

AN INVENTORY OF U.K. EXTERNAL ASSETS AND LIABILITIES : END-1962

The Radcliffe Committee on the Working of the Monetary System recognised that a comprehensive census of U.K. external assets and liabilities would be a most formidable undertaking.^(a) Recently the Board of Trade have published estimates of U.K. direct investments abroad and of similar overseas investments in the United Kingdom which have gone far to fill one of the main gaps in the knowledge of the long-term capital position. Fresh information has also become available for short-term assets and liabilities in sterling and foreign currencies, for the liabilities to overseas residents of hire purchase finance houses and local authorities, and for outward and inward portfolio investment. It is therefore now possible to present a fuller picture than before of the United Kingdom's external assets and liabilities. This article assembles the information available for the end of 1962 and indicates the gaps and limitations which remain.

If the data are to be brought together in a systematic way, it is unavoidable that the presentation should have some aspects of a balance-sheet. It will be seen on closer inspection, however, that the various elements are so fundamentally different in kind and in methods of valuation that to add them together and strike a balance produces a figure which is neither coherent nor complete. Far more important than the apparent net creditor (or debtor) position are the net income derived from U.K. investments abroad and foreign investments in the United Kingdom and the capital flows arising from changes in such investments outstanding; and indeed, this is why, since 1945, official statistics relating to the capital account have been mainly directed to estimating capital flows and net income for balance of payments purposes.

Moreover, the relative liquidity of certain groups of assets and liabilities is much more important than overall totals. It should also be appreciated that the table at the end of the article which summarises the information

is not a statement of uniformly realisable amounts. Some of both the assets and liabilities shown could be realised only with the greatest difficulty and sacrifice of value, if at all. The table, it is true, attempts to categorize assets and liabilities according to broad degrees of liquidity, but the many limitations on the accuracy of this classification are indicated in the text. It should further be recognised that the estimates available are often seriously incomplete or very precarious.

External assets and liabilities are classified as "short-term" or "long-term" according to the usage in the U.K. balance of payments. In general, obligations with an original maturity date of one year or less are classified as short-term; and those with an original maturity date of more than one year as long-term. This distinction is necessarily often arbitrary. To a debtor, it is normally the contractual term of his debt which decides whether he counts it as short-term or long-term. In relation to the balance of payments, however, the liquidity of an asset or liability and the intention of the holder may well be more relevant. Thus, while original maturity is useful as a general criterion, it is neither universally satisfactory nor invariably applied.

A division is also made between "official" and "private" assets and liabilities. In accordance with International Monetary Fund practice, U.K. external assets are so classified according to the status of the domestic creditor, and liabilities according to that of the domestic debtor. "Official" comprises H.M. Government and its institutions, local and other public authorities, the Crown Agents for Oversea Governments and Administrations and the Bank of England; "private", all other corporate bodies, unincorporated businesses and individuals.

The United Kingdom's position vis-à-vis the International Monetary Fund could be treated in a number of different ways. It has been found convenient in this article to show it separately.

^(a) Cmnd. 827, August 1959, paragraph 848.

It is therefore shown under neither "short-term" nor "long-term", but is described briefly after "long-term liabilities".

Short-term assets and liabilities are recorded at face (or nominal) value; long-term assets and liabilities at varying valuations as explained below.

SHORT-TERM ASSETS AND LIABILITIES

Short-term assets U.K. external assets classed as "short-term" are those held in relatively liquid form. They include (by convention) holdings of gold as well as specific financial claims on overseas residents in foreign currencies and in sterling.

Official. These consist primarily of the gold and convertible currency holdings of the Exchange Equalisation Account. They amounted at the end of 1962 to £1,002 million, of which £922 million was in gold and £80 million in foreign currencies. Official holdings of non-convertible currencies and other official holdings of convertible currencies were small enough to be ignored, as were official claims in sterling.

Private. Short-term assets of the U.K. private sector comprise, in the main, the external claims on non-residents, both in sterling and in foreign currencies, reported by banks and other financial institutions to the Bank of England. Quarterly statistics of sterling claims are published in the series "United Kingdom External Liabilities and Claims in Sterling".^(a) At the end of 1962 sterling claims amounted to £846 million, consisting largely of claims by U.K. commercial banks. While predominantly short-term, they also contain an unknown amount in respect of medium and long-term commercial credit.

