



APPENDICES



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INTERNATIONAL RESERVES

This appendix reviews recent developments in official measures of international reserves and liquidity. Changes in the main components of official reserves are examined. The currency composition of foreign exchange reserves and their distribution across different groups of countries are also analyzed.

Recent Evolution of Official Reserve Assets

During 1995, total international reserves increased by 11 percent to SDR 1,183 billion at the end of the year, reflecting a sharp 15 percent increase in total non-gold reserves that was partially offset by a 2 percent decline in the market value of the official holdings of gold (Table I.1). The increase in non-gold reserves reflected an increase in the stocks of foreign exchange reserves of both industrial and developing countries. Both components of total Fund-related assets—SDRs and reserve positions in the Fund—also increased in 1995; countries have continued to rebuild their SDR holdings since late 1992, when most Fund members completed payment for their quotas under the Ninth General Review. The fall in the value of official holdings of gold during 1995 was attributable to small decreases in both the quantity of gold holdings and in their market value in terms of SDRs.

Non-Gold Reserves

Total non-gold reserves increased by 15 percent during 1995 to SDR 947 billion at the end of the year. This increase was more than twice the average rate of increase during the previous five years. Of the total increase of SDR 124 billion during 1995, industrial countries accounted for about SDR 53 billion, an increase of 12 percent that represented a much greater rate of increase than in recent years.

Non-gold reserves of developing countries rose by 18 percent during 1995, continuing the trend of high rates of increase in non-gold reserves for this group of countries. Developing countries continued to gradually increase their share of total non-gold reserves, and at the end of 1995 their share stood at 49 percent compared with a share of 35 percent in 1990. Virtually all of the increase in the non-gold reserves of developing countries was accounted for by non-oil developing countries, primarily the net debtor countries, as a consequence of private capital inflows into these countries. Countries with debt-servicing problems increased their stock of non-gold reserves by 20 percent during 1995, after a 5 percent decline during 1994. Countries without debt-servicing problems increased their holdings by 25 percent, similar to the rate of increase in previous years of this decade.

Foreign Exchange Reserves

Foreign exchange reserves constitute the largest component of non-gold reserves, accounting for 90 percent of total non-gold reserves for industrial countries and about 98 percent for developing countries. Total foreign exchange reserves increased by 15 percent during 1995, about twice the rate of increase during 1994. At the end of 1995, these reserves stood at SDR 891 billion. During 1995, the stock of these reserves rose by SDR 46 billion (12 percent) for industrial countries and by SDR 69 billion (18 percent) for developing countries. Among the developing countries, net debtor countries without debt-servicing problems accounted for most of this increase.

Holdings of Fund-Related Reserve Assets

Total holdings of Fund-related assets rose by SDR 9 billion during 1995, to SDR 56 billion at the end of the year, after remaining essentially unchanged from 1991 to 1994. Members' holdings of SDRs increased by SDR 4 billion, and their reserve positions in the Fund increased by SDR 5 billion during 1995, with both industrial and developing countries sharing in this increase.

The quota increase arising from the Ninth General Review resulted in major changes in the composition of Fund-related reserve assets in 1992 because most members used their holdings of SDRs to pay for the reserve asset portion of the quota increase. Members' reserve positions at the Fund, which comprise their reserve tranche positions and their creditor positions, rose by SDR 8 billion in 1992. This increase offset a decline of SDR 8 billion in holdings of SDRs, leaving total holdings of Fund-related assets unchanged in 1992.

Early in 1993, the Fund made a decision to reduce its holdings of SDRs in order to replenish members' holdings and facilitate their use of SDRs. This policy was implemented by providing SDRs to members in purchases and other transfers and resulted in a decline in the Fund's holdings of SDRs from SDR 9 billion at the end of 1992 to SDR 1 billion at the end of 1995. Over this period, SDR holdings increased by SDR 5 billion for industrial countries and by SDR 2 billion for developing countries.¹ Holdings of SDRs accounted for 35 percent of total holdings of Fund-related assets at the end of 1995.

