Germany Goes for Gold—To Bring Home

By CHRISTOPHER LAWTON and TODD BUELL

Germany's central bank said it would repatriate some of its gold reserves from France and the U.S., bowing to pressure both from Berlin and from a remarkable grass-roots campaign by the populist press, which played on fears that the euro crisis poses a risk to Germans' financial well-being.

The Deutsche Bundesbank, holder of the world's second-largest gold reserves after the U.S., said that by 2020 it hopes to have half of the country's 3,400 tons of gold stored in Germany, compared with only 31% now.

Starting this year, the Bundesbank will remove 300 metric tons of gold from the New York Fed, representing 8% of the total it keeps there. The Bundesbank will also repatriate all of the 374 tons of gold it has kept on deposit at the French central bank. The gold transported has a current market value of €27 billion ($36 billion), the German central bank said.

Until the end of the Cold War, when the threat of a Soviet invasion finally faded for good, only 3% of the country's gold reserves had been held at home. The Bundesbank had moved a part of its reserves at the Bank of England back to Frankfurt in 2000, when the BoE raised its custody fees.

Board member Carl-Ludwig Thiele said the bank was acting largely to bring its reserve-management practices up-to-date and improve its auditing processes. The Berlin-based Court of Auditors had insisted on better auditing in a critical review of the central bank in September.

Mr. Thiele said the decision had been taken "autonomously," but the move follows a campaign, led by the mass-circulation Bild-Zeitung, called "Bring Our Gold Back Home." The campaign highlighted and played to deep and intense popular fears that the euro crisis could ultimately lead to the loss of Germany's gold reserves, the most tangible expression of national savings accumulated from nothing since World War II.

The Bundesbank's gold reserves were given a book value of a little over €137 billion as of the end of 2012. They constitute about 14% of Germany's total foreign reserves.

Economists had viewed the debate with bewilderment, seeing it as entirely divorced from reality, given that gold has played no official role in international monetary policy since the collapse of the Bretton Woods agreement in 1973.

"Last year's debate was absolutely ludicrous…driven completely by irrational fears," said Holger Schmieding, chief economist for Berenberg Bank in London. "I don't see any economic or financial rationale for the Bundesbank to be doing this."

By contrast, Peter Gauweiler, a conservative, euro-skeptic parliamentarian from Bavaria who was a prominent cheerleader for the campaign, said in a newspaper interview Wednesday that it was "indispensable" for the Bundesbank to present publicly how Germany's gold is protected and accounted for, in order to restore public trust. Mr. Gauweiler was unavailable for comment.
The movement to repatriate gold has gained traction on the fringe in other countries as well. One of Austria's far-right parties, the FPOe, suggested that Austria, too, should "bring its gold home."

The decision to repatriate the gold has no immediate policy implications, and Mr. Thiele stressed that the Bundesbank has no intention of becoming an active player in the international gold market. Europe's central banks are in any case bound by an agreement to limit any sales of gold so as not to depress its price.

However, the move will undoubtedly raise eyebrows in the staid world of central bankers, who are acutely sensitive to any suggestion of a lack of trust in them—especially from other central banks. The New York Fed said it would accommodate the Bundesbank's request, but wouldn't comment on whether the move reflected politics in Germany. The Bank of France also declined to comment.

—Hans Bentzien, Cynthia Lin, William Horobin, Nicole Lundeen in Vienna and Geoffrey T. Smith contributed to this article.

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