

## An inventory of U.K. external assets and liabilities: end-1966

This article shows in broad terms the United Kingdom's international position on capital account at the end of 1966, bringing up to date the figures for the end of 1962 and 1964 which were given in earlier articles in this *Bulletin*.<sup>1</sup> There are brief comments on the main changes since 1964.

The figures for the three years are summarised in a table at the end.<sup>2</sup> Two points need to be made about this table. First, the inventory cannot be complete, because there are inevitably some shortcomings in the official statistics. Second, although the figures are brought together in a systematic way, resembling a balance sheet, the various elements of the table are so fundamentally different in kind, and are valued by such differing methods, that the figure produced by adding them together and striking a balance is of very limited practical significance.

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 article in March 1964. It may be helpful, however, to recall here that the table groups assets and liabilities broadly by their degree of liquidity, because this quality is more significant than the arithmetic sum of their values. But it must be emphasised that even within these broad groups there are items with widely differing degrees of liquidity; indeed, some of the items could not be realised without the greatest difficulty and sacrifice of value – if at all. Furthermore, the distinction drawn between 'short-term' and 'long-term' assets and liabilities is necessarily often arbitrary; for example, trade credit – which it is impossible to divide between short-term and long-term, and which in the previous article was dealt with entirely separately – is now considered along with short-term assets and liabilities and the I.M.F. position, for consistency with balance of payments publications. For the same reason, the Government's portfolio of dollar securities, which in the earlier articles was treated as a long-term asset but which has been liquefied in recent years, is treated as short-term at all three dates shown.

Again, for the balance of payments it is not so much the apparent valuation of the assets or liabilities which is important but the interest receipts or payments associated with them, together with the capital flows resulting from purchases and sales – although, of course, when disinvestment takes place the accumulated appreciation or depreciation forms part of the flow. In the two years 1965 and 1966 the net debit on the balance of payments long-term capital account was about £350 million. Net U.K. earnings on account of interest, profits and dividends in these two years were some £820 million.

### **Short-term assets and liabilities, the I.M.F. position and trade credit** *Private*

The totals of private short-term external assets and liabilities at the end of 1966, at about £4,500 million and £4,970 million respectively, were both considerably larger than at the end of 1964, but the net position showed a marked improvement, of £215 million. This was due to a change in the U.K. banking system's position in non-sterling currencies. Both liabilities and claims grew strongly, especi-

<sup>1</sup> In March 1964 and December 1965.

<sup>2</sup> Some of the figures for 1962 and 1964 have been revised.

ally during 1966; but claims grew faster than liabilities, partly because the pattern of relative interest rates encouraged the banks to switch back into foreign currency a large amount of foreign currency deposits which they had previously employed in sterling. By the end of 1966 the banks had net claims on overseas residents of £69 million, compared with net liabilities of £158 million two years earlier.

#### *Official*

This switching, however, also affects the gold and convertible currency reserves, and thus the official sector – and here the growth in liabilities was faster than that in assets. The reserves rose by £280 million; but this was after £316 million had been transferred in February 1966 from the Government's portfolio of dollar securities – the value of which fell by some £265 million.<sup>1</sup> Moreover, the overall increase of £15 million in official assets compares with a rise of £97 million in liabilities (which can be more than accounted for by a net increase in the sterling counterpart of drawings on central bank facilities between the end of 1964 and the end of 1966). On balance, therefore, net official short-term liabilities increased by £82 million.

#### *I.M.F. position*

The United Kingdom's net liability to the International Monetary Fund rose by £497 million during 1965 and 1966 (to £682 million), reflecting the drawing from the Fund in May 1965 of the equivalent of \$1,400 million (£500 million), repayable within five years.

#### *Trade credit*

The figures for trade credit have been derived from statistics compiled by the Board of Trade. As explained in the previous article, they exclude certain items – such as bills and promissory notes, and credit extended under the Export Credits Guarantee Department financial guarantee scheme – which by definition are included in the figures of banking liabilities and claims, in sterling and in other currencies, shown elsewhere in the table. The figures published previously for the end of 1962 and 1964 have been substantially revised to bring them into line with the classifications now adopted by the Central Statistical Office.

