

Not one nugget of truth in doubts over gold stock, says Bundesbank

Currency reserves

German federal auditors want a physical check of amounts in foreign vaults, writes Michael Steen

The eurozone sovereign debt crisis has already generated a lot of angst in Germany – fears about hyperinflation wiping out savings, the ballooning cost of bail-outs and the nagging doubt that life was more certain with the D-Mark in one's pocketbook.

Now a new source of anxiety has emerged: how certain is the respected central bank, the Bundesbank, that the gold on its balance sheet actually exists?

The source of the worry was the country's own federal auditors who pointed to the Bundesbank's large holdings of gold at foreign central banks and called for a physical stocktaking of the gold kept in foreign vaults.

Germany's gold forms part of its currency reserves. The Bundesbank stores some of it in Frankfurt, but most of it at three foreign institutions: the New York Federal Reserve, the Bank of England and the Banque de France.

At the end of last year the total amounted to 3,396 tonnes worth about €133bn,

the second biggest such reserves in the world.

Or so the Bundesbank thinks.

Germany's Audit Court pointed out that the bank had never physically verified the foreign holdings.

The Bundesbank, which rarely finds itself accused of taking its duties lightly, responded that it did not share the Audit Court's opinion.

"There is no doubt of the integrity, reputation and security of the foreign storage sites," it said, noting that it received annual confirmations of its holdings from the foreign institutions, that they were protected from any kind of legal seizure and could not become intermingled with the holdings of others.

It said "the desired scope of inspection by the Audit Court does not correspond with the established protocol between central banks."

Additionally, the auditors had checked the Bundesbank's annual report every year since 2002 and never yet found fault, the Bundesbank said.

The gold spat came on the eve of an appearance by Mario Draghi, president of the European Central Bank,

'Scope of inspection by Audit Court does not correspond with protocol between central banks'

before an ad hoc committee of German members of parliament.

Mr Draghi's plan to "do whatever it takes" to save the euro includes a bond-buying programme that has met with fierce resistance in Germany.

His trip to the Bundestag

in Berlin is part of a charm offensive to explain to sceptical German legislators that the bond-buying is a prudent and necessary step.

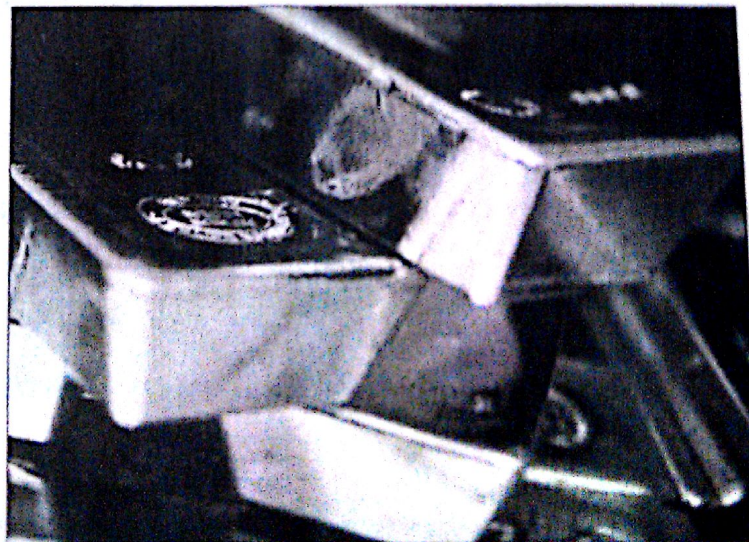
He has already been described as "Europe's forger" by one German member of parliament in the Bavarian sister party of chancellor Angela Merkel's CDU.

In that argument the Bundesbank has led hawkish public opinion. Its president, Jens Weidmann, was the only member of the ECB's 22-strong governing council to vote against the bond-buying plan, known as outright monetary transactions.

In the gold dispute, the bank did offer the auditors a compromise. Some small amounts of gold would be brought to Germany for checks, it said.

The decades-long practice of storing the gold abroad is thought to have been prompted by the lack of infrastructure immediately after the second world war and a desire by the Allies not to store gold near what was then the Iron Curtain.

But the Bundesbank said yesterday that it served a practical purpose: to fulfil its purpose as foreign exchange reserves it was practical to keep it in places where it could easily be converted into those currencies.



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