

An inventory of UK external assets and liabilities: end-1974

This article continues the annual series of estimates of the United Kingdom's external assets and liabilities, and gives figures for the end of 1974. These are shown in Table D. Notes and definitions for the main items are given at the end. The compilation and presentation of the estimates follow the usual pattern. Both sterling and foreign currency items are included. 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 treated 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'. An article in the September 1970 *Bulletin* pointed out the limitations of an inventory of this nature and the problems of valuation of investments. These qualifications still apply. In particular, the estimates of portfolio investment should be regarded only as broad indications of magnitude.

Summary

At the end of 1974 the total value of identified UK external assets exceeded the total value of external liabilities by £1,900 million. The net external assets of the private sector were £4,885 million and the net external liabilities of the public sector were £2,985 million. Increases in the latter included foreign currency borrowing by the Government and other public sector bodies, as well as overseas investment in Treasury bills. The change in the net position during the year was broadly the measure of the balance of payments deficit on current account (about £3,800 million),[1] but the similarity is to some extent fortuitous. On the one hand, the inventory figures are adjusted for changes in valuation (for example, the value of UK portfolio investments abroad was written down by some £600 million more than the value of overseas portfolio investments in the United Kingdom) whereas the balance of payments estimates record transactions without such adjustments. On the other hand, the balance of payments accounts for 1974 include a very large positive balancing item of £1,150 million, which doubtless indicates sizable capital inflows not yet identified and therefore not yet included in the inventory figures.

Private sector

Total net external assets of the private sector fell by £2,355 million during 1974, mainly due to the depression in world stock markets, which sharply reduced the value of UK portfolio investment overseas.

The book value of *UK direct investment abroad* rose by £1,165 million. About half the rise was financed from retained profits; most of the remainder came from foreign currency borrowing of £635 million, either direct from abroad or through UK banks.

The book value of *overseas direct investment in the United Kingdom* increased by £615 million, largely because of net new acquisitions of shares of £365 million, including some £100 million for the purchase of the St. Martin's Property Corporation by Kuwaiti interests. Unremitted profits, at £300 million, added about as much as in 1973. *UK oil companies' net assets abroad*, although reduced by the sale of

Table A
Net external assets/liabilities (—): summary

£ millions	End- 1962	End- 1973	End- 1974
Investment	4,905	9,720	7,900
Banking and commercial	— 695	— 2,480	— 3,015
Net external assets of the private sector	4,210	7,240	4,885
Public sector (other than reserves and other official financing)	— 4,285	— 3,550	— 4,690
Reserves and other official financing	1,540	2,235	1,705
Net external liabilities of the public sector	— 2,745	— 1,315	— 2,985
Net external assets of the United Kingdom	1,465	5,925	1,900

[1] All balance of payments figures are taken from the statistics published in March.

Table B
Portfolio investment

£ millions	UK investment overseas	Overseas investment in UK companies' securities	
		Sterling	Foreign currency
Market value:			
End-1973	7,050	2,100	575
End-1974	4,400	1,050	480
Change in 1974	-2,650	-1,050	-95
of which:			
Transactions	-765	+135	+5
Valuation (including currency adjustment)	-1,885	-1,185	-100

assets in Abu Dhabi and Italy, grew by £100 million: this included further investment in Alaska and some stock appreciation. *Overseas oil companies' net assets in the United Kingdom* rose sharply in the year, by £800 million, reflecting both an increase in capital expenditure on North Sea operations and a rise in trade credit and working balances associated with dearer oil.

UK portfolio investment overseas fell by £2,650 million. As Table B shows, most of the fall was due to the world-wide depression of stock market prices. At the same time, net disinvestment amounted to a record £765 million. The massive writing-down of UK portfolio holdings was partly offset by the halving of the value of *overseas portfolio investment in UK companies' sterling securities*, reflecting the decline in prices on the London market. The international bond market, a useful source of finance for UK companies in 1972 and 1973, was inactive for most of 1974, and lower prices reduced the value of outstanding liabilities. There was, however, an increase of over £200 million in *direct borrowing abroad by UK companies* (see Table D), of which nearly £70 million was for use in this country.

Net '*banking and commercial*' liabilities amounted to £3,015 million, or £535 million more than in 1973. Difficulties in the foreign exchange market checked the rate of expansion of euro-currency business, and UK banks' foreign currency assets and liabilities rose by only about half as much as in the previous year. The banks' net external liability in foreign currencies increased from some £3,300 million to £3,850 million, essentially because of further foreign currency borrowing of £595 million by the public sector, almost entirely in the first half of the year. Foreign currency borrowing by the private sector to finance direct investment overseas was roughly equal to net repayments of £340 million of earlier borrowing for portfolio investment. The foreign currency liabilities incurred by UK banks to finance their lending to the Government under the \$2.5 billion facility are excluded from the figure of banks' foreign currency liabilities: all drawings on the facility are treated as an 'official financing' item. *UK banks' liabilities in sterling* rose by some £700 million but this was largely offset by an increase in *commercial bills discounted* (including acceptances) denominated in sterling.

