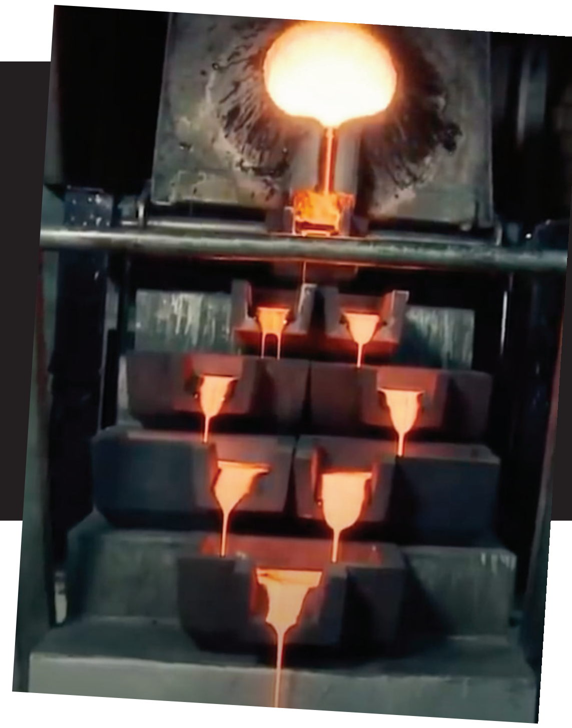
Ireland has quietly doubled its stocks of gold



The Central Bank hedges against inflation — though Ireland's holding per capita is still only one sixteenth of Germany's

By Finola Kennedy

THE NEW York based financial and media company, Bloomberg, noted that the Irish Central Bank had bought two tonnes of gold in late 2021. In the first quarter of 2022, the Bank further increased its gold holdings to 12 metric tonnes, thus — extraordinarily — doubling its gold reserves over the past twelve months. The recent increase in gold holdings was the first for over ten years.

While the Central Bank does not publish reasons for its purchase of gold, it may be related to the rapid increase in the rate of inflation, now above 9 per cent in June, the highest rate for almost 40 years. Increasing gold holdings may also be related to global uncertainty about exchange rates that has been amplified by the Ukraine-Russian crisis. In a written reply to a Dáil question from Independent TD, Carol Nolan, Finance Minister, Paschal Donohoe, said that the Central Bank had increased its holdings of gold during 2021 and early 2022 "as part of the diversified longer-term investment strategy for the discretionary investment assets aimed at improving balance sheet resilience".

The main contributor to current inflation is energy prices. But other prices, including grain and raw materials, are feeding inflation. Gold is a proven safe asset and a store of value when inflation, and uncertainty, grips. Another reason to hold gold was given by President Hoover in his remark to Franklin D. Roosevelt: "We have gold because we cannot trust governments".

In any event the recent purchase by the Central Bank brought to mind the time when the Irish Central Bank sold most of its gold. As the Second World War approached, substantial quantities of gold had been purchased by the Irish Currency Commission, the forerunner of the Central Bank. Some further purchases of gold took place several years later in the 1960s when Maurice Moynihan was at the helm at the Central Bank of Ireland.

When T K Whitaker became Governor in 1969 there was a move out of gold and into foreign exchange. In 1969-70 when the Irish Central Bank opted to sell the bulk of its gold holdings, the price of gold had been static since 1935 when the price was fixed at $35 dollars an ounce.

But the price was about to take off. By 1980 it was $615 dollars an ounce. The price fluctuated during the 1980s and 1990s but by 2010 was $1,225 an ounce. Today gold is valued at over $1,700 dollars an ounce, or nearly fifty times the price in 1970.

With the benefit of hindsight, it can be argued that, having held gold for so long at a fixed price, 1969-70 was the time to continue to hold.

Most of the Irish gold reserves — nearly 50 tonnes — were sold between 1969 and 1970. Today, following the recent purchases, we hold about 12 tonnes. In terms of the increase in the price of gold, the period 1969-70 when the Central Bank sold gold turned out to be the worst possible time to sell.

The sale attracted hardly any attention at the time. In a Dáil Debate on Exchange Control in December 1970, when George Colley was Minister for Finance, it was argued that gold did not earn interest.

In the course of the debate one of the few critics of the sale of gold was Labour Party TD and UCD Economics Professor John O'Donovan. O'Donovan believed that the price of gold would inevitably rise. Like many prophets, he was ignored.

When Ireland joined the Euro area in 1999, a condition of joining was to give some gold to the European Central Bank to form part of the reserves for the new currency. The gold holdings of individual member states vary today with Germany holding over 3,000 tonnes and Ireland now holding 12 tonnes.

Holding gold as part of the reserves of the Central Bank and linking the value of a currency to a particular gold value are distinct matters.

When the Irish pound was linked at par with sterling there was a period when the Irish pound was indirectly linked to the gold standard, that is, until sterling left the gold standard in 1931 during the Great Depression.

There is an Irish footnote to the departure of the dollar from the gold standard two years later in 1933. As it happened Keynes came to Dublin to deliver the Inaugural Finlay lecture in UCD, named after the first Professor of Political Economy in the College, Thomas Finlay, SJ. The lecture was followed by a dinner that evening, hosted by Professor of Political Economy, George O'Brien, at which one of the guests was Oliver St John Gogarty.

During the meal Keynes was called to the telephone. When he came back, he said, "You may be interested to know that the United States has just left gold". Gogarty, also identified as "Stately, Plump Buck Mulligan" of 'Ulysses', responded: "Does that matter?". The answer is still not clear.