



BANK OF ENGLAND

Speech

The UK Current Account Deficit and All That

Paper by

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Summary

1. The UK current account in 2005 was, at £31.9b., around 2 ½% of GDP, half a percentage point above the average deficit of the last twenty years. This means that foreign residents have added £31.9b. more to their pile of UK assets than UK residents added to their pile of foreign assets.
2. These piles of assets are huge, at around four times UK GDP, and the sums added to them each year are also enormous, at around 60% of UK GDP. Furthermore, the piles change in value not only because of additions each year from the current financial account but, more importantly, because of revaluations.
3. A significant feature of these piles of assets is that the pile held by UK residents is weighted much more towards equity type investments (direct investment and equity securities) than UK assets held by foreign residents. Typically, equity type assets have higher average returns than debt type assets.
4. This has led to two outcomes favourable to the UK. First, the income generated by the foreign assets owned by UK residents exceeds that generated by UK assets owned by foreign residents by over 2% of GDP in recent years. Second, despite the continuing current account deficit of around 2% of GDP for the last twenty years, the difference between UK assets and UK liabilities remains only modestly negative compared to the size of each of the stocks. Furthermore, if the stocks are adjusted to market value, UK assets continue to exceed UK liabilities. In particular, the UK has a strong positive net balance on stocks of foreign direct investment to the tune of over £500b. once adjusted to market value. Thus despite some recent well-publicised purchases of UK companies by foreign concerns, UK companies own far more foreign assets than foreign companies own UK assets.
5. So long as average returns on equity type assets continue to exceed average returns on debt type assets, the current position is probably sustainable. Risks include first, a continuing and rapid increase in the trade deficit which might eventually undermine the favourable adjusted net asset position. This would probably take a long time. Second, a significant fall in the long-term returns on equity relative to returns on debt. Third, UK assets held by foreign residents become more weighted towards equity type investments, perhaps by a massive purchase of UK companies by foreign concerns. Finally, a large and permanent real appreciation of sterling which would significantly reduce UK assets relative to UK liabilities. As present, this seems unlikely.

1. Introduction

When talking to a variety of audiences about the state of the UK economy, it is almost inevitable that one of the older participants brings up the question of the balance of payments. In particular they recall that back in the 1960s, the balance of payments used to be accorded front page headlines. By contrast, today, it is barely mentioned at the back of the business section. However, a related issue, the purchase of UK firms by foreign companies is currently making waves. As Hamish McRae remarks, “Are we selling the farm to cover the dissolute son’s losses on the gambling tables of London?” (Independent, 15 Feb. 2006).

In what follows, I shall try and address some of these issues. I first consider the structure of the current account and place it into a historical perspective. I then focus on the stock position, analysing the composition of UK assets and liabilities and how this tends to generate a favourable net income position for the UK. Finally, I analyse the sustainability of the present situation¹.

2. The Balance of Payments in 2005

The balance of payments is concerned with the flows of goods, services and payments into and out of the country. To see how it all works, it is best to get down to detail. Start with the current account, defined as follows:

$$\begin{aligned} \text{current account balance} &= \text{trade balance in goods} + \text{trade} \\ &\text{balance in services} + \text{net income flows} + \text{current transfers} \end{aligned}$$

Next, we must see what each of these categories means.

Trade balance in goods (services) =
value of goods (services) exports – value of goods (services) imports.

Net income flow = flow of income (eg. interest payments, dividends etc.) generated by foreign assets held by domestic residents – flow of income generated by domestic assets held by foreign residents.

Current transfers = taxes, social contributions received from non-residents + net social security payments + net transfers with international origins – foreign aid payments + other items.

In Table 1, we set out the picture for 2005.

