

## An inventory of U.K. external assets and liabilities : end-1964

An article published in the March 1964 issue of this *Bulletin* sought to show the international position of the United Kingdom on capital account at the end of 1962. Such an inventory could never be complete, because there are inevitably gaps in the official statistics. The present article gives broadly comparable estimates for the end of 1964, with brief comments on the main changes since 1962. It includes new estimates of trade credit outstanding which have been produced by a special enquiry conducted by the Board of Trade and it thus presents a somewhat fuller picture than before.

The general classifications used, the definitions of individual items, and some points to be borne in mind when using these estimates, were explained in detail in the earlier article. It may, however, be helpful to recall here that the distinction drawn between "short-term" and "long-term" assets and liabilities is necessarily often arbitrary; and that assets are classified as "official" or "private" according to the status of the domestic creditor, and liabilities according to that of the domestic debtor.

The figures for the end of 1964 are summarised in a table at the end of the article, where they are compared with revised figures for the end of 1962. The presentation, which is necessary to bring the data together in a systematic way, is bound to resemble a balance-sheet. But as was emphasised in the earlier article, the various elements of the table are so fundamentally different in kind and have such differing methods of valuation that to add them together and strike a balance would produce a figure which is no safe basis for any policy conclusion.

The relative liquidity of certain groups of assets is much more important than the overall

total of assets, and it must be emphasised that the table brings together items with widely differing degrees of realisability; some of them, indeed, could be realised only with the greatest difficulty and sacrifice of value—if at all. An attempt has been made in the table to divide the assets and liabilities according to broad degrees of liquidity; but there are many limitations even to this type of broad categorisation and these are pointed out in the text of the earlier article.

From the point of view of the balance of payments the important factor is not the apparent valuation put on the creditor (or debtor) position but the income derived from U.K. investments abroad or paid on foreign investments in the United Kingdom, together with the capital flows associated with the changes in the outstanding amounts of such investments. U.K. net earnings on account of interest, profits and dividends totalled nearly £800 million in the two years 1963 and 1964, over £200 million more than in the previous two years. The net debit on long-term capital account in 1963 and 1964 together was some £500 million.

**Short-term assets and liabilities and I.M.F. position** Official and identified private external short-term assets, as shown in the table, together amounted at the end of 1964 to £3,830 million, as against similar liabilities of £6,489 million. Net short-term liabilities, therefore, totalled £2,659 million, compared with £2,106 million at the end of 1962.

Most of the increase in net short-term liabilities between 1962 and 1964 appears in the official sector, which shows a fall of £175 million in the gold and convertible currency

reserves and a rise of £313 million in short-term liabilities in sterling and foreign currencies. Most of the increase in liabilities represents central bank assistance to the United Kingdom, which at the end of 1964 totalled £216 million; two years earlier no such assistance was outstanding. Of the total of assistance, £144 million was provided through foreign currency swaps,<sup>(1)</sup> the sterling counterpart of which is included in the table among overseas holdings of Treasury bills and non-interest-bearing notes. The remaining £72 million consisted of foreign currency deposits, which are shown separately. The comparison of official short-term assets and liabilities does not, however, fully measure the impact of the official financing requirement during the two years. For this it is also necessary to take into account the change in this country's position with the International Monetary Fund. At the end of 1962 this had represented a net asset of £179 million. Following the drawing in December 1964, under the standby facility, of \$1,000 million (£357 million) repayable within three years, this had swung to a net liability to the Fund of £185 million.

At the end of 1964 the totals of private short-term assets and liabilities, amounting to about £3,000 million and £3,700 million respectively, were both substantially higher than in 1962, while the net position showed only a small adverse change. The main feature was the marked increase in the U.K. banking system's liabilities and claims in non-sterling currencies, which reflected the growth of the United Kingdom's participation in the euro-dollar market during the period, particularly in 1964. Liabilities increased by more than claims, and the net liability rose from £28 million in 1962 to £149 million in 1964, mainly because in 1964 the banks converted more foreign currency deposits received from abroad into sterling for domestic employment.

