

## Short update paper for NS-CASE on Non-Monetary Gold

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1. This paper provides a brief update on the ongoing Non-Monetary Gold (NMG) topic. The issues surrounding the treatment of NMG in the UK, and its impact on the UK National Accounts are discussed, alongside four potential options for its treatment within national accounts. A full paper on this topic will be presented at the October NSCASE committee meeting.

### Background

2. In the national accounts framework, gold is in many ways a unique item with a range of special treatments that are briefly described below:
  - a. Where gold is held as a reserve asset by the monetary authorities, it is classified as a financial asset and designated as monetary gold.
  - b. Outside of monetary gold, gold can be held in allocated or unallocated accounts
    - i. Unallocated gold accounts are classified as a financial asset under currency and deposits.
    - ii. Allocated gold, outside of gold held by monetary authorities for reserves, are classified as non-financial assets. These are classified as valuables and referred to as non-monetary gold.
  - c. Beyond this, gold is also produced by certain countries by refining ores into bullion which is classified as production.
  - d. Gold is also used for industrial purposes (such as manufacturers of jewellery or dentists) which is classified as intermediate consumption.

### International Treatment

3. Before we look at the UK treatment and the options, it is worth noting that gold uniquely affects the UK, as the London gold exchange is by far the major trading centre in the world. As a result of trading non-monetary gold, very large changes in economic ownership occur every day on the exchange. In contrast, non-monetary gold is a very minor issue for most countries and is

effectively ignored. Very little specific information is published by countries on their treatment.

4. Through some desk research and reviewing data published via the OECD, the key points are:
  - a. In the non-financial accounts, 32 of the 65 countries in the database publish data on acquisitions less disposals of valuables (notably major economies such as Australia, Canada, Japan, United States, South Africa do not include valuables).
  - b. On the balance sheet, only 7 of the 37 countries providing data include valuables on the balance sheet.
5. Generally, where documentation could be found, non-monetary gold is included for industrial purposes but excluded from valuables. The only major exception is Switzerland, but they are also uniquely placed as the major refiner of raw gold into gold bullion.

### Current UK treatment of Non-Monetary Gold

6. At present, the UK measures the flows of non-monetary gold and records them in net trade (imports and exports of goods) and acquisition less disposals of valuables. Valuables are not currently measured in the balance sheets.
7. The consequences of this approach are that the volatile movements are seen in the lower-level transactions (imports and exports of goods and acquisition less disposals of valuables) but net out at the Gross Domestic Product (GDP) level. The Office for National Statistics (ONS) also publishes a trade figure excluding the impact of non-monetary gold, but not for acquisition less disposal of valuables.

### International Guidance and Options

8. The basic issue is that there is a difference between the treatment of non-monetary gold across the different economic statistics frameworks.

- a. In foreign trade statistics, only the physical movements of gold are recorded, i.e., any changes of ownership that are not physically moved are not included.
  - b. The BPM6 framework includes the changes of ownership as well as the physical movements – however, the BPM6 framework does not recognise production or consumption – merely different categories of transactions.
    - i. As a result, the current account includes both normal goods and services, as well as produced non-financial assets – and has an explicit line for NMG.
    - ii. The capital account only includes non-produced non-financial assets.
    - iii. The BPM framework also provides source data into the SNA 2008 framework but this must be done via bridge tables to ensure concepts are harmonised to the conceptual requirements of the SNA 2008.
    - iv. As a result, it is correct for BPM6 to include NMG in its presentation.
  - c. In the SNA framework we encounter the concept of production.
    - i. The key point with non-monetary gold is that the bulk of gold in circulation antedates the national accounts and are mostly not the result of a recent or current production process.
9. As a result, there are two possible options:
- a. **Option 1** - Include transactions in non-monetary gold in GDP
    - i. Via imports and exports of goods with corresponding changes in valuables,
    - ii. alongside corresponding changes in the balance sheet to record changes in the levels of valuables and currency. Note that most countries do not include non-monetary gold in this way.
    - iii. Within this, we should make a presentational change by generating aggregates excluding the impact of non-monetary gold (already done for trade in goods).

- b. **Option 2** - Exclude transactions in non-monetary gold from GDP.
  - i. This would treat non-monetary gold as antedating the economic accounts and exclude the transactions from being recorded in GDP and only record transactions as changes on the balance sheet alongside corresponding capital transfers.

10. Beyond these two options, there is also the possibility of the UK adopting an alternative method. Given that the UK is uniquely affected by this issue, it could be argued that a departure from the SNA is warranted.

### Summary of options

11. Bringing these options together we can form four summary options to take forward:
- a. Maintain the current approach (i.e., include non-monetary gold in GDP) but also produce an estimate of acquisition less disposals excluding non-monetary gold into the accounts to correspond with the presentational change made to imports and exports of goods.
  - b. As 1, but also continue to research other possible methods specific to the UK.
  - c. Exclude non-monetary gold transactions from GDP to align with international comparability.
  - d. As 3, but also continue to research other possible methods specific to the UK.