

An inventory of UK external assets and liabilities: end-1976

This article continues the annual series of estimates, in sterling terms, of the United Kingdom's external assets and liabilities, and gives figures for the end of 1976. The compilation and presentation of the estimates follow the pattern of last year's article: 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; private sector items are grouped under the headings of 'investment' and 'banking and commercial'; and public sector items are treated as in the balance of payments accounts, where reserves and official financing transactions are shown separately from other official assets and liabilities.

Previous articles have emphasised the inevitable limitations to an inventory of this nature, arising from difficulties in valuing investments and from problems of identification. There are, for example, no estimates for UK-owned property abroad, or for foreign-owned property in the United Kingdom, and the estimates of portfolio investment are no more than broad indications of magnitude. Such limitations have been highlighted this year by the revisions subsequently made to the figures published in last year's article – particularly those for direct investment. Although small in relation to total assets and liabilities, the former were revised downwards and the latter upwards, turning a net surplus in 1975 into a net deficit. However, for the reasons given above, this apparent turn-round should be treated with caution: total identified assets and liabilities each amount to some £125 billion, and the margin of error is clearly considerable.

Summary

Revised estimates now show that the value of the United Kingdom's total external liabilities at the end of 1975 exceeded the total value of external assets by over £1 billion, after a surplus of assets over liabilities in earlier years. And according to the latest figures, the deficit increased to some £2 billion at the end of 1976, even though sterling's effective depreciation of over 15% during the year is estimated to have added around £1½ billion more to total assets than to total liabilities. A rise of some £3½ billion in the net external assets of the private sector was outweighed by an increase of over £4 billion in the public sector's net liabilities. The rise of over £½ billion in total net liabilities over the year compares with a balance of payments deficit on current account of nearly £1½ billion. The two estimates are not directly comparable because of valuation adjustments which are made to some of the inventory figures (e.g. changes in the market price of securities), but not to the balance of payments estimates, which are based purely on transactions. Nevertheless, after a sequence of heavy current account deficits since 1973 (amounting to over £7 billion in the four years), it was almost inevitable that the country's balance sheet of external assets and liabilities should have deteriorated considerably, and not very surprising that it should now show a net liability.

Private sector

The private sector's total net assets rose by over £3,500 million, after falling in 1974 and changing little in 1975. Within the total, the value of net 'investment' abroad increased by £2,650 million while net 'banking and commercial' liabilities fell by £900 million.

The estimates of *UK direct investment abroad* in earlier articles have been substantially revised in the light of a census relating to

Table A
Net external assets (+)/liabilities (-): summary

£ billions	End-1973	End-1974	End-1975	End-1976
Investment	+8.0	+5.9	+6.3	+9.0
Banking and commercial	-1.8	-1.6	-2.0	-1.1
Net external assets of the private sector	+6.2	+4.3	+4.3	+7.9
Public sector (other than reserves and other official financing)	-3.6	-4.1	-4.1	-3.8
Reserves and other official financing	+1.5	-	-1.7	-6.0
Net external liabilities of the public sector	-2.0	-4.1	-5.8	-9.9
Net external assets/liabilities of the United Kingdom	+4.1	+0.2	-1.4	-2.0

the end of 1974, and published earlier this year.[1] These estimates were originally extrapolated from the figures recorded at the end of 1971, taking full account of the effects of the depreciation of sterling as well as of annual flows of investment. However, the results of the latest census indicated that this method had overestimated the value of direct investment abroad. The census also showed that companies approached annually for figures of changes in investment had grown slightly faster than other companies; this, too, contributed to the overestimation. The estimates for 1975 and 1976 are thus provisional: they take account of annual flows of investment, together with an adjustment for sterling's depreciation and other revaluations in companies' books (see 'notes and definitions' at the end of this article). Such adjustments can only be approximate, and further revisions will probably be made when the results of the next census (relating to the end of 1977) become available. Meanwhile, the present estimates show an increase in 1976 of £2,900 million, twice as large as in 1975: valuation changes are estimated to account for some £1,200 million of the rise, and three quarters of the remainder represents the reinvestment of unremitted profits. Figures for *overseas direct investment in the United Kingdom* have also been heavily revised (in this case upwards), partly because companies included in the annual sample were found to be investing less heavily than the remainder, and partly because the book value of assets had been substantially revalued between 1971 and 1974. Estimates for 1975 and 1976 allow only for flows in those years, and not for changes in valuation. The increase in 1976 was little more than in the previous year, but a much larger proportion (80%, compared with 45%) came from unremitted profits. In spite of the revisions, the amount outstanding of UK direct investment abroad still exceeded the value of foreign direct investment in the United Kingdom; and between 1973 and 1976 alone, profits from UK investment overseas contributed nearly £6,500 million to the current account of the balance of payments, or about £5,500 million after deducting interest payments on foreign currency borrowing for direct investment overseas. Even after deducting profits earned by foreigners on their direct investments in the United Kingdom, the net gain to the current account in the last four years amounted to some £2,500 million.