Table 1
The Current Account in 2005 (£ billion)

	Credit (+ items)	Debit (- items)	Balance
Goods trade	210.2	275.8	-65.6
Services trade	105.7	87.0	18.7
Income flows	184.5	157.1	27.4
Current transfers	15.9	28.3	-12.4
Current Account (total)	516.3	548.2	-31.9

Source: ONS

A number of points arise from this breakdown which is fairly typical of recent years. First, goods imports exceed goods exports by a significant amount (£65.6b.). In fact, goods imports have exceeded goods exports in every year bar five since 1946. But, as a proportion of GDP, this deficit on goods trade has generally been greater in the last two decades than previously, despite the UK being a net exporter of oil over most of this period. Furthermore, it continues to rise. Second, services exports, which are now around 50% of goods exports, substantially exceed services imports to the tune of £18.7b. Again, this is

typical in the sense that services exports have exceeded services imports in every year bar two since 1951. As a percentage of GDP, this surplus has been relatively stable for thirty years.

The income flows in 2005 reveal that UK residents received a flow of income generated by foreign assets considerably in excess of the income flow generated by UK assets held by foreign residents (£27.4b.). This “net income position” tends to be a little more variable than the trade surpluses and deficits, although in recent years it has generally been positive. However, it was negative as recently as 1999 and was significantly negative in the early 1990s (over ½% of GDP in 1990-91). Finally, the balance of current transfers is significantly negative (-£12.4b) and this is typical of recent decades when aid payments and net EC contributions have been important features. As a proportion of GDP, this element of the current account has been relatively stable over the last thirty years.

All these elements add up to a current account deficit of £31.9b., around 2½ % of GDP. This is somewhat above the average current account deficit over the last twenty years (1985-2004), and a great deal above the average deficit in the previous thirty (1955-1984), which was close to zero.

So what does it mean to have a current account deficit of £31.9b? Essentially foreign residents have added a flow of income to their total holdings of UK assets which exceeds the total flow of income which UK residents have added to their total holdings of foreign assets by £31.9b. So foreigners have, in 2005, added £31.9b. more to their pile of UK assets than UK residents have added to their pile of foreign assets. In fact, both foreign residents and UK residents have added huge amounts to their respective piles, in excess of £700b., but the foreign residents have added somewhat more. To look at this in more detail, we

present, in Table 2, a picture of the capital and financial account for 2005. In order to understand this, note first that the capital account consists of numerous odds and ends including land purchases and sales associated with embassies, the transfers of migrants, and EU regional development fund payments. It is very small relative to the other elements. In the financial account, direct investment refers to the purchase by the residents of one country of a significant part (exceeding 10%) of an enterprise in another country. So the credit column refers to money spent by foreign residents

Table 2
The Capital and Financial Account in 2005 (£ billion)

	Credit	Debit	Balance
Capital account	4.2	1.9	2.3
Direct investment	90.5	55.6	34.9
Portfolio investment	131.1	161.2	-30.1
Other investment	523.7	500.5	23.1
Other items		3.1	-3.1
Total	749.5	722.4	27.1
Errors and omissions			4.8
Grand Total			31.9

Source: ONS

on direct investment in UK enterprises and the debit column to money spent by UK residents on direct investment in foreign enterprises. So when Banco Santander purchased Abbey, this represented a large sum in the direct investment credit column in 2004 and when Vodafone purchased Mannesmann, this represented an even larger sum in the direct investment debit column in 2000.

Portfolio investment refers to the purchase by residents of one country of equity and debt securities issued in another country. So in the credit column appear the net purchases by foreign residents of UK equities and debt securities. In the

debit column we see the net purchases of foreign equity and debt securities by UK residents. Finally, other investment refers to bank deposits made by residents of one country in banks in another country or to loans made by residents in one country to residents in another. So in the credit column we find net increases in deposits made by foreign residents in UK banks or net increases in loans made by foreign residents to UK residents. In the debit column, we simply find the reverse.

