

Measurement of Nonmonetary Gold

Office for National Statistics

Background

The UK holds the world's largest market for over-the-counter transactions in gold: the London Bullion Market (LBM). According to an [LBM article](#) as much as 87 per cent of the world gold trade was done through the LBM in 2011. Trading on the LBM is largely conducted by members of the London Bullion Market Association (LBMA), who are, in the main, international banks or dealers and refiners. The LBMA was formed in 1987 as a result of the Financial Services Act (1986) and the rapid growth of London's gold market throughout the 1980s. It was as a result of this rapid expansion that the LBM has become the world's most prominent global market for gold.

As a result of this unique international position the UK's National Accounts and Balance of Payments (BoP) were granted a derogation from implementing recommendations on the treatment of *nonmonetary* gold. Implementing these recommendations could have a large impact on the overall trade figure: the introduction of a large, volatile time series could obscure other trends in the UK's trade data. The recommendations were originally part of the European System of Accounts 1995 (ESA1995) and the Balance of Payments Manual fifth edition (BPM5). With the publication of [ESA2010](#) and [BPM6](#), due to be implemented in the UK for Blue Book and Pink Book 2014, the UK's derogation has expired and these requirements now need to be met.

The recommendations state that nonmonetary gold which is held in allocated gold accounts should be recorded as trade in goods and valuables. Currently the UK recognises nonmonetary gold held for industrial purposes in trade in goods; however, nonmonetary gold which is held *as a store of wealth* is treated separately. For the most part, nonmonetary gold is held as a store of wealth by monetary financial institutions (MFIs). Treating the nonmonetary gold investments of MFIs as a commodity has the potential to obscure other trends in the UK's trade data.

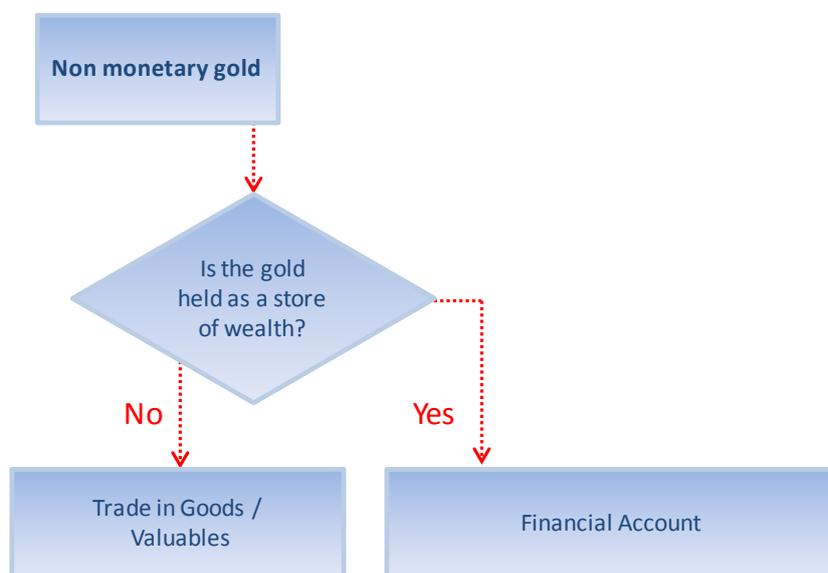
Requirements

Monetary gold is gold held as a reserve asset by monetary authorities. Gold can be held in *allocated* accounts, where ownership is allocated to a specific bar of gold; or *unallocated* accounts, where the holder of the contract is entitled to delivery of a certain amount of gold.

Figure 1 shows the current UK treatment of gold and **Figure 2** shows how the treatment of gold would look under [BPM6](#) regulations. The critical path is as follows:

1. Gold held in allocated accounts may be held as a reserve asset by a monetary authority.
2. Gold that is *not* held as a reserve asset by a monetary authority is classified as nonmonetary gold.
3. Nonmonetary gold held in allocated accounts may be held as a store of wealth or it may be held for industrial purposes.
4. Under current UK treatment, nonmonetary gold held in allocated accounts as a financial asset is recorded under the financial account, and nonmonetary gold held in allocated accounts for industrial purposes is recorded under trade in goods (**Figure 1**).

