



Bank of Zambia

**BANK OF ZAMBIA GOVERNOR'S REMARKS ON THE OCCASION OF THE
GOLD PURCHASE AGREEMENT SIGNING CEREMONY BETWEEN
BANK OF ZAMBIA
AND
KANSANSHI MINING PLC**

HELD AT BANK OF ZAMBIA ON 11 DECEMBER 2020

The Permanent Secretary – Ministry of Finance, Mr. Mukuli Chikuba,

The Permanent Secretary – Ministry of Mines, Mr. Barnaby Mulenga

The Director of Operations, First Quantum Minerals, Mr. Rudi Badenhorst

The Assistant General Manager, Kansanshi Mining Plc Mr. John Gladston

The Bank of Zambia Board Member Mr. Mwila Lumbwe

Members of the Press

Distinguished Ladies and Gentlemen

It's my pleasure to extend a warm welcome to you all to this signing ceremony of the Gold Purchase Agreement between the Bank of Zambia and Kansanshi Mining Plc.

The signing of this Agreement is an important milestone in the Bank's efforts to resume the holding of gold as part of the country's foreign exchange reserves. As some of you may recall, this will not be the first time that the Bank will be acquiring and holding gold as a reserve asset. Before 1995, the Bank procured gold for reserves from Zambia Consolidated Copper Mines (ZCCM) Limited. However, due to the severe foreign exchange liquidity challenges that the country faced during the 1990s, the gold reserve portfolio was liquidated in 1995.

Ladies and Gentlemen, we are delighted that the gold will be sourced locally. In this regard, Kansanshi Mining Plc was identified as a counterparty since it has been producing the commodity on a commercial basis since 2006. Apart from Kansanshi, the Bank has also engaged Zambia Gold Company, a newly established subsidiary of ZCCM-IH as the other counterparty in the purchase agreements given its mandate to oversee mining, processing, refining and marketing of gold in Zambia.

Distinguished guests, you may be interested to know that gold has continued to feature strongly in foreign reserves of several central banks around the world for a long time. This is despite the official end of the gold standard monetary arrangement in the early 1970s, an

arrangement which effectively justified central bank's appetite for monetary gold. You may wish to know that data from the International Monetary Fund (IMF) shows that gold reserves have continued to increase and currently accounts for about 15 percent of the total world foreign reserves. Furthermore, central banks' total gold holding has risen to 34,000 tonnes by the end of 2019 from a low of 28,000 tonnes recorded in 1997 since the end of the gold standard, according to the World Gold Council. These dynamics demonstrate the strategic value of gold.

The context of continued gold appetite by central banks is not so hard to establish. As some of you may be aware, gold has long been a long-term store of value, especially during high periods of inflation. This attribute helps protect reserves from significant loss in an inflationary environment, thereby making it a valuable asset for central banks. Given this value, gold is a kind of reserve asset that can be easily liquidated and used in emergency situations.

From an international reserves management perspective, gold's low correlation with other assets typically held in the reserves portfolio makes it an effective risk diversifier. During periods of market stress—when traditional assets would be losing value—gold would be adding value, thereby shielding the whole portfolio from large losses. Holding of gold is thus an important risk management strategy in the management of reserves.

Holding gold also drastically reduces default risk in the portfolio. Unlike other financial instruments such as bonds, which can fail to yield returns should the issuer fail to meet its payment obligations, gold is not issued by any entity and is therefore not anyone's liability. This attribute is of great significance to central banks who uphold the preservation of value as the top priority in managing reserve assets.

Ladies and gentlemen, I am therefore confident that this Agreement will take the Bank of Zambia's efforts to build gold reserves a step further. It is now time for us to implement the agreement, which undoubtedly will enable the country boost its foreign reserves and

enhance market confidence in the Bank's ability to fulfill its mandate of price and financial system stability.

Finally, let me take this opportunity to offer my sincere appreciation to members of the joint technical team from the Bank of Zambia and Kansanshi Mining Plc for working tirelessly to reach consensus and finalise the MoUs to the satisfaction of all parties involved.

I thank you.