The external balance sheet of the United Kingdom: developments to end-1985

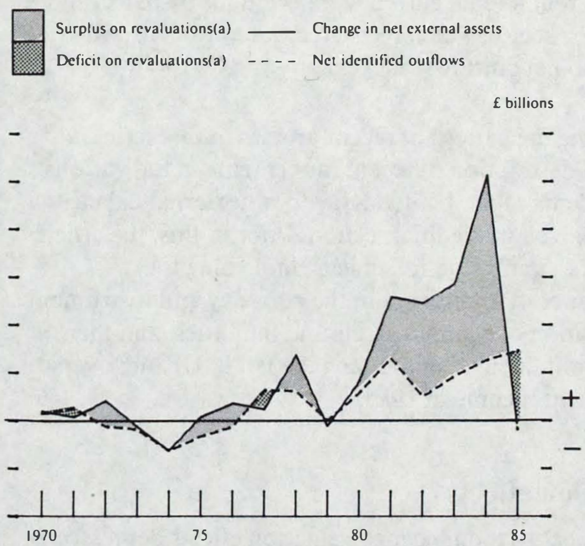
This article, which continues an annual series, describes the main changes in external assets and liabilities recorded in 1985. It also examines the impact of valuation effects on the external balance sheet. Some broad estimates of the full returns on assets and liabilities are made and compared with recorded flows of interest, profits and dividends, and some of the factors affecting the banks' contribution to the current account are described.

The United Kingdom's net external assets fell slightly from a revised level of £81 billion at the end of 1984 to £80 billion at the end of last year.[1]

Identified net investment abroad during 1985 totalled £7 billion but the net impact of movements in exchange rates and other asset prices over the period was more than offsetting. As foreshadowed in last year's article, the main factor behind the negative valuation effect, which reversed some of the large valuation gains recorded in recent years (Chart 1 and Table A), was the recovery of sterling, which rose nearly 25% against the US dollar (though only slightly against an average of other currencies) during 1985.

Revisions to the initial estimates of net external assets at end-1984 have been large, raising the total by a net £8 billion. These reflect increases in estimated stocks of net direct investment (up £6 billion) and higher estimates of the value of UK non-bank private sector portfolio holdings abroad (up £2 billion).

Chart 1
Contributions to the change in UK net external assets



(a) Residual component—difference between change in recorded net stock and net identified outflows.

Table A
UK external assets and liabilities
£ billions

	Stock end-1984	Identified capital flows	Net valuation effect(b)	Total change in stock	Stock end-1985
Non-bank portfolio investment:					
Assets	**61.6**	8.0	2.3	10.3	**71.9**
Liabilities(c)	**13.4**	2.3	2.0	4.3	**17.7**
Direct investment:(d)					
Assets	**87.0**	7.2	−13.4	−6.1	**80.9**
Liabilities	**38.0**	3.4	− 0.9	2.5	**40.6**
UK banks'(e) net liabilities in:					
Foreign currency	**14.7**	−0.6	− 4.0	−4.6	**10.1**
Sterling	**6.7**	2.8	− 0.1	2.7	**9.4**
Public sector:					
Reserves (assets) less official foreign currency borrowing	**7.1**	1.3	− 0.9	0.4	**7.5**
British government stocks (liabilities)	**8.7**	2.9	− 0.2	2.8	**11.5**
Other net public sector assets	**3.2**	0.8	− 0.3	0.5	**3.7**
Other net assets	**4.0**	0.7	1.0	1.7	**5.7**
Total net assets	**81.3**	7.3	− 8.1	−0.9	**80.4**

(a) The sign convention is *not* the same as in the balance of payments: thus a transaction which increases an itemised stock is +, and one that decreases it is −.
(b) Residual component.
(c) Excluding estimated foreign take-up of UK banks' floating-rate note issues in 1985, which appears indistinguishably from foreign investment in other UK company securities in the published data but is treated here as part of banks' net foreign currency liabilities.
(d) Excluding UK banks' external borrowing from overseas affiliates, which is treated as an offset to outward direct investment in the published data but is treated here as part of banks' net foreign currency liabilities.
(e) UK monetary sector plus certain other financial institutions. Banks' holdings of foreign bonds are treated as foreign currency lending.