Figure 1: Current UK treatment of nonmonetary gold

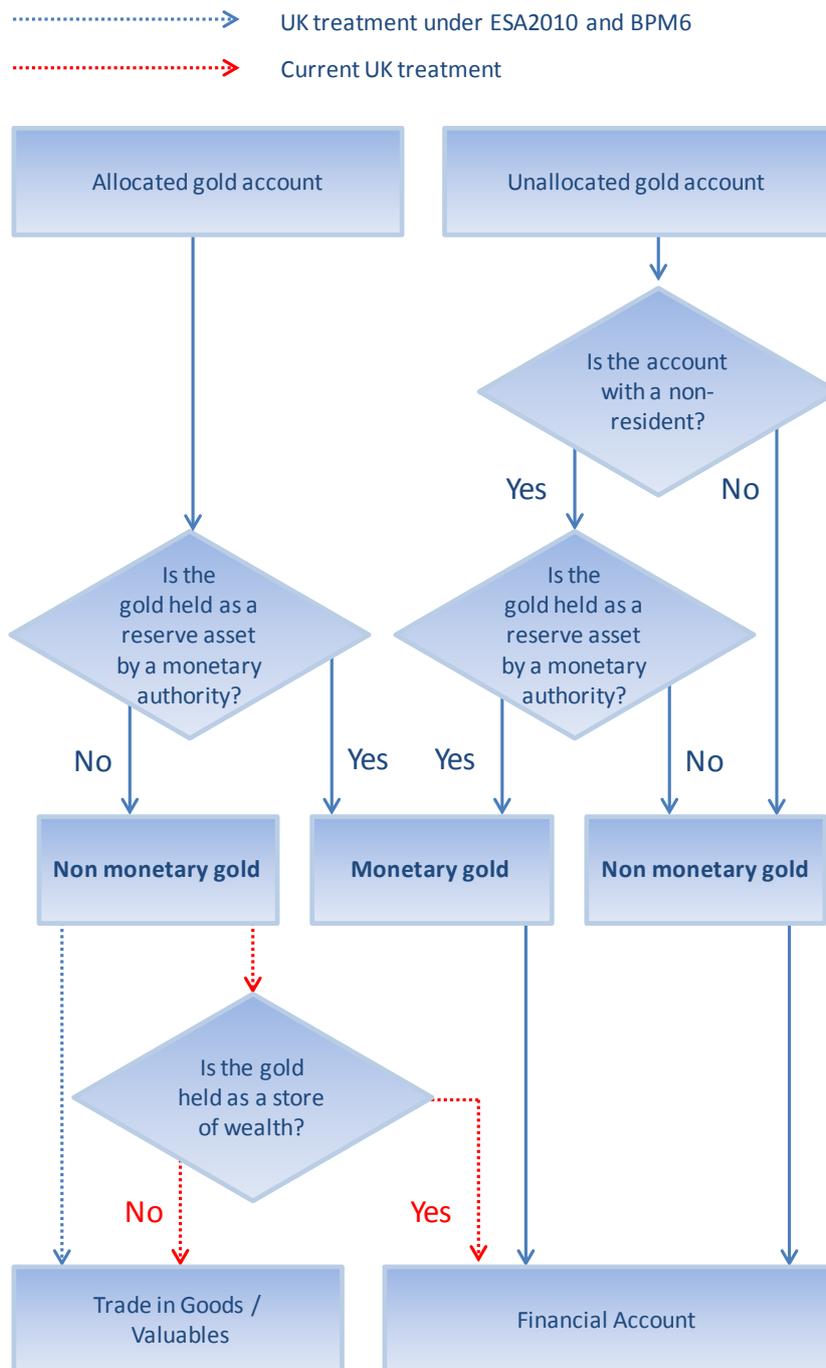


5. Under BPM6 recommendations, this gold should be recorded as a valuable, rather than in the financial account. From a UK perspective this means that nonmonetary gold held in allocated accounts as a financial asset will need to be removed from the financial account and introduced into trade in goods and valuables (**Figure 2**).

Specifically, the recommendations ([BPM6](#) paragraphs 6.78 – 6.80 and 5.74 – 5.77) state that:

- Monetary gold is gold held as a reserve asset by the monetary authorities either as bullion or in allocated gold accounts, or in unallocated accounts with non resident operators;
- Allocated and unallocated gold accounts are distinguished from accounts that do not entitle the account holder to delivery of gold:
 - Such accounts, where the holder is not entitled to delivery of gold, are classified as currency and deposits in the financial account;
 - Allocated gold accounts are treated as monetary gold when held as a reserve asset and treated as a good otherwise;
 - Unallocated gold accounts are treated as monetary gold when held as a reserve asset and treated as deposits in the financial account otherwise;

Figure 2: UK treatment of gold under the European System of Accounts 2010



Data

UK balance of payments statistics of trade in goods are derived principally from data published by HM Revenue & Customs (HMRC) on the physical goods exported from and imported to the UK. However, this information is on the basis of goods crossing borders, whereas balance of payments statistics require the information on a change in ownership basis.

Changes in the ownership of gold are difficult to measure. Data on movements of gold into and out of the country are collected by HMRC; however, gold that has crossed a border will not necessarily have changed ownership.

