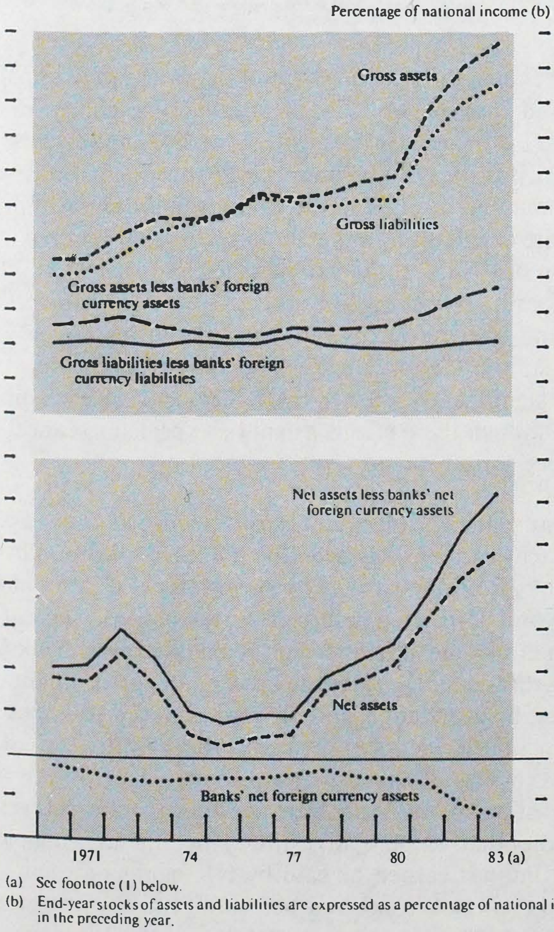
The external balance sheet of the United Kingdom: developments to end-1983

This article, which continues an annual series, describes the main changes in external assets and liabilities recorded during 1983. It focuses first on the relationship between the buildup of the United Kingdom's net external assets since the mid-seventies and the net flow of overseas investment income—interest, profits and dividends—recorded in the current account, suggesting that the latter considerably understates the overall return. The linkages between changes in net external assets, investment abroad, and total national saving are also examined, taking account of the effects of inflation.

The sterling value of the United Kingdom's net external assets rose strongly in 1983, both in absolute terms (Table A) and also as a proportion of national income (Chart 1). Capital account transactions in the balance of payments relating to the stocks of assets and liabilities identified in the inventory contributed only £2.6 billion (net) to the overall £12.5 billion rise. The remaining growth was largely attributable to revaluations.[1] These reflected large net gains in prices of assets and liabilities denominated in local currencies and sterling's continued depreciation from its early 1981 peak. Details of changes in the individual balance sheet categories are described in the final section of this article.

Chart 1
External assets and liabilities[a]



(a) See footnote (1) below.
(b) End-year stocks of assets and liabilities are expressed as a percentage of national income in the preceding year.

Table A
UK external assets and liabilities
£ billions

	End-1982	Identified trans-actions in 1983(a)	Reval-uations etc	Total change over year	End-1983
Private portfolio investment:					
Assets	**38.2**	6.2	13.4	19.5	**57.7**
Liabilities	**6.8**	0.9	1.9	2.8	**9.6**
Net assets	**31.4**	5.2	11.5	16.7	**48.1**
Private direct investment:					
Assets	**55.6**	4.7	2.7	7.4	**62.9**
Liabilities	**31.2**	4.0	0.1	4.1	**35.4**
Net assets	**24.3**	0.8	2.6	3.2	**27.5**
Net private investment assets	**55.7**	6.0	13.9	19.9	**75.6**
Net banking and other commercial assets	**–13.0**	–3.3	–3.0	–6.3	**–19.2**
Net public sector assets	**0.3**	–0.1	–1.0	–1.1	**– 0.8**
Total net assets(b)	**43.1**	2.6	9.9	12.5	**55.6**
Gross assets	**406.5**	31.3	42.5	73.8	**480.3**
Gross liabilities	**363.4**	28.7	32.6	61.3	**424.7**

(a) The coverage of this inventory is less than in the balance of payments statistics so that transactions identified here do not equal total balance of payments capital flows.
(b) Totals may not match components because of rounding.

Interpreting changes in external assets and liabilities

Changes in the value of assets and liabilities can be divided into two main parts:[2]

The current balance

There is a net flow of investment abroad necessarily implied by the country's balance of payments surplus on current account (except that the current account surplus may not be properly measured or the corresponding capital

(1) The data for 1983 are also affected by reductions in the coverage of certain private sector trade credit series. Trade credit assets and liabilities not included in the 1983 figures totalled £4.7 billion and £3.2 billion respectively at end-1982. (Further details are given in Table C.)
(2) Movements arising from changes in coverage are ignored here.

flows fully identified, giving rise to a balancing item). This element can in turn be subdivided into:

- the surplus of trade in goods and services *less* net transfer payments abroad;
- the balance of receipts and payments of interest, profits and dividends (ipd) earned or paid on existing stocks of assets or liabilities.

