

An inventory of U.K. external assets and liabilities: end-1967

Earlier articles¹ in this *Bulletin* have included inventories of U.K. external assets and liabilities at the end of 1962, 1964 and 1966.² Because the sterling value put on many of these assets and liabilities – particularly those denominated in foreign currencies – has been markedly affected by the devaluation of the pound, new estimates have been compiled for end-1967; they are given in the table following this article, alongside figures for 1962, 1964 and 1966.³

It has been emphasised in previous articles that, although this kind of table resembles a balance sheet, there are dangers in treating it so. To start with, there are omissions from both assets and liabilities because of lack of information; and for some of the items the estimates are subject to a wide margin of error. Furthermore, a comparison of the grand totals of assets and liabilities has much less significance than the relationships between the various groupings of assets and liabilities classified according to their degree of liquidity.

In any case, though an inventory of this kind has its uses, it is not so much the value of the United Kingdom's net creditor or debtor position which is important from the point of view of the balance of payments, as the capital flows resulting from changes in ownership of assets or liabilities and the interest receipts or payments associated with them. And it should be borne in mind that differences in the assets and liabilities shown in the table, as between one date and another, are generally not an accurate guide to capital flows, for other factors, notably valuation changes of all kinds, play their part.

As before, assets and liabilities are classified as "short-term" or "long-term" according to the concepts followed in the U.K. balance of payments accounts. The distinction is often arbitrary. Although obligations with an original maturity date of one year or less are generally classified as short-term, this is not the sole criterion used; in some cases the ease with which an asset can be realised or the probable intention of the holder may be more relevant. Some trade credit, which for lack of information cannot be divided between short-term and long-term, and the United Kingdom's net liability to the I.M.F. are shown separately.

Short-term assets and liabilities are valued at face or nominal value. Such uniformity is neither appropriate nor practicable with long-term investments, which consist not only of financial claims but also of various kinds of physical assets such as factories, plant, land and mineral rights. The book values placed on physical assets, for example, may vary widely because of companies' differing accounting

¹ In March 1964, December 1965 and September 1967.

² External assets in this context comprise assets situated outside the United Kingdom which are owned by U.K. residents and any U.K. financial claims on overseas residents; external liabilities comprise assets within the United Kingdom owned by overseas residents and any U.K. financial liabilities to such residents.

³ Some of the figures for these years have been revised.

methods, and in any case are not necessarily those at which the assets could be realised.

As in the earlier articles, U.K. external assets and liabilities are also divided between "official" and "private". This division depends on the status of the domestic creditor or debtor: "official" in this context comprises H.M. Government and other central government institutions, local and other public authorities, the Crown Agents and the Bank of England; "private" comprises all other corporate bodies, unincorporated businesses and individuals. Some further notes and definitions are given at the end of this article.

Devaluation

The devaluation of the pound in November 1967 has had a marked effect on the sterling value of the United Kingdom's external assets and liabilities. By far the larger part of the assets are denominated in overseas currencies which were not devalued last November, and the sterling value of such assets has increased by one sixth. External liabilities are more diverse. Some, such as the loans made by the U.S. and Canadian Governments shortly after the last war, are also denominated in overseas currencies, and again their sterling value has increased because of devaluation. Others, however, are denominated in sterling and unless, like the liability to the I.M.F., they were subject to provisions for the maintenance of their value in terms of gold or U.S. dollars, their sterling value was unaffected. Thus, because more assets than liabilities were denominated in overseas currencies, the value of U.K. external assets in sterling terms will have risen by more than the value of external liabilities.

The table following this article shows that the total of the United Kingdom's identified external assets at the end of 1967 exceeded that of liabilities by some £2,000 million, an increase in the overall net creditor position in sterling terms of nearly £500 million on a year earlier. But the direct effect of devaluation was almost certainly a good deal larger than this, so that without the change in parity the net creditor position as calculated for this series would have deteriorated.

