

CENTRAL STATISTICAL OFFICE

CSO United Kingdom Balance of Payments

1982 Edition

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United Kingdom Balance of Payments

1982 Edition

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Introduction

This publication has been prepared by the Central Statistical Office in collaboration with other government departments and the Bank of England. It contains estimates of the United Kingdom balance of payments for each of the calendar years 1971 to 1981. In addition, summary estimates for the years 1960 to 1970 are shown in Tables 1.1 and 1.2. Where tables relate to years other than 1971 to 1981, the years covered are noted in the list of contents. The corresponding estimates for earlier years are published in earlier editions of this publication and are given back to 1946 in *United Kingdom Balance of Payments 1971* and also in *Economic Trends Annual Supplement, 1979* and later editions.

Changes in content

There have been no significant changes in the balance of payments series presented in this publication. Within the 'Assets and Liabilities' section, however, the analyses of UK banks' external liabilities and claims in foreign currencies has been expanded; additional geographical detail of external sterling liabilities has also been added; and a geographical analysis of UK banks' external sterling claims has been included for the first time.

The IMF section has been discontinued. This included notes which described the transactions and facilities of the IMF and tables which detailed the United Kingdom's transactions with the IMF and gave the overall position at the end of each year. Most of these figures are published on a monthly basis in *Financial Statistics*.

Revisions

The estimates cannot be regarded as accurate to the nearest £ million. Some of the figures, particularly those relating to the latest years, may be revised when later and more complete information becomes available. Some of these revisions come from annual surveys, such as the inquiries into direct investment, and into trade credit between unrelated companies, the results for 1980 having become available earlier this year. Some other surveys are conducted less frequently.

Methods of estimation, and the consistency in treatment between different items in the accounts, are continually being examined; when improved series of figures are produced, revisions are carried back to earlier years as appropriate.

Visible trade

The publication of the monthly visible trade figures was interrupted during 1981 by industrial action in the Civil Service. Publication resumed with the September figures. Figures for the missing months of 1981 are being released during 1982, the export figures being based partly on a sample of documents. At the time of the preparation of this publication, figures were available for imports for all months of 1981 but figures for exports were not available for July and August. The figures for exports in 1981 in this volume are provisional estimates prepared by the Department of Trade, based on the data available for ten months of the year.

The export figures have been adjusted to allow for a major change to export and documentation procedures which took

effect in October 1981. Details are given in the notes on page 13.

Quarterly and monthly series

Quarterly estimates of the United Kingdom balance of payments are published by press notice each quarter and details are included with commentary in the March, June, September and December issues of *Economic Trends*. Those published in March are provisional figures for the latest calendar year and revised figures are prepared during the summer, those in the September issue being consistent with the annual figures in the Pink Book. The latest quarterly estimates are also reproduced in summary form in the *Monthly Digest of Statistics* and, for the summary account and for the capital account in detail, in *Financial Statistics*. Monthly estimates of visible trade and the projected invisible balance (expressed as a monthly rate), seasonally adjusted, are published in a press notice issued jointly each month by the Department of Trade and Central Statistical Office and subsequently in *British business*.

Symbols and conventions used

Exchange rates. Where estimates are based on data expressed in currencies other than sterling, the figures are as far as possible converted into sterling at the rate of exchange at the time of the transaction—see notes on page 66.

Geographical analysis. The geographical and economic groupings used in this publication are described in the glossary.

Sign convention. Under the conventions of the system, credit entries are recorded for real resources (goods, services, etc.) that are exported and, in the case of financial items, for flows which reduce the United Kingdom's foreign assets or increase its foreign liabilities. Conversely, debit entries are required for real resources that are imported and, for financial items, for flows which increase UK assets or decrease UK liabilities. See notes on page 4.

Identification markings. To facilitate identification, the main items in Table 1.3 have been given numbers which are quoted in other tables and in the notes.

Rounding of figures. As figures have been rounded to the nearest final digit, there may be an apparent slight discrepancy between the sums of the constituent items and the total as shown.

Symbols. The following symbols are used throughout:

.. = not available

— = nil or less than £500,000

n.e.i. = not elsewhere included

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*Contains series which are new or significantly changed.

General description of the accounts

The object of the balance of payments accounts is to identify and record transactions between residents of the United Kingdom and residents overseas (non-residents) in a way that is suitable for analysing the economic relations between the UK economy and the rest of the world. The transactions may involve a flow of real resources, that is, of goods, services or property income, between the United Kingdom and the rest of the world; a change in the United Kingdom's foreign assets or liabilities; or a transfer payment.

In principle, transactions are recorded when the ownership of goods or assets changes and when services are rendered. In practice this is not always possible.

Structure

In the UK balance of payment accounts, transactions are classified into main groups as follows:

Current account transactions cover exports and imports of goods and services, investment income and most transfers. *Capital transfers* cover certain transfer transactions identified as essentially of a capital nature (see below).

Investment and other capital transactions cover official long-term capital transactions, investment flows, trade credit, changes in the balances of other countries held in the United Kingdom and certain other capital transactions.

Official financing covers changes in the official reserves, net borrowing from the International Monetary Fund, net transactions with other overseas monetary authorities and foreign currency borrowing by HM Government and by public bodies under the exchange cover scheme.

In principle all of these transactions should balance out because a flow in one direction (e.g. an export of goods) must be offset by another (e.g. an inflow of foreign currency) and by conventional use of plus and minus signs, as described below, they should sum to zero. In practice however a 'balancing item' is included to offset the sum of errors and omissions.

The way these various items are set out in the accounts is shown in summary form in Table 1.1 (page 7). The *current balance* shows whether the United Kingdom has had a surplus of income over expenditure, and, taken with capital transfers, it shows whether it has added to or consumed net external assets in any period.

Interdependence of current and capital transactions

There is some mutual interdependence between current transactions and the investment and other capital transactions. In some cases current earnings are directly and, in effect, permanently matched in investment outflows (and vice versa); examples are the undistributed portion of current earnings of overseas subsidiaries and associates (which appear as investment overseas) or any investment taking the form of exports of machinery and equipment from the United Kingdom. In certain other cases current account transactions are reflected in changes in the balances of other countries held in the United Kingdom. When earnings on current account are accompanied by the extension of trade credit, for example on exports, the flow of capital or official finance associated with a particular transaction is deferred or, when advance or progress payments are made, anticipated.

Sign convention

Under the conventions of the balance of payments accounts, credit (or positive) entries are recorded for real resources (goods, services, etc.) that are exported, that is, for an outflow of real resources. For consistency, positive entries are required also for the flows which reduce foreign assets held by the United

Kingdom, or increase the United Kingdom's liabilities to non-residents. Conversely, the flows which increase the United Kingdom's foreign assets, or decrease the United Kingdom's liabilities to non-residents are recorded, like imports, as debit entries.

In concept every balance of payments transaction involves both an outflow and an equal inflow (the treatment of transfer payments in the accounts is described on page 36). An outflow of goods, recorded as a positive entry will give rise to a negative entry, for example, an inflow of foreign assets to the United Kingdom in the form of an increase in the United Kingdom's official reserves. The balance of payments accounts are thus analogous to a double-entry book-keeping system in which all the entries sum to zero. However, since the two entries made in respect of each transaction are generally derived from separate sources and the methods of estimation are neither complete nor precisely accurate, the two entries may not match each other precisely or may fall within different recording periods. Furthermore with timing variations it is possible that entries which correspond in foreign currency terms, are converted to sterling at different rates of exchange. In order to bring the total of all entries to zero an additional entry, the balancing item, is therefore included to reflect the sum of all these errors and omissions.

