

## An inventory of U.K. external assets and liabilities: end-1972

This article continues the annual series of estimates of the United Kingdom's external assets and liabilities and gives figures for the end of 1972. These are shown in the table on pages 180–181 and are followed by notes and definitions relating to the main items. All external assets and liabilities are classified as "public sector" or "private sector" according to the status of the domestic creditor or debtor. Public sector items are presented as in the balance of payments accounts, where reserves and related official financing items are shown separately from other official assets and liabilities. Private sector items are grouped under the headings "investment" and "banking and commercial"; these can be broadly regarded as equivalent to long-term and short-term items respectively, although this is by no means a precise division. The article in the September 1970 *Bulletin* pointed out the limitations of an inventory of this kind and the problems of valuation of investments. The estimates of "portfolio investment" are particularly uncertain.

### Changes during 1972

At the end of 1972 the total value of U.K. external assets exceeded the total value of U.K. external liabilities by more than £5,900 million. The difference was some £1,800 million larger than a year earlier. The growth in the total value of assets and in the difference are both probably understated, because the balancing item in the balance of payments estimates, which will predominantly have represented unidentified capital flows, measured an outflow of as much as around £600 million in 1972. The current account was virtually in balance and the increase in the identified difference of £1,800 million was broadly due to valuation changes. The market value of U.K. portfolio investments abroad rose substantially; this item, like other items, was affected, in terms of sterling valuation, by the depreciation of sterling following the floating of the pound in June. During the year there was a rise of about £2,900 million in net assets of the private sector, partly offset by a rise of about £1,100 million in net liabilities of the public sector.

### Net external assets (+) and liabilities (–): summary

£ millions	End of period		
	1962	1971	1972
Investments	4,905	6,180	9,015
Banking and commercial	– 660	–1,390	–1,285
Net external assets of the private sector	4,245	4,790	7,730
Official capital	–4,285	–3,985	–3,990
Reserves and related items	1,540	3,265	2,165
Net external liabilities of the public sector	–2,745	– 720	–1,825
<b>Net external assets of the United Kingdom</b>	<b>1,500</b>	<b>4,070</b>	<b>5,905</b>

### Private sector

The book value of *U.K. direct investment abroad* rose by almost £1,200 million. About half of the increase represented changes in valuation, and the other half new investment, which was largely financed from retained profits and foreign currency borrowing both from abroad and from U.K. banks. Including amounts for portfolio investment and for use at home, total capital issues abroad by companies amounted to £145 million and other direct borrowing abroad to £125 million. The increase in the book value of *overseas direct investment in the United Kingdom* was about £250 million, rather less than in previous years. It was largely financed by retained profits.

The market value of *U.K. portfolio investment abroad* increased substantially, by £2,300 million, to £7,800 million. Revaluation accounted for £1,600 million but net purchases of securities, particularly U.S. and E.E.C. securities, amounted to as much as £700 million; in previous years, expenditure has rarely exceeded £100 million. Most of this investment was carried out by financial institutions and mainly out of euro-currency borrowing from U.K. banks. The enormous increases in valuation were a result both of buoyant prices in most of the major overseas stock markets at the end of the year and of the net depreciation of sterling following currency realignments during the year. Although the value of overseas sterling area securities held by the private sector rose by £700 million, investors realised a net £50 million of these securities during the period. This may have been partly due to switching to securities of other countries after the introduction of the new exchange control regulations on 23rd June, when securities payable in overseas sterling area currencies became subject to the investment currency premium.

The rise of £150 million in the value of *overseas portfolio investment in U.K. companies' sterling securities* was due almost entirely to higher stock market prices, transactions producing only a marginal increase in holdings.

### Portfolio investment

£ millions

	U.K. investment overseas			Overseas investment in U.K. companies' sterling securities
	Non-sterling area	Overseas sterling area	Total	
Market value :				
End-1971	3,000	2,500	5,500	2,550
End-1972	4,600	3,200	7,800	2,700
Change in 1972	+1,600	+ 700	+2,300	+ 150
of which :				
Transactions	+ 735	- 50	+ 685	+ 10
Valuation and currency realignment	+ 865	+ 750	+1,615	+ 140

*Net banking and commercial liabilities* totalled £1,285 million, about £100 million less than the very high figure at the end of the previous year. The small net fall conceals substantial increases in both assets and liabilities, particularly in foreign currencies. At the end of the year, the banks' foreign currency deposits from abroad exceeded their

foreign currency lending abroad by about £1,850 million, which was about £600 million more than a year earlier. This increase, and some switching by the banks out of sterling, arose from an increase in on-lending to domestic customers, largely for portfolio investment abroad. Overseas sterling deposits with banks and with finance houses each fell by about £100 million, though sterling advances to overseas customers increased by almost £200 million. Import credit received, mainly on ships and aircraft, rose more sharply than usual but there was some slowing down in export credit (part of which is included in "commercial bills discounted").

In total, net external assets of the private sector rose by about £2,900 million in 1972, and at the end of the year assets exceeded liabilities by some £7,700 million.

### Public sector

The value of the net external liabilities of the public sector, other than reserves and related financing items, changed little during 1972. The only sizable movement was in overseas deposits with local authorities, which increased by about £150 million to some £260 million. Although overseas holders bought about £200 million net of British government stocks, this was offset by a fall in market prices. The effect of the fall was greatest in the shorter-dated stocks held by overseas monetary authorities.

