

An inventory of UK external assets and liabilities: end-1981

This article, which continues an annual series, indicates that at the end of 1981 the United Kingdom had a net external asset position of some £27 billion, £10 billion higher than the revised estimate for the end of the previous year.

Introduction

The large current account surplus in 1981, and the corresponding net outflows on capital account, were mainly responsible for the increase of £10 billion in the United Kingdom's net external assets, which are estimated to have been worth some £27 billion at the end of the year. Another factor behind the increase was the depreciation of sterling, which boosted the sterling value of net overseas assets.

The composition of the United Kingdom's external balance sheet has continued to be directly affected by exchange control abolition; the main factors have been heavy outward portfolio investment, increased private sector foreign currency deposits (in so far as they have been on-lent abroad), and sterling lending abroad by UK banks. These capital outflows are likely to have given rise to downward, though unquantifiable, pressure on the exchange rate or upward pressure on sterling interest rates, or both; the result will have been inflows elsewhere in the balance of payments on current, but perhaps primarily on capital, account. The main effect of exchange control abolition on the United Kingdom's external balance sheet is therefore likely to have been on its structure, with increased private sector long-term net investment abroad, primarily offset by non-resident acquisitions of sterling assets.

The UK public sector's external assets and liabilities were reduced in 1981 as a result of further official foreign currency debt repayments out of the reserves; in addition, there were modest drawings on the reserves over the year as a whole to smooth the downward pressure on sterling. The valuation gains to the reserves resulting from the

A note of caution

There are important limitations to an inventory of this nature.

The coverage of certain assets and liabilities, particularly those relating to insurance and property, is sparse. Some other assets and liabilities, while included within the inventory, are difficult to identify or value accurately, so considerable margins of error are unavoidable; indeed, some of the figures are no more than broad indications of magnitude. Information on the definitions and sources of the various items is given in the notes at the end of the article.

While there have been no major changes in the sources of information or coverage during the past year, there have been revisions to previous figures. Some of these revisions arise from later information; but the figures for investment in property abroad, introduced last year, have been reduced and allocated between the private and public sectors (see the notes at the end of the article). The overall effect of the amendments is to increase the net asset position of the United Kingdom for each of the years 1978, 1979 and 1980 (see Table A). All references in this article to changes during 1981 relate to the amended figures.

depreciation of sterling were offset by the fall in the gold price.

The following analysis, which mainly relates to Table G, examines these developments in more detail, as well as other features of the changing structure of UK external assets and liabilities.

Private sector

The rise of £10 billion in the overall net external asset position of the United Kingdom during 1981 is more than accounted for by the private sector, whose net asset position rose by £10.8 billion. The increase was entirely due to the rise in net private investment abroad; net banking and other commercial liabilities were unchanged. Of the £10.8 billion rise in the level of net private investment, £7.3 billion was in net direct investment (partly offset by a rise of £1.3 billion in borrowing from banks overseas, which would be mostly by companies), and £4.8 billion in net portfolio investment.

The book value of *direct investment overseas* rose by £9.5 billion (including valuation changes), to stand at £41.6 billion. Net new investment by non-oil companies of

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

£ billions

End-years	1978	1979	1980	1981
Investment	+ 9.0	+12.0	+16.1	+26.9
Banking and other commercial	+ 1.7	- 1.5	- 1.1	- 1.1
Net external position of the private sector	+10.7	+10.5	+15.0	+25.8
Public sector (excluding reserves and other official financing items)	- 4.5	- 5.2	- 6.3	- 6.7
Reserves and other official financing items	+ 2.4	+ 6.6	+ 8.3	+ 7.7
Net external position of the public sector	- 2.1	+ 1.4	+ 2.0	+ 1.0
Total net external position of the United Kingdom	+ 8.6	+11.9	+17.0	+26.8
<i>As shown in June 1981</i>	<i>+ 8.0</i>	<i>+11.2</i>	<i>+14.8</i>	

