The surpluses of the oil exporters

This article records developments since 1973 in the balance of payments of the major oil-exporting countries, and describes how the surpluses have been deployed.

Introduction

Since December 1974, about a year after a sharp increase in oil prices, the *Bulletin* has recorded developments in the surpluses of the major oil-exporting countries, including the way in which they have been deployed. This monitoring, quarter by quarter, has concentrated each time on the most recent events. Now, six years after the first large oil price increase and soon after another such rise, it seems worth describing developments over the longer perspective. This article does so in a purely factual way: the factors affecting the surplus are analysed within a balance of payments framework, and a brief description is given of the way in which the surplus has been invested. Some of the material has not previously been published by the Bank. No attempt is made here to draw conclusions about the wider implications of these developments for the world economy.

For the purposes of this article, the oil-exporting countries (OEC) are defined as the thirteen members of the Organisation of Petroleum Exporting Countries (OPEC),[1] together with Trinidad and Tobago, Bahrain, Brunei and Oman. This definition is the same as that used in the statistical annex.

Most studies of the oil producers distinguish between high and low absorbers. High absorbers are those countries whose revenues from oil are for the most part spent on imports of goods and services; they include the more populous countries such as Nigeria, Iran and Indonesia, together with Iraq, Algeria, Libya, Venezuela, Ecuador, Gabon, Trinidad and Tobago, Bahrain, Brunei and Oman. The low absorbers (Saudi Arabia, Kuwait, United Arab Emirates and Qatar) spend only a small proportion of their available revenues, despite high rates of import growth. In this article, however, an intermediate category is also used: this comprises Iran, Iraq, Libya, Oman, Brunei, and Trinidad and Tobago, which cannot be categorised unambiguously as high absorbers because they generally achieve surpluses on the current account of their balance of payments. In fact, the large surpluses which are expected over the next few years will almost certainly make these distinctions between high, low and middle absorbers less useful, but in the context of the last few years they can be a considerable help to analysis.

Table A
Oil exporters: current account balance and cash surplus available for investment

$ billions

	1973	1974	1975	1976	1977	1978	1979(a)
High absorbers(b)							
Exports	15	36	32	37	43	41	65
of which, oil and gas	*12*	*32*	*28*	*32*	*36*	*35*	*58*
Imports	11	18	25	30	36	41	42
Trade balance	4	18	7	7	7	—	23
Services and private transfers (net)	— 5	— 7	— 8	— 9	— 13	— 14	— 14
Official transfers (net)							
Current balance	— 1	11	— 1	— 2	— 6	— 14	9
Middle tier absorbers(c)							
Exports	13	39	37	45	50	48	65
of which, oil and gas	*12*	*37*	*35*	*43*	*48*	*46*	*63*
Imports	8	15	24	27	29	34	28
Trade balance	5	24	13	18	21	14	37
Services and private transfers (net)	— 4	— 6	— 7	— 7	— 9	— 11	— 8
Official transfers (net)							
Current balance	1	18	6	11	12	3	29
Low absorbers(d)							
Exports	14	49	45	56	62	60	95
of which, oil and gas	*13*	*48*	*44*	*55*	*60*	*58*	*93*
Imports	4	7	11	17	24	30	35
Trade balance	10	42	34	39	38	30	60
Services and private transfers (net)	— 4	— 4	— 10	— 13	— 17	— 20	— 24
Official transfers (net)							
Current balance	6	38	24	26	21	10	36
Total							
Exports	41	123	113	138	154	148	225
of which, oil and gas	*37*	*116*	*107*	*130*	*144*	*138*	*213*
Imports	22	39	59	74	89	104	105
Trade balance	19	84	54	64	65	44	120
Services and private transfers (net)	—12	— 15	— 22	— 26	— 36	— 43	— 43
Official transfers (net)	— 1	— 2	— 3	— 3	— 2	— 2	— 3
Current balance	6	67	29	35	27	— 1	74
Net external borrowing from banks(e)	..	— 12	4	10	11	18	8
Other adjustments	..		3	— 6	—	2	— 3
Cash surplus available for investment	..	55	36	39	38	19	79

.. not available

(a) Estimated.

