HM TREASURY

Statistical Release

UK Official holdings of international reserves

August 2011

PN 100/11 Date: 5 September 2011
Coverage: United Kingdom Theme: The Economy
Underlying data is produced on behalf of HM Treasury by the Bank of England

This monthly press notice shows details of movements in August 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.

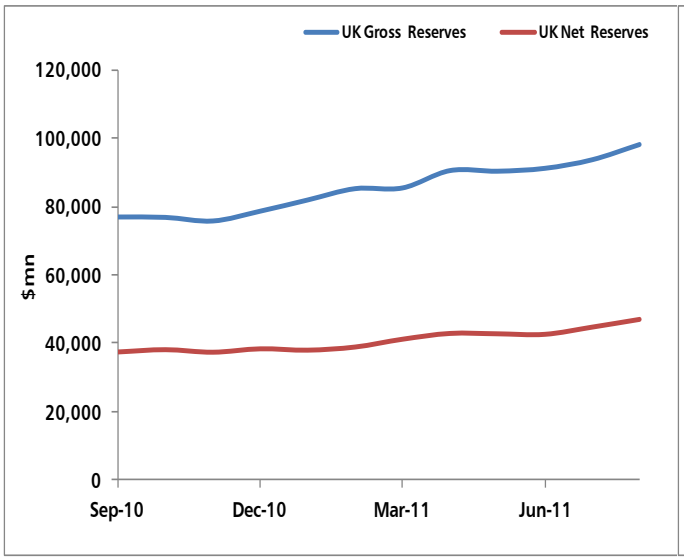
In summary this month's release shows that, in August 2011:

- No intervention operations were undertaken.
- Movements in reserves and levels of reserves were as follows:

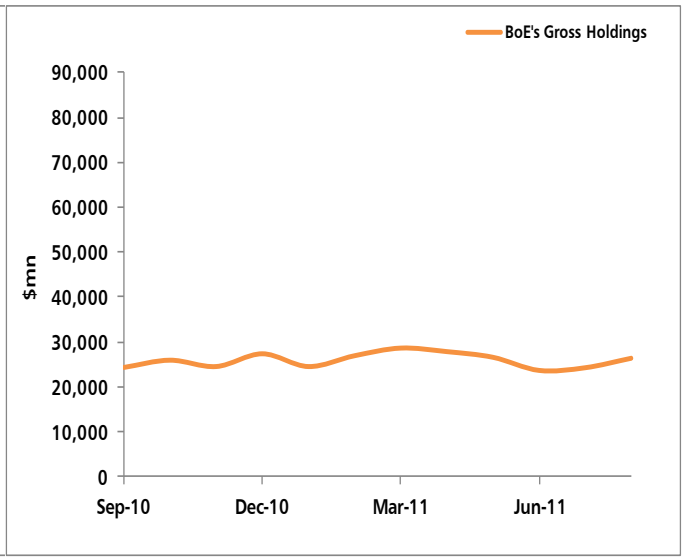
	Movement in August 2011 $ million	Level at end August 2011 $ million
UK Government's net foreign currency reserves	+2,237	46,869
UK Government's gross foreign currency reserves	+4,404	98,058
Bank of England net foreign currency holdings	4	-1
Bank of England gross foreign currency holdings	+2,152	26,493

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

UK Government's Gross Reserves and Net Reserves



Bank of England's Gross holdings



UK Foreign Currency Assets and Liabilities at the end of each month[1]

	UK Government			Bank of England		
	Assets ($mn)	Liabilities ($mn)	Net assets ($mn)	Assets ($mn)	Liabilities ($mn)	Net assets ($mn)
Sep-10	77,116	-39,655	37,461	24,407	-24,409	-2
Oct-10	77,001	-38,884	38,117	26,047	-26,046	0
Nov-10	75,965	-38,576	37,389	24,610	-24,626	-16
Dec-10	78,801	-40,435	38,366	27,500	-27,498	2
Jan-11	82,036	-44,054	37,982	24,606	-24,605	1
Feb-11	85,297	-46,411	38,886	27,058	-27,059	-1
Mar-11	85,507	-44,368	41,139	28,788	-28,787	1
Apr-11	90,516	-47,714	42,802	27,990	-27,990	1
May-11	90,334	-47,635	42,699	26,703	-26,702	1
Jun-11	91,167	-48,616	42,551	23,733	-23,730	3
Jul-11	93,653	-49,021	44,632	24,341	-24,346	-5
Aug-11	98,058	-51,189	46,869	26,493	-26,494	-1

[1] Time series of these data are available on the Bank of England website at:
http://www.bankofengland.co.uk/statistics/reserves

Part I: UK Government Foreign Currency Assets and Liabilities[1].

