

## An inventory of UK external assets and liabilities: end-1973

This article continues the annual series of estimates of the United Kingdom's external assets and liabilities, and gives figures for the end of 1973. These are shown in Table D on page 180, and are followed by notes and definitions for the main items. Both sterling and foreign currency items are included. The classification as 'public sector' or 'private sector' is 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'. The article in the September 1970 *Bulletin* pointed out the limitations of an inventory of this nature and the problems of valuation of investments. These considerations all still apply, and the estimates of portfolio investment are particularly precarious.

### Changes during 1973

At the end of 1973 the total value of identified UK external assets exceeded the total value of external liabilities by about £5,500 million, or some £650 million less than the revised figure for a year earlier. This decrease in net assets is less than might have been expected in view of the balance of payments deficit on current account of nearly £1,500 million.[1] Over half of the difference was due to unidentified inflows reflected in the balancing item of nearly £500 million,[1] and the remainder to changes in valuation. UK assets were augmented, in terms of sterling, by the depreciation of the pound during 1973. There were also substantial movements in stock market prices, but here the fall in the market value of UK portfolio investments abroad was largely counter-balanced by falls in the British market, which diminished the value of foreign holdings of both fixed-interest securities and equities.

During the year there was a fall of £1,150 million in the net assets held by the private sector, which was partly offset by a fall of about £500 million in net liabilities of the public sector.

### Private sector

In total (see Table A), net external assets of the private sector amounted to some £6,700 million at the end of 1973. The fall of £1,150 million during the year was attributable to an increase in net liabilities for 'banking and commercial' items, which in turn largely reflected the public sector's borrowing of foreign currencies through domestic banks. However, 'investment' items produced a small rise in net assets, with an increase on account of direct investment outweighing a decrease on account of portfolio investment.

The book value of *UK direct investment abroad* rose by £1,770 million. Part of this represented increases in valuation, but nearly two thirds – about £1,100 million – was for new investment. The latter, which included a number of large holdings in foreign companies, was financed to a considerable extent by reinvested profits or by borrowing foreign currency from abroad, either direct or through UK banks. The value of company securities issued overseas rose by £125 million (more than accounted for by new issues of £140 million), and other direct borrowing abroad increased by £220 million. (Most of the proceeds were again used to finance direct investment in other countries, though during the fourth quarter there was some increase in foreign currency borrowing for use at home.)

The book value of *overseas direct investment in the United Kingdom* increased by £540 million to £4,655 million. Reinvested profits, some £280 million, were on about the same scale as a year ago, and the rise mainly reflected an increase in the acquisition of UK subsidiaries by foreign companies.

[1] Based on the estimates published in March.

**Table A**  
**Net external assets/liabilities (-): summary**  
£ millions

|   | End-<br>1962 | End-<br>1972 | End-<br>1973 |
|---|--------------|--------------|--------------|
| Investment                                    | 4,905        | 9,185        | 9,320        |
| Banking and commercial                        | - 700        | -1,300       | -2,585       |
| Net external assets of the private sector     | 4,205        | 7,885        | 6,735        |
| Official capital                              | -4,285       | -3,935       | -3,495       |
| Reserves and related items                    | 1,540        | 2,165        | 2,235        |
| Net external liabilities of the public sector | -2,745       | -1,770       | -1,260       |
| Net external assets of the United Kingdom     | 1,460        | 6,115        | 5,475        |

**Table B**  
Portfolio investment  
£ millions

|  | UK investment overseas   |                                   |        | Over-<br>seas<br>invest-<br>ment<br>in UK<br>com-<br>panies'<br>sterling<br>securi-<br>ties |
|--|--------------------------|-----------------------------------|--------|---|
|  | Non-<br>sterling<br>area | Over-<br>seas<br>sterling<br>area | Total  |   |
| Market value:                            |                          |                                   |        |   |
| End-1972                                 | 4,650                    | 3,800                             | 8,450  | 3,100   |
| End-1973                                 | 4,450                    | 2,700                             | 7,150  | 2,350   |
| Change in 1973                           | - 200                    | -1,100                            | -1,300 | - 750   |
| of which: transactions                   | + 230                    | - 230                             | -      | + 100   |
| valuation and<br>currency<br>realignment | - 430                    | - 870                             | -1,300 | - 850   |

The value of *UK portfolio investment abroad* fell by £1,300 million, to £7,150 million. There were sharp falls in most stock market prices around the world, and, with these unfavourable conditions for investment, there was no net new investment during the year. The pattern of investment, however, continued to show some switching out of securities payable in overseas sterling area currencies.

