

## An inventory of U.K. external assets and liabilities: end-1969

Earlier issues of this *Bulletin* have included a series of articles<sup>1</sup> analysing in broad terms the United Kingdom's external assets and liabilities.<sup>2</sup> The first related to the end of 1962. The inventory was brought up to date for the end of 1964 and 1966 and then, because the sterling value of many of the assets and liabilities was affected by the devaluation of sterling, for the end of 1967. Since then the series has been continued annually.

The estimates for end-1969 which are discussed in this article are in a revised form. They are shown in the table at the end of the article together with those for all the earlier years, which have now been brought into line. As before all U.K. external assets and liabilities are classified as 'public sector' or 'private sector' according to the status of the domestic creditor or debtor.<sup>3</sup> But the attempt to divide external assets and liabilities into 'long-term' and 'short-term' (or 'monetary') has now been discontinued. For one thing, the regularly available statistical information is often not sufficient to allow a precise division according to length of maturity, and some of the so-called short-term or monetary items (e.g. trade credit) have included a large, although not precisely identifiable, long-term element. Again the classification of assets and liabilities according to their relative liquidity is meaningful, but it has involved some rather arbitrary decisions, based not only on the length to maturity of the obligation in question but also on the ease with which it could be realised and the probable intention of the holder. Thus, British government stocks held by central monetary institutions and commercial banks overseas have hitherto been treated as U.K. short-term liabilities, whereas similar securities held by other overseas residents have been treated as long-term liabilities.

The classification now adopted for U.K. public sector assets and liabilities is the one used in the new presentation of the capital account in the U.K. balance of payments statistics, where 'official financing items' are shown separately from all other official assets and liabilities.<sup>4</sup> "Official financing" covers, on the one hand, reserve assets and, on the other, official borrowing in support of the reserves, both from the International Monetary Fund and from other overseas monetary authorities.

Private assets and liabilities are now grouped under two headings—'investment' and 'banking and commercial'. These groups are broadly the same as those previously

<sup>1</sup> The earlier articles were published in March 1964, December 1965, September 1967, September 1968 and December 1969.

<sup>2</sup> External assets in this context broadly comprise assets situated outside the United Kingdom which are owned by U.K. residents, and U.K. financial claims on overseas residents; external liabilities comprise overseas residents' assets within the United Kingdom, and U.K. financial liabilities to such residents.

<sup>3</sup> 'Public sector' means the central government, public corporations and local authorities; 'private sector' here means the banks (including the Bank of England, Banking Department and the Crown Agents), other corporate bodies, unincorporated businesses and individuals.

<sup>4</sup> *United Kingdom Balance of Payments 1970* (H.M.S.O., September 1970) Table 3.

shown as 'long-term' and 'short-term' (or 'monetary') respectively, but the new headings are a better description of the assets and liabilities listed under them. 'Banking and commercial' covers all liabilities and assets of this type, regardless of maturity. The Banking Department of the Bank of England and the Crown Agents have been moved from 'public sector' into 'private sector - banking' in order to conform to general practice. Most of the items grouped as 'investment' can be broadly classified as long-term, but the opportunity has been taken to include in this category certain insurance assets in the non-sterling area which had previously been counted as 'short-term'.

This article considers the assets and liabilities in each of these sectors and groupings, and comments on the main changes that have taken place in the figures during 1969 and over the seven-year period since the end of 1962. Particular emphasis is given to the very uncertain nature of the estimates of 'portfolio investment'.

### Assets and liabilities of the U.K. private sector

#### *U.K. private investment overseas*

Private investment assets overseas, so far as they are known, are estimated to have risen in value by some £6,000 million between 1962 and 1969, £2,500 million of which is accounted for by portfolio investment. There was not much increase in the total during 1969, because an increase in the value of direct investment overseas was largely offset by a decline in the value of portfolio investment which reflected the fall in stock exchange prices in New York.

The Board of Trade's latest estimates suggest that the book value of direct investment overseas (excluding that of oil companies, insurance companies and banks) was about £6,060 million at end-1969, an increase of £460 million compared with end-1968 and of £2,650 million compared with end-1962. At end-1969 the book value of the overseas assets of U.K. oil companies, including the 40% share of the net assets of the Royal Dutch/Shell Group outside the United Kingdom owned by Shell Transport and Trading Company, was £1,775 million, £125 million above end-1968 and nearly £700 million higher than in 1962.