The latest year for which detailed information is available is 1965;<sup>2</sup> the figures for 1966 have been estimated. These estimates indicate that at the end of 1966 U.K. businesses had extended credit (not included elsewhere in the table) to unrelated concerns overseas to the extent of £560 million. At the same date, credit extended to U.K. businesses (and not included elsewhere) by unrelated concerns overseas was some £195 million. At the end of 1966, therefore, the United Kingdom had a net asset in respect of such trade credit of some £365 million, about £25 million more than at the end of 1964: as noted earlier, it is impossible to divide this between short and long-term credit – but much of it might well be short-term.

#### *Summary*

Adding the increase in net official short-term liabilities (£82 million) to that in the United Kingdom's net liability to the I.M.F. gives a total increase in net official liabilities over the two years 1965 and 1966 of £579 million. Combining this with the fall of £215 million in net private short-term liabilities, and with the increase of £25 million in respect of net trade credit extended, what may be termed the United Kingdom's position on 'monetary' account (as con-

<sup>1</sup> The difference of about £50 million between the amount transferred to the reserves and the fall in the value of the portfolio represents appreciation in the market value of the portfolio over the two years.

<sup>2</sup> *Board of Trade Journal*, 21st July 1967.

stituted in official balance of payments publications) worsened by about £340 million. This broadly reflected the balance of payments deficit on the current and long-term capital accounts, together with the balancing item,<sup>1</sup> and was less than half of the deterioration of some £750 million in the previous two years. At the end of 1966, the United Kingdom's net liquid indebtedness (short-term, I.M.F. and trade credit) totalled some £2,450 million, comprising assets of around £7,200 million and liabilities of approximately £9,650 million. It should be noted, however, that this figure may overstate short-term net indebtedness, because a large net amount of trade credit – some of it short-term – extended to related concerns overseas will be included in the figures for direct investment, which are shown under long-term assets and liabilities.

### **Long-term assets and liabilities**

#### *Official*

Official long-term assets at the end of 1966 were £983 million, little more than one third of long-term liabilities (£2,536 million). Net liabilities, however, at £1,553 million, were about £180 million lower than at the end of 1964, reflecting mainly a reduction of £126 million in the Government's net long-term indebtedness to overseas governments. New U.K. Government loans (less repayments) in 1965 and 1966 totalled about £115 million, of which £110 million went to overseas sterling area countries; total loans outstanding rose to £618 million, of which the sterling area accounted for £473 million. At the same time intergovernment loans to the United Kingdom, entirely from countries outside the sterling area, fell by £13 million.<sup>2</sup> The other main reason for the fall in net official liabilities was a steep drop in overseas holdings of U.K. local authority mortgages and stocks, from some £95 million to about £30 million, although this was partly offset by an increase of around £40 million in private overseas holdings of British government stocks.

#### *Private*

As was emphasised in the two earlier articles, estimates of private long-term assets and liabilities are both less precise and less complete than those for most of the other items listed. Moreover, the methods by which portfolio and direct investments are valued necessarily differ widely, so that adding together the various estimates given in the table produces aggregates which are not entirely consistent. The figures shown, however, provide a general indication of the changes which have taken place between the dates covered.

At the end of 1966 total identified private long-term overseas assets amounted to some £9,600 million and liabilities to about £4,200 million, giving an excess of assets over liabilities of around £5,400 million – some £100 million smaller than two years earlier. Assets are estimated to have increased by £420 million over these two years, and liabilities by £530 million.

*a Assets* The increase of £420 million in identified private long-term assets abroad covers both portfolio investments (at market value) and direct investments (at book value). The value of portfolio investments is estimated to have fallen by some £400 million between 1964 and 1966, while that of direct investments rose by some £820 million.