Residence

The United Kingdom is defined as including the Isle of Man, the Channel Islands and that part of the Continental Shelf which is defined by international convention as belonging to the United Kingdom. The term 'resident' covers both individuals living permanently in the United Kingdom, and corporate bodies located here, but not their overseas branches and subsidiaries. Individuals, other than government officials and members of the Forces, who enter—or leave—the country with the intention of staying here—or abroad—for a year or more are regarded as migrants changing their residence. (It should be noted, however, that Exchange Control, which used to provide some of the data, used three years rather than one year as the criterion for residence.) Overseas branches of companies are treated as residents of the country in which they are located, and subsidiaries are treated as residents of the country in which they are registered. Government agencies operating abroad, such as embassies or military units, are regarded as residents of their home country. Agencies of business enterprises are regarded as residents of the countries in which they operate. Transactions through agents are, in general, treated as though made directly with the overseas principal, but commissions, etc. received by agents for their services are regarded as accruing to the agent's country of residence. A more detailed description of the criteria adopted for defining residence is given on pages 436-438 of *National Accounts Statistics: Sources and Methods* (HMSO, 1968).

Reliability of the estimates

The balance of payments estimates are compiled from a large number of different sources and the degree of accuracy attained varies considerably between items. Some of the errors and omissions may be persistent and tend to be in the same direction in all years. Errors are likely, to some extent, to offset each other in any particular year but where a balance is drawn between two aggregates and the balance is small in relation to the aggregates, such as the current balance, the proportionate error attached to the balance is liable to be very substantial. The following notes assess the comparative quality of the individual components of the annual estimates for the later years and the main points at which errors and omissions may arise.

Visible trade

Customs regulations lay down a formula for the valuing of export and import merchandise on the customs entry forms from which the *Trade Statistics* are compiled. Some of the balance of payments adjustments are based on comprehensive returns and others on the results of sample enquiries; any errors in them are thought to be comparatively small. Any error in the estimate of total freight on dry-cargo imports, will be offset by an equal and opposite error in the invisibles account, since the same estimate is used as the starting point for the calculation of transport freight debits. It is possible, however, that there is some inconsistency between the value of commissions assumed to be included in figures of exports and imports in the visible trade account and the estimate for credits and debits on commissions in 'Other services' in the invisibles account. There may be rather less accuracy in the valuation of exports than in the valuation of imports, particularly in the case of a series of consignments forming part of a single large contract. The margin of error in the estimates for visible trade is probably very small, although probably significant in relation to the visible balance. A description of the special problems arising from errors in the recording of exports, and the allowance made for these distortions, is given on page 13.

Invisibles

Figures of *government transactions* are based on records of government departments and can be considered good; any errors are generally limited to minor timing discrepancies.

On *sea transport* the figures relating to UK shipping operators are based on the inquiries carried out by the General Council of British Shipping and the margin of error is unlikely to be large. There may, however, be appreciable errors in the provisional estimates produced before the full results of these inquiries became available. Furthermore although the estimates given here treat ships on voyage charter similarly in all years, the estimates for years prior to 1970, having been adjusted retrospectively, are less reliable in this respect, though the balance of shipping transactions is not thought to be significantly affected. Errors in the estimates of freight payments to overseas shipping operators arise from two main sources: errors in the estimates of total freight charges on dry-cargo imports and errors in the estimates of the earnings of UK shipping companies from the carriage of dry-cargo imports (domestic transaction). The former errors are offset by equal and opposite errors in the estimates of the f.o.b. values of imports. It is therefore only the latter errors which affect the current account overall and these errors are probably relatively small.

The estimates in the *civil aviation* account are considered to be reliable; they are based on regular returns from airlines and airport authorities and on the International Passenger Survey.

Estimates of *travel* expenditure have since 1962 been based largely on the International Passenger Survey and though subject to sampling error and to deficiencies in reporting, the estimates are more firmly based than in earlier years.

In value terms about three-quarters of the *financial* and *other services* estimates are based on direct inquiries of industry and commerce but the estimates for some items are derived from various related indicators and are thus only approximate. The totals for both credits and debits under this heading must be regarded as subject to an appreciable margin of error.

The *interest, profits and dividends* arising from direct investment are thought to be reasonably satisfactorily measured both on the credit and debit side, though the provisional estimates for the most recent year are less reliable. However, estimates of interest and dividends on portfolio investment are much less reliable than those on direct investment. Earnings from oil, taken

in conjunction with the entries for oil operations under visible trade, sea transport and investment and other capital transactions, are also thought to give a reasonable indication of the effect of oil companies' transactions on the balance of payments. But the figures of oil earnings which are included under interest, profits and dividends differ in various ways from the measure which is required of profits earned overseas; see note on page 29. The estimates for certain other elements of investment income vary in quality; the banking statistics returned to the Bank of England give information on the balance of earnings from the lending and borrowing of foreign currencies, but other figures may be subject to greater error.

Prior to the fourth quarter of 1979 estimates of *private transfers* debits were based mainly on exchange control data and are likely to be substantially complete. Subsequent figures have been extrapolated. Since 1966 transfer receipts have been based on information from other countries' balance of payments statistics.

Investment and other capital transactions

Complete records of inter-government loans and other official capital transactions are available. The flows of private direct investment are thought to be adequately measured, but a substantial margin of error attaches to the estimates for the most recent year, which are based on quarterly data.

From 1971 the coverage of the estimates of outward and inward portfolio investment was improved by a Bank of England inquiry on overseas portfolio investment. In mid-1980 a new inquiry into portfolio investment transactions was introduced by the Bank of England. The new inquiry is being supplemented by data on transactions by financial institutions other than banks which are available from other statistical inquiries; it seems possible that such transactions were not covered so comprehensively under the previous system.

The figures of changes in external sterling liabilities and UK banks' net external liabilities/assets in foreign currencies are taken from the regular returns made by banks and other financial institutions to the Bank of England. However, errors may arise through failure to recognise non-resident status, especially where nominee accounts are employed. Also the effects of exchange rate changes have to be allowed for when estimating the sterling value of changes in net external liabilities/assets in foreign currencies (see notes on pages 40 and 51).

The coverage of changes in unrelated trade credit has been improved over the years, particularly with the development of the Department of Trade inquiry, but the estimates for trade credit remain subject to a substantial margin of error. The figures of other capital transactions are based on a variety of sources, and a number of gaps remain in these estimates.

Several series in the capital account were derived from exchange control sources and, with the abolition of controls in October 1979, are no longer available. Particularly affected were those on borrowing from overseas banks, etc. and outward portfolio investment. The subsequent changes to the portfolio investment inquiry have been mentioned above. Borrowing from overseas banks by the UK non-bank private sector is now being covered by means of data collected by the Bank for International Settlements (BIS). There are a number of problems associated with the use of such data (see pages 40 and 41 for further details) and there may still be some element of duplication with existing data in such areas as trade credit. There may also be some inconsistencies of measurement since the BIS figures are collected from the individual reporting countries. Nevertheless, the data are regarded as being the best available at present.

The BIS is also the source of information from the beginning of 1976 on deposits by UK residents other than banks with

General description of the accounts

banks abroad. Similar qualifications apply to the incorporation of these data as to the use of the BIS borrowing figures, though problems of duplication are less severe.

Official financing

The figures are based on official records which are precise; adjustments are made to bring them on to a market-related exchange rate basis (see page 66).

Balancing item

The balancing item represents the net total of errors and omissions arising throughout the accounts and it has varied considerably in recent years. The main causes of fluctuations in it are likely to be, in part, timing errors in the recording of transactions and the corresponding payments. With these timing variations it is possible that amounts in foreign exchange are converted to sterling at rates of exchange which differ for the transaction and the corresponding payment. This discrepancy may be further affected where the transactor makes use of the forward exchange market. There will also be unrecorded capital flows including short-term 'leads and lags' in the timing of payments which, like identified flows of short-term funds, are probably influenced by the level of interest rates in the United Kingdom relative to those abroad, the relative degree of credit stringency and by speculation about exchange rates. With the turnover on current account of about £150,000 million a year, 'leads and lags' in the timing of payments and small changes to the terms of settlement could have a large effect on the balancing item. In addition there are changes in the coverage of certain series, e.g. deposits with banks overseas have only been included from end-1975. Prior to the introduction of such series, the transactions would be included in the balancing item.