Table B
Direct investment

£ millions

	1978	1979	1980	1981
Outward				
All industries other than oil, banking and insurance	19,220	20,000	21,600	28,000
Banks	1,310	1,910	2,380	3,220
Oil companies	4,200	6,500	7,150	9,000
Insurance companies (investment in the United States only)	730	800	895	1,340
Total	25,460	29,210	32,025	41,560
Inward				
UK companies other than oil, banking and insurance	10,950	12,800	15,100	15,600
Banks	920	1,055	1,215	1,375
Oil companies	5,250	6,750	8,150	9,800
Total	17,120	20,605	24,465	26,775

some £3.5 billion⁽¹⁾ was boosted by the effect of the depreciation of sterling on the outstanding stock. Similarly, the increase of some £1.9 billion in the level of net direct investment abroad by oil companies includes the effect of the strength of the US dollar and other currencies against sterling; new investment remained low compared with the peak in 1979, being constrained by the deepening recession, which led to lower earnings and to a considerable reduction in oil stocks overseas as a result of high prices and weak demand for oil products. There were, however, several new acquisitions of companies in the United States by both oil and other companies, including Intercontinental Hotels and Crocker National Bank.

The book value of *overseas direct investment in the United Kingdom* rose by £2.3 billion, to stand at £26.8 billion. Net new investment by non-oil companies, at £1.3 billion, was well below the 1980 flow, as a result of the net repayment of short-term loans and credit. Net new investment by oil companies of about £1.6 billion reflected heavier capital expenditure to meet mounting development costs in the North Sea. As some oil companies keep their books in US dollars, net investment levels also reflected the weakening of sterling. There was a reduction in onshore investment, which was affected by a further fall in demand and resultant exceptionally poor downstream earnings.

The stock of *UK portfolio investment overseas* rose once again during 1981, this time by £5.5 billion; £4.1 billion of the increase resulted from net investment transactions, with the balance being due to the depreciation of sterling, although there was some offsetting effect from lower security prices. *Overseas investment in UK company securities* also rose, by £0.7 billion, with rather less than half of the increase being attributable to transactions.

Net banking and other commercial liabilities remained unchanged at £1.1 billion. Sterling lending by banks to overseas residents continued to grow rapidly (by £1.7 billion), although this was less than the exceptional growth which occurred in 1980 following the lifting of exchange controls in October 1979. Lending to banks in the principal European and offshore financial centres grew considerably (especially during the first three quarters

Table C
Portfolio investment

£ millions

	UK investment overseas	Overseas investment in UK company securities(a)
Market value:		
End-1978	9,000	4,580
End-1979	10,700	4,530
End-1980	16,500	5,100
End-1981	22,000	5,800
Change in 1981	+ 5,500	+ 700
<i>of which:</i>		
Transactions	+ 4,060	+ 315
Valuation (including currency adjustment)	+ 1,440	+ 385

(a) From end-1980, includes overseas-held foreign currency bonds issued by UK oil companies. Earlier investment in such securities has been included within oil company figures, which are a constituent of direct investment in Table G.

of the year), probably reflecting the development of the eurosterling market and its closer integration with the domestic inter-bank market. This conclusion is supported by the fact that much of the growth in *UK banks' sterling deposits* (£2.5 billion) was accounted for by deposits from banks in the European and offshore financial centres. Nonetheless, there were also sizable increases in the banks' lending to, and deposits from, non-bank customers abroad.⁽²⁾

Within total *commercial bills discounted*, lending through sterling acceptance credits rose by £1.2 billion, to stand at £1.5 billion. This increase was primarily attributable to the introduction of new arrangements for monetary control in August 1981; these involved an expansion of the bill markets, in which the authorities' main money market operations have since been conducted, and an extension of the list of banks whose bills are eligible for rediscount with the Bank of England. It may also reflect the renewed use of sterling to finance third-country trade now that this is no longer forbidden by exchange controls. Also within this heading, there was a small reduction in export credit lending in sterling of £0.3 billion; this was more than offset by an increase in such lending in foreign currency, which is included within banks' foreign currency assets.

The *net external foreign currency liabilities of UK banks* rose by £1.4 billion over the year as a whole (after adjustment for exchange rate movements), in spite of a fall of £1.2 billion during the first half of the year. Both the fall and the subsequent rise were largely the counterparts to changes in the banks' foreign currency business with UK residents. The gross external foreign currency liabilities of UK banks increased by £72 billion, and their gross assets by £70 billion, compared with increases of £19 billion and £18 billion respectively during 1980. However, after adjustment for the effects of exchange rate movements, both increases are reduced to about £31 billion and compare with adjusted increases during 1980 of £31 billion for liabilities and £29 billion for assets. The adjusted rises in 1981, of about 20%, are in line with the growth of international banking worldwide.⁽³⁾

(1) This article was prepared before the release in early June of the latest balance of payments figures, and there may accordingly be some discrepancies between balance of payments flows quoted here and those in the published estimates.

