

Optimization of the size of foreign reserves by increasing the size of the monetary gold

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Abstract Investigated the basic component of the national wealth – the value of monetary gold in the amount of reserves. Analyzed the dynamics of changes in monetary gold in Ukraine and the world. Considered the top 40 countries and international organizations on official reserves of gold. Inspected the basic gold-bearing province of Ukraine and discovered the potential of the company in the field of geology and metallurgy. Proposed the ways increasing the size of reserves.

Index Terms: foreign reserves, monetary gold, effective management.

I. INTRODUCTION

Foreign reserves are a guarantee for paying capacity and security of citizens and the country in general. The rising volume of foreign reserves is a positive signal to investors, as it indirectly indicates a stable situation in the country, an appropriate business environment and favorable investment climate.

However, every country has to decide on the structure of its own reserves. In the structure of foreign reserves dominate the share of reserves in foreign currency and in gold, or in the other components (gems). The currency reserves can be located either within the country (for example, monetary gold) or on deposit accounts in foreign banks. The purchase of highly reliable, mainly government bonds, nominated in the foreign currency, is also possible.

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II. ANALYZATION OF THE STRUCTURE OF FOREIGN RESERVES UKRAINE

In particular, the largest share in the structure of the official foreign reserves of Ukraine (Fig. 1) has a foreign currency reserves – 92.23% gold – 7.73%, SDR (Special Drawing Rights) – 0.04% and the reserve position in the IMF – 0.0001%.

The world leader, in terms of the share of foreign reserves of gold, is the United States of America and has 8.1 thousand tonnes (75.4%). There are a few leaders in the EU: Germany – 3.4 tonnes (72.4%), Italy – 2.45 tonnes (72.0%), France – 2.44 thousand tonnes (71.6%), Switzerland – 1.04 thousand tonnes (11.5%), Netherlands – 0.61 tonnes (59.8%). In Bulgaria, the foreign reserves account for 86.58%, while gold is 8.52%.

III. THE ROLE OF MONETARY GOLD IN THE WORLD

However, there are some countries where monetary gold is an important part of foreign reserves, and the distribution of official gold reserves is quite disproportionate (Table 1). The largest share of gold reserves belongs to countries with developed economies – about 83% of world reserves of gold. The largest deposits of gold has the USA (37% of holdings in developed countries), Germany (15.4%), Italy (11.2%) and France (11.1%).

In this rating Ukraine ranks only 51 seats of the monetary gold of 36.4 tonnes, representing about 6.7% of the size of the gold reserves of the country.

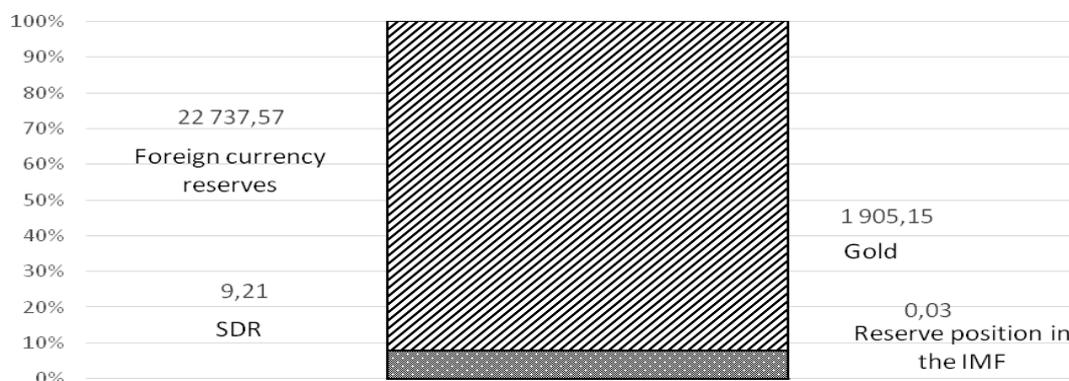


Figure 1. The structure of foreign reserves Ukraine, mln., 2013 (Official site of the National Bank of Ukraine. - <http://www.bank.gov.ua/>)

TABLE 1
 TOP-40 COUNTRIES AND INTERNATIONAL ORGANIZATIONS ACCORDING TO OFFICIAL GOLD RESERVES ON
 THE DATE OF 01. 12. 2013 (World Gold Council - <http://www.gold.org/>)