As regards capital flows in 1985, a major feature was the considerably increased net foreign investment in sterling instruments: the buildup of net non-resident sterling claims on UK banks[2] gathered pace; there was heavy demand for gilts and a rise in foreign investment in UK company securities;[3] and the flow on account of inward direct investment rebounded, having been held down in 1984 as a consequence of the buy-out by the Royal Dutch/Shell Group of minority interests in its US subsidiary, Shell Oil. On the outward side, the flow of net

(1) This article is based on estimates published in *United Kingdom Balance of Payments 1986 Edition* (the Pink Book): Central Statistical Office, August 1986.
(2) In all but the final section of this article a wide definition of banks is used, comprising not only monetary sector institutions but also certain other non-bank financial institutions.
(3) Apart from banks' foreign currency floating-rate notes (FRNs), the bulk of these are likely to be sterling-denominated.

Non-bank financial institutions' investment overseas

Despite a large increase in investment overseas by the main groups[1] of non-bank financial institutions (OFIs) in 1985, the average share of overseas assets in their total portfolio probably remained around the 16%–17% level that was established by the end of 1983. The weakness of the US dollar, almost certainly the single most important currency in OFI overseas portfolios, offset much of the favourable effect of sterling's depreciation against the deutschemark and the yen and the strength of overseas stock markets. The chart shows how the share of the stock of overseas assets in OFI portfolios has recently stabilised after increasing significantly following the abolition of exchange controls. It can be seen that the rise in the share of foreign securities has generally been accompanied by declines in the shares of holdings of public sector securities and real estate. The share of UK company securities in total assets, which had generally been just below 40%, has been rising since 1982, reflecting a strong rise in stock prices and heavy net investment (including the take-up of privatisation issues).

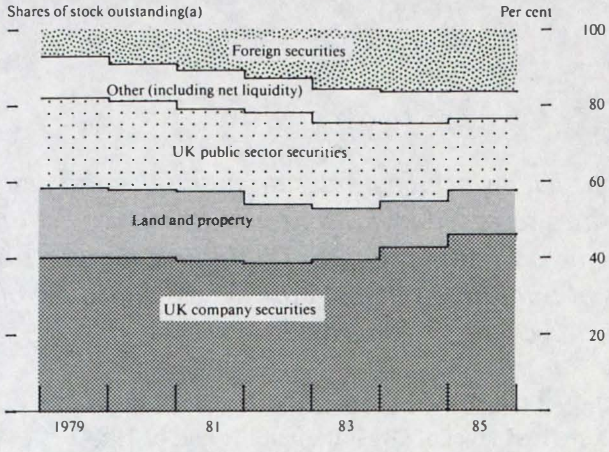
Influences on the value of OFIs holdings of overseas equities

Percentage changes

	1984	1985
Change in stock prices:		
In local currency terms		
United States	1	26
Japan	-6	21
Germany	5	76
In sterling terms		
United States	27	1
Japan	9	22
Germany	13	82
World excluding the United Kingdom(a)	26	9
Memorandum item:		
United Kingdom	26	15

(a) Derived from Morgan Stanley Capital International World Index.

Composition of main OFI investment



(a) 1985 estimated.

(1) Pension funds, insurance companies, investment and unit trusts.

direct investment overseas was little changed but non-bank portfolio outflows picked up sharply, with purchases by the non-bank private sector other than OFIs[1] surging (from virtually zero in 1984 to £3 billion) and a rebound in investment by the main institutional investors, who put a quarter of their net new investment abroad last year, compared with only 7½% in 1984. Nevertheless, the share of foreign assets in their total portfolios was probably little changed—see the box above. Net external foreign currency transactions by banks and the public sector, which registered net inflows in 1984, turned to net outflows last year.

