Key facts

Gold is a highly sought-after precious metal, considered to be the ultimate store of value. The Banque de France holds 2,435 tonnes in its underground vault (called the Souterraine). The world’s central banks hold more than 31,000 tonnes in all.

Every year, 3,600 tonnes of gold are used in industry, jewellery, or as a financial investment. Sixty per cent of this gold comes from mining, 28% from recycling (melting down old jewellery, for example), and 12% from the sale of gold by central banks.

Gold possesses exceptional qualities of inalterability and conductivity, and is used in electronics, in particular for microprocessors. It is highly resistant to corrosion, and only cyanide and the mix of acids known as aqua regia (“royal water”) can dissolve it. With a density of 19.4 (one litre of gold weighs more than 19 kg, while a litre of water weighs 1 kg), it is also one of the heaviest of common metals – more than twice as heavy as silver or lead.

In trading, gold is weighed in troy ounces (equal to 31.1 grams). It is traded on the financial markets, primarily on the London Bullion Gold Exchange.

Today a large share of global demand for gold comes from India and China, because the absence of a pension system in these countries prompts people to invest their savings in gold. Some investors also choose gold as an investment, due to economic crises that may undermine their trust in financial assets. Gold is said to be a safe-haven asset.

Unlike conventional currencies, the amount of gold injected into the economy cannot exceed the amount physically mined each year. Gold is no longer linked to any currency, and has returned to being a simple commodity whose price fluctuates based on largely unpredictable factors (new mine extractions, geopolitical situation of certain countries, etc.).

A brief history

- Gold comes from the stars: astrophysicists agree that gold is formed from the collision of two supernovas that have evolved into neutron stars.
- Gold has been in use since the end of prehistoric times: it is the oldest noble metal and the second discovered by humans after copper. In ancient Egypt, gold was used to adorn the Pharaohs and for religious ceremonies.
- The first gold coin dates from the 8th century BC. Minting of gold coins became more common between 560 and 547 BC under the reign of Croesus, King of Lydia (today’s Turkey).
- The search for gold has launched expeditions and led to wars: at the turn of the 16th century, Hernán Cortés was sent to Mexico to seize the gold of the Aztec Empire and bring it back to the King of Spain, Charles V. At the end of the 19th century, Bismarck formed Germany’s monetary system using the 967 tonnes of gold paid by France upon its defeat in 1871.
- In the middle of the 19th century, the gold rush led to the growth of the cities of California and marked the start of the conquest of the American West.
- During World War Two, with the advance of the German army, the Banque de France and the French Navy organised the transfer of France’s gold reserves to the United States, Canada, Africa and then Martinique, where it was stored until the end of the war.

Demand for gold by sector in 2014 (in %)

- Jewellery: 54.87%
- Investments in gold (coins, ingots, medallions): 12.16%
- Central banks (gold reserves): 9.92%
- Industry (electronics, decoration, dental care): 23.05%

Source: interor.fr
Gold and you

In accordance with Article L.426-1 of the French Monetary and Financial Code: “The holding, transportation and trading of gold are unregulated in France”. Individuals are therefore free to sell their gold jewellery without restriction.

Sometimes jewellers purchase jewellery items to melt them down. The web-based market has also grown extensively. All gold sales are subject to an 8% tax.

The purchase of an ingot is accompanied by an assay certificate that notes the number, gross weight, weight of fine gold (or pure gold weight) and the name of the founder.

Between 1990 and mid-2012, the price of gold rose 424% (the second strongest growth investment after real estate). The Banque de France communicates the price of gold for information only, without this representing an official benchmark.

Further insight

Understanding the gold standard

The gold standard is a monetary system in which the unit of account, called the monetary standard, corresponds to a fixed quantity of gold. In this system, currency has a value (i.e. a guarantee of exchange) directly linked to gold. Exchange rates of currencies with gold are stable and governments cannot arbitrarily issue currency, which reduces the risk of inflation and government debt. On the other hand, this system does not allow much scope for credit expansion and can form a barrier to growth.

This system is first mentioned at the start of the 18th century and became widespread from the middle of the 19th to the start of the 20th century.

In 1922, the Genoa Conference established the first gold exchange standard system, in which states could issue currency not only against a reserve of gold (as was the case under the gold standard) but also exchangeable against a benchmark currency convertible to gold (the pound until 1931 and the dollar until 1933). The 1929 economic crisis led a number of countries to devalue their currency and abandon this system: Sweden in 1929, the United Kingdom in 1931, the United States in 1933 and France in 1936.

On 20 July 1944, the Bretton Woods Agreement founded the second gold exchange standard system, with the dollar as the sole benchmark. But the convertibility of the US dollar to gold was terminated in 1971. Successive waves of inflation in the United States, and the country’s financing of its first trade deficits with excessive currency emissions, had rendered the parity of the dollar and gold obsolete.

To learn more

Suggested viewing:

➡️ The vaults of the bank of France

Useful links:

➡️ Gold prices (Banque de France website)