The decline in the value of portfolio investments (to a total of £3,200 million – of which about £1,350 million was in overseas sterling area countries and £1,850 million in other countries) was attributable as much to the sharp drop in equity prices over the

<sup>1</sup> The net changes in "monetary" liabilities shown in the table do not correspond exactly with 'monetary movements' in the balance of payments, mainly because the latter includes some items for which outstanding totals are not known.

<sup>2</sup> £51 million was drawn from the U.S. Export-Import Bank in 1966 to finance payments on military aircraft and missiles ordered from the United States. But contractual repayments on other loans came to more than this, even though the repayments of capital (£30 million) due at the end of 1965 on the post-war North American loans were deferred. Of the total of £1,836 million outstanding on these loans at the end of 1966, £1,767 million was owed to the United States and Canada.

period, both in the United States and Canada and in many other world markets, as to net sales of securities (£203 million) as shown in the balance of payments accounts. This disinvestment resulted partly from the ruling, announced in the 1965 Budget, that U.K. residents must surrender at the official rate of exchange 25% of the sale or redemption proceeds of their holdings of foreign currency securities (thereby reducing the amount of foreign currency available for reinvestment); and partly from other government measures aimed at reducing the outflow on portfolio investment overseas.

As regards direct investments abroad, the net asset value of those of U.K. companies (excluding oil, insurance and banking) at the end of 1966 is estimated to have been £620 million greater than two years earlier; and the net assets abroad of U.K. oil companies some £200 million greater. The earlier figures for direct investments (except oil, insurance and banking) have been revised in the light of a recent Board of Trade survey of investments as at December 1965,<sup>1</sup> which used a slightly different method of measuring their worth than was used for estimating the end-1962 value.<sup>2</sup> The new figures for the end of 1962 and 1964 take account of the additional information obtained from the latest survey, as well as the balance of payments estimates of direct investment abroad in the years 1963-65; the estimate for 1966 is similarly based on these new figures for the earlier years. The estimated total value at the end of 1966 is put at £4,500 million.

The approximate book value (£1,500 million) of the net overseas assets of U.K. oil companies at the end of 1966, calculated in the same way as in the earlier articles, comprised £450 million for investments in overseas sterling area countries and £1,050 million elsewhere. The tentative estimate of the value of U.K. insurance companies' direct investments in the United States at the end of 1966 is based on U.S. published statistics for the end of 1959, brought up to date by using subsequent U.S. figures for total investment in "finance and insurance".

*b Liabilities* The increase of some £530 million in the total of private identified overseas long-term investments in this country during the last two years was attributable entirely to direct investment. The estimates for direct investment (excluding oil, insurance and banking) at December 1966, and revised figures for the end of 1962 and 1964, have been arrived at by the same method as the corresponding figures for U.K. direct investments abroad, noted above. Investments by countries outside the sterling area, in particular the United States, accounted for nearly all of the total of £2,250 million.

As with the earlier estimates, the figure for the approximate book value of the net assets in this country of U.S. and European oil companies at the end of 1966 has been derived from balance sheet data, supplemented by information supplied by some of the companies. The growth in the value of these assets reflected partly a sharp rise in the oil companies' investment in connection with the exploration for natural gas in the North Sea.

The estimates for the market value of overseas holdings of U.K. company securities, at all three dates, have been derived largely from information obtained by the Board of Trade from company registrars. Net sales of U.K. equities by overseas residents totalled some £85 million in 1965-66, but these were partly offset by increases in some share prices on the London market, by the effects of rights and scrip issues, and by new debenture issues abroad by U.K. companies (£9 million). Of the total of £1,025 million held by overseas residents at the end of 1966, around £500 million is

<sup>1</sup> To be published shortly in the *Board of Trade Journal*.  
<sup>2</sup> *Board of Trade Journal*, 7th August 1964.

believed to have been owned by holders outside the sterling area.

### *Summary*

The small reduction in net private long-term assets between 1964 and 1966 was more than offset by the fall in net official long-term liabilities; and, taking official and private together, the United Kingdom's net long-term assets – which had already increased by more than £1,000 million in the previous two years – improved by a further £70 million during 1965 and 1966. At the end of 1966 total net long-term assets, official and private, amounted to some £3,850 million, comprising assets of approximately £10,600 million and liabilities of around £6,750 million.