(2) For a further analysis of external liabilities and claims in sterling, see Table 16 in the statistical annex.

(3) See page 214, and also the article on page 42 of the March *Bulletin*.

Deposits abroad by non-bank UK residents rose again, by £0.9 billion, to stand at £4.7 billion. This increase, while marked, was less than that during 1980 in the period immediately following the removal of exchange controls. Borrowing abroad by private non-bank UK residents rose by £1.3 billion in 1981 and also stood at £4.7 billion at the end of the year. The major part of both increases was in foreign currency business.

Public sector

The net external liabilities of the public sector (excluding the reserves and other official financing items) rose by £0.4 billion, of which £0.3 billion was attributable to an increase in overseas residents' holdings of British government stocks. Central monetary institutions (together with international organisations) and private overseas residents reduced the rate of their investment in such stocks from that of previous years, the former investing £0.3 billion net (compared with £0.9 billion in 1980) and the latter £0.2 billion (£0.6 billion). The balance of the increase in the public sector's net external liabilities is largely attributable to the effects of exchange rate movements. (Overall there was little change in exchange reserves in sterling held by central monetary institutions and international organisations—see Table 16 in the statistical annex.)

Table D
Overseas investment in British government stocks

£ millions	By central monetary institutions(a)		By other holders	
Market value:				
End-1978	1,102		1,991	
End-1979	1,270		2,917	
End-1980	2,348		3,485	
End-1981	2,545		3,547	
Change in 1981	+ 197		+ 62	
of which:				
Transactions	+ 258		+ 201	
Valuation	- 61		- 139	

(a) Including international organisations.

Overseas holdings of foreign currency securities issued by public corporations and local authorities, together with borrowing abroad by such bodies, rose slightly; this rise was entirely due to the effects of exchange rate movements as there were net redemptions/repayments of £46 million. (These items exclude issues and other borrowing under the exchange cover scheme—see below.)

Table F
Schedule of capital repayments of certain public sector foreign currency liabilities outstanding at end-1981^(a)

£ billions	1982 ^(b)	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992 onwards	Total
	HM Government											
\$350 million New York bond issue ^(c)	—	—	—	0.2	—	—	—	—	—	—	—	0.4
Other foreign currency bonds	0.2	—	0.6	—	—	—	—	—	—	—	—	0.8
IMF oil facility ^(c)	0.3	0.1	—	—	—	—	—	—	—	—	—	0.4
Inter-government loans	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.2	0.1	0.1	1.8	3.1
Local authorities and public corporations												
Under exchange cover scheme ^(c)	0.4	0.5	0.6	0.8	0.9	1.1	0.9	0.5	0.5	0.5	0.8	7.5
Other external borrowing ^(d)	0.6	0.2	0.3	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.1	2.2
Total	1.7	0.9	1.6	1.2	1.2	1.4	1.2	0.9	0.7	0.7	2.8	14.3

(a) Excludes British government stocks, Treasury bills, non-interest-bearing notes, and local authority securities, mortgages and deposits.

(b) In the first quarter of 1982, new borrowing totalled \$0.2 billion and repayments totalled \$0.3 billion.

(c) Included within official financing liabilities in Table G.

(d) Includes \$0.6 billion originally borrowed in external sterling.

*Official financing liabilities fell by £0.7 billion during the year, to stand at £4.3 billion. The principal factor in the fall was the repayment, largely ahead of schedule, of the \$2.5 billion eurocurrency loan arranged for the Government in 1974 (see the June 1974 *Bulletin*, page 126). A further SDR 250 million (£150 million) of the borrowing under the International Monetary Fund's oil facility was repaid.*

Although there were net repayments of £0.4 billion of *foreign currency borrowing by public bodies under the exchange cover scheme* during the year, exchange rate movements increased the outstanding liability to £3.9 billion. Of the new borrowing during 1981, £0.3 billion was from European Community institutions. Borrowings under the scheme from other sources were taken early in the year, before the announcement in the budget debate that exchange cover would thenceforth normally be available only on approved loans from the Community institutions. Repayments of borrowing under the scheme totalled £0.8 billion.

