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S E C R E T
TO ANDY BEARPARK (NO. 10)
FROM NIGEL WICKS ON BOARD VC 10.

THE PRIME MINISTER HAS SEEN YOUR AIRBORNE TELEGRAM NUMBER 011 ABOUT PRESS BRIEFING REGARDING THE ECU BORROWING.

SHE HOPES THAT THE PRESS NOTICE ITSELF, PARTICULARLY ITS TITLE, HIGHLIGHTS THE EARLY REPAYMENT ELEMENT OF THIS EXERCISE, AND DOES NOT CONCENTRATE ON THE BORROWING. SHE HAS PARTICULARLY ASKED THAT THE TITLE OF THE PRESS NOTICE SHOULD REFER TO THE REPAYMENT, PERHAPS ON THE FOLLOWING LINES:

''THE UK GOVERNMENT'S FOREIGN CURRENCY REPAYMENT AND BORROWING PROGRAMME''.

PLEASE PASS THIS COMMENT URGENTLY TO TREASURY PRIVATE OFFICE.
GRS00000
NNNN

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typl./pej/ln/mgl/2.1.8.1p

SECRET

FROM: N P WILLIAMS
DATE: 1 August 1988

Approved in draft.

1 MISS O'MARA

2 ECONOMIC SECRETARY

cc PPS
PS/EST
Sir Peter Middleton
Sir Terence Burns
Sir Geoffrey Littler
Mr Lankester
Mr Scholar
Mr H Evans
Mr Odling-Smee
Mr Peretz
Mr Sedgwick
Mr Gieve
Mr Grice
Mr Pickford
Mr Bush
Mr Hudson
Mr Segal
Mr Cropper
Mr Call
File: ERMP C/11

UK GOVERNMENT'S FOREIGN CURRENCY BORROWING PROGRAMME

I attach Q & A briefing on the new Ecu Treasury Bill programme and the prepayment of our $2.5 billion FRN which the Chancellor will announce tomorrow. The Chancellor has already commented on the draft press notice (Mr Allan's minute of today), and on a draft of this brief.

Ian Polin

// N P WILLIAMS

Mr Gray - No 10
Mr Cassell - Washington (after publication)

Mr Plenderleith)
Mr Foot)
Mr Page) - B/E
Mr Milne)

Sent to PM as Airborne telegram No. 011

SECRET

UK GOVERNMENT'S FOREIGN CURRENCY BORROWING PROGRAMME

Factual

1. Chancellor announced new programme of UK Ecu Treasury Bills which would be launched in Autumn. Tenders will be conducted by Bank of England. Full details of arrangements will be announced during September.

2. Programme will take form of series of tenders, starting in Autumn, probably initially at monthly intervals. Monthly tenders are expected to be for an amount of up to Ecu 500 million, possibly comprising bills of different maturities (eg one, three and six months). In first instance, programme will build up to total outstanding of some Ecu 1-2 billion ($1.1-2.2 billion). Instrument will be similar to a conventional Treasury Bill, but denominated and payable in Ecu: subscription at tender will be in Ecu and Bills will be repaid at maturity in Ecu. Arrangements will be made to ensure secondary market liquidity in the Bills, and provision will be made for normal settlement.

3. At same time, Chancellor announced HMG's intention to exercise first of its options to repay ahead of schedule US $2.5 billion floating rate notes (FRN), due in 1992, which were issued in September 1985.

4. Repayment will be made on 7 October 1988, in accordance with terms and conditions of notes. This is first date on which option for early repayment can be exercised.

5. Ecu programme will finance part of repayment - remainder of repayment will be financed from forward purchases of dollars already made and set aside for purpose.

Positive

1. Reserves stood at $49.8 billion at end of July 1988, highest ever level.

2. Level of official foreign currency debt has been reduced substantially. At end of July, it was $16.7 billion, compared with $19.3 billion at beginning of 1987 and $22 billion in May 1979. Early repayment will reduce it further.