Short-term assets and liabilities^a

£ millions

	End- 1966	End- 1967	Change during 1967 ^b
Assets			
Official	1,287	1,123	- 164
Private	4,513	5,979	+ 1,466
	5,800	7,102	+ 1,302
Liabilities			
Official	2,929	3,566	- 637
Private	4,972	6,282	- 1,310
	7,901	9,848	- 1,947
Net			
Official	- 1,642	- 2,443	- 801
Private	- 459	- 303	+ 156
Total	- 2,101	- 2,746	- 645

^a Some figures are estimates and/or known to be incomplete.

^b Increase in assets = +; increase in liabilities = -.

Short-term assets and liabilities

Identified short-term external assets - taking official and private together - totalled £7,102 million at the end of 1967. At the same time short-term liabilities amounted to £9,848 million. Net short-term liabilities thus totalled £2,746 million compared with £2,101 million at the end of 1966.

This deterioration in the United Kingdom's net short-term position appears entirely in the official sector. Official short-term assets are shown to have fallen by £164 million during 1967: at the end of the year the Exchange Equalisation Account's holdings of gold and convertible currency reserves were only slightly higher in sterling terms than they were a year earlier, despite the change in the exchange rate and the fact that the remaining assets in H.M. Government's portfolio of dollar investments were transferred to the reserves. Furthermore, official short-term liabilities to overseas residents, which include the sterling equivalent of drawings on central bank facilities, rose by £637 million during the year, to £3,566 million.

In the private sector, short-term assets and liabilities – consisting mainly of the external assets and liabilities of the U.K. banking system – were each substantially higher at the end of 1967 than a year earlier, but the net liability was reduced from £459 million to £303 million. This was because of some withdrawals by overseas residents of sterling deposits and an increase in U.K. banks' sterling claims on overseas. The banks' claims and liabilities in foreign currencies each rose by some £1,350 million during the year, leaving the net position little changed: rather less than half of this rise can in each case be attributed to the increase in sterling values as a result of devaluation, while the rest reflects the continuing growth of U.K. banks' operations in the euro-dollar market.

I.M.F. position

Both the United Kingdom's subscription to the International Monetary Fund – included here as an external asset – and its gross liabilities to the Fund were increased in terms of sterling by devaluation. But liabilities to the Fund were reduced in 1967 by the repayment of the outstanding part of the 1964 drawing and by other countries' sterling drawings from the Fund. The United Kingdom's net liability fell therefore by £242 million, to £440 million.

Trade credit

Provisional estimates show that at the end of 1967 U.K. businesses had extended credit (not included elsewhere in the table) totalling some £550 million to unrelated concerns overseas. At the same date credit extended from overseas to U.K. businesses (and not included elsewhere) amounted to about £210 million. The United Kingdom had a net asset, therefore, of some £340 million – about £60 million less than a year earlier.

Long-term assets and liabilities^a

£ millions

	End- 1966	End- 1967	Change during 1967 ^b
Assets			
Official	983	1,059	+ 76
Private	9,600	11,550	+1,950
	10,583	12,609	+2,026
Liabilities			
Official	2,546	2,887	– 341
Private	4,195	4,965	– 770
	6,741	7,852	–1,111
Net			
Official	–1,563	–1,828	– 265
Private	+5,405	+6,585	+1,180
Total	+3,842	+4,757	+ 915

^a Some figures are estimates and/or known to be incomplete.

^b Increase in assets = +; increase in liabilities = –.

Long-term assets and liabilities

It has already been emphasised that any estimates of the value of long-term assets and liabilities are necessarily very precarious. Nevertheless, it is clear that in terms of sterling the United Kingdom's overall net creditor position on long-term capital account became much stronger in 1967. Identified long-term assets at the end of the year are put at around £12,600 million whilst liabilities amounted to over £7,800 million, producing an excess of long-term assets over liabilities of not much less than £4,800 million. This was over £900 million larger than at the end of 1966.

