

An inventory of U.K. external assets and liabilities: end-1971

This article continues the annual series of estimates of the United Kingdom's external assets and liabilities and gives figures for the end of 1971. These are shown in the table on pages 218-19. Notes and definitions of the main items were given in last year's article published in the June 1971 *Bulletin* (pages 216-17). An earlier article in the September 1970 *Bulletin* (pages 308-19) described the methods of estimation. It stressed the limitations of an inventory of this nature, which brings together a variety of types of financial claims and obligations, which are different in kind and also differ in degree of liquidity and method of valuation. It also mentioned some important omissions. These considerations all still apply.

Net external assets and liabilities: summary

Net liabilities (—) £ millions	End of period		
	1962	1970	1971
Investments	4,905	7,175	6,270
Banking and commercial	— 650	— 200	— 1,325
Net external assets of the private sector	4,255	6,975	4,945
Official capital	— 4,285	— 3,475	— 3,975
Reserves and related items	1,540	105	3,265
Net external liabilities of the public sector	— 2,745	— 3,370	— 710
Net external assets of the United Kingdom	1,510	3,605	4,235

Changes during 1971

By the end of 1971 the total of U.K. external assets exceeded the total of U.K. external liabilities by some £4,200 million, or about £600 million more than at the end of 1970. This increase is less than might have been expected in view of a balance of payments surplus on current account of £952 million, unidentified inflows of £429 million reflected in the balancing item and the allocation of £125 million of I.M.F. Special Drawing Rights,¹ totalling some £1,500 million in all. The difference is explained by valuation changes and, in particular, by substantial increases in the market value of overseas investments in U.K. government securities and equities. Changes in the sterling value of the United Kingdom's dollar assets and liabilities following the devaluation of the dollar appear to have more or less cancelled out.

During the year there was a fall of about £2,600 million in the net external liabilities of the public sector, largely offset by a fall of about £2,000 million in the net external assets of the private sector.

Private sector

The book value of *U.K. direct investment abroad*, excluding oil investment, increased by about £500 million in 1971, and included a number of large acquisitions abroad by U.K. companies. About half of this investment was financed from retained profits and most of the remainder by foreign currency borrowing. Such borrowing is included on the liabilities side, as mentioned later. On the other hand, the increase of £100 million in the book value of oil companies' investment is net of their borrowing abroad, which was substantial in 1971. The increase of about £300 million in the book value of *overseas direct investment in the United Kingdom*, other than oil, was much the same as in recent years; about half represented retained profits and the rest included substantial acquisitions of loan and share

¹ These figures are based on the balance of payments estimates published in March.

capital. Overseas oil companies' net assets in the United Kingdom rose by some £250 million, a higher figure than usual, and including further investment in North Sea developments.

The market value of *U.K. portfolio investment abroad* was little changed in total, with a rise in the value of investment in the securities of countries outside the sterling area being offset by a fall in the value of investment in overseas sterling securities. Details are shown in the following table. There were further net purchases of non-sterling securities as financial institutions continued to borrow foreign currency in order to increase their portfolios and as insurance funds were invested abroad to meet local statutory requirements. On the other hand, there was some net disinvestment in overseas sterling securities. Changes in valuation also played a part. As regards non-sterling securities, the effect of the rally in U.S. market prices was counteracted by a decline in the value of U.S. securities in sterling terms, following currency realignment. The main influence on overseas sterling securities was a further fall in Australian market prices. *Overseas portfolio investment* in U.K. companies' sterling securities rose in value by as much as £650 million, mainly because of the strong recovery in U.K. share prices, although there was also a modest amount of new investment, particularly in the first half of 1971. In addition, overseas lenders provided £220 million of foreign currency to U.K. companies, including £90 million by subscription to issues on the international bond markets.