Table E
Foreign currency borrowing by public sector bodies under the exchange cover scheme: amounts outstanding

£ millions	End-years			
	1978	1979	1980	1981
Borrowing through UK banks by:				
Public corporations	1,333	810	565	873
Local authorities	260	30	5	5
Securities issued by:				
Public corporations	1,137	1,162	888	697
Local authorities	163	94	31	4
Other borrowing abroad by:				
Public corporations	1,758	1,894	1,848	2,122
Local authorities	73	100	123	188
Total	4,724	4,090	3,460	3,889

Table F gives a schedule of capital repayments (measured in US dollars) for those public sector liabilities for which such a schedule is appropriate.

Official reserves, as calculated for the purposes of this inventory (see the notes and definitions), fell by £1.3 billion. A major factor was the repayment of the \$2.5 billion loan raised in 1974; the effect on the value of the reserves of the depreciation of sterling was offset by the fall in the market price of gold.

Notes and definitions

Assets and liabilities denominated in foreign currencies are valued at the exchange rates ruling at the end of each year; all securities other than those included as direct investment are valued at closing market prices at the end of each year or at estimates of such prices. All sub-totals and many of the individual items are rounded to the nearest £5 million; some items, because of their relative unreliability, are more heavily rounded.

Assets

Private sector

Direct investment

All industries other than oil, banking and insurance represents investment by UK companies in their overseas branches, subsidiaries and associates. Direct investment by a number of public corporations is included. The figures are extrapolated from Department of Trade surveys covering total net asset values attributable to investing companies, ie book values of fixed assets less accumulated depreciations, plus current assets, less current liabilities. Book values of assets acquired some years ago may differ considerably from current market or replacement values and, in individual cases, may be quite unrealistic, but only book values are readily available. Estimates for 1979, 1980 and 1981 are derived from the 1978 survey and investment flows each year, with adjustments being made for changes in the sterling exchange rate; however, the effect of the depreciation or appreciation of sterling against other currencies on the value of overseas assets in UK companies' books cannot be evaluated precisely because companies have in the past adopted differing methods of valuation.

UK banks' direct investment overseas represents investment in overseas branches, subsidiaries and associates by UK listed banks (as distinct from institutions in the new monetary sector introduced at the end of 1981—see page 531 of the December 1981 *Bulletin*). The figures are based on a census of overseas assets and liabilities completed by listed banks as at the end of 1977, together with subsequent flows of direct investment reported by the same banks. Investment is defined as the sum of equity, loan and working capital, plus reserves.

Investment abroad by oil companies is measured on a basis broadly comparable with the other direct investment estimates, except that unrelated trade credit is included. For 1978 and 1979, outstanding foreign currency issues abroad are netted off; for 1980 and 1981, they are included within portfolio investment in UK company securities. The estimates 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 changes in the value of sterling.

Insurance companies' direct investment in the United States is derived from US Department of Commerce estimates, the 1981 figure being an extrapolation by the Bank of England.

Portfolio investment

Estimates of UK portfolio investment for 1978 and 1979 were based on surveys and other sources (including exchange control information until 23 October 1979) used principally for measuring capital flows; broad adjustments were made to allow for deficiencies of coverage, and to incorporate changes in market values and exchange rate changes. Subsequently the totals have been calculated using transactions data from a new portfolio investment enquiry introduced with effect from July 1980 (and from temporary reporting arrangements between October 1979 and July 1980), with information available, or estimated, on a sectoral basis.

Property

These estimates relate only to personal investment directly in property and derive from an article by C W Pettigrew, 'National and sector balance sheets for the United Kingdom' (*Economic Trends*, November 1980), with some crude extrapolation. The article itself used figures originally published in *The financial interdependence of the economy 1957-1966* by A R Roe (A Programme for Growth, Paper No 11—published by Chapman & Hall for the Department of Applied Economics, University of Cambridge, October 1971). (Estimates for 1978, 1979 and 1980, published

in the article in the June 1981 *Bulletin*, included public sector investment; such investment is now shown separately—see below.)

Miscellaneous

This comprises currency exchanges which, until the ending of exchange controls, were used as a means of financing investment abroad. The corresponding liabilities are included in direct borrowing abroad by UK companies. The attractiveness of this method of finance disappeared when foreign currency became freely available to all UK residents.

UK banks' assets

These consist of claims by listed banks and certain other financial institutions on non-residents: the figures do not yet relate to the new monetary sector. *Commercial bills discounted* excludes bills drawn on overseas residents lodged with banks for collection, which are covered instead by *suppliers' trade credit on exports*; sterling—but not foreign currency—acceptances are included, because it is believed that most are owned by UK banks and discount houses. Direct investment by banks is included within *direct investment*.