(b) Nigeria, Algeria, Gabon, Venezuela, Ecuador, Indonesia and Bahrain.

(c) Iraq, Libya, Iran, Oman, Trinidad and Tobago, and Brunei.

(d) Saudi Arabia, Kuwait, United Arab Emirates and Qatar.

(e) As shown by banks reporting to the Bank for International Settlements. Includes borrowing by the Bahrain off-shore market, some of which is on-lent to industrial countries.

Balance of payments: current account

Table A provides details of the current account from 1973 to 1979, and the marked fluctuations over the period are illustrated in Chart A. The quintupling of oil prices led to a surplus of $67 billion in 1974, compared with about $6 billion in the previous year. The 1974 surplus would have been even larger but for a rapid increase in imports of goods and services. Import volumes leapt again in 1975, but oil revenues were lower because of the recession in industrial countries, and the surplus fell to about $30 billion. But, whereas in 1974 the high and middle absorbers had contributed almost half the total, their share in 1975 was

(1) Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela.

Chart A
Current account surplus

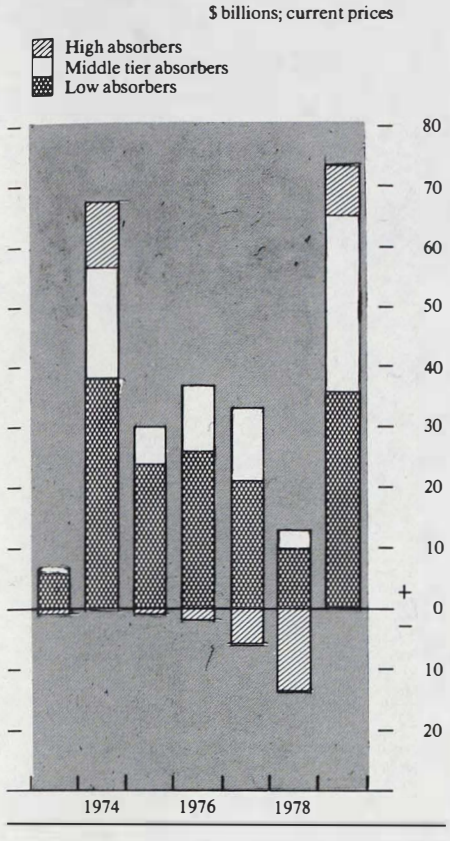
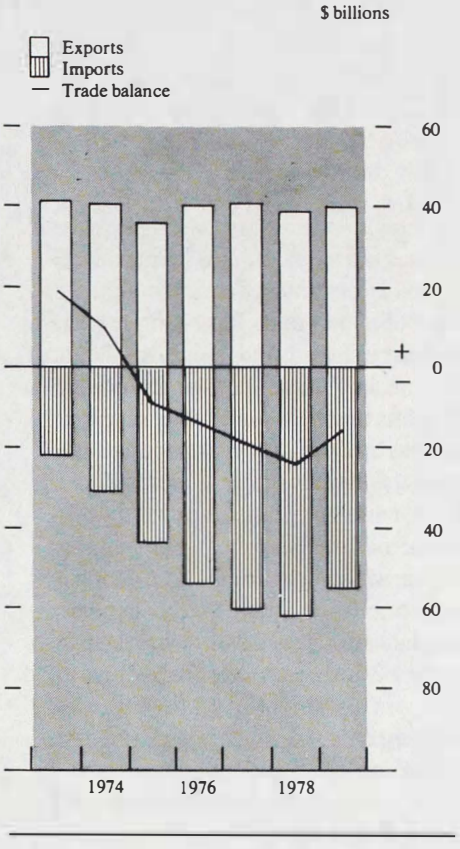


