

NEW SERIES OF EXTERNAL LIABILITIES AND CLAIMS IN STERLING

The existing series of Overseas Sterling Holdings (see Table 20 of the Statistical Annex) is being replaced by a new series entitled "External Liabilities and Claims in Sterling". This article introduces the new series, at the same time describing the old one and explaining the differences between the two. Figures in the new series will be published as at the end of each calendar quarter; the first figures, for December 1962 and March 1963, are given in tables at the end of this article with details of area, type of holder, and type of liability and claim.

In compiling the new series the objective has been to obtain totals of sterling funds held by overseas residents mainly as provision for making international payments; that is to say it aims at including the rest of the world's sterling reserves, working balances and other liquid assets, but not longer-term investments. These funds represent the greater part of the United Kingdom's short-term overseas indebtedness, and movements in them are a very important component of the U.K. balance of payments. The figures throw light on the inflow and outflow of short-term money, especially when details of the types of funds involved are available. The new series has been designed to serve these purposes more precisely and completely than the old series. To this end, an analysis of sterling funds by types is now being obtained, and the offsetting of claims against liabilities in the returns has been eliminated, while certain holdings of British government and government guaranteed stocks which seem better regarded as longer-term investment have been excluded. Another important change is that an attempt has been made to make the new series more comprehensive, by lengthening the list of banking offices which contribute returns.

The definitions of the new series are designed to dovetail with those of a number of other

enquiries into balance of payments and domestic financial statistics at present being carried out by the Central Statistical Office, the Board of Trade and the Bank of England.

Historical background

Statistics relating to overseas holdings of sterling originated over thirty years ago when the Bank of England, at the request of the Committee on Finance and Industry (the "Macmillan" Committee), collected information on liabilities and assets on overseas account from their own Banking Department, and from the London clearing banks, Scottish banks and accepting houses. The figures were published in the Committee's report in 1931. The Committee recommended that the series be continued, and, on undertaking the task, the Bank of England requested some additional banks to report. Regular half-yearly publication of the figures began in 1949 in the United Kingdom Balance of Payments White Papers. In September 1951 half-yearly figures going back to 1931 appeared in a White Paper (Cmd. 8354) entitled "Reserves and Liabilities, 1931-45". Quarterly publication, with figures from end-1953, began in May 1958, with an explanatory article in *Economic Trends*, and a table giving quarterly figures from end-1945 was published in the Bank of England's *Annual Report* of 1960. Current figures appear each quarter in *Economic Trends*, *Monthly Digest of Statistics* and *Financial Statistics* as well as in this *Bulletin*. The series was broken twice between 1931 and 1962; as from 1941 liabilities and assets in currencies of countries outside the sterling area were excluded, and as from 1945 sterling loans to H.M. Government.

The old series

Over 150 banks and other financial institutions in the United Kingdom contributed to the earlier series of Overseas Sterling Holdings.^(a)

^(a) Returning institutions consisted of the London clearing banks, the Scottish banks, members of the Northern Ireland Bankers' Association, the British Bankers' Association, the Accepting Houses Committee, the London Discount Market Association, the British Overseas Banks Association, and the Foreign Banks and Affiliates Association, the American Banks in London, the Japanese Banks in London, and some other banks and financial institutions holding substantial funds for overseas residents.

The data consisted of U.K. liabilities to, and claims on, overseas residents in both sterling and sterling area currencies, comprising, on the one hand, current and deposit accounts, Treasury Bills, commercial bills drawn on, and promissory notes made by, U.K. residents, and British government and government guaranteed stocks when held for overseas banks or official bodies, but not for persons or firms; and, on the other hand, advances to overseas residents, overdrafts, and commercial bills drawn by, and promissory notes in favour of, U.K. residents. Bills and stocks were recorded at nominal value. This information was reported for a number of countries separately under three headings:—

- (i) **Net** liabilities to, or claims on, the reporting institution's own overseas offices or branches (U.K. branches of foreign banks and overseas branches of U.K. banks being treated as resident and non-resident respectively);
- (ii) gross liabilities of the reporting institution and its U.K. customers to other overseas residents; and
- (iii) gross claims of the reporting institution and its U.K. customers on other overseas residents.

Residence was determined as for the purposes of the Exchange Control Act, 1947, or, where no exchange control designation applied, the registered address of a company and the permanent domicile of other account holders were used. Accounts of diplomatic representatives were classified according to the country represented, and those of agents or agencies according to the domicile of the principal.

