

## Some recent developments in the United Kingdom's invisible account [1]

### Introduction

In 1976 the United Kingdom's invisible receipts amounted to £14 billion, or 35% of all current account credits. Invisible payments totalled £11 $\frac{3}{4}$  billion, or 29% of all current account debits. The net surplus of £2 $\frac{1}{4}$  billion thus went a considerable way towards offsetting the visible deficit of £3 $\frac{1}{2}$  billion. [2]

This article starts by comparing briefly the relative importance of invisibles in the balances of payments of the major industrial countries. It then discusses the recent performance of the major components of the UK invisible account[3] and looks at the growth of invisible compared with visible trade in recent years; in particular, it examines the growth of services in volume terms. It concludes with a look at the prospects for the UK invisible account, particularly in the light of the changes which the development of North Sea oil will inevitably bring.

### International comparisons

The proportion of invisibles in the total current account earnings of the United Kingdom is slightly higher than in the United States and much higher than in other major countries (see Table A below). In value terms, the United States' gross invisible receipts are easily the largest, more than twice as large as those of Western Germany which were marginally greater than those of the United Kingdom in 1976. Western Germany, however, has a net deficit on invisible account and the United Kingdom has at present the largest net invisible surplus after the United States.

**Table A**  
Invisible receipts and payments in the current accounts[a] of the major industrial countries

	Invisible receipts	Goods exports	Invisible receipts as a percentage of total current account credits	Invisible payments	Goods imports	Invisible payments as a percentage of total current account debits
United Kingdom	23.4	45.4	34.0	18.0	51.9	25.8
United States	56.3	114.7	32.9	38.1	123.9	23.5
Belgium	9.8	26.2	27.3	8.8	27.0	24.5
France	19.6	54.6	26.4	18.5	59.3	23.8
Netherlands	12.0	36.3	24.9	10.3	35.2	22.7
Italy	11.6	36.5	24.1	10.0	40.6	19.7
Western Germany	23.7	99.6	19.2	30.0	83.2	26.5
Japan	14.5	66.1	18.0	20.3	56.2	26.6
Sweden	3.4	18.3	15.7	4.2	19.2	17.8
Canada	6.1	39.6	13.4	12.4	38.3	24.4

[a] Excluding transfers which are not available on a gross basis.

Source: *International Financial Statistics* (IMF).

### Invisibles in the UK current account

Although invisible receipts are much more important for the United Kingdom than for most other countries, they have fallen as a percentage of all current account credits since 1973. Similarly, invisible payments have also grown more slowly than imports of goods. Table B shows invisible receipts and payments for selected years since 1955 compared with exports and imports of goods. As with other tables in this article, the years shown before 1974 coincide with the peaks of the trade cycle.

Before 1973 (and particularly between 1969 and 1973) invisible receipts grew faster than those from exports of goods (increasing 4.7 times from 1955, compared with 3.9). Since 1973, however, this pattern has changed: invisible receipts have risen by 69% while exports of goods have more than doubled.

[1] A previous article on this subject was published in the June 1973 *Bulletin*, page 164.

[2] All figures in this article are based on information available up to mid-November.

[3] Invisibles consist of three broad categories - services such as shipping, civil aviation, travel, construction work abroad and the earnings of financial institutions; interest, profits and dividends (IPD) and transfers, i.e. gifts, government grants, etc.

**Table B**  
United Kingdom current account showing the relative importance of invisibles

£ millions	Goods exports	Invisible receipts[a]	Goods imports	Invisible payments[a]	Current balance	
1955	3,073	1,748	3,386	1,590	32.0	- 155
1960	3,737	2,190	4,138	2,034	33.0	- 245
1964	4,568	2,645	5,068	2,501	33.0	- 356
1969	7,269	4,295	7,425	3,699	33.3	+ 440
1973	12,115	8,265	14,468	6,834	32.1	- 922
1974	16,538	9,990	21,732	8,361	27.8	- 3,565
1975	19,461	11,044	22,664	9,542	29.6	- 1,701
1976	25,416	13,972	28,987	11,672	28.7[b]	- 1,271

[a] The figures in italics represent the percentage share of invisibles in current account receipts and payments.

