

Oil exporters' surpluses and their deployment

This article⁽¹⁾ revises and updates to 1983 a survey of the foreign assets of the oil exporting countries (OECs) published in the June 1980 Bulletin which looked at the period 1974 to 1979. The main features are:

- a brief description of the OECs' current account, which went very sharply into surplus in 1974 and again in 1979-80 following sharp rises in the price of oil;
- an examination of the changing structure of the oil exporters' portfolio, which shows that the initial adjustment to current account movements was primarily in changes in liquid asset holdings and borrowing;
- consideration of the disposition of the portfolio among industrial countries.

Balance of payments current account

The combined current account of the OECs (for definition see the statistical note on page 70) shows marked fluctuations over the period 1973 to 1983. The quadrupling of oil prices in late 1973 led to an elevenfold increase—to some \$67 billion—in the combined current account surplus in the following year, despite a sharp rise in imports of goods and services. Imports continued to rise, and the surplus in 1975 is estimated to have been halved (\$32 billion), on average remaining about this size for the next two years; rising imports were broadly matched by increased oil earnings as demand in industrial countries began to recover. During this period the invisible balance deteriorated, with increased investment earnings more than offset by higher outgoings,⁽²⁾ mainly associated with ambitious development programmes.

In 1978 demand for oil fell and rising import prices led to a small combined current account deficit of \$3 billion. The Iranian revolution during 1979 disrupted oil production in that country, reducing supplies from Iran by 40%. In anticipation of an overall shortfall, prices rose steeply and the deficit of 1978 was converted to a combined current account surplus of \$59 billion in 1979.

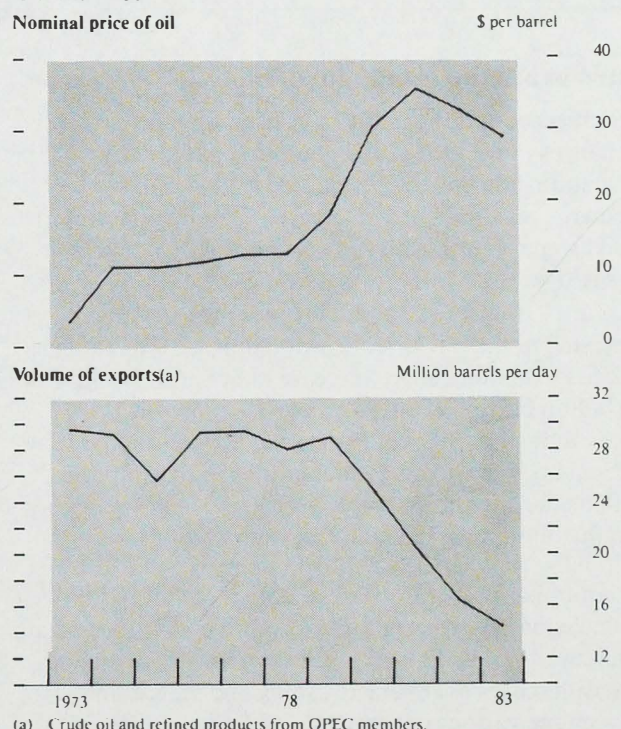
Table A
Oil exporters' combined current account
\$ billions

	Exports	of which: Energy	Imports	Trade balance	Invisibles balance	Current balance
1973	41	37	22	19	-13	6
1974	123	116	39	84	-17	67
1975	116	110	59	57	-25	32
1976	138	130	73	65	-29	36
1977	155	146	89	66	-41	25
1978	151	141	106	45	-48	-3
1979	221	208	107	114	-55	59
1980	313	298	136	177	-67	110
1981	286	273	157	129	-80	49
1982	223	210	156	67	-82	-15
1983	197	182	136	61	-76	-15

(1) Mainly the work of E W Shepherd of the Bank's Financial Statistics Division.

(2) These included freight and insurance costs, contractors' and consultants' fees, remittances by expatriate workers, company profits, travel and official grants.