The balancing item has shown great variation over the 11 years covered in detail in this publication but it has been mainly positive. In 1972, 1977 and 1978 the values were clearly exceptional (current account turnover more than trebled in value between 1972 and 1977).

Treatment of the balance of payments in the national and financial accounts

The national income can be measured as a sum of incomes derived from economic activity by UK residents (factor incomes), as a sum of expenditures or as a sum of the outputs of the various industries.

Thus, *domestic* income of the United Kingdom is the income of UK residents arising from economic activity in the United Kingdom which includes the net exports of goods and services. *National* income includes, in addition, incomes arising from property held abroad including interest and profits earned abroad but less such income earned in the United Kingdom by non-residents. In the national accounts net property income from abroad is equal to the net earnings from *interest, profits and dividends* in the balance of payments accounts. In the international transactions table in the national accounts, property income paid abroad is shown both before and after deduction of UK taxes. Property income paid abroad, net of UK taxes, corresponds to interest, profits and dividends debits as recorded in the balance of payments. Where national income is measured by totalling expenditure, final expenditure on the goods and services becoming available in the United Kingdom must include expenditure by other countries (UK exports). Many of the available goods contain imported materials and some of the available services are rendered by overseas residents; expenditure on such goods and services therefore generates income

and product not only in the UK economy but also in the overseas economies. The gross domestic product measured as a sum of the expenditure is therefore equal to total final expenditure in the United Kingdom, including *exports*, on all goods and services less *imports* of goods and services. As with the income approach, an adjustment for net property income from abroad is required to convert gross domestic product to gross national product.

The remaining items in the current account of the balance of payments, that is *government and private transfer payments*, do not appear directly in the composition of the national income but they are shown in the sector accounts. For instance, government transfer payments appear in the current account of the central government and private transfer payments appear in the analysis of personal income and expenditure.

The overall *current balance* plus *capital transfers* is described in the national accounts as net investment abroad. It appears as part of the total capital expenditure in the combined capital account and since all financial transactions between different sectors of the domestic economy offset each other in aggregate, it is equal to the net acquisition of financial assets of the overseas sector in the financial accounts but is presented there with opposite sign.

The capital transactions in the balance of payments—*investment and other capital transactions, official financing, allocation of SDRs and gold subscription to IMF*—correspond to the financial transactions of the overseas sector in the financial accounts tables, where the analysis is broadly in terms of financial instruments.

References: National and financial accounts

A full account of the treatment of the balance of payments in the national accounts is given in Chapter XV (International transactions) of *National Accounts Statistics: Sources and Methods* (HMSO 1968). A new publication, *The National Accounts—A short guide* (HMSO 1981), supplements this and contains a detailed commentary on the structure of the annual statistics of the national and financial accounts presented in the annual Blue Book *National Income and Expenditure*.

Quarterly estimates of the main items are published by press notice and details of the national accounts are included, with a commentary, in the January, April, July, and October issues of *Economic Trends*. Summary quarterly national accounts tables are published regularly in the *Monthly Digest of Statistics* and detailed financial accounts estimates are included in the monthly publication *Financial Statistics*. A reconciliation between the capital transactions in the balance of payments accounts and the financial transactions of the overseas sector as shown in the financial accounts is included in the November issue of *Financial Statistics* each year.

References: General

Publications relating to other countries' balance of payments (publishing body shown in brackets).

International Financial Statistics (IMF)

Balance of Payments Yearbook (IMF)

Balance of Payments Yearbook (Statistical Office of the European Communities)

General Statistics (SOEC)

Statistical Yearbook (UN)

Monthly Bulletin of Statistics (UN)

Various publications by OECD

TABLE 1.1 SUMMARY BALANCE OF PAYMENTS(1)

£ million

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
CURRENT ACCOUNT											
Visible balance	-401	-140	-100	-119	-543	-260	-108	-599	-712	-209	-34
Invisibles											
Services balance	+8	+21	+18	-31	-50	-36	+31	+168	+357	+422	+481
Interest, profits and dividends balance	+233	+254	+334	+398	+394	+435	+388	+378	+334	+498	+554
Transfers balance	-68	-88	-97	-123	-159	-169	-181	-216	-223	-206	-178
Invisibles balance	+173	+187	+255	+244	+185	+230	+238	+330	+468	+714	+857
CURRENT BALANCE	-228	+47	+155	+125	-358	-30	+130	-269	-244	+505	+823
Investment and other capital transactions	+286	-316	-3	-100	-311	-317	-580	-504	-760	-176	+546
EEA loss on forward commitments	-	-	-	-	-	-	-	-105	-251	-	-
Allocation of SDRs	-	-	-	-	-	-	-	-	-	-	+171
Gold subscription to IMF(-)	-32	-	-	-	-	-	-44	-	-	-	-38
Official financing											
Net transactions with overseas monetary authorities(2)	-116	+370	-375	+5	+573	+599	+625	+556	+1 296	-699	-1 295
Foreign currency borrowing (net)	-	-	-	-	-	-	-	-	-	+56	-
Official reserves (drawings on +/- additions to -)	-177	-31	+183	+53	+122	-246	-34	+115	+114	-44	-125
Balancing item	+267	-70	+40	-83	-26	-6	-97	+207	-155	+358	-82

TABLE 1.1 Continued

£ million

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
CURRENT ACCOUNT											
Visible balance	+190	-748	-2 586	-5 351	-3 333	-3 929	-2 284	-1 542	-3 449	+1 185	+3 013
Invisibles											
Services balance	+625	+701	+786	+1 083	+1 519	+2 449	+3 259	+3 722	+3 958	+4 060	+3 975
Interest, profits and dividends balance	+502	+538	+1 257	+1 415	+773	+1 365	+118	+615	+892	-273	+1 004
Transfers balance	-193	-244	-438	-420	-480	-760	-1 115	-1 777	-2 254	-2 107	-1 956
Invisibles balance	+934	+995	+1 605	+2 078	+1 812	+3 054	+2 262	+2 560	+2 596	+1 680	+3 023
CURRENT BALANCE	+1 124	+247	-981	-3 273	-1 521	-875	-22	+1 018	-853	+2 865	+6 036
Capital transfers	-	-	-59	-75	-	-	-	-	-	-	-
Investment and other capital transactions	+1 790	-684	+166	+1 594	+137	-3 009	+4 169	-4 283	+2 307	-1 864	-7 209
Allocation of SDRs(+)	+125	+124	-	-	-	-	-	-	+195	+180	+158
Official financing											
Net transactions with overseas monetary authorities	-1 817	+449	-	-	-	+984	+1 113	-1 016	-596	-140	-145
Foreign currency borrowing(net)	+82	-	+999	+1 751	+810	+1 791	+1 114	-187	-250	-941	-1 587
Official reserves (drawings on +/- additions to -)	-1 536	+692	-228	-105	+655	+853	-9 588	+2 329	-1 059	-291	+2 419
Balancing item	+232	-828	+103	+108	-81	+256	+3 214	+2 139	+256	+191	+328

- Figures for earlier years are published in earlier editions of this publication and are given back to 1946 in United Kingdom Balance of Payments 1971, and also in Economic Trends Annual Supplement (1979 and later editions).
- Including transfers from dollar portfolio to reserves in 1966 and 1967.

