

An inventory of U.K. external assets and liabilities: end-1970

This note continues an annual series of estimates of the United Kingdom's external assets and liabilities, and gives figures for the end of 1970. These are shown in the table on pages 214 and 215, which is followed by notes and definitions of the main items. The table is in the same form as in the article last year,¹ when the presentation was changed to follow the new arrangement of the capital account in the U.K. balance of payments statistics. The altered presentation and the methods of estimation employed were explained at some length last year and are not described on this occasion. The previous article also stressed the limitations of an inventory of this kind, and the problems of valuation of investments;² these uncertainties remain.

The inventory does not include information about the direct investments of banks and insurance companies – whether by U.K. companies abroad or by overseas companies in this country – except for U.K. companies' investment in the United States, which is measured from estimates of the U.S. Department of Commerce. Another important omission is private individuals' holdings of property.

Changes during 1970

At the end of 1970 the total of U.K. external assets exceeded the total of U.K. external liabilities by some £3,700 million. This 'surplus' was about £1,100 million larger than at the end of the previous year. Valuation changes did not, on balance, contribute very much. The improvement during 1970 was mainly the counterpart of the balance of payments surplus on current account of about £630 million, unidentified inflows reflected in the balancing item of £160 million, and the allocation of some £170 million of I.M.F. Special Drawing Rights.³ During 1970 there was a fall of £1,685 million in the net external liabilities of the public sector and a fall of £580 million in the net external assets of the private sector.

Public sector

Although there was some reduction in official net long-term borrowing abroad, most of the reduction in the net external liabilities of the public sector reflected the repayment of shorter-term "official financing liabilities": £1,333 million of debts to overseas central banks and other monetary authorities was repaid, including £172 million of drawings on the International Monetary Fund. The official reserves rose by £125 million during the year, at the end of which they exceeded outstanding "official financing liabilities" by £105 million.⁴ Part of the improvement of some £1,460 mil-

Net external assets and liabilities: summary

Net liabilities = —			
£ millions			
	1962	1969	1970
Investments	4,905	7,165	7,215
Banking and commercial	— 670	485	— 145
Total private sector	4,235	7,650	7,070
Official capital	—4,285	—3,700	—3,475
Reserves and related items	1,540	—1,355	105
Total public sector	—2,745	—5,055	—3,370
Total	1,490	2,595	3,700

¹ September 1970, pages 308-19.

² See above article, page 315.

³ These figures are based on the balance of payments estimates published in March. It has not been possible to incorporate in this article revisions released in June.

⁴ Liabilities exclude the drawing of the I.M.F. gold tranche.

lion in the net official reserve position resulted from the surplus on current account and the other items mentioned in the previous paragraph and part from an identified net inflow of foreign capital into the private sector.

Private sector

Part of the *direct investment* abroad by U.K. companies in 1970 was, as usual, financed out of reinvested profits and the remainder largely from borrowing abroad; U.K. companies also borrowed considerable amounts abroad and in the euro-dollar market to finance their capital requirements at home. Thus the addition to assets resulting from direct investment was accompanied by a rise in liabilities because of increases in U.K. companies' foreign currency issues (£90 million), in their other direct borrowing abroad (£160 million) and in their 'euro-currency' borrowing through U.K. banks – whose foreign currency deposits from abroad rose by over £500 million more than their foreign currency lending abroad. U.K. private sector liabilities also increased as a result of further overseas direct investment in the United Kingdom, which was on much the same scale in 1970 as in previous years, although more trade credit was received from overseas parent companies than usual.