#### Overseas investment in British government stocks

£ millions

	Market value end-1971	Market value end-1972	Change in 1972	of which:	
				Trans- actions	Valuation
By overseas monetary authorities	1,355	1,320	- 35	+ 95	-130
By others	950	980	+ 30	+105	- 75

*Net reserve assets* fell by about £1,100 million. At the end of December, the official reserves (redefined in July 1972 to include the reserve position in the International Monetary Fund) stood at £2,167 million, valued at the official parity of U.S. \$2.60571. The £864 million of foreign currency placed during 1971 with overseas monetary authorities under official swap arrangements was withdrawn during 1972, and, with the repayment of outstanding liabilities to the I.M.F. amounting to £415 million, no special transactions affecting the reserves were outstanding at the end of the year.

## U.K. external assets and liabilities

£ millions

### External assets

	End: 1962	1968	1969	1970	1971	1972
<b>Private sector</b>						
Private U.K. investment abroad:						
Direct investment (excluding oil, insurance and banking)(a)	3,405	5,585	6,100	6,415	6,875	8,070
Oil companies' net assets abroad(a)	1,100	1,650	1,800	1,950	2,050	2,150
Banks' and insurance companies' direct investment in the United States(b)	365	515	475	475	475	500
Portfolio investment(c)	3,200	6,150	5,650	5,550	5,500	7,800
<b>Total private investment abroad</b>	<b>8,070</b>	<b>13,900</b>	<b>14,025</b>	<b>14,390</b>	<b>14,900</b>	<b>18,520</b>
U.K. banks' assets:						
Advances and overdrafts in:						
Sterling	318	370	414	423	415	609
Overseas currencies	1,031	6,894	11,601	14,281	16,332	23,606
Commercial bills discounted and acceptances	329	1,086	1,491	1,833	2,109	2,566
Suppliers' trade credit on exports	487	968	1,070	1,089	1,080	1,063
Other known assets held abroad by U.K. companies	55	105	145	140	95	125
<b>Total banking and commercial claims</b>	<b>2,220</b>	<b>9,425</b>	<b>14,720</b>	<b>17,765</b>	<b>20,030</b>	<b>27,970</b>
<b>Total external assets of the private sector</b>	<b>10,290</b>	<b>23,325</b>	<b>28,745</b>	<b>32,155</b>	<b>34,930</b>	<b>46,490</b>
<b>Public sector</b>						
Intergovernment loans by the United Kingdom	396	739	791	875	963	1,017
Subscriptions to international financial organisations (excluding the I.M.F.)	141	199	244	269	312	358
Government holdings of Suez Finance Company shares(c)	27	25	25	20	20	25
Other official assets	145	166	170	172	191	204
<b>Total public sector lending etc.</b>	<b>710</b>	<b>1,130</b>	<b>1,230</b>	<b>1,335</b>	<b>1,485</b>	<b>1,605</b>
Reserve assets:						
Official reserves	1,002	1,009	1,053	1,178	2,526	} 2,167(d)
Reserve position in the I.M.F.	179	—	—	—	—	
Official swaps with overseas monetary authorities	—	—	—	—	864	
Government portfolio of dollar securities(c)	360	—	—	—	—	
<b>Total reserve assets</b>	<b>1,540</b>	<b>1,010</b>	<b>1,055</b>	<b>1,180</b>	<b>3,390</b>	<b>2,165</b>
<b>Total external assets of the public sector</b>	<b>2,250</b>	<b>2,140</b>	<b>2,285</b>	<b>2,515</b>	<b>4,875</b>	<b>3,770</b>
<b>Total of identified external assets</b>	<b>12,540</b>	<b>25,465</b>	<b>31,030</b>	<b>34,670</b>	<b>39,805</b>	<b>50,260</b>

— 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) Official reserves were redefined in July 1972 to include the reserve position in the I.M.F.



## 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.

*Oil companies' net assets abroad* The estimates are approximate book values of the net external assets of U.K. oil companies, and include the Shell Transport and Trading Company's 40% share of the net assets of the Royal Dutch/Shell Group outside the United Kingdom. The treatment of fixed assets varies, and a large part has not been revalued to take account of changes in exchange rates.

*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 and exchange control information 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 is 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 non-residents, as included in the statistical annex, Tables 23 (overseas currencies) and 26 (sterling advances and overdrafts). "Commercial bills discounted and acceptances" does not include bills drawn by U.K. residents and lodged with banks for collection; these are covered by "suppliers' trade credit on exports".

*Suppliers' trade credit on exports* This comprises trade credit extended by U.K. traders to overseas concerns other than affiliates or parent companies, less advance and progress payments made on exports. Trade credit extended to parent companies and affiliates overseas is included under direct investment.

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

*Reserve position in the I.M.F.* This, the "gold tranche", measures the extent to which 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 by companies incorporated abroad in their U.K. branches, subsidiaries, and associates. 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* Estimates of market value are derived from a Department of Trade and Industry inquiry based on company registers as at 1970, adjusted for subsequent cash flows. The valuation shown is therefore 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 "oil companies' net assets abroad".

*Direct borrowing abroad by U.K. companies* The figures for this borrowing outside the Scheduled Territories – 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 overseas currencies from banks in the United Kingdom is excluded because, to the extent that the overseas currency deposits which are being on lent originated abroad, they are reflected in the totals of U.K. banks' external liabilities in overseas currencies.

*U.K. banks' liabilities* These are in line with the figures now included in Tables 23 and 24 of the statistical annex. Commercial bills for imports

drawn on U.K. residents and lodged with U.K. banks by non-residents are included in "suppliers' trade credit on imports".

*Suppliers' trade credit on imports* This comprises trade credit received on imports from non-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 the Customs by overseas suppliers are included among public sector liabilities.

#### **Public sector**

*British government stocks* The figures comprise British government and government-guaranteed stocks. 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.

*Local authorities' securities and mortgages* The figures relate mainly to amounts held direct by non-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.

*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 Fund. Sterling liabilities to the I.M.F. resulting from the U.K. sterling subscription are excluded altogether, as is the 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 Government from a consortium of Swiss banks in October 1967.