Taking into account the increase in official and private net short-term liabilities and the

adverse change of £364 million in the I.M.F. position, what may be termed the international liquidity position of the United Kingdom weakened between the end of 1962 and the end of 1964 to the extent of about £900 million. The deterioration broadly reflects the financing of the overall balance of payments deficit over the two years.<sup>(2)</sup> In total the United Kingdom's net liquid indebtedness at the end of 1964 was roughly £2,800 million, composed of assets of about £4,500 million and liabilities of some £7,300 million.

**Long-term assets and liabilities**

*1. Official* As shown in the table, official long-term assets at the end of 1964 totalled nearly £1,300 million, half the level of liabilities at that date. The net position—liabilities of some £1,295 million—was nearly £300 million more favourable than at the end of 1962. Most of this change was accounted for by a reduction of £199 million in the net long-term indebtedness of the U.K. Government to overseas governments. New U.K. government loans (less repayments) totalled £118 million in 1963-64, raising the total outstanding to £515 million (including loans of £380 million to sterling area countries). On the other hand, liabilities under this head were reduced by £81 million, to a total of £1,849 million, by contractual repayments, almost entirely to countries outside the sterling area.<sup>(3)</sup> The other main factor contributing to the improvement in the official position on long-term account was a marked rise in the value of the Government's portfolio of foreign securities. Much of this holding consisted of U.S. equities, whose market price rose sharply during the two years; the value of the dollar portfolio was stated near the end of 1964 to have recently averaged around £445 million.<sup>(4)</sup> Using this figure and allowing for official holdings of Suez Finance Company securities, the total value of the portfolio of

(1) Including a loan of £28 million from Switzerland through the General Arrangements to Borrow which, by the usual definitions, is medium-term.

(2) The net changes in 'liquid' liabilities shown in the table do not correspond exactly with "monetary movements" in the balance of payments, mainly because the latter include some items for which outstanding totals are not known and also because of movements in that part of trade credit which appears as a separate item in the inventory.

(3) Repayments of capital (£30 million) due at the end of 1964 on the North American loans were deferred. Of the total of £1,849 million, £1,755 million was owed to the United States and Canada.

(4) *United Kingdom Balance of Payments 1965* (H.M.S.O.), Table 26, footnote (1).

foreign currency securities at the end of 1964 can be put at some £470 million—about £85 million higher than two years earlier.

2. *Private* It was emphasised in the earlier article that estimates of private long-term assets and liabilities are both less precise and less complete than those for most other items listed. Moreover, the methods of valuation of portfolio and direct investments differ widely, so that to add together the various estimates given in the table produces figures which are not truly coherent. Nevertheless, the aggregates shown provide a general indication of the change over the two years.

At the end of 1964 the aggregate of identified private long-term assets amounted to about £9,400 million, compared with similar liabilities of some £3,400 million. The net creditor position of the private sector thus appears as about £6,000 million, a striking improvement since the end of 1962.

The aggregate value of identified long-term investments abroad, both portfolio (at market value) and direct (at book value), is seen to have increased during the two years by some £1,350 million. The figures for portfolio investments, which were compiled on a similar basis for both years, show an overall rise of £600 million to a total of £3,600 million—roughly £1,400 million in overseas sterling area countries and £2,200 million in other countries. Virtually all of the increase was attributable to rises in equity prices during the period, particularly in the United States and Canada; net new investment, as shown in the balance of payments, was only £21 million in 1963 and 1964 taken together.