Valuation changes
Changes in the sterling value of existing assets and liabilities are the second component of the overall change. These can also be subdivided into:

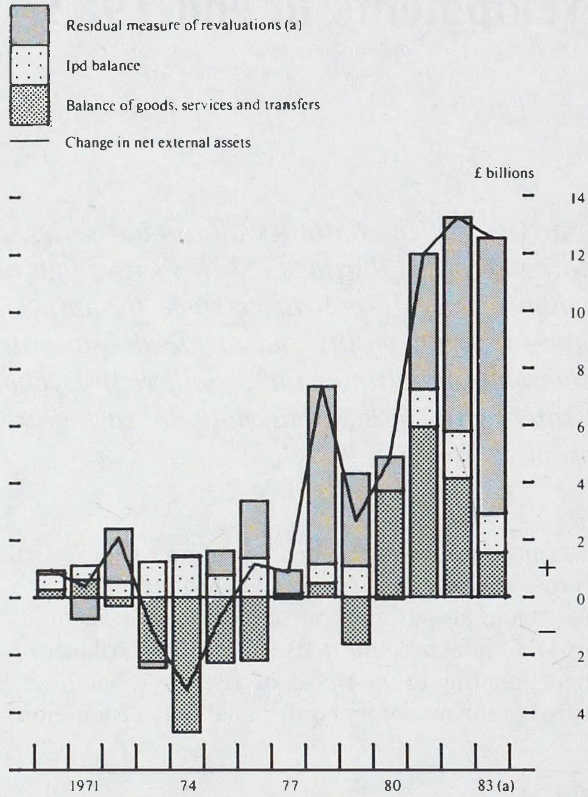
- a part representing changes in the sterling value of items arising from changes in the foreign exchange value of the pound;
- an element representing changes in the value of items (particularly marketable debt) other than changes resulting from exchange rate movements—for example, an increase in the value of UK-owned American shares or of foreign-owned UK shares due to rising stock exchange prices in the United States or in London respectively.

The contributions of the current account and revaluations (the latter being defined residually) to the changes in net assets since 1970 are shown in Chart 2. Revaluations have clearly been a major influence on the growth in net assets in recent years.

The earnings on net external assets included in the ipd account, together with valuation gains, represent the total return on the country's net external holdings. If there was no inflation this return on net overseas assets would appropriately be included in a measure of the country's income (the amount it could consume without eating into its capital). However, even though inflation rates are now much lower than in the recent past, much of the nominal return on the country's net external assets represents compensation for inflation. Nominal interest rates will include an element reflecting expected inflation, and part of the growth in share and property prices will represent the capitalisation of nominal returns arising from inflation. In terms of command over resources these elements in the return on external assets can be set to one side. It is only the remaining 'real' return which is appropriately treated as part of the country's income.

Of course, not all ipd flows and increases in the value of assets (net of liabilities) stem from inflation. In principle, the 'real' return may be calculated by deducting from net ipd receipts and revaluations the amount by which inflation has eroded the real value of net external assets. From year to year this return is likely to fluctuate widely. It would not be helpful to include such large transient fluctuations in a measure of income as it is improbable that spending in any one year would be affected by them. A trend 'real' return on assets should, nevertheless, be allowed for.

Chart 2
Sources of growth of net external assets



(a) Certain trade credit statistics ceased to be collected in 1983. In respect of these series, net assets outstanding at end-1982 of £1.5 billion are not included in the 1983 totals. This reduction is included in the residual measure of revaluations, as are other changes in coverage in earlier years.

Movements in the sterling value of the stocks of external assets and liabilities will also be affected by exchange rate changes. Exchange rates are influenced by many factors: one, which is likely to be important over long periods, though masked by other developments in the short term, is the rate of inflation in the United Kingdom relative to inflation abroad. To the extent that changes in the exchange rate reflect this influence, they merely convert command over resources into current sterling prices. However, in the short run the value of net external assets may be significantly affected by changes in 'real' exchange rates, although these effects might be expected to cancel out over a longer period.

In recent years, an important part of recorded overseas investment earnings has been the net interest earned by UK banks from their rapidly growing stock of external lending and borrowing in foreign currencies. An element of this net income, arising from the margin of the banks' lending rates over the rates they pay on deposits, might, however, be more appropriately regarded as a payment made by non-residents to the banks for the provision of services (over and above that already recorded in the balance of payments in the form of commissions, charges etc), rather than as 'pure' investment income. In principle, the net interest earned or paid by UK banks on their external sterling lending and borrowing and by foreign banks on their transactions with UK residents will also include a (small) service charge, although this cannot readily be calculated from published statistics.