Complete statistics of the value of the overseas interests of U.K. insurance companies are not available, but U.S. statistics make possible a tentative estimate of the book value of U.K. insurance companies' net direct investment in the United States; this is put at £525 million at end-1969.

Although information has been collected concerning direct investment abroad by U.K. banks during recent years (and overseas banks' direct investment in the United Kingdom), there are no figures at present available for the total value of assets (and liabilities) of this type.

In the absence of a comprehensive survey of U.K. portfolio investment abroad, the estimates of this item are derived partly from returns from paying agents and registrars in this

#### Private sector — Investment

£ millions

	1962	1968	1969
Assets	8,085	13,900	14,060
Liabilities	3,160	6,480	6,750
Net	+ 4,925	+ 7,420	+ 7,310

country and partly from returns from U.K. authorised depositaries. In the case of the returns from paying agents and registrars the information is in terms of holdings which have to be converted into market value. In the case of the returns from the authorised depositaries the information is in terms of market transactions in foreign currency securities, and the net aggregate of these is used to bring up to date an earlier benchmark; in so doing, allowance also has to be made for changes in the market value of holdings. The results, however, are incomplete in that securities issued in overseas sterling area countries – an increasingly important category – are generally not covered. In an attempt to fill the gap, the figures are grossed up in the proportion that the income on the holdings covered falls short of the total portfolio income from overseas in the U.K. balance of payments statistics (this total being obtained very largely from Inland Revenue records). It follows that the estimates produced are very precarious and that they cannot be analysed in any detail. In very round terms the total at the end of 1969 is put at £5,700 million, divided more or less equally between the overseas sterling area and the non-sterling area. This compares with revised totals of £6,150 million in 1968 and £3,200 million in 1962. Net acquisitions of portfolio investment amounted to about £300 million during 1967–68; but over the seven-year period as a whole net acquisitions were no more than about £100 million. Thus the large increase in value over the period is almost entirely attributable to capital appreciation, including the increase in sterling values resulting from devaluation in November 1967.

There are some independent statistics of portfolio assets held abroad by a few groups of U.K. holders. At the end of 1969 the value of holdings by investment and unit trusts was about £1,800 million, compared with £2,100 million at end-1968,<sup>1</sup> but these figures are calculated in a different way from the estimates in the previous paragraph in that they may make some allowance for the investment currency premium. Statistics published for certain other groups of financial institutions show only holdings of overseas government securities.

According to estimates for end-1968 published by the Inland Revenue and derived from estate duty statistics, holdings of individuals are put in the region of £1,400 million.<sup>2</sup> It is emphasised, however, that this estimate is again subject to a wide margin of error.

#### *Overseas investment in the U.K. private sector*

The value of overseas investment in the U.K. private sector rose by some £3,600 million during the seven-year period. This increase was very much less than the increase in value of U.K. investment in overseas enterprises during the same period, and the total of overseas investment in the U.K. private sector at the end of 1969 (£6,750 million) was less than half the total of U.K. private investment abroad. During 1969, however, the size of the increase in inward

<sup>1</sup> See Tables 15 and 16 of the statistical annex.

<sup>2</sup> *Inland Revenue Statistics 1970* (H.M.S.O.).

investment (£270 million) was somewhat larger than that in outward investment; the pattern was similar, with a further rise in the value of direct investment in the United Kingdom being partly offset by a decline in the value of portfolio investment in U.K. companies.

A little over £2,000 million of the total increase during the seven-year period was attributable to the rise in the book values of overseas direct investment in the United Kingdom. Investment in industries other than oil, insurance and banking, accounted for £1,500 million of this rise, and oil companies for the remainder. According to a survey by the Board of Trade, the end-1969 book value of direct investment, excluding oil, insurance and banking, was £2,930 million. As regards the overseas oil companies, available balance sheet data, supplemented by information given by some of the companies, indicated that the book value of their net assets in the United Kingdom was approximately £1,250 million at the end of last year; this 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.