Deposits by UK non-banks with banks overseas

These estimates are derived from the banking statistics of countries in the BIS reporting area (as defined in footnote (a) to Table 13 in the statistical annex); they also include US dollar commercial paper and bankers' acceptances and, from end-1980, short-term US Treasury debt. Because of expansion in coverage, there are breaks in the series of +£215 million in 1979 and +£695 million in 1980.

Suppliers' trade credit on exports

This comprises trade credit extended by UK traders, other than oil companies, to overseas concerns other than affiliates or parent companies. Trade credit extended to parent companies and affiliates overseas is included under *direct investment*.

Public sector

Other official assets

These comprise other overseas assets of the central government, including (for 1978) its holding of Suez Finance Company shares, together with the assets of such official bodies as the Commonwealth Development Corporation and the UK Atomic Energy Authority.

Property

These estimates come from the same source as those for personal investment in property (see above).

Official reserves

For the purposes of this article, gold, foreign currencies and SDRs are valued at end-year market rates. These valuations differ from those used in the figures released each month by the Treasury (see the additional notes to Table 17 in the statistical annex in the March *Bulletin*) but are consistent with those used for other assets denominated in foreign currencies which are included in the inventory. For end-1981, the valuation in the monthly release exceeded the market valuation used here by about £250 million.

Liabilities

Private sector

Direct investment

All industries other than oil, banking and insurance represents investment in branches, subsidiaries and associates in the United Kingdom by companies incorporated abroad. These estimates are based on the 1978 survey by the Department of Trade and are comparable to those for outward direct investment.

Foreign banks' direct investment in the United Kingdom represents investment in those UK listed banks which are branches, subsidiaries or affiliates of overseas companies. The figures are calculated on a basis comparable to that for *UK banks' direct investment overseas*.

Table G
UK external assets and liabilities

£ millions

External assets	End-years	1978	1979	1980	1981
Private sector					
Private investment abroad:					
Direct(a)		25,460	29,210	32,025	41,560
Portfolio		9,000	10,700	16,500	22,000
Property		280	290	305	320
Miscellaneous		156	267	267	250
Total private investment abroad		34,895	40,470	49,095	64,130
UK banks' assets					
Balances, advances and overdrafts in:					
Sterling		1,432	1,438	3,821	5,552
Foreign currencies		99,387	121,351	139,479	209,957
Commercial bills discounted		6,288	5,931	6,291	7,506
Deposits held abroad (other than by banks)(b)		2,012	2,371	3,802	4,722
Suppliers' trade credit on exports		3,963	4,652	4,709	5,365
Advance and progress payments on imports by UK businesses		231	343	371	351
Total banking and other commercial claims		113,315	136,085	158,475	233,455
Total external assets of the private sector		148,210	176,555	207,570	297,585
Public sector					
Inter-government loans by the United Kingdom		1,269	1,281	1,230	1,223
Subscriptions to international financial organisations (excluding the IMF)		1,234	1,491	1,544	1,764
Other official assets		351	364	397	451
Property		120	130	140	155
Total public sector lending etc		2,975	3,265	3,310	3,595
Official reserves					
Total external assets of the public sector		10,380	13,170	13,275	11,960
Total identified external assets		161,565	192,990	224,155	313,140

(a) Estimated book value of net assets.

(b) There are breaks in the series: see the notes and definitions.