To the composite total of the figures provided by the banks were added similar funds held at the Bank of England (mainly for overseas central banks) and those held by the

Crown Agents for Oversea Governments and Administrations.^(a) Information received from various overseas official bodies was also included in the series.^(b) Reporting institutions also gave figures of acceptances outstanding under acceptance credit facilities granted by U.K. banks to their overseas customers; these did not form an integral part of the series and were published separately (see page 165 of the Statistical Annex). Funds of international organisations were included in the series; they consisted largely of non-interest-bearing notes, most of which were held for the International Monetary Fund, and arose mainly through U.K. subscriptions to the Fund and purchases of foreign currencies from the Fund. Other international organisations which held substantial sterling funds included the International Bank for Reconstruction and Development and the International Development Association.

Direct investment by banks was excluded from the old series. This information was, and still is, collected in a separate survey, and forms part of the long-term capital account in the balance of payments. Also excluded were the contingent liabilities and claims arising out of banking facilities agreed but not yet used.

The new series

Over 170 banks and other financial institutions—some twenty more than hitherto—are currently making new returns to the Bank of England. Moreover, reporting institutions have widened their branch coverage so that no important accounts are omitted, and so that the figures also include the external sterling liabilities and claims, within the definitions of the series, of their nominee companies (which are usually subsidiaries of the banks).

The types of sterling liabilities and claims which make up the new series are basically the

^(a) Funds held with the Crown Agents comprise:—

- (i) Special Funds: funds of governments and other public bodies held under statute or earmarked for special purposes, such as sinking, savings banks', renewal and pension funds.
- (ii) General Funds: other funds of such bodies, such as general revenue balances and invested surplus and general purpose reserve funds.
- (iii) Note Security Funds: funds earmarked as sterling backing for local currency issues.

^(b) Trust, pension and special reserve funds of overseas governments, and funds of currency boards, marketing boards, etc.

same as those in the old, but they are now being reported, by countries, under the following headings:—

Liabilities: Current and deposit accounts.

U.K. Treasury Bills.

Commercial bills and promissory notes: bills of exchange (sight and usance), including cheques for collection, and documents drawn on, and promissory notes made by, U.K. residents and lodged on account of overseas residents, where the proceeds have still to be received.

British government and government guaranteed stocks held for banks and central monetary institutions overseas, but not for other holders: at nominal value and excluding issues by overseas public authorities guaranteed by the U.K. Government.

Claims: Advances and overdrafts.

Commercial bills and promissory notes: bills of exchange (sight and usance), documents drawn on, and promissory notes made by, overseas residents held for a U.K. resident where the proceeds have still to be received.

Acceptances outstanding.

Overseas residents are defined as overseas governments (including their diplomatic representatives in the United Kingdom) and public authorities, persons, companies and other bodies whose permanent or registered address is outside the United Kingdom. This includes overseas branches of U.K.-registered companies, overseas residents using a U.K. bank as an accommodation address, and agents or agencies located in the United Kingdom acting on behalf of, or for the account of, overseas residents. U.K. residents are defined as U.K. public authorities, persons, companies and

other bodies whose permanent or registered address is in the United Kingdom. This includes branches located within the United Kingdom of overseas-registered companies, agents or agencies located abroad acting on behalf of or for the account of U.K. residents, and U.K. diplomatic and military representatives overseas. These definitions are, therefore, virtually the same as those used in the old series.

In the new series comprehensive totals of gross liabilities and claims are now available. The old series was published net because liabilities to, and claims on, overseas offices and branches of returning institutions were reported net, and gross figures were available only for other liabilities and claims.

The new series, unlike the old, contains only funds payable in sterling. Thus liabilities and claims in currencies of countries within the overseas sterling area, estimated at £80 million net liabilities at end-December 1962, which were included indistinguishably in the old series, are now omitted. Two further new features of the External Liabilities and Claims series are the inclusion of acceptances outstanding as a U.K. claim on overseas residents, and also of sterling blocked under the Exchange Control Act, 1947.^(a) This sterling, which largely results from sales of securities, is thought to have been small in total at the end of 1962.

Funds at the Bank of England are, as in the old series, added to the composite totals of the banks' returns together with those funds held with the Crown Agents which fall within the scope of the series. Funds of international organisations are still included, while direct investment by banks and contingent liabilities and claims resulting out of unused banking facilities continue to be excluded.