Turning to Table 2, the first striking point is that the totals under both debit and credit columns are enormous, around 60% of UK GDP. This is a function of the fact that the UK financial sector is highly integrated with the world economy and plays an important intermediary role in a high proportion of the World's financial transactions. Thus for example, if a UK bank receives £10b. in deposits from foreign residents and then lends this £10b. to other foreign residents, the first transaction contributes £10b. to the credit column and the second transaction contributes £10b. to the debit column, both in the other investment category. Or, for example, if the bank takes the £10b. of deposits from foreign residents, lends this to a UK firm which then uses it to buy a foreign company for £10b., then this money will appear in the credit column under other investment and in the debit column under direct investment. Because these types of transactions are so commonplace, we see huge totals in both credit and debit columns which tend to differ by proportionately very small amounts. Second, given the relative sizes of the different types of transaction in each column, it is no surprise that the total stocks of foreign assets held by domestic residents consist mostly of "other investments", with portfolio investments and direct investments coming second and third in the rankings.

Finally, we may note the errors and omissions entry with a balance of £4.8b. As the name indicates, this is the result of transactions or elements of transactions that are not picked up by the ONS.

Having seen how the various cross-border transactions add up in 2005, it is worth putting the current account numbers into some historical perspective.

3. The Current Account: Some History

In Table 3, we show the different elements of the UK current account as percentages of GDP in 5-year averages back to 1955 as well as annual data for the last decade. A number of features of these data are worth remarking on. Starting with goods trade, we see how there is typically a deficit with the exception of the recession period of 1980-84. During this period imports were particularly low and the UK became a serious net exporter of oil following the development of the North Sea oil fields. Aside from this exceptional period, from the 1970s the deficit on goods trade has been substantial, rising

Table 3
The UK Current Account, 1955-2005

(Per cent of GDP)

	Goods Trade	Services Trade	Net Income Flow	Current Transfers	Current Account
1955-59	-0.3	0.4	0.8	0.0	0.9
1960-64	-0.9	0.1	0.9	-0.1	-0.1
1965-69	-0.9	0.4	0.8	-0.3	0.1
1970-74	-2.5	1.1	1.0	-0.3	-0.7
1975-79	-1.9	2.0	0.1	-0.7	-0.4
1980-84	0.0	1.4	-0.2	-0.5	0.6
1985-89	-3.3	1.3	0.1	-0.8	-2.7
1990-94	-2.2	0.9	-0.1	-0.7	-2.1
1995-99	-2.2	1.5	0.4	-0.8	-1.1
2000-04	-4.3	1.5	1.7	-0.9	-2.0
1995	-1.7	1.2	0.3	-1.1	-1.3
1996	-1.8	1.4	0.1	-0.6	-1.0
1997	-1.5	1.6	0.4	-0.7	-0.2
1998	-2.5	1.6	1.4	-1.0	-0.5
1999	-3.2	1.5	-0.2	-0.8	-2.7
2000	-3.5	1.4	0.5	-1.0	-2.6
2001	-4.1	1.4	1.1	-0.7	-2.2
2002	-4.5	1.5	2.3	-0.8	-1.6
2003	-4.3	1.5	2.3	-0.9	-1.4
2004	-5.2	1.8	2.3	-0.9	-2.0
2005	-5.4	1.5	2.3	-1.0	-2.6

Source: ONS

to over 4% of GDP in the last five-year period and over 5% in 2005. By contrast, from the 1970s, trade in services has generated a steady surplus averaging around 1.4% of GDP. The big jump in the absolute sizes of the trade deficits (goods) and surpluses (services) after the 1960s was probably associated with membership of the European Community in the early 1970s which induced a significant opening of the UK economy to trade of all kinds. This allowed the apparent comparative advantage of the UK in the production of services relative to goods to come to the fore.

The changes in net income flows are a little more erratic, the most notable feature being the dramatic increase in these flows in the 21st century. Why this happened we shall discuss in subsequent sections. It is clear, however, that without this increase, the current account deficit in the 21st century would have been exceptionally high. Current transfers, by contrast, have been relatively stable since the mid-1970s.