[b] This figure includes transfers and thus differs slightly from that shown for the United Kingdom in Table A.

Source: *United Kingdom Balance of Payments 1966-76* (HMSO, September 1977), but including revised figures for insurance credits.

On the other hand, imports of goods and invisible payments grew at approximately the same speed (increasing 4.3 times) between 1955 and 1973. Again, since 1973, there has been a change: invisible payments have risen by 71%, while imports, partly because of the increases in oil prices, have almost exactly doubled.

### Changes in the composition of the invisible account

The overall changes in the invisible account, however, only show part of the story; the behaviour of the various components of the account has varied widely, as Table C shows.

**Table C**  
**The invisible account 1955-1976**

£ millions		1955	1960	1964	1969	1972	1973	1974	1975	1976
<b>Services</b>										
Credits		1,104	1,415	1,632	2,776	4,098	5,015	6,338	7,340	9,425
Debits		1,095	1,411	1,708	2,452	3,558	4,457	5,609	6,271	7,577
Net		+ 9	+ 4	- 76	+ 324	+ 540	+ 558	+ 729	+ 1,069	+ 1,848
<b>Interest, profits and dividends</b>										
Credits		517	671	888	1,338	1,732	2,892	3,167	2,946	3,876
Debits		343	438	495	840	1,198	1,569	1,861	2,046	2,567
Net		+ 174	+ 233	+ 393	+ 498	+ 534	+ 1,323	+ 1,306	+ 900	+ 1,309
<b>Transfers</b>										
Credits		127	104	125	181	231	358	485	758	671
Debits		152	185	298	407	498	808	891	1,225	1,528
Net		- 25	- 81	- 173	- 226	- 267	- 450	- 406	- 467	- 857
<b>Total</b>										
Credits		1,748	2,190	2,645	4,295	6,061	8,265	9,990	11,044	13,972
Debits		1,590	2,034	2,501	3,699	5,254	6,834	8,361	9,542	11,672
Net		+ 158	+ 156	+ 144	+ 596	+ 807	+ 1,431	+ 1,629	+ 1,502	+ 2,300

Source: as for Table B.

Services credits have grown rapidly since the late 1960s, an expansion which was aided by the devaluation of sterling in 1967 and by the further depreciation of sterling during the 1970s. Services debits increased more gradually – in 1964 they exceeded credits, but by 1976 they were over £1.8 billion smaller.

There has been a less dramatic rise in net earnings from interest, profits and dividends. The sharp increase in interest paid on official UK borrowing to finance balance of payments deficits largely explains why, even in nominal terms, there has been no growth in net credits for interest, profits and dividends since 1973.

Finally, transfer debits have risen at approximately twice the rate of transfer credits; there was a net deficit of £25 million in 1955 and one of £857 million in 1976.

Overall, there was little change in total invisible earnings during the late 1950s and early 1960s (the surplus actually fell slightly from £158 million in 1955 to £144 million in 1964). Thereafter, however, the rapid increase in services credits caused the surplus to increase sharply.

The following sections examine changes in the composition of the accounts in more detail.

#### *Services*

It is useful to compare the relative growth rates of goods and of major components of services at constant prices. Such figures recently became available for the first time[1] but the various practical and conceptual problems involved in compiling them mean that they should be regarded as giving no more than a broad indication of volume changes.

[1] See Section 4 of *United Kingdom Balance of Payments 1966-76*.

**Table D**  
**Growth of trade in goods and services at constant**  
**(1970) prices 1966-1976**

	1970 £ millions	Percentage growth per annum	
		1966-1972	1972-1976
<b>Credits</b>			
Goods	8,121	5.4	6.3
Services	3,330	8.0	3.1
of which:			
Government	51	2.7	11.6
Shipping	1,361	7.3	- 0.7
Civil aviation	316	10.8	8.3
Travel	432	8.4	11.4
Financial services[a]	413	18.9	2.0
Other services	757	4.6	2.3
<b>Debits</b>			
Goods	8,146	6.9	3.6
Services	2,955	4.9	- 0.5
of which:			
Government	360	- 2.7	1.2
Shipping	1,437	7.4	- 2.4
Civil aviation	266	9.1	3.6
Travel	382	3.1	- 3.2
Other services	510	3.4	3.7

[a] Not strictly comparable with other credits as they are net of overseas expenses.