Short-term banking claims in foreign currencies totalled £1,058 million at the end of 1962; £1,010 million represented claims in non-sterling currencies and £48 million claims in overseas sterling area currencies.^(b) In the main, the assets denominated in non-sterling

currencies represent Euro-dollars on-lent by U.K. banks, which are offset by a more or less equivalent currency deposit liability under U.K. short-term liabilities. They consist otherwise of working balances of U.K. banks, taking into account also any foreign currency balances held by them on behalf of other U.K. residents. U.K. residents also hold working balances directly with banks abroad; such balances in non-sterling currencies amounted to roughly £200 million at the end of 1962, held mainly by insurance and oil interests; no estimate is available for similar working balances in overseas sterling area currencies.

The above private short-term assets, as shown in the table at the end of the article, total £2,104 million. This figure is a minimum because it covers identified assets only. Commercial credit extended to overseas residents is taken into account here only if it is represented by bills and promissory notes held by, or lodged with, banks. Short-term credit afforded by U.K. companies to their affiliates abroad, or by U.K. affiliates of overseas companies to their parent concerns, is indistinguishably included in the figures for direct investments quoted later. Suppliers' credit not covered in these two ways, such as some 'open account' and 'on consignment' facilities, are nowhere included, because no statistics are yet available. The total must, however, be large.

The aggregate of official and identified private short-term assets amounted to £3,106 million.

Short-term liabilities *Official.* The greater part of the United Kingdom's official "short-term" liabilities is represented by sterling liabilities in the form of Treasury Bills (including non-interest-bearing notes) held for overseas residents (£1,095 million, excluding non-interest-bearing notes held by the I.M.F.); and by British government stocks held by overseas banks, central monetary institutions and international organisations (£1,183 million)^(c) with the U.K. banking system. In

^(a) See Table 23 of the Statistical Annex. Articles on this series may be found in the June and December 1963 issues of this *Bulletin*.

^(b) It is proposed to publish a fuller account of U.K. banks' claims (and liabilities) in foreign currencies in a future issue of this *Bulletin*.

^(c) See Table 23 of the Statistical Annex.

addition, the Bank of England and the Crown Agents had overseas current and deposit account liabilities (excluding I.M.F. holdings) amounting to £113 million. The British government stocks are of various maturity dates^(a) and are not, in the main, short-term liabilities so far as the U.K. Government itself is concerned. Nevertheless, they are classified exceptionally as short-term, because they are owned by banks and central monetary institutions overseas and apparently held as freely marketable assets for banking and central monetary purposes; that is, as provision for making international payments rather than for longer-term investment.

Although comprehensive statistics of overseas short-term borrowing in sterling by U.K. local government authorities are not available, it is known that temporary deposits and loans made by overseas residents for their own account, whether directly or through banks in the United Kingdom, or their nominee companies, or some other agencies, amounted to £71 million. Overseas funds deposited with banks in the United Kingdom and on-lent by the banks on their own behalf to local authorities are not included; they form part of the U.K. commercial banking liabilities to overseas residents referred to in the section on private short-term liabilities below.

Official short-term liabilities in currencies other than sterling have been significant only when the United Kingdom has availed itself of certain forms of assistance from overseas monetary authorities. There was none outstanding at the end of 1962.

As shown in the table, official short-term liabilities (excluding those to the I.M.F.) at the end of 1962 totalled £2,462 million.

Private. Private short-term liabilities to overseas residents mainly comprise the liabilities in sterling and foreign currencies of the U.K. commercial banking system. At the end of 1962 such liabilities in sterling, as reported to the Bank of England, amounted to £1,475 million, a large part of which represented the working balances of overseas commercial firms and banks. The figure also includes com-

mercial bills and promissory notes (£66 million) denominated in sterling and held by the banks in favour of overseas residents.

Another form of short-term external liability in sterling arises from overseas borrowing by hire purchase finance houses. Claims by overseas residents on their own account, whether direct^(b) or through U.K. bank nominees, totalled £105 million and were distributed roughly equally between overseas sterling countries and non-sterling countries. Overseas funds deposited with banks in the United Kingdom and on-lent by the banks on their own behalf to hire purchase finance houses are listed as overseas liabilities of the commercial banking system.