The fall of £750 million in the value of *overseas portfolio investment in UK companies' sterling securities* was also greatly affected by the fall in stock market prices. Net purchases amounted to £100 million but these were substantially outweighed by losses in value of £850 million.

Net liabilities for '*banking and commercial*' items totalled £2,585 million at the end of 1973, twice as much as a year earlier. As in the previous year, the totals of assets and liabilities, particularly in foreign currencies, each increased substantially. At the end of the year, the banks' foreign currency liabilities to overseas exceeded their foreign currency claims on overseas by about £3,300 million, or some £1,400 million more than a year earlier. This increase in net liabilities was largely the result of heavy borrowing in foreign currencies on behalf of domestic customers. On-lending to the private sector was mainly to finance direct investment abroad, and borrowing by the public sector (some £830 million) was stimulated by the reintroduction in the 1973 Budget of the exchange cover scheme. Overseas sterling deposits increased by over £200 million, but there was little change in the amount of sterling advances to overseas customers. Export credit, including the fixed rate export credit which is included in 'commercial bills discounted', rose by over £300 million, but this was broadly matched by increases in import credit and in advance and progress payments on exports yet to be shipped.

#### Public sector

Net external liabilities of the public sector other than reserve items – '*official capital*' in Table A – fell in value by £440 million during the year, to £3,495 million. This excludes the £830 million mentioned above borrowed through the banks. The country's net indebtedness on intergovernment loans was reduced by over £300 million, about half of which was due to changes in valuation. There was also a sharp decline of £320 million in overseas holdings of Treasury bills and notes, while the value of overseas investments in British government stocks fell by £170 million, despite new investment of £155 million. The depreciation on government stocks was greater on long-dated issues, which are the ones most held by private overseas investors, than on the shorter-dated ones generally preferred by official holders. On the other hand, overseas deposits and other investments with local authorities rose by about £180 million; and there was an increase of about £290 million in foreign bond issues and other direct borrowing abroad by public corporations and local authorities (as well as the borrowing through UK banks mentioned above).

At the end of the year, *net reserve assets* were £2,237 million as officially valued (see footnote [a] to Table 21 of the statistical annex). This was a rise of only £70 million since the end of 1972, although in the balance of payments accounts the increase was £210 million when valued at the rates of exchange at which transactions took place.

**Table C**  
Overseas investment in British government stocks  
£ millions

|  | Market<br>value<br>end-1972 | Market<br>value<br>end-1973 | Change<br>in 1973 | of which:         |           |
|--|-----------------------------|-----------------------------|-------------------|-------------------|-----------|
|  |                             |                             |                   | trans-<br>actions | valuation |
| By overseas<br>monetary<br>authorities | 1,280                       | 1,230                       | - 50              | +75               | -125      |
| By other<br>holders                    | 980                         | 860                         | -120              | +80               | -200      |