3. Decisions reflect prudent and sensible reserves management.

4. Ecu Treasury Bill programme introduces useful new facility. Widens options for managing UK's reserves, and will establish London's position as centre of Ecu market, which UK wishes to see develop further. Very much in line with Government's policy as set out, for example, in Prime Minister's comments at Hanover Council on need to develop role of private Ecu.

5. Price at which floating rate notes currently trading reflects investors' belief that Government will exercise call. Repayment of FRN will give significant interest saving.

Defensive

UK ECU TREASURY BILLS

1. Further details of programme?

Full details will be provided by Bank of England in September.

2. Is borrowing Ecus prelude to ERM membership?

Nothing to do with ERM. On that, position is unchanged. Situation kept under continual review. Will join when Government considers time is right.

3. What will you do with Ecus? Use them for intervention?

Programme will provide useful addition to European currency component of foreign exchange reserves. Intervention in Ecus certainly a possibility, and can be a useful technique.

4. Borrowing in Ecus to build up reserves because of growing current account deficit?

This is not a borrowing operation. But certainly prudent to maintain reserves at high levels.

5. Just like US: Carter bonds etc

UK and US position completely different - and UK is reducing its official liabilities by these operations. But true that we do believe that greater cross-holdings of currencies and reserve assets, both inside EC and elsewhere, will be beneficial.

6. Why repay 1992 debt and refinance by short-term bill programme?

Every reason to believe Ecu Bill programme will be secure and flexible source of funds.

7. **Borrowing done for "European" reasons at cost to taxpayers?**

Justified in its own right as a useful addition to European currency component of reserves, with no expected net carrying cost. But does carry wider advantages - will help establish London as the centre of Ecu market, and marks a practical step towards greater monetary cooperation in Europe.

8. **Believe Ecu should be parallel European currency?**

Only in a limited sense. But scope for further practical steps like this to promote greater use of Ecu.

9. **Has Ecu Treasury Bill issue been discussed with other EC Governments?**

No need to do so. But think once technique is established by us, will be easy for other Governments to issue similar Ecu instruments in London. Nothing to stop them doing that. It would help further develop Ecu market and HMG would welcome that.

10. **Why call instrument "Treasury Bills"?**

Issued by UK with similar structure to domestic Treasury Bills, but denominated and payable in Ecu.

11. **What is an Ecu?**

European Currency Unit. A composite currency basket comprising £0.0878, Danish krone 0.219, Deutschemark 0.719, Greek Drachma 1.15, Belgian Franc 3.71, French Franc 1.31, Dutch Guilder 0.256, Irish Punt 0.00871, Luxembourg Franc 0.14 and Italian Lire 140.

12. **Size of Ecu securities market?**

Short-term markets in Ecu securities are still in early stages of development. Commercial paper and FRN markets are very small. There is sizeable and regularly functioning Ecu bond market, although liquidity in secondary market is generally perceived to be poor.

13. **How does UK Ecu Treasury Bill programme differ from Italian programme?**

Unlike UK's, Italian programme is predominantly a domestic one, with bills sold in Italy and not marketed internationally. Payment is in lire, unlike UK programme with settlement in Ecus.

EARLY REPAYMENT OF US $2.5 BILLION FRN

14. **Why are you repaying US $2.5 billion FRN early?**

Part of prudent reserves management. Circumstances have changed since FRN issued - reserves have risen from $14 billion in September 1985 to almost $50 billion now - and no longer looks particularly cheap source of foreign currency finance, as did when drawn down. Option to prepay was included when the notes were issued to allow for such a change in circumstances. This is first opportunity to call US $2.5 billion FRN. Repayments are often made ahead of schedule where there is financial advantage in doing so.

15. **Is market expecting FRN to be repaid early (ie "called")?**

Yes. Price at which notes are trading reflects investors' belief that Government will exercise call option. Market perceives correctly that significant interest savings can be made by doing so. In fact, repayment partly financed by currencies bought forward and set aside for purpose.