Assets

Official long-term assets rose by some £75 million during 1967 and at the end of the year stood at about £1,060 million. The bulk of the increase represented new loans to developing countries; outstanding loans made by the Government to other governments at the end of the year totalled £679 million, of which £529 million were to overseas sterling area countries.

Private long-term assets, so far as they are known, are estimated to have amounted to about £11,550 million at the end of 1967, a rise of some £1,950 million in sterling terms

since the end of 1966. Nearly half of this rise is attributable to an increase in the sterling value of portfolio investment overseas, which at the end of the year is estimated to have totalled about £4,150 million (of which about £1,800 million was in overseas sterling area countries and £2,350 million in other countries). This increase in value reflects both the change in the sterling exchange rate and the recovery in equity prices in overseas markets, especially in the United States and Canada. On balance there was probably little new investment overseas in 1967: U.K. investors continued to be net sellers of securities of non-sterling area countries but for the first time since 1961 they increased their portfolio investment in countries in the overseas sterling area.

Estimates of the book value of direct investment overseas have been made without the benefit of a new survey covering the end of 1967; only very tentative estimates can therefore be made about the effect of devaluation. However, the Board of Trade estimate that the asset value of direct investments abroad at the end of 1967 (excluding investment by oil companies, insurance companies and banks) may have amounted to some £5,300 million. Some two thirds of the increase of £800 million in 1967 is attributed to devaluation. The approximate book value of the overseas assets of U.K. oil companies at the same date is put at £1,600 million. However, the increase of £125 million compared with a year earlier does not take full account of the effects of devaluation.

Liabilities

Official long-term liabilities to overseas residents at the end of 1967 are valued at nearly £2,900 million, the bulk of which represents loans received from the U.S. and Canadian Governments shortly after the end of the 1939-45 War; the increase of some £340 million on a year earlier was largely caused by devaluation.

Private identified long-term liabilities to overseas residents are estimated to have risen by some £770 million during the year, to nearly £5,000 million: only a very little of this can be attributed to devaluation.

Both portfolio investments in U.K. company securities and direct investment in the United Kingdom were higher at the end of the year than at the beginning. The estimated market value of foreign-held portfolio investments in U.K. companies is thought to have risen during 1967 by some £350 million, or just over 30%; though non-residents sold a small amount of U.K. company securities, there was a rise in stock market prices, and some new public issues were made overseas by U.K. companies.

By contrast, an increase of nearly £400 million in the value of foreign direct investment (including oil) in the United Kingdom reflects a net inward flow of capital: inward investment by overseas oil companies, largely to build refineries, rose particularly sharply in 1967; other inward direct investment continued at about the same rate as in recent years.

Conclusion

The latest inventory indicates that at the end of 1967 the

total of the United Kingdom's overseas assets was still substantially higher than the total of its overseas liabilities. The net credit balance, as measured in sterling, rose by nearly £500 million during the year, though this was more than accounted for by the direct effect of devaluation.

It has, however, already been stressed that because of the variety in the elements comprising the table, the different ways in which they are valued, and the widely differing degrees to which they are capable of being realised, the totals produced by adding them all together are of very limited significance. More important in the short run is that the 'improvement' in 1967 was entirely in the balance of long-term assets and liabilities and that the balance of short-term assets and liabilities worsened considerably. Thus at the end of the year the United Kingdom had net long-term assets overseas of nearly £4,800 million – an increase in sterling terms of more than £900 million on a year earlier – while net indebtedness on what may be termed the 'monetary account' (*i.e.* short-term items, the net I.M.F. position and trade credit) stood at over £2,800 million, a deterioration of not much less than £500 million.

It should be noted that the bulk of the United Kingdom's long-term assets overseas consists either of direct investment, which is essentially of a semi-permanent nature, or of private portfolio investment. So far as the portfolio assets are concerned the values shown in the table are probably a good deal higher than those that would be realised on any wholesale liquidation. Furthermore, these assets are largely in the form of equities, which are likely to increase in value and produce more income as time passes, whereas much of the United Kingdom's overseas liabilities is in the form of fixed interest securities.

