

UNITED KINGDOM OVERSEAS PORTFOLIO INVESTMENTS

1959 to 1961

This note continues the estimates published in the June 1961 issue of this Bulletin, and gives the provisional estimates now available for 1961. Figures for 1959 and 1960 have been revised in the light of information received since they were published last year.

The information contributed voluntarily to assist the Bank's investigation by registrars and paying agents is again gratefully acknowledged.

Scope and definitions

The term "overseas portfolio investments" as used here covers holdings of U.K. residents in overseas government and municipal loans and in securities of overseas registered companies apart from direct investments by U.K. companies in their overseas subsidiary and associated companies.

The tables are concerned with U.K. portfolio holdings of overseas securities in so far as they give rise to transactions which find a place in the balance of payments accounts. The total of these transactions corresponds with the net cash outflow from, or inflow to, the United Kingdom resulting from changes in such holdings, and from receipts of interest and dividends by the United Kingdom on overseas portfolio investments, net of overseas tax but before deducting U.K. income tax. Following the normal practice in balance of payments accounts, the geographical classification of overseas government and municipal loans is based on the debtor country without regard to the currency in which loans are expressed; and that of securities of overseas companies on the country of registration.

The securities included are those dealt in on the London Stock Exchange, together with U.S. and Canadian dollar securities quoted abroad on which information is available through the operation of U.K. Exchange Control. In so far as they relate to overseas countries other than the United States and Canada, the estimates do not cover a large

part of U.K. holdings of the securities of companies without registrars or paying agents in the United Kingdom. It is possible to give a measure of this omission by reference to estimates of total U.K. receipts of interest and dividends on overseas portfolio investments, whether directly from abroad or through U.K. paying agents, which are based on Inland Revenue sources. These estimates, as published in "United Kingdom Balance of Payments 1959 to 1961" (Cmd. 1671), amount to £121 million in 1959 and £133 million in both 1960 and 1961. The figures of interest and dividends given in Table II fall short of these estimates by between £25 million and £30 million a year, the shortfall relating to income from portfolio holdings in overseas companies, other than U.S. and Canadian companies, for which there is no U.K. paying agent. Its geographical distribution is not reliably known; nor are details available of capital transactions in the underlying portfolio holdings. It is evident, however, that in recent years, particularly during 1961, there have been substantial U.K. purchases of Australian local issues that do not have registrars or paying agents in this country.

"Net new investment or repayment" consists of transactions which it is possible to identify as taking place 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 almost wholly of U.K. purchases and sales through the market. These transactions do not necessarily take place with residents of the country in which the investment is situated, and it is not possible to identify the individual overseas countries concerned. The division shown in Table I between overseas sterling countries and non-sterling countries is therefore conjectural.

Table I: Capital Transactions

£ millions

	Total			Overseas sterling countries			Non-sterling countries		
	1959	1960	1961	1959	1960	1961	1959	1960	1961
Gross new investment abroad ...	55	48	38	42	35	32	13	13	6
Gross repayment from abroad ...	34	25	17	16	15	12	18	10	5
Net new investment (-) or repayment (+)	-21	-23	-21	-26	-20	-20	+ 5	- 3	- 1
Other capital transactions ...	+55	+59	+69	+23	+34	+32	+32	+25	+37
Total net cash inflow to U.K. (+) or outflow from U.K. (-) ...	<u>+34</u>	<u>+36</u>	<u>+48</u>	<u>- 3</u>	<u>+14</u>	<u>+12</u>	<u>+37</u>	<u>+22</u>	<u>+36</u>

Note: The signs now conform to those normally used in balance of payments accounts, an increase in U.K. assets being shown - and a decrease +.

“Net new investment” of £20 million in overseas sterling countries comprised mainly subscriptions to, less repayments of, government and municipal loans amounting to £17 million (compared with £10 million in 1960). Investment in a new loan issued by the New Zealand Government totalled £17 million and the surplus of subscriptions to Australian government loans over repayments amounted to some £2 million; there were minor net repayments by other overseas sterling countries. New investment in and repayment by non-sterling countries were roughly in balance with net acquisitions of U.S. securities again small at £5 million (1960, £2 million).

“Other capital transactions” consisted of sales, less purchases, of government and municipal loans amounting to £16 million (1960, £17 million) and of company securities

totalling £53 million (1960, £42 million). As in 1960, net sales of government and municipal loans issued by overseas sterling countries amounted to £11 million (African securities £5 million); sales of similar loans of non-sterling countries totalled £5 million (Japanese, £3 million). The figures include net sales of South African securities for £16 million in the first half of the year, compared with £22 million for the whole of 1960. South Africa imposed restrictions on the withdrawal of capital in mid-June 1961 and during the second half of the year there were net purchases of South African securities amounting to £3 million. Outstanding among transactions in company securities of non-sterling countries were substantial net sales, mainly in the second half of the year, of Canadian securities (£31 million, compared with £16 million in 1960).

Table II: Interest and Dividends

£ millions

	Total			Overseas sterling countries			Non-sterling countries		
	1959	1960	1961	1959	1960	1961	1959	1960	1961
Government and municipal loans ...	25.6	26.3	26.7	21.8	22.3	22.8	3.8	4.0	3.9
Companies: Loan interest	6.6	5.9	6.2	1.8	1.4	1.6	4.8	4.5	4.6
Share dividends	63.4	70.6	71.1	24.1	30.6	31.1	39.3	40.0	40.0
Total	70.0	76.5	77.3	25.9	32.0	32.7	44.1	44.5	44.6
Total	<u>95.6</u>	<u>102.8</u>	<u>104.0</u>	<u>47.7</u>	<u>54.3</u>	<u>55.5</u>	<u>47.9</u>	<u>48.5</u>	<u>48.5</u>

Interest on holdings of overseas sterling area government and municipal loans rose slightly owing to higher receipts from Australia, partly offset by lower receipts from African countries. The total included £10.5 million from Australia (1960, £9.7 million), £3.5 million from Rhodesia and Nyasaland and £3.4 million from New Zealand. Owing to slightly higher dividend rates, income from South African companies at £18.9 million was more than maintained in spite of recent falls in holdings. Receipts from Rhodesian mining

companies fell from £8.4 million in 1960 to £8.0 million, rates of dividend received being on balance slightly lower. With little change in holdings or, over the year as a whole, in rates of distribution, income from U.S. companies was unaltered at £25.3 million. Receipts from Canadian company securities (£14.2 million, compared with £14.6 million in 1960) showed only a small reduction, the effect of heavy sales in the last half of the year being largely offset by slightly higher dividend rates.