The market value of overseas portfolio investment in U.K. companies is derived from information obtained by the Board of Trade from the registrars of some 200 large U.K. companies. This information is in terms of the nominal values of overseas holdings, and the Board, after making a conjectural allowance for other companies, have to convert to market values and then add something for overseas holdings of debentures and preference shares and also for holdings by residents of the Republic of Ireland, which are not included in the reports from company registrars. Overseas holdings through nominees can only be allowed for by identifying those nominee companies believed to be acting mainly on behalf of overseas residents. For these reasons the estimates can only be very approximate. The estimate for the end of 1969 was £2,200 million, as against £2,350 million in 1968 and £1,000 million in 1962. The high figure for end-1968, of course, reflects the rise in prices on the London stock exchange during that year. It was to be expected that the subsequent decline in prices would lead to a lower figure at the end of 1969; it would have been even lower if foreigners had not made some quite substantial purchases of selected shares last year.

An increasing amount of money has been raised abroad by U.K. companies in order to provide finance for investment, chiefly overseas investment. Overseas holdings of foreign currency issues by U.K. companies amounted to £105 million at the end of last year. Companies had borrowed a further £265 million directly from overseas financial institutions or unrelated companies (borrowing from associated companies would be included in direct investment). An even larger sum has been borrowed in foreign currencies by U.K. concerns from London banks, to finance overseas investment and also for various domestic uses. In this case the banks are relending euro-currency deposits received from overseas and it is their liability to repay which is recorded (under 'banking liabilities') – not the liability of the U.K. companies.

To sum up, the value of private investment abroad

exceeded that of overseas investment in the U.K. private sector by some £7,300 million at the end of last year, an increase of £2,400 million compared with end-1962. About £700 million of this increase is explained by the excess of outward investment over inward investment during the seven years as recorded in the balance of payments accounts,<sup>1</sup> and the remaining £1,700 million is a measure of the net appreciation including the increase in sterling values resulting from devaluation in November 1967.

### Banking and commercial assets and liabilities

#### Private sector—Banking and commercial

£ millions	1962	1968	1969
Assets	2,210	9,495	14,785
Liabilities	2,870	9,225	14,350
Net	- 660	+ 270	+ 435

The figures are dominated by the London banks' external assets and liabilities in foreign currencies, which reflect their operations in the euro-currency market. This market was very active during 1969, largely because of a heavy demand for euro-dollars by banks in the United States; and the foreign currency assets and liabilities of banks in the United Kingdom increased by some 70% during the year, to approaching £12,000 million. This is essentially a market in time deposits, in which the banks seek broadly to match the maturities of their liabilities and claims. The business is predominantly in short-term money, as can be seen from the results of a maturity analysis in July 1969 published in the March 1970 issue of the *Bulletin*.<sup>2</sup> Even so, borrowing and lending for periods of one year or more, although small in proportion, are substantial in total. At the end of 1969 the banks' external position in foreign currencies was one of approximate balance, after allowing for the £250 million of foreign currency bills they had discounted which are included in the item "commercial bills owned by U.K. banks".

The total of sterling and foreign currency commercial bills owned by the banks at the end of 1969 was about £1,100 million and included nearly £400 million of fixed rate long-term export credit under guarantee by the Export Credits Guarantee Department. A further £1,100 million of trade credit was extended directly by U.K. firms to overseas concerns, other than to related concerns.<sup>3</sup> The combined figure of about £2,200 million is over three times the amount of such trade credit outstanding at the end of 1962. In contrast, the amount of credit received from overseas suppliers was in the region of only £400 million at the end of last year; and much of this is thought to have been taken in order to help to meet the cost of import deposits.<sup>4</sup>

Other banking assets in sterling, which comprise advances and overdrafts and claims arising from acceptances, have levelled off in recent years, and the 1969 total of £670 million was no higher than in 1964. On the liabilities side, the banks held £1,830 million of sterling deposits for overseas customers, representing working balances and liquid reserves. This was not, however, the total of overseas short-term

<sup>1</sup> Some of this net acquisition was financed by borrowing in the euro-currency market in London.

<sup>2</sup> See Table C to the article "The euro-currency business of banks in London" in the March 1970 *Bulletin*.

<sup>3</sup> Credit between related companies forms part of direct investment.

<sup>4</sup> Import deposits paid directly to H.M. Customs by overseas suppliers are included under public sector liabilities.

sterling holdings, which also included sterling deposits with finance houses and public sector liabilities such as Treasury bills and temporary loans to U.K. local authorities.