The short-term liabilities in foreign currencies of the commercial banking system are also considerable. In total they amounted to £1,158 million, of which £1,038 million represented liabilities in non-sterling currencies and £120 million liabilities in overseas sterling area currencies. The former consisted largely of overseas deposits of Euro-dollars whose counterpart was mentioned earlier in the section dealing with private short-term assets. The liabilities in sterling area currencies are largely inter-bank working balances.

In total the above private short-term liabilities, as shown in the table, amounted to £2,738 million; but this, like the corresponding estimate of assets, is a minimum figure. For instance, overseas funds of a short-term nature are likely to be held with certain agencies which do not make returns to the Bank, such as stockbrokers and solicitors. Furthermore, the amount of outstanding short-term trade credit extended by non-residents to U.K. residents would be substantially in excess of the figure of £66 million recorded for bills and promissory notes held with U.K. banks, just as trade credit extended to overseas residents was understated in the section on U.K. short-term assets. It is clear, nevertheless, that the U.K. liability on this account is much smaller than the corresponding U.K. asset.

Official and identified private external short-term liabilities together amounted to £5,200 million.

^(a) See the article "Overseas Sterling Holdings" in the December 1963 issue of this *Bulletin*, page 269.

^(b) Figures of direct borrowing by hire purchase finance houses are published in the *Board of Trade Journal* and *Financial Statistics*.

LONG-TERM ASSETS AND LIABILITIES

While more is now known about the size of the external assets and liabilities of the United Kingdom classed generally as long-term, much of the information is less precise than that for short-term items, partly because this investment is more widely dispersed and partly because of the difficulties of valuation; thus many of the figures which follow, both in the text and in the table, have been freely rounded. While short-term assets and liabilities can be consistently valued throughout at face or nominal value, long-term investments consist not only of financial claims but also of various kinds of physical assets such as factories, plant, land and mineral rights, and are so heterogeneous that no single standard of measurement is either appropriate or practicable.

Long-term assets *Official.* Owing to the increase in recent years in U.K. government aid to developing countries, mainly those in the Commonwealth, inter-government loans formed the largest item among official external long-term claims at the end of 1962. The total of such loans outstanding was £398 million^(a) and included sterling loans of £266 million to governments of overseas sterling area countries. Amounts owed by countries outside the sterling area were mostly in respect of advances by H.M. Government to allied governments during the last war. Other official lending, which includes investments of the Commonwealth Development Corporation (£92 million) and the United Kingdom Atomic Energy Authority, amounted to about £145 million (£100 million to overseas sterling area countries). In addition, the value of official subscriptions to, and shareholdings in, international financial organisations (excluding the I.M.F.) totalled some £141 million. Of this amount the U.K. subscription to the International Bank for Reconstruction and Development accounted for £93 million; that to the International Development Association £29 million; and that to the International Finance Corporation £5 million.

These official external assets are mainly claims in sterling, but H.M. Government also holds an important portfolio of foreign currency securities. They are largely U.S. dollar securities whose market value fluctuates considerably; their value at the end of 1962 was given as between \$750 million and \$1,250 million (£268-£446 million).^(b) Using the mean figure, and adding to it the holdings of Suez Finance Company capital shares and bonds (valued at about £27 million) the total of official portfolio investments comes to nearly £385 million.

H.M. Government also owns real estate overseas, such as embassy buildings and military installations. These are disregarded here (as are comparable assets of foreign governments under U.K. long-term liabilities).

It will be seen from the table that the figures of official long-term assets mentioned above totalled £1,069 million.

Private : portfolio investments. The United Kingdom is traditionally a large exporter of private long-term capital, mainly to sterling area and North American countries. The greater part of the outflow now consists of direct investment abroad by U.K. companies, but the outstanding amount of private sector portfolio holdings is still very considerable. U.K. portfolio investments overseas comprise the holdings of U.K. residents (including companies) in overseas government and municipal loans and in securities of companies incorporated abroad, but not direct investments by U.K. companies in their overseas subsidiaries or associates. It is a usual, but not universal, practice to measure portfolio investments by their market value. The Bank of England's survey of U.K. overseas portfolio investments^(c) is compiled mainly for measuring capital flows but also yields estimates of the approximate nominal value of a large part of total U.K. portfolio holdings. The sources used do not permit conversion to market value to be undertaken stock by stock over the whole field, but the total market value of the securities covered by the Bank's survey (excluding the official portfolio referred to above) is estimated

(a) *United Kingdom Balance of Payments 1963* (H.M.S.O.), page 16, Table 14.