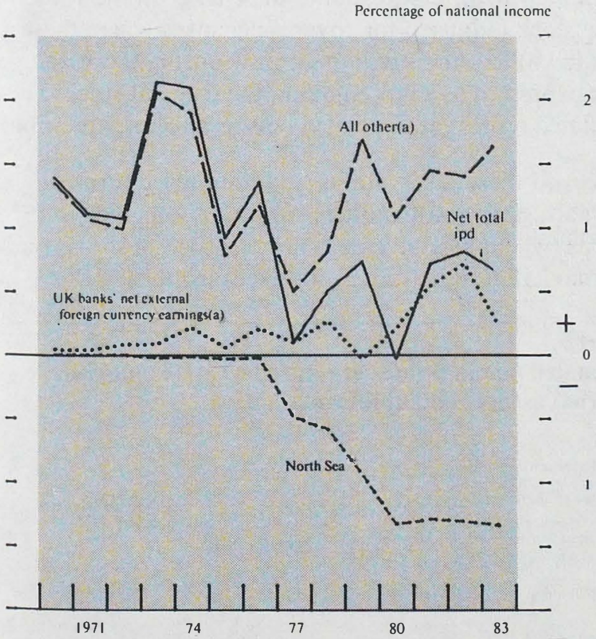
The increase in net external assets which corresponds to the surplus on trade in goods and services and net transfer payments clearly represents an increase in the country's command over resources. That part of the country's 'real' saving invested (net) abroad, rather than used to add to tangible assets at home (machinery, buildings, stocks of finished goods and raw materials, etc), is therefore equivalent to the sum of:

- the 'real' return on the initial stock of external assets less that payable on external liabilities;
- the notional net return—in effect an export of services—in respect of external foreign currency intermediation by UK banks;
- the recorded surplus of trade in goods and services *less* net transfer payments abroad.

The return on external assets and liabilities

While net external assets have risen from a position of near zero in the mid-seventies to over £50 billion at the end of 1983, recorded net ipd flows have shown little tendency to rise in money terms and have fallen in relation to national income (Chart 3).

Chart 3
Net interest, profits and dividends from abroad



(a) From 1983 earnings on the banks' portfolio investment assets, previously partly included indistinguishably in their net external foreign currency earnings, are included in 'All other' earnings.

The slow growth in recorded earnings may be attributed to three reasons:

Economic factors. The recent recovery in economic activity and company profits in the United Kingdom has occurred earlier than in other countries. To the extent that this trend was reflected in the earnings of foreign-owned companies in the United Kingdom and UK-owned companies abroad, ipd debits will have tended to rise faster than ipd credits. Since the mid-seventies profits of foreign-owned North Sea oil companies have grown rapidly as production has risen. In contrast, many of the new investments made abroad in recent years have probably not yet reached maturity.

Problems of measurement. The abolition of exchange controls meant that some of the sources used in compiling balance of payments statistics on capital flows, and the earnings thereon, were no longer available. While alternative sources have been found, initial estimates of some investment income and capital flows are probably less reliable than in the past and may be subject to revision.

Statistical conventions. Recorded ipd does not show the full return—current income and capital appreciation—on external assets and liabilities.

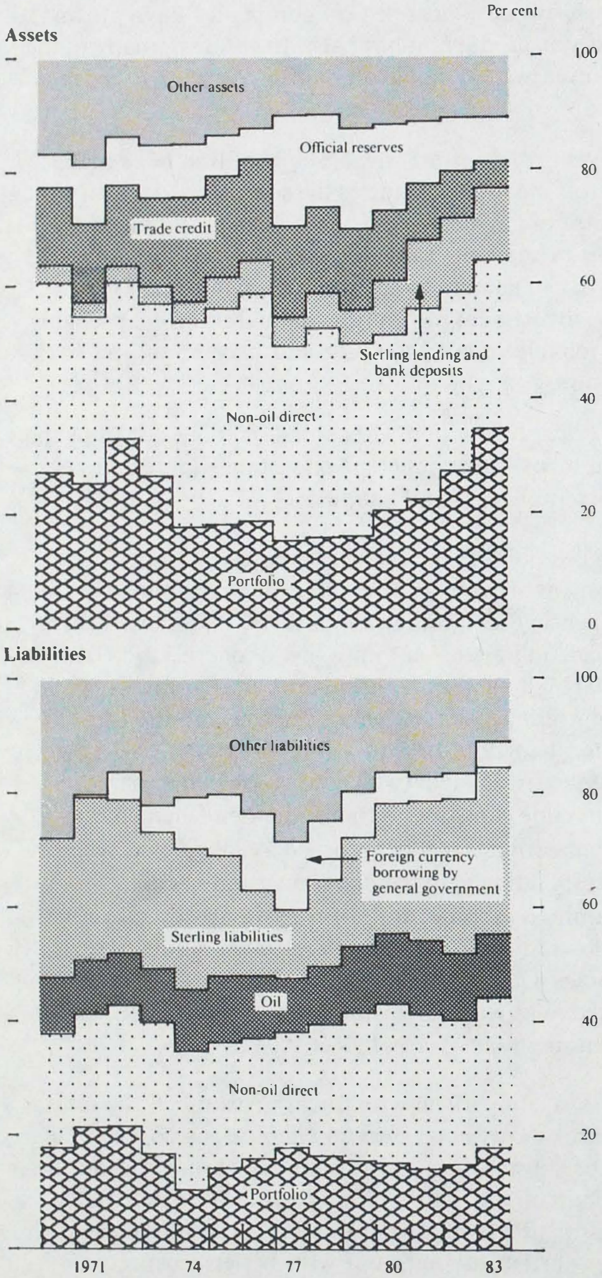
This last point may best be illustrated by comparing the treatment of earnings from direct and portfolio investment in the accounts. In the case of a UK direct investment abroad, all post-tax earnings (net of depreciation) due to the UK parent company will appear as an ipd credit in the current account, whether they are remitted to the United Kingdom or not. However, in the case of a portfolio investment (which might be in the shares of the same company) only the dividend element in current earnings will be recorded as an ipd credit. Correspondingly, in the direct investment case unremitted earnings will form part of recorded capital outflows. For a portfolio investment undistributed earnings will not be shown in the balance of payments but will be reflected, along with other factors, in the market valuation of the overseas asset.