### Public sector assets and liabilities (other than 'official financing')

#### Public sector assets and liabilities

£ millions	1962	1968	1969
Assets	710	1,120	1,230
Liabilities	4,995	4,750	4,925
Net	<u>- 4,285</u>	<u>- 3,630</u>	<u>- 3,695</u>

Official assets in this group comprise chiefly U.K. external claims in respect of overseas aid, made available either directly to overseas governments or through international bodies such as the International Bank for Reconstruction and Development and the International Development Agency. Since 1962 these assets have increased by £520 million.

Official liabilities here consist of two main elements. One is the outstanding long-term U.K. government debt to overseas governments or government agencies, such as the post-war debt to the United States and Canada. There was some repayment of this type of debt between 1962 and 1966, but between 1966 and 1969 the total rose by £400 million, partly because of the increase in sterling terms caused by devaluation in 1967 and partly because of new borrowing. This included loans from the U.S. Export-Import Bank to finance aircraft purchases and from Western Germany to help meet the foreign currency costs of stationing U.K. forces there.

The other element consists of overseas holdings of various types of U.K. public sector debt. Purchases of British government sterling securities by overseas central monetary institutions and banks in 1969 outweighed a fall in market values, and their holdings rose from £1,045 million to £1,200 million. The value of other overseas holdings of British government securities fell by some £70 million in 1969, to £635 million, mainly reflecting the decline in market values. Overseas holdings of Treasury bills and notes (other than holdings included in official financing) fell by a further £80 million in 1969 to £530 million, compared with about £1,100 million in 1962. The decline in overseas holdings has been only partly because of withdrawals of funds; there has also been a switch into other types of sterling assets, offering a higher return than that available on Treasury bills.

A new feature in 1969 was the raising of capital abroad by U.K. public corporations and local authorities by means of foreign currency issues, and other forms of borrowing, in continental capital markets. Altogether about £80 million was raised in this way during the year.

### Official financing

Reserve assets here comprise the official gold and convertible currency reserves held in the Exchange Equalisation Account, the market value of H.M. Government's portfolio of dollar securities for the years before it was absorbed into the official reserves, and the U.K. gold tranche with the I.M.F. The gold tranche is included as a reserve asset because it

## Official financing

£ millions	1962	1968	1969
Reserve assets	1,540	1,010	1,055
Official financing liabilities	—	3,110	2,410
Net	+ 1,540	- 2,100	- 1,355

constitutes an automatic drawing right on the I.M.F. It represents the amount that can be drawn without bringing the Fund's holdings of sterling above the U.K. quota. A gold tranche drawing has the effect of using up a reserve asset rather than increasing official financing liabilities. These liabilities comprise outstanding obligations to overseas monetary authorities undertaken in order to protect the reserves. The drawings on the I.M.F. included here are those other than gold tranche drawings, and are measured less repayments and less other countries' net purchases of sterling from the I.M.F.<sup>7</sup>

It will be seen that there was a worsening of £3,640 million in the net position during the period 1962-68, from net assets of £1,540 million to net liabilities of £2,100 million. This deterioration was considerably more than the total balance of payments deficit over the period - about £950 million on current account or about £2,000 million in terms of the old 'basic balance' (*i.e.* current account, plus net private investment, plus official long-term capital). The difference broadly reflects other capital movements, partly a reduction in U.K. external liabilities as overseas short-term funds were withdrawn owing to a loss of confidence in sterling, and partly an expansion in U.K. external assets, in particular through the granting of trade credit. In order to finance all these outgoings, the dollar portfolio was taken into the official reserves, a net £1,134 million was drawn from the I.M.F., including the gold tranche, and £2,229 million was borrowed from other overseas monetary authorities.

Considerable progress was made in 1969 in improving the reserve position. Firstly, the balance of payments on current account moved into substantial surplus. Secondly, helped by a recovery of confidence in sterling, by the growth in the reserve holdings of the overseas sterling area countries, and by the credit squeeze, there was a large net investment and capital inflow, as well as a favourable movement in the timing of commercial payments. As a result U.K. debt to the I.M.F. and to other overseas monetary authorities was reduced by £700 million, to £2,664 million, and there was, in addition, a gain of over £40 million in the reserves. Further large repayments of debt in the first half of 1970 brought the total down to £1,461 million at the end of June; and the official reserves rose by £110 million during these six months, to £1,163 million, after the receipt of £171 million at the beginning of January as the first allocation of I.M.F. Special Drawing Rights.