In the new series, the treatment of overseas holdings of British government and government guaranteed stocks has been changed. The intention is to exclude all those not held specifically for banking or central monetary purposes; thus only holdings of banks, central banks and other central monetary institutions,

^(a) Sections 32 and 40.

and the Note Security and General Funds of the Crown Agents are included, whereas the old series contained, besides the holdings of banks and central banks, all the holdings of the Crown Agents and of other official bodies.^(a) The new series, like the old, excludes stocks held by persons and firms. Holdings of British government and government guaranteed stocks which were included in the old series, but therefore fall outside the range of the new series, are those in the Special Funds of the Crown Agents (£134 million at end-December 1962), and those of other official bodies (£63 million). These figures will be amalgamated with other details of private investment being collected by other official enquiries, and changes in them will be recorded as portfolio investment in the long-term capital account in the balance of payments.

In conformity with the definitions used, overseas investments in U.K. local authorities, which have hitherto been included exceptionally in the reported totals of funds held with the Crown Agents, are now excluded from the new series. These amounted to £110 million at end-December 1962. This and other information on overseas investments in U.K. local authorities are the subject of surveys made by the Central Statistical Office, and changes in the figures will, for balance of payments purposes, be included in long-term capital (mortgages and stocks) and in miscellaneous capital (temporary deposits).

Finally, there has been a change in the classification of funds by type of holder. The new series is divided into central monetary institutions and other holders. Funds of central monetary institutions are the holdings, including British government and government guaranteed stocks, of central banks, currency boards, the General and Note Security Funds of the Crown Agents, the Bank for International Settlements and of a few known accounts which are used for central monetary purposes. The official category in the old series covered a wider range in so far as it contained all funds with the Crown Agents and various official accounts^(a) as well as those of central monetary

institutions, but was at the same time narrower in that it excluded funds held by central monetary institutions with commercial banks in the United Kingdom. These were previously included indistinguishably in the funds reported by commercial banks, but, as a result of the more detailed information available from the new returns, have now been separately identified. They amounted to £114 million net liabilities at end-December 1962. Also reclassified are deposits and Treasury Bills in the Crown Agents' Special Funds. These amounted to £14 million net liabilities at end-December 1962 and, as stated above, are not considered to be held specifically for banking or central monetary purposes. They are therefore now transferred from the old official category to the "other" category in the new series.

As in the old series, the figures cover short-term sterling liabilities to, and claims on, overseas residents as reported by the U.K. banking system in the broadest sense, including the Crown Agents. Other such liabilities and claims are not included, in particular money deposited directly by overseas residents with U.K. local authorities and finance houses, which at end-December 1962 is estimated to have amounted to some £175 million, of which about £100 million originated from the overseas sterling area. These funds are the subject of separate enquiries being undertaken by the Central Statistical Office and the Board of Trade. Sterling funds deposited by overseas residents with U.K. banks and employed by the banks with local authorities and finance houses, etc., are included as deposit liabilities of the banks in both the old and the new series.

A comparison of the new and the old series for end-December 1962 is given on page 102, followed by a reconciliation, as at the same date, of the net liability shown by the old series with that shown by the new series. The very close agreement of the net figures derived from both series as shown in the reconciliation table is coincidental. It indicates that the additional liabilities revealed as a result of increasing the list of reporting institutions and the wider coverage of branches have been offset by a similar amount of newly reported claims.

^(a) See footnotes (a) and (b) on page 99.

COMPARISON

£ millions

End-December 1962

	Grand total	Central monetary institutions	International organisations	Others	Overseas sterling countries			Non-sterling countries		
					Total	Central monetary institutions	Others	Total	Central monetary institutions	Others
A. New series										
Liabilities ...	4,379	2,242	606	1,531	2,633	1,780	853	1,140	462	678
Claims ...	836	39	—	797	339	21	318	497	18	479
Net liabilities	3,543	2,203	606	734	2,294	1,759	535	643	444	199
B. Old series		Central bank and other official holders				Central bank and other official holders			Central bank and other official holders	
Net liabilities	4,106	2,431	605	1,070	2,675	2,056	619	826	375	451