1. The UK Government's net reserves rose by $2,237 million in August 2011, bringing the end-August total to $46,869 million (£28,788 million[2]) compared with $44,632 million (£27,188 million[3]) at end-July 2011.

	US $ million: market values	
	End July 2011	**End August 2011**
Gross Reserves[4]	**93,653**	**98,058**
Liabilities	**-49,021**	**-51,189**
of which:		
foreign currency forwards and swaps (net)[5]	-27,437	-28,085
repo transactions[6]	-6,243	-7,738
Net reserves[7]	**44,632**	**46,869**

Change in net reserves	**2,237**
of which:	
valuation effects	2,230
transactions against sterling	6
of which:	
UK public sector customers	5
Other	1

2. If the Government so instructs, the Bank, acting as its agent, may intervene in the foreign exchange market by buying or selling Government foreign exchange reserves. If intervention is undertaken, the monthly press 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 in August.

[1] Past data can be revised; the most up to date historical data for end-July 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 =$1.6281 on 31st August 2011
[3] When converted at a closing market rate of £1 =$1.6416 on 29th July 2011
[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 may not sum due to rounding.

Part II: Bank of England Foreign Currency Assets and Liabilities[1]

1. The Bank of England's net holdings of foreign currency and gold rose by $3.80 million in August 2011, bringing the end-August total to -$0.87 million (-£0.53 million[2]) compared with -$4.67 million (-£2.84 million[3]) at end-July 2011.

	US $ million: market values	
	End July 2011	**End August 2011**
Assets[4]	**24,341**	**26,493**
Liabilities	**-24,346**	**-26,494**
of which:		
foreign currency forwards and swaps (net[5])	-6,844	-6,924
repo transactions[6]	-24	-20
Net assets[7]	**-5**	**-1**

Change in net holdings	**4**
of which:	
valuation effects	0
transactions against sterling	4
of which:	
UK public sector customers	0
Other	4

2. The Bank may also undertake foreign exchange operations to intervene in support of its monetary policy objective. If intervention is undertaken, the monthly press 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 in August.

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.

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[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 may not sum due to rounding.

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 HMT[9]. 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 may intervene in the foreign exchange market in support of its monetary policy objective.

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[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

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 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 reasons:

- IMF SDR allocations
- Volatility in the foreign currency markets
- Volatility in the US$ value of gold

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

Since April 2000, the UK Government has published reserves data in this monthly press notice 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 release[11], 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

This press notice uses data compiled by the Bank, which the Bank also uses for their own statistical release. The Bank's statistical release[11] includes further detailed information, including the composition of both the UK Government's and the Bank of England's foreign currency assets and liabilities.

[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 end-July 1999 onwards are available on the Bank of England website at: http://www.bankofengland.co.uk/statistics/reserves.

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

This release uses the latest data compiled by the Bank, as explained above. The data are validated by the Bank, using their quality assurance processes. The annual March 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 accounts[12].

The Bank do occasionally revise their data, and if they do this, then they provide explanations on their statistical release website[11]. Revised data are clearly indicated in their time series.

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 September 2011 are due for publication on Wednesday, 5th October 2011.

Feedback and enquiries

Changes to the format were made in June 2010, expanding this background note to describe in general terms the form and purpose of the Government's official holdings of international reserves. The main section of the Press Notice also includes an initial explanation and summary of the statistics contained in this release.

We would welcome 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 us at the following email address: statistics-enquiries@hmtreasury.gsi.gov.uk.

[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.

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National Statistics Public Enquiry Service

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

You can also find National Statistics on the Internet at http://www.statistics.gov.uk