

## UNITED KINGDOM OVERSEAS PORTFOLIO INVESTMENTS 1961-63

This note continues the statistics published in the June 1963 issue of this *Bulletin*. Revised figures are given for 1961 and 1962, and first estimates for 1963. The information contributed voluntarily by registrars and paying agents is again gratefully acknowledged.

The note falls into three parts. The first explains the scope of the estimates. The second contains figures of changes in U.K. portfolio holdings of overseas securities (Table I). The additions to, or reductions in, holdings are recorded at actual market values where known and otherwise at estimated market values. These figures are the prime source of the estimates of U.K. overseas portfolio investment included under "private investment abroad" in the capital account of the balance of payments, although some adjustments are made for transactions falling outside the scope of this survey. The third contains estimates of income received by U.K. residents on their holdings of portfolio investments (Table II). These estimates of income are not used for the corresponding item in the balance of payments accounts; but they are helpful in confirming the more comprehensive estimates prepared by the Inland Revenue which are the prime source, and they provide some additional detail by country.

In the balance of payments accounts, other items associated with portfolio investment are included under a variety of headings. Thus the miscellaneous foreign currency receipts by U.K. residents (legacies, etc.) which are eligible for investment outside the sterling area are entered in the current account under "private transfers"; authorised borrowing abroad by institutional investors in the long-term capital account under "private investment in the United Kingdom"; direct investment under "private investment abroad"; and movements in foreign currency balances awaiting reinvestment are in the monetary movements section under "miscellaneous capital".

Briefly, the figures for the net inflow or outflow of capital on portfolio account given in Table I aim to measure the market value of net subtractions from or additions to U.K. portfolio investments abroad, including additions arising from legacies, etc., and from purchases financed by borrowing abroad.

**Scope of the estimates** "United Kingdom overseas portfolio investments" comprise the holdings of U.K. residents in overseas government and municipal loans and in securities of companies registered abroad, but not direct investment holdings of U.K. companies in their overseas subsidiaries or associates.

So far as possible, all overseas securities dealt in on the London Stock Exchange are covered, together with U.S. and Canadian dollar securities quoted abroad on which information is available through the operation of U.K. Exchange Control. Other securities quoted abroad are not covered, unless they have a registrar or paying agent in the United Kingdom. (For instance, no allowance has been made here for U.K. purchases of Australian local issues although they must be considerable) Some measure of this omission is provided by the fact that the estimates of interest and dividend receipts in Table II are, on average, about 25% lower than the balance of payments estimates of total income on all portfolio investments which are derived from Inland Revenue sources.

Following the normal practice in balance of payments accounts, overseas government and municipal loans are classified by debtor country, without regard to the currency in which loans are denominated. Securities of overseas companies are classified by the country of registration of the company concerned.

**Table I: Portfolio investment transactions**

£ millions

|  | Total |      |      | Overseas sterling countries |      |      | Non-sterling countries |      |      |
|--|-------|------|------|-----------------------------|------|------|------------------------|------|------|
|  | 1961  | 1962 | 1963 | 1961                        | 1962 | 1963 | 1961                   | 1962 | 1963 |
| Gross new investment abroad ...  | 39    | 37   | 87   | 32                          | 15   | 38   | 7                      | 22   | 49   |
| Gross repayment from abroad ...  | 17    | 15   | 22   | 12                          | 9    | 14   | 5                      | 6    | 8    |
| "Net new investment" (-) ...   | -22   | -22  | -65  | -20                         | -6   | -24  | -2                     | -16  | -41  |
| Other capital transactions ...   | +73   | +74  | +67  | +32                         | +24  | +44  | +41                    | +50  | +23  |
| Net portfolio investment by the United Kingdom (-)/disinvestment (+) ... | +51   | +52  | +2   | +12                         | +18  | +20  | +39                    | +34  | -18  |

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

**Capital transactions** The important part of Table I is the last line which shows net portfolio investment or disinvestment by the United Kingdom. The distinction conventionally made between "net new investment" and "other capital transactions" is perhaps becoming statistically less clear-cut but has been maintained largely to keep continuity with previous articles in this series.

"Net new investment" in Table I consists of transactions identified as taking place between residents of the United Kingdom and residents of the particular country in which the investment is made. Thus it comprises mainly new issues and redemptions, but includes also some market purchases and sales, notably those of U.S. 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 to some extent conjectural.

"Net new investment" by U.K. residents in overseas sterling countries recovered sharply in 1963 to £24 million, mainly as the result of increased borrowing by Commonwealth governments in the London capital market. Investment in new Commonwealth loans totalled some £29 million (including Australia, £21 million; Malaya, £4 million; Nigeria, £2 million). In addition, about £1 million was invested in 1963 in a loan issued by Iceland

in December 1962. Investment in Irish loans issued in Dublin amounted to some £3 million. On balance, governments and companies in other sterling area countries repaid debt to U.K. residents (including £8 million received from South Africa and £2 million from Rhodesia and Nyasaland).