Chart 1
Oil market



This surplus nearly doubled in 1980 to \$110 billion, even though imports continued to rise, but thereafter demand for oil in the industrial countries fell sharply, and with the volume of oil exports falling the surplus was much reduced in 1981. By 1982 the combined current account was in substantial deficit and remained so in 1983. Despite a cut of \$5 a barrel in the official marker price for Saudi light, demand for oil remained weak throughout 1983 and the OECs as a group cut back substantially on imports. The deficit on invisibles doubled between 1977 and 1982 but has fallen somewhat since.

Statistical note

The information gathered by the Bank on the use of OECs' funds is derived from a variety of international and national sources. The Bank is grateful for the co-operation it receives from other countries in this exercise. Estimation is sometimes required in the use of data, which are not always compatible; any estimation is of course the responsibility of the Bank.

In this article, the oil exporting countries (OECs) comprise the thirteen members of the Organisation of Petroleum Exporting Countries (OPEC) plus Bahrain, Brunei, Oman, Trinidad and Tobago. This definition has been used by the Bank since December 1974 and is in line with that hitherto used by the Bank for International Settlements (BIS) in its regular analysis of international banking developments. Coverage of the BIS statistics has recently changed, however, and Bahrain has begun contributing in its capacity as a banking centre (see the notes and definitions to Table 16 in the statistical annex); as a result it is no longer treated by the BIS as a member of the oil exporting group. Statistics published elsewhere in this *Bulletin* (for example the table on page 41) reflect this change, which has been made as from the end of 1983; however, in this note, for the purposes of

comparison over the 10-year period, Bahrain continues to be regarded as an oil exporting country.

Since the previous article the International Monetary Fund has begun to publish a new monthly series of international banking statistics in *International Financial Statistics (IFS)* which provides additional information on oil exporting countries' external assets and liabilities (see page 64). These data are not fully compatible with those compiled by the Bank of England, a major difference being that the *IFS* data include intra-OEC transactions whereas Bank figures do not. Although in general the *IFS* statistics cannot be incorporated within the Bank's data, a modest amount of additional assets has been identified from this source. The new data, which are shown under a separate heading in Table C, are being published by the Bank for the first time.

In order to minimise the effects of exchange rate movements, flow data have, where possible, been converted into US dollars using average rates for the periods to which they relate (levels have been converted at end-year rates).

Funds available for deployment

Current account imbalances have been financed not only by changes in the OECs' asset holdings but also by international borrowing (Table B). In 1974-5 net borrowing was low, but as increased spending on imports caused some countries to run current account deficits it increased strongly in 1976-8. Earnings rose sharply again in 1979 and 1980 and there was little net new borrowing in these two years. But falling earnings after 1980 led to another sharp increase in net borrowing, with \$20 billion borrowed in 1982 and \$18 billion in 1983, mostly in the last quarter. Because of these compensating movements in borrowing, fluctuations in the amount available for investment have been somewhat smaller than fluctuations in the OECs' current account.

For a number of reasons the estimated total of funds available for deployment differs from the identified total of deployed funds. This discrepancy arises in particular from differences of coverage, timing and valuation between the various constituents of the two totals.⁽¹⁾ Over the period 1974 to 1983, the sources (or funds available for deployment) have exceeded the identified uses (funds deployed) by \$55 billion—or roughly 13% of the total amount identified as available for deployment over the period. The discrepancy is largely concentrated in three years: 1974 and 1980 when earnings surged and sources of funds greatly exceeded identified uses, and 1983 when the identified run-down of deployed funds contrasted with current account and external borrowing developments which implied a small net surplus of funds available for deployment. Apart from these three years, differences have generally been modest.

Table B
Identified sources of surplus compared with identified uses

\$ billions

	Current balance	Net external borrowing(a)	Identified sources	Identified uses	Discrepancy (b)
1974	67	2	69	52	-17
1975	32	3	35	38	3
1976	36	9	45	37	-8
1977	25	11	36	40	4
1978	-3	11	8	18	10
1979	59	2	61	55	-6
1980	110	4	114	91	-23
1981	49	8	57	54	-3
1982	-15	20	5	8	3
1983	-15	18	3	-15	-18
Total	345	88	433	378	-55

(a) OECs' liabilities arising from net borrowing and inward direct investment plus changes in credit given by them for oil exports.