Table B
UK capital flows, 1975–85(a)

£ billions

	Annual averages 1975–79	Annual averages 1980–84	1984	1985
Non-bank portfolio investment:				
Net transactions in assets	-0.4	-3.4	-1.6	-8.0
Net transactions in liabilities(b)	0.2	0.5	1.0	2.3
Direct investment:(c)				
Net transactions in assets	-3.1	-6.0	-7.7	-7.2
Net transactions in liabilities(b)	2.1	2.8	0.4	3.4
UK bank's net liabilities in:(d)				
Foreign currency	0.4	0.6	1.5	-0.6
Sterling	0.5	0.6	1.2	2.8
Public sector:				
Reserves less official foreign currency borrowing	-0.6	0.7	0.4	-1.3
British government stocks	0.4	0.8	1.0	2.9
Other public sector flows (net)	-0.5	-0.4	-0.9	-0.8
Other net flows	—	-0.8	-1.7	-0.7
Total net identified capital flows	**-0.8**	**-4.6**	**-6.3**	**-7.3**

(a) Increase in assets – /liabilities +.
(b) See footnote (c) to Table A.
(c) See footnote (d) to Table A.
(d) See footnote (e) to Table A. Through most of 1975–79 banks had net sterling claims.

Following the pattern of recent articles in this series, a detailed description of recent movements in the various components of the United Kingdom's external balance sheet is given in the final section. Prior to this, the article discusses, first, valuation effects, indicating the significance of differences in the currency and instrument composition of external assets and liabilities, and then the main influences underlying the fall in UK net overseas investment income in 1985.

Valuation effects

As noted above, on balance valuation effects depressed the sterling value of UK net external assets in 1985. Movements in both the exchange rate and local currency asset prices produce valuation effects. Table C gives some

(1) Other UK financial institutions as defined for balance of payments purposes in the Pink Book.

Table C
Currency composition and other valuation factors
£ billions, *percentages in italics*

	Position at end-1985		Basis of valuation	Net revaluations in 1985(a)
External assets				
Direct investment(b)	80.9	*43*	Mainly foreign currency book values translated into sterling at end-period exchange rates	-13.4
Non-bank portfolio investment	71.9	*38*	Mainly foreign currency market prices	2.3
Export credit and claims on banks overseas(c)	15.0	*8*	Foreign currency 80%, sterling 20%(d)	-1.4
Official reserves	13.2	*7*	Foreign currency	-1.8
Other public sector assets	7.3	*4*	Mainly sterling	—
Total	**188.3**	*100*		**-14.2**
External liabilities				
Direct investment	40.6	*38*	Mainly sterling book values	-0.9
UK company securities(b)	17.7	*16*	Mainly sterling market prices	2.1
Banking and commercial liabilities (net)	28.8	*27*	Foreign currency 57%, sterling 43%(d)	-5.7
Official foreign currency borrowing	5.7	*5*	Foreign currency	-0.9
Other public sector liabilities:				
Gilts	11.5	*11*	Sterling market prices	-0.2
Other	3.6	*3*	Part sterling, part foreign currency	-0.5
Total	**107.9**	*100*		**-6.0**

Memorandum item:
Totals excluding direct investment

Net foreign currency assets	£72.5 billion
Net sterling liabilities	£32.6 billion

(a) Consistent with figures in Table A.

(b) See footnotes (c) and (d) to Table A.

(c) Excluding claims of UK monetary sector institutions and certain other financial institutions, which are netted off against their liabilities.

(d) Per cent split shown is only approximate.

guidance as to where these effects are likely to be important.

As regards the effect of exchange rate movements, comprehensive information on the currency composition of assets and liabilities is not available, but, if banking positions in sterling and in foreign currency are treated respectively on a net basis, it is reasonable to regard external assets as predominantly denominated in foreign currencies and external liabilities in sterling. Thus, other things being equal, an appreciation of sterling tends to reduce the sterling value of the United Kingdom's net external assets (or, if it were relevant, increase that of net external liabilities).

The overall effect of movements in the local currency valuation of particular instruments is less obviously signalled by any single economic indicator like the exchange rate. However, a greater proportion of the United Kingdom's assets than of its liabilities are equity instruments (direct or portfolio investment), the value of which fluctuates with economic conditions, as opposed to instruments of fixed capital value (eg bank deposits). Thus, for example, a broad advance in equity values abroad would, even if matched at home, tend to augment the United Kingdom's net external assets. Data may not, however, always fully reflect underlying shifts in values. Particular uncertainty relates to the valuation of direct investments, which are recorded on the basis of the reported book values used by companies in consolidating their accounts. The book value of, say, a parent company's equity stake in an overseas subsidiary is unlikely to reflect current perceptions of future operating conditions to the same degree as would an otherwise identical stake built up through portfolio investment, where market valuation applies. There would, as a result, be differences in the apparent yields on such, similar, investments. At the same time, estimates of direct investment stocks are generally based on less up-to-date information than those of most portfolio stocks.