SUMMARY TABLES

TABLE 1.2 CURRENT ACCOUNT(1)

£ million

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
CREDITS											
Exports (f.o.b.)	3 737	3 903	4 003	4 331	4 568	4 913	5 276	5 241	6 433	7 269	8 150
Services											
General government	45	46	39	40	45	46	42	37	44	48	51
Private sector and public corporations											
Sea transport	637	641	647	658	697	749	765	884	1 053	1 051	1 357
Civil aviation	96	108	119	131	143	162	180	199	235	287	316
Travel	169	176	183	188	190	193	219	236	282	359	432
Financial services(2)	116	131	124	104	111	94	133	191	266	356	439
Other services	356	386	411	425	472	518	568	636	712	773	849
Interest, profits and dividends											
General government				37	37	39	48	50	31	31	54
Private sector and public corporations	671	676	754	805	852	953	916	929	1 079	1 311	1 398
Transfers											
General government											
Private sector	117	122	125	127	140	150	156	161	185	206	230
Total invisibles	2 207	2 286	2 402	2 515	2 687	2 904	3 027	3 323	3 887	4 422	5 126
Total credits	5 944	6 189	6 405	6 846	7 255	7 817	8 303	8 564	10 320	11 691	13 276
DEBITS											
Imports (f.o.b.)	4 138	4 043	4 103	4 450	5 111	5 173	5 384	5 840	7 145	7 478	8 184
Services											
General government	233	260	278	290	314	315	332	311	331	338	360
Private sector and public corporations											
Sea transport	671	675	668	679	734	748	760	901	1 018	1 084	1 437
Civil aviation	78	85	97	104	116	134	149	169	201	238	270
Travel	186	200	210	241	261	290	297	274	271	324	382
Other services	243	247	252	263	283	311	338	360	414	468	514
Interest, profits and dividends											
General government				170	162	179	214	228	272	371	323
Private sector and public corporations	438	422	420	274	333	378	362	373	504	473	575
Transfers											
General government	94	118	121	132	164	177	180	188	179	177	177
Private sector	91	92	101	118	135	142	157	189	229	235	231
Total invisibles	2 034	2 099	2 147	2 271	2 502	2 674	2 789	2 993	3 419	3 708	4 269
Total debits	6 172	6 142	6 250	6 721	7 613	7 847	8 173	8 833	10 564	11 186	12 453
BALANCES											
Visible balance	-401	-140	-100	-119	-543	-260	-108	-599	-712	-209	-34
Services											
General government	-188	-214	-239	-250	-269	-269	-290	-274	-287	-290	-309
Private sector and public corporations											
Sea transport	-34	-34	-21	-21	-37	+1	+5	-17	+35	-33	-80
Civil aviation	+18	+23	+22	+27	+27	+28	+31	+30	+34	+49	+46
Travel	-17	-24	-27	-53	-71	-97	-78	-38	+11	+35	+50
Financial services (2)	+116	+131	+124	+104	+111	+94	+133	+191	+266	+356	+439
Other services	+113	+139	+159	+162	+189	+207	+230	+276	+298	+305	+335
Interest, profits and dividends											
General government				-133	-125	-140	-166	-178	-241	-340	-269
Private sector and public corporations	+233	+254	+334	+531	+519	+575	+554	+556	+575	+838	+823
Transfers											
General government	-94	-118	-121	-132	-164	-177	-180	-188	-179	-177	-177
Private sector	+26	+30	+24	+9	+5	+8	-1	-28	-44	-29	-1
Invisible balance	+173	+187	+255	+244	+185	+230	+238	+330	+468	+714	+857
of which: private sector and public corporations: services and IPD	..	..	..	+750	+738	+808	+875	+998	+1 219	+1 550	+1 613
Current balance	-228	+47	+155	+125	-358	-30	+130	-269	-244	+505	+823

- Figures for earlier years are published in earlier editions of this publication and are given back to 1946 in United Kingdom Balance of Payments 1971 and also in Economic Trends Annual Supplement (1979 and later editions).
- The figures for this item are obtained net of overseas payments and similar earnings in the United Kingdom by overseas financial institutions are negligible. For these reasons this item appears as a credit entry only.

£ million

TABLE 1.2 CURRENT ACCOUNT(1) Continued

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
CREDITS											
Exports (f.o.b.)(3)	9 043	9 437	11 937	16 394	19 330	25 191	31 728	35 063	40 687	47 396	51 100
Services											
General government	59	72	104	110	139	215	241	318	344	400	464
Private sector and public corporations											
Sea transport	1 615	1 607	2 055	2 665	2 651	3 233	3 433	3 149	3 804	3 816	3 772
Civil aviation	354	410	480	625	780	1 049	1 203	1 455	1 755	2 210	2 359
Travel	500	576	726	898	1 218	1 768	2 352	2 507	2 797	2 961	2 999
Financial services(2)	471	529	601	785	1 025	1 303	1 391	1 542	1 588	1 601	1 954
Other services	966	1 094	1 330	1 653	2 054	2 677	3 234	3 692	4 150	4 774	5 206
Interest, profits and dividends											
General government	91	156	176	237	266	253	384	691	816	943	940
Private sector and public corporations	1 395	1 592	2 647	3 049	2 575	3 718	3 648	4 457	7 063	7 346	9 142
Transfers											
General government	—	—	67	132	366	253	298	439	550	958	1 658
Private sector	246	264	320	357	393	537	614	774	796	808	844
Total invisibles	5 697	6 300	8 506	10 511	11 467	15 006	16 798	19 024	23 663	25 817	29 338
Total credits	14 740	15 737	20 443	26 905	30 797	40 197	48 526	54 087	64 350	73 213	80 438
DEBITS											
Imports (f.o.b.)	8 853	10 185	14 523	21 745	22 663	29 120	34 012	36 605	44 136	46 211	48 087
Services											
General government	374	423	513	629	709	882	965	1 016	1 141	1 188	1 239
Private sector and public corporations											
Sea transport	1 673	1 688	2 160	2 776	2 568	3 161	3 350	3 167	3 683	3 681	3 870
Civil aviation	303	340	415	540	675	840	984	1 176	1 467	1 815	1 922
Travel	442	535	695	703	917	1 068	1 186	1 549	2 109	2 738	3 285
Other services	548	601	727	1 005	1 479	1 845	2 110	2 033	2 080	2 280	2 463
Interest, profits and dividends											
General government	295	298	375	589	780	901	1 104	1 283	1 356	1 557	1 620
Private sector and public corporations	689	912	1 191	1 282	1 288	1 705	2 810	3 250	5 631	7 005	7 458
Transfers											
General government	205	210	427	455	736	1 041	1 413	2 142	2 608	2 790	3 339
Private sector	234	298	398	454	503	509	614	848	992	1 083	1 119
Total invisibles	4 763	5 305	6 901	8 433	9 655	11 952	14 536	16 464	21 067	24 137	26 315
Total debits	13 616	15 490	21 424	30 178	32 318	41 072	48 548	53 069	65 203	70 348	74 402
BALANCES											
Visible balance	+190	-748	-2 586	-5 351	-3 333	-3 929	-2 284	-1 542	-3 449	+1 185	+3 013
Services											
General government	-315	-351	-409	-519	-570	-667	-724	-698	-797	-788	-775
Private sector and public corporations											
Sea transport	-58	-81	-105	-111	+83	+72	+83	-18	+121	+135	-98
Civil aviation	+51	+70	+65	+85	+105	+209	+219	+279	+288	+395	+437
Travel	+58	+41	+31	+195	+301	+700	+1 166	+958	+688	+223	-286
Financial services(2)	+471	+529	+601	+785	+1 025	+1 303	+1 391	+1 542	+1 588	+1 601	+1 954
Other services	+418	+493	+603	+648	+575	+832	+1 124	+1 659	+2 070	+2 494	+2 743
Interest, profits and dividends											
General government	-204	-142	-199	-352	-514	-648	-720	-592	-540	-614	-680
Private sector and public corporations	+706	+680	+1 456	+1 767	+1 287	+2 013	+838	+1 207	+1 432	+341	+1 684
Transfers											
General government	-205	-210	-360	-323	-370	-788	-1 115	-1 703	-2 058	-1 832	-1 681
Private sector	+12	-34	-78	-97	-110	+28	—	-74	-196	-275	-275
Invisible balance	+934	+995	+1 605	+2 078	+1 812	+3 054	+2 262	+2 560	+2 596	+1 680	+3 023
of which: private sector and public corporations: services and IPD	+1 646	+1 732	+2 651	+3 369	+3 376	+5 129	+4 821	+5 627	+6 187	+5 189	+6 434
Current balance	+1 124	+247	-981	-3 273	-1 521	-875	-22	+1 018	-853	+2 865	+6 036