¹Over this period, other institutional holders of SDRs increased their holdings by SDR 1 billion.

Table I.1

OFFICIAL HOLDINGS OF RESERVE ASSETS, END OF YEAR 1990–APRIL 1996¹*(In billions of SDRs)*

	1990	1991	1992	1993	1994	1995	April 1996
All countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	23.7	25.9	33.9	32.8	31.7	36.7	37.3
SDRs	20.4	20.6	12.9	14.6	15.8	19.8	19.6
Subtotal, Fund-related assets	44.1	46.4	46.8	47.4	47.5	56.4	56.9
Foreign exchange	593.8	625.4	646.6	717.6	775.6	890.6	950.6
Total reserves excluding gold	637.9	671.8	693.4	765.0	823.0	947.1	1,007.5
Gold ²							
Quantity (millions of ounces)	939.9	938.0	927.5	920.9	916.5	907.4	903.1
Value at London market price	254.1	231.9	224.8	261.9	240.6	236.1	243.7
Total reserves including gold	892.0	903.7	918.2	1,026.9	1,063.7	1,183.1	1,251.3
Industrial countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	20.0	22.8	29.5	28.3	27.4	31.6	32.1
SDRs	17.6	17.5	10.5	11.5	12.5	15.0	14.9
Subtotal, Fund-related assets	37.6	40.2	40.0	39.8	39.9	46.6	47.1
Foreign exchange	376.5	360.4	356.8	373.7	393.9	439.9	475.1
Total reserves excluding gold	414.1	400.7	396.7	413.4	433.8	486.5	522.1
Gold ²							
Quantity (millions of ounces)	795.8	793.7	785.2	770.8	768.0	755.1	749.6
Value at London market price	215.4	196.2	190.3	219.2	201.6	196.5	202.3
Total reserves including gold	629.5	596.9	587.1	632.7	635.5	682.9	724.4
Developing countries							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	3.8	3.1	4.4	4.5	4.3	5.0	5.2
SDRs	2.7	3.1	2.4	3.2	3.3	4.8	4.6
Subtotal, Fund-related assets	6.5	6.2	6.8	7.7	7.6	9.8	9.8
Foreign exchange	217.3	265.0	289.8	343.9	381.7	450.8	475.6
Total reserves excluding gold	223.8	271.2	296.6	351.6	389.2	460.6	485.4
Gold ²							
Quantity (millions of ounces)	143.2	144.3	142.3	150.1	148.5	152.3	153.6
Value at London market price	38.8	35.7	34.5	42.7	39.0	39.6	41.4
Total reserves including gold	262.5	306.8	331.1	394.2	428.2	500.2	526.8
Net debtors							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	1.1	1.3	2.9	2.9	3.0	3.7	3.9
SDRs	2.1	2.4	1.7	2.3	2.4	3.8	3.7
Subtotal, Fund-related assets	3.3	3.7	4.7	5.2	5.4	7.6	7.6
Foreign exchange	151.1	189.9	213.5	267.2	303.2	373.5	400.2
Total reserves excluding gold	154.4	193.7	218.1	272.4	308.5	381.1	407.8
Gold ²							
Quantity (millions of ounces)	117.0	118.1	116.1	123.8	122.3	125.4	127.4
Value at London market price	31.7	29.2	28.1	35.2	32.1	32.8	34.4
Total reserves including gold	186.0	222.9	246.3	307.7	340.6	413.9	442.2

Table I.1 (concluded)

	1990	1991	1992	1993	1994	1995	April 1996
Countries without debt-servicing problems							
Total reserves excluding gold							
Fund-related assets							
Reserve positions in the Fund	1.1	1.2	2.5	2.4	2.6	3.3	3.5
SDRs	1.5	1.4	0.8	1.2	1.3	1.8	1.9
Subtotal, Fund-related assets	2.5	2.6	3.2	3.7	3.9	5.1	5.3
Foreign exchange	105.6	128.7	132.6	169.4	210.7	263.5	284.7
Total reserves excluding gold	108.1	131.3	135.9	173.1	214.5	268.6	290.0
Gold ²							
Quantity (millions of ounces)	67.9	69.4	67.4	77.4	76.2	78.4	78.7
Value at London market price	18.4	17.1	16.3	22.0	20.0	20.4	21.2
Total reserves including gold	126.5	148.5	152.2	195.1	234.5	289.0	311.2

Note: Components may not sum to totals because of rounding.