While the United Kingdom is still a net creditor nation, taking the sum of assets and liabilities together, the figures underline the overwhelming need for the United Kingdom to achieve a surplus on the balance of payments account, sufficient not only to prevent any further deterioration of its net short-term position overseas but also to enable it to repay the very heavy burden of short-term debts incurred over the last few years.

U.K. external assets and liabilities^a

£ millions: percentages of total identified items in italics

Assets	1962	1964	1966	1967
Short-term^b				
Official				
Gold and convertible currency reserves	1,002	827	1,107	1,123
H.M. Government's dollar portfolio	(360)	(445)	(180)	—
Total official short-term	(1,362)	(1,272)	(1,287)	1,123
	<i>10</i>	<i>8</i>	<i>7</i>	<i>5</i>
Private				
U.K. banking system's external claims in:				
Sterling ^c	848	1,113	1,252	1,343
Foreign currencies ^d	1,010	1,626	3,020	4,367
Overseas sterling area currencies	48	67	41	44
Other U.K. residents' external claims in:				
Foreign currencies	(200)	(200)	(200)	(225)
Overseas sterling area currencies	..	..	..	..
Total private short-term	(2,106)	(3,006)	(4,513)	(5,979)
	<i>16</i>	<i>19</i>	<i>25</i>	<i>28</i>
International Monetary Fund				
U.K. subscription	696	696	871	1,017
Total I.M.F.	696	696	871	1,017
	<i>5</i>	<i>5</i>	<i>5</i>	<i>5</i>
Trade credit not elsewhere included	372	487	587	(553)
	<i>3</i>	<i>3</i>	<i>3</i>	<i>3</i>
Long-term^b				
Official				
Intergovernment loans by the United Kingdom	396	505	618	679
Other official lending	145	150	162	165
Subscriptions to international financial organisations (excluding the I.M.F.)	141	159	183	195
H.M. Government's holding of Suez Finance Company securities	(27)	(25)	(20)	(20)
Total official long-term	(709)	(839)	(983)	(1,059)
	<i>6</i>	<i>6</i>	<i>6</i>	<i>5</i>
Private				
Portfolio investments ^e	(3,000)	(3,600)	(3,200)	(4,150)
Direct investments (except oil, insurance and banking) ^f	(3,410)	(3,910)	(4,500)	(5,300)
Net assets abroad of U.K. oil companies ^g	(1,100)	(1,275)	(1,475)	(1,600)
Direct investments of U.K. insurance companies (incomplete, United States only)	(375)	(400)	(425)	(500)
Direct investments of U.K. banks	..	..	..	..
Individuals' holdings of real estate	..	..	..	..
Other non-company holdings of real estate	..	..	..	..
Total private long-term	(7,885)	(9,185)	(9,600)	(11,550)
	<i>60</i>	<i>59</i>	<i>54</i>	<i>54</i>
Total of Identified items	(13,130)	(15,485)	(17,841)	(21,281)

.. not available.

^a The figures are at end-years; those in brackets are estimates (some of which are precarious) and/or known to be incomplete.

^b The division between 'short-term' and 'long-term' is often arbitrary.

^c As included in U.K. external liabilities and claims in sterling (Table 20 of the annex).