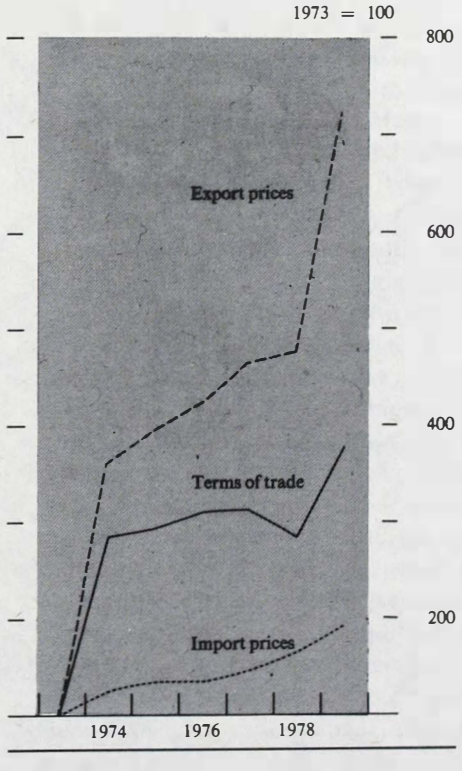
Chart B
Trade balance at 1973 prices



only $5 billion, with the high absorbers in deficit. In the next two years, the overall surplus was little changed. Such increases in export receipts as resulted from the recovery in world demand and further oil price rises were broadly matched by higher expenditures, even though the rate of growth of import volume was falling. In 1978, export receipts fell while import costs continued to rise, and the current account as a whole was just in deficit, with the high absorbers in deficit by some $14 billion. In 1979, the position once again changed. The substantial oil price rises during the year led to an overall current account surplus presently estimated at $74 billion (higher in nominal terms than the surplus in 1974), with the high and middle absorbers contributing some $38 billion. (Data for the identified deployment of the OEC cash surpluses—see below—suggest that the current account surplus in 1979 may turn out to be somewhat smaller than the present estimate.)

An examination of developments in current account surpluses in constant prices emphasises the impact of the oil price rises. Chart B shows that, expressed in 1973 prices, the trade balance moved increasingly into deficit in every year after 1974 as the volume of imports rose while oil production was little changed. Only in 1979, when imports in some important OEC countries fell, was this trend reversed. The sharp improvement in the terms of trade in 1974 (Chart C) naturally had a marked impact on the current balance in nominal terms in that year and subsequently. A second major improvement in the terms of trade in 1979 is having a similar effect.

Chart C
Terms of trade



Oil revenues

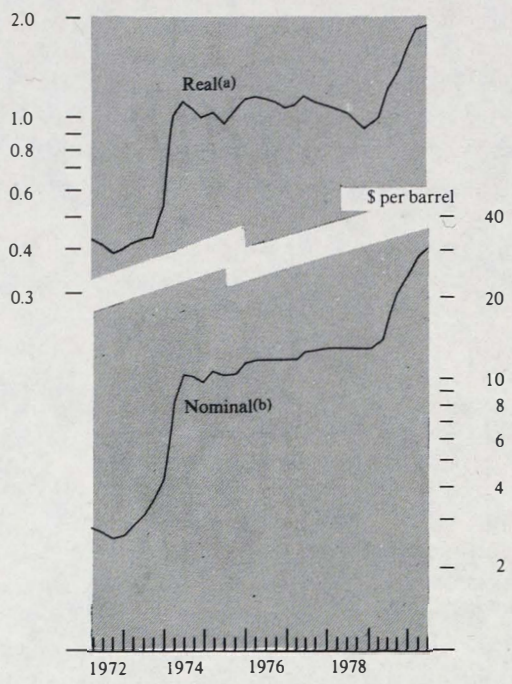
Throughout the period under review, hydrocarbons (mainly crude oil, but also some refined products and natural gas) have provided about 95% of total export

receipts. The marked fluctuations in the overall current account surpluses owe little to changes in the volume of OEC oil production which, apart from a drop of about 9% in 1975 when the world economy reached the lowest point of its recession, remained in the range of 31–32 million barrels per day (mbd) up to 1979 (but has fallen somewhat in 1980). Demand for OEC oil in 1977 and 1978 was constrained by sluggish growth in industrial countries and the increasing availability of oil from Alaska and the North Sea.

