



HM Treasury



## Statistical Release

### UK official holdings of international reserves

October 2016

Date: 3 November 2016

Coverage: United Kingdom

Theme: The Economy

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

This monthly press notice 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 in October 2016:

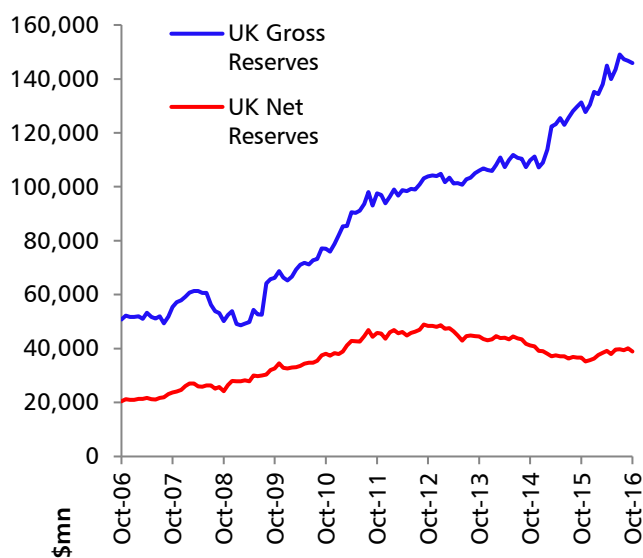
- No intervention operations were undertaken.
- Movements in reserves and levels of reserves were as follows:

|   | Movement in October 2016 | Level at end-October 2016 |
|---|--------------------------|---------------------------|
|   | \$ million               | \$ million                |
| UK government's net foreign currency reserves   | -1,156                   | 38,909                    |
| UK government's gross foreign currency reserves | -821                     | 145,909                   |
| Bank of England net foreign currency holdings   | 2                        | -2                        |
| Bank of England gross foreign currency holdings | -2,441                   | 23,108                    |

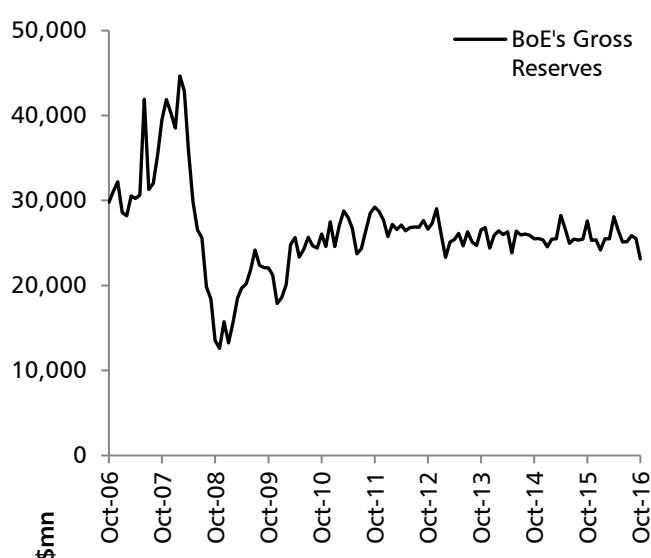
## UK foreign currency assets and liabilities at the end of each month

|        | UK Government    |                       |                      | Bank of England  |                       |                      |
|--------|------------------|-----------------------|----------------------|------------------|-----------------------|----------------------|
|        | Assets<br>(\$mn) | Liabilities<br>(\$mn) | Net assets<br>(\$mn) | Assets<br>(\$mn) | Liabilities<br>(\$mn) | Net assets<br>(\$mn) |
| Oct-15 | 131,322          | -94,691               | 36,631               | 27,622           | -27,616               | 6.834                |
| Nov-15 | 127,733          | -92,497               | 35,237               | 25,311           | -25,312               | -1.762               |
| Dec-15 | 130,417          | -94,653               | 35,763               | 25,393           | -25,394               | -0.243               |
| Jan-16 | 135,181          | -98,891               | 36,290               | 24,168           | -24,167               | 1.197                |
| Feb-16 | 134,343          | -96,690               | 37,652               | 25,486           | -25,487               | -1.034               |
| Mar-16 | 138,018          | -99,610               | 38,408               | 25,485           | -25,489               | -3.377               |
| Apr-16 | 144,976          | -105,840              | 39,136               | 28,092           | -28,095               | -2.945               |
| May-16 | 139,957          | -101,989              | 37,968               | 26,561           | -26,562               | -1.579               |
| Jun-16 | 143,467          | -103,879              | 39,587               | 25,125           | -25,127               | -1.722               |
| Jul-16 | 149,048          | -109,242              | 39,807               | 25,174           | -25,175               | -0.353               |
| Aug-16 | 147,320          | -107,976              | 39,344               | 25,893           | -25,895               | -2.200               |
| Sep-16 | 146,730          | -106,665              | 40,065               | 25,550           | -25,554               | -4.301               |
| Oct-16 | 145,909          | -107,000              | 38,909               | 23,108           | -23,110               | -1.866               |

