

PRESS RELEASE

London, 24th April 2002



**Embargoed for publication or distribution by wire
13:00 hrs London time on Wednesday 24th April 2002**

Central bank gold lending declined last year, for the first time since 1993, according to GFMS' Gold Survey 2002 report.

The quantity of gold lent to the market by the world's central banks declined last year for the first time since 1993, according to GFMS' Gold Survey 2002 publication. This is one of the key conclusions from an updated analysis of official sector lending carried out by the London-based precious metals consultancy for its annual gold market report. GFMS estimates that at the end of 2001 outstanding swaps and deposits of the world's central banks and official monetary institutions had fallen by 164 tonnes to 4,651 tonnes compared to a revised end-2000 level of 4,815 tonnes.

The majority of the decline in lending last year came from countries not inside the European Central Bank Gold Agreement (CBGA). A large part of the 164 tonnes came from a handful of central banks outside Europe that were also important sellers of reserves in 2001. In addition, one other lender of bullion to the market took back a sizeable quantity of gold that it had been providing to the market. GFMS also comment in Gold Survey 2002 on how only a small part of the reduction in lending in 2001 was in response to the low leasing rate environment. The report states that even though all central bank lenders who were interviewed expressed dissatisfaction with the low rates on offer, nearly all of them sought out other means of dealing with the problem than outright withdrawal from the market. For the majority, this involved extending the term of their lending in order to pick-up the higher rates available further out along the positively-sloped yield curve.

The reduction in central bank lending would have led to gold leasing rates tightening last year had it not been for an almost equal decline in the demand for such gold liquidity. The lower borrowing requirement was in turn mostly the result of the fall in mining company hedging that took place in 2001. Miners' forward and derivative hedge contracts still account for over 60% of all gold borrowing. The further reduction in such producer hedging that GFMS expect in 2002 should continue to keep gold leasing rates low unless central banks change policy and begin to actively withdraw metal from the market in response to the arguably poor risk-adjusted returns currently on offer.

Gold Survey 2002 contains over 100 pages of statistics, commentary and analysis on all aspects of world gold supply/demand and on gold prices in various currencies. The publication can be ordered from GFMS for £245/US\$360/€95 per copy.

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Note to Editors: GFMS (Gold Fields Mineral Services) is an independent London-based commodity research and consulting company, specialising in the analysis of the precious metals markets.

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