(b) Difference between identified uses and identified sources: overestimated use or underestimated source (+); underestimated use or overestimated source (-).

Identified deployment of assets

Fluctuations in sources of funds have been reflected most immediately in changes in bank deposits, and only after a lag in other assets. Thus just after both major oil price rises the proportion of OECs' assets held in the form of bank deposits was very high (57% in 1974 and 51% in 1979), clearly reflecting the influx of cash. The size of this proportion in 1979 is perhaps the more surprising figure as total assets had expanded threefold since 1974. But the proportion of bank deposits in the stock had fallen only to 44% by 1978 (compared with 37% in 1983), the rate of investment in long-term assets having slowed in 1977 and holdings of some assets having actually contracted in 1978. Furthermore, three quarters of deployed funds in 1979 went into bank deposits whereas only just over half had done so in 1974.

(1) It is noticeable, for example, that the recent inclusion of Bahrain, Hong Kong and Singapore in the BIS statistics adds some \$12 billion to the stock of OEC foreign assets at end-1983. Some part of this will relate to assets held in Bahrain and is therefore within the OEC group as defined in this article (see statistical note above). The figures suggest, however, that there may also have been sizable flows to the other centres which were not covered by the Bank's sources and would therefore have contributed to the discrepancy.

The current account position deteriorated only gradually after the first price rise and bank deposits continued to grow even in 1978 when there was a current account deficit, the main impact being on their rate of growth. After 1980 the current account deterioration was much sharper and made a greater impact on bank deposits which, having grown by a third in the previous year, were little changed in 1981 and fell substantially in 1982 and 1983. Sizable reductions in other assets also occurred more quickly after the second price rise than after the first although rates of growth of longer-term assets had slowed and their composition changed somewhat before reductions took place.

Various forms of government paper have proved attractive to the oil exporters throughout the period.

Holdings of British, American and German paper can be separately identified whereas holdings of other government paper are indistinguishable within 'other investments' in Table C. Looking at the separately identified holdings it can be seen that, following the oil price rises of 1973 and 1979, large purchases were made of short-term paper, particularly US Treasury bills. Between 1975 and 1978 these holdings were gradually reduced, while longer-term investments continued to grow. After 1979, growth in short-term government paper was much less, but there was little disinvestment until 1983.

Purchases of US Treasury bonds and notes were small in 1974 but holdings gradually built up in the following three years. In 1978, these holdings were reduced and further