UK oil companies' net assets abroad are estimated to have increased by around £600 million in 1976, largely reflecting the need of overseas subsidiaries for more working capital to finance higher costs. *Overseas oil companies' net assets in the United Kingdom* rose by even more – some £900 million – most of which was required for the development of oil and gas resources in the North Sea.

UK portfolio investment overseas rose by £1,350 million, but this largely reflects the effect of the pound's depreciation on the sterling value of foreign currency securities: UK residents actually sold £155 million (net) during the year. Stock markets abroad were influenced by various adverse political and economic developments and were generally little more attractive than the domestic market, particularly in the fourth quarter when disinvestment was exceptionally heavy. In contrast, overseas residents invested £150 million in *UK companies' sterling securities*, perhaps partly reflecting the relative strength of the UK stock market, but a small fall in market prices left the amount outstanding unchanged over the year. The international bond market was again little used by UK companies, which raised about

Table B
Portfolio investment

£ millions	UK investment overseas	Overseas investment in UK companies' securities	
		Sterling	Foreign currency
Market value:			
End-1975	6,800	2,350	605
End-1976	8,150	2,350	915
Change in 1976	+ 1,350	–	+ 310
of which:			
Transactions	– 155	+ 150	+ 70
Valuation (including currency adjustment)	+ 1,505	– 150	+ 240

[1] 'Book values of overseas direct investments', *Trade and Industry*, 25 February 1977 (Departments of Industry, Trade and Prices and Consumer Protection), pages 528–35. The previous inquiry related to the end of 1971.

£70 million (net) from overseas residents through foreign currency issues; but higher prices and the pound's depreciation added a further £240 million to liabilities. *Direct borrowing abroad by UK companies*, net of repayments, rose by £220 million in 1976 (of which less than half was for domestic use); but, after allowing for sterling's depreciation, the amount outstanding at the end of the year was more than £500 million larger than in 1975.

Net '*banking and commercial*' liabilities fell by around £900 million during the year, to £1,100 million. The fall in net liabilities was mainly in the sterling business of banks and certain other financial institutions: deposits were run down by nearly £400 million (largely by oil-exporting countries) while, on the assets side, the banks continued to increase their holdings of ECGD-backed export bills.

The euro-currency markets continued to expand, and the foreign currency assets and liabilities of UK banks and certain other institutions each rose by around £23,000 million, of which rather more than half represented new business and the remainder a rise in the sterling value of outstanding balances. In percentage terms, the total increase was slightly larger than in 1975. Within net external liabilities in foreign currencies, £120 million (net) was borrowed during 1976 to finance direct investment abroad. Borrowing for portfolio investment was largely offset by repayments of earlier loans. (Lending to public sector bodies under the exchange cover scheme is classified as official financing, and its counterpart in the banks' liabilities is thus excluded from these figures.)

Public sector

The net external liabilities of the public sector (excluding official financing items) fell by £200 million. Treasury bill holdings were reduced by £600 million (largely by oil-exporting countries), and deposits with local authorities fell by £200 million. On the other hand, a further £120 million was invested in gilt-edged stocks, entirely by holders other than central monetary institutions; net indebtedness in respect of inter-government loans rose by £350 million, though this was wholly because of the higher sterling value of outstanding currency liabilities (in December, the UK Government deferred the repayment of instalments on the US and Canadian post-war loans); and foreign currency borrowing by public sector bodies outside the exchange cover scheme increased by over £200 million, of which nearly two thirds reflected sterling's depreciation. The latest UK contribution to the International Development Association was largely responsible for a rise of more than £100 million in government lending.

Official financing liabilities rose sharply. New foreign currency borrowing by the public sector under the exchange cover scheme amounted to a record £1,800 million (£1,400 million through overseas markets and the balance through UK banks) and, after adjustment for sterling's depreciation, the amount outstanding rose from £3,200 million to £5,900 million. Also, the Government drew on the IMF oil facility and first credit tranche, and official financing liabilities rose in total from £4,400 million to £8,500 million. Nevertheless, the *official reserves* were drawn down by over £850 million during the year, although their higher value in sterling terms reduced the fall to only £215 million. During the year, \$1.5 billion was drawn, and subsequently repaid, under a short-term credit facility made available through the Group of Ten countries and the Bank for International Settlements.