	U.K. portfolio investment overseas			Overseas investment in U.K. companies' sterling securities
	Non-sterling area	Overseas sterling area	Total	
Market value:				
end-1970	2,900	2,650	5,550	1,900
end-1971	3,000	2,500	5,500	2,550
Change in 1971	+ 100	- 150	- 50	+ 650
of which:				
Transactions	+ 115	- 60	+ 55	+ 100
Valuation and currency realignment	- 15	- 90	- 105	+ 550

During the year *net banking and commercial liabilities* increased by over £1,100 million, to about £1,300 million. There was a very large increase, over £900 million, in sterling deposit liabilities, reflecting part of the inflow of overseas short-term funds during 1971, when U.K. interest rates were relatively high and sterling also benefited from the weakness of the dollar. Foreign currency deposits also increased substantially but so to a lesser extent did foreign currency advances. At the end of the year the banks' foreign currency deposits from abroad exceeded their foreign currency lending abroad by nearly £1,300 million, an increase in net liabilities of about £400 million compared with the end of 1970. This increase would probably have been somewhat larger had not currency realignment led to revaluations. The increase was mainly the result of on-lending

foreign currencies to U.K. residents, for the most part to finance direct and portfolio investment abroad, but it also reflected some switching into sterling by the banks in December, after the currency realignment. Growth in export credit continued, both in fixed rate export credit facilities provided by the banks (included in "commercial bills discounted") and in credit extended by U.K. suppliers. The increase of about £300 million in these items combined was partially offset by an increase of about £100 million in import credit received from overseas suppliers chiefly on ships and aircraft.

As a result of the changes outlined above, there was a reduction of some £2,000 million in the net external assets of the private sector during 1971. However, at the end of the year private sector assets exceeded private sector liabilities by about £5,000 million.

Public sector

Looking at the public sector, other than the reserves and related financing items, there was an increase in net liabilities of £500 million. About £600 million of the substantial inflow of overseas funds during 1971 went into U.K. government and other public sector securities, and into Treasury bills and temporary loans to U.K. local authorities. On top of this there was an increase of nearly £300 million in the value of gilt-edged security holdings because of the rise in market prices. As shown in the following table, this appreciation was greater on the holdings of mainly longer-dated stocks by private overseas residents than on the mainly short-dated stocks held by overseas central banks etc.

£ millions	Market value end-1970	Market value end-1971	Change in 1971	of which	
				Trans- actions	Valua- tion
Overseas investment in U.K. government and public corporation sterling securities:					
By overseas monetary authorities	1,180	1,355	+175	+45	+130
By others	705	950	+245	+90	+155

On the other hand, there was an increase of about £150 million in U.K. long-term lending in the form of aid to developing countries, either direct or through international agencies, and U.K. long-term borrowing from overseas governments etc. was reduced by about £250 million, including a reduction of £115 million in the sterling value of dollar debts as a result of currency realignment.

The most important change, however, was in *net reserve assets*, which rose from about £100 million to about £3,260 million. This improvement resulted partly from the identified net inflow of foreign capital and partly from the surplus on current account and other items mentioned earlier in this article. The official reserves rose by about £1,350 million and about a further £860 million was placed with overseas monetary authorities through official swaps. In the balance of payments accounts the inflow of reserves is measured, from 23rd August 1971 onwards, at the rates of exchange

at which transactions occurred, and is larger than the difference between published levels at the beginning of the year (valued at £1=\$2.40) and at the end of the year (valued at £1=\$2.6057). During the year the remaining £400 million of earlier borrowing from overseas central banks in support of the reserves was paid off and the debt to the International Monetary Fund was reduced by some £550 million. At the end of 1971 the outstanding drawings on the I.M.F. were £415 million and there were a further £83 million of liabilities to the I.M.F. arising from accumulated charges.⁷ In the table the gold tranche of £292 million has been deducted from liabilities on the grounds that the complete settlement of all debts to the I.M.F. would reconstitute a U.K. reserve position with the Fund, or automatic drawing right, of this amount. This complete settlement occurred in April 1972.