The estimate of the net asset value of U.K. companies' direct investments abroad (excluding oil, insurance and banking) at the end of 1964 (£4,100 million) is not truly comparable with the earlier figure, which was the result of a special enquiry by the Board of Trade. It has been obtained by adding the balance of payments estimates of direct investment abroad in 1963 and 1964 (£514 million) to the 1962 bench-mark. While this method may be reasonably reliable over a period as short as two years, it is bound to give progressively less accurate estimates—mainly because it takes no

account of any revaluation of existing assets which may occur. As estimated, some £2,300 million of the total was invested in overseas sterling area countries and about £1,800 million in other countries. The estimated value of the net overseas assets of U.K. oil companies is calculated on the same basis as before.<sup>(1)</sup> Of the total, £350 million was invested in overseas sterling area countries and £950 million in other countries. The tentative estimates for the value of U.K. insurance companies' direct investments in the United States at the end of 1962 and 1964 (£375 million and £420 million respectively) are based on the U.S. published figure for the end of 1960 and later U.S. statistics for total "finance and insurance" investment.

Most of the rise of over £400 million during the two years in the aggregate of identified foreign long-term investments in this country was attributable to direct investment from abroad. The 1964 estimate for this item has been calculated on the same basis as that for U.K. direct investments abroad—by adding new investment over the period of about £350 million to the total for 1962 derived from the Board of Trade enquiry for that year. The two figures are not, therefore, strictly comparable. Nearly all of the total (about £1,850 million) represented investments of countries outside the sterling area, mainly the United States. The figure for the approximate book value of the net assets in this country of U.S. and European oil companies has been obtained, like that for 1962, from balance-sheet data, together with other information supplied by some of the companies. The estimate for the market value of non-resident portfolio holdings of U.K. company securities, like the corresponding figure for 1962, has been derived mainly from information collected by the Board of Trade from company registrars. Net sales of U.K. equities by non-residents totalled about £78 million during the period, but these were slightly outweighed by a rise in share prices on the London market and by new debenture issues abroad by U.K. companies (£12 million). Over 80% of the totals at both dates is believed to have been owned by holders outside the sterling area.

<sup>(1)</sup> Revised figures for the end of 1962 now show that £275 million was invested in overseas sterling area countries and £825 million in other countries.

**Trade credit** In the earlier article, one of the main deficiencies in the statistics of the private sector's external assets and liabilities concerned trade credit outstanding between U.K. residents and non-residents. It was explained there that commercial credit represented by bills and promissory notes held by, or lodged with, banks in this country was included among banking liabilities and claims in sterling and non-sterling currencies; and that credit extended between related concerns at home and abroad was included, indistinguishably, in direct investment. No estimates were available of trade credit not included under these headings. Recently, however, an investigation by the Board of Trade has provided much information on the total amount of trade credit outstanding and the extent to which it is included in the other statistical series.<sup>(1)</sup>

The Board of Trade statistics so far available relate to the end of 1962 and 1963. At the latter date trade credit extended by U.K. businesses to non-residents, in respect of both exports and merchanting trade, totalled £895 million (net of advance and progress payments). Of this total £312 million was represented by bills and promissory notes lodged or discounted with banks in this country. A further £286 million comprised trade credit extended directly between related concerns, namely by U.K. companies to their affiliates abroad or by U.K. affiliates of overseas companies to their parent concerns. If these elements are assumed to be included in the official figures of banking claims in sterling and other currencies and in the estimates of U.K. direct investments abroad, there remains an additional U.K. asset of some £300 million. From the published information it is not possible to divide this residual amount into short-term and long-term credit, nor to allocate it as between countries inside and outside the sterling area.

Total commercial credit extended from overseas to U.K. businesses at the end of 1963 is put at £197 million, of which £53 million was represented by bills which should be included among banking liabilities in sterling and non-sterling currencies, and a further £94 million was owed to related concerns abroad. There was thus an additional U.K. external liability on this account of about £50 million, nearly all

attributable to countries outside the sterling area.