Source: as for Table B.

Table D shows that whereas there has been a small rise in the growth rate of exports of goods between the two periods shown, there has been a sharp fall in the rate of increase of services credits. Financial services, [1] and in particular insurance, grew rapidly in the 1966-72 period; since 1972, a number of factors, such as the depreciation of sterling which eroded the capital base of insurance underwriters, have brought about a sharp fall in the rate of growth. On the other hand, travel has undoubtedly benefited from higher personal incomes abroad, and from the depreciation of sterling between 1967 and 1976 which has made the United Kingdom a relatively cheap place for foreigners to visit. The number of foreigners visiting the United Kingdom in 1976 was ten million - 50% more than in 1970. The boom in travel has helped civil aviation, which seems to have been only temporarily affected by the oil crisis. The world recession in shipping, however, caused a fall in the volume of shipping earnings between 1972 and 1976.

On the debit side, the growth rate of imports of goods fell by almost half between the two periods, but services payments - which had in any case grown more slowly than imports between 1966 and 1972 - actually fell in volume terms between 1972 and 1976. Shipping debits were lower, as tankers on charter to UK operators were laid up in the aftermath of the rise in oil prices. Travel debits also dropped, as the falling exchange rate pushed up the cost of overseas holidays, and as real personal disposable incomes in the United Kingdom fell.

Moving from volume to value, Table E below sets out the changes in the composition of the services account since 1955.

**Table E**  
**1 Percentage share of the major components of services receipts**

	1955	1960	1964	1969	1972	1973	1974	1975	1976
Shipping	48.9	45.0	42.7	37.9	39.3	41.1	42.3	36.4	34.5
Civil aviation	3.4	6.8	8.8	10.3	10.0	9.6	9.9	10.6	11.2
Travel	10.1	11.9	11.6	12.9	13.3	13.6	13.2	15.3	17.3
Financial services	32.4	33.0	6.3	12.0	12.0	11.0	10.9	12.4	11.6
Other services	5.2	3.3	27.9	25.2	23.5	22.7	22.0	23.4	23.2
Government			2.7	1.7	1.9	2.0	1.7	1.9	2.2
Total	100	100	100	100	100	100	100	100	100
<i>Percentage share of total services credits in total invisible earnings</i>	63.2	64.6	61.7	64.6	67.6	60.7	63.4	66.5	67.5

**2 Percentage share of the major components of services payments**

	1955	1960	1964	1969	1972	1973	1974	1975	1976
Shipping	52.1	47.6	43.0	44.2	47.4	48.5	49.8	41.5	42.3
Civil aviation	3.7	5.5	6.8	9.7	9.4	9.1	9.4	10.6	10.7
Travel	11.4	13.2	15.3	13.2	14.8	15.3	12.2	14.0	13.3
North Sea oil and gas					0.7	1.1	3.6	6.9	6.5
Other	17.1	17.2	16.5	19.1	15.8	14.5	13.4	14.9	14.4
Government	15.7	16.5	18.4	13.8	11.9	11.5	11.6	12.1	12.8
Total	100	100	100	100	100	100	100	100	100
<i>Percentage share of total services debits in total invisible payments</i>	68.9	69.4	68.3	66.3	67.7	65.2	67.1	65.7	64.9

[a] Breakdown for 1955 and 1960 not available.

Source: as for Table B.

In 1955, shipping credits accounted for slightly under half of all services credits and almost one third of our total invisible earnings. However, with the shipping tonnage rising faster abroad than in the United Kingdom, competition increased and as the rise outstripped the demand for shipping services, freight rates came under pressure. Earnings did not therefore rise significantly in the late 1950s and early 1960s, and, despite increased tanker earnings in the late 1960s, the share of shipping receipts in total services earnings continued to shrink. Later, the world recession

[1] See footnote to Table D.

which followed the increase in oil prices in 1973, and the consequent lowering of freight rates, depressed shipping earnings to only a little over one third of total services receipts.