Liabilities	1962	1964	1966	1967
Treasury bills and non-interest-bearing notes held by overseas residents (excluding the I.M.F.) ^c	1,096	1,217	1,347	1,864
British government stocks known to be held by overseas banks, central monetary institutions and international organisations ^c	1,225	1,263	1,211	1,197
Overseas current and deposit accounts in sterling with Bank of England and Crown Agents (excluding I.M.F. holdings) ^c	113	151	217	174
Official liabilities in foreign currencies	—	72	14	193
Overseas temporary loans to local authorities ^c	93	132	140	138
Total official short-term	2,527	2,835	2,929	3,566
	22	20	18	18
Overseas current and deposit accounts in sterling with U.K. commercial banks; commercial bills and promissory notes ^c	1,475	1,678	1,807	1,768
Overseas lending to U.K. hire purchase finance companies ^c	98	87	137	102
U.K. banking system's external liabilities in:				
Foreign currencies ^d	1,038	1,784	2,951 ^d	4,308 ^d
Overseas sterling area currencies	120	141	77	104
Total private short-term	2,731	3,690	4,972	6,282
	23	27	30	32
Sterling holdings (cash and non-interest-bearing notes) ^c	517	881	1,538	1,439
Gold deposits	—	—	15	18
Total I.M.F.	517	881	1,553	1,457
	4	6	9	8
Trade credit not elsewhere included	125	170	183	(211)
	1	1	1	1
Intergovernmental loans to the United Kingdom	1,930	1,849	1,836	2,172
Overseas holdings of British government stocks (excluding those of overseas banks, central monetary institutions and international organisations shown above) ^e	(610)	(630)	(670)	(670)
Overseas holdings of U.K. local authority mortgages and stocks	(110)	(100)	(40)	(45)
Total official long-term	(2,650)	(2,579)	(2,546)	(2,887)
	23	19	16	15
Portfolio investments in U.K. company securities ^e	(1,050)	(1,160)	(1,100)	(1,450)
Direct investments (except oil, insurance and banking) ^f	(1,430)	(1,780)	(2,170)	(2,350)
Net assets in the United Kingdom of overseas oil companies ^f	(700)	(750)	(850)	(1,050)
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)	(15)
Borrowing outside the sterling area by U.K. companies for direct investment abroad or in the United Kingdom (except oil)	(5)	(25)	(65)	(100)
Total private long-term	(3,185)	(3,725)	(4,195)	(4,965)
	27	27	26	26
Total of Identified items	(11,735)	(13,880)	(16,378)	(19,368)

^d External liabilities and claims of U.K. banks in foreign currencies (Table 19 of the annex). The figures of liabilities in 1966 and 1967 exclude, however, the outstanding amount of a medium-term loan, in foreign currency, received by an oil company through certain London banks; for consistency with the balance of payments accounts this is included in "net assets abroad of U.K. oil companies".

^e At estimated market value. Foreign currency assets are converted at official rates.

^f Estimated book value of net assets.

Notes and definitions

Assets and liabilities denominated in foreign currencies are valued in the table in terms of sterling, generally at exchange rates ruling at the time.

Assets

Short-term

Private

Short-term assets in the private sector comprise, in the main, the external claims of banks and other financial institutions on overseas residents. These claims include credit extended under the Export Credits Guarantee Department financial guarantee scheme and that part of commercial trade credit which is represented by bills or promissory notes held by or lodged with banks in this country.

"Other U.K. residents' external claims in foreign currencies" mainly represent the working balances of insurance and oil companies held directly with banks abroad. No accurate statistics are available and the figures quoted are estimates.

Trade credit not elsewhere included

As mentioned above, certain items of trade credit are included in the total of private short-term assets whilst credit extended by U.K. companies to their affiliates abroad or by the U.K. affiliates of overseas companies to their parent concerns is indistinguishably included in the figures for direct investment. The remainder of trade credit outstanding is shown under this heading. The figures for 1967 are provisional, as the latest available comprehensive Board of Trade survey relates to the end of 1966.

Long-term

Private

Portfolio Estimates of the value of U.K. portfolio investment overseas are based on a survey compiled mainly for measuring capital flows: broad adjustments to the flows have been made to allow for deficiencies of coverage and changes in market values resulting from price fluctuations have been estimated. The resultant total is accordingly a very precarious estimate, the full composition and geographical distribution of which is not known.

Direct Direct investment is defined as the investment of U.K. companies in their overseas branches, subsidiaries and associates. The figures are based on Board of Trade surveys which relate to total net asset values attributable to investing companies *i.e.* book values of fixed assets, less accumulated depreciation provisions, plus current assets, less current liabilities. Book values of fixed assets acquired some years ago may be considerably below current market or replacement values, and in individual cases may be quite unrealistic.