Turning to the current account as a whole, the key fact is that prior to 1985, the current account switched back and forth between surplus and deficit and averaged close to zero. Since 1985, the UK has seen a consistent deficit averaging around 2% of GDP. In 2005 it rose to 2½% of GDP. The important point here is whether or not such a continuing current account deficit is sustainable. It has been going on for twenty years but does it mean we in the UK are “living beyond our means” and that it will end in tears?

As we have seen in the previous section, a current account deficit of 2% of GDP means that over the course of the year, foreign residents added to their holdings of UK assets by more than UK residents added to their holdings of foreign assets, the difference being 2% of UK GDP. Over twenty years, foreign residents added to their holdings of UK assets to the tune of 40% of UK GDP more than UK residents added to their holdings of foreign assets. So the holdings of UK assets by foreigners must apparently be growing steadily relative to the holdings of foreign assets by UK residents. We would then expect the total income (interest, dividends etc.) generated by the pile of UK assets owned by foreigners to be growing faster than the income generated by the pile of foreign assets owned by UK residents. The latter minus the former is the net income flow which should therefore be falling steadily. But a glance at the third column of Table 3 shows that far from falling, this net income flow has risen dramatically in recent years. Furthermore, according to the official

statistics, despite foreign residents adding 2% of GDP per year more to their pile of UK assets than UK residents have to their pile of foreign assets in the last twenty years, the UK assets of foreign residents have risen relative to the foreign assets of UK residents by only about 20% of UK GDP over this period.

So what is going on here? Two things. First, the size of the piles of assets is influenced not only by the flows of assets which are added to them but also by the changes in the market value of the existing assets as real asset prices change². Second, returns per Pound of assets differ widely across different assets, so the income flow generated by different piles of assets can differ significantly even if the piles are of the same size. What this all means is that in order to investigate questions of sustainability, we must look more closely at the asset position of the UK economy rather than simply focussing on income flows. This is known by the ONS as the International Investment Position, but I shall simply call it the net asset position.

4. The UK Net Asset Position

In Figure 1, we present the values of the gross foreign assets of UK residents and their gross foreign liabilities, which are, of course, the UK assets owned by foreign residents. First, we see that both foreign assets and foreign liabilities have grown dramatically in the last fifteen years, much more rapidly than nominal GDP. By 2005, they had reached nearly £5,000b., around four times UK GDP. Relative to GDP, the size of these stocks of foreign assets and liabilities is far higher in the UK than in any other country.

A second point to note is how small the net asset position (assets less liabilities) is relative to the size of the stocks. Since 1995, this net asset position has been negative, averaging around 8% of GDP. It jumps around a fair bit, generally because of movements in the exchange rate. For example, if all assets are in

foreign currency and all liabilities are in sterling³, since both are around 400% of GDP, a 2 per cent appreciation of sterling would worsen the net asset position by 8% of GDP. So it is not surprising that revaluations of assets and liabilities have a much bigger impact on year-to-year fluctuations in the UK net asset position than the differential additions to assets and liabilities emerging from the current account. Nevertheless, it is true that the UK net asset position was positive to the tune of 13.6% of GDP in 1980-84, but after twenty years of current account deficits averaging 2% of GDP, the UK net asset position averaged -8.6% of GDP in 2000-05.