During 1985, currency revaluation effects are projected to have reduced the sterling value of the stock of UK direct investment abroad despite heavy net investment. While the stock of outward portfolio investment was similarly affected by exchange rate movements, this was more than offset by the strength of overseas stock prices. On the liabilities side, exchange rate movements probably reduced the sterling value of the foreign currency component, particularly UK banks' net foreign currency liabilities. Portfolio investment liabilities rose, however, by around 25%, largely as a result of the boom in UK share prices.

IPD and the returns on UK net external assets

The United Kingdom's net overseas investment income is provisionally estimated to have fallen by £0.8 billion to £3.4 billion in 1985. The fall in the surplus of interest, profits and dividends (IPD) can be analysed in terms of three main components: the effect of movements in the stocks of external assets and liabilities; changes in respective rates of return; and the change in the 'spread' earnings of UK banks (Table D).

Changes in the stocks of external assets and liabilities continued to make a growing contribution to the United Kingdom's IPD surplus during 1985 but their impact was offset by unfavourable rate of return effects. Implicit rates of return on external assets and external liabilities both fell, with the rate on assets dropping more sharply than that on liabilities (partly because of relative movements in foreign currency and sterling interest rates but also

Table D
Interest, profits and dividends in 1985
£ billions

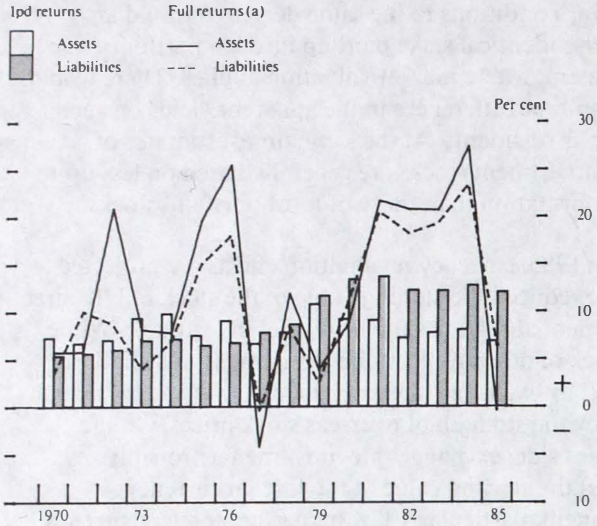
	Estimated impact on the IPD balance of:			Level of earnings in 1985
	Change in stock(a)	Change in rate of return(b)	Total	
External assets(c)	+3.7	-2.5	+1.2	13.4
External liabilities(c)	-2.6	+1.0	-1.5	-13.3
Sub-total	+1.1	-1.5	-0.3	0.1
UK banks' 'spread' earnings on gross external lending	+0.4	-0.8	-0.4	3.3
Change in IPD balance	**+1.5**	**-2.3**	**-0.8**	**3.4**

(a) The change in the estimated average stock between 1984 and 1985 multiplied by the implicit average rate of return in 1984. For assets and liabilities the average stock is here crudely defined as the commencing stock plus one half of the annual investment flow.

(b) The change in the average implicit rate of return between 1984 and 1985 multiplied by the estimated average stock in 1985. For spread earnings 'rate of return' equates to margin.

(c) UK banks' positions (as defined in Table A) only enter net, as part of external liabilities.