The outstanding amounts of trade credit given and received, and not included elsewhere in the statistics, are shown separately in the table. For lack of more up-to-date figures, and to illustrate approximately the orders of magnitude involved, the amounts outstanding at the end of 1963 referred to above have been included in the table for the end of 1964.

**Summary and conclusions**

Because the items in the table are both heterogeneous and measured by differing standards, striking a balance between the totals of identified assets and liabilities produces figures whose economic significance must be in great doubt. This reservation makes it improper to draw any quantitative conclusions from a comparison of the more recent movements in the overall liabilities and assets. But one may note that total net 'monetary' liabilities, including those to the I.M.F., increased by £900 million and that the total of net long-term assets, as ascertained and as valued, increased by £1,200 million.

The improvement in the long-term position was essentially due to a rise of some £1,350 million in the total value of identified private investments abroad, from about £8,000 million at the end of 1962 to some £9,400 million at the end of 1964. Some £600 million of this was attributable to portfolio investments and some £750 million to direct investments of all kinds. There was also an increase of over £200 million in official long-term assets, including £85 million in official portfolio investments and nearly £120 million in new government loans.

It may be useful to enter a warning against interpreting these figures as being in any simple correspondence with cash transfers or with transactions as recorded in the balance of payments estimates. For example, as has been described above, almost the whole of the increase in value of portfolio investments came from capital appreciation; such changes in the market values of existing investments are not 'transactions' qualifying to be recorded in the balance of payments. It is for this reason that the increase in portfolio investments reported

<sup>(1)</sup> *Board of Trade Journal*, 7th May 1965.

here differs so widely from the estimate of £21 million for net new outward portfolio investment shown in the balance of payments estimates for 1963 and 1964 together. There are other types of change in the values of assets and liabilities that do not give rise to actual cash payments from the United Kingdom or perhaps to cash transfers at all. Securities, for example, may be received free of payment by way of legacies and charitable donations, or they may be purchased out of funds borrowed abroad *e.g.*, by investment trusts. (In 1963 and 1964 together at least £50 million of securities were received in this way) Similarly some direct investment is financed out of funds borrowed abroad by U.K. parent companies. The method by which a change in value occurs determines whether it is recorded in balance of payments estimates and, if it is recorded, in which other part of the estimates a counterbalancing entry is suitably made. However,

reconciliation of the estimates given in the inventory with those in the balance of payments, and general interpretation of the figures concerned, raise problems which merit a separate treatment longer than can be given in this article.

Here it may be emphasised that this enquiry suggests that at the least there has been no deterioration during 1963 and 1964 in the net balance of U.K. external assets and liabilities. Indeed, without claiming arithmetical precision in a way which the inventory may misleadingly invite, it may be held that the evidence points towards distinct improvement in the position regarding net external long-term assets, and that total assets continue substantially to exceed total liabilities. It would, however, be wrong to draw very much comfort from this conclusion when the ratio of short-term liabilities to short-term assets has been so considerably increased.

## U.K. external assets and

### Assets

Short-term <sup>(a)</sup>	1962	1964
<b>Official</b>		
Gold and convertible currency reserves ... ..	1,002	827
	1,002	827
<b>Private</b>		
U.K. banking system's external claims in:		
Sterling <sup>(b)</sup> ... ..	840	1,101
Non-sterling currencies <sup>(c)</sup> ... ..	1,010	1,635
Overseas sterling area currencies ... ..	48	67
Other U.K. residents' external claims in:		
Non-sterling currencies ... ..	(200)	(200)
Overseas sterling area currencies ... ..	..	..
	(2,098)	(3,003)
<b>United Kingdom's I.M.F. position</b>		
U.K. subscription to the I.M.F. ... ..	696	696
<b>Long-term<sup>(a)</sup></b>		
<b>Official</b>		
Intergovernment loans by the United Kingdom ... ..	397	515
Other official lending ... ..	145	149
Subscriptions to international financial organisations (excluding the I.M.F.)	141	159
H.M. Government's holdings of non-sterling securities ... ..	(385)	(470)
	(1,068)	(1,293)
<b>Private</b>		
Portfolio investments <sup>(d)</sup> ... ..	(3,000)	(3,600)
Direct investments (except oil, insurance and banking) <sup>(e)</sup> ... ..	(3,600)	(4,100)
Net assets abroad of U.K. oil companies ... ..	(1,100)	(1,300)
Direct investments of U.K. insurance companies (incomplete, United States only) ... ..	(375)	(420)
Direct investments of U.K. banks ... ..	..	..
Individuals' holdings of real estate ... ..	..	..
Other non-company holdings of real estate ... ..	..	..
	(8,075)	(9,420)
<b>Trade credit not elsewhere included</b> ... ..	267	(300)
<b>Total of identified items</b> ... ..	(13,206)	(15,539)