Throughout the period, Saudi Arabia has been the largest OEC producer, responsible for around one third of output. Saudi Arabia has become known as the 'swing producer' because the strength of its finances, together with spare oil production capacity, has enabled it to vary production in response to changes in the overall supply and demand position. On occasions, Saudi output has approached 10.5 mbd; in 1975, however, it averaged only 7.1 mbd and for periods during that year was rather lower. The second largest producer used to be Iran. Until 1978, an extensive programme of industrialisation and development needed to be financed and Iranian output was almost 6 mbd. In 1979, however, following the revolution, production did not exceed 4 mbd. After these came a number of producers (Kuwait, United Arab Emirates, Indonesia, Venezuela, Nigeria and Libya) each of whose production has been between 1.5 and 2.5 mbd. For most of the period under review, Iraq's production was also around this level, but in 1979 it increased markedly, to 3.5 mbd.

Movements in the official selling price of crude oil are traced in Chart D. After the sharp rises in 1973–74, there was little further change until the beginning of 1979. Indeed, between the first quarter of 1974 and the end of 1978 the real price of oil[1] fell by 10%. During 1979, the disruption to Iranian supplies, together with an abnormally severe winter in the consuming countries, created an imbalance between supply and demand at a time when stocks of oil held by the oil companies were unusually low. This led to the imposition of official price surcharges and to sharply higher prices for oil sold on the spot markets and at spot-related prices. The initial imbalance was exacerbated by increased stockbuilding in expectation of further price rises, and by uncertainty on the part of oil companies about the security of their supplies. In these circumstances, the unified pricing structure broke down, and producers felt unable to limit increases within agreed guidelines. After the June OPEC meeting, the official selling price of Saudi marker crude was set considerably lower than the price charged for other crudes of similar quality. Overall in 1979, the weighted average price of an OPEC barrel was 50% higher, in nominal terms, than the average for 1978, and by the end of 1979 the real price of oil was some 40% higher than the 1974 peak. As with the price rises in 1973–74, the rise during the year had an immediate impact on the surplus.

Chart D
Oil prices



(a) The dollar price of crude oil divided by the dollar price of world exports of manufactures.
(b) Average contract price.

Imports

Soon after the winter of 1973–74, the increased revenue from the oil price rises permitted much stronger growth in imports (Table B). In some countries, particularly the more populous ones, this arose from plans for rapid industrialisation and economic and social development. In 1974 and 1975, the middle and high absorbers maintained an annual rate of import volume growth of around 50% and 30% respectively, but this was followed by a period of retrenchment and reappraisal. The low absorbers maintained high annual rates of increase in import volume until 1976, but thereafter the rate of increase fell. The fall was in general less marked in the low-absorbing countries (whose imports still grew by 10% in volume in 1978) than in the middle absorbers, where volume growth in 1978 was only 4%, and in the high absorbers, where there was no change in the volume of imports.

Table B
Oil exporters: imports

Percentage changes

	1974	1975	1976	1977	1978	1979
Import volume: total	+40	+43	+23	+10	+ 4	−12
of which:						
High absorbers	*+29*	*+34*	*+18*	*+10*	*—*	*−11*
Middle absorbers	*+58*	*+47*	*+11*	*—*	*+ 4*	*−28*
Low absorbers	*+43*	*+56*	*+51*	*+27*	*+10*	*+ 2*
Import prices(a)	+26	+ 7	+ 1	+10	+12	+15

(a) Estimates based on UN data for world prices (weighted by the Bank for oil-exporting countries).

(1) The dollar price of crude oil divided by the dollar price of world exports of manufactures.