16. **Why announce early repayment now if actual repayment takes place in October?**

Principal paying agent needs to be notified at beginning of August if we are to prepay in October. This therefore seemed correct time to notify market of our intentions too.

17. **Will reserves fall in October?**

Net impact of these transactions on reserves will <u>over time</u> be broadly neutral. But other things being equal, reserves will fall in October since Treasury Bill programme will take time to build up. But October reserves figures will, as in all months, reflect variety of factors.

18. **Why don't you refinance early repayment by new dollar borrowing?**

Chosen course. Ecu Treasury Bills will usefully add to European currency component of reserves at no expected net cost, since it should be possible to reinvest Ecus at or above interest rates at which they are borrowed.

19. **Does repayment say anything about Government's view of prospects for dollar?**

No - just a part of prudent reserves management. Repaying dollar debt with dollars from reserves does not change net currency composition of net reserves.

20. **Are you going to repay US $4 billion FRN early too?**

Will take that decision when time comes. First call date is not until 24 September 1991.

21. **Does today's announcement have any exchange rate or monetary effects?**

There will be no significant effects on either the exchange rate or monetary aggregates.

22. **Does prepayment have any implications for funding policy?**

That proportion of prepayment financed by currencies already bought forward will increase sterling funding requirement one for one, compared with what it would otherwise have been, because there is an underlying rise in reserves and sterling has to be provided as forward contracts mature. Will be funded in usual way and will not add to liquidity. That part of transaction financed from Ecu Treasury Bill programme has no implications at all for funding because simply replaces one type of foreign borrowing with another.

23. **Why borrow at all when reserves so high?**

Ecu Treasury Bill will provide useful addition to European currency component of foreign exchange reserves and has wider advantages. Reserve levels not excessive by international standards - lower than France or Italy, for example.

24. **Are reserves at a satisfactory level?**

No target level for reserves, but earlier problem of inadequate reserves has now been overcome.

FORWARD PURCHASES

25. **How big are forward purchases of dollars already set aside for this purpose?**

$1 billion.

26. **When did you buy foreign currencies forward for partial finance of repayment?**.

Bought currencies forward over a period of months.

27. **Is it more expensive to repay FRN partly from forward purchases than from spot reserves?**

In principle, should be no difference because forward premia/ discounts offset interest differentials.

28. **Does Government hold further forward reserves/are forward purchases made for other purposes?**

Never comment on details of reserves transactions beyond what is published in monthly reserves press notice. [IF PRESSED. Bank of England does sell currencies forward to MOD and other Government Departments.]

OFFICIAL DEBT AND RESERVES FACTSHEET

LEVEL OF OFFICIAL RESERVES+

$ billion

End-period	Total	o/w convertible currencies
1979	22.5	18.0
1980	27.5	18.6
1981	23.3	13.5
1982	17.0	9.6
1983	17.8	9.0
1984	15.7	7.6
1985	15.5	8.5
1986	21.9	13.8
1987	44.3	35.7
1988 January	43.1	34.6
February	42.9	-
March (pre-revaluation)	44.6	-
March (post-revaluation)	47.5	-
April	47.9	-
May	48.5	-
June	48.5	-
July	49.8	-

+Published data only from Bank of England Quarterly Bulletin (Table 17.1).

LEVEL OF OFFICIAL DEBT

$ billion

End-period	Total	o/w ECS borrowing
1979	20.7	9.3
1980	17.4	8.4
1981	13.3	7.5
1982	12.1	7.5
1983	12.0	7.7
1984	11.3	7.6
1985	14.6	8.7
1986	19.3	9.6
1987	19.1	9.8
1988 Q1	17.6	8.6

*NB Published data only from Financial Statistics (Table 10.6) and Bank of England Quarterly Bulletin (Table 17.2). These figures are valued differently from the official reserves; non US dollar components are translated into US dollars at the closing market exchange rates on the last working day of each period to which figures relate. Official reserve figures are valued on an end-year valuation basis.

