

# The GLOCEPS

## Special Focus

Research Focus: Development and Innovation Pillar

### Building Economic Fortitude: The Strategic Importance of Central Bank Gold Reserves in East Africa

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#### Introduction

In an era of global economic volatility and shifting geopolitical dynamics, the strategic importance of gold reserves has never been more evident. Gold has long been a cornerstone of economic strength. It provides nations with a crucial financial buffer against economic uncertainty and adversity. Moreover, countries with significant gold reserves as part of Central Bank reserves, wield substantial influences in the global economy, including shaping monetary policy and influence on financial markets. As the global economy evolves, the enduring value of gold as a symbol of national wealth, power, and security ensures that it will remain an indispensable asset.

The central place of holding gold reserves is evident in the geopolitics and geo-commerce spaces. The United States has the largest gold reserve globally. Over 8,133 tons of the precious metal is securely stored in facilities like Fort Knox. Germany follows



with 3,352 tons. Other nations like Italy, France, Russia, and China maintain substantial reserves. These reserves not only buttress the country's economic resilience, they also enhance its credibility on the global economic stage. In times of crisis, gold reserves serve as a vital form of insurance due to their ability to protect economies from downturns, currency fluctuations, and geopolitical instability.

The prioritization of gold reserves is gaining currency in Sub-Saharan Africa (SSA) where countries face significant economic challenges. Most have significant debt burdens and exposures to international lenders such as the International Monetary Fund (IMF), the World Bank (WB), and bilateral lenders from the West. These debts, often denominated in foreign currencies, expose SSA nations to the risks of currency devaluation, which can further deepen their economic burdens and undermine economic stability. The devaluation scenario has been witnessed in Ghana, Ethiopia, and Zimbabwe. In such a precarious financial

#### 10 countries with the largest gold reserves in the world \*The numbers are in tons



landscape, most of these countries are leaning back to bolster their gold reserves, from local production, to enhance their economic resilience, credibility, and recovery.



Photo Credit: Instore Magazine

For East African nations, prioritizing the inclusion and expansion of gold as part of their central bank reserves is not just a matter of economic strategy but economic survival. With a significant supply of gold produced by local small-scale artisanal miners, these countries are uniquely positioned to leverage their local resources to build robust gold reserves. By procuring gold using local currency from domestic production, East African nations can hold onto their foreign currency reserves, diversify their reserve assets, mitigate the risks associated with foreign debt, and increase their influence over their economics. Gold is more than a precious metal. It is a strategic asset that can fortify a nation's financial foundation and secure its future in a turbulent world.

## Gold Reserves and Economic Stability

Gold has been revered as a symbol of wealth and power. It plays a central role in shaping economic policies and ensuring financial stability. The historical and current importance of gold cannot be overstated. This informs moves by countries like India to ship back nearly 100 tons of its 413.8 tons of overseas gold reserves. Countries are prioritizing having substantial gold holdings within their borders. The resulting control enables them to wield considerable influence in their own and international financial markets and monetary policy

decisions. This makes the possession of precious commodities a critical tool for economic strategy. During times of economic uncertainty, gold reserves provide stability and confidence. This is important not only to the central banks but also to investors and the broader financial system.

Central banks are pivotal in managing a country's gold reserve. They can employ them as a strategic asset alongside foreign currencies and government securities. The decisions by central banks regarding the buying and selling of gold can have significant implications for the broader economy. For instance, central banks may choose to increase their gold holding as a hedge against currency devaluation, inflation, and geopolitical tensions. These actions can stabilize domestic currencies, diversify reserves, and strengthen national security and sovereignty.

While gold does not pay interest, unlike reserves held in the government treasuries, the significant rise in gold prices has made it a profitable and attractive option for central banks. However, managing gold reserves presents challenges. For example, the storage and security of physical gold requires specialized infrastructure and safeguards which can be costly. Additionally, central banks have to navigate market volatility and fluctuating gold prices. These can affect the value of the reserves. Despite these challenges, the strategic advantages of holding gold, including its innate ability to serve as a long-term store of value and a hedge against inflation, make it an indispensable asset for countries seeking to safeguard their wealth and maintain economic stability.