Whilst these data may provide a reasonable proxy for gold used in industrial processes, they are unlikely to be an accurate representation of gold which is held as a store of wealth. This is because many economic transactions are likely to take place in the LBM without the gold ever changing location. Moreover, due to its position as the largest international centre for trade in gold, much of the gold entering the UK is for safe storage and has, therefore, not changed ownership.

So change of ownership is difficult to measure from two perspectives: (1) gold may cross borders but not change ownership; or (2) gold may not cross borders but may still change ownership.

Figure 3: [Form BT](#), Item 35a

35	Other assets.....				35
35A	Gold bullion.....				35A
35B	Fixed assets, commodities owned etc.....				35B
35C	Total accrued interest receivable.....				35C
35CA	of which: on loans and advances.....				35CA
35D	Other accrued receivables.....				35D

The Bank of England (BoE) measures allocated gold bullion held as a store of wealth by UK MFIs through [Form BT](#) (Item 35a, see **Figure 3**). From these data, net trade with non residents is estimated using anecdotal information provided by the reporting institutions. The data are available from April 1999 to March 2013.

From March 2013 BoE introduced [Form PM](#) (**Figure 4**). Form PM collects data on holdings of allocated gold bullion from the six institutions that provide precious metal clearing services. The data comprise reporting institutions own holdings of precious metals, along with that held for their customers both within, and outside of, the UK. Net exports of gold are then derived from the change in UK holdings.

Figure 4: [Form PM](#)

Metal owner		Fine troy ounces (000's)			Troy ounces (000's)
		Gold 995	Palladium 9995	Platinum 9995	Silver 999
1	Total physical stock of allocated precious metal				
2	Own balances				
3	Client balances				
3A	Other UK banks and building societies				
3AA	Of which: Other reporting clearers				
3B	Other UK residents				
3C	Non-residents				

Item	Description
1	Total allocated metals and equal to items 2 + 3
2	Own balances: This will cover all holdings of allocated gold to which the reporting institution is the identified (allocated) owner.
3	Client balances: This is the balance of all other allocated gold and is equal to items 3A + 3B + 3C
3A	Client balances belonging to other UK banks and building societies
3AA	Client balances belonging to other UK banks and building societies that are also reporting clearers (collected to prevent double counting)
3B	Client balances belonging to other residents (all UK resident other than banks and building societies)
3C	Client balances belonging to non-residents and cover all clients that are resident outside the UK even if foreign branches and subsidiaries of UK institution

The net figure for nonmonetary gold held as a financial asset is a relatively low proportion of net total trade: less than three per cent (in absolute value). It is unlikely that the net export figure will obscure the underlying trend in the trade data as much as we might expect the gross exports or import figures to.

Estimates

To produce estimates of nonmonetary gold the BoE's net export data will be added to the net export figures for industrial gold. The separate export (CDID: DEJO) and import (CDID: DEJP) figures for industrial gold are currently published by the Office for National Statistics (ONS) in Table 2.4 of the [Pink Book](#). These figures will cease to be published separately from the September 2014 edition of Pink Book.

For monthly trade figures, nonmonetary gold will be included as part of the *Erratics* series, which currently includes ships, aircrafts, precious stones and silver. In Supply–Use tables nonmonetary gold will be included under Product 24.4-5: Other basic metals and casting.

There are currently no data on gross exports and imports of nonmonetary gold and it is not possible to derive these figures using Form PM. The volatile nature of the BoE time series rules out using auxiliary data as a proxy variable since this approach would result in negative imports. Assuming that reporting institutions are either an exporter or an importer would allow gross figures for exports and imports to be derived; however, the resulting figures would fall far short of the quantities which might reasonably be expected.

Indeed, the export and import figures for nonmonetary gold are likely to be so large that any attempt to model the data will result in large discrepancies from the true total and have the potential to distort UK trade figures. Therefore there will be potential under coverage of exports and imports and, in the absence of any data, it is impossible to quantify the impact. The headline data on the deficit in trade, however, will be correct.

Summary

To be compliant with ESA2010 and BPM6 the treatment of nonmonetary gold will be revised for the UK's National Accounts and Balance of Payments from September 2014. Nonmonetary gold held in allocated accounts will be considered as a good; therefore, gold of this type which is being stored as a financial asset will be recognised under trade in goods and valuables. This same gold will also be removed from the financial account.

In order to meet the requirements, BoE has begun collection of data from the six gold clearers in the LBM. These new data show net exports of nonmonetary gold that is held as a store of wealth in allocated accounts. The back series is estimated from data on UK holdings of nonmonetary gold as a financial asset. This data will then be combined with currently published ONS estimates of industrial gold to arrive at an overall net export figure for nonmonetary gold.

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Statistical contacts

Katherine Kent

trade.in.goods@ons.gsi.gov.uk