Thus, in comparison with direct investment, the return on similar portfolio assets and liabilities recorded in ipd will be substantially lower, comprising only the current element of the return. Moreover, within portfolio investment a switching of existing assets into those with lower current earnings but with better prospects for capital appreciation will also tend to reduce recorded ipd earnings. Furthermore, when capital gains on portfolio investment are realised they will take the form of a disinvestment and so be included indistinguishably in net outward or inward portfolio investment.

Changes in the composition of external assets and liabilities between those investments whose current yield recorded in ipd reflects a large element of their total return (for example bank deposits and direct investment[1]) and those (such as some portfolio investment) where a greater part of the total return may take the form of capital gains, will therefore influence the balance of net ipd receipts without necessarily implying any change in the relative return on outward and inward investment. Since the abolition of exchange controls in 1979 there has been a

(1) In some cases, eg the interest yield on bank deposits or bonds denominated in a depreciating currency, the recorded yield may exceed the total return.

Chart 4
Composition of external assets and liabilities[a]



(a) Excluding UK banks' foreign currency assets and liabilities. The division of assets and liabilities corresponds to the components of ipd identified in 'United Kingdom Balance of Payments' rather than to the more detailed breakdown given in Table C of this article.

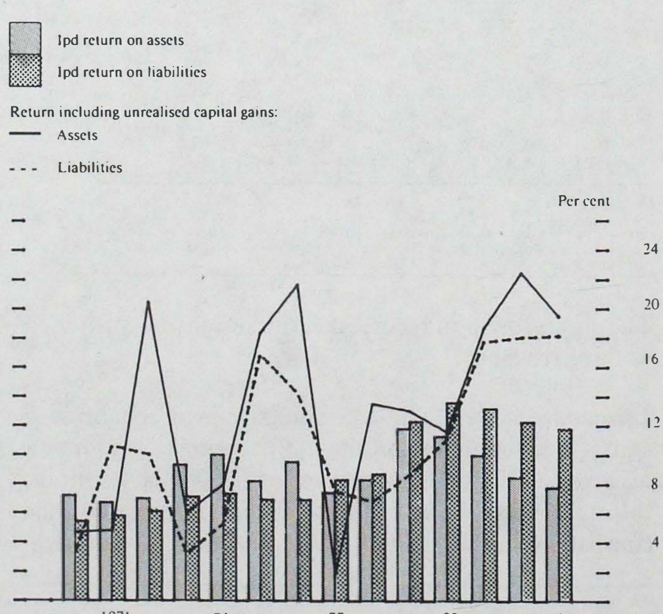
marked increase in the share of portfolio holdings in UK external assets (Chart 4). In contrast, on the liabilities side there has been a significant rise in the proportion of external liabilities in the form of direct and oil investment, and sterling liabilities (largely bank deposits). Such trends will have adversely affected recorded net ipd receipts.

An indicator of the full returns—that is current earnings plus unrealised capital appreciation—on total external assets and liabilities (including UK banks' net external foreign currency liabilities) is provided in Chart 5. The figures should be interpreted with caution. Movements in assets and liabilities will reflect from time to time changes in coverage and classification. Allowances have been made where these factors can be quantified, but in other cases such changes will be reflected in revaluations and so form part of unrealised capital gains. For some categories, market valuations involve a considerable degree of estimation. Moreover, not all assets and liabilities in the external inventory are recorded at market values. This is particularly true for direct and oil investment where valuations in local currency terms will be on the basis of historic cost book values. Changes in these assets and liabilities should, however, reflect movements in exchange rates.

In the Chart the ipd return expresses annual income recorded in the current account as a percentage of the relevant stock of assets or liabilities, the latter being defined as the amount outstanding at the end of the previous year plus one half of the investment flow during the year. In the case of ipd debits paid on external liabilities, the amounts included in respect of UK banks' net external foreign currency liabilities have been calculated by applying the annual average three-month eurodollar rate to the net stock of liabilities. The difference between this estimate of net interest paid by the banks and their net earnings as recorded in the balance of payments represents an estimate of the service charge element of their earnings described earlier. The return inclusive of unrealised capital gains is defined as the ipd return plus an amount equal to the change in the value of the stock (adjusted for coverage changes where these are known) less the investment flow during the year, again expressed as a percentage of the relevant stock. The calculated returns are intended only as an approximation.

