



Emerging Markets Report
News & Commentary

Russia is boosting its gold reserves as prices plunge; Moscow sees gold as buffer against external risks

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Moscow sees gold as buffer against external risks

Russia has been building its gold reserves as part of a continuing effort to reallocate its reserve portfolio.

But by growing its gold stockpile, Russia may be exposing itself to the risk of holding an asset whose value has been steadily heading south.

"Russia has been aiming to diversify its forex reserves for some time, but that process was accelerated by sanctions against the country last year," said Martina Bozadzhieva, head of research for Europe, Middle East and Africa at Frontier Strategy Group.

Meanwhile, gold prices Wednesday with August gold (GCQ5, US) falling \$12, or 1.1%, to settle at \$1,091.50 an ounce on Comex. The precious metal is off nearly 6.7%% in July and 7.7% for the year.

Russian central bank official Dmitry Tulin said in May that the Central Bank of Russia (CBR) will bolster its gold holdings as the asset is safe from "[legal and political risks](#)," according to media reports.

The one-two punch of plunging oil prices and international sanctions following Russia's invasion of Ukraine have hit the country, run by President Vladimir Putin, hard. Russia's gross domestic product year-over-year, following a 2.7% contraction in March.

The recent Iran deal, which paves the way for Tehran to start , is expected to further weigh on Russia's economy, **Usha Haley**, professor of management at West Virginia University.

The lifting of Iranian sanctions means Tehran soon will be able to export crude oil, and swelling supplies will pressure an already vulnerable oil market, a blow to Russia, which is a major energy exporter.

"Ramping up gold reserves can help to offset capital outflows from Russia, which also faces declining disposable income and consumption as unemployment rises," said **Haley**.

"The country already holds more gold than it did a year ago even as total currency reserves are far from recovered," said Bozadzhieva.

The CBR boosted its [gold reserve by \\$350 million in June to \\$48.229 billion](#), according to data from the bank. Gold accounted for 13.3% of its total reserves at the end of last month, up from 9.7% in June 2014.

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