The slowdown in import growth reflected a number of factors, such as the pressure on ports and distribution systems; shortage of technical and managerial expertise; doubts about the feasibility of continuing to finance expenditure on the previous scale; and fears that the rapid expansion of domestic expenditure would bring unwelcome side effects, such as severe inflation.[1] In Nigeria, for example, an important export market for industrialised countries, imports were subject to strict government control, with volume in 1979 falling by possibly 30%. The overall volume of imports by the high absorbers in 1979 may have fallen by 11%. The special circumstances in Iran resulted in a fall in import volume estimated at 70%, and this was the main factor in the overall volume fall recorded by the middle tier; in contrast, imports by Libya and Iraq rose quite sharply. But in the second half of 1979, when revenues were generally greater than needed to finance budgeted expenditures, some countries appear to have increased their imports substantially.

The increase in imports since 1973–74 has not been confined to raw materials and capital goods. There have also been higher imports of consumer goods, particularly in those high-population countries where there were relaxations of import controls and aspirations to a higher standard of living. In some countries, imports of agricultural products have risen strongly; in Nigeria and Iran, for example, this reflected a switch of resources and investment away from agriculture to the industrial and commercial sector. In those countries where pressure for consumer goods has been either less strong or imports more easily controlled there has been a greater emphasis on raw materials, such as cement and other building materials, and on capital goods, such as plant and equipment. The oil-exporting countries have generally sought to establish local industries with the aim of developing import substitution and, in the longer run, stimulating export industries. They have increased their own refining capacity and some, including Saudi Arabia and Iran, have begun to develop petrochemical industries.

Other current account flows

At the same time as the heavy outflows on merchandise imports, there has been substantial and growing expenditure on services and transfer payments. This cannot be identified in detail, but much has clearly been associated with development programmes. Insurance and freight costs on imports probably amounted to about $10 billion in 1979, while fees for contractors and consultants, together with other remittances by expatriate workers to both industrial and developing countries, have also become substantial. Interest on foreign borrowings may have amounted in 1979 to $7–8 billion. Other 'invisible' outflows were profits earned by foreign companies, including oil companies, and private transfers for travel and medical expenses. These outflows have to some extent been offset by inflows, in particular by investment earnings (perhaps $15–20 billion in 1979) on the substantial foreign assets which have now been accumulated. In sum, the 'invisible' deficit in 1979 may have been around $45 billion, much larger than in 1973 ($15 billion).

Table A gives figures for official transfer payments abroad; these mainly comprise grant aid such as has been given, for example, by Arab producers to neighbouring countries. The size of this outflow has not become large in terms of total balance of payments flows, mainly because donors have preferred to provide aid in the form of long-term loans at concessionary rates of interest. Such loans are recorded in the capital account of the balance of payments and are described below.

Capital account

The presentation in Tables A and C follows that which has been conventionally used in the *Bulletin*; this emphasises the growth and disposition of the identified foreign assets that have arisen from their current account surpluses. Foreign borrowing for development is shown separately in Table A, while a residual item in that table ('other adjustments') covers the remaining liabilities as well as some assets which it is convenient not to treat as part of the cash surplus. (These include payments agreement balances, since these are not in convertible currencies, and trade credit on oil exports, since these are claims on oil companies which of their nature are not in a convertible form.)

The data for 'other adjustments' and the following section on the deployment of the cash surplus are taken from a variety of sources because the balance of payments statistics compiled by the oil-exporting countries themselves are incomplete.

Foreign borrowing

The OEC have borrowed significant amounts from the private capital markets (Table A). Yearly borrowing (net of repayments) rose from an estimated $4 billion in 1975 to $18 billion in 1978, but fell back to $8 billion in 1979 as the current account improved sharply. The oil exporters, in line with other borrowers, may have been encouraged to increase their use of international financial markets by the emergence, in 1978 and 1979, of a 'borrowers' market' which led to the granting of loans on increasingly attractive terms. Much of this borrowing has been in the form of medium-term syndicated credits arranged by international banks; the gross volume of new credits increased from $2.8 billion in 1974 to a peak of $9.6 billion in 1978, before falling back to $7.6 billion in 1979. In 1978, the oil exporters also raised $1.5 billion in the form of foreign and international bonds, but in other years this method of borrowing has been less significant.