Table C
Identified deployment of OECs' funds

\$ billions

	Flows										Levels(a)		
	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1973	1979	1983
Analysis by country													
United Kingdom:													
Sterling bank deposits	1.7	0.2	-1.6	0.3	0.1	1.5	1.4	0.5	1.2	0.1	1.3	4.2	5.4
Eurocurrency deposits	13.8	4.1	5.6	3.1	-6.7	15.5	14.5	7.8	-9.2	-7.0	5.3	46.2	50.3
Government paper	3.6	-0.5	-0.9	—	-0.4	0.2	2.0	0.8	0.1	0.2	0.7	2.1	3.5
Direct investment	0.2	—	—	—	0.1	—	—	—	0.1	—	—	0.3	0.5
Other investments(b)	1.7	0.5	1.3	0.6	—	0.2	0.2	0.2	-0.7	-0.5	—	4.7	3.4
Total	21.0	4.3	4.4	4.0	-6.9	17.4	18.1	9.3	-8.5	-7.2	7.3	57.5	63.1
United States:													
Bank deposits	4.2	0.6	1.9	0.4	0.8	5.1	-1.3	-2.0	4.6	0.9	2.4	15.5	17.7
Treasury bonds and notes	0.2	2.0	4.2	4.3	-1.5	-1.2	8.2	10.9	6.9	-5.5	0.1	7.5	28.0
Treasury bills	5.3	0.4	-1.0	-0.9	-0.9	3.3	1.4	-0.4	0.4	-1.2	0.4	6.6	6.8
Direct investment	0.1	—	—	—	0.1	—	0.2	2.9	0.5	—	0.1	0.4	4.0
Other investments(b)	1.7	4.9	6.0	3.5	1.9	-0.2	8.6	6.4	0.3	-3.7	0.5	17.8	29.4
Total	11.5	7.9	11.1	7.3	0.4	7.0	17.1	17.8	12.7	-9.5	3.5	47.8	85.9
Germany:(c)													
Bank deposits	0.7	0.4	0.5	0.8	-0.2	0.6	1.2	0.1	-1.6	-0.4	—	3.9	2.2
Government paper	0.1	0.6	0.4	0.3	-0.4	—	6.8	6.3	1.4	-0.3	—	1.5	11.5
Direct investment	0.5	0.1	—	—	0.3	0.1	0.1	—	—	—	—	0.5	0.3
Other investments(b)	0.2	0.9	0.4	0.9	0.8	1.0	1.4	1.2	-0.6	-0.7	—	9.7	7.6
Total	1.5	2.0	1.3	2.0	0.5	1.7	9.5	7.6	-0.8	-1.4	—	15.6	21.6
Other industrial countries:(d)													
Bank deposits	8.2	4.6	5.6	13.3	13.3	17.9	28.5	-3.9	-7.3	-4.9	—	61.5	64.9
Other investments(b)	2.6	5.8	5.1	4.5	3.0	2.5	7.9	12.2	5.9	-0.6	0.6	18.6	52.4
Total	2.4	5.0	1.7	0.4	-0.3	-0.8	1.7	2.1	2.1	4.3	2.2	10.5	20.8
IMF and IBRD:(e)													
OEC bank credit to non-banks worldwide(f)	—	1.5	1.6	1.5	1.6	0.1	1.7	2.1	0.1	2.8	—	6.0	13.0
Placements with LDCs	4.9	6.5	6.4	7.0	6.2	8.7	6.3	7.2	3.9	1.2	—	39.7	58.3
Total identified net cash surplus	52.1	37.6	37.2	40.0	17.8	54.5	90.8	54.4	8.1	-15.3	13.6	257.2	380.0
Portfolio structure													
Bank deposits													
Government and other public sector paper:													
UK Treasury bills	2.7	-0.9	-1.1	-0.3	0.1	—	-0.1	-0.1	—	—	0.7	0.4	0.1
US Treasury bills	5.3	0.4	-1.0	-0.9	-0.9	3.3	1.4	-0.4	0.4	-1.2	0.4	6.6	6.8
US Treasury bonds and notes	0.2	2.0	4.2	4.3	-1.5	-1.2	8.2	10.9	6.9	-5.5	0.1	7.5	28.0
British government stock	0.9	0.4	0.2	0.3	-0.5	0.2	2.1	0.9	0.1	0.2	—	1.7	3.4
German public sector(g)	0.1	0.6	0.4	0.3	-0.4	—	6.8	6.3	1.4	-0.3	—	1.5	11.5
Total	9.1	2.5	2.7	3.7	-3.2	2.3	18.4	17.6	8.8	-6.8	1.2	17.7	49.8
Non-foreign exchange reserves:													
Gold	0.1	-0.1	0.1	—	0.2	—	0.1	—	-0.1	—	1.4	1.7	1.7
SDRs	—	—	—	0.1	0.2	0.8	0.2	0.5	0.3	-0.6	0.4	1.4	1.7
Reserve position in IMF	1.9	2.8	1.2	0.2	-0.7	-1.8	1.3	1.5	0.8	4.4	0.4	4.0	12.0
IBRD bonds	0.4	2.3	0.4	0.1	—	0.2	0.1	0.1	1.1	0.5	—	3.4	5.4
Total	2.4	5.0	1.7	0.4	-0.3	-0.8	1.7	2.1	2.1	4.3	2.2	10.5	20.8
Equities, property and other investments(h)													
Placements with LDCs	4.9	6.5	6.4	7.0	6.2	8.7	6.3	7.2	3.9	1.2	—	39.7	58.3
Total	52.1	37.6	37.2	40.0	17.8	54.5	90.8	54.4	8.1	-15.3	13.6	257.2	380.0

— not available.