While there were few so-called "official financing liabilities" outstanding at the end of 1971 to set against U.K. reserve assets, there are other outstanding liabilities which are fairly liquid. An attempt to show the U.K. liquidity position in this wider sense is made in the following table.

U.K. liquidity position

£ millions	1962	1970	1971
Reserve assets			
Official reserves	1,002	1,178	2,526
Reserve position with the I.M.F.	179	—	—
H.M. Government's portfolio of dollar securities ^a	360	—	—
Official swaps with overseas monetary authorities	—	—	864
Total assets	1,540	1,180	3,390
Liabilities			
I.M.F. drawings	—	970	415
Charges paid in sterling	—	83	83
<i>less</i> I.M.F. gold tranche	—	1,053 292	498 292
Official financing liabilities to other overseas monetary authorities	—	761	206
	—	399	—
	—	1,160	206
External banking and money market liabilities in sterling, <i>less</i> sterling advances ^b	2,501	2,403	3,783
British government securities held by overseas monetary authorities	985	1,180	1,355
U.K. banks' net external position in foreign currencies ^c	28	462	891
Total liabilities	3,515	5,205	6,235

— nil or less than £½ million.

^a At estimated market value. This portfolio was liquidated and the proceeds brought into the reserves in 1966-67.

^b Comprises overseas holdings of Treasury bills, deposits with banks and finance houses and temporary loans to local authorities.

^c *i.e.* net of all external assets, including foreign currency bills discounted, which, unlike sterling bills discounted, are reckoned to be generally short term.

⁷ In the main table these are included in "overseas holdings of Treasury bills and notes".

It must be recognised that there are different degrees of liquidity among the liabilities listed and that it is the broad relationship between liabilities and assets that is important, rather than the precise totals. It should also be said, by way of qualification, that the banks' external foreign currency assets, which have been deducted from their external foreign currency liabilities, tend to be longer term than the liabilities. On the other hand, all British government stocks held by overseas monetary authorities have been counted as liquid liabilities, because they are readily marketable and regarded by these countries as part of their sterling reserves, although sudden realisation on a very large scale would, of course, depress the price. The results show that the ratio of reserve assets to "liquid" liabilities was approximately 55% at the end of 1971, a big improvement on 1970, when it was only about 23%. In 1962 the figure was about 44%.

U.K. external assets and liabilities

£ millions

External assets

End:	1962	1967	1968	1969	1970	1971
Private sector						
Private U.K. investment abroad:						
Direct investment (excluding oil, insurance and banking) ^a	3,405	5,185	5,585	6,100	6,415	6,885
U.K. oil companies' net assets abroad ^a	1,100	1,600	1,650	1,800	1,950	2,050
U.K. banks' and insurance companies' direct investment in the United States ^b	365	495	515	475	475	475
Portfolio investment ^c	3,200	4,850	6,150	5,650	5,550	5,500
Total U.K. private investment abroad	8,070	12,130	13,900	14,025	14,390	14,910
U.K. banks' assets:						
Advances and overdrafts etc. in:						
Sterling	318	366	370	414	423	415
Overseas sterling currencies	48	44	70	77	125	66
Foreign currencies	983	4,181	6,824	11,524	14,156	16,266
Commercial bills discounted and acceptances	329	776	1,086	1,491	1,833	2,108
Suppliers' trade credit on exports	487	823	968	1,070	1,089	1,138
Other known assets held abroad by U.K. companies	55	85	105	145	140	95
Total banking and commercial claims	2,220	6,275	9,425	14,720	17,765	20,090
Total external assets of the private sector	10,290	18,405	23,325	28,745	32,155	35,000
Public sector						
Intergovernment loans by the United Kingdom	396	679	739	791	874	967
Subscriptions to international financial organisations (excluding the I.M.F.)	141	194	199	244	268	311
H.M. Government's holdings of Suez Finance Company securities ^c	27	25	25	25	20	20
Other official assets	145	174	169	172	174	193
Total public sector lending etc.	710	1,070	1,130	1,230	1,335	1,490
Reserve assets:						
Official reserves	1,002	1,123	1,009	1,053	1,178	2,526
Reserve position in the I.M.F.	179	—	—	—	—	—
Official swaps with overseas monetary authorities	—	—	—	—	—	864
H.M. Government's portfolio of dollar securities ^c	360	—	—	—	—	—
Total reserve assets	1,540	1,125	1,010	1,055	1,180	3,390
Total external assets of the public sector	2,250	2,195	2,140	2,285	2,515	4,880
Total of identified external assets	12,540	20,600	25,465	31,030	34,670	39,880