There were reductions in *portfolio investment* in 1970, both in U.K. investment abroad and overseas investment in U.K. companies' sterling securities. In each case, changes in market valuations played a large part. Although there was little change in U.S. stock market indices over the year as a whole, declining prices in the Australian and South African markets adversely affected the value of U.K. holdings; the value of overseas holdings of U.K. equities was similarly reduced because of the fall in U.K. market prices. As well as these valuation changes, there was a net increase in U.K. purchases of securities of countries outside the sterling area; financial institutions borrowed abroad to increase their portfolios,⁷ and there were some purchases by insurance funds. The following table shows how much of the changes in market value were attributable to transactions and how much to changes in valuation:

	U.K. portfolio investment overseas			Overseas investment in U.K. companies' sterling securities
	Non-sterling area	Overseas sterling area	Total	
Market value:				
end-1969	2,750	2,900	5,650	2,200
end-1970	2,850	2,600	5,450	1,900
Change in 1970	+ 100	– 300	– 200	– 300
of which:				
transactions	+ 60	+ 20	+ 80	– 10
valuation	+ 40	– 320	– 280	– 290

Among *banking liabilities and assets*, the increases in foreign currency deposits and advances have already been

⁷ This borrowing formed part of the borrowing mentioned in the previous paragraph.

mentioned. There was also a large rise in the banks' sterling deposit liabilities as overseas residents added to their sterling balances. On the assets side, the total of commercial bills discounted and acceptances continued to grow, reflecting the provision of additional credit for U.K. exports.

As a result of the changes outlined above, there was, unusually, some reduction in the net external assets of the private sector during 1970. But the total of these net assets remained very large, at over £7,000 million.

U.K. external assets and liabilities

£ millions

External assets

End:	1962	1966	1967	1968	1969	1970
Private sector						
Private U.K. investment abroad:						
Direct investment (excluding oil, insurance and banking) ^a	3,405	4,400	5,185	5,585	6,100	6,550
U.K. oil companies' net assets abroad ^a	1,100	1,500	1,600	1,650	1,775	1,900
U.K. banks' and insurance companies' direct investment in the United States ^b	365	385	495	515	475	500
Portfolio investment ^c	3,200	3,650	4,850	6,150	5,650	5,450
Total U.K. private investment abroad	8,070	9,935	12,130	13,900	14,000	14,400
U.K. banks' assets:						
Advances and overdrafts etc. in:						
Sterling	318	369	366	370	389	370
Overseas sterling area currencies	48	41	44	70	77	125
Foreign currencies	983	2,885	4,181	6,824	11,524	14,156
Commercial bills discounted and acceptances	329	683	818	1,139	1,536	1,870
Suppliers' trade credit on exports	472	782	837	984	1,110	1,130
Other known assets held abroad by U.K. companies	55	70	85	105	145	140
Total banking and commercial claims	2,205	4,830	6,330	9,490	14,780	17,790
Total external assets of the private sector	10,275	14,765	18,460	23,390	28,780	32,190
Public sector						
Intergovernment loans by the United Kingdom	396	618	679	739	791	874
Subscriptions to international financial organisations (excluding the I.M.F.)	141	182	194	199	244	268
H.M. Government's holdings of Suez Finance Company securities ^c	27	20	25	25	25	20
Other official assets	145	165	171	164	169	171
Total public sector lending etc.	710	985	1,070	1,125	1,230	1,335
Reserve assets:						
Official reserves	1,002	1,107	1,123	1,009	1,053	1,178
H.M. Government's portfolio of dollar securities ^c	360	180	—	—	—	—
I.M.F. gold tranche	179 ^d	—	—	—	—	—
Total reserve assets	1,540	1,285	1,125	1,010	1,055	1,180
Total external assets of the public sector	2,250	2,270	2,195	2,135	2,285	2,515
Total of identified external assets	12,525	17,035	20,655	25,525	31,065	34,705

^a Estimated book value of net assets.

^b Derived from U.S. Department of Commerce estimates; these include market valuation of securities held by insurance companies.

^c At estimated market value.

^d Includes, in addition, a credit of 5 resulting from other countries' net purchases of sterling.

^e Excludes official financing liabilities; includes liabilities to the I.M.F. arising from accumulated charges.