- Figures for earlier years are published in earlier editions of this publication and are given back to 1946 in United Kingdom Balance of payments 1971 and also in Economic Trends Annual Supplement (1979 and later editions).
- The figures for this item are obtained net of overseas payments and similar earnings in the United Kingdom by overseas financial institutions are negligible. For these reasons this item appears as a credit entry only.
- The 1981 figure is a provisional estimate based on the data available for 10 months of the year.

SUMMARY TABLES

TABLE 1.3 ANALYSIS OF CAPITAL TRANSACTIONS AND OFFICIAL FINANCING(1)

£ million

		1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
	Item number											
CURRENT BALANCE	1	+1 124	+247	-981	-3 273	-1 521	-875	-22	+1 018	-853	+2 865	+6 036
CAPITAL TRANSFERS	2	-	-	-59	-75	-	-	-	-	-	-	-
INVESTMENT AND OTHER CAPITAL TRANSACTIONS												
Overseas investment in United Kingdom												
Direct(2)	3	+450	+408	+734	+854	+615	+799	+1 326	+1 292	+1 818	+2 576	+874
Investment by oil companies	4	+282	+78	+382	+924	+883	+819	+1 131	+666	+1 215	+1 714	+1 904
Portfolio	5	+286	+290	+386	+323	-4	+438	+1 853	-85	+1 253	+853	+508
of which, British government stocks	5b	+82	+108	+42	+105	-13	+116	+979	-3	+929	+571	+201
Miscellaneous investment	6	-3	-4	-5	+103	+20	+35	+89	+35	+75	+100	+70
Total overseas investment in UK	7	+1 015	+772	+1 497	+2 204	+1 514	+2 091	+4 399	+1 908	+4 361	+5 243	+3 356
UK private investment overseas												
Direct(2)	8	-676	-737	-1 621	-1 575	-1 171	-2 145	-1 885	-2 740	-2 788	-3 491	-5 157
Investment by oil companies and miscellaneous investment	9	-139	-61	-415	-298	-137	-214	-461	-821	-2 858	-1 566	-1 380
Portfolio	10	-45	-604	+276	+725	-59	+90	+12	-1 073	-909	-3 147	-4 100
Total UK private investment overseas	11	-860	-1 402	-1 760	-1 148	-1 367	-2 269	-2 334	-4 634	-6 555	-8 204	-10 637
Official long-term capital	12	-274	-254	-255	-287	-291	-161	-303	-336	-401	-91	-334
Import credit	13	+54	+198	+349	+88	+59	+111	+280	+291	+61	-268	+115
Export credit	14	-287	-409	-552	-810	-577	-1 103	-635	-922	-856	-902	-999
Foreign currency borrowing or lending abroad by UK banks	15	+471	+471	+535	-295	+253	-106	+364	-433	+1 623	+2 018	+1 404
Exchange reserves in sterling:												
British government stocks	16	+55	+65	+74	-124	+7	+12	+6	-113	+247	+945	+258
Banking and money market liabilities etc.	17	+658	+222	+87	+1 534	-622	-1 413	-16	-	+509	+317	-145
Other external banking and money market liabilities in sterling	18	+709	-91	-7	+148	+549	+256	+1 481	+293	+2 580	+2 558	+2 634
External sterling lending by UK banks(3)	19	+39	-241	+35	+53	+96	-350	+58	-504	+205	-2 500	-2 980
Other external borrowing or lending												
UK public sector(4)	20	+4	+7	+19	+72	+56	+27	+750	+22	-7	-173	-25
UK private sector	21	+140	+139	+320	+279	+260	+94	+63	+94	+608	-590	+64
Other transactions	22	+66	-161	-176	-120	+200	-198	+56	+51	-68	-217	+80
Total investment and other capital transactions	23	+1 790	-684	+166	+1 594	+137	-3 009	+4 169	-4 283	+2 307	-1 864	-7 209
Allocation of SDRs	24	+125	+124	-	-	-	-	-	-	+195	+180	+158
OFFICIAL FINANCING												
Net transactions with overseas monetary authorities	25	-1 817	+449	-	-	-	+984	+1 113	-1 016	-596	-140	-145
Foreign currency borrowing(net)	26	+82	-	+999	+1 751	+810	+1 791	+1 114	-187	-250	-941	-1 587
Official reserves (drawings on +/ additions to -)	27	-1 536	+692	-228	-105	+655	+853	-9 588	+2 329	-1 059	-291	+2 419
Total official financing	28	-3 271	+1 141	+771	+1 646	+1 465	+3 628	-7 361	+1 126	-1 905	-1 372	+687
Balancing item	29	+232	-828	+103	+108	-81	+256	+3 214	+2 139	+256	+191	+328

1. Assets: increase-/decrease+. Liabilities: increase+/decrease-

2. Overseas direct investment in the UK excludes the transactions of oil companies. UK direct investment overseas excludes the transactions of oil companies but includes investment by a number of public corporations.

3. Excluding credit for UK exports.

4. Excluding official financing.

TABLE 1.4 IDENTIFIED UK EXTERNAL ASSETS AND LIABILITIES(1)

£ million

	End of year											
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
ASSETS												
Private sector	17 781	18 746	23 459	24 392	25 960	31 658	39 441	40 351	46 979	54 293	68 678	89 921
Public sector	2 690	5 247	4 576	5 323	6 046	6 413	6 861	15 723	15 238	18 031	17 672	16 227
Total	20 471	23 993	28 035	29 715	32 006	38 071	46 302	56 074	62 217	72 324	86 350	106 148
LIABILITIES												
Private sector	10 995	14 390	16 329	18 539	21 552	26 395	29 549	35 682	38 243	45 352	54 645	63 818
Official(2)	5 763	5 444	5 441	5 952	8 360	9 790	13 746	16 545	14 258	13 858	13 426	13 335
Other public sector	124	209	359	648	630	837	899	1 467	1 351	1 201	1 005	1 122
Total	16 882	20 043	22 129	25 139	30 542	37 022	44 194	53 694	53 852	60 411	69 076	78 275

1. Because of the many inconsistencies in valuing the component series, and the omission of certain assets and liabilities which are unidentifiable, these estimates are not an exact measure of the UK's external debtor/creditor position. See notes on pages 50 to 52 and Tables 11.1 and 11.2.

2. Includes HM Government borrowing and all official financing liabilities.

2 Visible trade

The figures for exports and imports of goods in the balance of payments represent the f.o.b. value (free on board, i.e. excluding the costs of insurance and freight) of goods leaving or entering the United Kingdom and whose ownership is transferred between the United Kingdom and overseas residents. In general they are at market values.

The figures are based on the *Overseas Trade Statistics*, compiled from HM Customs and Excise records, to which are made certain adjustments for valuation and coverage to bring them to a balance of payments basis. These adjustments are described below and summarised in Table 2.1.