Source: International Monetary Fund, *International Financial Statistics*.

¹"Fund-related assets" comprise reserve positions in the Fund and SDR holdings of all Fund members. The entries under "Foreign exchange" and "Gold" comprise official holdings of those Fund members for which data are available and certain other countries or areas.

²One troy ounce equals 31.103 grams. The market price is the afternoon price fixed in London on the last business day of each period.

Gold

The stock of official gold reserves valued at market prices fell by 8 percent in 1994 and by a further 2 percent in 1995 and stood at SDR 236 billion at the end of 1995. This pattern reinforced the trend decline in the ratio of gold holdings to total reserves that began in the late 1980s, except for a brief increase in this ratio in 1993. Gold reserves accounted for 29 percent of total reserves at the end of 1990 but only for 20 percent at the end of 1995. The decline in the value of gold holdings in 1995 reflected declines of about 1 percent in both the quantity of gold holdings and in the SDR price of gold. The reduction in gold holdings in 1995 was concentrated in the industrial countries. The share of the total stock of gold reserves held by industrial countries has declined gradually during this decade, from 85 percent in 1990 to 83 percent in 1995.

Developments in the First Quarter of 1996

In the first quarter of 1996, total international reserves increased by SDR 68 billion. Total non-gold reserves increased by SDR 60 billion, with virtually all of this increase coming from an increase in foreign exchange reserves, while Fund-related assets remained essentially unchanged. Foreign exchange reserves rose by about 8 percent for industrial countries and also for the group of net debtor developing countries without debt-servicing problems. Gold holdings increased by SDR 8 billion, reflecting a 4 percent increase in the SDR price of gold.

Currency Composition of Reserves

During the past ten years there has been little change in the degree of diversification in the currency composition of foreign exchange reserves. The figures in Table I.2 show that the U.S. dollar remains the dominant international currency.²

²Table I.2 includes European currency units (ECUs) as a separate currency except in the last column, where the dollar-swap component of ECU liabilities of the European Monetary Institute (EMI) is classified as dollars and all other ECUs are omitted from the calculation.

Although the share of U.S. dollars in total foreign exchange reserves declined from 1987 through 1990, this pattern was subsequently reversed, and the U.S. dollar share at the end of 1995 was 57 percent. The shares of the deutsche mark and the Japanese yen mirrored this pattern, with their shares peaking in 1989 and 1991, respectively, and then declining gradually to a combined share of 21 percent in 1995.

At the end of 1995, the U.S. dollar share of industrial country reserves stood at 53 percent, with deutsche mark and Japanese yen holdings accounting for an additional 23 percent. Part of the recent increase in the U.S. dollar share of foreign exchange reserves of industrial countries may reflect central bank intervention to support the dollar, particularly in 1995. Developing country reserves continued to be relatively less diversified across currencies, with a U.S. dollar share of 61 percent and the deutsche mark and the Japanese yen together accounting for 19 percent.

The share of European currency units (ECUs) in total foreign exchange reserves fell from 14 percent in 1987 to 7 percent in 1995. Among other identifiable currency reserves, the shares of the pound sterling and the French franc have increased over the past decade, while the shares of the Swiss franc and the Netherlands guilder have declined. The "unspecified currency" component of foreign exchange reserves continued to increase and accounted for 10 percent of foreign exchange reserves in 1995, indicating that the evolution of currency shares discussed above should be interpreted with some caution.³

In the calculation of currency shares in Table I.2, the ECU is treated as a separate currency. Official ECU reserves are in the form of claims both on the private sector and the European Monetary Institute (EMI). The ECU reserves

³Unspecified currencies include currencies other than those listed in Table I.2 as well as foreign exchange reserves for which no information on currency composition is available from the reporting country or from other sources. For developing countries in particular, a large share of this classification may represent a lack of information on currency composition.