(a) The end-year levels are only partially derived from stock data. Where this information is not available the levels have been estimated by accumulating flows.

(b) Mainly loans and holdings of equities.

(c) Figures for Germany relate only to the members of OPEC and do not include deployment by Bahrain, Brunei, Oman, and Trinidad and Tobago.

(d) Includes Austria, Belgium, Canada, Denmark, Finland, France, Ireland, Italy, Japan, Luxembourg, Netherlands, Norway, Spain, Sweden, and Switzerland.

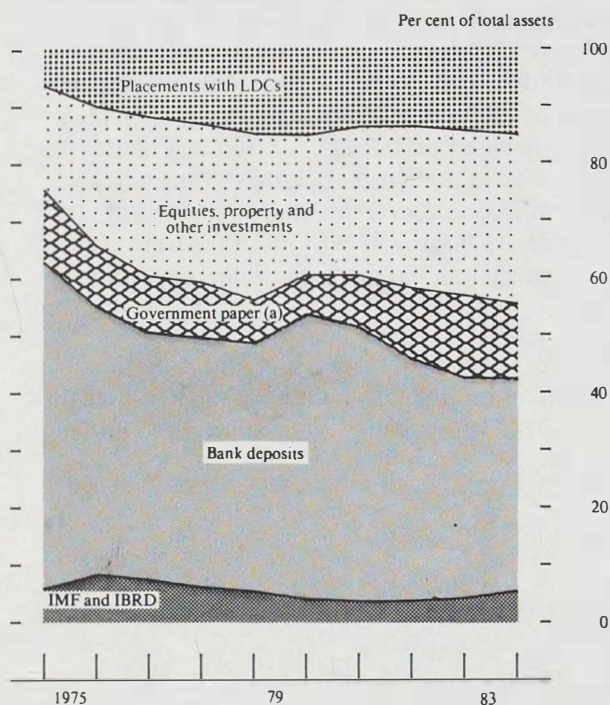
(e) Includes holdings of gold valued at SDR 35 per fine ounce.

(f) Derived from IFS data but there may be a small element of overlapping with data included under other headings.

(g) *Schuldscheine*: unquoted medium-term promissory notes issued by the Federal government, local authorities etc.

(h) Includes OECs' bank credit to non-banks worldwide derived from IFS data (see footnote (f) above) and some unidentified government paper.

Chart 2
Composition of the oil exporters assets



(a) Including other public sector.

disinvestment occurred in 1979 with the result that holdings of US Treasury bonds and notes were still a small proportion (3% of the total portfolio) at the end of the year. Between 1980 and the first half of 1982, with US interest rates high, there was heavy investment and, despite disinvestment of nearly \$6 billion in 1983, the \$28 billion stock of this type of paper represented 7% of the total portfolio at the end of the period.

Net purchases of British government stock (BGS) have been small throughout the period, in part reflecting co-operation with the UK government's policy of seeking to limit the size of official holdings of sterling. Nevertheless, there has been a gradual growth in private holdings of BGS which continued even in 1983 despite the OECs' current account deficit.

Acquisitions of German government paper between 1974 and 1979 were small but the relaxation of inward capital controls in Germany led to sharp rises in 1980 and 1981. Much of this investment has been channelled into unquoted medium-term promissory notes issued by various public agencies (Schuldscheine) which do not attract withholding tax. The low rate of disinvestment in this category during 1983 compared with US paper may reflect differences in marketability of the investments.

Official holdings of gold and special drawing rights (SDRs) have been small throughout the period and have been further reduced recently as export earnings have fallen. Valued at its old official price of SDR35 per fine ounce, gold represents no more than 0.5% of the total portfolio, but when valued at US\$381.5 per fine ounce, its market price at end-December 1983, it would account for

5% of total assets with the proportions for other assets correspondingly lower.

The overall reserve position in the IMF is heavily dominated by Saudi Arabia (reflecting substantial Saudi lending to the IMF). It has increased steadily since 1979, particularly in 1983, despite falling export earnings and the onset of current account deficits.