— nil or less than £½ million.

^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 Excludes official financing liabilities; includes liabilities to the I.M.F. arising from accumulated charges, which were 83 at end-1970 and 1971.

External liabilities

	End:	1962	1967	1968	1969	1970	1971
Private sector							
Overseas investment in U.K. private sector:							
Direct investment (excluding oil, insurance and banking) ^a		1,430	2,425	2,720	3,000	3,330	3,635
Overseas oil companies' net assets in the United Kingdom ^a		700	1,000	1,150	1,250	1,350	1,600
Portfolio investment in U.K. companies' sterling securities ^c		1,000	1,550	2,350	2,200	1,900	2,550
Portfolio investment in foreign currency securities issued by U.K. companies ^c		30	85	105	110	200	290
Other foreign currency borrowing by U.K. companies		5	150	180	275	435	565
Total overseas investment in U.K. private sector		3,165	5,210	6,505	6,835	7,215	8,640
U.K. banks' deposit liabilities etc. in:							
Sterling		1,532	1,845	1,745	1,834	2,193	3,125
Overseas sterling currencies		120	104	84	89	130	57
Foreign currencies		1,028	4,346	7,110	11,936	15,085	17,548
Overseas sterling deposits with U.K. finance houses		98	102	51	57	119	136
Suppliers' trade credit on imports		94	197	279	376	439	550
Total banking and commercial liabilities		2,870	6,595	9,270	14,290	17,965	21,415
Total external liabilities of the private sector		6,035	11,805	15,775	21,125	25,180	30,055
Public sector							
Intergovernment loans to the United Kingdom		1,930	2,172	2,226	2,232	2,136	1,906
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 authorities		985	915	880	1,105	1,180	1,355
By others		780	910	870	730	705	950
U.K. local authority mortgages and stocks		110	45	50	50	50	70
Foreign currency securities issued by U.K. public corporations and local authorities ^c		—	—	—	60	60	71
Other foreign currency borrowing by U.K. public corporations and local authorities		—	—	—	22	20	82
Other public sector capital:							
Overseas holdings of Treasury bills and notes ^d		1,096	666	615	533	541	904
Import deposits received from overseas		—	—	1	60	28	—
I.M.F. gold deposits		—	18	17	17	13	11
Overseas temporary loans to U.K. local authorities		93	135	71	96	56	116
Total public sector borrowing (other than official financing)		4,995	4,860	4,750	4,930	4,810	5,465
Official financing liabilities:							
Net drawings on the I.M.F. excluding gold tranche ^e		—	374	880	850	678	123
Liabilities to other monetary authorities in:							
Sterling		—	1,246	2,018	1,410	399	—
Foreign currencies		—	193	211	150	—	—
Total official financing liabilities		—	1,815	3,110	2,410	1,075	125
Total external liabilities of the public sector		4,995	6,675	7,860	7,340	5,885	5,590
Total of identified external liabilities		11,030	18,480	23,635	28,465	31,065	35,645
^e Net drawings on the I.M.F. of which gold tranche		—	628	1,134	1,104	970	415
		—	254	254	254	292	292
		—	374	880	850	678	123