Figures in brackets are precarious estimates and/or known to be incomplete.

.. not available.

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

(b) As included in "U.K. external liabilities and claims in sterling" (Table 21 of the statistical annex).

## liabilities : end-1962 and end-1964

### Liabilities

£ millions

	1962	1964
<b>Short-term<sup>(a)</sup></b>		
<b>Official</b>		
Treasury bills and non-interest-bearing notes held by overseas residents (excluding the I.M.F.) <sup>(b)</sup> ... ..	1,096	1,217
British government stocks held by overseas banks, central monetary institutions and international organisations through the U.K. banking system <sup>(b)</sup> ... ..	1,185	1,228
Overseas current and deposit accounts in sterling with Bank of England and Crown Agents (excluding I.M.F. holdings) <sup>(b)</sup> ... ..	113	151
Overseas deposits in non-sterling currencies arising from central bank assistance ... ..	—	72
Overseas temporary deposits with local authorities ... ..	93	132
	2,487	2,800
<b>Private</b>		
Overseas current and deposit accounts in sterling with U.K. commercial banks; commercial bills and promissory notes <sup>(b)</sup> ... ..	1,475	1,678
Overseas lending to U.K. hire-purchase finance houses ... ..	86	86
U.K. banking system's external liabilities in:		
Non-sterling currencies <sup>(c)</sup> ... ..	1,038	1,784
Overseas sterling area currencies ... ..	120	141
	2,719	3,689
<b>United Kingdom's I.M.F. position</b>		
I.M.F. sterling holdings (cash and non-interest-bearing notes) <sup>(b)</sup> ... ..	517	881
<b>Long-term<sup>(a)</sup></b>		
<b>Official</b>		
Intergovernment loans to the United Kingdom ... ..	1,930	1,849
Overseas holdings of British government stocks (excluding those of overseas banks, central monetary institutions and international organisations shown above) <sup>(d)</sup> ... ..	(610)	(640)
Overseas holdings of U.K. local authority mortgages and stocks ... ..	(110)	(99)
	(2,650)	(2,588)
<b>Private</b>		
Portfolio investments in U.K. company securities <sup>(d)</sup> ... ..	(750)	(760)
Direct investments (except oil, insurance and banking) <sup>(e)</sup> ... ..	(1,500)	(1,850)
Net assets in the United Kingdom of overseas oil companies ... ..	(700)	(750)
Direct investments of overseas insurance companies ... ..	..	..
Direct investments of overseas banks ... ..	..	..
Individuals' holdings of real estate ... ..	..	..
Other non-company holdings of real estate ... ..	..	..
Borrowing outside the sterling area by U.K. investment trusts for purchase of foreign currency securities ... ..	—	24
	(2,950)	(3,384)
<b>Trade credit not elsewhere included</b> ... ..	56	(50)
<b>Total of identified items</b> ... ..	(11,379)	(13,392)

(c) See "External liabilities and claims of U.K. banks in foreign currencies" (Table 22 of the annex).

(d) At estimated market value.

(e) Estimated book value of net assets (see text).