(b) See footnote (1) to Table 9 of the article "United Kingdom balance of payments in the third quarter of 1963" in the December 1963 issue of *Economic Trends*. See also *Hansard*, Vol. 675, No. 91, Col. 471.

(c) See the June issues of this *Bulletin*.

to have been roughly £2,100 million at the end of 1962. This included just over £500 million in overseas government and municipal loans. The survey is known to be incomplete, and the income on the holdings covered has in recent years been, on average, about 25% lower than the estimates of total portfolio income from overseas used in the U.K. balance of payments accounts. The composition and geographical distribution of the shortfall is not reliably known, so that no precise upward adjustment of the Bank's survey figure is possible. It seems reasonable, however, to put the total market value of U.K. private overseas portfolio investments at the end of 1962 in the region of £3,000 million (roughly £1,300 million in overseas sterling countries and £1,700 million in non-sterling countries). Published statistics, some of which are at book values understating market values, show that about £1,200 million in aggregate was in the hands of financial institutions other than banks—investment and unit trusts reporting £719 million; insurance companies^(a) (on head office account), £356 million; and public and private pension funds, £97 million. This implies that under £1,800 million of the total at market value was held by individuals and by companies in general. According to rough estimates for the end of 1961 published by the Inland Revenue and derived from estate duty statistics, holdings of individuals were then in the region of £800 million.^(b)

Private : direct investments. For the purpose of U.K. balance of payments statistics, U.K. direct investments abroad are defined as investments of companies incorporated in the United Kingdom in their overseas branches, subsidiaries and associate companies. Such investments are usually shown at book values derived from company accounts. Methods of computation vary in different countries and depend partly on statistical convenience. The estimates of direct investments, at book value, recently published by the Board of Trade^(c) relate to all companies except banks and oil and insurance companies. They give the total

net asset value^(d) of U.K. companies' direct investments overseas, excluding that part attributable to minority shareholders. This valuation overstates the U.K. direct investment interest to the extent that local long-term borrowing abroad is not deducted. Overstatement will also occur in so far as some current assets may be claims on U.K. parent companies, and understatement where current liabilities are owed to U.K. parents. Such factors are thought unlikely to be serious in aggregate and will also affect the comparable estimates of overseas residents' direct investments in the United Kingdom. With this qualification, the Board of Trade's figures indicate a total book value for outward direct investments at the end of 1962 of about £3,500 million. Of this amount, some £1,800 million was invested in overseas sterling area countries and £1,700 million in non-sterling countries.

It is estimated that the approximate book value of the net assets abroad of U.K. oil companies at the end of 1962 was some £1,100 million, of which £300 million was invested in sterling area countries and £800 million in countries outside the sterling area. These estimates have been compiled with the help of the oil companies and the figures include the 40% share of the net assets of the Royal Dutch/Shell Group outside the United Kingdom owned by the "Shell" Transport and Trading Company.

Comprehensive statistics of the value of the overseas interests of U.K. insurance companies are not available. The new figures of financial assets held by U.K. insurance companies now published by the Board of Trade^(e) exclude direct investments in overseas branches and subsidiaries. The business carried on through such branches and subsidiaries is known to be large. The funds related to it are nearly all invested locally abroad and are often committed, under local statutory requirements, against contractual liabilities or as contingency reserves. A substantial part of the overseas business of the U.K. insurance industry

(a) Members of the British Insurance Association, excluding Commonwealth companies; book value.

(b) *Report of the Commissioners of H.M. Inland Revenue for the year ended 31st March 1962* (Cmnd. 1906; H.M.S.O.).

(c) *Board of Trade Journal*, 15th November 1963, page 1,080.

(d) Fixed assets, after depreciation, of overseas subsidiaries and branches, plus current assets, less current liabilities; plus the value of trade investments in associated companies overseas.