Photo Credit: CoinMarketCap



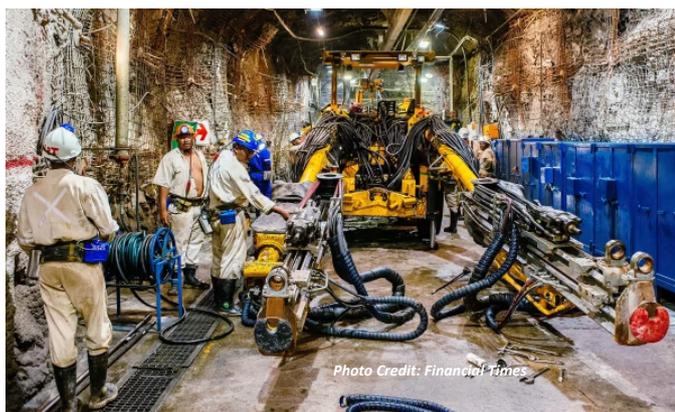


Photo Credit: Financial Times

## Growing Popularity of Gold Reserves in Africa

In recent years, there has been a marked increase in the popularity of gold reserves among African nations. This reflects a strategic shift to greater economic resilience and financial independence. Historically, African countries with well-performing economies have maintained significant gold reserves. Algeria leads this front in the continent at 174 metric tons, followed by South Africa at 125 metric tons. However, numerous SSA nations are now actively introducing and increasing their gold reserves. This trend is driven by the need to diversify their assets, reduce reliance on traditional reserves currencies, and hedge against geopolitical risks.

One of the notable trends in gold reserve management is the rising appetite among African central banks to expand their gold holding. For example, the Bank of Tanzania (BoT) plans to locally purchase six tons of gold in the 2024/2025 financial year. This is a significant increase from its current estimated reserve of 418 kilograms. This move is part of a broader strategy to diversify Tanzania's foreign exchange reserves and reduce dependency on a single currency. With gold accounting for at least one-third of Tanzania's exports, this initiative is critical for safeguarding the nation's wealth against currency devaluation and global economic shocks.

Tanzania is not alone in this trend. Nigeria, Uganda, Zimbabwe, and Madagascar have made strategic moves to bolster their gold reserves. Nigeria has launched a domestic gold-buying program to strengthen its reserves. Uganda's central bank has

implemented a similar program to purchase gold directly from local artisanal miners. The central bank of Madagascar implemented a domestic gold purchase program as income from vanilla exports declined. Zimbabwe has gone a step further by introducing a gold-backed digital currency, named the Zimbabwe Gold (ZiG). The introduction of ZiG marks a remarkable bid to stabilize its economy after years of hyperinflation and currency devaluation.

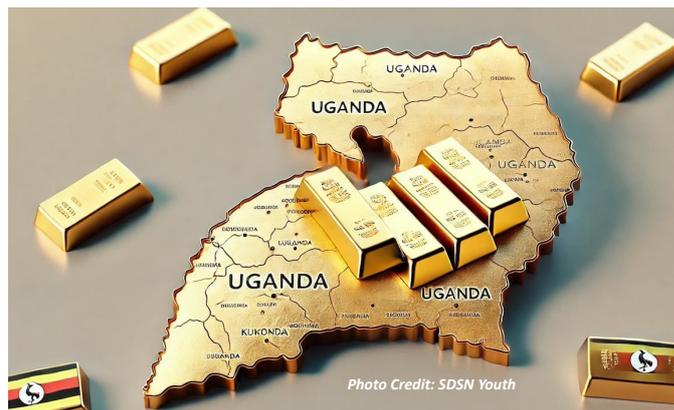


Photo Credit: SDSN Youth

This growing focus on gold reserves is also a response to external pressure, such as the aggressive rate hikes by the US Federal Reserve. This has led to a reduction in the availability of the US dollar and a steep depreciation of African currencies. By increasing their gold reserves, African nations are positioning themselves to withstand these global economic challenges better. The rise in digital gold currencies further underscores the continent's commitment to leveraging gold as a strategic asset in the digital age.

