



HM TREASURY



Statistical Release

UK Official holdings of international reserves October 2012

PN 106/12

Date: 5 November 2012

Coverage: United Kingdom

Theme: The Economy

Underlying data is produced on behalf of HM Treasury by the Bank of England

This monthly release shows details of movements in October in the UK's official holdings of international reserves, which consist of gold, foreign currency assets and International Monetary Fund assets. These reserves are maintained primarily so that the UK Government's reserves could be used to intervene to support Sterling, or the Bank of England's reserves could be used to support the Bank's monetary policy objectives. If such interventions were to occur, then they would be shown and explained in this release. The Background note at the end of this release explains more about the reserves, and about these statistics.

In summary this month's release shows that:

- No intervention operations were undertaken.

Movements in reserves and levels of reserves were as follows:

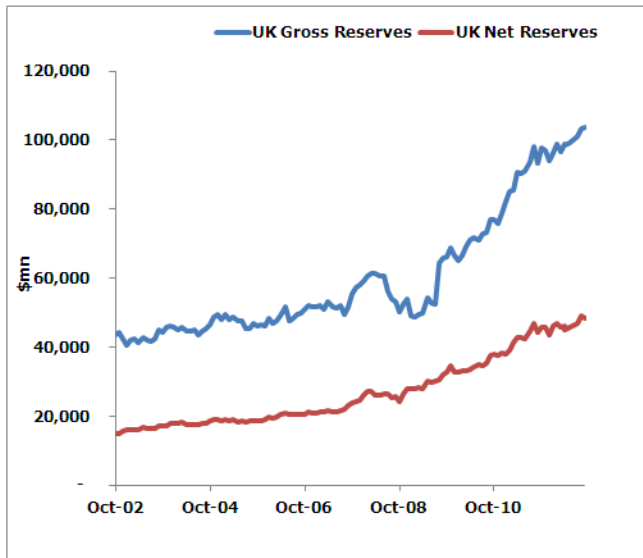
\$ million	Movement in	Level at end
	October	October
UK Government's net foreign currency reserves	-512	48,413
UK Government's gross foreign currency reserves	697	103,854
Bank of England net foreign currency holdings	-7	-4
Bank of England gross foreign currency holdings	-1,008	26,645

- There were no revisions to the monthly data published previously and shown below for the previous 11 months.

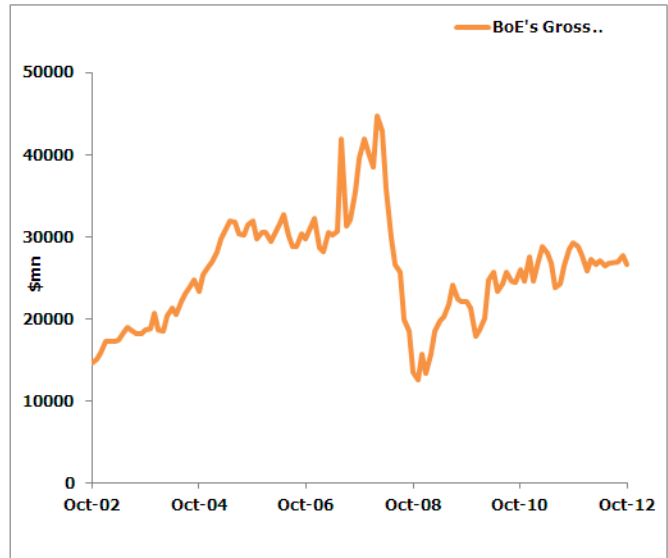
UK Foreign Currency Assets and Liabilities at the end of each month