Chart 2
Estimated nominal rates of return on identified external assets and liabilities

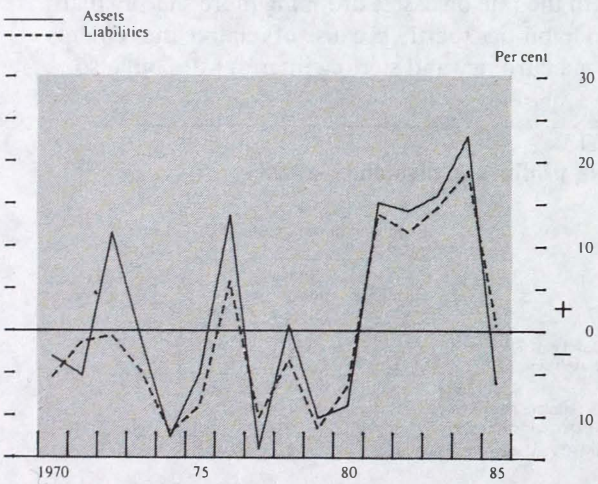


(a) Including unrealised capital gains.

reflecting exceptional write-offs by BP on its US investment, Sohio). The net effect of these changes in calculated rates of return, reinforced by the fact that external assets exceed liabilities, was to reduce the IPD surplus.

Earlier articles in this series have stressed the desirability of distinguishing between the current or 'IPD' return on overseas assets and liabilities and a fuller measure of returns which would also include 'permanent' capital gains.(1) In practice the permanent element is not separately identifiable. However, full rates of return—including all unrealised capital gains—can be calculated although it is advisable to discount the impact

Chart 3
Estimated 'real' rates of return on external assets and liabilities(a)



(a) Including unrealised capital gains.

of what may be purely transitory gains and losses. It is also possible to adjust for the inflation element of nominal returns.

Full rates of return on assets have tended to exceed those on liabilities slightly. In contrast IPD rates of return on liabilities have exceeded those on assets (Chart 2), reflecting differences in composition. In 1985, reflecting sterling's appreciation, full rates of return fell to levels well below IPD rates of return. Over the whole 16-year period shown in Chart 3 the average real(2) 'full' rates of return on assets have been around $1\frac{1}{4}$% and those on liabilities $-\frac{1}{2}$%. Over the last five years—a period when real rates of return have been high globally—each has averaged around 12%.

A third significant influence on the IPD surplus is the margin over the cost of borrowing received by UK banks on their gross external lending. The size of these 'spread' earnings is a function of the volume of lending and the average margin.

UK banks have net external liabilities in both foreign currency and sterling. Despite this, their net IPD receipts from business with non-residents totalled £2 billion in 1985. These net earnings can be regarded as being made

Table E
UK banks'(a) estimated spread earnings in 1985

£ billions, *percentages in italics*

	Foreign currency	Sterling	Total
Net interest income(b)	1.3	− 0.1	1.2
less			
Estimated cost of net liabilities	−1.2	− 0.9	−2.1
Cost of funds(c)	*8.8*	*10.7*	*9.0*
equals			
Implicit spread earnings	**2.4**	**0.8**	**3.3**
Implied margin	*0.6*	*3.3*	*0.8*

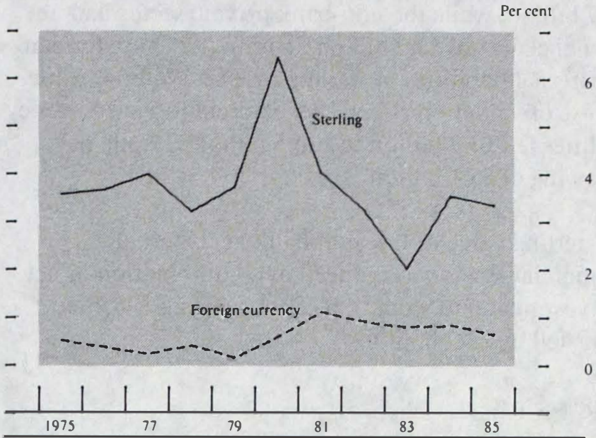
(a) UK monetary sector plus certain other financial institutions.
(b) Including income from holdings of foreign bonds and export credit less payments on loans from overseas affiliates.
(c) Equals calculated average cost of all liabilities (assuming interest and coupons are paid in arrears with a three-month lag).

up of two distinct elements: a payment on *net* liabilities, at the calculated average rate for all liabilities (largely determined by market rates of interest and the share of any non-interest-bearing deposits in total liabilities(3)) and spread earnings calculated residually as the difference between recorded *net* earnings received by the banks and the calculated payment on their net liabilities. Table E presents figures on this basis for 1985.