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RESERVES MOVEMENTS SINCE BEFORE 1985 FRN

$ billion

	End-period	Convertible+ currencies	Total spot reserves (published)
1985	March (post-revaluation)	6.8	13.5
	September	7.4	14.2
	October	9.5	16.3
1986	March (pre-revaluation)	9.2	16.2
	March (post-revaluation)	10.6	18.7
	August	10.9	18.9
1987	March (pre-revaluation)	16.2	24.1
	March (post-revaluation)	17.8	27.0
	October	32.4	41.4
	November	32.5	41.3
	December	35.7	44.3
1988	January	34.6	43.1
	July	-	49.8

+Published data only from Bank of England Quarterly Bulletin (Table 17.1)

INTERNATIONAL COMPARISON OF RESERVES

$ billion

	Total* Level of Spot Reserves at end period	+Convertible Currencies at 1988, Q1
UK	50 (end-July)	38.3
Germany	45 (w/e 22 July)	55.8
US	41 (at end-June)	11.6
Japan	88 (at end-June)	78.9
France	64 (at end-June)	28.1
Italy	55 (at end-June)	27.5

*latest published figures
+latest figures published in International Financial Statistics.

91G.LCLD.4317.8

FROM: I POLIN

DATE: 1 August 1988

1. MISS O'~~MARA~~ MOM 1/8
2. ECONOMIC SECRETARY

Distribution

PPS
PS/EST
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Lankester
Mr Scholar
Mr H Evans
Mr Odling-Smee
Mr Peretz
Mr Sedgwick
Mr Gieve
Mr Grice
Mr Pickford
Mr Bush
Mr Hudson
Mr Segal
Mr Cropper
Mr Call
File: ERMP C/11

THE RESERVES IN JULY 1988

The reserves announcement for July will be made on Tuesday 2 August at 11.30 am. This month's announcement reports a rise in the reserves of $1,307 million and an underlying rise of $910 million.

Ian Polin

I POLIN

Mr Gray - No 10
Mr Cassell - Washington (after publication)

Mr Foot)
Mr D J Reid) - B/E
Mr J Milne)
Miss J Plumbly)
Mrs Jupp)

91G.LCLD.4317.3

SECRET
until Tuesday 2 August 1988
thereafter UNCLASSIFIED

DRAFT PRESS NOTICE

THE RESERVES IN JULY 1988

The UK official reserves rose by $1,307 million in July. Repayments of borrowing under the exchange cover scheme amounted to $47 million. There was no borrowing under the exchange cover scheme this month. The valuation change arising out of the quarterly rollover of the EMCF swap amounted to a rise of $444 million. After taking account of the repayments of foreign currency borrowing, the underlying change in the reserves during July, was a rise of $910 million. At the end of July, the reserves stood at $49,826 million (£29,112 million*) compared with $48,519 million (£28,449 million+) at the end of June.

2. See separate Treasury Press Notice on UK Government's foreign currency borrowing programme.

Note to Editors

3. The underlying change is the result of a variety of transactions, both debits and credits, including, for example, transactions for Government departments and with other central banks, and interest receipts and payments. The underlying change should not therefore be taken as an indication of market intervention during the month. The above figures can also be obtained from the Reuters Monitor (Code TREA).

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* When converted at the closing market rate on Friday 29 July £1=$1.7115

\+ When converted at the closing market rate on Thursday 30 June £1=$1.7055

4. There was no new borrowing under the public sector exchange cover scheme this month but repayments of such borrowing were as follows:

British Coal, $16 million; Electricity Council, $14 million; British Telecommunications PLC, $5 million; Northumbrian Water Authority, $4 million; South of Scotland Electricity Board, $3 million; North West Water Authority, $1 million; Yorkshire Water Authority, $1 million; Others, $3 million.