Most of the medium-term credits have been raised by high-absorbing countries, although, particularly in 1978 and 1979, a number of borrowers from countries such as Kuwait and the United Arab Emirates have also made use of the international markets. Algeria, Iran (until 1978), Nigeria and Venezuela have raised considerable amounts in the syndicated credits market to help finance their development programmes.

(1) Consumer prices for oil exporters as a whole increased by 16% in 1974 and 18% in 1975. In some countries the increases were rather greater.

Other adjustments

This item, as explained above, comprises liabilities other than foreign borrowing, together with certain assets. The main liability item is inward direct investment by oil companies, but also included are other direct investment liabilities, liabilities of commercial banks, trade credit received, the counterpart to local currency subscriptions to international organisations, and other government liabilities (including liabilities to the International Monetary Fund).

The main item among the assets is trade credit extended on oil shipments; during the period under review, credit periods have varied between thirty and ninety days. Following price increases, there tends to be a large increase in outstanding accounts receivable for oil exported, but not yet paid for. This was so in 1979, although the effect was substantially offset by a shortening of credit periods on oil exports. As a result, the increase in the cash surplus in 1979 was much less than the increase in the current account surplus.

Deployment of the cash surplus

Table C, which gives the estimated deployment of oil exporters' cash surpluses from 1974, the first full year to reflect the October 1973 price increases, to 1979, shows that they have been invested mainly in the financial markets of industrial countries. Within this investment in industrial countries, there was, in 1974, an initially high concentration in bank deposits (including euro-currency deposits) and short-term government securities. In the subsequent four years, there was a tendency towards placing a higher proportion in longer-term government securities and in other investments (mostly private securities). One reason for this shift was the growing concentration of the combined surplus of the oil exporters in countries with already strong external liquidity positions. But, apart from a few publicised exceptions, the funds channelled into direct investment abroad, together with holdings of property by individuals, have not been significant.

Elsewhere, the oil exporters have maintained a steady flow of lending to developing countries, even when their surpluses have been reduced. In 1978, such lending accounted for just under half of the total identified cash surplus and included aid on highly concessional terms. Initially, this was mostly programme assistance, but more recently there has been an increasing share of project aid.

While the pattern of placements in 1979 is similar to that for 1974, this probably reflects the fact that the sharply increased external receipts of the oil-exporting countries are initially placed with banks, followed by a gradual portfolio adjustment. The large increase in short-term interest rates was another factor behind the increased share of bank deposits in 1979.

Table C also summarises the data provided by the oil exporters themselves for their cash surpluses. These sources tend to be weak in identifying direct investment abroad, while some portfolio investment may well be included within other categories. In addition, the distinction between reserves and other foreign assets is sometimes unclear,

Table C
Deployment of oil exporters' cash surpluses[a]

$ billions

	Flows						Levels end–
	1974	1975	1976	1977	1978	1979	1979
Estimated mainly from recipient country information							
Bank deposits	28.6	9.9	12.0	13.0	3.9	37.3	115
of which:							
In country of currency issue	*7.0*	*2.0*	*0.5*	*2.3*	*2.8*	*6.3*	*26*
Euro-currency deposits	*21.6*	*7.9*	*11.5*	*10.7*	*1.1*	*31.0*	*89*
Short-term government securities[b]	8.0	–0.4	–2.2	–1.1	– 0.8	3.3	7
Long-term government securities[b]	1.1	2.4	4.4	4.5	– 1.8	–0.7	10
Other capital flows[c]	7.1	12.8	13.2	9.8	5.8	9.0	58
IMF and IBRD[d]	3.5	4.0	2.0	0.3	0.1	– 2.0	46
Flow of funds to developing countries[e]	4.9	6.5	6.4	7.0	6.2	6.9	
Total identified deployed net cash surplus	53.2	35.2	35.8	33.5	13.4	53.8	236
Residual of unidentified items	1.9	1.1	2.8	4.1	5.4	25.2	..[f]
Total net cash surplus (from Table A)	**55.1**	**36.3**	**38.6**	**37.6**	**18.8**	**79.0**	..
From oil exporters' balance of payments data[g]							
Direct investment abroad	—	0.4	0.7	0.4	0.1	..	..
Portfolio investment	0.3	0.4	0.5	0.1	0.2	..	..
Resident official sector long-term non-reserve assets	2.7	11.0	11.6	12.2	5.1	..	..
Other sectors' long-term assets	—	1.1	2.4	0.2	0.2	..	..
Resident official sector short-term non-reserve assets	—	0.1	—	– 0.2	—	..	..
Other sectors' short-term assets	4.9	3.6	7.4	7.1	1.4	..	..
Commercial bank assets	0.6	0.1	– 0.7	1.3	2.4	..	..
Official reserves	43.3	15.1	15.6	13.9	2.6	49.8[h]	188
Errors and omissions	2.0	2.6	– 0.5	0.4	2.0	..	..
Total net cash surplus[j]	**53.8**	**34.4**	**37.0**	**35.4**	**14.0**	..	