(e) *Board of Trade Journal*, 19th July 1963, page 122.

is carried on in the United States. Here, according to U.S. official estimates, the value of direct investments by U.K. insurance enterprises at the end of 1960 amounted to about £350 million. When it is considered that the U.K. insurance industry also operates extensively in other foreign countries and throughout the Commonwealth, it is clear that its direct investment stake abroad must constitute a very substantial U.K. long-term overseas asset.

The assets of overseas branches and subsidiaries of U.K. banks are mainly short-term and offset by local liabilities. Their fixed assets consist mainly of premises, and tend to be small compared with those of manufacturing enterprises. The Bank of England now collect statistics of long-term overseas direct investment transactions by U.K. banks, which are incorporated in the Board of Trade's estimates of direct investment transactions abroad by U.K. concerns in general. The figures for banks are comparatively small and the enquiry has not so far been extended to cover the value of their long-term assets.

Private: other assets. The Board of Trade's estimates of direct investment assets already quoted include overseas investments in real estate by U.K. property companies. Since the Finance Act of 1962 such holdings by individuals have come within the scope of U.K. estate duty. The evidence available is still insufficient for the Inland Revenue to make reliable estimates of their total value. No statistics are published of the value of overseas property owned by non-profit-making organisations.

In addition to the main types of U.K. long-term investment referred to above, there are those of specialised corporate bodies such as the Commonwealth Development Finance Company (£16 million at end-March 1963). There must also be some investments by partnerships and individuals which lie outside present statistical investigations but may not be negligible in aggregate.

Pending a survey of trade credit, it is not possible to give comprehensive figures of longer-term trade credit extended by U.K. residents to overseas customers. Nor is it possible to determine how far such credit is included in existing statistical series. It has been estimated from Exchange Control data

that medium and long-term credit granted by private U.K. exporters to countries outside the sterling area amounted to £187 million at the end of 1962 (excluding settlements due over inter-company accounts for exports to parent or subsidiary companies). Similar information about credit granted to overseas sterling area countries is not available, as no Exchange Control permission is required. The Export Credits Guarantee Department's published figure for the face value of 'comprehensive' policies current at the end of 1962 was £978 million. This figure, which represents policy holders' estimates of prospective business, is known to include a fair proportion of medium and longer-term business. The total of credit outstanding at end-1962 under the 'specific' policies, which cover mainly credit for periods longer than three years, is not published. As already mentioned, some medium and long-term trade credit is reflected in the statistics of U.K. external claims in sterling. Some, too, which is granted by U.K. companies to their overseas branches and subsidiaries, is included in the Board of Trade's figures of direct investment assets.

The aggregate of identified private long-term assets shown in the table is about £8,000 million. No conjectural allowance has been made where statistics are unavailable or incomplete. The total shown is therefore a substantial understatement.

Long-term liabilities

Official. The official long-term external liabilities of the United Kingdom consist primarily of loans made by overseas governments to H.M. Government. Most of this indebtedness arose from the last war and its aftermath. Out of a total of £1,930 million at the end of 1962, £1,791 million was owed to the United States and Canada. The remaining U.K. government debt to overseas governments included an obligation of £69 million to Western Germany arising out of the liquidation of the European Payments Union and loans of £46 million and £18 million from Portugal and Switzerland respectively.

British government and government guaranteed stocks held by overseas banks, central monetary institutions and international organisations through banks in the United Kingdom and their nominees have already been shown

as official short-term external liabilities, for reasons explained earlier. Other overseas holdings are deemed to be held mainly as longer-term portfolio investments. Overseas holdings through banks in the United Kingdom and their nominees (and the Crown Agents) are known from the returns of external liabilities and claims rendered to the Bank of England. Other identifiable overseas holdings are obtained from an analysis of the stock registers now being made by the Bank. The former source covers the full range of gilt-edged stocks, but the latter—for end-1962—those on which dividends were payable free of U.K. income tax to overseas residents, with the important exception of 3½% War Stock. Taking into account the provisional results of a current Bank analysis of the register for 3½% War Stock, and making a rather conjectural allowance for stocks not yet analysed, it seems reasonable to estimate the end-1962 nominal value of total overseas portfolio holdings of British government stocks at roughly £700 million. While only some holdings can be accurately converted from nominal to market value—mainly those obtained from the stock registers—enough is known to allow the market value of all overseas holdings at the end of 1962 to be estimated at about £600 million. The geographical distribution of these holdings is not precisely known but at least half appears to have been held by overseas sterling countries.

