

SUPPLEMENT

UNITED KINGDOM OVERSEAS PORTFOLIO INVESTMENTS, 1958

Estimates relating to the United Kingdom's overseas investments have been published by the Bank over the past ten years and form a yearly series extending from 1938 to 1957. They first appeared in October, 1950, in a pamphlet entitled "United Kingdom Overseas Investments, 1938 to 1948", and were continued in papers issued with each of the Bank's subsequent Annual Reports. It has now become necessary to make certain changes in the scope and, in some respects, the form of the Bank's compilation. These changes are here described and estimates on an amended basis then presented.

The Bank's estimates, as published hitherto, fall into two classes of securities owned by residents of the United Kingdom. These are, first, shares and debentures of U.K.-registered companies operating entirely or predominantly abroad, which represent direct, or controlled, investments; and, secondly, overseas government and municipal loans and shares and debentures of overseas-registered companies, which represent in the main what are commonly described as portfolio investments. Since the publication of last year's estimates, the Board of Trade, with co-operation from the Bank, have instituted a statistical survey of direct investment transactions between the United Kingdom and abroad, which relates in the first instance to the year 1958 and will be continued thereafter. This new investigation, so far as it applies to direct investments abroad, covers the U.K. companies concerned and their transactions with their overseas branches and subsidiary and associated companies on a comprehensive basis, and so more fully than the Bank's estimates relating to direct investments. For this reason, the Bank have discontinued these estimates and now confine their compilation, beginning with the year 1958, to the United Kingdom's overseas portfolio investments.

Such investments comprise, by definition, holdings of U.K. residents in overseas govern-

ment and municipal loans and in securities of overseas companies with the exception of direct investments by U.K. companies. The category of U.K. investments in overseas-registered companies, as published in the Bank's previous estimates, include certain direct investments, but these are believed to be small in amount and have been eliminated, so far as known, in the estimates here initiated.

The Board of Trade's survey of overseas direct investments has been designed primarily for use in compiling the estimates of the U.K. balance of payments, as officially published. With a similar objective, the Bank's new investigation of overseas portfolio investments directs attention to those items which are significant in connection with the balance of payments accounts. These are the net cash outflow from, or inflow to, the United Kingdom resulting from changes in U.K. holdings of overseas portfolio securities; and the amounts of interest and dividends received by the United Kingdom on these securities, net of overseas tax but gross of U.K. income tax.

Furthermore, the present investigation introduces two changes in compilation which bring the Bank's new estimates into line with current balance of payments practice. First, the geographical classification of overseas company securities is based on country of registration instead of on country of operation as in the estimates published for the years before 1958. Secondly, the grouping of countries into areas has been amended from Commonwealth Countries and Foreign Countries to Overseas Sterling Area Countries and Non-Sterling Countries. The geographical classification of overseas government and municipal loans, in accord with balance of payments method, continues to be based on debtor country without regard to the currency in which loans are expressed.

The securities covered by the present estimates, as by the previous estimates, are those

dealt in on the London Stock Exchange together with U.S. and Canadian dollar securities quoted abroad, on which information is available to the Bank through the operation of Exchange Control. In consequence, the Bank's investigation of portfolio investments, so far as it relates to overseas countries other than the U.S.A. and Canada, omits, as in the past, a large part of U.K. holdings of the securities of companies without registrars or paying agents in the United Kingdom. But it is now possible to give a measure of this omission by reference to an approximate estimate made by the Board of Inland Revenue, the use of which here is gratefully acknowledged. This estimate comprises total U.K. receipts of interest and dividends from abroad, whether distributed by U.K. or overseas

registrars, and relates to the financial year 1958/59. It suggests conjecturally that the shortfall in the Bank's estimate for 1958 of U.K. income from portfolio holdings in overseas companies other than U.S. and Canadian companies is of the order of £20 million in aggregate. The estimates of interest and dividends given below in Table II are correspondingly understated. No measure is possible of the extent to which particular countries are affected: and no estimate is available regarding capital transactions in U.K. holdings of overseas portfolio securities not included in the Bank's survey.

The information contributed voluntarily to assist the Bank's investigation by registrars of all kinds—banks, issuing houses, public companies and others—is gratefully acknowledged.

TABLE I: CAPITAL TRANSACTIONS DURING 1958

£ millions

	Total Net Outflow from U.K.	Gross New Investment	Gross Repayment	Net New Investment	Other Capital Transactions
Overseas Sterling Area Countries	24	56	14	42	-18
Non-Sterling Countries	10	22	8	14	-4
Total	34	78	22	56	-22

The above table analyses the net cash outflow from the United Kingdom which resulted from changes during 1958 in U.K. holdings of overseas portfolio securities within the Bank's compilation and totalled £34 million. This estimate is divided into "net new investment" and "other capital transactions". "Net new investment" consists of transactions which it is possible to identify as between residents of the United Kingdom and residents of the particular country in which the investment is made. It comprises mainly new issues and redemptions, but includes also some market purchases and sales, notably those of U.S. domestic dollar securities. "Other capital transactions" consist wholly of purchases and sales through the market.

"Net new investment" in Overseas Sterling

Area countries during 1958 was composed mostly of subscriptions to, less repayments of, government loans, New Zealand accounting in this respect for £16 million, Australia for £11 million, Rhodesia and Nyasaland for £7 million and the West Indies for £4 million. The main feature of "net new investment" in Non-Sterling countries was net purchases of U.S. company securities amounting to £15 million. "Other capital transactions" with Overseas Sterling Area countries consisted of net sales of government loans to the extent of £13 million. Among "other capital transactions" with Non-Sterling countries, net sales of German and Japanese government loans (£9 million) and, on the other hand, net purchases of Canadian company securities (£5 million) were large constituents.

TABLE II: INTEREST AND DIVIDENDS DURING 1958

£ millions

	Total	Overseas Government and Municipal	Overseas Companies		
		Loans	Total	Share Dividends	Loan Interest
Overseas Sterling Area Countries	45.2	19.6	25.6	23.9	1.7
Non-Sterling Countries	46.9	4.4	42.5	37.9	4.6
Total	<u>92.1</u>	<u>24.0</u>	<u>68.1</u>	<u>61.8</u>	<u>6.3</u>

Within the estimated total of £24 million shown in the above table for interest received by the United Kingdom on overseas government and municipal loans during 1958, Australia accounted for £8.5 million, Rhodesia and Nyasaland for £3.2 million, New Zealand for £2.7 million, East Africa for £1.8 million, the Irish Republic for £1.5 million and Japan for £2 million. The estimates of share divi-

dends and loan interest received on overseas company securities include £23.6 million in respect of the U.S.A. and £15 million in respect of Canada. As mentioned earlier, the amounts contained in Table II in respect of overseas companies registered in countries other than the U.S.A. and Canada are limited to income received from securities dealt in on the London Stock Exchange.