.. not available.

Note: Flows are mainly differences between opening and closing stocks, but adjusted to remove the estimated effects of exchange rate movements for currencies other than the US dollar. Levels are translated at end-1979 values where possible; in some cases they are simply the sum of reported flows.

(a) Equal to current account balance less changes in liabilities and trade credit on oil exports (see Table A).

(b) Coverage of these items is confined to the United Kingdom and the United States.

(c) Comprises other portfolio investment, direct investment, loans and other items.

(d) Comprises investment in the IMF oil facility, supplementary financing facility, reserve position in the IMF, holdings of SDRs, and direct purchases of IBRD bonds.

(e) Comprises bilateral loans and contributions and subscriptions to regional and international development agencies (other than the IMF and IBRD).

(f) No figure is provided because it is not known whether the residual reflects omissions from the current or the capital account.

(g) *IMF Balance of Payments Yearbook* and Bank estimates for countries not reported there.

(h) The difference between opening and closing stocks of total reserves as shown in *International Financial Statistics* and Bank estimates for countries not reported there.

(j) These figures are not identical to those in Table A because data for net external borrowing and other adjustments, to the extent that they can be derived from *IMF Balance of Payments Yearbook* data, differ from those shown in Table A.

while the reliability of the data varies considerably between the different countries. However, the data do show that sharp increases in the cash surplus (as in 1974 and 1979) tend initially to be held within reserves.

Table C also shows the value of the identified outstanding foreign assets of oil-exporting countries at end-1979. Of a total of some $240 billion, about 80% was placed in industrial countries, over half of which was in the form of bank deposits.

Table D provides further detail for investments in the United Kingdom and United States. In 1974, over 35% of the identified surplus was placed in the United Kingdom

(although some two thirds of this was in currencies other than sterling), while 20% was invested directly in the United States. Very little was subsequently invested in sterling assets in the United Kingdom until 1979 when some 3% of the identified surplus was deployed in this way. Investments in the United States rose to about a third of the total identified cash surplus by 1976 but have since declined as a share of the total. By end-1979 about half of OEC investments were placed in the United Kingdom and the United States.

Table D
Deployment of oil exporters' cash surpluses in the United Kingdom and United States

$ billions

	Flows						Levels end-
	1974	1975	1976	1977	1978	1979	1979
United Kingdom							
British government stocks	0.9	0.4	0.2	—	−0.3	0.4	1.7
Treasury bills	2.7	−0.9	−1.2	−0.2	0.2	—	0.4
Sterling deposits	1.7	0.2	−1.4	0.3	0.2	1.4	4.1
British government foreign currency bonds	—	—	—	0.2	—	—	0.2
Foreign currency deposits	13.8	4.1	5.6	3.1	−2.0	14.8	45.7
Other foreign currency borrowing	1.2	0.2	0.8	—	—	0.2	2.4
Direct investment	0.2	—	—	—	—	—	0.2
Other portfolio investment	0.5	0.3	0.4	0.4	0.1	0.4	2.1
Other	—	—	0.1	—	—	—	0.1
Total	21.0	4.3	4.5	3.8	−1.8	17.2	56.9
United States							
Treasury bonds and notes	0.2	2.0	4.2	4.3	−1.5	−1.1	8.3
Treasury bills	5.3	0.5	−1.0	−0.9	−1.0	3.3	6.6
Bank deposits(a)	4.1	0.6	1.7	0.4	0.8	4.9	14.3
Direct investment	0.1	—	—	—	0.1	0.1	0.3
Other portfolio investment	1.3	3.2	3.0	3.1	1.6	1.0	13.5
Other	0.7	3.3	4.2	2.2	1.3	0.7	12.4
Total	11.7	9.6	12.1	9.1	1.3	8.9	55.4
Other countries and international organisations(b)	20.5	21.3	19.2	20.6	13.9	27.7	123.7
Total identified deployed cash surplus(b)	**53.2**	**35.2**	**35.8**	**33.5**	**13.4**	**53.8**	**236.0**