Table I.2

SHARE OF CURRENCIES IN TOTAL IDENTIFIED OFFICIAL HOLDINGS OF FOREIGN EXCHANGE, END OF YEAR 1987-95¹

(In percent)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	Memorandum: ECU-Dollar Swaps Included with Dollars ² 1995
All countries										
U.S. dollar	56.0	55.3	51.9	50.3	50.9	55.1	56.2	55.9	56.4	61.5
Pound sterling	2.2	2.5	2.6	3.2	3.4	3.2	3.1	3.5	3.4	3.5
Deutsche mark	13.4	14.5	18.0	17.4	15.7	13.5	14.1	14.3	13.7	14.2
French franc	0.8	1.0	1.4	2.3	2.8	2.4	2.2	2.1	1.8	1.9
Swiss franc	1.8	1.8	1.4	1.3	1.2	1.1	1.2	1.0	0.9	0.9
Netherlands guilder	1.2	1.0	1.1	1.0	1.1	0.6	0.6	0.5	0.4	0.5
Japanese yen	7.0	7.1	7.3	8.2	8.7	7.8	8.0	8.2	7.1	7.4
ECU	14.2	11.7	10.5	9.6	10.0	10.1	8.3	7.8	6.5	—
Unspecified currencies ³	3.4	5.1	5.7	6.7	6.2	6.1	6.2	6.6	9.7	10.1
Industrial countries										
U.S. dollar	54.8	54.5	48.4	45.7	43.8	49.0	50.5	51.2	52.8	62.5
Pound sterling	1.0	1.3	1.2	1.7	1.8	2.3	2.2	2.3	2.1	2.2
Deutsche mark	14.1	15.5	20.6	19.8	18.3	15.0	16.4	16.4	15.7	16.9
French franc	0.3	0.7	1.1	2.3	3.0	2.7	2.5	2.1	2.1	2.3
Swiss franc	1.5	1.5	1.1	0.9	0.8	0.4	0.3	0.2	0.1	0.2
Netherlands guilder	1.1	1.0	1.1	1.1	1.1	0.4	0.4	0.2	0.2	0.2
Japanese yen	6.3	6.4	7.5	8.8	9.7	7.6	7.9	8.3	6.9	7.4
ECU	19.9	16.2	15.0	13.8	15.8	16.5	14.7	14.1	12.3	—
Unspecified currencies ³	1.0	3.0	4.0	5.8	5.7	6.1	5.2	5.3	7.8	8.4
Developing countries										
U.S. dollar	59.1	57.5	60.5	60.6	63.3	64.6	63.8	61.8	60.5	60.5
Pound sterling	5.4	5.7	5.8	6.6	6.2	4.6	4.4	4.9	4.9	4.9
Deutsche mark	11.5	11.9	11.7	11.9	11.0	11.2	11.1	11.8	11.4	11.4
French franc	2.0	2.0	2.1	2.3	2.3	1.9	1.8	2.1	1.5	1.5
Swiss franc	2.7	2.4	2.2	2.1	2.1	2.2	2.4	2.0	1.8	1.8
Netherlands guilder	1.3	1.1	1.0	0.9	1.0	1.0	1.0	0.9	0.8	0.8
Japanese yen	8.6	8.9	6.9	6.9	7.0	8.3	8.1	8.2	7.3	7.3
ECU	—
Unspecified currencies ⁴	9.5	10.5	9.9	8.8	7.1	6.3	7.6	8.3	11.8	11.8

Note: Components may not sum to total because of rounding.

¹Note that European currency units (ECUs) are treated as a separate currency except in the last column. Only Fund member countries that report their official holdings of foreign exchange are included in this table.

²This column is for comparison and indicates the currency composition of reserves when ECUs issued against dollars are assumed to be dollars and all other ECUs are ignored.