5. The quarterly rollover of the EMCF swap, ie 20 per cent of the UK's gold and US dollar reserves, entailed a valuation increase of $444 million. This mainly reflects the appreciation of the dollar against the ECU in the last quarter, as valued by the EMCF. For the purpose of the swap, the EMCF values gold and dollars in terms of ecus at rates determined quarterly, whereas the UK values gold and ecus held in the reserves on an annual basis.

THE RESERVES IN JULY 1988 : PRESS BRIEFING

Factual : Main features of markets in July

	1 July (cob)*	Month's High		Month's Low		29 July (cob)*
£ ERI	75.0	77.1	(28th)	74.6	(15th)	76.5
$/£	1.7015	1.7422	(25th)	1.6567	(18th)	1.7115
DM/£	3.0984	3.2260	(29th)	3.0770	(4th)	3.2031
$ ERI	97.9	99.4	(15th/18th)	97.0	(7th/22nd)	98.6
DM/$	1.8210	1.8925	(18th)	1.8135	(6th/7th)	1.8715
Yen/$	134.07	135.45	(4th/15th)	130.15	(25th)	132.80

*cob = close of business.

Underpinned by two further increases in UK base rates, sterling saw periods of strong demand during July and recorded significant gains, particularly against the continental currencies. It began the month quietly but as the market adjusted to the 1/2% increase in UK base rates on 4 July, a firmer trend emerged and, with dealers concluding that sterling had reached a natural floor against the deutschemark, it recovered well. The pound lost ground to the dollar in the wake of the 8 July US employment data, but, remained relatively steady around DM 3.12. It fell sharply against the rising dollar following the publication of US trade figures on 15 July, but amid expectations of a full 1% rise in UK base rates it reached DM 3.14 on 18 July. When only a 1/2% increase was announced on 18 July, sterling dipped to the month's low of $1.6567, but, with the dollar subsequently easing, attention shifted to high-yielding currencies and sterling benefited accordingly. Although it dipped briefly to $1.7044 on 27 July following disappointing UK trade figures for June, the softness of the deutschemark enabled sterling to remain steady in cross-rate terms and, when the dollar itself fell back, sterling was the main beneficiary. It subsequently surrendered some of its gains, but ended the month on a steady note.

In the wake of increased tension in the Gulf, the bullish sentiment towards the dollar continued in early July. It then began to feel the effects of persistent reported intervention by the Bundesbank and a reluctance to push it higher in advance of the US trade figures, but stronger-than-anticipated US employment data caused a significant rise and the removal of uncertainty, as the trade figures matched expectations, provided a renewed incentive to buy the dollar which reached the month's highs on 15/18 July. It then fell steeply following a rise in Japanese domestic interest rates and reports of further central bank intervention. After a brief rally, the dollar fell away sharply on announcement of the weaker-than-expected US GNP figures but subsequently steadily recovered its losses (particularly against the deutschemark), ending the month bullishly.

Previous reserve changes

(i) At beginning of January 1987, reserves stood at $21,923 million; at end of December 1987, they stood at $44,326 million, a rise of $22,403 million (including 1987 revaluation of + $2,879 million).

(ii) The underlying rise in reserves in 1987 totalled $20,475 million.

(iii) Reserve changes from beginning of 1988 have been:

		$ million		
		Underlying change	**Total change**	**Level of reserves at end period**
1988	January	+ 38	- 1,233	43,093
	February	- 25	- 166	42,927
	March	+ 2,225	+ 1,713	47,519+
	April	+ 514	+ 338	47,857
	May	+ 814	+ 676	48,533
	June	+ 84	+ 14	48,519
	July	+ 910	+ 1,307	49,826
	Totals	+ 4,560	+ 2,649	

+after revaluation of + $2,879 million.

(iv) October 1987 underlying change of $6,699 million was largest ever.

(v) Reserves in July of $49,826 million were highest ever.