№	Country	Monetary gold reserves, tonnes	% of foreign reserves
1	USA	8133,5	70
2	Germany	3387,1	66
3	IMF	2814,0	–
4	Italy	2451,8	65
5	France	2435,4	65
6	China	1054,1	1
7	Switzerland	1040,1	8
8	Russia	1035,2	8
9	Japan	765,2	2
10	Netherlands	612,5	51
11	India	557,7	7
12	Turkey	519,7	15
13	The European Central Bank	502,1	26
14	Taiwan	423,6	4
15	Portugal	382,5	84
16	Venezuela	367,6	72
17	Saudi Arabia	322,9	2
18	The United Kingdom	310,3	12
19	Lebanon	286,8	23
20	Spain	281,6	23
21	Austria	280,0	47
22	Belgium	227,4	33
23	Philippines	193,2	9
24	Algeria	173,6	3
25	Thailand	152,4	4
26	Kazakhstan	143,7	23
27	Singapore	127,4	2
28	Sweden	125,7	7
29	South Africa	125,1	10
30	Mexico	123,1	3
31	Libya	116,6	4
32	Bank of International Settlements	115,0	–
33	Greece	112,2	75
34	Korea	104,4	1
35	Romania	103,7	8
36	Poland	102,9	4
37	Australia	79,9	6
38	Kuwait	79,0	9
39	Indonesia	78,1	3
40	Egypt	75,6	16
51	Ukraine *	36,4	6,7

* submitted for reference

Among the leaders there are countries that have significant reserves of gold which, in particular, import much of the precious metals, but not mine their own. Mainly, it fulfills the needs of the gold jewelry industry and is also used for technical purposes.

India, for example, annually buys at least 400 – 450 tonnes of gold, while Japan, Turkey and Taiwan – more than 100 tonnes of metal. Gold in Ukraine, first of all, provides for industrial production and around 80% is for the jewelry industry. In Ukraine of the even date of 1 January 2014 imports of gold (including gold coated with

platinum, unworked or napivobroblene, or in powder form) reached 12768.6 kg, which is 576338000\$, and exports – only 465.1 kg, which is equivalent to 196 498 000\$. Exports of gold from Ukraine during 2013 was carried out by the only country – Switzerland. The largest share of imports belongs to the countries of Europe, namely Switzerland – 68.88%, Netherlands – 27.35% United Kingdom – 1.92%, Germany – 1.75% and Belgium – 0.08%. It should be noted that in recent years a large proportion of investment demand was fulfilled by the central banks. For the fourth year in a row, central banks

are net buyers of gold – net acquisition in 2012 totaled 544.4 tonnes. Total amounts of purchase in 2013 slightly decreased, but during 6 months of the previous year net acquisitions of central banks reached only to 180.8 tonnes compared with 279.7 tonnes of the first half of 2012. were The largest buyers of gold were the central banks of Turkey, Russia and Kazakhstan. It should be noted that the National Bank of Ukraine continues to increase the total amount of monetary gold. The percentage of gold in the gold reserves of Ukraine in 2013 increased to 7.73% (total amount of central bank monetary gold in 2000 totaled 14.1 tonnes, in 2010 – 27.5 tonnes, and in 2013 – 36.4 tonnes).

Monetary gold for the global financial system plays a major role, the conclusion "of the General Agreement on gold" central banks of European countries confirms this. For example, in September 1999, 15 central banks signed a joint agreement which provided that (Press release. 26 September 1999 – Joint statement on gold):

1) gold is an important element of global monetary reserves;

2) the banks will not go to market to sell in excess of the quota;

3) the sale of gold would be agreed on within five-year periods. Annual sales will not exceed 400 tonnes, and the total for the five-year period will not exceed 2,000 tonnes;

4) the parties of the agreement will not expand using gold leasing transactions, as well as options and futures within a specified period;

5) this agreement will be reviewed after five years.

As provided in the first agreement, five years later, in March 2004, a new "common agreement on gold" was signed, which has increased annual sales to 500 tonnes and total sales over this period will not exceed 2,500 tonnes (Press release. 8 March 2004 – Joint Statement on Gold).

This agreement was extended up to 2009, and on 27 September 2009 a new agreement was signed, which envisaged restrictions on gold sales within an agreement of 1999. In addition, it was supplemented with a new paragraph stating that the duly authorized persons who signed the agreement acknowledge the intention of the IMF to sell 403 tonnes of gold. (Press release. 7 August 2009 – Joint Statement on Gold).