	UK Government			Bank of England		
	Assets (\$mn)	Liabilities (\$mn)	Net assets (\$mn)	Assets (\$mn)	Liabilities (\$mn)	Net assets (\$mn)
Sep-11	93,107	-48,682	44,425	28,554	-28,556	-3
Oct-11	97,572	-51,759	45,813	29,231	-29,237	-7
Nov-11	96,932	-51,368	45,564	28,724	-28,700	24
Dec-11	93,857	-50,236	43,621	27,728	-27,736	-8
Jan-12	96,383	-50,285	46,098	25,762	-25,765	-3
Feb-12	98,937	-52,093	46,844	27,203	-27,202	1
Mar-12	96,787	-51,075	45,712	26,572	-26,575	-3
Apr-12	98,708	-52,549	46,159	27,127	-27,130	-4
May-12	98,381	-53,530	44,851	26,446	-26,448	-2
June-12	99,266	-53,501	45,765	26,805	-26,800	4
July-12	98,987	-52,694	46,294	26,880	-26,877	3
Aug-12	100,944	-53,918	47,026	26,856	-26,861	-5
Sep-12	103,157	-54,232	48,925	27,652	-27,650	2
Oct-12	103,854	-55,441	48,413	26,654	-26,649	-4

UK Government's Gross Reserves and Net Reserves



Bank of England's Gross Holdings



Over the last ten years, the UK Government's holding of gross reserves have increased. A time series of this data is available at: <http://www.bankofengland.co.uk/statistics/reserves>.

Some of the reasons for this increase have been a total £16bn of additional financing since 2009-10 being mainly invested in hedged foreign currency assets, an increase in the UK's SDR allocation from the IMF during 2009, and a rise in the value of gold.

Part I: UK Government Foreign Currency Assets and Liabilities¹.

1. The UK Government's net reserves decreased by \$512 million in October 2012, bringing the end-October 2012 total to \$48,413 million (£30,051 million²) compared with \$48,925million (£30,298 million³) at end-September 2012.

US \$ million: market values		
	End September 2012	End October 2012
Gross Reserves⁴	103,157	103,854
Liabilities	-54,232	-55,441
<i>of which:</i>		
<i>foreign currency forwards and swaps (net)⁵</i>	-33,013	-32,750
<i>repo transactions⁶</i>	-6,433	-7,231
Net reserves⁷	48,925	48,413
Change in net reserves		-512
<i>of which:</i>		
valuation effects		-761
transactions against sterling		248
<i>of which:</i>		
<i>UK public sector customers</i>		-1,510
<i>Other</i>		1,758

2. If the Government so instructs, the Bank, acting as its agent, intervenes in the foreign exchange market by buying or selling Government foreign exchange reserves. If intervention is undertaken, the monthly release will provide details of the amount and date of the intervention and an explanation of why it was undertaken. No intervention operations were undertaken for the month.

¹ Past data can be revised; the most up to date historical data for 1999 onwards are available on the Bank of England website at: <http://www.bankofengland.co.uk/statistics/reserves>.

² When converted at a closing market rate of £1 = \$1.611 at end-October

³ When converted at a closing market rate of £1 = \$1.6148 at end-September

⁴ In this presentation gross reserves in part 1 and assets in part 2 exclude market valuation of foreign currency forwards and swaps. These derivatives are shown (excl sterling leg) within liabilities.

⁵ Net present value of foreign currency forwards, interest rate and cross currency swaps (excl sterling leg).

⁶ Market value of liabilities to repay foreign currency received in repo transactions.

⁷ Figures not sum due to rounding.

Part II: Bank of England Foreign Currency Assets and Liabilities¹

1. The Bank of England's net holdings of foreign currency and gold decreased by \$6.80 million in October 2012, bringing the end-October 2012 total to -\$4.40 million (-£2.73 million²) compared with \$2.40 million (£1.49 million³) at end-September 2012.

US \$ million: market values		
	End September 2012	End October 2012
Assets⁴	27,652	26,645
Liabilities	-27,650	-26,649
<i>of which:</i>		
<i>foreign currency forwards and swaps (net⁵)</i>	-3,937	-3,778
<i>repo transactions⁶</i>	0	0
Net assets	2	-4
 Change in net holdings	 -7	
<i>of which:</i>		
valuation effects	11	
transactions against sterling	-18	
<i>of which:</i>		
<i>UK public sector customers</i>	0	
<i>Other</i>	-18	

2. The Bank also undertakes foreign exchange operations to intervene in support of its monetary policy objective. If intervention is undertaken, the monthly release will provide details of the amount and date of intervention and an explanation of why it was undertaken. The Bank undertook no such intervention operations this month.