Net external assets of U.K. oil companies The estimates are approximate book values of the net external assets of U.K. oil companies and 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. The oil companies' current assets are generally valued in terms of sterling at exchange rates ruling at the time; the treatment of fixed assets varies, but a large part has not been revalued to take account of the change in the exchange rate last November.

Direct investments abroad of U.K. insurance companies Comprehensive statistics of the value of the overseas interests of U.K. insurance companies are not available. Tentative estimates are shown of the value of U.K. insurance companies' direct investments in the United States; these are based on U.S. statistics for 1959, brought up to date by using subsequent U.S. figures for total investment flows in "finance and insurance"; the figure for 1967 is merely the 1966 figure adjusted upwards to take account of devaluation and rises in market prices. The resultant total is certain to be considerably lower than the current value of the U.K. insurance companies' stake abroad.

Liabilities

Short-term

Official

Part of the United Kingdom's official short-term liabilities is represented by British government stocks held by overseas banks, central monetary institutions and international organisations. These stocks are not, in the main, short-term liabilities so far as the U.K. Government itself is concerned; nevertheless they are classified as short term because they are freely marketable assets held for banking or central monetary purposes rather than for long-term investment.

"Official liabilities in foreign currencies" represent monetary assistance received by the United Kingdom in the form of foreign currency deposits from central banks and, in 1967, from the consortium of Swiss commercial banks and from central banks through the Bank for International Settlements. The sterling counterpart of the bulk of central bank assistance to the United Kingdom – through the medium of foreign currency swaps – is included in the total of "Treasury bills and non-interest-bearing notes held by overseas residents".

Trade credit not elsewhere included

As in the case of external assets some items of trade credit are included in the total of private short-term liabilities, while credit received by U.K. concerns from their parent companies or affiliates overseas is included in the figures of direct investment. The remainder of trade credit outstanding is shown under this heading, the figures for 1967 being provisional.

Long-term

Official

Overseas holdings of British government stocks (excluding those of overseas banks, central monetary institutions and international organisations) The nominal amounts of these holdings are derived largely from U.K. banks' (and the Crown Agents') returns of external liabilities and claims and from an analysis of the stock registers held at the Bank of England. This analysis is not fully comprehensive but will improve in cov-

erage as work at the Bank on the transfer of the registers to magnetic tape progresses.⁷

A market valuation is made of the nominal holdings revealed by the survey outlined above, but this cannot be precise and no detailed geographical distribution is available.

Overseas holdings of U.K. local authority mortgages and stocks The figures relate mainly to amounts held through the Crown Agents and banks in the United Kingdom. Information regarding holdings through other U.K. agents is not available.

Private

Portfolio investment in U.K. company securities As in the case of the survey of outward investment, the market value of inward portfolio investment has to be derived from statistics primarily produced for measuring capital flows. The valuation shown therefore is only approximate.

Direct Direct investment in the United Kingdom is defined as investment by companies incorporated abroad in their U.K. branches, subsidiaries and associate companies. The estimates relate to book values and are comparable with those for outward direct investment.

Net assets in the United Kingdom of overseas oil companies The estimated book value of assets 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.

Borrowing outside the sterling area The figures for long-term borrowing outside the sterling area, either for the purchase of foreign currency securities, or for direct investment abroad or in the United Kingdom, are derived from information supplied to the U.K. Exchange Control. The borrowing (in the euro-dollar market) of foreign currencies through banks or other institutions in the United Kingdom is excluded since, to the extent that the foreign currency deposits which are being on-lent originated abroad, they are already reflected in the totals of U.K. banks' external liabilities in foreign currencies. Public issues abroad of U.K. companies' bonds denominated in foreign currencies are included in the estimates of overseas portfolio investments in U.K. company securities.

⁷ See page 266.