Overseas holdings of U.K. local authority mortgages and stocks are not fully measured. At the end of 1962 such holdings through the Crown Agents and through banks in the United Kingdom and their nominees totalled £107 million. The amount of holdings through other U.K. agents is unknown but is not thought to be large. No recent information is available regarding direct holdings by overseas residents in their own names of local authority securities quoted on stock exchanges,^(a) although it is known that other long-term obligations similarly held (mainly mortgages) amounted to some £3 million.

Official long-term liabilities, as summarised in the table, totalled some £2,640 million.

Private: portfolio investments. Long-term investments by overseas residents in the private sector of the U.K. economy appear to have increased substantially since the last war. Like U.K. private investments abroad, they may conveniently be divided, for statistical purposes, into portfolio, direct and other investments.

As one of the steps taken in recent years to improve U.K. balance of payments statistics, the Board of Trade investigate changes in overseas holdings of the securities of some 260 larger U.K. companies covering 70% of the market value of the issued capital of all U.K. companies. From the information contributed by company registrars for this enquiry, plus a conjectural allowance for other companies, the Board estimate the market value of overseas holdings of U.K. ordinary shares at the end of 1962 to have been of the order of £700 million, with roughly a further £35 million of debentures (some issued abroad) and preference shares. The total cannot be accurately divided between overseas sterling area holdings and those of non-sterling countries, but probably rather more than 80% should be attributed to holders outside the sterling area.

Private: direct investments. Overseas direct investments in the United Kingdom are defined as those of companies incorporated abroad in their U.K. branches, subsidiaries and associate companies. The estimates of these recently published by the Board of Trade are on the same basis as those of U.K. direct investments overseas already quoted and exclude the U.K. interests of overseas banking, oil and insurance companies. With these exceptions, the book value at the end of 1962 of the net assets of overseas enterprises in the United Kingdom was estimated at about £1,400 million. Nearly all of this amount represented investments of countries outside the sterling area (mainly the United States, £985 million).^(b)

It is estimated that the approximate book value of the net assets in the United Kingdom of U.S. and European oil companies at the

^(a) According to a study published in December 1960 by the Institute of Municipal Treasurers and Accountants, their market value at the end of 1958 was about £15 million.

^(b) The roughly comparable published U.S. figure of U.S. direct investments in the United Kingdom is £1,077 million (*i.e.*, a total of £1,359 million less oil industry investments of £282 million; see the U.S. Department of Commerce's *Survey of Current Business*, August 1963, page 18).

end of 1962 was some £700 million. The estimate is based on available balance-sheet data supplemented by information given by some of the companies; the figure includes the 60% share of the net assets of the Royal Dutch/Shell Group in the United Kingdom owned by the Royal Dutch Petroleum Company.

There are no official estimates of the value of the long-term direct investments of overseas banks and insurance companies in the United Kingdom. They are doubtless small compared with similar U.K. investments overseas.

Private: other liabilities. There is no evidence of considerable overseas ownership of real estate in the United Kingdom (any such investment by overseas companies through their U.K. affiliates is included in the Board of Trade's estimates of U.K. liabilities on direct investment account).

Comprehensive statistics of longer-term trade credit extended by overseas concerns are not available. It seems certain, however, that the U.K. external liability on this account is much smaller than the corresponding U.K. asset. Some medium-term trade credit will be included in the figures of U.K. external liabilities in sterling and other currencies quoted earlier; while the estimates of overseas direct investments in the United Kingdom contain trade credit granted by overseas companies to their branches and affiliates here.

The total of identified overseas long-term investments in the U.K. private sector is shown in the table as £2,835 million. Like the figure for U.K. private investments abroad, it is an understatement, but to a lesser extent.

THE UNITED KINGDOM'S I.M.F. POSITION

At the end of 1962 the U.K. subscription to the Fund amounted, as now, to £696 million. This is shown in the table as a U.K. asset and represents the U.K. gold tranche position (£179 million) and also the counterpart of the I.M.F.'s sterling holdings (£517 million) which appear as U.K. liabilities. Under a standby arrangement the United Kingdom had at that date the right to draw £357 million in convertible currencies automatically from the Fund. In appropriate circumstances the United Kingdom could in addition have drawn from the Fund amounts up to the equivalent of £519

million (£876 million in all) without raising the Fund's holdings of sterling beyond 200% of the U.K. quota. Any drawing on the Fund would have entailed a corresponding increase in official U.K. sterling liabilities to the Fund. These liabilities are mainly in the form of non-interest-bearing notes, which may be encashed on demand by the I.M.F. to meet requests by other members for drawings in sterling.