3. The Bank of England foreign currency assets and liabilities mainly arise from the Bank's foreign exchange reserves, deposits placed with the Bank by overseas central banks and other customers, and other capital items.

¹ Past data can be revised; the most up to date historical data for 1999 onwards are available on the Bank of England website at: <http://www.bankofengland.co.uk/statistics/reserves>.

² When converted at a closing market rate of £1 = \$1.611 at end-October 2012

³ When converted at a closing market rate of £1 = \$1.6148 at end-September 2012

⁴ In this presentation gross reserves in part 1 and assets in part 2 exclude market valuation of foreign currency forwards and swaps. These derivatives are shown (excl sterling leg) within liabilities.

⁵ Net present value of foreign currency forwards, interest rate and cross currency swaps (excl sterling leg).

⁶ Market value of liabilities to repay foreign currency received in repo transactions.

Background Note

Introduction

The Reserves are a pool of liquid financial assets. The Government's official holdings of international reserves comprise gold, foreign currency assets and International Monetary Fund (IMF) Special Drawing Rights (SDRs).⁸ With the exception of the SDR assets that constitute the UK's Reserve Tranche Position (RTP) at the IMF and other loans to the IMF, these assets are held in the Exchange Equalisation Account (EEA).

Origin and purpose

The EEA was established in 1932 to provide a fund that could be used, when necessary, to regulate the exchange value of sterling and, therefore, is the mechanism through which any Government exchange rate intervention would be conducted.

There has been no intervention for the purposes of influencing the sterling exchange rate since 1992. Against this background, foreign exchange reserves are held on a precautionary basis – to meet any change in exchange rate policy in the future, if required, or in the event of any unexpected shocks. The reserves are also used to provide foreign currency services for government departments and agencies to provide foreign exchange for making payments abroad and to buy, sell and hold Special Drawing Rights (SDRs) as required by the UK's membership of the IMF. The way the reserve assets are invested, financed and managed is primarily designed to meet these policy objectives.

Bank of England's role

The Bank acts as HMT's Agent in the day-to-day management of the EEA, dealing in foreign exchange and investing the reserves within the framework of a Service Level Agreement (SLA) set annually by HMT⁹. The Bank also acts as HMT's Agent for foreign currency liability management, including any issuance of foreign currency debt. This allows the foreign currency part of the government's balance sheet to be managed in an integrated way by the Bank as Agent. In addition to the United Kingdom's Official Reserves, the Bank of England manages its own holdings of foreign currency assets and gold. The Bank intervenes in the foreign exchange market in support of its monetary policy objective.

Gross and net reserves

The gross reserves represent the Government's holdings of foreign currency assets, the IMF position (consisting of the Reserve Tranche Position at the IMF, other loans to the IMF and the net SDR position) and

⁸ The SDR is an international reserve asset created by the IMF. Its value is defined in terms of a basket of the US dollar, the euro, the yen and sterling. More information on the SDR can be found at:

<http://www.imf.org/external/np/exr/facts/sdr.htm>

⁹ A summary of the SLA has been published in the *Management of the Official Reserves*. This report is available at:

http://www.hm-treasury.gov.uk/d/management_official_reserves.pdf

gold holdings. The Government also holds foreign currency liabilities; these largely represent transactions undertaken to hedge interest and exchange rate movements in the Government's foreign currency assets. The difference between these two is called the "net" or "unhedged" reserves. This represents the portion of the Government's foreign currency assets that is not hedged in any way.

The gross reserves assets are volatile over the course of the year. The general volatility in reserves can be caused by a number of factors including:

- Volatility in the foreign currency markets
- Volatility in the US\$ value of gold

Purpose of the Release

The purpose of the Official Reserve Release is to inform the public, Parliament and international markets as to the position of the UK's foreign currency reserves and operations on a month-by-month basis, as a pre-cursor to the more substantial reporting provided in the Exchange Equalisation Account annual accounts. The Official Reserves Release is published on the third working day following the end of each month, in order to provide users with timely information on the relevant data. As such detailed commentary on monthly movements in the reserves (mainly resulting from volatility in foreign exchange markets and the value of gold) is not included; however the release does include a more meaningful assessment of longer term trends and reports intervention operations.