These spread earnings can be expressed as a percentage margin on the banks' *gross* lending. Calculated spreads on the banks' external foreign currency lending tend to be small. They are received, however, on a very large stock of gross external lending (some £375 billion). In contrast,

(1) The calculation of this wider measure of returns is described in the September 1985 *Bulletin*, page 435.
(2) Where the real return is defined as the sum of current income plus unrealised capital gains less the inflation loss on the stock of assets (as measured by the product of the previous year's stock and the change in the United Kingdom's GDP deflator). The averages quoted are average annual compound growth rates.
(3) The stock of the banks' *net* external liabilities and the implicit return paid on these are included in the calculation of returns on *gross* liabilities shown in Charts 2 and 3 and Table E.

Chart 4
Calculated margins on UK banks' international lending



calculated spreads on the banks' much smaller external sterling lending are much wider, in part reflecting a higher, although declining, share of non-interest-bearing deposits in their external sterling liabilities.

According to these calculations, spreads narrowed in 1985 (Chart 4). It is important to note that these calculations are based on highly aggregated and partly estimated data. The implied definition of spreads may not accord with that commonly used by market participants. Moreover, 'spread' is in no way synonymous with profitability and the calculations are neither indicative of the absolute level of profitability nor a reliable guide to the relative profitability of foreign currency and sterling business. Nevertheless the calculations are thought to provide an indication of the cumulative effect of changing market conditions, and the apparent narrowing of spreads in 1985 tends to confirm reported market experience. It can be partly attributed to intensified competition, leading to the premature refinancing of existing credits at lower spreads. It probably also reflects the growing share of securitised forms of lending in total external credits.

The banks' spread earnings on securitised lending tend to be lower than those on traditional syndicated loans, but

Table F
UK banks'[a] income from external borrowing and lending
£ billions

	Annual averages 1975–79	Annual averages 1980–84	1984	1985
Net IPD earnings:(b)				
Foreign currency	-0.1	1.2	1.9	1.3
Sterling	0.2	0.0	0.1	-0.1
Sub-total	0.1	1.2	2.0	1.2
Fee income	0.3	0.7	1.1	1.6
Total net income	**0.4**	**1.9**	**3.1**	**2.8**

(a) UK monetary sector plus certain other financial institutions.
(b) Including interest paid on external borrowing from overseas, affiliates and income from holdings of foreign bonds and export credit.

their income in the form of fees (recorded in the balance of payments as part of the banks' exports of services rather than investment income) is higher. As in 1984, fee income rose sharply last year (partly as a result of accelerated refinancings), but the increase was insufficient to offset the decline in net IPD earnings (Table F).

The main changes in external assets and liabilities in 1985

The sterling value of UK external assets and liabilities fell in 1985 to £595 billion and £514 billion respectively (Table H). Net external assets, at £80.4 billion, were little changed from 1984's revised level of £81.3 billion.

Since the end of 1979—the year in which exchange controls were lifted—UK net external assets have risen by £68.4 billion. Over this period the private sector's net claims have increased from £5.8 billion to £79.6 billion while those of the public sector have declined from £6.1 billion to £0.7 billion.

Private sector
The stock of UK *portfolio investment* overseas grew substantially last year (£16.3 billion). The net effect of valuation changes was to reduce the sterling value of the stock by 2%. The dollar's depreciation had a particular impact on banks'[1] portfolio investments (equivalent to a stock reduction of 17%) since most of their holdings are in dollar-denominated floating-rate notes or fixed-rate bonds. In contrast, net valuation effects raised the assets of other financial institutions by 8%, suggesting higher security values in portfolios less heavily concentrated in dollar-denominated securities.Net new purchases of securities by the banks (£10.3 billion) were substantially higher than in the previous two years (£8.0 billion and £2.8 billion respectively), again reflecting the trend towards securitisation of lending. Those by other financial institutions (including security dealers)[2] tripled from £1.5 billion in 1984 to £4.9 billion in 1985, but unlike the previous year, when the pattern of investment was almost identical to that of the banks, nearly 70% of new investment in 1985 was in company shares.