## Net external assets and liabilities: summary

Net assets = + ; net liabilities = -

£ millions	1962	1968	1969
Investments	+ 4,925	+ 7,420	+ 7,310
Banking and commercial	- 660	+ 270	+ 435
Official capital	- 4,285	- 3,630	- 3,695
Reserves and related items	+ 1,540	- 2,100	- 1,355
<b>Total</b>	<b>+ 1,520</b>	<b>+ 1,960</b>	<b>+ 2,695</b>

## Conclusions

At the end of 1969, the sum of U.K. external assets exceeded the sum of U.K. external liabilities, so far as they can be identified, by about £2,700 million. This 'surplus' was over £700 million more than a year before and nearly £1,200 million more than in 1962.

<sup>7</sup> The U.K. sterling subscription to the I.M.F. of 75% of quota and the corresponding sterling liabilities to the I.M.F. have both been omitted altogether from the figuring.

Too much, however, should not be read into this balance between the crude totals, or the changes in it. As has been said before in these articles, an inventory of this kind has its limitations. It brings together a variety of types of financial claims and obligations, which are fundamentally different in kind and which differ greatly in degree of liquidity and method of valuation. Difficulties of valuation arise particularly in the field of direct investment. Conventional book values of direct investments will, of course, tend to be lower than current replacement costs or market values; and some of the outstanding liabilities to the United Kingdom may not have been revalued to take account of the change in the sterling exchange rate in November 1967. Hence the net asset position of the United Kingdom in this type of investment is probably considerably understated. At the same time values shown are not necessarily those that would be received on realisation – indeed some of the assets and liabilities could be realised only with great difficulty and considerable loss in value. As has also been emphasised, some of the estimates are known to be incomplete or only approximate; and for some items, such as banks' direct investments and individuals' holdings of property, there are no figures available.

Having said this, it remains satisfactory that there is a substantial overall balance in favour of the United Kingdom. It is also significant for future net earnings on account of interest, profits and dividends that the net liabilities of the public sector, which are estimated at about £5,000 million at end-1969 (and have since been reduced to below £4,000 million), are at fixed interest, whereas the net assets of the private sector, which are estimated at some £7,700 million at end-1969, are very largely equity and should produce more income over the years.

U.K. private investment abroad, both portfolio and direct (including reinvested profits), has recently been maintained at a substantial rate. The method of financing investment in the non-sterling area is influenced by U.K. exchange control, and the voluntary programme of restraint similarly influences investment in certain sterling area countries. Partly for this reason a growing proportion of overseas investment has recently been financed by foreign currency borrowing, which has helped to take the strain off the official reserves, but which has had a neutralising effect on the private sector balance sheet. There should, however, be a net benefit in the longer run.



## U.K. external assets and liabilities

£ millions

### External assets

End: 1962 | 1964 | 1966 | 1967 | 1968 | 1969

#### Private sector

##### Private U.K. investment abroad:

Direct investment (excluding oil, insurance and banking) <sup>a</sup>	3,410	3,910	4,450	5,240	5,600	6,060
U.K. oil companies' net assets abroad <sup>a</sup>	1,100	1,275	1,475	1,600	1,650	1,775
U.K. insurance companies' direct investment in the United States <sup>a</sup>	375	400	425	475	500	525
Portfolio investment <sup>b</sup>	3,200	3,900	3,650	4,900	6,150	5,700

Total U.K. private investment abroad	8,085	9,485	10,000	12,215	13,900	14,060
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Commercial bills owned by U.K. banks	141	234	428	573	814	1,106
Other U.K. banking claims in:						
Sterling	506	674	624	611	640	671
Overseas sterling area currencies	48	67	41	44	70	77
Foreign currencies	983	1,553	2,885	4,181	6,879	11,672
Suppliers' trade credit on exports	478	579	788	843	989	1,118
Other known assets held abroad by U.K. companies	55	65	70	85	105	140

Total banking and commercial claims	2,210	3,170	4,835	6,335	9,495	14,785
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<b>Total external assets of the private sector</b>	<b>10,295</b>	<b>12,655</b>	<b>14,835</b>	<b>18,550</b>	<b>23,395</b>	<b>28,845</b>
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#### Public sector