The net amount of *trade credit* given by the United Kingdom, including *advance and progress payments*, rose by nearly £100 million.

Table C
Overseas investment in British government stocks

£ millions	By overseas monetary authorities	By other holders
	Market value:	
End-1973	1,230	860
End-1974	1,075	830
Change in 1974	-155	-30
of which:		
Transactions	-125	+90
Valuation	-30	-120

Public sector

The net external liability of the public sector, other than reserves and official financing items, and excluding the £595 million borrowed through UK banks mentioned above, grew by £1,140 million during 1974. There were relatively large changes in several items, but the main feature was a rise of as much as £1,075 million in overseas holdings of Treasury bills, mainly by oil-exporting countries. On the other hand, the value of overseas investment in British government stocks fell by £185 million, largely because of the fall in market prices. Within the total, sales by a number of overseas sterling central monetary institutions outweighed purchases by oil-exporting countries; and buying by other holders was insufficient to compensate for the fall in prices.

The value of outstanding overseas borrowing by other public sector bodies rose by £645 million, largely through increased foreign currency borrowing by the nationalised industries under the exchange cover scheme. Important new sources of funds were the European Investment Bank and the European Coal and Steel Community, which together had lent £105 million to UK public sector bodies by the end of 1974. The United Kingdom's net

indebtedness in respect of inter-government loans was again reduced, by over £150 million.

At the end of the year the official reserves, after including foreign currency borrowing by the Government, had risen by over £100 million to £2,345 million — as officially valued.[1]

[1] From December 1971, convertible currencies are valued at middle or central rates — equivalent to \$2.60571 = £1 until February 1973 and \$2.89524 = £1 thereafter. Gold continues to be valued at £14.5833 per fine ounce and special drawing rights at SDR 2.40 = £1.

Notes and definitions

Assets and liabilities denominated in overseas currencies are generally valued at the exchange rates 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 differ considerably from 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.

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 the 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 certain other financial institutions on non-residents, as included in regular quarterly statistics in the *Bulletin*. 'Commercial bills discounted (including 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 identified 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 represents an automatic drawing right on the Fund and equals the amount by which the UK quota exceeds holdings of sterling by the IMF. Apart from UK drawings/repurchases, it will rise or fall as other countries draw sterling from, or repay sterling to, the IMF.

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 enquiry based on company registers as at 1970, adjusted for subsequent cash flows and estimated changes in market values resulting from price fluctuations. The figures are, therefore, only approximate.

Portfolio investment in UK companies' foreign currency securities

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 some of the overseas currency deposits which are being on lent originated in the United Kingdom, while those which originated abroad are reflected in the totals of UK banks' external liabilities in overseas currencies.

UK banks' liabilities

These figures, which relate to banks and certain other financial institutions, are in line with the regular quarterly statistics in the *Bulletin*, except that borrowing by UK banks to provide part of the Government's \$2.5 billion loan is included in 'official financing liabilities'. 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. The market values are partly derived from returns from UK banks and the Crown Agents and partly estimated from an analysis of the stock registers at the Bank of England. No detailed geographical distribution is available. Overseas monetary authorities comprise central monetary institutions and international organisations (other than the IMF).

Local authorities' securities and mortgages

The figures relate mainly to amounts held direct by non-residents or lodged with the Crown Agents and banks in the United Kingdom. Information regarding holdings through other UK agents is not available.

Net drawings on the IMF

The figures comprise 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.

Foreign currency borrowing by the Government

This represents borrowing under the \$2.5 billion facility announced in the March 1974 Budget, and includes borrowing from both UK and overseas banks. Total drawings at the end of the year have been valued at the middle market closing rate on 31 December.