The sterling value of the stock of inward portfolio investment in the United Kingdom (including that of central monetary institutions) also rose substantially, from £23.5 billion in 1984 to £32.1 billion in 1985. Of the total rise of £8.6 billion, £7.1 billion represented net new purchases and the balance valuation changes. The new purchases were more or less evenly divided between UK government securities and company securities, with roughly half (£1.5 billion) of the investment in UK government securities being by central monetary institutions.

The increased foreign take-up of company securities mostly relates to bonded debt, although investment in

(1) In this section, including Table G, the strict definition of banks—moneta y sector only—applies.
(2) From 1984 the definition of other financial institutions (OFIs), which allows a distinction to be drawn between essentially institutional outward portfolio investment and investment by other parts of the non-bank private sector, has been altered to include securities dealers as part of OFIs. These, largely foreign-owned but UK-based, operations build up trading positions in the eurobond markets. It is thought likely that these holdings are funded by foreign currency borrowing which—directly or indirectly—creates an offsetting balance of payments flow.

equities remained heavy as the stock market strengthened. Over half of the investment in bonds probably represents foreign take-up of banks' foreign currency FRNs and some of the rest, purchases of industrial and commercial companies' foreign currency fixed-rate bond issues. In both cases, tax changes in 1984 ended an advantage to indirect placements on the eurobond markets through issues by overseas subsidiaries, with the proceeds passed back to parent companies and showing up in the balance of payments as outward direct disinvestment (so-called 'upstreaming'). As a result, much of the larger recorded portfolio inflow in 1985 probably does not represent a new source of funding. Similarly, another probably significant element of foreign investment in UK company bonds—namely the foreign take-up of building society sterling FRNs—may to some extent have been a substitute for sterling bank deposits.

The book value of the stock of UK *direct investment* overseas is projected to have fallen by £4.8 billion to £76.2 billion. This fall was attributable to valuation changes, since net investment abroad totalled £7.3 billion. In contrast to the overall picture, the stock of UK banks' direct investment assets rose from £1 billion to £3 billion partly because the sterling value of upstreamed foreign currency borrowing—an offset to gross assets—was sharply reduced by the depreciation of the dollar. The book value of inward direct investment in the United Kingdom grew modestly, by £2.5 billion to £40.6 billion.

The private sector's net *banking and other commercial liabilities,* excluding direct and portfolio investment, rose by £3.0 billion in 1985 to £37.4 billion, inflows of £10.3 billion being partly offset by valuation effects which reduced net liabilities by £7.3 billion. At the end of the year UK banks' net external liabilities were £44.7 billion, while the non-bank private sector had net external claims of £7.2 billion. Within the figure for banks, net external liabilities in sterling rose £2.5 billion, while, because of valuation effects, net external foreign currency liabilities fell £3.2 billion to £35.6 billion, despite net borrowing of £5.1 billion.

The sterling value of UK non-bank net external commercial assets was reduced by a combination of net disinvestment and valuation effects: during 1985 net claims fell by £3.7 billion.

Public sector

The sterling value of the net external assets of the public sector fell by £1.2 billion to £0.7 billion during 1985. Largely because of the dollar's depreciation, the sterling value of the *official reserves* remained stable at £13.2 billion; there was net investment of £1.8 billion which partly reflected the proceeds of HM Government's $2.5 billion FRN issue. Conversely, the sterling value of the public sector's external *foreign currency liabilities* fell £1.0 billion to £6.9 billion despite net borrowing of £0.3 billion. (Only a modest proportion of the HMG FRN issue was taken up directly overseas.) Other public sector external claims rose £0.7 billion to £7.7 billion, much of the increase being export credits assumed by ECGD on the settlement of insurance claims. Sterling liabilities rose £2.8 billion to £13.3 billion, reflecting heavy overseas investment in gilts.