Table C
Overseas investment in British government stocks

£ millions	By overseas monetary authorities	By other holders
Market value:		
End-1975	1,145	930
End-1976	1,145	1,050
Change in 1976	—	+ 120
of which:		
Transactions	+ 15	+ 115
Valuation	+ 15	+ 5

Table D
Amounts outstanding foreign currency borrowing by public sector bodies under the exchange cover scheme

£ millions	1973	1974	1975	1976
Foreign currency borrowed through UK banks by:				
Public corporations	814	1,131	1,312	1,988
Local authorities	105	381	415	466
Foreign currency securities issued by:				
Public corporations	99	316	585	1,506
Local authorities	107	101	159	210
Other borrowing abroad by:				
Public corporations	127	354	653	1,641
Local authorities	14	49	47	56
Total	1,266	2,332	3,171	5,867

Table E
UK external assets and liabilities

£ millions

External assets	End:	1973	1974	1975	1976
Private sector					
Private UK investment abroad:					
Direct investment (excluding oil, insurance and banking) [a]		8,685	10,120	11,520	14,400
Oil companies' net assets abroad [a]		2,250	2,600	3,000	3,600
Banks' and insurance companies' direct investment in the United States [b]		655	600	715	880
Portfolio investment [c]		7,600	5,100	6,800	8,150
Total private investment abroad		19,190	18,420	22,035	27,030
UK banks' assets:					
Advances and overdrafts in:					
Sterling		628	817	816	1,058
Foreign currencies		35,719	43,275	58,160	80,747
Commercial bills discounted		2,824	3,524	4,219	5,222
Suppliers' trade credit on exports		1,941	2,439	2,575	2,983
Advance and progress payments on imports by UK businesses		337	389	284	253
Other identified assets held abroad by UK companies		235	270	160	205
Total banking and commercial claims		41,685	50,715	66,215	90,470
Total external assets of the private sector		60,875	69,135	88,250	117,500
Public sector					
Inter-government loans by the United Kingdom		1,074	1,148	1,227	1,245
Subscriptions to international financial organisations (excluding the IMF)		449	555	662	760
Government holdings of Suez Finance Company shares [c]		25	15	30	25
Other official assets		223	233	254	275
Total public sector lending etc.		1,770	1,950	2,175	2,305
Total official reserves		2,795	2,955	2,700	2,485
Total external assets of the public sector		4,565	4,905	4,875	4,790
Total of identified external assets		65,440	74,040	93,125	122,290

— 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.

External liabilities

End:	1973	1974	1975	1976
Private sector				
Overseas investment in the UK private sector:				
Direct investment (excluding oil, insurance and banking) [a]	5,385	6,585	7,030	7,650
Overseas oil companies' net assets in the United Kingdom [a]	2,100	2,900	3,900	4,800
Portfolio investment in UK companies' sterling securities [c]	2,100	1,150	2,350	2,350
Portfolio investment in UK companies' foreign currency securities [c]	540	445	605	915
Direct borrowing abroad by UK companies	1,115	1,435	1,810	2,330
Total overseas investment in the private sector	11,240	12,515	15,695	18,045
UK banks' liabilities in:				
Sterling	3,310	4,082	4,548	4,168
Foreign currencies [d]	38,107	45,654	60,657	83,675
Overseas sterling deposits with finance houses	16	16	18	21
Suppliers' trade credit on imports	1,368	1,611	1,815	2,282
Advance and progress payments on exports by overseas customers	646	946	1,187	1,421
Total banking and commercial liabilities	43,445	52,310	68,225	91,570
Total external liabilities of the private sector	54,685	64,825	83,920	109,615
Public sector				
Inter-government loans to the United Kingdom	1,926	1,823	2,021	2,390
Overseas investment in the UK public sector:				
British government stocks held by: [c]				
Overseas monetary authorities	1,230	1,055	1,145	1,145
Others	850	760	930	1,050
Local authorities' securities and mortgages	110	100	100	115
Foreign currency securities issued by:				
Public corporations [c] [e]	64	136	174	296
Local authorities [c] [e]	32	34	45	71
Other borrowing abroad by:				
Public corporations [e]	44	118	189	246
Local authorities [e]	—	3	3	3
Other public sector capital:				
Overseas holdings of Treasury bills and notes [f]	678	1,752	1,288	672
Overseas deposits with local authorities	413	247	332	159
Total public sector borrowing (other than official financing)	5,345	6,030	6,225	6,145
Official financing liabilities:				
Net drawings on the IMF excluding gold tranche*	—	—	—	1,160
Foreign currency borrowing by the Government	—	638	1,235	1,469
Foreign currency borrowing by public sector bodies under the exchange cover scheme	1,266	2,332	3,171	5,867
Total official financing liabilities	1,265	2,970	4,405	8,495
Total external liabilities of the public sector	6,610	9,000	10,630	14,640
Total of identified external liabilities	61,295	73,825	94,550	124,255
*Total net drawings on the IMF	—	—	—	1,336
Gold tranche	—	—	—	176

[d] Excludes borrowing by UK banks on behalf of the Government, and of other public bodies under the Treasury's exchange cover scheme, which is included under official financing liabilities.

