

## MEDIUM AND LONG-TERM CREDIT GRANTED BY U.K. EXPORTERS TO COUNTRIES OUTSIDE THE STERLING AREA

The strong and sustained demand for capital throughout the world since the war has reflected a high and rising level of economic activity in more developed countries and, to an increasing extent, the rapid economic development of less developed countries. Many countries in the latter group, both inside and outside the Commonwealth, must look outside their own borders both for the capital goods they want and for the long-term finance needed to pay for them. The finance available on long term from international capital markets has not been enough to meet this need, being limited by domestic demands, by considerations of exchange stability in the lending countries and by political uncertainties, even if there is confidence in the borrowing country's ability to pay. Substantial amounts of foreign aid, and of direct investment, have helped: but importers have also been looking increasingly to exporters to grant extended payment terms.

The United Kingdom has sought to ensure that its exporters, whether trading with less developed countries or with other countries, are no less able to grant such credit than are their foreign competitors. The Export Credits Guarantee Department has extended and cheapened its services; in February 1961 the Bank of England introduced a re-finance facility to banks for medium-term export credit; and, early last year, a number of banks and insurance companies agreed to provide credit facilities at fixed rates of interest.<sup>(a)</sup>

It is not possible to estimate the total amount of credit granted by U.K. exporters to overseas importers, because there are no restrictions on the amount of credit which may be extended to importers in the overseas sterling area, and no statistics of such credit. Under present Exchange Control regulations,

however, the permission of the Bank of England acting on behalf of H.M. Treasury is normally required if goods are to be exported to countries outside the sterling area on credit terms in excess of six months from the date of shipment. Exporters are subsequently required to submit periodical statements reconciling the value of goods shipped on credit with the payments received under contracts for which Exchange Control authorisation has been granted. From these authorisations and statements it is possible to obtain estimates of the amounts of credit outstanding,<sup>(b)</sup> and to analyse these credits both by term and by importing area.

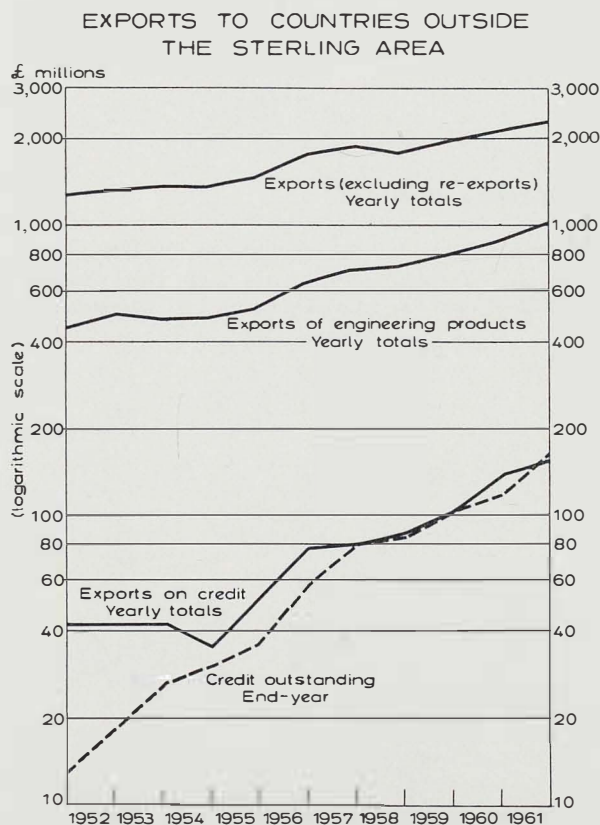
The rest of this article examines these estimates, which have not previously been published. The information relates to about 400 of the larger exporting firms. The exports concerned are mainly capital goods, including all forms of machinery, railway and road vehicles, ships and aircraft; together these goods account for nearly half of all U.K. exports to countries outside the sterling area. The terms depend on the size of the order but are usually for periods up to three years for goods such as commercial vehicles or machine tools, up to five years for capital goods in general, and even longer for large capital projects, such as steel plants or power stations. The estimates exclude exports financed by U.K. government assistance, for example, loans under Section 3 of the Export Guarantees Act, 1949, and finance provided by non-territorial organisations to which the U.K. Government subscribe, for example, the International Development Association and the International Bank for Reconstruction and Development. Advances granted by U.K. banks direct to foreign importers are also excluded, as are arrears in payments originally due within six

<sup>(a)</sup> *Bank of England Quarterly Bulletins*: March 1961 for "Re-financing of medium-term export credits", June 1961 and March 1962 for "Finance for exports".