RECONCILIATION

£ millions

End-December 1962

	Total	Central bank and other official holders, including international organisations	Others
Old series (net liabilities)	4,106	3,036	1,070
Acceptances outstanding (an asset previously omitted)	-166	—	-166
Sterling area currencies (estimated net liability) ...	-80	—	-80
British government and government guaranteed stocks in Crown Agents' Special Funds	-134	-134	—
British government and government guaranteed stocks held by other official bodies	-63	-63	—
Crown Agents' investments in U.K. local authorities	-110	-110	—
TOTAL CHANGES DUE TO RE-DEFINITION	-553	-307	-246
Funds of central monetary institutions (net liability) held with U.K. commercial banks (now separately identified)	—	+114	-114
Other funds in Crown Agents' Special Funds (net liability)	—	-14	+14
Other official funds reclassified	—	-16	+16
TOTAL RECLASSIFIED FUNDS	—	+84	-84
Old series adjusted (net liabilities)	3,553	2,813	740
		Central monetary institutions and international organisations	
New series (net liabilities)	3,543	2,809	734

The new series is already providing much useful information and its value will increase when underlying trends in the figures can be related to movements in the large number of other items which go to make up the balance of payments. Of particular immediate interest is the analysis by type of liability and claim given in Table B. This reveals that of total liabilities in sterling to all countries at the end of March 1963 of £3,737 million, 40% was in the form of current and deposit accounts, 26% in U.K. Treasury Bills and 32% in British government and government guaranteed stocks. Variations between the types of holdings by central monetary institutions and other

holders are also significant. For instance, the figures show that 89% of the liabilities to central monetary institutions were in the form of government debt, roughly equally divided between Treasury Bills and government stocks, whereas the liabilities to other holders were preponderantly (83%) in the form of sterling held on current and deposit accounts.

The collection of information for the new series has undoubtedly placed a much heavier burden of work on the institutions which assist by making returns; the Bank of England take this opportunity of acknowledging their co-operation.

The new tables appear overleaf.

U.K. EXTERNAL LIABILITIES AND CLAIMS IN STERLING

A. By area and type of holder

£ millions

	Grand Total	Central monetary institutions	International organisations	Others	Overseas sterling countries			Non-sterling countries		
					Total	Central monetary institutions	Others	Total	Central monetary institutions	Others
End of period										
1962 December										
Liabilities	4,379	2,242	606	1,531	2,633	1,780	853	1,140	462	678
Claims	836	39	—	797	339	21	318	497	18	479
Net liabilities ...	3,543	2,203	606	734	2,294	1,759	535	643	444	199
1963 March										
Liabilities	4,345	2,227	608	1,510	2,711	1,815	896	1,026	412	614
Claims	892	31	—	861	371	14	357	521	17	504
Net liabilities ...	3,453	2,196	608	649	2,340	1,801	539	505	395	110

Non-sterling countries

	North America		Latin America		Western Europe		Other non-sterling countries	
	Central monetary institutions	Others	Central monetary institutions	Others	Central monetary institutions	Others	Central monetary institutions	Others
1962 December								
Liabilities	4	103	7	31	226	407	225	137
Claims	—	28	4	94	—	146	14	211
Net liabilities ...	4	75	3	—63	226	261	211	— 74
1963 March								
Liabilities	11	89	7	29	147	368	247	128
Claims	—	35	4	93	1	165	12	211
Net liabilities ...	11	54	3	—64	146	203	235	— 83

B. By type of liability and claim

£ millions

	U.K. liabilities					U.K. claims			
	Current and deposit accounts	U.K. Treasury Bills	Commercial bills and promissory notes	British government and government guaranteed stocks	Total	Advances and overdrafts	Commercial bills and promissory notes	Acceptances	Total
End of period									
1962 December									
Overseas sterling countries	823	663	32	1,115	2,633	228	83	28	339
Non-sterling countries	690	352	34	64	1,140	109	239	149	497
Total countries ...	1,513	1,015	66	1,179	3,773	337	322	177	836
of which									
Central monetary institutions ...	258	944	—	1,040	2,242	39	—	—	39
Others	1,255	71	66	139	1,531	298	322	177	797
International organisations	13	590 ^(a)	—	3	606	—	—	—	—
Total	1,526	1,605 ^(a)	66	1,182	4,379	337	322	177	836
1963 March									
Overseas sterling countries	878	683	29	1,121	2,711	262	82	27	371
Non-sterling countries	631	300	33	62	1,026	116	251	154	521
Total countries ...	1,509	983	62	1,183	3,737	378	333	181	892
of which									
Central monetary institutions ...	256	932	—	1,039	2,227	31	—	—	31
Others	1,253	51	62	144	1,510	347	333	181	861
International organisations	18	587 ^(a)	—	3	608	—	—	—	—
Total	1,527	1,570 ^(a)	62	1,186	4,345	378	333	181	892

^(a) Includes non-interest-bearing notes: 1962 December 535.
1963 March 532.