Valuation

Though, in general, all trade is recorded at market values, and adjustments are made to convert other valuations to this basis, this cannot always be done satisfactorily, especially in respect of trade between United Kingdom companies and their overseas parents or affiliates. There are difficulties also in valuing series of export consignments forming parts of single large contracts.

Certain adjustments to the market values are necessary for balance of payments purposes, and these are listed in the following paragraphs.

Freight and insurance

Imports in the *Overseas Trade Statistics* are valued c.i.f., that is, inclusive of the costs of insurance and freight from the country of consignment. In the balance of payments these costs are deducted since freight and insurance payments to foreign carriers and insurance companies are included in the appropriate invisibles item and those to UK concerns are regarded as domestic transactions. But see notes on page 18 regarding the treatment of cargo insurance.

The sea and land freight element of the c.i.f. value of dry cargo imports is estimated by the Departments of Industry and Trade from the actual freight rates applicable to a large sample of individual commodities imported from various sources. Estimates of payments for air freight are based on a sample examination of Customs entry forms and the supporting invoices. Oil freight is obtained from an annual enquiry conducted by the Bank of England. Insurance data are obtained from periodic enquiries made to the insurance companies.

The Green Pound

Some details of the Green Money system of the European Community's Common Agricultural Policy which involves the payment or receipt of monetary compensatory amounts (MCA's) on international trade in most agricultural products, are given in 1981 and earlier editions of this publication. Details are also included of adjustments made to imports over the years 1973-1977 to ensure consistent evaluation.

In May 1977, importers were notified of the appropriate method of valuation and no adjustment has been necessary thereafter.

Other valuation adjustments

Customs uplift. The value of imports recorded in the *Trade Statistics* is based on the price they would fetch on sale in the open market between a willing buyer and a willing seller. In certain cases where the transaction is not an open market one, for example some transactions between related companies, the *Trade Statistics* value may exceed that paid or payable to the supplier abroad. As it is the latter value which is appropriate to the balance of payments accounts, an adjustment is made to the *Trade Statistics* figures. Estimates of the amounts to be deducted are derived from a sample examination of customs entry forms.

Coverage

The *Overseas Trade Statistics* record all goods imported whether or not intended for use in the United Kingdom and whether or not entered under bond. They record all goods exported including re-exports and exports from bonded warehouses. Goods in transit through British ports are not included in the *Overseas Trade Statistics*.

The coverage adjustments made to convert the *Overseas Trade Statistics* to a balance of payments basis are set out in detail in the ensuing paragraphs:

Second-hand ships

Second-hand ships sold or purchased whilst abroad are excluded from the *Overseas Trade Statistics* but need to be included in the balance of payments figures. Details about both purchases and sales of second-hand ships are derived from a number of sources including information provided by the General Register and Record Office of Shipping and Seamen, Government departments and various trade publications.

Second-hand aircraft

Imports and exports of second-hand aircraft were included in the *Overseas Trade Statistics* from January 1978, but with effect from January 1981, aircraft temporarily imported or exported for processing and repair without change of ownership have been excluded from these figures. Statistics of visible trade on an *Overseas Trade Statistics* basis for earlier years (see Table 2.1) have been revised to be consistent with this new definition.

Ships delivered abroad

Certain new ships built abroad for UK owners are delivered in the first place to overseas ports. These purchases are not always recorded in the *Overseas Trade Statistics* but they are appropriate to balance of payments figures of imports. The details are obtained from the same sources as for second-hand ships.

NAAFI

Goods exported by the Navy, Army and Air Force Institute for the use of United Kingdom Forces abroad are included in the *Overseas Trade Statistics* but since they are for sale to UK residents (as defined—see general description of the accounts, page 4) they are deducted from the *Overseas Trade Statistics* for balance of payments purposes. The figures are obtained through returns received from the Institute.

Goods not changing ownership

The *Overseas Trade Statistics* include certain goods which are imported and exported without change of ownership. These are either returned goods or goods for processing. Returned goods include, for example, items such as contractors' plant temporarily leaving the country. The value of these goods is estimated from claims made to HM Customs and Excise for exemption from duty. Where this method of estimation is used, the same value is deducted from both imports and exports in the balance of payments accounts at the time of import. This probably results in some error in timing of exports, however, and in this event the error would be reflected in the balancing item.

An important item in this category of trade is the temporary import and export of precious stones for the purposes of grading, valuation and exhibition only. Previously these movements were included in the *Overseas Trade Statistics* but excluded by means of an adjustment from visible trade on a balance of payments basis. With effect from January 1981, these movements are now excluded from the *Trade Statistics* and figures for earlier years (on a *Trade Statistics* basis) have been revised to maintain consistency over time.

Visible trade

Other coverage adjustments

These consist of the following adjustments:

Gold The ending of Exchange Controls in 1979 had implications for the coverage of gold in visible trade, for it enabled UK residents other than the banks and dealers in the London Gold Market to trade in gold bullion. Thus with effect from January 1981, this trade was henceforth counted as merchandise trade in the *Overseas Trade Statistics*. Trade in unwrought refined gold bullion which is the subject of inter-bank or London Gold Market dealings (which is to be considered as monetary gold) will continue to be excluded from visible trade. Figures for earlier years have been revised to maintain consistency.

Exports by letter post. The *Overseas Trade Statistics* do not include exports from the United Kingdom by letter post. Information about the most important element of this trade, the export of books, is obtained from publishers and retail and wholesale booksellers. Other details are derived from a sample inquiry made by the Post Office.

Additions and alterations to ships. Certain work carried out on UK-owned and registered ships in foreign yards and on overseas-owned ships in UK yards relates to additions and alterations rather than repairs and as such is more properly regarded as a component of visible rather than invisible trade. For work on UK-owned ships, an estimate is obtained from the quarterly inquiry on capital expenditure carried out by the Department of Industry; this estimate is an addition to the imports figure. An estimate for the work on overseas-owned ships is now derived by the Departments of Industry and Trade from various enquiries. These adjustments have been included in the figures from 1966 onwards.

Forces parcels. Parcels sent to the Forces overseas are recorded in the *Overseas Trade Statistics*, but since they are for UK residents (as defined—see page 4) they are deducted from the *Overseas Trade Statistics* for balance of payments purposes. A similar deduction is made for parcels sent to the United Kingdom by the Forces overseas. The figures to be deducted are based on returns giving the number of such parcels. The average value per parcel is obtained from sample checks.

North Sea installations

Adjustments have been made to imports from 1975 to cover certain goods imported directly from overseas to UK production sites in the North Sea for which Customs and Excise documents were not submitted and which were consequently omitted from the *Overseas Trade Statistics*. They also cover revisions to the value of imported installations recorded in the *Overseas Trade Statistics*. The information is obtained from quarterly enquiries of the petroleum and natural gas industry. Included with the adjustments are drilling rigs delivered abroad and not included in the *Overseas Trade Statistics*, details of which are obtained from the same sources as for second-hand ships.

Three of the North Sea oil fields, Frigg, Murchison and Statfjord lie in both UK and non-UK waters and trade involving these fields is allocated according to determinations of the respective shares of oil reserves. Thus, for example, only the UK share of the value of goods delivered to any one of these fields from a foreign country will normally be included as an import; similarly only the non-UK share of goods delivered from the UK to one of the fields will be counted as an export. (A similar procedure is followed for other balance of payments transactions.) Occasionally there is a re-determination of the resources of a shared field. In these circumstances the contribution to (or reimbursement of) a proportion of the development costs has been treated as a purchase (or sale) of fixed assets at the date of the re-determination and appears as an adjustment to imports (or exports) of goods.

The part of the Ekofisk pipeline from Teesside lying on the UK Continental Shelf is treated as Norwegian investment rather than UK investment. As a result an adjustment had been made to UK exports in 1973 to include pipe laid in the UK sector of the Continental Shelf.