Table D

## UK external assets and liabilities

£ millions

| External assets  | End:   | 1962          | 1969          | 1970          | 1971          | 1972          | 1973          |
|--|--|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Private sector</b>  |  |               |               |               |               |               |               |
| Private UK investment abroad:  |  |               |               |               |               |               |               |
| Direct investment (excluding oil, insurance and banking)[a]                |  | 3,405         | 6,065         | 6,405         | 6,665         | 7,955         | 9,725         |
| Oil companies' net assets abroad[a]  |  | 1,100         | 1,900         | 2,050         | 2,150         | 2,250         | 2,350         |
| Banks' and insurance companies' direct investment in the United States[b]  |  | 365           | 475           | 475           | 475           | 500           | 500           |
| Portfolio investment[c]  |  | 3,200         | 5,650         | 5,550         | 5,600         | 8,450         | 7,150         |
|  | <b>Total private investment abroad</b>             | <b>8,070</b>  | <b>14,090</b> | <b>14,480</b> | <b>14,890</b> | <b>19,155</b> | <b>19,725</b> |
| <b>UK banks' assets:</b>   |  |               |               |               |               |               |               |
| Advances and overdrafts in:  |  |               |               |               |               |               |               |
| Sterling   |  | 318           | 415           | 423           | 415           | 609           | 628           |
| Foreign currencies   |  | 1,031         | 11,601        | 14,281        | 16,332        | 23,579        | 35,719        |
| Commercial bills discounted and acceptances                                |  | 329           | 1,491         | 1,833         | 2,109         | 2,593         | 3,037         |
| Suppliers' trade credit on exports   |  | 533           | 1,289         | 1,425         | 1,432         | 1,563         | 1,673         |
| Advance and progress payments on imports by UK businesses                  |  | —             | 61            | 61            | 49            | 38            | 46            |
| Other known assets held abroad by UK companies                             |  | 55            | 145           | 140           | 90            | 120           | 220           |
|  | <b>Total banking and commercial claims</b>         | <b>2,265</b>  | <b>15,000</b> | <b>18,165</b> | <b>20,425</b> | <b>28,500</b> | <b>41,325</b> |
|  | <b>Total external assets of the private sector</b> | <b>10,335</b> | <b>29,090</b> | <b>32,645</b> | <b>35,315</b> | <b>47,655</b> | <b>61,050</b> |
| <b>Public sector</b>   |  |               |               |               |               |               |               |
| Intergovernment loans by the United Kingdom                                |  | 396           | 791           | 875           | 963           | 1,029         | 1,091         |
| Subscriptions to international financial organisations (excluding the IMF) |  | 141           | 245           | 269           | 312           | 364           | 448           |
| Government holdings of Suez Finance Company shares[c]                      |  | 27            | 25            | 20            | 20            | 25            | 25            |
| Other official assets  |  | 145           | 175           | 177           | 197           | 212           | 228           |
|  | <b>Total public sector lending etc.</b>            | <b>710</b>    | <b>1,235</b>  | <b>1,340</b>  | <b>1,490</b>  | <b>1,630</b>  | <b>1,790</b>  |
| <b>Reserve assets:</b>   |  |               |               |               |               |               |               |
| Official reserves  |  | 1,002         | 1,053         | 1,178         | 2,526         | 2,167[d]      | 2,237         |
| Reserve position in the IMF  |  | 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>1,055</b>  | <b>1,180</b>  | <b>3,390</b>  | <b>2,165</b>  | <b>2,235</b>  |
|  | <b>Total external assets of the public sector</b>  | <b>2,250</b>  | <b>2,290</b>  | <b>2,520</b>  | <b>4,880</b>  | <b>3,795</b>  | <b>4,025</b>  |
|  | <b>Total of identified external assets</b>         | <b>12,585</b> | <b>31,380</b> | <b>35,165</b> | <b>40,195</b> | <b>51,450</b> | <b>65,075</b> |

— nil or less than £½ million.

[a] Estimated book value of net assets.

[b] Derived from US 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 IMF.