Intergovernment loans by the United Kingdom	396	505	618	679	739	791
Subscriptions to international financial organisations (excluding the I.M.F.)	141	159	182	194	199	244
H.M. Government's holdings of Suez Finance Company securities <sup>b</sup>	27	25	20	20	20	25
Other official assets	145	150	165	171	164	169

Total public sector lending etc.	710	840	985	1,065	1,120	1,230
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#### Reserve assets:

Official reserves	1,002	827	1,107	1,123	1,009	1,053
H.M. Government's portfolio of dollar securities <sup>b</sup>	360	445	180	—	—	—
Gold subscription to the I.M.F.	179	—	—	—	—	—

Total reserve assets	1,540	1,270	1,285	1,125	1,010	1,055
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<b>Total external assets of the public sector</b>	<b>2,250</b>	<b>2,110</b>	<b>2,270</b>	<b>2,190</b>	<b>2,130</b>	<b>2,285</b>
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<b>Total of identified external assets</b>	<b>12,545</b>	<b>14,765</b>	<b>17,105</b>	<b>20,740</b>	<b>25,525</b>	<b>31,130</b>
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<sup>a</sup> Estimated book value of net assets.

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

<sup>c</sup> Includes, in addition, a credit of 5 resulting from other countries' net purchases of sterling.

<sup>d</sup> Excludes official financing liabilities; includes liabilities to the I.M.F. arising from accumulated charges.

## External liabilities

	End: 1962	1964	1966	1967	1968	1969
<b>Private sector</b>						
Overseas investment in U.K. private sector:						
Direct investment (excluding oil, insurance and banking) <sup>a</sup>	1,430	1,780	2,200	2,400	2,700	2,930
Overseas oil companies' net assets in the United Kingdom <sup>a</sup>	700	750	850	1,000	1,150	1,250
Portfolio investment in U.K. companies' sterling securities <sup>b</sup>	1,000	1,100	1,050	1,550	2,350	2,200
Portfolio investment in foreign currency securities issued by U.K. companies <sup>b</sup>	25	35	45	80	100	105
Other foreign currency borrowing by U.K. companies	5	60	100	150	180	265
Total overseas investment in U.K. private sector	<u>3,160</u>	<u>3,725</u>	<u>4,245</u>	<u>5,180</u>	<u>6,480</u>	<u>6,750</u>
U.K. banking liabilities in:						
Sterling	1,532	1,757	1,934	1,845	1,745	1,834
Overseas sterling area currencies	120	141	77	104	84	92
Foreign currencies	1,028	1,775	2,952	4,325	7,110	11,936
Overseas sterling deposits with U.K. finance houses	98	87	137	102	51	57
Suppliers' trade credit on imports	90	109	134	168	234	433
Total banking and commercial liabilities	<u>2,870</u>	<u>3,870</u>	<u>5,235</u>	<u>6,545</u>	<u>9,225</u>	<u>14,350</u>
<b>Total external liabilities of the private sector</b>	<b>6,030</b>	<b>7,595</b>	<b>9,480</b>	<b>11,725</b>	<b>15,705</b>	<b>21,100</b>
<b>Public sector</b>						
Intergovernment loans to the United Kingdom	1,930	1,849	1,836	2,172	2,226	2,230
Loan from Deutsche Bundesbank	—	—	—	—	21	21
Overseas investment in the U.K. public sector:						
U.K. government and public corporation sterling securities <sup>b</sup>						
By overseas monetary institutions	1,135	1,150	1,125	1,120	1,045	1,200
By others	630	670	695	705	705	635
U.K. local authority mortgages and stocks	110	100	40	45	50	50
Foreign currency securities issued by U.K. public corporations and local authorities <sup>b</sup>	—	—	—	—	—	60
Other foreign currency borrowing by U.K. public corporations and local authorities	—	—	—	—	—	22
Other public sector capital:						
Overseas holdings of Treasury bills and notes <sup>d</sup>	1,096	1,075	765	666	615	533
Import deposits received from overseas	—	—	—	—	1	60
I.M.F. gold deposits	—	—	15	18	17	17
Overseas temporary loans to U.K. local authorities	93	132	135	135	71	96
Total public sector borrowing (other than official financing)	<u>4,995</u>	<u>4,975</u>	<u>4,610</u>	<u>4,860</u>	<u>4,750</u>	<u>4,925</u>
Official financing liabilities:						
Net drawings on the I.M.F. excluding gold tranche	—	183	643	374	880	850
Liabilities to other monetary authorities in:						
Sterling	—	144	606	1,246	2,018	1,410
Foreign currencies	—	72	14	193	211	150
Total official financing liabilities	<u>—</u>	<u>400</u>	<u>1,265</u>	<u>1,815</u>	<u>3,110</u>	<u>2,410</u>
<b>Total external liabilities of the public sector</b>	<b>4,995</b>	<b>5,375</b>	<b>5,875</b>	<b>6,675</b>	<b>7,860</b>	<b>7,335</b>
<b>Total of identified external liabilities</b>	<b>11,025</b>	<b>12,970</b>	<b>15,355</b>	<b>18,490</b>	<b>23,565</b>	<b>28,435</b>
<sup>e</sup> Net drawings on the I.M.F. of which gold tranche	—	357	861	628	1,134	1,104
	—	174	218	254	254	254
	—	183	643	374	880	850