<sup>(b)</sup> Calculated by taking the total value of goods shipped under authorised contracts and deducting the total of payments received.

months of shipment, and settlements over inter-company accounts for exports to parent or subsidiary companies.

Over the last ten years total exports to countries outside the sterling area, exports of engineering products,<sup>(a)</sup> exports on authorised credit (as defined above) and the total of such credit outstanding at the end of each year have all risen sharply. The following chart illustrates this trend, and also shows that the rate of growth of credit given has been faster than the growth of exports themselves.



The statistics for 1961 shown in the chart are further analysed by areas in the table at the end of this article. The table shows that a little over one-third of total exports on credit during 1961 were to North America and Western Europe; Latin America took about one-quarter; and other countries outside the sterling area, includ-

ing both developed and less developed countries, a little over one-third also. The credit outstanding at the end of 1961 was divided in rather different proportions, North America and Western Europe together accounting for less than one-third, and Latin America and other countries outside the sterling area for rather over one-third each. The share of these last two groups appears even higher when related to total U.K. exports of engineering products to the various areas of the world during 1961.

The sharp increase since 1952 in the total of authorised credit outstanding to all countries outside the sterling area has been due in part to the rise in exports covered and in part to a lengthening of terms of repayment. An indication of the credit terms currently being extended to foreign importers is provided by the following analysis of authorisations granted during 1962.<sup>(b)</sup> These totalled £135 million, divided as follows:

	<i>Percentages of total</i>
Over six months but not exceeding 1 year	8
Over 1 year but not exceeding 2 years	14
Over 2 years " " " 3 years	11 33
Over 3 years " " " 4 years	7
Over 4 years " " " 5 years	39 46
Over 5 years " " " 6 years	2
Over 6 years " " " 7 years	10
Over 7 years " " " 8 years	2
Over 8 years ... ..	7 21
	100

The average length of the above credits is 4.5 years. During the second half of 1961 the average length of credit granted was 4.1 years. Credit terms have clearly lengthened during the last decade. They are, at the least, unlikely to shorten while the present highly competitive conditions in export markets persist. If they remain unchanged, and if exports

(a) As listed under Class D, divisions 15-19, of the Trade and Navigation Accounts of the United Kingdom, covering all forms of machinery, railway and road vehicles, ships and aircraft.

(b) Length of credit has been calculated from date of shipment (or first shipment where there are more than one) to due date of final payment.

of capital goods continue to rise, the total level of credit outstanding may well exceed £250 million by the end of 1965.

This analysis has been concerned solely with the trends of export credit granted to importers outside the sterling area. Although comparable figures for the sterling area are not available there is little doubt that the same trends apply. Within their limitations, the figures demonstrate the growing volume and lengthening terms of export credit granted by the United Kingdom. The situation is not one which is confined to the United Kingdom; it is true in greater or less degree of all industrialised countries. This has implications both

for the developing countries and for the capital-exporting countries. Some of the developing countries have already shown signs of building up a dangerously heavy burden of medium-term debt and there are fears that others may encounter similar difficulties. Lengthening credit terms, of course, result in increasing delays in the receipt of export proceeds with consequent repercussions on the reserve positions of the main exporting countries. It is not, however, the purpose of this article to discuss these wider problems, which are likely to require a large degree of international co-operation if satisfactory solutions are to be found.

#### DISTRIBUTION OF CREDIT : 1961

£ millions

	Exports (excluding re-exports)	Exports of engineering products <sup>(a)</sup>	Col. 2 as % of Col. 1	Exports on credit	Col. 4 as % of Col. 1	Col. 4 as % of Col. 2	Credit out- standing at end-year
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
North America ... ..	505	215	43	18	4	8	21
Latin America ... ..	167	89	53	40	24	45	56
Western Europe ... ..	1,192	505	42	41	3	8	30
E.E.C. ... ..	613	259	42	14	2	5	7
E.F.T.A. ... ..	431	169	39	13	3	8	5
Other ... ..	148	77	52	14	9	18	18
Other countries outside the sterling area ... ..	417	196	47	58	14	30	56
TOTAL ... ..	<u>2,281</u>	<u>1,005</u>	44	<u>157</u>	7	16	<u>163</u>

<sup>(a)</sup> As listed under Class D, divisions 15-19, of the Trade and Navigation Accounts of the United Kingdom.