Table D
UK external assets and liabilities

£ millions

External assets

	End:	1962	1970	1971	1972	1973	1974
Private sector							
Private UK investment abroad:							
Direct investment (excluding oil, insurance and banking) [a]		3,405	6,405	6,665	7,860	9,975	11,140
Oil companies' net assets abroad [a]		1,100	2,050	2,150	2,250	2,600	2,700
Banks' and insurance companies' direct investment in the United States [b]		365	475	475	525	570	630
Portfolio investment [c]		3,200	5,600	5,900	8,750	7,050	4,400
Total private investment abroad		8,070	14,530	15,190	19,385	20,195	18,870
UK banks' assets:							
Advances and overdrafts in:							
Sterling		318	423	415	609	628	717
Foreign currencies		1,031	14,281	16,333	23,579	35,719	43,315
Commercial bills discounted (including acceptances)		329	1,833	2,109	2,593	3,037	3,600
Suppliers' trade credit on exports		533	1,425	1,438	1,585	1,736	1,974
Advance and progress payments on imports by UK businesses		—	100	167	153	167	223
Other identified assets held abroad by UK companies		55	140	90	120	220	225
Total banking and commercial claims		2,265	18,200	20,550	28,640	41,505	50,055
Total external assets of the private sector		10,335	32,730	35,740	48,025	61,700	68,925
Public sector							
Inter-government loans by the United Kingdom		396	875	964	1,015	1,074	1,148
Subscriptions to international financial organisations (excluding the IMF)		141	269	312	364	448	554
Government holdings of Suez Finance Company shares [c]		27	20	20	25	25	15
Other official assets		145	177	197	212	225	234
Total public sector lending etc.		710	1,340	1,495	1,615	1,770	1,950
Reserve assets:							
Official reserves		1,002	1,178	2,526	} 2,167[d]	2,237	2,345
Reserve position in the IMF		179	—	—			
Official swaps with overseas monetary authorities		—	—	864	—	—	—
Government portfolio of dollar securities [c]		360	—	—	—	—	—
Total reserve assets		1,540	1,180	3,390	2,165	2,235	2,345
Total external assets of the public sector		2,250	2,520	4,885	3,780	4,005	4,295
Total of identified external assets		12,585	35,250	40,625	51,805	65,705	73,220

— 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	1970	1971	1972	1973	1974
Private sector						
Overseas investment in the UK private sector:						
Direct investment (excluding oil, insurance and banking)[a]	1,430	3,335	3,815	4,115	4,705	5,320
Overseas oil companies' net assets in the United Kingdom[a]	700	1,450	1,600	1,700	2,100	2,900
Portfolio investment in UK companies' sterling securities[c]	1,000	1,900	2,750	2,950	2,100	1,050
Portfolio investment in UK companies' foreign currency securities[c]	30	175	250	450	575	480
Direct borrowing abroad by UK companies	5	425	565	700	995	1,220
Total overseas investment in the private sector	3,165	7,285	8,980	9,915	10,475	10,970
UK banks' liabilities in:						
Sterling	1,532	2,206	3,131	3,052	3,310	4,041
Foreign currencies [e][f]	1,148	15,215	17,605	25,460	39,017	47,166
Overseas sterling deposits with finance houses	98	119	136	22	16	16
Suppliers' trade credit on imports	142	533	675	868	1,010	990
Advance and progress payments on exports by overseas customers	42	282	405	500	633	856
Total banking and commercial liabilities	2,960	18,355	21,950	29,900	43,985	53,070
Total external liabilities of the private sector	6,125	25,640	30,930	39,815	54,460	64,040
Public sector						
Inter-government loans to the United Kingdom	1,930	2,137	1,906	1,802	1,545	1,465
Loan from Deutsche Bundesbank	—	23	—	—	—	—
Overseas investment in the UK public sector:						
British government stocks: [c]						
By overseas monetary authorities	985	1,180	1,355	1,280	1,230	1,075
By others	780	705	950	980	860	830
Local authorities' securities and mortgages	110	55	75	75	110	100
Foreign currency securities issued by:						
Public corporations [c][f]	—	55	75	85	160	470
Local authorities [c][f]	—	—	—	—	140	140
Other borrowing abroad from banks etc. by:						
Public corporations [f]	—	15	76	85	167	467
Local authorities [f]	—	5	6	7	15	52
Other public sector capital:						
Overseas holdings of Treasury bills and notes [g]	1,096	541	904	1,001	678	1,752
Import deposits received from overseas	—	28	—	—	—	—
IMF gold deposits	—	13	11	—	—	—
Overseas deposits with local authorities	93	56	118	262	413	290
Total public sector borrowing (other than official financing)	4,995	4,815	5,475	5,575	5,320	6,640
Official financing liabilities:						
Net drawings on the IMF excluding gold tranche *	—	678	123	—	—	—
Liabilities to other monetary authorities in sterling	—	399	—	—	—	—
Foreign currency borrowing by the Government	—	—	—	—	—	638
Total official financing liabilities	—	1,075	125	—	—	640
Total external liabilities of the public sector	4,995	5,890	5,600	5,575	5,320	7,280
Total of identified external liabilities	11,120	31,530	36,530	45,390	59,780	71,320
*Total net drawings on the IMF	—	970	415	—	—	—
Gold tranche	—	292	292	—	—	—

[e] Excludes borrowing by UK banks to provide part of the Government's foreign currency loan, all of which is included under official financing liabilities'.

[f] Foreign currency borrowed abroad by, or on behalf of, public bodies under the Treasury's exchange guarantee scheme totalled about £2,425 million at end-1974, including some £1,440 million through UK banks.

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