## Notes and definitions

Assets and liabilities denominated in overseas currencies are valued in the table in terms of sterling, generally at the exchange parities ruling at the time. The totals of assets and liabilities shown in the table differ from the totals shown in Table 44 of *United Kingdom Balance of Payments 1970* (H.M.S.O., September 1970) mainly because, in the latter presentation, net figures are given for some banking items.

### Assets

#### Private sector

##### *Direct investment*

This represents investment by U.K. companies in their overseas branches, subsidiaries and associates. The figures, which exclude investment by U.K. oil and insurance companies and banks, 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.

##### *U.K. oil companies' net assets abroad*

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, and a large part has not been revalued to take account of the change in the sterling exchange rate in November 1967.

##### *U.K. insurance companies' direct investment in the United States*

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 investment in the United States. The resultant total is certain to be considerably lower than the current value of U.K. insurance companies' interests abroad.

##### *Portfolio investment*

Estimates of the value of U.K. portfolio investment overseas are based on surveys compiled mainly for measuring capital flows: broad adjustments 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 are not known. The figures differ from those published in the December 1969 article in that certain insurance assets, previously included in "other U.K. residents' external claims in foreign currencies", are now treated as portfolio investment.

##### *U.K. banking claims*

The assets included in this group comprise, in the main, the external claims of banks and other financial

institutions on overseas residents as included in Tables 19 and 20 of the annex. Bills lodged with such institutions but not discounted by them have, however, been omitted, as they are covered in the figures for "suppliers' trade credit on exports"; bills discounted by the banks are shown as a separate item.

##### *Suppliers' trade credit on exports*

Comprises trade credit extended by U.K. traders to overseas concerns other than affiliates or parent companies, less the value of advance and progress payments for exports already received. Trade credit extended to parent companies and affiliates overseas is included under direct investment.

##### *Other known assets held abroad by U.K. companies*

Represent the working balances of various U.K. companies held direct with banks abroad. The figures are partly estimated. The basis differs from that of the figure of "other U.K. residents' external claims in foreign currencies" in the December 1969 article in that certain insurance assets are now treated as portfolio investment and the coverage of remaining companies has been improved.

#### Public sector

##### *Other official assets*

These comprise other overseas assets of the central government (*e.g.* wartime lending to Aluminium Company of Canada Limited) and of such official organisations as the Commonwealth Development Corporation and the U.K. Atomic Energy Authority.

##### *I.M.F. gold tranche*

This is the measure of the extent that the United Kingdom can draw on the I.M.F. without bringing the Fund's holdings of sterling above 100% of quota. If the Fund's holdings of sterling are 75% of quota the gold tranche is equivalent to the 25% gold subscription. The figure for end-1962 includes a credit (or 'super gold tranche') of £5 million resulting from other countries' net purchases of sterling. (The U.K. sterling subscription to the I.M.F. of 75% of quota is excluded altogether, as are the corresponding sterling liabilities to the I.M.F. on the liabilities side. The table differs in this respect from that in the December 1969 article.)

### Liabilities

#### Private sector

##### *Direct investment*

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

##### *Overseas oil companies' net assets in the United Kingdom*

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.