External liabilities	End-years	1978	1979	1980	1981
Private sector					
Overseas investment in the UK private sector:					
Direct(a)		17,120	20,605	24,465	26,775
Portfolio		4,580	4,530	5,100	5,800
Direct borrowing abroad by UK non-bank private sector(b)		4,171	3,355	3,432	4,689
Total overseas investment in the private sector		25,870	28,490	32,995	37,265
UK banks' deposit liabilities in:					
Sterling		5,685	8,515	11,551	14,035
Foreign currencies(c)		101,688	124,432	143,401	215,533
Suppliers' trade credit on imports		2,407	2,491	2,178	2,221
Advance and progress payments on exports by overseas customers		1,877	2,177	2,435	2,774
Total banking and other commercial liabilities		111,655	137,615	159,565	234,565
Total external liabilities of the private sector		137,525	166,105	192,560	271,830
Public sector					
Inter-government loans to the United Kingdom					
		1,804	1,547	1,376	1,649
Overseas investment in the UK public sector:					
British government stocks held by:					
Central monetary institutions and international organisations		1,102	1,270	2,348	2,545
Others		1,991	2,917	3,485	3,547
British government foreign currency bonds		412	376	335	402
Local authority securities and mortgages		150	175	200	230
Foreign currency securities issued by:					
Public corporations(d)		213	187	158	164
Local authorities(d)		62	—	—	—
Other borrowing abroad by:					
Public corporations(d)		800	735	600	643
Local authorities(d)		20	16	35	43
Overseas holdings of Treasury bills and non-interest-bearing notes		867	1,218	1,044	1,016
Overseas deposits with local authorities		44	18	22	42
Total public sector borrowing (other than official financing)		7,465	8,460	9,605	10,280
Official financing liabilities:					
Net drawings on the IMF		1,142	482	301	191
Foreign currency borrowing by the Government		1,960	1,798	1,045	—
New York bond issue by the Government		171	157	146	183
Foreign currency borrowing by public bodies under the exchange cover scheme		4,724	4,090	3,460	3,889
Total official financing liabilities		7,995	6,525	4,950	4,265
Total external liabilities of the public sector		15,460	14,985	14,555	14,545
Total identified external liabilities		152,985	181,090	207,115	286,375

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

(d) Excludes borrowing under the Treasury's exchange cover scheme.

Investment by overseas oil companies in the United Kingdom. These estimates include the Royal Dutch Petroleum Company's 60% share of the net assets of the Royal Dutch/Shell Group in the United Kingdom.

Portfolio investment in UK company securities

The market value of inward portfolio investment in listed ordinary shares at end-1975 is available from the Department of Industry's survey of UK company share registers at that time. Adjustments have been made to exclude holdings of a direct investment nature, and an estimate of holdings of debentures and preference shares has been added. The result has been used as a benchmark for subsequent years, the estimates for which are calculated by applying changes in market values and reported transactions. Up to July 1980, details of issues and redemptions of foreign currency securities, other than those issued by oil companies, were obtained from various sources, including the press: nominal amounts outstanding for each issue were estimated and adjusted for changes in the market price of the security. The new portfolio investment enquiry introduced with effect from July 1980, which covers inward investment also, does not distinguish between sterling and foreign currency securities issued by UK companies. Since the new enquiry thus embraces transactions in foreign currency securities issued by oil companies, outstanding issues abroad by these companies are included here from end-1980; for previous years, they are netted off from the oil companies' assets abroad.

Direct borrowing abroad by UK non-bank private sector

The estimate for 1978 is derived from information supplied in accordance with UK exchange control regulations; estimates for subsequent years are derived from the banking statistics of countries in the BIS reporting area (as defined in footnote (a) to Table 13 in the statistical annex). The figures are adjusted to avoid overlap with other items, particularly borrowing by the UK public sector. Because of expansion of coverage, there is a break in the series of +£110 million in 1980.

UK banks' deposit liabilities

These figures relate to listed banks and certain other financial institutions and *not* to the new monetary sector. The figures exclude borrowing by UK banks to finance the Government's \$2.5 billion and \$1.5 billion loans and loans to other public sector bodies under the Treasury's exchange cover scheme, which 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.

Public sector

British government stocks

These comprise British government stocks and nationalised industry stocks guaranteed by the Government. Figures for the holdings of central monetary institutions and international organisations are based on mid-November data, adjusted for changes in market prices and transactions between then and end-December. Figures for other holdings

are estimated partly by the same method (where the holdings are through UK listed banks) and partly from the stock registers at the Bank of England.

British government foreign currency bonds

These represent the bonds, denominated in US dollars, deutschemarks, Swiss francs and yen, which were sold to overseas official holders of sterling in April 1977 in order to help promote an orderly reduction in the international reserve role of sterling.

Local authority 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 represent outstanding issues 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. Identified 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, that are not covered by the Treasury's exchange cover scheme, expressed in sterling at end-year exchange rates. Foreign currency borrowing from UK banks is excluded.

Net drawings on the IMF

This comprises net drawings on the IMF, less other countries' net purchases of sterling, except where such transactions affect the UK reserve position in the IMF. 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 net drawings under both the \$2.5 billion facility announced in 1974 and the \$1.5 billion facility originally taken up in 1977. Borrowings from UK and overseas banks are included.

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 by public corporations and local authorities. Each issue has been valued at the end-year market price. Identified holdings of public sector foreign currency bonds by UK residents have been excluded. (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 exchange rate ruling at the end of the period.)