Level of official debt

Now stands at $16.7 billion at end July*. Latest published figure, $17.6 billion at end March in Financial Statistics, July 1988, Table 10.6. (In May 1979 was $22 billion.)

*at end July market rates.

See also separate Q and A briefing on FRN prepayment and ECU bill programme

POSITIVE

1. Reserves remain very strong. Now stand at record level of $50 billion.

2. Level of official debt has been reduced substantially. At beginning of 1987 was $19.3 billion and at end of July 1988 was $16.7 billion. (In May 1979 was $22 billion.)

DEFENSIVE

(A) **POLICY**

1. **Exchange rate policy:** Government maintaining firm monetary policy to ensure downward pressure on inflation. Exchange rate policy is part of total economic policy. Government uses available levers, both interest rates and intervention, to affect rate as seems right in circumstances.

2. **Government no longer interested in exchange rate stability?** Government's main priority is to bear down on inflation. But within context of anti-inflationary strategy, policy remains to seek to achieve reasonable exchange rate stability. Toronto Summit endorsed need to coordinate policies to strengthen economic fundamentals and to reinforce conditions for exchange rate stability.

3. **Tactics:** As Prime Minister reminded House on 17 May, available instruments - interest rates and intervention - will be used as seems right in circumstances. But not sensible to reveal operational details or be more precise.

4. **Is Government operating ceiling for sterling/deutschemark rate?** Not helpful to talk about any particular level.

5. **Confidence in sterling likely to deteriorate as result of growth in current account deficit**? Government's position perfectly clear. Will not bail out excessive increases in domestic costs by permitting exchange rate to depreciate.

6. **Current account deficit could be reduced by depreciation of sterling**? Not Government policy to allow exchange rate to depreciate to increase UK competitiveness. Would be inflationary. Holding down unit costs - which is in industry's own hands - key to improved competitiveness.

7. **International monetary co-ordination not working**? [Press reports on 21 June of French Finance Minister's, M Beregovoy's, criticism of Bundesbank for failing to consult adequately with partners over last month.]

International cooperation is alive and well; commentators should not always look for headline catching responses to exchange rate fluctuations. Essence of coordination lies in consultation and that has been taking place.

(B) **INTERVENTION**

8. **Value of intervention as instrument?** Has important role to play in checking unsustainable fluctuations in exchange rates which do not reflect underlying fundamentals.

9. **Intervention inflationary**? Only poses inflationary threat if not funded. Government made clear intervention will be fully funded (as in 1987-88) so that effect on liquidity sterilised.

10. **Details of intervention**? Policy never to discuss.

11. **Have other countries been intervening over last month/recently**? Never discuss details but well known there has been concerted intervention over recent period.

12. **Have Bank been switching out of dollars?** ['Financial Times' article, 23 July 1988.]

Never discuss detailed reserves transactions.

(C) **INTEREST RATES/MONETARY POLICY**

13. **Monetary policy:** [Policy recently stated by Chancellor to Institute of Economic Affairs, 21 July.]

Ultimate objective of stable prices stands. Abolition of various controls within financial system, well justified on merits, has made it difficult to rely solely on monetary targets; inevitably places more weight on short term interest rates as essential instrument of monetary policy.

14. **Will Government reduce interest rates to ease upward pressure on sterling?** Never speculate.

15. **Why taken steps which will put upward pressure on sterling at time of record trade deficit?** Government has stated repeatedly its determination to keep monetary policy tight in order to bear down on inflation. Interest rate decisions take account of all factors influencing monetary conditions, including exchange rate.

16. **Why raise interest rates when exchange rate against deutschemark so high?** Do not focus exclusive attention on deutschemark; rate against dollar also important, and rather lower now than in June. All part of process of monetary tightening since beginning of June.

(D) **EUROPEAN MONETARY INTEGRATION**

17. **UK membership of exchange rate mechanism (ERM)?** Matter kept under continual review. Will join when Government considers time is right.