In spite of demonetization of gold, through the adoption of the Second Amendment up to the IMF, which has transferred gold into the category of products, gold continues to be an important reserve asset for central banks. The main factor that led to the preservation of the function of gold as of reserve asset, is that gold is an asset, which is relatively risk-free, as it is physically secured and, at the same time, gold is enough liquid commodity, and in addition, it is a high net asset (at least in the long run).

IV. THE INCREASING THE SIZE OF THE UKRAINIAN MONETARY GOLD

In particular, investigating and assessing the size of reserves Ukraine, the increase in reserves is possible with the growth of monetary gold by gold extraction out of the ground.

In times of USSR the prospects of gold extraction on the territory of Ukraine have not acquired a wide public interest and were not properly evaluated, since at that time there were others, that had become traditional gold mining regions, where works had been led with a high degree of profitability for decades or even centuries.

At the present time, according to experts, Ukrainian and foreign as well, found and estimated gold reserves in Ukraine total in about 7 trillion \$. Also, Ukrainian geologists indicate that deposits of gold have quite high gold fineness of about 880 – 980.

Nowadays in Ukraine three major gold provinces are allocated (Fig. 2). They are the Ukrainian crystalline shield (central part of Ukraine), Transcarpathian structural and metallogenic zone and metallogenic Donetsk region.

It should be noted, for a long time, the government has been trying to launch exploration of gold from the depths of Ukrainian land. The Law of Ukraine «On state regulation of production, manufacture and use of precious metals and precious stones, and control transactions with them» proves it. Given the necessity for use of existing potential, Parliament of Ukraine on 22 December 2011 adopted the draft bill allowing the National Bank to explore, extract, produce precious metals to replenish gold monetary reserves. As a result, the National Bank has received on its the balance the property complex of the State Geological Enterprise «Pivnichgeologiya» engaged in exploration and production of gold.

According to the estimates of the State Service of Geology and Mineral Resources of Ukraine, the cost of production of 1 gram of gold is 150 UAH/g while the market price ranges from 400 UAH/g (441.02 USD/g of the even date of 25.03. 2014 (official rates of bank metals. – Mode of access : <http://tables.finance.ua/ua/metals/official>)). It is expected that the activation of its production will allow to reduce the imported component of a country to 1/3.

It is also important to underline the need for use of alternative technologies of gold extraction and, undoubtedly, the importance of international cooperation, in particular, with companies that involved in gold mining that are mainly companies of the United States, Canada and Australia, and among the European Union the Finnish company Agnico-Eagles Mines, which is a one of the twenty most powerful companies producing gold (in 2011 mining of which totaled in 37.1 tonnes of gold, which is almost 700 tonnes more than the amount of gold in Ukraine).



Figure 2. The deposits of gold in Ukraine

Today in Ukraine is expected the cooperation with experts from Sudan, who will be studying the possibilities and potential of Ukrainian companies in the field of geology and industry in order to start cooperation in the field of gold mining. In particular, the Australian company Korab Resources Limited that, selling through Lugansk Gold Ltd. and JSC «Donetsk ridge» the project on the extraction and saturation of golden sulfide ores of Bobrivskiy deposit (Luhansk region), intends to draw about 500 000 dollars for the development of the Ukrainian project.

V. CONCLUSION

Thus, to preserve and increase the reserves Ukraine it is reasonable to increase monetary gold in the total foreign exchange reserves. Gold is not only a safe object of investment, but also is a profitable asset. However, one should not overestimate the value of gold and expect a return of the gold standard. The essence of money evolves with the evolution of humanity. Ukraine has a real geological background and sufficient scientific, engineering department, geological prospecting, mining, mechanical-engineering infrastructure to create a national gold and gold-processing industry to improve and consolidate the existing potentials (complete geological exploration, development and industrial testing flowsheets, saturation and gold-bearing ores recycling of concentrates, preparation plants and storage facilities, reconstruction of hydrometallurgical plants, etc).

Increasing of gold by its extraction of the depths of Ukrainian land, and subsequently, their optimal diversification, first of all, will also result in reducing imports of precious metals to Ukraine, and from its own

reserves – will create the conditions for the effective use of gold in the industry of Ukraine. And, above all, increasing of the share of monetary gold in the total reserves will increase the total amount of gold monetary reserves in Ukraine.

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