Shipping debits have also suffered a major reduction in their share of total services payments. Much of the fall has occurred in the last two years for the same reasons as affected the credits.

The expansion of civil aviation receipts, which have increased their share of services from 3.4% in 1955 to 11.2% last year, has gone hand in hand with the development of tourism and the vast increase in the numbers of foreigners visiting the United Kingdom. Much of the stimulus for this increase came in the late 1950s and early 1960s, with the development initially of tourist-class fares and then of charter flights. The devaluation of sterling in 1967 was a further boost to aviation earnings. During the 1970s, both travel and civil aviation earnings have increased still further, the former almost fourfold from £432 million in 1970 to £1,628 million in 1976, and the latter from £316 million to £1,051 million. The further falls in the value of sterling helped to increase the attractiveness of the United Kingdom to overseas visitors. The relatively low prices of goods and services have encouraged foreign visitors to spend quite high amounts per head – approximately £13 per day in 1976, compared with the £6.60 spent, on average, by British people travelling abroad.

The increase in civil aviation payments has been much less spectacular, especially recently. Much of the increase in debits, which rose from £266 million in 1970 to £810 million in 1976, has reflected higher fares paid by UK residents to overseas airlines, and a rise in airlines' disbursements abroad largely because of the increased cost of oil.

The proportion of travel debits has fluctuated over the years, reaching a peak in the mid-1960s before a credit squeeze and exchange control restrictions held down the amount UK travellers could spend abroad. The 1967 devaluation also made foreign travel more expensive. The growth of package holidays and the easing of exchange control restrictions in the early 1970s brought a revival in travel expenditure, which was not checked until 1974. More recently, travel payments have increased little, reflecting the squeeze on personal incomes and the depreciation of the exchange rate.

The contribution made by financial services to services credits has increased from 6.3% in 1964 (when it was first itemised separately) to 11.6% last year. The figure for earnings from financial services cannot be compared directly with the other major credit items on the services account, as these earnings alone are produced net of overseas expenses. There was a strong growth in net earnings in the late 1960s; insurance earnings for instance rose from only £39 million in 1966 to £166 million in 1969, as the claims arising from the abnormally large number of disasters in the early 1960s were settled and premiums raised. Since 1970, the growth of insurance services has been rather more modest. The largest percentage increase in earnings during the latest period came from the insurance brokers whose overseas promotional drives pushed their earnings up from £50 million in 1970 to £154 million in 1976.

Net receipts from banking services have remained a constant share of total services credits throughout the 1970s, rising from £48 million in 1970 to £169 million in 1976.[1] Commodity earnings, which are particularly volatile, markedly increased their share of the total in 1975, rising to £209 million compared with

[1] This accounts for only a small proportion, however, of banks' total invisible earnings: the greater part of them derives from interest, profits and dividends. See Table 6.1 in *United Kingdom Balance of Payments 1966-76*.

£140 million in the previous year (largely reflecting higher world prices and large inflows on the futures markets); in the first half of 1977, however, these earnings fell back sharply.

Among other services, earnings from construction work abroad expanded rapidly in the 1970s. The services of UK consulting engineers, contractors, architects and quantity surveyors earned £456 million in 1976 compared with only £82 million in 1970 and in so doing doubled their share of services credits; much of this expansion has occurred in the OPEC countries, where vast funds suddenly became available for development programmes. Elsewhere on the other services account, earnings have risen rather more slowly.

Among other debits, services associated with the exploitation of North Sea oil and gas have been an increasing influence in the last few years. The development of the North Sea programme has necessitated the purchase from overseas of services such as consultancy, drilling, surveys, pipelaying and diving; consequently, invisible payments in this area rose from a mere £15 million in 1970 to £490 million in 1976.

#### *Interest, profits and dividends*

There have been marked changes in the composition of IPD credits and debits in the period since 1964 and these are illustrated in Table F.