UK Government's Gross & Net Reserves



Bank of England's Gross Holdings



Over the last ten years, the UK government's holdings of gross reserves have increased. A time series of these data is available at:

<http://www.bankofengland.co.uk/statistics/Pages/reserves/2016/Oct.aspx>

Some of the reasons for this increase have been a total of £48 billion of additional financing between 2008-09 and 2015-16 being mainly invested in hedged foreign currency assets, an increase in the UK's allocation of Special Drawing Rights from the IMF during 2009, and a rise in the value of gold. The government has also provided for £6 billion additional financing for the reserves in 2016-17.

## Part I: UK Government Foreign Currency Assets and Liabilities<sup>1</sup>

1. The UK government's net reserves decreased by \$1,156 million in October 2016, bringing the end-October 2016 total to \$38,909 million (£32,011 million<sup>2</sup>) compared with \$40,065 million (£30,860 million<sup>3</sup>) at end-September 2016.

|  | US\$ million: market values |                 |
|--|-----------------------------|-----------------|
|  | End-Sep 2016                | End-Oct 2016    |
| <b>Gross Reserves<sup>4</sup></b>                            | <b>146,730</b>              | <b>145,909</b>  |
| <b>Liabilities</b>   | <b>-106,665</b>             | <b>-107,000</b> |
| <i>of which:</i>   |                             |                 |
| <i>foreign currency forwards and swaps (net)<sup>5</sup></i> | -78,623                     | -77,498         |
| <i>repo transactions<sup>6</sup></i>                         | -13,896                     | -15,140         |
| <b>Net Reserves<sup>7</sup></b>                              | <b>40,065</b>               | <b>38,909</b>   |
| <b>Change in net reserves</b>                                |                             | <b>-1,156</b>   |
| <i>of which:</i>   |                             |                 |
| valuation effects  |                             | -1,220          |
| transactions against sterling                                |                             | 63              |
| <i>of which:</i>   |                             |                 |
| <i>UK public sector customers</i>                            |                             | -378            |
| <i>Other</i>   |                             | 442             |

2. If the government so instructs, the Bank, acting as its agent, could 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 October.

<sup>1</sup> 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/Pages/reserves/2016/Oct.aspx>

<sup>2</sup> When converted at a closing market rate of £1 = \$1.2155 on 31 October 2016.

<sup>3</sup> When converted at a closing market rate of £1 = \$1.2983 on 30 September 2016.

<sup>4</sup> 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.

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

<sup>6</sup> Market value of liabilities to repay foreign currency received in repo transactions.

<sup>7</sup> Figures may not sum due to rounding.

## Part II: Bank of England Foreign Currency Assets and Liabilities <sup>1</sup>

1. The Bank of England's net holdings of foreign currency increased by \$2.4 million in October 2016. The end-October 2016 total was -\$1.9 million (-£1.5 million<sup>2</sup>) compared with -\$4.3 million (-£3.3 million<sup>3</sup>) at end-September 2016.

|  | US\$ million: market values |                |
|--|-----------------------------|----------------|
|  | End-Sep 2016                | End-Oct 2016   |
| <b>Assets<sup>4</sup></b>                                    | <b>25,550</b>               | <b>23,108</b>  |
| <b>Liabilities</b>   | <b>-25,554</b>              | <b>-23,110</b> |
| <i>of which:</i>   |                             |                |
| <i>foreign currency forwards and swaps (net)<sup>5</sup></i> | -3,103                      | -2,251         |
| <i>repo transactions<sup>6</sup></i>                         | 0                           | 0              |
| <b>Net assets<sup>7</sup></b>                                | <b>-4</b>                   | <b>-2</b>      |
| <b>Change in net holdings</b>                                |                             | <b>2</b>       |
| <i>of which:</i>   |                             |                |
| valuation effects  |                             | -8             |
| transactions against sterling                                |                             | 11             |
| <i>of which:</i>   |                             |                |
| <i>UK public sector customers</i>                            |                             | 0              |
| <i>Other</i>   |                             | 11             |

2. The Bank could 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 October.

3. The Bank of England's 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.

<sup>1</sup> 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/Pages/reserves/2016/Oct.aspx>

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<sup>7</sup> Figures may not sum due to rounding.