So, in the light of this, why has the UK net income position improved so dramatically in recent years? A clue to this puzzle is provided by dividing the UK net asset position into its asset components, which are set out in Figure 2. What stands out is the surge in the positive UK net asset position in Direct Investment and the almost equivalent move in the opposite direction of Other Investment. Since, in these data, Direct Investment is measured at book value, generally lower than market value, this shows clearly how UK residents have been purchasing foreign enterprises at a faster rate than foreign residents have been buying UK enterprises, particularly since the late 1990s. This picture is shown more clearly in Figure 3, where we see that in every year in the last decade except for 2005, outward direct investment by UK residents has exceeded inward direct investment. Indeed, the purchase of Mannesmann by Vodaphone and of Atlantic Richfield by BP Amoco in 2000 represented more outward investment by UK companies than the entire total of inward direct investment by foreign companies in the three years 2001-3. However, it is true that for the first time in many years, inward direct investment in the UK has significantly exceeded outward direct investment in the last year (2005) and this has provoked a heavy volume of comment.

Looking again at Figure 2, we see that since the late 1990s, the UK has had a strongly positive net asset position in direct investment with negative positions in all other assets. Has this anything to do with the dramatic improvement in the net income position over the same period? The answer to this question appears to be yes. If we look at the income generated by each group of assets and liabilities and normalise on the stock of assets, we can generate implied (nominal) rates of return. These we show in Figure 4. What stands out is, first, that nominal rates of return are generally falling as inflation and nominal interest rates fall. Second, we see that rates of return on direct investment are generally higher than the other rates of return. One obvious reason for this is that direct investment is measured at book value which is typically below market value. A second possibility is that direct investment is more risky than other investments and the higher average returns are, in part, compensating for this.

Since stocks of direct investment are not measured at market value, is it possible to make some corrections to these data to get closer to the desired market value measures? Pratten (1996) has undertaken the most extensive investigation of this issue. In 1991, Pratten collected data on 167 companies which accounted for 77% of non-bank outward direct investment and a further 173 overseas companies accounting for 51% of non-bank inward direct investment. Analysis of these data led Pratten to conclude that market : book value ratios were 2.05 for outward investment and 1.25 for inward investment. However, in order to accommodate potential biases, Pratten suggests that more cautious estimates of market : book ratios should be used, namely 1.75 for outward investment and 1.50 for inward investment. Extending forward Pratten's analysis by using changes in stock market indices as a proxy for changes in market value and adjusting outward direct investment for exchange rate movements, we find, using Pratten's cautious estimates, that rates of return

on the estimated market values of direct investment are much closer to the rates of return on the other assets (see Elliott and Wong Min, 2004, and Burnett and Manning, 2003, for further details). In figure 5, we show the original and adjusted rates of return on direct investment and the comparison rate of return on all other assets (equities, debt securities, other investments). Then, in Figure 6, we show the “Pratten adjusted” net asset position, both in total and divided into direct investment and all other assets.

Looking first at the net asset position, we see that once we make the market : book adjustment to direct investment, the overall net asset position remains positive and is much the same today as it was in 1990. Since the late 1990s, the UK has developed a strong positive position in direct investment offset by a large negative position in the remaining assets, most of which are in the other investments category. Looking back at Figure 5, we see that while the implied return on all assets excluding direct investment has declined since the late 1990s, the implied return on direct investment has risen since the same date. This combination of the development of a significant positive position on direct investment and a sharp rise in the return on direct investment relative to other assets is the key factor underlying the dramatic improvement in the UK net income position in the 21st century.

5. Is the Present Position Sustainable?

First, let us summarise the present situation. The annual current account deficit is now around 2½ % of GDP, somewhat above the average deficit over the last twenty years. The overall trade deficit has averaged around 2.8% of GDP in recent years but is currently (2005) around 3.9% of GDP. This large deficit has been reinforced by a deficit on current transfers of around 1% of GDP.

However, since 2000, the average annual net income flow has been close to 2% of GDP, providing a significant offset to the trade deficit. Indeed, currently

(2005), the net income flow is running at 2.3% of GDP. So the basic position is that the UK now has a very large trade deficit, a significant portion of which is offset by a substantial positive net income position.