The marked increase in "net new investment" in non-sterling countries came from larger net acquisitions of U.S. securities; with improving investment prospects in the United States these amounted to £46 million, compared with only £18 million in 1962. Offsetting repayments by other countries were largely of government and municipal loans. A new sterling loan issued by the Japanese Government in August, while in the nature of a refunding operation, was noteworthy as the first such borrowing in London by a non-sterling country since 1951. Part of the increase in net new investment was financed out of the proceeds of the sales of Canadian securities mentioned below and out of authorised borrowing abroad by U.K. institutional investors.

"Other capital transactions" with all overseas countries comprised net sales by U.K. residents of overseas government and municipal loans totalling £12 million (1962, £15 million) and of company securities amounting to £55 million (1962, £58 million). The net sales of government and municipal securities were nearly all of those issued by overseas sterling countries, totalling £11 million (Australian, £4 million; Rhodesian and other African, £6 million). The total for company securities in 1963 includes much larger net sales of South African securities; these amounted to £28

million, compared with only £4 million in 1962, when South African restrictions on capital movements out of South Africa were more severe. Among transactions in company securities of non-sterling countries, net sales of Canadian securities were again outstanding, although lower than in 1962 (£20 million compared with £39 million).

Between 1962 and 1963 there was a change amounting to £52 million in the estimates of the total net capital flow between the United Kingdom and non-sterling countries. Because of the scope and limitations of these estimates, this figure, though not complete, does not solely reflect those transactions which under the Exchange Control regulations may only take place by means of investment dollars. However, the figures shown in the table broadly represent the changes in net portfolio transactions through the investment dollar market.

In 1963 the net outflow attributable to these transactions through the investment dollar market was financed mostly by substantial receipts from abroad of funds, such as legacies, which are eligible for investment in foreign currency securities. A small amount was financed from authorised borrowing abroad by U.K. institutional investors; and there also appears to have been some reduction between the end of 1962 and the end of 1963 in cash balances awaiting reinvestment. In 1963 these sources of funds were also sufficient to finance an appreciable volume of direct investment overseas for which official exchange was not permitted. In 1962, on the other hand, receipts from legacies and other eligible funds were somewhat lower, there was no borrowing by institutional investors, and more direct investment overseas was financed with investment dollars because of special operations by

oil companies: the net inflow arising from portfolio transactions in investment dollars was thus absorbed within the investment dollar market, apart from some small amounts which benefited the U.K. reserves.

**Income** Estimates of interest and dividends received by U.K. residents on the overseas portfolio investments covered by the Bank's survey are given in Table II. The amounts are shown net of overseas tax but before deduction of U.K. income tax.

Interest in 1963 on holdings of overseas sterling countries' government and municipal loans included £10.4 million from Australia, £4 million from New Zealand and £3 million from Rhodesia and Nyasaland. There was a fall in similar receipts from non-sterling countries caused mainly by the completion, in 1962, of payments of arrears under the Japanese debt settlement plan.

Receipts from companies in overseas sterling countries, while unchanged in total, were in some cases affected by disinvestment and reductions in dividend rates. Those from Rhodesian copper and coal mining companies were lower at £7.9 million (1962, £8.2 million). Although there were higher rates of distribution on gold and diamond mining shares and industrials, income from South African companies fell to £16.9 million (1962, £17.4 million) as a result of disinvestment. Income from companies in non-sterling countries was little changed in total. With higher dividend rates, receipts from U.S. company securities rose to £27.2 million (1962, £25.9 million) but income from Canadian companies dropped as the result of continued disinvestment to £10.4 million, compared with £11.9 million in 1962.

**Table II: Interest and dividends**

£ millions

|                                | Total        |              |             | Overseas sterling countries |             |             | Non-sterling countries |             |             |
|--------------------------------|--------------|--------------|-------------|-----------------------------|-------------|-------------|------------------------|-------------|-------------|
|                                | 1961         | 1962         | 1963        | 1961                        | 1962        | 1963        | 1961                   | 1962        | 1963        |
| Government and municipal loans | 26.7         | 26.7         | 25.9        | 22.8                        | 22.7        | 22.9        | 3.9                    | 4.0         | 3.0         |
| Companies: Loan interest ...   | 6.1          | 6.0          | 6.0         | 1.6                         | 1.7         | 1.9         | 4.5                    | 4.3         | 4.1         |
| Share dividends ...            | 69.4         | 67.7         | 67.8        | 29.5                        | 29.1        | 28.9        | 39.9                   | 38.6        | 38.9        |
| Total ...                      | 75.5         | 73.7         | 73.8        | 31.1                        | 30.8        | 30.8        | 44.4                   | 42.9        | 43.0        |
| <b>Total</b> ...               | <u>102.2</u> | <u>100.4</u> | <u>99.7</u> | <u>53.9</u>                 | <u>53.5</u> | <u>53.7</u> | <u>48.3</u>            | <u>46.9</u> | <u>46.0</u> |