**Table F**  
**1 Percentage share of the major components in IPD earnings**

	1964	1969	1972	1973	1974	1975	1976
Direct[a]	41.7	48.6	52.6	50.1	47.0	53.7	56.6
Portfolio[b]	16.1	12.1	9.5	6.6	7.3	7.5	6.0
Export credit	2.5	5.0	5.6	4.7	5.6	7.0	6.8
Sterling lending by UK banks etc.	4.0	4.3	3.3	3.6	4.6	5.7	5.4
Foreign currency lending by UK banks etc.	0.1	1.1	2.5	0.6	0.5	5.4	6.9
Other (including oil)	35.6	28.9	26.5	34.4	35.0	20.7	18.3
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<i>Percentage share of total IPD credits in total invisible earnings</i>	<i>33.6</i>	<i>31.2</i>	<i>28.6</i>	<i>35.0</i>	<i>31.7</i>	<i>26.7</i>	<i>27.7</i>

#### **2 Percentage share of the major components in IPD payments**

	1964	1969	1972	1973	1974	1975	1976
Direct[a]	41.0	36.7	46.1	44.5	32.7	30.1	40.7
Portfolio[b]	14.1	11.9	12.6	11.5	12.7	14.1	13.8
Sterling liabilities	36.4	38.8	24.4	28.8	33.5	30.7	20.4
Direct borrowing abroad	0.3	1.3	3.0	5.0	7.0	8.2	8.7
Central and local government foreign currency borrowing from UK banks	—	—	—	0.6	6.2	10.4	11.2
Foreign oil companies' investment in the United Kingdom	4.9	2.1	6.4	3.6	2.5	0.3	1.8
Other	3.3	13.4	7.5	6.0	5.4	6.2	7.0
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<i>Percentage share of total IPD debits in total invisible payments</i>	<i>19.8</i>	<i>22.7</i>	<i>22.8</i>	<i>23.0</i>	<i>22.3</i>	<i>21.4</i>	<i>22.0</i>

[a] Direct credits are the return on net investment by UK companies in overseas branches, subsidiaries or associates; direct debits are the similar return on net investment by overseas companies in the United Kingdom. Credits exclude UK oil companies; debits exclude oil and insurance companies.

[b] Portfolio investment income is the return on UK residents' holdings of overseas stocks and shares. Portfolio debits comprise the return to non-residents on holdings of British government securities (excluding central monetary institutions' holdings), and of other sterling securities and foreign currency issues by UK companies.

Source: as for Table B.

The presumption is that such changes are related to different rates of return on particular categories of assets and liabilities. Efforts have been made in the Bank to estimate series for such rates of return, but there are considerable difficulties in producing figures on which much reliance can be placed.

The main difficulty is in respect of direct investment, both inward and outward, because the valuation of such investment is generally at book values, which in many cases will be substantially below replacement or market values. This means that unadjusted crude estimates of rates of return overestimate the 'true' rate of return on such investment. Furthermore, comparisons between

rates of return on direct investment in the United Kingdom by non-residents and UK direct investment abroad are hindered by the fact that the former is generally 'younger' and therefore likely to reflect replacement values more closely. Estimated rates of return on overseas direct investment in the United Kingdom are thus likely to overstate the 'true' rate of return to a lesser extent than estimates for the rate of return on UK direct investment abroad.

There is a different valuation problem in respect of portfolio investments. These are valued at estimated market prices and recorded changes in stocks of such assets thus reflect not only net purchases or sales but also changes in prices. This means that the stock of portfolio investments is reduced if prices fall (with the rate of return correspondingly but artificially inflated) and is increased if prices rise (with the rate of return correspondingly but artificially depressed). A further problem is that since the most recent IPD credit figures are necessarily estimated, less reliance can be placed on them than on the figures for earlier years.

But even after notional allowance for the overstatement involved in crude estimates of rates of return in respect of direct investment and possible understatement of rates of return in respect of portfolio investment, the available data do suggest that direct investment may have been consistently more profitable than portfolio holdings both in respect of UK investment abroad and of foreign investment here. This goes some way towards explaining why direct investment earnings have increased their share of IPD credits quite considerably since 1964. On the other hand, foreign profits on some direct investments in the United Kingdom have been rather more variable. For example, earnings of foreign banks in the United Kingdom have grown rapidly from £37 million in 1970 to £257 million in 1976, albeit in line with the increase in their numbers and the expansion of the euro-markets, whereas earnings on other forms of inward direct investment appear to have been much less buoyant.