Subject to these reservations, the nominal returns on external assets and liabilities may be compared. Ipd returns (which by convention are recorded post-tax) on external liabilities have recently exceeded those on

Chart 5
Estimated nominal rates of return on total identified external assets and liabilities

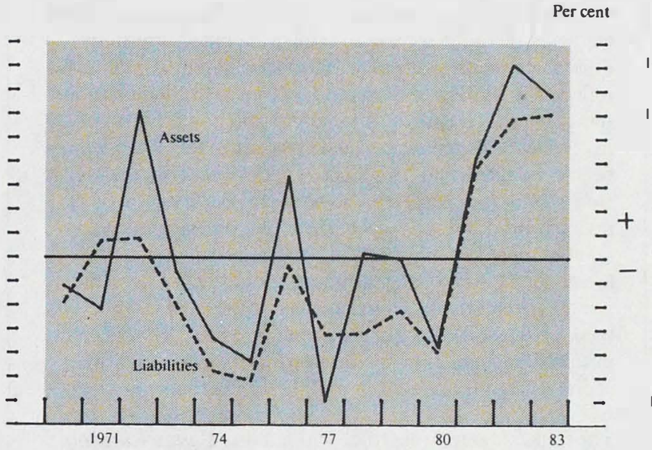


external assets at least partly as a result of the changing composition of the two stocks. As might be expected, the combined ipd and capital appreciation measures of nominal returns[1] are highly variable reflecting both cyclical and transient influences. In general, however, this return on assets has exceeded that on liabilities especially since the late seventies. This suggests—subject to the statistical caveats made above—that the recent trend in net ipd receipts significantly understates the full returns derived by the United Kingdom from its rapidly increasing stock of net external assets.

Changes in net external assets and inflation adjusted saving

The trend 'real' return on net external assets, the imputed export of services represented by UK banks' net external foreign currency earnings, and the surplus of trade in goods and services, less net transfers abroad, together constitute that part of the country's 'real' saving invested overseas. Estimates of inflation-adjusted yields on external assets and liabilities are given in Chart 6.[2] Cyclical and transient factors again make it difficult, however, to discern a clear 'permanent' or trend return in either series although, as with other measures of 'real' returns, they tend to be low or negative in the seventies

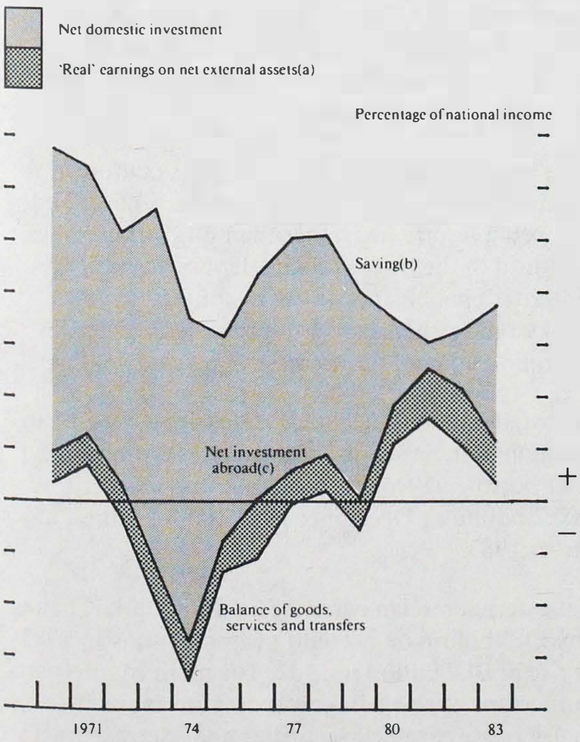
Chart 6
Estimated 'real' rates of return on external assets and liabilities(a)



(a) Including unrealised capital gains.

and higher since.[3] Over the period shown, the average 'real' yield on liabilities has, if anything, been slightly negative while that on assets has been slightly positive. A crude measure of the trend net return can be calculated by applying the average yields on assets and liabilities[4] over the period to the relevant stocks. However, it should be regarded only as illustrative.

Chart 7
'Real' saving and investment at home and abroad



(a) Estimated 'real' returns on net external assets plus UK banks' imputed service earnings on their net external foreign currency borrowing.
(b) The sum of net domestic investment and 'Net investment abroad'.
(c) The recorded balance of goods, services and transfers plus estimated 'real' earnings on net external assets.

In Chart 7 estimates of the three components of 'real' investment abroad have been added to net domestic investment—gross domestic fixed capital formation *less* depreciation *plus* the value of the physical change in stocks —to obtain an approximate measure of total 'real' saving scaled by national income. On this basis, saving shows a marked cyclical pattern, but with no tendency to increase since production of North Sea oil began, suggesting that oil extracted is not yet being replaced with other forms of wealth. Slack demand and low rates of return at home had depressed domestic investment in recent years and, together with increased oil production, had made for real current account surpluses. But since 1981, with demand at home rising and rates of return improving, domestic investment in relation to national income has increased, and by more than total saving. 'Net investment abroad' has declined despite an increasing contribution from 'real' returns on net external assets and the banks' foreign currency earnings, the recovery of domestic demand being a factor contributing to a deterioration in the trade balance.