18. **Recent interest rate moves would not have been necessary if UK had been in ERM?** Joining ERM would not be soft option. Countries within ERM frequently change their interest rates.

19. **Sterling's recent fluctuations would not have occurred if UK had been in ERM?** Countries within ERM not protected from realignments.

20. **Join ERM by 1992**? No fixed timetable. Will join when time is right.

21. **Proposals for European Central Bank and common European currency?** UK's own position perfectly clear. Proposals for common currency/European Central Bank presuppose readiness to surrender national control over monetary policy and that all Member States pursuing same economic policy. Not in prospect. Should focus on useful technical ideas for strengthening the EMS and promoting wider use of private ecu already under consideration. UK's new ecu bill programme will contribute to that aim.

22. **EC capital liberalisation proposals**. [Directive providing for complete removal of exchange controls by those countries that still retain them adopted on 24 June.]
"Blow for freedom in Europe", essential for completion of single market by 1992, with effects that will be highly beneficial, enabling financial services industry within Community to develop fully in competition with those in Japan and US.

23. **When will capital liberalisation be implemented?** By 30 June 1990 for most countries. Some, including UK, already completely liberalised. Spain, Ireland, Portugal and Greece have until 1992, with possibility of extension to 1995 for last two.

24. **Capital liberalisation Directive adopted on 24 June brings UK membership of the ERM closer?** Position on ERM membership made clear by both Chancellor and Prime Minister on numerous occasions.

(E) EUROPEAN MONETARY COOPERATION FUND (EMCF) SWAP

25. **What is EMCF swap?** As member of EMS, UK required to put at disposal of European Monetary Co-operation Fund 20% of its gold holdings and 20% of its gross dollar reserves in return for right to use equivalent value of Ecus. Each of these swaps is for three months, at end of which swap is unwound and a new one (with whatever quantities of gold and dollars then comprise 20% of its total holdings) is entered into.

26. **Why is valuation adjustment necessary?** Because of different valuation practices by UK and EMCF. UK revalues its assets only once a year (at end March), but EMCF values dollars and gold at prices based on current market values. EEA will therefore provide gold and dollars at its own valuation; will receive Ecus to an equivalent value at current exchange rates but which will be held in EEA at EEA's own valuation rate. Valuation difference which arises does not represent loss (or profit) since EEA's underlying holdings of gold and dollars are unchanged when swap expires; adjustment made purely for accounting purposes. EEA continues to earn dollar income in underlying dollar assets. July change of $444 million represents valuation difference on April's swap, less valuation difference on new swap undertaken in July.

(F) FORWARD PURCHASES

[NB Avoid any reference to forward book.]

27. **Have authorities bought forward currency other than that required to prepay FRN?** Never comment on operations in markets. [But National Audit Office (NAO) report published in January noted MOD now make forward purchases of deutschemarks and dollars from Bank.]

28. **How much currency have authorities bought forward?** No comment.

29. **How long have authorities been buying currency forward?** No comment.

30. **Have forward purchases been used to ease pressure on sterling?**
No comment.

31. **Have forward purchases distorted underlying change in reserves?**
Never comment on market operations. But in any case wrong to assume underlying change reflects market intervention in month, as Government has always made clear.

TABLE 3 - TOTAL PUBLISHED RESERVES

$ billion

	Total reserve changes during month		Level at end of month
USA	- 0.9	(end June)	41
Japan	+ 0.5	(end June)	88
Germany	- 9.5	(w/e 22 July)	45
France	- 3.6	(end June)	64
Italy	- 1.5	(end June)	55
Canada	+ 2.8	(end June)	16
United Kingdom	+ 1.3	(end July)	50

Notes

1. The figures for Germany, France and Italy were originally published in local currencies; they have been converted to dollars at appropriate exchange rates.
2. Figures not strictly comparable because of different valuation conventions for eg gold.