SUMMARY AND CONCLUSION

A full discussion of the implications of the figures given in the text and summarised in the table lies outside the scope of this article. Something has already been said in dealing with each item of the inventory to show its general nature so far as the information available permits. The arbitrary nature of the distinction conventionally drawn between short-term and long-term and its limitations have been stressed and it has been seen that information about certain important items is still incomplete. It is not to be expected therefore that a definitive and clear-cut pattern will emerge. Nevertheless, the table serves to illustrate the salient features of the international position of the United Kingdom on capital account.

In comparing official liquid assets at the end of 1962 with contingent claims against them, it must be borne in mind that substantial reinforcements for the former were available in case of need.

A main feature of the United Kingdom's international capital position clearly apparent in the table is the heavy net long-term indebtedness of the U.K. Government to overseas governments. This amounted to £1,532 million, composed of a net liability of £1,793 million to countries outside the sterling area and a net claim of £260 million against overseas sterling countries. Other official assets and liabilities classed as predominantly long-term were roughly in balance.

In marked contrast to this heavy official long-term debt stood the much larger overseas assets of the U.K. private sector in the shape of portfolio and direct investments, which amounted in aggregate to about £8,000 million. Roughly £3,400 million of these investments were in overseas sterling countries and £4,600 million in countries outside the sterling area. By comparison, the corresponding external lia-

bilities of the U.K. private sector were in aggregate about £2,800 million (due mainly to residents of non-sterling countries).

In considering the estimates shown in the table, it should be borne in mind that the effect of the incompleteness or unavailability of statistics for several important items is undoubtedly to understate U.K. external assets more seriously than the corresponding external liabilities. This applies not only to insurance and banking interests but also to trade credit, where the net U.K. creditor position has grown larger in recent years and is still increasing.

By itself, a country's 'net creditor (or debtor) position', in the sense of an arithmetical balance struck between sum totals of external assets and liabilities, is a concept of very limited practical interest. For it to be completely valid, the assets and liabilities concerned would have to be homogeneous and measured by the same standards.

The liquidity of U.K. external assets, however, ranges from the official gold reserve at one extreme to the fixed assets of U.K. direct investment overseas at the other. In the same way, the liquidity of overseas financial claims on the United Kingdom varies between current account balances, at one end of the scale, to overseas-owned industrial enterprises in this country at the other. The difficulties of making a realistic general distinction between short- and long-term items have already been emphasised. Moreover, it is evident that, in some cases, the relative liquidity of external assets and volatility of external liabilities can be radically altered by such factors as changes in confidence, in international financial co-operation, or in exchange controls either at home or abroad.

In addition, it has been seen in drawing up the inventory that the United Kingdom's exter-

nal assets and liabilities are not only heterogeneous in themselves but also that they are measured, unavoidably, by widely differing standards. The items classified tentatively as short-term are shown at face values. For long-term investments, on the other hand, no universally suitable standard of valuation exists, even in theory, quite apart from considerations of expediency in the collection of statistics. Portfolio investments are given at market values which are liable to fluctuate considerably. The book values used for direct investments are less variable; but they suffer from inconsistencies in accounting practice and also tend to understate the value of assets as measured, for instance, by replacement costs, or income yielded. On the other hand they doubtless overstate the value which could be realised.

In view of such differences in kind and in standards of measurement, a purely arithmetical evaluation of the United Kingdom's international position on capital account can obviously mislead through over-simplification. The limitations of such an approach were explained in the introduction and the table should be read with these in mind. For where the balance of payments is concerned, the 'profit and loss account' on international investment is more significant than a 'balance-sheet' of components differing widely in liquidity. Thus the United Kingdom's apparent 'net creditor position', arising largely from past and present contributions to the development of overseas territories, is of less practical importance than the related strains on, and benefits to, the balance of payments through the flows of new investment (or disinvestment) and the income from, or payments on, existing investments. Nevertheless, information about the size, pattern and relationship of U.K. external assets and liabilities has great interest and significance.