Table G
UK external assets and liabilities[(a)]

£ millions

End-years	1981	1982	1983	1984	1985
External assets					
Private sector					
UK banks' assets					
Overseas investment:					
Direct	1,747	1,961	1,973	1,046	3,029
Portfolio	2,855	6,385	10,863	22,713	28,724
External claims:					
Sterling	11,554	15,576	18,059	23,078	24,845
Foreign currencies	208,103	264,216	307,536	385,186	346,595
Non-bank assets					
Private investment abroad:					
Direct	42,902	50,809	57,899	79,979	73,218
Portfolio	22,545	33,915	49,137	61,587	71,861
Deposits held abroad plus advance and progress payments on imports by UK businesses	13,302	15,536	13,897	21,087	18,985
Suppliers trade credit on exports	5,041	4,768	6,608	8,095	6,595
Foreign notes and coin held by UK residents	51	55	68	81	84
Total private sector	**308,100**	**393,221**	**466,040**	**602,852**	**573,936**
Public sector					
Public corporations' assets					
Overseas investments:					
Direct	511	499	454	508	461
Other long-term assets	399	435	474	558	610
Other short-term assets	61	201	182	140	79
Total identified external assets of public corporations	971	1,135	1,110	1,206	1,150
General government					
Inter-government loans by the United Kingdom	1,256	1,226	1,214	1,149	1,097
Subscriptions to international financial organisations (other than IMF)	1,748	2,002	2,266	2,473	2,682
Other long-term assets	71	70	70	70	70
Export credit	1,506	1,432	1,614	2,141	2,714
Total general government lending	4,581	4,730	5,164	5,833	6,563
Official reserves	11,960	12,939	12,805	13,219	13,201
Total external assets of general government	16,541	17,669	17,969	19,052	19,764
Total public sector	**17,512**	**18,804**	**19,079**	**20,258**	**20,914**
Total identified assets	**325,612**	**412,025**	**485,119**	**623,110**	**594,850**
External liabilities					
Private sector					
Overseas investment in the UK private sector:					
Direct	30,012	31,772	36,291	38,043	40,550
Portfolio	5,800	6,800	9,600	13,418	19,198
Total identified overseas investment in the private sector	35,812	38,572	45,891	51,461	59,748
UK banks' deposit liabilities in:					
Sterling	14,438	18,859	23,358	29,632	33,910
Foreign currencies	217,904	279,471	327,287	423,951	382,182
Advance and progress payments on exports	2,862	2,867	81	82	71
Direct borrowing abroad by UK non-banks, plus suppliers' trade credits on imports	10,728	13,006	14,152	15,878	16,094
Other (mainly short-term) liabilities	1,326	1,560	1,608	2,438	2,294
Total identified banking and other commercial liabilities	247,258	315,763	366,486	471,981	434,551
Total identified external liabilities of the private sector	**283,070**	**354,335**	**412,377**	**523,442**	**494,299**
Public sector					
Public corporations' liabilities					
Overseas borrowing by public corporations:					
Under the exchange cover scheme	2,027	2,432	2,640	3,013	2,725
Other	955	796	770	763	553
Overseas holdings of public corporations securities	887	963	1,077	942	708
Total liabilities of public corporations	3,869	4,191	4,487	4,718	3,986
Liabilities of general government					
Net drawings on the IMF	191	35	—	—	—
Inter-government loans to the United Kingdom	1,649	1,846	1,957	2,323	1,758
Overseas borrowing by local authorities:					
Under the exchange cover scheme	169	262	360	481	530
Other	104	88	74	67	55
Short-term liabilities	406	861	384	275	287
British government stocks held by:					
Central monetary institutions	2,479	3,028	3,138	3,173	4,690
Other overseas residents	2,807	4,162	4,748	5,529	6,765
British government foreign currency bonds	541	491	547	272	561
Overseas holdings of local authority securities	234	223	210	200	200
Overseas holdings of Treasury bills and non-interest-bearing notes	1,018	1,186	1,207	1,330	1,345
Total general government	9,598	12,182	12,625	13,650	16,191
Total external liabilities of the public sector	**13,467**	**16,373**	**17,112**	**18,368**	**20,177**
Total identified external liabilities	**296,537**	**370,708**	**429,489**	**541,810**	**514,476**

(a) Notes and definitions on the series which comprise UK external assets and liabilities can be found in *United Kingdom Balance of Payments 1986 Edition* (the Pink Book) published by the Central Statistical Office.