The sustainability of this situation depends on three factors. First, is the trade deficit likely to continue to worsen? Second, is the net asset position likely to remain close to zero, despite a continuing current account deficit? Third, will this small positive or negative net asset position continue to be associated with a substantial positive net income position? Concerning the first question, it is plain from Table 3 that since the appreciation of Sterling in 1996/7, the trade deficit has risen steadily. Given that domestic demand growth, and hence import growth, was weak in 2005, we might expect a further worsening of the trade deficit in the short run as domestic demand growth recovers. But a continued worsening of the trade deficit in the long run is more uncertain. Furthermore, even if it does worsen, this is not necessarily a threat to sustainability. The key issue in this context is the asset position. This takes us to the second question which relates to the overall net asset position. This is now a small difference between two enormous stocks. As a consequence, changes in the net asset position tend to be dominated by revaluations of the stocks as exchange rates and stock markets move up and down. These changes have tended to offset the impact of the cumulated current account deficits since 1990 (see Figure 6). Can this be expected to continue? Looking at Figure 2 or Figure 6 it is plain that since 1990, the net portfolio of the UK is strongly positive in equity type investments (direct investment, equity investment) and strongly negative in debt type investments (debt securities, other investments)⁴. Historically, average capital gains on the former exceed those on the latter although they are more variable. If this continues and the balance of the net portfolio remains weighted in favour of equity type assets, we can expect that on average over long periods, revaluations of stocks of assets and liabilities will

probably continue to offset a current account deficit at its present level, unless there is a significant and permanent real appreciation of Sterling. This latter seems unlikely at the present juncture.

Turning to the third question, can we expect the substantial positive net income position to continue? This situation also depends crucially on the fact that while the overall net asset position is close to zero, the net external position in direct investment is strongly positive. On top of this, the total returns on this class of asset have been higher than any other class. Indeed recently, with very low long-term interest rates on fixed interest securities, this gap has got bigger.

There are two overall threats to this state of affairs. First, the return generated by equity type assets may fall significantly relative to that generated by debt type assets. This is certainly possible. As the work of Mehra and Prescott (1985) makes clear, the average difference between equity and debt returns within each decade has varied wildly from one decade to another throughout the 20th century, although it does tend to remain positive. A second threat is the possibility that the net external position in direct investment will reverse. Given the speed with which much of the existing positive position developed (ie. over ten years) and given the small reversal of this position in 2005, it is conceivable that this situation could completely reverse. However, the adjusted positive position in direct investment is now of the order of £500b. To turn this into a negative direct investment position of £200b, say, would, at current prices, require foreign residents to purchase all the top UK companies in every market sector except Banking, Oil and Mining. This would include BAE, Rolls-Royce, Diageo, BT, Tesco, Unilever, National Grid, Marks and Spencer, Reckitt, BAA, Aviva, B Sky B, Vodafone, Glaxo Smith Kline, Astra Zeneca, BAT as well as over 35 other major companies. Despite the current attraction of UK companies to foreign residents, the notion that UK residents would cease foreign direct

investment while foreign residents bought even a significant proportion of the above-mentioned companies seems somewhat improbable.

We may summarise this discussion of sustainability as follows. We have now reached a position where the stocks of UK assets and liabilities are enormous, at four times GDP, and relative to these stocks, the gap between them is tiny. Furthermore, the asset side is overweight in equity type investment and underweight in debt type investment relative to the liabilities side. If the historical pattern of returns on these two different types of investments continues, then it is probable that the overall net asset position will not worsen dramatically even if the current account deficit remains at existing levels. Furthermore, it is also probable that the net income position will continue to be significantly positive. Risks to this favourable prognosis are first, the trade deficit will continue to worsen by enough to drag down the current account despite a favourable net income flow. This may eventually undermine the favourable adjusted net asset position although this would probably take a considerable time. Second, the returns on equity type investments worsen significantly relative to the returns on debt type investments. Third, the flows of foreign direct investments into the UK significantly exceed UK direct investments abroad for a long period. Fourth, there is a significant real appreciation of Sterling which may generate revaluations of the stocks leading to a large fall in UK assets relative to liabilities.