A similar adjustment to UK exports in 1976 has been made in respect of exports of pipe for one of the two pipelines from the Frigg field to the United Kingdom. The field is in both UK and Norwegian waters and one pipeline is treated as in Norwegian ownership while the second is in UK ownership.

Oil platforms moved overseas for completion prior to their return to the UK Continental Shelf are treated as exports on *Overseas Trade Statistics* basis although these and their associated equipment are excluded from the balance of payments figures, as no change of ownership takes place.

When the platforms returned to the United Kingdom only the foreign component of the value added to them while overseas was included in the balance of payments figures.

US military aircraft and missiles

In 1964, purchase began of a quantity of military aircraft and missiles, together with certain spare parts, from the United States under credit arrangements with the United States. Payments to the US manufacturers were made largely in advance of delivery, during the course of production.

In the *Overseas Trade Statistics*, the aircraft and missiles were recorded as imports when they arrived in the United Kingdom. However, in the full balance of payments accounts the purchases were recorded as imports in the period when payments to the US manufacturers were made. This treatment was a departure from the usual practice of recording imports when they arrive in this country but is consistent with the treatment in the national accounts of corresponding purchases from UK manufacturers; central government current expenditure on defence equipment includes progress payments made in advance of the delivery of the equipment.

Some components were purchased by the UK government from British manufacturers and supplied to the United States for incorporation in the aircraft. There were included as exports in the *Overseas Trade Statistics*, but excluded from the balance of payments figures of exports (and from the visible balance) since they did not leave UK ownership and no payment was received from overseas.

A more detailed explanation of the treatment of these transactions in all headings of the balance of payments accounts together with a table summarising the various entries made, was given in the *United Kingdom Balance of Payments 1963-73*.

Recording of exports

In June 1969 it was announced that exports had been under-recorded because of the failure of some exporters and agents to submit their documents. In August 1969 comprehensive checking of documents against ship and aircraft manifests was introduced, to identify the consignments for which no export documents had been received. HM Customs attempted to obtain documents for such consignments by contacting the traders concerned, and their efforts succeeded in reducing under-recording to negligible proportions by November 1969. This improvement was not, however, maintained and so, in October 1971, new procedures to ensure the full recording of exports, for which powers were taken in the Finance Act 1971, were introduced. Since that time regular assessments of the quality of recording have been made, resulting in the adjustments shown.

Annual adjustments, based on the manifest checks, for the net under-recording of exports are shown in Table 2.1. The adjustments are included in Table 1.1 and 1.2. The adjustments

which are included, though not separately shown, in Tables 2.3 and 2.4 are notional and rounded, *pro rata* to the total allowances for under-recording.

The new procedures for the control and documentation of exports enable tighter monitoring of the submission of export documents and this is reflected in the adjustment for under-recording in 1981.

Timing basis of the figures

To achieve consistency with the basis for estimating other countries' external transactions—and the estimates of domestic transactions given in the national accounts—exports and imports of goods should be recorded at the time when the ownership of the goods changes. In practice, however, no adjustment is made to the trade figures for differences in timing between change in ownership and the recording in the *Overseas Trade Statistics*.

The compilation of the *Overseas Trade Statistics* is geared to the declarations made by exporters and importers which are received in the statistical office of HM Customs and Excise. There was a major change to export control and documentation procedures which took effect on 1 October 1981. Previously registered traders were normally allowed fourteen days after shipment before a completed export document had to be presented at the ports, and there was a further interval before copies reached the statistical office. The effect of this lag was accentuated since monthly processing of the export statistics begins a few days before the end of the calendar month. Thus the figures for any month related on average to goods passing through the ports in a monthly period ending about the middle of that calendar month.

The new procedures, designed largely to meet EC requirements, entail the provision of some information before the goods are shipped. Except where revenue or restricted goods are concerned, exporters registered with Customs have the option of providing the required details when they present the goods for shipment (export pre-entry) or of using the Simplified Clearance Procedure (SCP). Under SCP, provided a suitable pre-shipment advice has been presented in lieu of the export entry, a detailed export declaration must be sent within fourteen days of shipment directly to the statistical office. The new procedures prompted changes which in turn affected the flow of documents. There was a move towards pre-entry, sharply reducing the time lag between shipment of the goods and receipt of a document; exporters not using pre-entry also submitted their returns more quickly; and new arrangements for reporting trade by schedule and by computer had a further impact. Adjustments were introduced to take account on the recording of exports of this speeding up in the flow of export information. Similar adjustments had been necessary when procedures were last changed in 1971.

Importers are usually required to present their documents before they can obtain customs clearance and remove the goods. Moreover, the monthly total for imports includes those recorded in documents relating to the month which reach the statistical office up to the third working day after the end of the month. Thus the imports statistics correspond closely to movements through the ports during the calendar month.

Indices of goods and goods less oil (Table 2.2)

The volume and unit value indices are weighted according to the pattern of trade in the base year, 1975. Developments in our trade in oil mean, therefore, that a larger weight is given to oil on the import side and a smaller weight on the export side than would be the case if current trade patterns were used. This has

an important impact on the terms of trade index, which is derived as the ratio of the export unit value index to the import unit value index. The methods used in calculating the volume index are described on page 30 and there is an article 'United Kingdom overseas trade: unit value and volume index numbers and the terms of trade' in the September 1979 edition of *Economic Trends*.

Commodity analysis

The analysis in Table 2.3 of the visible trade of the United Kingdom by commodity is by the aggregated standard international trade classification (SITC (Rev 2)) headings used in the *Overseas Trade Statistics*, adjusted for the coverage and valuation adjustments detailed above. For example the ships and aircraft in the coverage figures are included in the finished manufactured goods.

The commodity headings shown correspond to the following SITC headings:

Food, beverages and tobacco	Sections 0, 1
Basic materials	Sections 2, 4
Mineral fuels and lubricants	Section 3
Semi-manufactured goods	Sections 5, 6
Finished manufactured goods	Sections 7, 8
Commodities and transactions not classified according to kind	Section 9.

Geographical analysis

The analysis given in Table 2.4 of visible trade between the United Kingdom and major economic groupings, is based on *Overseas Trade Statistics* which, apart from a small amount conveyed in low value consignments (in 1980 consignments of less than £200 in value each), are classified by country in detail. Adjustments are applied to the trade statistics to bring their coverage and valuation on to a balance of payments basis. For only some of these adjustments is a country analysis available.

For other adjustments, in particular freight on imports, only rough estimates can be made; further details are given in 1981 and earlier editions of this publication along with a review of the different bases of geographical allocation used. A more complete discussion of the geographical analysis of the visible trade figures is given in an article 'How different methods of country attribution affect trade statistics' by R W Green in the 21 April 1978 issue of *Trade and Industry* and an article 'How United Kingdom overseas trade is measured' by G C Jones in *British business* for 8 May 1981.

The constituent countries of the groups analysed are shown on pages 68 and 69.

References

Monthly estimates of the visible trade balance, seasonally adjusted and on a balance of payments basis, form part of the current account press notice referred to in the Introduction.

Figures of imports (c.i.f.) and exports (f.o.b.) (not adjusted to a balance of payments basis) are published each month in the *Overseas Trade Statistics of the United Kingdom*. The monthly seasonally adjusted figures, both on an *Overseas Trade Statistics* basis and on a balance of payments basis are published by the Department of Trade in the *Monthly Review of External Trade Statistics*. The visible trade statistics are also the subject of regular articles in *British business* and are later presented in summary form in the *Monthly Digest of Statistics* and *Annual Abstract of Statistics*. Annual statistics are also contained in an annual edition of the *Overseas Trade Statistics of the United Kingdom*.

TABLE 2.1 ADJUSTMENT FROM THE OVERSEAS TRADE STATISTICS TO BALANCE OF PAYMENTS BASIS.