Income from UK portfolio investment abroad has fallen as a proportion of IPD credits, partly because current earnings on such investments are generally relatively low, but partly also because the 25% surrender requirement was responsible for a reduction of some £1.5 billion in holdings between the end of 1964 and the end of 1976 and, in addition, discouraged active management of portfolios. Portfolio debits have remained a fairly constant percentage of IPD payments; investment was encouraged during the 1970s by the sharp rise in yields on gilt-edged stocks and the fall in stock market prices.

Within other forms of IPD earnings, those from export credit have increased sharply; indeed they have risen faster than exports, primarily because of the increasing use of ECGD refinancing since 1970. Higher income from foreign currency lending is the result of the rapid expansion of the euro-currency markets, with banks making a turn on the difference between their lending and borrowing rates. The size of this turn rose sharply in 1975 and is the main reason for the marked rise in earnings on this score in 1975 and 1976, but margins have narrowed in 1977 and earnings have consequently fallen.

Among the remainder of IPD debits, payments on sterling liabilities have fluctuated – the influx of OPEC funds in 1973 and 1974 led to higher interest payments, but in 1975 and 1976 a large portion of these funds were withdrawn, and payments dropped from a third of all IPD debits in 1974 to only one fifth in 1976. Public sector borrowing in the euro-currency markets from UK banks (and also directly from abroad) increased significantly from 1974 onwards. Most of this borrowing was by public

corporations and local authorities under the exchange cover scheme. Foreign oil companies' net earnings in the United Kingdom have generally been negligible or negative (although in the early 1970s net profits were earned as a result of North Sea gas investment). This is because more recently the costs of oil exploration have outweighed profits earned elsewhere from refining, marketing, oil tanker operations, etc.

### Transfers

Although transfer credits have maintained a fairly steady proportion of total invisible credits over the years, there has recently been an increase in the proportion of transfer debits to total invisible debits.

Private transfer credits rose rather more gradually than other invisibles in 1976, largely because of receipts under the Common Agricultural Policy, which, after rising from £63 million in 1973 to £363 million in 1975, fell back last year to £251 million.

**Table G**  
Major components of the transfers account as a percentage of total invisibles

	1955	1960	1964	1969	1972	1973	1974	1975	1976
<b>Credits</b>									
Central government[a]	2.7	—	—	—	—	0.8	1.3	3.3	1.8
Private	4.6	4.7	4.7	4.2	3.8	3.6	3.6	3.6	3.0
Total	7.3	4.7	4.7	4.2	3.8	4.4	4.9	6.9	4.8
<b>Debits</b>									
Economic grants	..	..	3.3	2.4	1.9	1.6	1.4	1.7	2.4
Subscriptions to EEC	..	..	..	..	..	2.7	2.2	3.7	4.1
Other government subscriptions, grants, transfers, etc.	..	..	3.2	2.4	2.1	1.9	1.7	2.4	2.4
Private	..	..	5.4	6.2	5.5	5.6	5.3	5.1	4.2
Total	9.6	9.1	11.9	11.0	9.5	11.8	10.6	12.9	13.1

[a] From 1973 all receipts were from EEC institutions.

Source: as for Table B.

On the debit side, subscriptions to the EEC institutions which reached £475 million in 1976, have grown most; even so, they only amounted to just over 4% of total invisible payments. There was no significant increase in private sector debits last year, so their proportion of total invisible payments fell.

