



# Balance of Payments Statistics Workshop

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Reserve Assets

# I. Introduction

- In the international accounts, the **Functional Categories** constitute a classification of financial assets and liabilities (transactions and positions) that seeks to facilitate the analysis by distinguishing categories that **correspond to different economic motivations and behavior patterns**.
- **Reserve Assets** (RA) include a range of instruments that are shown under other functional categories. However, they are shown separately because they serve a different function and thus are managed in different ways from other assets.

## II. Definitions

- **RA** are external assets that are readily **available to and controlled by monetary authorities** for:
  - meeting balance of payments financing needs.
  - intervention in exchange markets to affect the currency exchange rate.
  - maintaining confidence in the currency and the economy.
  - serving as a basis for foreign borrowing.
- **Monetary Authorities**
  - Central Bank
  - Certain operations usually attributed to the central bank but sometimes carried out by other government institutions (issuance of currency, maintenance and management of reserve assets, and operation of exchange stabilization funds).

## II. Definitions: Availability

- RA must be readily available to monetary authorities in unconditional form.
- A **RA** is considered “liquid”, if it can be bought, sold, and liquidated for foreign currency (cash) with minimum cost and time, and without unduly affecting the value of the asset.
- In the case of securities, their possession by monetary authorities may qualify as a **RA** even if their due date is far in the future, if the instrument is easily negotiable in a secondary market.
- To fulfill their purpose, **RA must be both denominated and settled in foreign currency that is freely usable** for settlements of international transactions, **in gold and SDRs** (the currency of an important neighboring country should be excluded if it is not a freely usable currency) **and must be of high quality** (investment grade).

## II. Definitions: Control

- Generally, monetary authorities exercise **control over external assets that they actually own**. However, **under certain circumstances, they may also have control of external assets that are not their property**.
- **Monetary authorities can also exercise control through other institutional units (resident banks)**, when these operate external assets that meet the criteria of being a reserve and do so under the terms established by the monetary authorities and with their express authorization **(double counting should be avoided)**.
- In the latter case, monetary authorities maintain immediate and unconditional access to assets.

# III. Classification of RA

- **Monetary Gold:**

- ✓ Gold bullion (including gold coins, ingots, bars and gold bullion held in allocated gold accounts,).
- ✓ Unallocated gold accounts with nonresidents that give title to claim the delivery of gold.

- **SDR holdings.** RA created by the IMF and are equivalent to liquid balances in convertible currencies.

- **Reserve position in the IMF.** It is the sum of:

- ✓ Reserve Tranche (25% of the quota). An IMF member may draw at a short notice.
- ✓ Any indebtedness of the IMF with the country..

# III. Classification of RA

## ■ Other RA

- ✓ *Currency and deposits*
- ✓ *Debt securities-Equities*
- ✓ *Financial derivatives* (only if they pertain to the management of RA)
- ✓ *Other claims.* loans to nonresident non-deposit-taking corporations, long-term loans to an IMF Trust Account that are readily repayable to meet a balance of payments financing need, loans arising from a reverse repo, and other financial assets not included previously.

## IV. Selected Cases

Sometimes the authorities of a country have some types of financial assets abroad, for which it is not easy to determine whether or not they should be classified as RA.

- Special purpose government funds.
- Pooled assets. Assets of monetary authorities of various countries that are jointly invested, creating a Fund that facilitates the investment of RA.
- Central banks SWAP arrangements.



## IV. Selected Cases

- The determination of whether such assets constitute reserves, depends on whether or not they meet the control and availability criteria for use by the monetary authorities. In particular, it is important to make sure that they are easily liquidable in a convertible currency, that they have ample negotiability and that they are registered in the balance of the central bank or in that of an entity subject to some legal mandate that forces it to handle the assets with criteria established by the monetary authorities (this means, an examination of the legal and institutional framework of the mechanism is required).

# V. Exclusions

- Lines of credit that could be drawn on (they do not constitute existing claims).
- Capital subscriptions to international organizations that are not readily available to the monetary authorities.
- Pledged assets are typically not readily available (pledged assets that are encumbered and therefore are not readily available).
- Assets “frozen” by a foreign government (they are to be reclassified to the relevant functional category, such as “other investment” or “portfolio investment”).
- “Window Dressing”.

## VI. Reserve – related liabilities

- Reserve-related liabilities are defined as foreign currency liabilities of the monetary authorities that can be considered as direct claims by nonresidents on the reserve assets of an economy.
- They are not identified as such in the standard components of the balance of payments and IIP, where they are included in other categories (notably portfolio and other investment), but it is important to monitor them.

## VI. Reserve – related liabilities

- These include:
  - ✓ SDR allocation and loans from the IMF to monetary authorities.
  - ✓ Foreign currency loan and deposit liabilities of the monetary authorities to nonresidents (swaps with other central banks, loans from BIS).
  - ✓ Other foreign currency liabilities to nonresidents, including foreign currency accounts payable.

## VII. Sources of Information

- The central bank departments responsible for managing reserves and/or accounting are the direct source.