³The residual is equal to the difference between total foreign exchange reserves of Fund member countries and the sum of the reserves held in the currencies listed in the table.

⁴The calculations here rely to a greater extent on Fund staff estimates than do those provided for the group of industrial countries.

that represent claims on the EMI are issued in exchange for deposits equal to 20 percent of both gold and dollar reserves. These swaps are renewed every three months, and changes in members' holdings of dollars and gold, as well as changes in the market price of gold and in the foreign exchange value of the dollar, affect the amount of ECUs outstanding.⁴ Quantity

⁴In calculating the value of the gold holdings of the EMI in terms of ECUs, the ECU swap price is set equal to the lower of two values: the average of the prices recorded daily at the two London price fixings during the previous six calendar months, and the average price at the two price fixings on the penultimate working day of the period.

changes in ECU holdings therefore depend in part on the evolution of the two components of the EMI swap.⁵ The other component of ECU foreign exchange reserves is official claims on the private sector, usually in the form of ECU deposits and bonds.

⁵The quarterly swaps are arranged at the end of the first weeks of January, April, July, and October. Changes in the number of ECUs outstanding thus depend on the exchange rate and the gold price on these dates, whereas changes in the SDR value of ECU holdings are calculated at the SDR-ECU exchange rate at the end of each quarter.

Table I.3

CURRENCY COMPOSITION OF OFFICIAL HOLDINGS OF FOREIGN EXCHANGE, END OF YEAR 1987-95¹
(In millions of SDRs)

	1987	1988	1989	1990	1991	1992	1993	1994	1995
U.S. dollar									
Change in holdings	38,347	18,218	11,212	18,532	16,189	33,955	46,126	29,288	69,706
Quantity change	70,551	5,877	5,580	39,215	18,566	21,885	44,743	52,421	74,397
Price change	-32,204	12,340	5,632	-20,683	-2,377	12,070	1,382	-23,133	-4,691
Year-end value	224,941	243,158	254,370	272,902	289,091	323,046	369,172	398,460	468,166
Pound sterling									
Change in holdings	1,571	2,252	1,459	4,634	2,182	-602	1,756	4,117	3,522
Quantity change	843	2,063	2,638	3,098	2,735	3,111	2,101	4,263	4,115
Price change	728	189	-1,179	1,536	-553	-3,712	-344	-146	-593
Year-end value	8,918	11,170	12,629	17,264	19,446	18,844	20,601	24,718	28,240
Deutsche mark									
Change in holdings	11,695	9,896	24,207	6,555	-5,607	-9,618	13,543	9,178	11,701
Quantity change	8,810	13,638	17,734	1,927	-3,526	-7,940	18,996	4,821	5,524
Price change	2,885	-3,742	6,473	4,628	-2,082	-1,677	-5,452	4,357	6,177
Year-end value	53,809	63,706	87,913	94,468	88,860	79,243	92,786	101,964	113,665
French franc									
Change in holdings	668	1,241	2,515	5,474	3,194	-1,571	141	667	122
Quantity change	550	1,536	2,046	5,097	3,212	-1,379	812	244	-952
Price change	118	-295	468	377	-19	-192	-671	424	1,074
Year-end value	3,276	4,517	7,032	12,506	15,700	14,129	14,269	14,937	15,059
Swiss franc									
Change in holdings	1,356	570	-790	-15	-1	-355	1,375	-918	477
Quantity change	710	1,335	-778	-698	370	-167	1,470	-1,384	-318
Price change	646	-765	-12	684	-371	-188	-95	466	795
Year-end value	7,218	7,788	6,998	6,983	6,982	6,627	8,002	7,083	7,561
Netherlands guilder									
Change in holdings	1,428	-253	839	387	338	-2,235	398	-455	15
Quantity change	1,171	61	489	147	419	-2,240	665	-651	-212
Price change	257	-314	350	240	-81	4	-267	197	226
Year-end value	4,673	4,420	5,258	5,646	5,984	3,749	4,147	3,693	3,707
Japanese yen									
Change in holdings	4,967	3,152	4,693	8,728	4,981	-3,460	6,239	6,377	146
Quantity change	2,343	2,127	8,732	8,964	1,759	-5,552	1,522	3,630	3,237
Price change	2,623	1,025	-4,039	-236	3,222	2,092	4,717	2,747	-3,091
Year-end value	27,956	31,108	35,801	44,529	49,510	46,050	52,289	58,666	58,812
European currency unit									
Change in holdings	16,521	-5,985	364	492	4,839	2,031	-4,225	769	-1,250
Quantity change	14,049	-3,296	-1,878	-2,107	5,739	6,306	-18	-1,150	-3,858
Price change	2,472	-2,689	2,242	2,600	-900	-4,275	-4,207	1,920	2,607
Year-end value	57,241	51,257	51,621	52,113	56,952	58,983	54,758	55,527	54,277
Sum of the above²									
Change in holdings	76,553	29,091	44,499	44,789	26,114	18,146	65,353	49,024	84,438
Quantity change	99,027	23,342	34,563	55,643	29,274	14,024	70,291	62,193	81,933
Price change	-22,474	5,750	9,936	-10,854	-3,160	4,122	-4,937	-13,169	2,505
Year-end value	388,032	417,123	461,622	506,411	532,525	550,671	616,024	665,048	749,486
Total official holdings³									
Change in holdings	92,060	38,499	50,968	48,417	31,604	21,220	71,004	58,011	114,987
Year-end value	455,898	494,398	545,366	593,782	625,386	646,607	717,611	775,611	890,609