The main changes in 1983

The sterling value of external assets rose strongly again in 1983, by 18.2% to a level of £480 billion. External liabilities increased by 16.9% to £425 billion. As in 1982, valuation changes had a considerable effect on both gross and net levels, and only £2.6 billion of the £12.5 billion rise in net

(1) In this case the return will be, implicitly, only partly taxed, in that the notional unrealised capital gain included in the return is necessarily calculated on a pre-tax basis.
(2) The inflation adjustment has been calculated by applying annual percentage changes in the deflator for GDP at factor cost to the relevant stocks.
(3) A note on real short-term interest rates appeared in the December 1983 *Bulletin*, pages 471–6.
(4) Over the period shown the average real return on external assets averaged 1.0% while that on external liabilities (excluding the imputed service element earned by UK banks on their net external foreign currency liabilities) was –1.3%.

Statistical limitations

An inventory of the United Kingdom's external assets and liabilities is subject to certain limitations. The coverage of some assets and liabilities, particularly those relating to trade credit, is incomplete. Some, though included, are more difficult to identify or value accurately than others. This is reflected in the degree of rounding given to individual series. In some cases (eg direct investment and some portfolio investment), in years for which censuses of levels have not been conducted, end-year stocks are derived from opening stocks and the year's flows, with an estimate for revaluations, and thus depend on the accuracy of the revaluations. For other series, balance of payments flows are deduced from changes in outstanding stocks after the size of revaluations has been assessed (eg some of the banking figures). Some of these problems may be reflected in the balancing item—the discrepancy between identified capital account transactions and the current account.

The Central Statistical Office will publish *United Kingdom Balance of Payments* (the Pink Book) in August and this may contain later revisions to some series.

Table B
Direct investment
£ millions

End-years	1979	1980	1981	1982	1983
Outward					
All industries other than oil, banking and insurance	19,700	20,600	28,550	34,100	37,900
Banks	1,840	2,510	3,390	4,280	5,430
Oil companies	6,650	7,650	9,000	11,700	13,800
Insurance companies	2,480	2,420	3,030	3,530	3,600
Property	900	950	1,560	1,940	2,180
Total	**31,570**	**34,130**	**45,530**	**55,550**	**62,910**
Inward					
UK companies other than oil, banking and insurance	13,300	15,900	17,000	17,500	19,500
Banks	980	1,260	1,570	2,180	3,300
Oil companies	6,750	8,150	9,650	10,000	10,700
Insurance	230	260	310	430	520
Property	620	870	990	1,130	1,350
Total	**21,880**	**26,440**	**29,520**	**31,240**	**35,370**

assets in 1983 was due to identified transactions. Net portfolio investment abroad was the single most important source of increase, as it was last year, with assets rising by £16.7 billion to £48.1 billion. Net private sector direct investment abroad added £3.2 billion. These net asset rises were partly offset by an increase in banking and other commercial liabilities of £6.3 billion net.

Private sector

The stock of *UK portfolio investments* overseas continued to grow rapidly. Some £13.4 billion, or two-thirds of the estimated increase of £19.5 billion, was due to valuation changes: £8 billion of this was due to rising security prices, particularly in the United States where a high proportion of the stock of such investment is held. The continued decline of sterling, particularly against the dollar, contributed another £5 billion. New net purchases (£6.2 billion) were also substantial. Financial institutions outside the monetary sector (insurance companies, pension funds etc) accounted for £3.5 billion of this flow, with banks' purchases on their own behalf accounting for much of the balance. The stock of overseas investment in UK company securities increased by £2.8 billion, rather more than in 1982. Two-thirds of this increase was attributable to valuation changes.

The book value of *UK direct investment overseas* rose by £7.4 billion to £62.9 billion (Table B): net transactions by non-oil industrial and commercial companies generated an outflow, of £2.5 billion, nearly matched by that of oil companies. The depreciation of sterling and other valuation changes added £2.7 billion. Overseas direct investment in the United Kingdom rose by £4.1 billion to stand at £35.4 billion. Nearly half of the increase, some £2.0 billion, was investment by non-oil companies. Their investment was substantially up on the low levels of 1981 and 1982. Oil inflows of £1.5 billion largely represented increased exploration and development expenditure on the UK continental shelf, which probably received some stimulus from the fiscal relaxations announced in the 1983 Budget. An increase in the sterling value of the foreign currency denominated liabilities of oil companies produced an offsetting fall of £0.8 billion in the net asset value of their inward investment.

Net *banking and other commercial liabilities* rose by £6.3 billion to stand at £19.2 billion. Sterling lending overseas continued to rise in 1983 (by 14%) although at only about half the rate recorded in 1982. The increase was mainly in lending to non-banks, particularly in the form of acceptances and ECGD insured lending (especially to oil exporting countries): together these claims rose by just over £1 billion.

Overseas sterling deposits with UK banks continued to grow in 1983, about three-quarters of the £4.5 billion increase being in private (rather than official) holdings. About a third of the rise in official deposits came from international organisations. In contrast to 1982, non-banks rather than banks overseas accounted for much (around 60%) of the increase in private holdings.

The eurosterling liabilities of UK banks rose by 20% in 1983, although their claims were practically unchanged: their net borrowing from the eurosterling market rose from £0.7 billion at December 1982 to £1.6 billion at December 1983.

The net external foreign currency liabilities of UK banks grew by £1.2 billion on account of transactions in 1983 after a rise of £4.2 billion in 1982. The main counterparts to the increase were again continuing investment in external foreign currency securities and increased net foreign currency lending to UK non-banks, although in the fourth quarter of 1983 there was an increase in net foreign currency deposits from UK non-banks and a fall in net external liabilities.