Monthly data published in accordance with the IMF International Reserves Template, based on more detailed information published by the Bank

Since 2000, the UK Government has published reserves data in this monthly release in accordance with the IMF/G10's International Reserves Template, which is based on the Special Data Dissemination Standard (SDDS)¹⁰. This measures the value of the UK's foreign currency and gold assets, liabilities and derivatives on a marked-to-market basis (that is, using current and market valuations)¹¹.

The format of this information is aligned with the information published by the Bank of England in their reserves data statistical release¹⁰, which uses the same IMF template. The IMF has published the *International Reserves and Foreign Currency Liquidity, Guidelines for a Data Template*, which can be found at: <http://dsbb.imf.org/images/pdfs/opguide.pdf>

Data on many other countries international reserves and foreign currency liquidity are also available on the IMF's website: <http://www.imf.org/external/np/sta/ir/IRProcessWeb/colist.aspx>

¹⁰ The IMF SDDS was established in 1996 to guide countries that have, or that might seek, access to international capital markets in the dissemination of economic and financial data to the public.

¹¹ Past data can be revised; the most up to date historical data for 1999 onwards are available on the Bank of England website at: <http://www.bankofengland.co.uk/statistics/reserves>.

This release uses data compiled by the Bank, which the Bank also uses for their own statistical release. The Bank's statistical release¹⁰ includes further detailed information, including the composition of both the UK Government's and the Bank of England's foreign currency assets and liabilities.

Data quality, reconciliation with published annual accounts, and revision policy

This release uses the latest financial management data compiled by the Bank of England, as explained above. The data are validated by the Bank under a well established system of reporting and associated controls - including management review, reconciliation to source data and balance sheet attestation – all of which are subject to independent audit. The annual data are also reconciled with the audited account of the EEA's balance sheet assets and liabilities, in an annual reconciliation statement, which is published in the EEA annual accounts¹².

The Bank does very occasionally revise the data, and if they do this, then they provide explanations on their statistical release website¹¹. Revised data are clearly indicated in their time series. In line with HM Treasury's statistical revisions policy (see:

www.hm-treasury.gov.uk/d/statistics_revision_policy.pdf) they would also be highlighted in this release.

A National Statistics publication

National statistics are quantitative information produced by the Government and its nominated agents, which are produced and published in accordance with the provisions set out in the Statistics and Registration Service Act 2007 and in supplementary statistical legislation. National statistics are assessed by the UK Statistics Authority to ensure that they are compliant with the high professional standards set out in the UK Statistics Authority's Code for Practice for Official Statistics. National Statistics undergo regular quality assurance reviews to ensure that they meet customer needs. They are produced free from any political interference.

For more information about HM Treasury statistics visit:

http://www.hm-treasury.gov.uk/national_statistics.htm

Next publication date

The figures for November are due for publication on 5 December 2012.

Feedback and enquiries

We would welcome enquiries, comments and feedback from users of these statistics on any changes that users would like to see. Please send all comments or enquiries on our statistics to:

Statistical Contact: Afra Khan

¹² Under the Finance Act 2000 (section 4 of the EEA Act 1979) the Treasury has a statutory obligation to publish a full set of annual financial accounts for the EEA. The accounts are audited by the National Audit Office and laid before both Houses of Parliament. The EEA annual accounts are available at: http://www.hm-treasury.gov.uk/ukecon_eea_index.htm.

Email: ReservesStatistics@hmtreasury.gsi.gov.uk

This Release and other Treasury publications are available on the HM Treasury website: <http://www.hm-treasury.gov.uk>. For the latest information from HM Treasury you can subscribe to our RSS feeds or email service.

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For general enquiries about National Statistics, contact the National Statistics Public Enquiry Service on:

Telephone: 0845 601 3034

Minicom: 01633 812 399

Email: info@statistics.gov.uk

Fax: 01633 652747

Letters: Customer Contact Centre, Room 1.015, Office for National Statistics, Government Buildings, Cardiff Road, Newport, NP10 8XG

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