(a) Those in non-dollar currencies are thought to be negligible.
(b) From Table C.

About 60% of assets in the United Kingdom and United States are currently held in the form of bank deposits and Treasury bills. For the United Kingdom, it is thought that about half of bank deposits are in the form of sight deposits, probably representing rather more than normal working requirements. Direct investment and investment in property have been very small, while portfolio investment (in both public and private securities) in the United Kingdom and United States is currently about 20% of total OEC assets in those countries.

By end-1979, about 17% ($51 billion) of OEC investments were identified as being held in France, West Germany, Japan, the Netherlands, Belgium, Italy and Canada. Of these, about 80% were in the form of bank deposits.

The oil exporters have made increasing use of the euro-currency markets. Other countries have also done so, and as a result the OEC share of these markets was probably maintained at about 10% between 1974 and 1979. For a period, particularly after the Herstatt Bank difficulties in 1974, such deposits were concentrated in a very few large banks. Subsequently, however, the range and number of banks used has been increasing steadily. Thus, in 1973 fifty-five banks held 90%–95% of OEC deposits in the United Kingdom, but by 1977, the same proportion was shared among nearly ninety banks (a number that has since remained fairly constant). This expansion of the number and range of banks involved has facilitated recycling by easing pressure on the banks' capital ratios and country lending limits.

By 1979, some 77% of the amount held in bank deposits was in the euro-currency markets—slightly over half of this in the United Kingdom. The total was at first highly concentrated in US dollars, but in the last two or three years some of the new funds have been directed into other currencies. By the end of 1979, the proportion of bank deposits held in US dollars was about 68%, much the larger part being in euro-dollar deposits. About 20% of total euro-currency deposits were probably denominated in deutschemarks, Swiss francs and yen.

An estimate of the currency composition of total OEC foreign assets shows that the proportion denominated in US dollars has remained stable at around three quarters. The share denominated in sterling has fallen by half from about 10% in 1974 to about 5% in 1979, while that of other currencies has risen correspondingly. Valued at the old official price of SDR 35 per fine ounce, official holdings of gold have accounted for only about 1% of total OEC foreign assets. At a price of $500 per fine ounce, however, the proportion in December 1979 was a little over 10%, and the proportion for other assets correspondingly lower.

The unexplained residual shown in Table C has generally been small, but for 1979 it is currently quite large (at $25 billion). This residual (which tends to be reduced as more data become available) may include some portfolio investment, especially that channelled through nominees (in Japan, for example). It may, however, also include items which should properly be included in the current account. Data for OEC current account credits are thought to be more reliable than for debits; examples of this could be net purchases of gold and perhaps other commodities by the private sector. For these reasons, it is not possible to measure the extent to which the residual item forms part of the cash surplus.

After the first major oil price increase, it was expected that the vast surpluses of the oil producers would persist for many years, presenting intractable problems of adjustment and financing. In the event, these fears proved to be unfounded. But on this occasion there are firmer grounds for expecting the surpluses to persist, and the problems to which this may give rise have been widely discussed. (See, for example, the economic commentary in the March *Bulletin*, page 16.) The Bank will continue its statistical work on the surpluses and their deployment, and will publish the results each quarter.