscal difficulties.

According to central banker surveys, 77% of them intend to increase their gold reserves within the next 12 months, and over 80% anticipate larger allocations over a five-year period.

More significantly, the World Gold Council says no one expects gold holdings to decline. For years to come, central bank purchases will

probably be supported by other nations' high debt, ongoing deficits, policy uncertainty, and geopolitical stress.

A huge demand in the years to come

The major central banks around the world must buy a lot more gold if they want to reach historical levels in their holdings.

Between 60% and 70% of global reserves held by major Western economies prior to 1971 were made up of gold. According to the IMF, gold currently makes up between 17 and 27 per cent of all central banks' global reserves.

Governments disregard all the warning signs and are unwilling to cut debt and spending

The 36,700–37,755 tonnes of gold reserves that central banks will have amassed in 2025 is a historically high amount in absolute terms, but it is small when compared to the total assets under management in the current fiat money era.

Central banks' current gold holdings would need to be multiplied several times over to equal the 60% of the Bretton Woods era.

For gold to account for 60% of total reserves, central banks would need to purchase an additional 40,000–60,000 tonnes of physical gold, effectively doubling or tripling their current holdings, given the current price of gold.

Even if their reserves fall short of 60%, there will still be a huge demand in the years to come.

Gold is money, and trust in fiat money is declining. Governments disregard all the warning signs and are unwilling to cut debt and spending. As a result, demand for gold will likely keep growing.