In essence, the growing popularity of gold reserves in Africa reflects a programmatic approach to economic management. By increasing their gold holding, African countries are not only protecting themselves against the volatility of global financial markets but also asserting greater control over their financial futures. This shift represents a significant step toward enhancing economic sovereignty and stability.

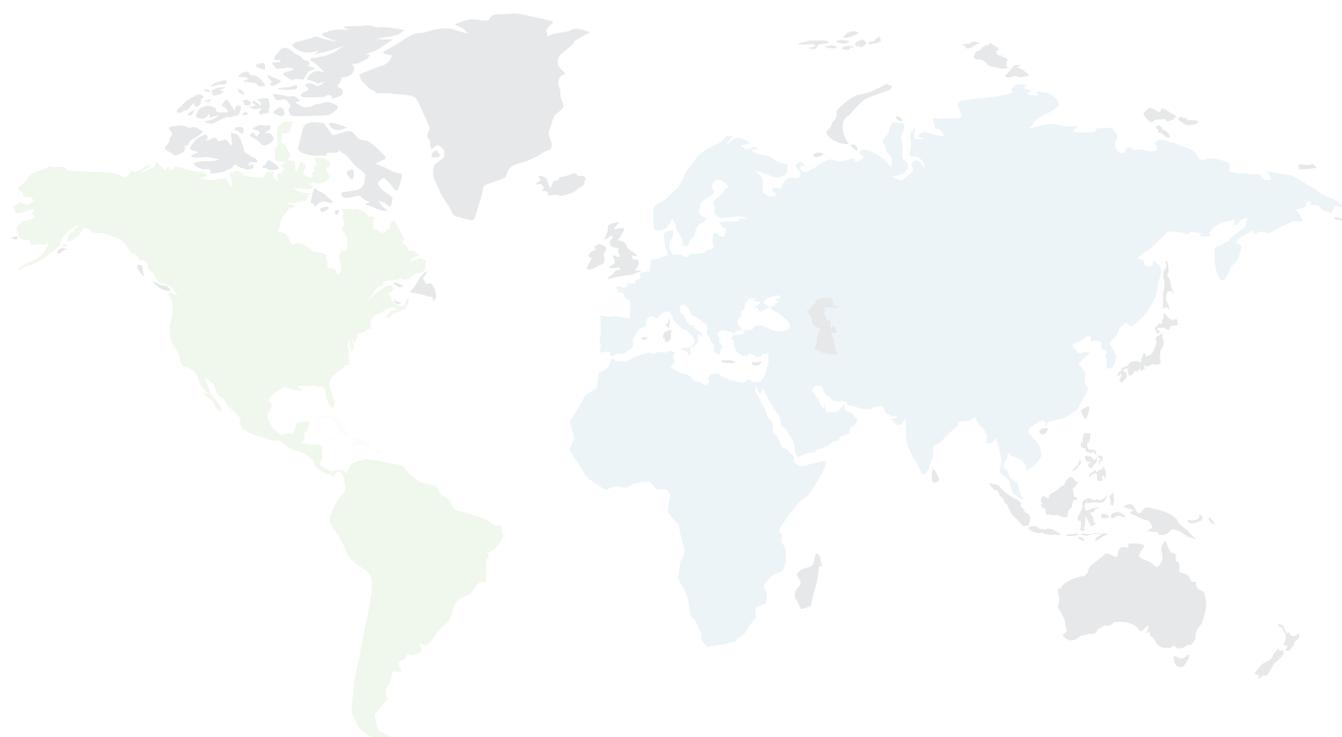
## Conclusion

The growing focus on gold reserves in Africa underscores the strategic importance of precious metals in securing economic stability and sovereignty. As SSA countries grapple with external



pressures emanating from currency devaluation and geopolitical risks, mainstreaming gold reserves offers a viable path to financial flexibility. The examples of Tanzania, Nigeria, Uganda, and Zimbabwe illustrate how gold can be leveraged to diversify reserves, motivate reliance on foreign currencies, and safeguard national wealth. Policymakers should prioritize the accumulation and effective management of gold reserves. This requires the recognition that gold reserves are a crucial tool in navigating the complexities of local and global economies. By doing so, African countries can enhance their economic independence, protect

against global shocks, and ensure a more secure and predictable financial management ecosystem for their sustainable development.



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