External liabilities

End:	1962	1966	1967	1968	1969	1970
Private sector						
Overseas investment in U.K. private sector:						
Direct investment (excluding oil, insurance and banking) ^a	1,430	2,280	2,425	2,720	3,000	3,300
Overseas oil companies' net assets in the United Kingdom ^a	700	850	1,000	1,150	1,250	1,350
Portfolio investment in U.K. companies' sterling securities ^c	1,000	1,100	1,550	2,350	2,200	1,900
Portfolio investment in foreign currency securities issued by U.K. companies ^c	30	50	85	105	110	200
Other foreign currency borrowing by U.K. companies	5	100	150	180	275	435
Total overseas investment in U.K. private sector	<u>3,165</u>	<u>4,380</u>	<u>5,210</u>	<u>6,505</u>	<u>6,835</u>	<u>7,185</u>
U.K. banks' deposit liabilities etc. in:						
Sterling	1,532	1,934	1,845	1,745	1,835	2,200
Overseas sterling area currencies	120	77	104	84	89	130
Foreign currencies	1,028	2,987	4,346	7,110	11,936	15,085
Overseas sterling deposits with U.K. finance houses	98	137	102	51	57	99
Suppliers' trade credit on imports	96	138	199	281	378	421
Total banking and commercial liabilities	<u>2,875</u>	<u>5,275</u>	<u>6,595</u>	<u>9,270</u>	<u>14,295</u>	<u>17,935</u>
Total external liabilities of the private sector	<u>6,040</u>	<u>9,655</u>	<u>11,805</u>	<u>15,775</u>	<u>21,130</u>	<u>25,120</u>
Public sector						
Intergovernment loans to the United Kingdom	1,930	1,836	2,172	2,226	2,232	2,136
Loan from Deutsche Bundesbank	—	—	—	21	23	23
Overseas investment in the U.K. public sector:						
U.K. government and public corporation sterling securities: ^c						
By overseas monetary institutions	1,135	1,135	1,120	1,045	1,200	1,265
By others	630	705	705	705	635	620
U.K. local authority mortgages and stocks	110	40	45	50	50	50
Foreign currency securities issued by U.K. public corporations and local authorities ^c	—	—	—	—	60	60
Other foreign currency borrowing by U.K. public corporations and local authorities	—	—	—	—	22	20
Other public sector capital:						
Overseas holdings of Treasury bills and notes ^e	1,096	764	666	615	533	541
Import deposits received from overseas	—	—	—	1	60	28
I.M.F. gold deposits	—	15	18	17	17	13
Overseas temporary loans to U.K. local authorities	93	135	135	71	96	56
Total public sector borrowing (other than official financing)	<u>4,995</u>	<u>4,630</u>	<u>4,860</u>	<u>4,750</u>	<u>4,930</u>	<u>4,810</u>
Official financing liabilities:						
Net drawings on the I.M.F. excluding gold tranche ^f	—	643	374	880	850	678
Liabilities to other monetary authorities in:						
Sterling	—	606	1,246	2,018	1,410	399
Foreign currencies	—	14	193	211	150	—
Total official financing liabilities	<u>—</u>	<u>1,265</u>	<u>1,815</u>	<u>3,110</u>	<u>2,410</u>	<u>1,075</u>
Total external liabilities of the public sector	<u>4,995</u>	<u>5,895</u>	<u>6,675</u>	<u>7,860</u>	<u>7,340</u>	<u>5,885</u>
Total of identified external liabilities	<u>11,035</u>	<u>15,550</u>	<u>18,480</u>	<u>23,635</u>	<u>28,470</u>	<u>31,005</u>
^f Net drawings on the I.M.F. of which gold tranche	—	861	628	1,134	1,104	970
	—	218	254	254	254	292
	—	643	374	880	850	678

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.

Assets

Private sector

Direct investment

This represents investment by U.K. companies in their overseas branches, subsidiaries and associates. The figures are based on Department of Trade and Industry 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 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. banks' and insurance companies' direct investment in the United States

The estimates shown are derived from U.S. Department of Commerce publications.

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.

U.K. banks' assets

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 the annex, Tables 20 (foreign currencies) and 24 (sterling advances and overdrafts). Commercial bills lodged with such institutions but not discounted by them are not included under this heading, as they are covered in the figures for "suppliers' trade credit on exports"; commercial bills discounted and acceptances 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.

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 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.)

Liabilities

Private sector

Direct investment

This is defined as investment in the United Kingdom 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.

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.

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. banks' deposit liabilities

These are in line with the figures included in Tables 20 and 23 of the annex. 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".

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.

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.

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 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.