Note: Components may not sum to totals because of rounding.

¹The currency composition of foreign exchange is based on the Fund's currency survey and on estimates derived mainly, but not solely, from official national reports. The numbers in this table should be regarded as estimates that are subject to adjustment as more information is received. Quantity changes are derived by multiplying the changes in official holdings of each currency from the end of one quarter to the next by the average of the two SDR prices of that currency prevailing at the corresponding dates. This procedure converts the change in the quantity of national currency from own units to SDR units of account. Subtracting the SDR value of the quantity change so derived from the quarterly change in the SDR value of foreign exchange held at the end of two successive quarters and cumulating these differences yields the effect of price changes over the years shown.

²Each item represents the sum of the eight currencies above.

³Includes a residual whose currency composition could not be ascertained, as well as holdings of currencies other than those shown.

ECUs, which are held mostly by European countries, reached 20 percent of industrial country reserves in the mid-1980s. The share of ECUs then gradually declined from 17 percent in 1992 to 12 percent by the end of 1995. Most of the recent fall in the share of ECUs is a result of the decline in official ECU reserves in the form of claims on the private sector. If the SDR value of ECU swaps issued against dollars is counted as part of the dollar component of foreign exchange reserves (last column of Table I.2), the overall picture of the trend in the currency composition of foreign exchange reserves is similar, although the U.S. dollar share is then about 10 percentage points higher for the industrial countries.

Changes in the SDR value of foreign exchange reserves can be decomposed into quantity and valuation (price) changes for each of the major currencies as well as the ECU. This decomposition is presented in Table I.3. In 1995, total

official holdings of reserves in the major identifiable currencies increased by SDR 84 billion, almost entirely reflecting an increase of SDR 82 billion in the quantity of reserves.

Official reserves held in U.S. dollars increased by SDR 70 billion in 1995, reflecting a substantial increase in the quantity of dollars held as reserves and mildly tempered by a 2 percent decline in the SDR value of the U.S. dollar. Of the major reserve currencies, the deutsche mark was the only reserve asset that experienced both quantity and valuation increases in 1995. Official reserves held in Japanese yen remained unchanged, since an increase of SDR 3 billion in the quantity of official yen reserves was almost fully offset by a valuation decline owing to the 5 percent fall in the SDR value of the yen during 1995. Despite an increase in the SDR price of the ECU, the value of reserves held in ECUs declined by SDR 1 billion because of a decline in the quantity of ECU reserves.