**External liabilities**

|  | End: | 1962          | 1969          | 1970          | 1971          | 1972          | 1973          |
|--|------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Private sector</b>  |      |               |               |               |               |               |               |
| Overseas investment in the UK private sector:                                      |      |               |               |               |               |               |               |
| Direct investment (excluding oil, insurance and banking)[a]                        |      | 1,430         | 2,995         | 3,335         | 3,815         | 4,115         | 4,655         |
| Overseas oil companies' net assets in the United Kingdom[a]                        |      | 700           | 1,250         | 1,350         | 1,550         | 1,600         | 1,900         |
| Portfolio investment in UK companies' sterling securities[c]                       |      | 1,000         | 2,200         | 1,900         | 2,750         | 3,100         | 2,350         |
| Portfolio investment in foreign currency securities issued by UK companies[c]      |      | 30            | 90            | 175           | 250           | 450           | 575           |
| Direct borrowing abroad by UK companies  |      | 5             | 275           | 425           | 565           | 705           | 925           |
| <b>Total overseas investment in the private sector</b>                             |      | <b>3,165</b>  | <b>6,810</b>  | <b>6,885</b>  | <b>8,930</b>  | <b>9,970</b>  | <b>10,405</b> |
| UK banks' liabilities in:  |      |               |               |               |               |               |               |
| Sterling   |      | 1,532         | 1,839         | 2,206         | 3,131         | 3,052         | 3,271         |
| Foreign currencies   |      | 1,148         | 12,025        | 15,215        | 17,605        | 25,460        | 39,017 [e]    |
| Overseas sterling deposits with finance houses                                     |      | 98            | 57            | 119           | 136           | 22            | 16            |
| Suppliers' trade credit on imports   |      | 143           | 433           | 497           | 590           | 766           | 940           |
| Advance and progress payments on exports by overseas customers                     |      | 42            | 196           | 274           | 397           | 498           | 667           |
| <b>Total banking and commercial liabilities</b>                                    |      | <b>2,965</b>  | <b>14,550</b> | <b>18,310</b> | <b>21,860</b> | <b>29,800</b> | <b>43,910</b> |
| <b>Total external liabilities of the private sector</b>                            |      | <b>6,130</b>  | <b>21,360</b> | <b>25,195</b> | <b>30,790</b> | <b>39,770</b> | <b>54,315</b> |
| <b>Public sector</b>   |      |               |               |               |               |               |               |
| Intergovernment loans to the United Kingdom  |      | 1,930         | 2,232         | 2,137         | 1,906         | 1,802         | 1,545         |
| Loan from Deutsche Bundesbank  |      | —             | 23            | 23            | —             | —             | —             |
| Overseas investment in the UK public sector:                                       |      |               |               |               |               |               |               |
| British government stocks: [c]   |      |               |               |               |               |               |               |
| By overseas monetary authorities   |      | 985           | 1,105         | 1,180         | 1,355         | 1,280         | 1,230         |
| By others  |      | 780           | 730           | 705           | 950           | 980           | 860           |
| Local authorities' securities and mortgages  |      | 110           | 50            | 55            | 75            | 75            | 105           |
| Foreign currency securities issued by public corporations and local authorities[c] |      | —             | 55            | 55            | 75            | 85            | 300 [e]       |
| Other foreign currency borrowing by public corporations and local authorities      |      | —             | 22            | 20            | 82            | 82            | 156 [e]       |
| Other public sector capital:   |      |               |               |               |               |               |               |
| Overseas holdings of Treasury bills and notes[f]                                   |      | 1,096         | 533           | 541           | 904           | 1,001         | 678           |
| Import deposits received from overseas   |      | —             | 60            | 28            | —             | —             | —             |
| IMF gold deposits  |      | —             | 17            | 13            | 11            | —             | —             |
| Overseas deposits with local authorities   |      | 93            | 97            | 56            | 118           | 262           | 413           |
| <b>Total public sector borrowing (other than official financing)</b>               |      | <b>4,995</b>  | <b>4,925</b>  | <b>4,815</b>  | <b>5,475</b>  | <b>5,565</b>  | <b>5,285</b>  |
| Official financing liabilities:  |      |               |               |               |               |               |               |
| Net drawings on the IMF excluding gold tranche†                                    |      | —             | 850           | 678           | 123           | —             | —             |
| Liabilities to other monetary authorities in:                                      |      |               |               |               |               |               |               |
| Sterling   |      | —             | 1,410         | 399           | —             | —             | —             |
| Foreign currencies   |      | —             | 150           | —             | —             | —             | —             |
| <b>Total official financing liabilities</b>  |      | <b>—</b>      | <b>2,410</b>  | <b>1,075</b>  | <b>125</b>    | <b>—</b>      | <b>—</b>      |
| <b>Total external liabilities of the public sector</b>                             |      | <b>4,995</b>  | <b>7,335</b>  | <b>5,890</b>  | <b>5,600</b>  | <b>5,565</b>  | <b>5,285</b>  |
| <b>Total of identified external liabilities</b>                                    |      | <b>11,125</b> | <b>28,695</b> | <b>31,085</b> | <b>36,390</b> | <b>45,335</b> | <b>59,600</b> |
| † Total net drawings on the IMF  |      | —             | 1,104         | 970           | 415           | —             | —             |
| Gold tranche   |      | —             | 254           | 292           | 292           | —             | —             |

[e] Foreign currency borrowed abroad by, or on behalf of, public bodies under the Treasury's exchange guarantee scheme totalled about £1,250 million at end-1973, including some £890 million through UK banks.

[f] Excludes official financing liabilities; includes liabilities to the IMF arising from accumulated charges in sterling.

## 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 UK companies in their overseas branches, subsidiaries, and associates. The figures are based on Department of 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 UK 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 US Department of Commerce publications.

##### *Portfolio investment*

Estimates of the value of UK 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.

##### *UK 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 UK 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 UK traders to overseas concerns other than affiliates or parent companies. Trade credit extended to parent companies and affiliates overseas is included under direct investment.

##### *Other known assets held abroad by UK companies*

These represent the working balances of various UK 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 UK Atomic Energy Authority.

##### *Reserve position in the IMF*

This, the 'gold tranche', measures the extent to which the United Kingdom can draw on the IMF 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 UK sterling subscription to the IMF of 75% of quota is excluded altogether, as are the corresponding sterling liabilities to the IMF on the liabilities side.)

### Liabilities

#### Private sector

##### *Direct investment*

This represents investment by companies incorporated abroad in their UK 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 UK companies' sterling securities*

Estimates of market value are derived from a Department of 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 UK companies*

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

##### *Direct borrowing abroad by UK 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 UK 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 UK banks' external liabilities in overseas currencies.

##### *UK 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 UK residents and lodged with UK 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. 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 UK 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 UK agents is not available.

##### *Net drawings on the IMF*

Comprises drawings on the IMF, less repayments, less other countries' net purchases of sterling from the Fund. Sterling liabilities to the IMF resulting from the UK 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.

##### *Liabilities to other monetary authorities 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.