### Public sector and private sector contributions

There is no clear way of splitting public and private sector contributions to the invisible account. There can often be a considerable inter-relationship between the two. For example, foreign diplomatic expenditure in the United Kingdom will accrue to the private sector, but this representation will be dependent upon reciprocal UK presence abroad, the cost of which will be regarded as a public sector payment. Furthermore, the earnings of publicly-owned organisations are often inseparable from those of the private sector. However, a statistical division between 'general government' and 'private sector and public corporations' gives some indication of changes in relative contributions. In 1976, the invisible earnings of the latter contributed £13.3 billion or 95% of total invisible credits and £8.8 billion (75%) of the debits. The government sector contributed £0.7 billion (5%) towards the credits and £2.9 billion (25%) towards the debits. There has been little change in this overall proportion over the last ten years.

In the public sector, IPD debits were sharply reduced in the early 1970s, because of a reduction in sterling liabilities to non-residents. More recently, however, increased government sector transfers (mainly to the EEC) and increased government borrowing have caused the public sector proportion to rise back to its 1965 level.

All in all, the private sector contributed £4½ billion net to the invisible account in 1976, whereas there was a deficit of over £2 billion in 'general government' transactions. However, it must be remembered that this 'general government' deficit is incurred on behalf of the entire community, a large part of it in order to service the financing of current account indebtedness. Furthermore, some public sector spending on aid and military grants, etc. is used by foreigners to purchase visible exports.

### Prospects

It may be useful to conclude with a look ahead. Invisibles are notoriously difficult to forecast. The components are so heterogeneous that changes in exchange rates, interest rates, world trade, commodity prices, etc. will affect individual items, even on the same side of the account, in very different ways. However, it is possible to point towards one or two factors which will affect future trends.

Overall, net earnings in the first half of 1977 have been lower than in 1976, indicating that the account may be at something of a turning point. The coming on stream of North Sea oil has meant that foreign oil companies in this field are beginning to earn significant profits. There has also been a rising interest burden on government borrowing undertaken to finance the current account deficit, although this will be partly offset by the higher interest deriving from this year's increase in the official reserves. For the remainder of this year, any improvement will largely depend on services earnings, notably travel, which are certainly expected to have increased.

In the years ahead, the North Sea oil programme will be a major continuing influence on the invisible account. A recent Treasury study [1] estimated the balance of payments benefits of North Sea oil on the assumption that the exchange rate, unemployment and UK demand for oil would be the same with North Sea oil as they would have been without it.

The figures as shown in the Treasury's study do not make possible a clear assessment of the effect on invisible earnings of North Sea oil, as one of the categories 'imports of goods and services for North Sea programme' is not broken down between goods (visible) and services (invisible). Imports of goods are, however, expected to decline as time goes on, whereas services are likely to continue to lead to an annual outflow of £500 million, as they did in 1976.

As Table H shows, there will thus be a rising outflow on the invisible account, as increasing profits are earned by foreign companies which have invested in North Sea oil production. Some of these profits will no doubt be retained for reinvestment, but they will be recorded in the balance of payments accounts as IPD debits. The public sector invisibles account will benefit from the interest earned on any increase in the official reserves resulting from the North Sea programme (and/or interest saved because of reductions in overseas indebtedness), but to a much smaller extent.

Although the North Sea programme is the major foreseeable influence on invisible earnings for the next few years, it may to some extent be counter-balanced by improvements elsewhere in the account. In particular, earnings from services may continue to increase faster than payments. Such increases will, however, have to be very large if the net surplus on invisibles is not to decline.

**Table H**  
Effects of North Sea oil on the balance of payments current account

£ millions at 1976 prices					
	1976	1977	1978	1979	1980
Imports of services for North Sea programme	- 500	- 500	- 500	- 500	- 500
Interest, profits and dividends due overseas	-	- 500	- 700	- 1,300	- 1,600
Total private sector invisibles deficit	- 500	- 1,000	- 1,200	- 1,800	- 2,100
Public sector - net interest on official assets/liabilities	+ 100	+ 100	+ 300	+ 500	+ 600
Total invisibles deficit	- 400	- 900	- 900	- 1,300	- 1,500
Visibles saved etc.	+ 300	+ 2,300	+ 3,600	+ 5,000	+ 5,800
Net effect on current account	- 100	+ 1,400	+ 2,700	+ 3,700	+ 4,300

Source: Based on *Economic Progress Report*, August 1977.

[1] *Economic Progress Report*, August 1977.