*Portfolio investment in U.K. companies' sterling securities*

The market value of inward portfolio investment has to be derived from statistics collected at nominal values. The valuation shown therefore is only approximate. The figures differ from those shown in the December 1969 *Bulletin* in that liabilities arising from issues in sterling and in foreign currencies are now shown separately (see below).

*Portfolio investment in foreign currency securities issued by U.K. companies*

Issues abroad by oil companies are not included: they are deducted instead from "U.K. oil companies' net assets abroad".

*Other foreign currency borrowing by U.K. companies*

The figures for this borrowing outside the sterling area – whether for the purchase of foreign currency securities, or direct investment abroad, or for use in the United Kingdom – are derived from information supplied to the U.K. Exchange Control. Borrowing of foreign currencies from banks in the United Kingdom is excluded because, to the extent that the foreign currency deposits which are being on-lent originated abroad, they are reflected in the totals of U.K. banks' external liabilities in foreign currencies.

*U.K. banking liabilities*

These are in line with the figures included in Tables 19 and 20 of the annex, except that commercial import bills drawn on U.K. residents and lodged with U.K. banks by overseas residents are included in "suppliers' trade credit on imports", and that the figures for foreign currency liabilities in 1966 and 1967 exclude the outstanding amount of a medium-term loan received by an oil company through certain London banks; for consistency with the balance of payments accounts this is included in "U.K. oil companies' net assets abroad". The sterling figures differ from those in the December 1969 article in that overseas deposits with the Bank of England and the Crown Agents are now included instead of being shown separately under "official liabilities".

*Suppliers' trade credit on imports*

This comprises trade credit received on imports from overseas residents other than affiliates or parents, less advance and progress payments made on imports. Trade credit received from affiliates or parents overseas is included under direct investment. Import deposits paid direct to H.M. Customs by overseas suppliers are included under public sector liabilities.

**Public sector**

*Overseas investment in the U.K. public sector*

*U.K. government and public corporation sterling securities* Nominal amounts of these holdings

are derived largely from returns from U.K. banks and the Crown Agents and from an analysis of the stock registers held at the Bank of England. The market values are estimated; no detailed geographical distribution is available. Holdings of British government stocks by banks and central monetary institutions overseas are now shown at market value: these were previously shown at nominal value.

*U.K. local authority mortgages and stocks* The figures relate mainly to amounts held direct by overseas residents and to those held through the Crown Agents and banks in the United Kingdom. Information regarding holdings through other U.K. agents is not available.

*Foreign currency securities issued by U.K. public corporations and local authorities*

*Other foreign currency borrowing abroad by U.K. public corporations and local authorities* These figures include an upward adjustment of outstanding liabilities to allow for revaluation of the deutsche-mark.

*Other public sector capital*

*Overseas holdings of Treasury bills and notes*

These figures now exclude the counterpart of central bank assistance by means of foreign currency swaps (see below); they now include liabilities to the I.M.F. arising from accumulated charges (which were previously included in "I.M.F. holdings of sterling").

*Official financing liabilities*

*Net drawings on the I.M.F.* Comprises drawings on the I.M.F., less repayments, less other countries' net purchases of sterling from the I.M.F. Sterling liabilities to the I.M.F. resulting from the U.K. sterling subscription (previously included in "I.M.F. holdings of sterling") are excluded altogether from the liabilities side, as is the U.K. sterling subscription from the assets side.

*Liabilities to other monetary authorities*

*In sterling* This is the sterling counterpart of central bank assistance to the United Kingdom through the medium of foreign currency swaps.

*In foreign currencies* This represents monetary assistance received by the United Kingdom in the form of foreign currency deposits and loans from central banks and the Bank for International Settlements; also included here is a loan received by the U.K. government from a consortium of Swiss banks in October 1967.

## **CORRECTIONS**

### **Bank of England Quarterly Bulletin**

Volume 10 Number 3 September 1970

#### **The work of the Cashier's Department**

Page 294 Last paragraph, first line, for 1957 *read* 1964

#### **The international capital markets of Europe**

Page 303 Table B, Western Europe: 1966, 516 *should read* 531; and 1968, 855 *should read* 860

#### **U.K. external assets and liabilities: end-1969**

Page 316 Footnote *c* applies to the figure of 179 quoted as the gold subscription to the I.M.F. in 1962

Page 317 Total of identified external liabilities 1967, 18,490 *should read* 18,400