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IS IT POSSIBLE TO BACK A MAJOR WORLD CURRENCY BY GOLD?

***Abstract:** The gold issue has been attracting increased attention. To the spotlight are coming its functions, especially a store of value and unit of account. Institutional, as well as small investors are advised to use gold as a stabilisation component of their portfolios. Similarly, we can record increased demand for gold from the side of central banks, which represent the largest players on the global gold market. In some cases we can observe also the desire to increase the share of gold on foreign exchange reserves. In this context, new views and opinions have emerged, which advocate the return of the gold to back the major world currencies. The aim of this paper is to analyse the possibilities of different alternatives of gold-backing of selected world currencies. We concentrate on three major currency regions: USA, Eurozone and China. Based on the available data processing and own calculations, we attempt to prove the absurdity of gold-backing of major world currencies.*

***Keywords:** gold, currency backed by gold, gold reserves, money aggregates M2 and M3*

JEL : G 11, G 15, E 52

Introduction

Gold fetishism, with its unique functions, has played a positive role in the human history and in the international monetary system. After the fall of the Bretton-Woods monetary system, when the International Monetary Fund sold a significant part of its gold reserves, the exchange of the major world currency, namely the US dollar, for gold was cancelled. Thus, the function of gold as the unit of exchange in the world stepped back to the background. Afterwards, only a minor attention was paid to gold in the economic theory and practice.

Because of low gold prices, investors have focused on stock markets instead of gold during the 80's and 90's. The main attention was paid to communications and information technologies. The International Monetary Fund and central banks have sold big portions of their gold reserves. Gold became only a partial theme of the economic theory. The research was mainly focused on the historical role of gold in