The most important new information given in this article is as follows:

- (i) the external claims (page 24) and liabilities (page 25) of the U.K. banking system in non-sterling currencies and overseas sterling area currencies;
- (ii) an estimate of the market value of U.K. private portfolio investments overseas (pages 26 and 27);
- (iii) estimates of the market value of foreign portfolio investments in British government stocks and in U.K. company securities (pages 28 and 29); and
- (iv) estimates of the book value of U.K. oil companies' net assets abroad (page 27) and of foreign oil companies' net assets in the United Kingdom (pages 29 and 30).

U.K. EXTERNAL ASSETS

ASSETS

£ millions

Short-term⁽¹⁾

Official:

Gold and convertible currency reserves	1,002
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1,002

Private:

U.K. banking system's external claims in:	
sterling	846 ⁽²⁾
non-sterling currencies	1,010
overseas sterling area currencies	48
Other U.K. residents' external claims in:	
non-sterling currencies	(200)
overseas sterling area currencies
Trade credit not elsewhere included

(2,104)

Long-term⁽¹⁾

Official:

Inter-government loans by the United Kingdom	398
Other official lending	145
Subscriptions to international financial organisations (excluding the I.M.F.)	141
H.M. Government's holdings of non-sterling securities	(385)

(1,069)

Private:

Portfolio investments ⁽³⁾	(3,000)
Direct investments (except oil, insurance and banking) ⁽⁴⁾	(3,500)
Net assets abroad of U.K. oil companies	(1,100)
Direct investments of U.K. insurance companies (incomplete, United States only)	(350)
Direct investments of U.K. banks
Individuals' holdings of real estate
Other non-company holdings of real estate
Trade credit not elsewhere included

(7,950)

United Kingdom's I.M.F. position

U.K. subscription to the I.M.F. ⁽⁵⁾	696
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Total of identified items	(12,821)
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Figures in brackets are precarious estimates and/or known to be incomplete.

.. not available.

(1) The division between "short-term" and "long-term" is often arbitrary.

(2) As included in the published series "United Kingdom External Liabilities and Claims in Sterling".

AND LIABILITIES: END-1962

LIABILITIES

Treasury Bills and non-interest-bearing notes held by overseas residents (excluding the I.M.F.)	1,095 ⁽²⁾
British government stocks held by overseas banks, central monetary institutions and international organisations through the U.K. banking system	1,183 ⁽²⁾
Overseas current and deposit accounts in sterling with Bank of England and Crown Agents (excluding I.M.F. holdings)	113 ⁽²⁾
Overseas temporary deposits with, and loans to, U.K. local authorities	71
	<u>2,462</u>
Overseas current and deposit accounts in sterling with U.K. commercial banks; commercial bills and promissory notes	1,475 ⁽²⁾
Overseas lending to U.K. hire purchase finance houses	105
U.K. banking system's external liabilities in:	
non-sterling currencies	1,038
overseas sterling area currencies	120
Trade credit not elsewhere included	..
	<u>2,738</u>
Inter-government loans to the United Kingdom	1,930
Overseas holdings of British government stocks (excluding those of overseas banks, central monetary institutions and international organisations shown above) ⁽³⁾	(600)
Overseas holdings of U.K. local authority mortgages and stocks	(110)
	<u>(2,640)</u>
Portfolio investments in U.K. company securities ⁽³⁾	(735)
Direct investments (except oil, insurance and banking) ⁽⁴⁾	(1,400)
Net assets in the United Kingdom of overseas oil companies	(700)
Direct investments of overseas insurance companies	..
Direct investments of overseas banks	..
Individuals' holdings of real estate	..
Other non-company holdings of real estate	..
Trade credit not elsewhere included	..
	<u>(2,835)</u>
I.M.F. sterling holdings (cash and non-interest-bearing notes)	517 ⁽²⁾
Total of identified items	<u>(11,192)</u>

⁽³⁾ At estimated market value.

⁽⁴⁾ Value of net assets as shown in company accounts; published in the *Board of Trade Journal* of the 15th November 1963.

⁽⁵⁾ Representing the U.K. gold tranche position (179) and the counterpart of the I.M.F.'s sterling holdings.