The UK non-bank private sector's sterling transactions with banks overseas showed little change in 1983. There was a flow into foreign currency deposits of £1.0 billion and new foreign currency borrowing from banks abroad of £0.5 billion.

Public sector

The net external liabilities of the public sector (excluding the reserves and official financing items) rose only marginally, by £0.4 billion, despite a £1.4 billion increase in overseas holdings of gilts (£0.5 billion of which represented capital gains due to a slight fall in UK interest rates over the period).

Official financing liabilities rose by £0.7 billion during the year. Two-thirds of this rise reflected the fall in the sterling exchange rate.

Official reserves, valued at end-year market rates, fell back marginally by £0.1 billion. Net drawings of £0.6 billion were offset by the valuation effect of a fall in the sterling exchange rate: despite a decline in the price of gold, total valuation changes added £0.5 billion to the sterling value of the reserves.

Table C
UK external assets and liabilities

£ millions

End-years	1979	1980	1981	1982	1983
External assets					
Private sector					
Private investment abroad:					
Direct	31,570	34,130	45,530	55,550	62,910
Portfolio	12,000	18,100	24,600	38,200	57,700
Total identified private investment abroad	43,570	52,230	70,130	93,750	120,610
UK banks' assets					
Balances, overdrafts and advances					
Sterling	1,449	3,821	5,863	8,117	9,272
Foreign currencies	120,438	137,743	210,538	261,995	308,612
Commercial bills discounted	4,683	6,152	8,889	12,171	14,486
Deposits held abroad (other than by banks)	2,730	4,267	5,690	7,314	8,409
Suppliers' trade credit on exports	4,415	4,506	4,838	4,650	..
Advance and progress payments on imports by UK businesses	338	386	317	409	284
Foreign notes and coin held by UK residents	43	44	51	52	60
Total identified banking and other commercial claims	134,096	156,919	236,186	294,708	341,123
Total identified external assets of the private sector	**177,666**	**209,149**	**306,316**	**388,458**	**461,733**
Public sector					
Inter-government loans to the United Kingdom	1,281	1,230	1,221	1,191	1,199
Subscriptions to international financial organisations (excluding the IMF)	1,474	1,527	1,747	2,001	2,438
Other official assets	365	397	447	483	513
Refinanced export credit	2,174	1,843	1,536	1,407	1,626
Total public sector lending, etc	5,294	4,997	4,951	5,082	5,776
Official reserves	13,170	13,275	11,960	12,939	12,805
Total external assets of the public sector	**18,464**	**18,272**	**16,911**	**18,021**	**18,581**
Total identified external assets	**196,130**	**227,421**	**323,227**	**406,479**	**480,314**
External liabilities					
Private sector					
Overseas investment in the UK private sector:					
Direct	21,880	26,440	29,520	31,240	35,370
Portfolio	4,530	5,100	5,800	6,800	9,600
Total identified overseas investment in the private sector	26,410	31,540	35,320	38,040	44,970
UK banks' deposit liabilities in:					
Sterling	8,520	11,564	14,601	19,057	23,562
Foreign currencies	124,793	143,777	219,196	277,942	329,352
Suppliers' trade credit on imports:					
Long-term	747	705	727	738	721
Other	1,744	1,475	1,607	1,540	..
Advance and progress payments on exports:					
Buyer credit scheme	1,130	1,170	1,170	1,170	1,170
Other	694	834	1,610	1,630	..
Direct borrowing abroad by UK non-banks	3,172	3,358	4,264	5,555	5,495
Overseas deposits with building societies	38	25	25	32	37
Total identified banking and other commercial liabilities	140,838	162,908	243,200	307,664	360,337
Total identified external liabilities of the private sector	**167,248**	**194,448**	**278,520**	**345,704**	**405,307**
Public sector					
Inter-government loans to the United Kingdom (net)	1,547	1,376	1,649	1,847	1,956
Short-term liabilities	442	207	406	854	345
British government stocks held by:					
Central monetary institutions	1,290	2,248	2,461	2,872	3,150
Other overseas holders	2,900	3,471	3,478	4,755	5,919
British government foreign currency bonds	375	335	402	327	343
Overseas holdings of local authority securities and mortgages	175	200	230	220	210
Foreign currency securities issued by public corporations	187	158	164	161	171
Other non-exchange cover scheme borrowing abroad by:					
Public corporations	793	582	645	477	414
Local authorities	29	37	43	41	39
Overseas holdings of:					
UK Treasury bills and non-interest-bearing notes	1,218	1,044	1,018	1,186	1,225
Overseas temporary deposits with local authorities	17	22	42	25	9
Advance and progress payments on exports by public corporations	353	492	81	66	102
Total public sector borrowing (non-exchange cover scheme)	9,326	10,172	10,619	12,831	13,883
Official financing liabilities:					
Net drawings on the IMF	481	301	191	35	—
Foreign currency borrowing by the Government	1,798	1,045	—	—	—
New York bond issue by the Government	157	146	183	216	241
Foreign currency borrowing by public bodies under the exchange cover scheme	4,090	3,460	3,889	4,621	5,281
Total official financing liabilities	6,526	4,952	4,263	4,872	5,522
Total external liabilities of the public sector	**15,852**	**15,124**	**14,882**	**17,703**	**19,405**
Total identified external liabilities	**183,100**	**209,572**	**293,402**	**363,407**	**424,712**

.. Government departments no longer have the resources to collect these data.