[e] Excludes borrowing under the Treasury's exchange cover scheme.

[f] Excludes official financing liabilities.

Notes and definitions

Assets and liabilities denominated in overseas currencies are generally valued at the exchange rates ruling at the time. All subtotals, and many of the individual items, are rounded to the nearest £5 million.

Assets

Private sector

Direct investment

This represents investment by UK companies in their overseas branches, subsidiaries and associates. The figures are based on the Department of Industry's [1] triennial surveys, the most recent of which relates to 1974, covering 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. However, only book values are readily available. Also, the effect of sterling's depreciation on the value of overseas assets as shown in UK companies' books cannot be evaluated precisely, because companies have in the past adopted different methods of valuation.

Estimates for 1975 and 1976 have been extrapolated by the Department from end-1974 figures, by adding investment flows in each year and making an adjustment for sterling's depreciation. The results of previous surveys show that this method tends to overestimate, perhaps because companies write off assets during the period. So on this occasion, the figures for 1975 and 1976 have been written down in an attempt to eliminate any overestimation.

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, but an attempt has been made to allow for sterling's depreciation.

Banks' and insurance companies' direct investment in the United States
The 1976 estimate is an extrapolation from the previous year's figure.

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 are not known.

UK banks' assets

The assets included in this group largely consist of claims by banks and certain other financial institutions on non-residents. The coverage and consistency of reporting were improved with effect from end-1974. 'Commercial bills discounted' excludes bills drawn by UK residents and lodged with banks for collection (which are covered instead by 'suppliers' trade credit on exports'); sterling – but not foreign currency – acceptances are included.

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

Official reserves

From July 1972, the figures include the reserve position in the International Monetary Fund. Gold is still valued at the official price of \$42.2222 per fine ounce. All foreign currencies have been converted into sterling at end-year middle market rates. (This differs slightly from other published figures, where foreign currencies other than the US dollar are converted into US dollars at parity or central rates, and the resulting total is then converted into sterling at the middle market rate ruling at the end of the period.)

[1] Now the Departments of Industry, Trade, and Prices and Consumer Protection.

Other official assets

These comprise other overseas assets of the central government and of such official organisations as the Commonwealth Development Corporation and the UK Atomic Energy Authority.

Liabilities

Private sector

Direct investment

This represents investment by companies incorporated abroad in their UK branches, subsidiaries and associates. The estimates are based on book values and are comparable with those for outward direct investment. Estimates for 1975 and 1976 have been extrapolated [from 1974 figures] by the Department of Industry; [1] they take account solely of annual flows.

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 end-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 covered in this item: they are deducted instead from 'oil companies' net assets abroad'.

Direct borrowing abroad by UK companies

The figures for 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.

UK banks' liabilities

These figures, which relate to banks and certain other financial institutions, are in line with the figures now included in Tables 19 and 20 in the statistical annex, except that borrowing by UK banks in connection with the Government's \$2.5 billion loan, and loans to other public sector bodies under the Treasury's exchange cover scheme, are included in 'official financing liabilities'. The coverage and consistency of reporting were improved with effect from end-1974. 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.

Public sector

British government stocks

The figures comprise British government and government-guaranteed stocks. The market values are 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). The figures of stocks held by this group are based on estimated end-year valuations; they differ slightly from the figures in Table 19 in the statistical annex, which are based on a valuation at mid-November, adjusted for flows (but not changes in market prices) in the final six weeks of the year.

Local authorities' securities and mortgages

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

Foreign currency securities issued by public corporations and local authorities

These figures represent issues outstanding which are not covered by the Treasury's exchange cover scheme. Each issue has been valued at the end-year market price and then converted into sterling at end-year middle market rates. Any holdings of public sector foreign currency bonds by UK residents have been excluded.

Other borrowing abroad from banks etc. by public corporations and local authorities

These figures comprise borrowings, net of repayments, which are not covered by the Treasury's exchange cover scheme, expressed in sterling at end-year exchange rates. Any foreign currency borrowing from UK banks is excluded.

Net drawings on the IMF

This comprises drawings on the International Monetary Fund, 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, as is the sterling subscription from the assets side.

Foreign currency borrowing by the Government

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

Foreign currency borrowing by public sector bodies under the exchange cover scheme

This includes foreign currency borrowed through UK banks, the issue of foreign currency securities, and other borrowings abroad from banks etc., by public corporations and local authorities: details are given in Table D. Each issue has been valued at the end-year market price. Any holdings of public sector foreign currency bonds by UK residents (other than banks) have been excluded. Conversions from all currencies into sterling are at end-year middle market rates. (These estimates differ slightly from other published figures, where issues are included at nominal prices, and where currencies other than the US dollar are converted into US dollars at parity or central rates, and the resulting total is then converted into sterling at the middle market rate ruling at the end of the period.)