### **Conclusion**

It has already been stressed that because of the essentially different natures of many of the items in the table, and the different standards used for measuring them, striking a balance between the totals of identified assets and liabilities produces a figure of doubtful economic significance. It may be noted, however, that total net 'monetary' liabilities – including the liability to the I.M.F. and the net position on trade credit – increased by about £340 million between the end of 1964 and the end of 1966, while the total of identified net long-term assets, as valued, increased by some £70 million.

The improvement in the long-term position in the two years is more than explained by the reduction in net official long-term liabilities – mainly through an increase in overseas lending by the U.K. Government. In the private sector, although there was a steep rise in the value of U.K. direct investment overseas, this was more than offset by the increase in foreign direct investment in the United Kingdom and by the fall – partly the result of falling prices, after the sharp rise in the previous two years – in the value of U.K. private portfolio holdings. Thus in total there was a fall in net private long-term investments abroad.

These changes should not be interpreted as corresponding simply with cash transfers or with transactions as recorded in the balance of payments estimates. For instance, as noted above, the fall in the value of U.K. private portfolio investments between the end of 1964 and the end of 1966 was as much due to a fall in equity prices, which did not by itself result in any movement of cash and was not recorded in the balance of payments accounts, as to sales of securities – which are so recorded. Similarly, as described in detail in the December 1965 article, there are a number of other types of change in the values of assets and liabilities which also do not give rise to actual cash transfers.

This latest inventory suggests that between December 1964 and December 1966 the net credit balance of U.K. external assets and liabilities may have fallen by about £270 million. Nevertheless, at the end of 1966 total overseas assets, as valued, continued substantially to exceed the country's total overseas liabilities, by some £1,400 million – which, although less than in 1964 was still somewhat greater than at the end of 1962.<sup>7</sup> Within this total, however, and particularly relevant to the balance of payments position, the United Kingdom is a substantial creditor on the higher yielding long-term capital account whereas on the lower yielding short-term account it is a net debtor. Many of the long-term assets, however, as noted earlier, could only be realised with the greatest difficulty – and at a loss, both immediately in terms of capital value and in the longer run in terms of current earnings.

<sup>7</sup> Information on private portfolio holdings of U.K. company securities by overseas residents, which has become available since the earlier articles, has led to a revision of the total net credit balances in 1962 and 1964 from around £2,000 million to about £1,350 million and £1,670 million respectively.

## U.K. external assets and liabilities<sup>a</sup>

### Assets

£ millions

#### Short-term<sup>b</sup>

##### Official:

Gold and convertible currency reserves  
H.M. Government's dollar portfolio

	1962	1964	1966
Gold and convertible currency reserves	1,002	827	1,107
H.M. Government's dollar portfolio	(358)	(445)	(180)

**Total official short-term** (1,360) (1,272) (1,287)

##### Private:

U.K. banking system's external claims in:

Sterling <sup>c</sup>	845	1,110	1,236
Non-sterling currencies <sup>d</sup>	1,010	1,626	3,020
Overseas sterling area currencies	48	67	41
Other U.K. residents' external claims in:			
Non-sterling currencies	(200)	(200)	(200)
Overseas sterling area currencies	..	..	..

**Total private short-term** (2,103) (3,003) (4,497)

#### International Monetary Fund

U.K. subscription

696 696 871

**Total I.M.F.** 696 696 871

#### Trade credit not elsewhere included

376 491 (560)

#### Long-term<sup>b</sup>

##### Official:

Inter-government loans by the United Kingdom  
Other official lending  
Subscriptions to international financial organisations (excluding the I.M.F.)  
H.M. Government's holding of Suez Finance Company securities

396 505 618  
145 149 162  
141 159 183  
(27) (25) (20)

**Total official long-term** (709) (838) (983)

##### Private:

Portfolio investments<sup>f</sup>  
Direct investments (except oil, insurance and banking)<sup>g</sup>  
Net assets abroad of U.K. oil companies  
Direct investments of U.K. insurance companies (incomplete, United States only)  
Direct investments of U.K. banks  
Individuals' holdings of real estate  
Other non-company holdings of real estate

(3,000) (3,600) (3,200)  
(3,380) (3,880) (4,500)  
(1,100) (1,300) (1,500)  
(375) (400) (400)  
.. ..  
.. ..  
.. ..