Regular purchases of IBRD bonds have taken place throughout the period but holdings of these instruments still represent only a very small part (1%) of the total portfolio.

The proportion of assets estimated to be held in the form of equities, property and other direct and portfolio investment has increased from 13% in 1974 to 29% in 1983. In the years up to 1979 this investment seems to have been heavily concentrated in the United States but in recent years has been more widely distributed. In part this reflects the easing of capital controls in some of the other industrial countries, but probably also the desire of the oil exporters to diversify. As with government paper, no substantial disinvestment occurred until 1983.

Over the period the OECs have placed \$58 billion or 15% of total foreign assets with other developing countries. Much of this has been in the form of loans, often on very concessional terms, but a small element of direct and portfolio investment is also included in the figures (grant aid has been treated as an official transfer in the current account estimates). In the early years over 80% of these loans were extended on a bilateral basis, but more recently this proportion has fallen to around 70% as the OECs have increasingly channelled funds through multilateral agencies such as the Arab Fund for Economic and Social Development. Such aid programmes appear to have been maintained despite the deteriorating combined current account position in the last two years, although there is some evidence to suggest that the rate of growth may have been curtailed.

Disposition among industrial countries

In 1974 a little under one half and one quarter respectively of OEC assets deployed in industrial countries were placed in the United Kingdom and the United States (Table D). Thereafter, the UK proportion fell while the proportion deployed in other industrial countries grew, most notably between 1975 and 1979.

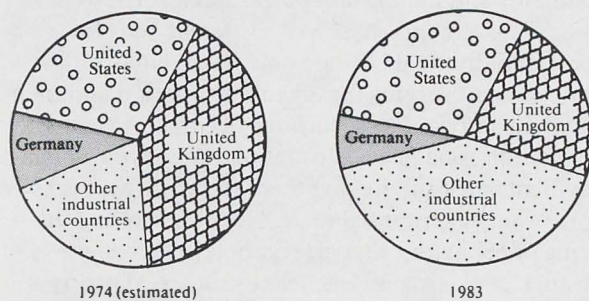
After the oil price rise of 1973, a very high proportion (70%) of the total inflow of funds to the industrial

Table D
OEC investments in industrial countries

\$ billions: percentages in italics

	United Kingdom	United States	Germany	Other Industrial countries
1974	28.3 45	15.0 24	8.1 13	11.4 18
1979	57.5 28	47.8 24	15.6 8	80.1 40
1983	63.1 22	85.9 30	21.6 7	117.3 41

Chart 3
Deployment of assets in industrial countries



countries was initially placed in London and New York. Subsequently a certain amount of portfolio redistribution occurred as the OECs sought to diversify. As a result, deployment in the other industrial countries (particularly in the form of bank deposits) grew more strongly than in the United Kingdom or the United States. In Germany, apart from bank deposits, investment was mainly in equities and property, whereas in the United States investment in Treasury bonds and notes, was also important. As the OECs' current account position deteriorated in 1978 there were large scale withdrawals from the United Kingdom where the bulk of the funds (around 90%) are consistently held as bank deposits, while in Germany and the United States there was some disinvestment in government paper. In contrast, in centres other than the United Kingdom and particularly in the other industrial countries, bank deposits continued to rise.

The price rises in 1979 led to another surge in funds available for deployment, but this time the distribution among industrial countries was less uneven, with only 52% going to the United States and United Kingdom together. This was followed once again by a portfolio adjustment in 1980 and 1981, with large scale investment in government paper taking place in both the United States and Germany. This type of investment continued to grow in 1982 despite the OECs' deteriorating current account position. In the remaining industrial countries investment in loans, equities and property grew strongly until 1982 while bank deposits declined from 1981 onwards.

In 1979 the United States announced the freezing of Iran's official assets following the seizure of American diplomats in Tehran. Three years later, in the spring of 1982, the UK government froze Argentinian assets after the invasion of the Falklands. Both actions might have been expected to affect the disposition of OECs' assets although in the highly aggregated data available it is difficult to discern any clear impact. In the United States OECs' bank deposits were reduced during 1980, but investment in government paper and equities etc grew. Likewise, although Venezuela withdrew \$4.2 billion from the United Kingdom in June 1982 there is no evidence to suggest that other countries followed that example.