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## 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).<sup>5</sup> 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<sup>6</sup>. 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 can intervene in the foreign exchange market in support of its monetary policy objectives.

### 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

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<sup>5</sup> 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>

<sup>6</sup> A summary of the SLA has been published in the *Management of the Official Reserves*. This report is available at:

<https://www.gov.uk/government/publications/management-of-the-official-reserves>

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

### **Purpose of the Statistical Release**

The purpose of the Official Reserves Statistical Release is to inform the public, Parliament, international institutions and markets as to the position of the UK's foreign currency reserves and operations on a month-by-month basis.

It is published on the third working day following the end of each month in order to provide users with timely information on relevant data. Given this timescale, 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. It also serves as a pre-cursor to the more substantial reporting provided in the Exchange Equalisation Account annual accounts, which can be found on the Treasury website at: <https://www.gov.uk/government/organisations/hm-treasury/series/hmt-eea>.

Users of the Release can compare the latest information on the UK's Official Reserves across time, with other countries and with the underlying data published by the Bank of England. It is also where users can see the size of any intervention operations undertaken. In addition the information presented assists users in understanding global capital flows and the UK's public sector finances. It provides data on one element of the financial account and International Investment Position of the UK's balance of payments and on a financing item of the Central Government Net Cash Requirement and on liquid assets that are netted off in the UK's Public Sector Net Debt.

Users may also wish to use these statistics to conduct research into the efficiency and effectiveness of reserves management. Additionally, as these statistics are, in the UK, one relatively small financing item of the Central Government Net Cash Requirement, they could be used in conjunction with other information on financing items published in the Public Sector Finances Release to assess the capacity of the government to service and repay its debt, a key element in determining sovereign risk and risk premia. The government's Statistical Releases, including this one, and financial reports, contain relevant information for this analysis. Finally, as the statistics provide data on one element of the financial account and the International Investment Position of the UK's balance of payments, these

statistics could be used in conjunction with other statistics published by the ONS to inform users' understanding of these accounts of the Balance of Payments.

Users are likely to include UK and foreign research bodies and financial institutions, academics, foreign governments, credit rating agencies, news media organisations, and the general public.

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

Since July 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)<sup>7</sup>. 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)<sup>8</sup>.

The format of this information is aligned with the information published by the Bank of England in their reserves data statistical release, 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 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 accounts<sup>9</sup>.

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<sup>7</sup> 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.

<sup>8</sup> 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/Pages/reserves/2016/Oct.aspx>.

<sup>9</sup> 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: <https://www.gov.uk/government/organisations/hm-treasury/series/hmt-eea>

The Bank does very occasionally revise the data, and if they do this, then they provide explanations on their statistical release website<sup>11</sup>. Revised data are clearly indicated in their time series. In line with HM Treasury's statistical revisions policy (see: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/191042/statistics\\_revisions\\_policy.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/191042/statistics_revisions_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.

The United Kingdom Statistics Authority has designated these statistics as National Statistics, in accordance with the Statistics and Registration Service Act 2007 and signifying compliance with the Code of Practice for Official Statistics.

Designation can be broadly interpreted to mean that the statistics:

- meet identified user needs;
- are well explained and readily accessible;
- are produced according to sound methods; and
- are managed impartially and objectively in the public interest.

Once statistics have been designated as National Statistics it is a statutory requirement that the Code of Practice shall continue to be observed.

For more information about HM Treasury statistics visit:

[http://www.hm-treasury.gov.uk/national\\_statistics.htm](http://www.hm-treasury.gov.uk/national_statistics.htm)

### **Next publication date**

The figures for November 2016 are due for publication on 5 December 2016.

### **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: Raza Rehman

Email: [ReservesStatistics@hmtreasury.gsi.gov.uk](mailto:ReservesStatistics@hmtreasury.gsi.gov.uk)



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

### **National Statistics Public Enquiry Service**

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

|            |   |
|------------|---|
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| Fax:       | 01633 652747  |
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You can also find National Statistics on the Internet at <http://www.statistics.gov.uk>