**Total private long-term** (7,855) (9,180) (9,600)

**Total of identified items** (13,099) (15,480) (17,798)

.. not available.

<sup>a</sup> The figures are at end-years; those in brackets are precarious estimates and/or known to be incomplete.

<sup>b</sup> The division between 'short-term' and 'long-term' is often arbitrary.

<sup>c</sup> As included in U.K. external liabilities and claims in sterling (Table 21 of the annex).

## Liabilities

	1962	1964	1966
Treasury bills and non-interest-bearing notes held by overseas residents (excluding the I.M.F.) <sup>c</sup>	1,096	1,217	1,347
British government stocks known to be held by overseas banks, central monetary institutions and international organisations <sup>c</sup>	1,225	1,263	1,211
Overseas current and deposit accounts in sterling with Bank of England and Crown Agents (excluding I.M.F. holdings) <sup>c</sup>	113	151	220
Overseas deposit accounts in non-sterling currencies arising from drawings on central bank facilities	—	72	14
Overseas temporary loans to local authorities <sup>c</sup>	93	132	140
<b>Total official short-term</b>	<b>2,527</b>	<b>2,835</b>	<b>2,932</b>
Overseas current and deposit accounts in sterling with U.K. commercial banks; commercial bills and promissory notes <sup>c</sup>	1,475	1,678	1,804
Overseas lending to U.K. hire purchase finance companies <sup>c</sup>	98	87	137
U.K. banking system's external liabilities in:			
Non-sterling currencies <sup>d</sup>	1,038	1,784	2,951 <sup>e</sup>
Overseas sterling area currencies	120	141	77
<b>Total private short-term</b>	<b>2,731</b>	<b>3,690</b>	<b>4,969</b>
Sterling holdings (cash and non-interest-bearing notes) <sup>c</sup>	517	881	1,538
Gold deposits	—	—	15
<b>Total I.M.F.</b>	<b>517</b>	<b>881</b>	<b>1,553</b>
<b>Trade credit not elsewhere included</b>	<b>102</b>	<b>150</b>	<b>(195)</b>
Inter-government loans to the United Kingdom	1,930	1,849	1,836
Overseas holdings of British government stocks (excluding those of overseas banks, central monetary institutions and international organisations shown above) <sup>f</sup>	(610)	(630)	(670)
Overseas holdings of U.K. local authority mortgages and stocks	(110)	(95)	(30)
<b>Total official long-term</b>	<b>(2,650)</b>	<b>(2,574)</b>	<b>(2,536)</b>
Portfolio investments in U.K. company securities <sup>f</sup>	(1,050)	(1,100)	(1,025)
Direct investments (except oil, insurance and banking) <sup>g</sup>	(1,470)	(1,820)	(2,250)
Net assets in the United Kingdom of overseas oil companies	(700)	(750)	(925)
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. institutions for purchase of foreign currency securities	—	(10)	(10)
<b>Total private long-term</b>	<b>(3,220)</b>	<b>(3,680)</b>	<b>(4,210)</b>
<b>Total of identified items</b>	<b>(11,747)</b>	<b>(13,810)</b>	<b>(16,395)</b>

<sup>d</sup> External liabilities and claims of U.K. banks in foreign currencies (Table 20 of the annex).

<sup>e</sup> Excludes a medium-term loan received by an oil company; the loan is treated as part of oil investment and included under "private long-term".

<sup>f</sup> At estimated market value.

<sup>g</sup> Estimated book value of net assets (see text).