Since 1974, the Bank has conducted sample surveys of the maturity of Middle Eastern oil exporters' foreign currency deposits placed with some major British, American and other banks in London. The surveys have covered approximately 50% of such deposits placed in the United Kingdom. They show that in the five years up to 1979 about half of OECs' deposits were held at sight and just over 60% at one month or less to maturity; the proportion of sight deposits seems to have declined during the 1980s and more recently stood at around 20%, although 50% are still held at less than one month's maturity.

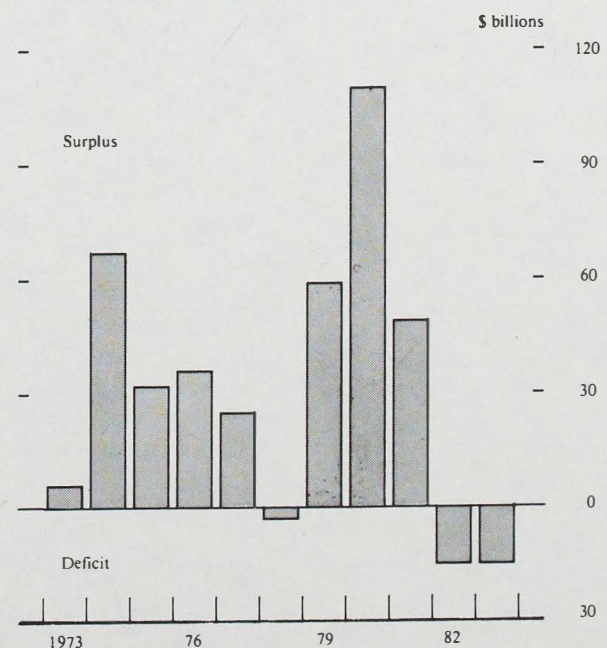
The number of banks in the United Kingdom used by the OECs has risen throughout the period. In 1973 between 90% and 95% of OECs' deposits were held by 55 banks; by 1977 the same percentage of deposits was shared among some 90 banks; currently 150 banks hold a similar proportion.

Currency composition of bank deposits

As might be expected, the vast majority of bank deposits have been denominated in US dollars, particularly in the years following the 1973 oil price rise. Towards the end of the 1970s the US dollar proportion began to fall somewhat.

Exchange rate fluctuations make it difficult to determine precisely the proportion of bank deposits in particular currencies but by end-1983 US dollar deposits accounted for something under 70%, while something over 25% of deposits were denominated in deutschemarks, sterling, yen, French francs and Swiss francs; the deutschemark proportion is thought to have declined slightly in the four years to end-1983, while other currencies seem likely to have risen (including some Middle Eastern ones).

Chart 4
Combined OEC current accounts



Assessment of trends

Over the past decade large fluctuations in the oil earnings of OECs have been the principal cause of swings in their combined current account balance. Initially, the main impact on the counterpart capital flows has been seen in liquid asset holdings, particularly bank deposits, and in borrowing. This has had implications for the geographical spread of oil exporters' assets because a large proportion of international banking business is conducted through a few centres. For example, the United Kingdom not only holds a major share of international banking business but also bank deposits have been the dominant form of OEC investment in the United Kingdom: the proportion of total assets deployed in this country has therefore fluctuated more than in many other countries.

In the longer term adjustment has occurred to reduce the proportion of liquid assets and to diversify the range of investments and their geographical spread. These aggregate movements mask very different behaviour on the part of individual OECs. Some have remained in current account surplus throughout the period and their investment activity has accordingly been more consistent. Other countries have faced times of quite severe balance of payments pressure forcing them to run down assets and to borrow on a substantial scale. Notwithstanding the blurring of behaviour that aggregation involves, the total stock of external assets held by OECs, at nearly \$400 billion, remains of considerable interest and the Bank will continue to monitor it and to publish a quarterly analysis in the regular article on international financial developments (see page 41).