Conclusions

The UK current account deficit in 2005 was, at £31.9b., around 2½ % of GDP, half a percentage point above the average deficit of the last twenty years. This means that foreign residents have added £31.9b. more to their pile of UK assets than UK residents added to their pile of foreign assets. These piles of assets are now huge (around four times UK GDP) and the sums added to them each year

are also enormous (around 60% of UK GDP). Furthermore, relative to the height of the piles, the difference in their size is tiny.

A significant feature of these piles of assets is that the pile of foreign assets held by UK residents is weighted much more towards equity type assets (direct investment and equity securities) than the UK assets held by foreign residents. Historically, equity type assets have had higher average returns than debt type assets. This has led to two outcomes favourable to the UK. First, the income generated by the foreign assets owned by UK residents exceeds that generated by UK assets owned by foreign residents by over 2% of GDP in recent years. Second, despite the continuing current account deficit of around 2% of GDP for the last twenty years, the difference between UK assets and UK liabilities remains only modestly negative compared to the size of each of the stocks. Furthermore, if the stocks are adjusted to market value, UK assets continue to exceed UK liabilities.

So long as average returns on equity type assets continue to exceed average returns on debt type assets, the current position is probably sustainable. Risks include first, a continuing and rapid increase in the trade deficit which might eventually undermine the favourable adjusted net asset position. This would probably take a long time. Second, a significant fall in the long-term returns on equity relative to returns on debt. Third, UK assets held by foreign residents become more weighted towards equity type investments, perhaps by a massive purchase of UK companies by foreign concerns. Finally, a large and permanent real appreciation of sterling which would significantly reduce UK assets relative to UK liabilities. At present, this seems unlikely.

Footnotes

1. Much of this is not new. Reading and Richards (2005) have recently brought some of this material to the attention of a wider public.
2. In fact the errors and omissions in the balance of payments are counted by the ONS as part of the revaluation of the net asset position rather than as part of the income flows into each pile of assets.
3. In practice this is not the case. UK residents may hold some foreign assets denominated in Sterling and foreign residents may hold some UK assets denominated in foreign currency.
4. Not dissimilar to a large bank.