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. Some items, because of their relative unreliability, are more heavily rounded than others.

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 1979–83 are derived from the 1978 and 1981 surveys 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. The figures are based on censuses of overseas assets and liabilities completed by banks as at the end of 1977 and 1981, together with flows of direct investment reported annually by banks; from 1982 the reporting population for flows is based on the new monetary sector introduced at the end of 1981. Investment is defined as the sum of equity, loan and working capital, *plus* capital reserves. Adjustments have been made to reflect changes in the sterling exchange rate and in prices of securities on overseas markets.

Investment abroad by oil companies is measured on a basis broadly comparable with the other direct investment estimates, except that net current assets are included. Outstanding foreign currency issues abroad are netted off for 1979; they are subsequently 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. The figures for 1981 onwards are not entirely consistent with earlier figures owing to a change in the accounting conventions of certain oil companies.

Insurance companies' direct investment overseas. These statistics are collected by the Department of Trade from details provided by the British Insurance Association and insurance brokers in the United Kingdom.

Property

These estimates relate to investment made directly in property abroad by the personal sector, pension funds and other financial institutions. They should be interpreted as no more than a broad indication of magnitude.

Portfolio investment

Estimates of UK portfolio investment were rebased from end-1979 using information from financial institutions as far as possible; transactions data for other investors (including industrial and commercial companies and persons) are taken from a portfolio investment enquiry conducted by the Bank of England each quarter since July 1980 (and temporary reporting arrangements prior to that) and revaluation factors deduced from movements in financial institutions' holdings are applied to estimates of holdings by those investors. The estimates for earlier years which underlie the charts in the article have been revised upwards, in order to avoid discontinuity in the series, partly using information from financial institutions, with some allowance to remove the effect on their figures of the investment currency premium.

UK banks' assets

There is a break in this series at end-1981 reflecting the introduction of the new monetary sector, but the coverage is wider than the monetary sector (see notes and definitions to Table 14.1 in the March *Bulletin*). Details of the size of the break have been recorded in the statistical annex. Sterling—but not foreign currency—acceptances are included within *commercial bills discounted,* because most are owned by UK banks and discount houses. Export credit refinanced with ECGD and the Issue Department of the Bank of England is deducted from *UK banks' assets* and included in public sector claims. Bills drawn on overseas residents lodged with banks for collection are covered by *suppliers' trade credit on exports.* 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 the notes and definitions to Table 13.1 in the statistical annex of the March *Bulletin*, except that there is no coverage of deposits at the foreign branches of US banks); they also include US dollar commercial paper and bankers' acceptances and, from end-1980, short-term US Treasury debt. Currency exchanges are also included. Until the ending of exchange controls these were used as a method of financing investment abroad and, being of a long-term nature, existing investment of this type will remain outstanding for some years, even though the free availability of foreign currency to UK residents has meant that new use of this method of finance has ceased. The corresponding liabilities are included in direct borrowing from abroad by UK companies. 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 the assets of such official bodies as the Commonwealth Development Corporation and the UK Atomic Energy Authority.

Refinanced export credit

That part of export credit which is refinanced with the ECGD and the Issue Department of the Bank of England is deducted from UK banks' assets and included in public sector claims. Some other ECGD assets relating to export credit are also included.

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 notes and definitions 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-1983 the market valuation used here exceeded the valuation in the monthly press release by £0.5 billion.

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 and 1981 surveys 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 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.*

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.

Investment in UK insurance companies. This series has been estimated by the Department of Trade and Industry. The starting-point was an estimate made for end-1981 (see *British Business.* 2–8 March 1984), which was based on certain statutory returns from insurance companies and their public accounts.

Investment in UK property
These estimates are based on transactions information supplied to the Inland Revenue in respect of stamp duty, and revalued by a mix-adjusted UK property price index. They comprise only property holdings by non-resident persons.

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.

UK banks' deposit liabilities
There is a break in this series at end-1981 reflecting the introduction of the monetary sector (see *UK banks' assets*). Details of the size of the break are recorded in the statistical annex. 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; such borrowing 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.*

Direct borrowing abroad by the UK non-bank private sector
Estimates are derived from the banking statistics of countries in the BIS reporting area (as defined in the notes and definitions to Table 13.1 in the statistical annex of the March *Bulletin*), except that there is no coverage of borrowing from the foreign branches of US banks. The figures are adjusted to avoid overlap with other items, particularly borrowing by the UK public sector and trade credit relating to shipbuilding. They include some borrowing via issues of US commercial paper. Currency exchanges are also included (see note on *deposits by UK non-banks with banks overseas*). There is a break of £110 million in the series in 1980 because of an expansion of coverage.

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

Short-term liabilities
These include sterling notes and coin held by overseas residents (estimated from the capital flows) and short-term liabilities of the government.

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.

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
These comprise 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.