References

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Figures

Figure 1:
UK gross external assets and liabilities

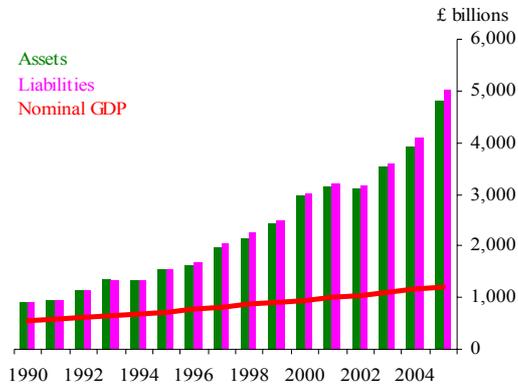


Figure 2:
UK net external positions by component

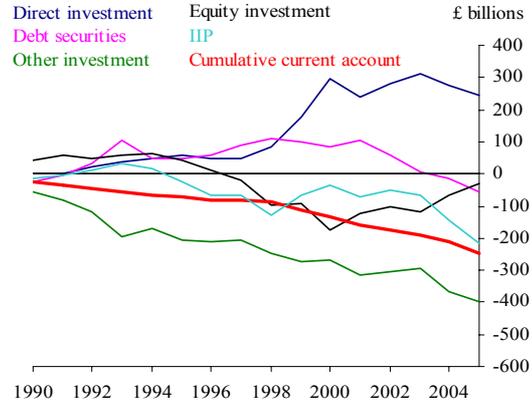


Figure 3:
Direct Investment

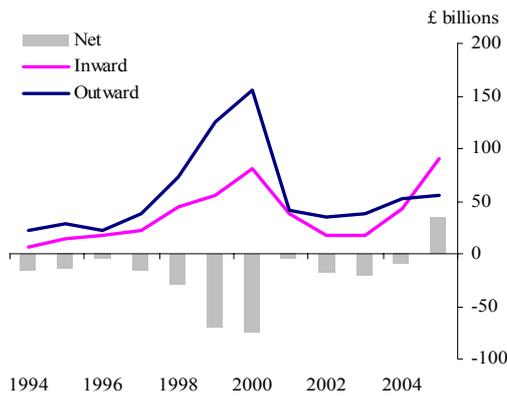


Figure 4:
Implied Rates of Return

Figure 4a:
Implied rates of return on assets

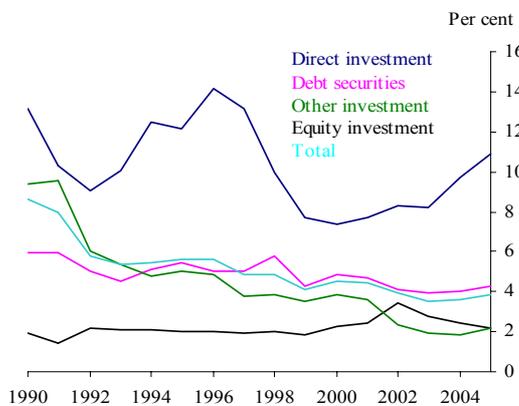


Figure 4b:
Implied rates of return on liabilities

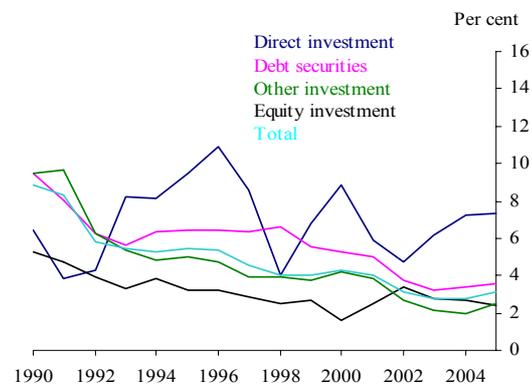


Figure 5:

Implied Rates of Return on Adjusted Series

Figure 5a:

Implied rates of return on assets

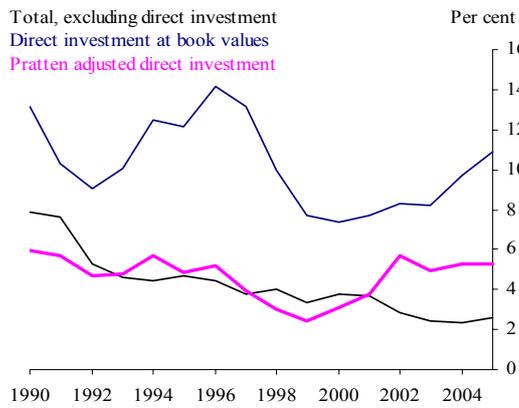


Figure 5b:

Implied rates of return on liabilities

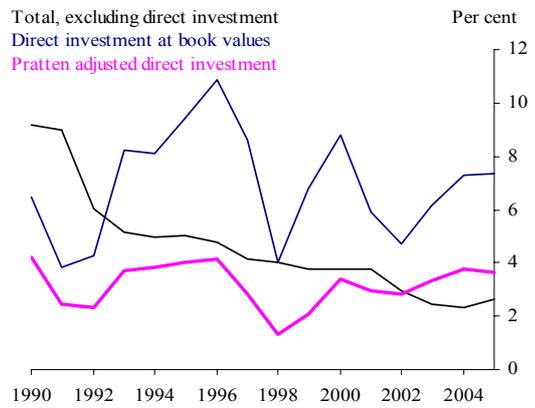


Figure 6:

UK net external positions by component using Pratten adjustment