£ million

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
EXPORTS											
Trade statistics (f.o.b.)	9 070	9 602	12 087	16 309	19 607	25 277	31 990	35 380	40 637	47 339	..
Coverage adjustments											
Second hand ships	+53	+40	+68	+223	+149	+216	+177	+175	+271	+222	..
NAAFI	-18	-18	-21	-28	-31	-33	-40	-41	-41	-44	..
Goods not changing ownership	-215	-237	-302	-276	-450	-520	-552	-646	-718	-854	..
Other(1)	+50	+50	+85	+84	+55	+174	-78(1)	+45	+132	+94	..
Total	-130	-165	-170	+3	-277	-163	-493	-467	-356	-582	..
Net adjustment for recording of exports	+103	-	+20	+82	-	+77	+231	+150	+406	+639	..
Exports-balance of payments basis (f.o.b.)(2)	9 043	9 437	11 937	16 394	19 330	25 191	31 728	35 063	40 687	47 396	51 100
IMPORTS											
Trade statistics (c.i.f.)	9 799	11 073	15 724	23 139	24 046	31 084	36 219	39 533	46 925	49 886	51 348
Valuation adjustments											
Freight and insurance	-889	-948	-1 282	-1 582	-1 487	-1 793	-1 872	-1 994	-2 430	-2 526	-2 466
Green pound	-	-	+19	+40	+81	+64	+30	-	-	-	-
Other	-60	-67	-83	-105	-144	-249	-348	-303	-281	-298	-306
Total	-949	-1 015	-1 346	-1 647	-1 550	-1 978	-2 190	-2 297	-2 711	-2 824	-2 772
Coverage adjustments											
Second-hand ships	+4	+3	+13	+44	+56	+25	+31	+22	+81	+54	+68
Ships delivered abroad	+203	+327	+377	+419	+440	+268	+428	+346	+225	+131	+102
Goods not changing ownership	-215	-237	-302	-276	-429	-503	-527	-621	-673	-822	-870
Other	+16	+30	+58	+66	+100	+224	+51	-378	+289	-214	+211
Total	+8	+123	+146	+253	+167	+14	-17	-631	-78	-851	-489
Arrivals of US military aircraft and missiles	-10	-1	-2	-	-	-	-	-	-	-	-
Payments for US military aircraft and missiles	+5	+5	+1	-	-	-	-	-	-	-	-
Imports-balance of payments basis (f.o.b.)	8 853	10 185	14 523	21 745	22 663	29 120	34 012	36 605	44 136	46 211	48 087

1. Includes a small valuation adjustment in respect of parcel post.

2. The 1981 figure is a provisional estimate based on the data available for ten months of the year.

TABLE 2.2 VOLUME AND UNIT VALUE INDICES

Index numbers 1975=100

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
VISIBLE TRADE ON A BALANCE OF PAYMENTS BASIS:											
VOLUME INDICES											
Exports of goods(1)	86	86	97	104	100	110	118	121	126	128	127
Exports of goods <u>less</u> oil	85	84	96	104	100	109	116	118	119	121	..
Imports of goods	85	95	108	109	100	106	108	113	126	119	119
Imports of goods <u>less</u> oil	80	90	103	107	100	107	113	120	137	131	133
UNIT VALUE INDICES											
Exports of goods	54	57	64	82	100	120	142	155	172	193	..
Exports of goods <u>less</u> oil	55	58	65	81	100	119	141	156	170	190	..
Imports of goods	45	47	60	88	100	122	141	147	162	186	204
Imports of goods <u>less</u> oil	50	53	67	88	100	120	139	148	159	170	177
Terms of trade											
Total	120	121	107	93	100	98	100	106	106	104	..
Total <u>less</u> oil	110	111	97	92	100	100	102	106	108	112	..

1. The 1981 figure is a provisional estimate based on the data available for ten months of the year.

NOTE:

The Central Statistical Office will supply the 1981 detail missing from Tables 2.1 to 2.4 when it becomes available. Apply to Branch 6, CSO, Great George Street, London, SW1P 3AQ (Telephone: 01-233 7063).

£ million

TABLE 2.3 ANALYSIS BY COMMODITY

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
VISIBLE TRADE ON A BALANCE OF PAYMENTS BASIS:											
EXPORTS											
Food, beverages and tobacco	569	638	849	1 034	1 388	1 654	2 181	2 867	2 905	3 241	..
Basic materials	279	317	420	583	556	807	963	1 036	1 290	1 467	..
Mineral fuels and lubricants(1)	239	242	374	781	827	1 265	2 092	2 375	4 324	6 418	..
Semi-manufactured goods	2 958	3 058	4 013	5 630	5 851	7 996	10 122	10 889	12 623	14 152	..
Finished manufactured goods	4 734	4 900	5 910	7 764	9 987	12 654	15 467	16 852	18 341	20 734	..
Commodities and transactions not classified according to kind	264	282	371	602	721	815	903	1 044	1 204	1 384	..
Total(2)	9 043	9 437	11 937	16 394	19 330	25 191	31 728	35 063	40 687	47 396	51 100
IMPORTS											
Food, beverages and tobacco	1 969	2 136	2 832	3 475	4 089	4 617	5 483	5 659	5 955	5 619	..
Basic materials	1 097	1 128	1 692	2 213	1 967	3 022	3 427	3 201	3 600	3 413	..
Mineral fuels and lubricants(1)	952	949	1 320	4 145	3 912	5 241	4 905	4 511	5 407	6 589	..
Semi-manufactured goods	2 276	2 601	3 731	5 682	5 355	7 014	8 492	9 568	11 889	12 523	..
Finished manufactured goods	2 401	3 212	4 704	5 742	6 746	8 719	11 211	13 107	16 376	16 862	..
Commodities and transactions not classified according to kind	158	159	244	488	594	507	494	559	909	1 205	..
Total(3)	8 853	10 185	14 523	21 745	22 663	29 120	34 012	36 605	44 136	46 211	48 087
VISIBLE BALANCE											
Food, beverages and tobacco	-1 400	-1 498	-1 983	-2 441	-2 701	-2 963	-3 302	-2 792	-3 050	-2 378	..
Basic materials	-818	-811	-1 272	-1 630	-1 411	-2 215	-2 464	-2 165	-2 310	-1 946	..
Mineral fuels and lubricants(1)	-713	-707	-946	-3 364	-3 085	-3 976	-2 813	-2 136	-1 083	-171	..
Semi-manufactured goods	+682	+457	+282	-52	+496	+982	+1 630	+1 321	+734	+1 629	..
Finished manufactured goods	+2 333	+1 688	+1 206	+2 022	+3 241	+3 935	+4 256	+3 745	+1 965	+3 872	..
Commodities and transactions not classified according to kind	+106	+123	+127	+114	+127	+308	+409	+485	+295	+179	..
Total(3)	+190	-748	-2 586	-5 351	-3 333	-3 929	-2 284	-1 542	-3 449	+1 185	+3 013

1. Figures of trade in oil are shown with Table 9.1.

2. The 1981 figure is a provisional estimate based on the data available for ten months of the year; commodity and geographical analyses are not yet available.

3. Commodity and geographical analyses are not yet available for 1981.

TABLE 2.4 GEOGRAPHICAL ANALYSIS

£ million

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
VISIBLE TRADE ON A BALANCE OF PAYMENTS BASIS:											
EXPORTS											
European Community (1)	2 536	2 849	3 851	5 546	6 227	8 936	11 674	13 348	17 310	20 425	..
Other Western Europe	1 450	1 551	1 951	2 623	2 972	3 862	4 615	4 385	5 663	6 840	..
North America	1 422	1 559	1 879	2 278	2 316	3 065	3 773	4 219	4 788	5 286	..
Other developed countries	1 085	940	1 209	1 719	1 835	1 932	2 075	2 302	2 485	2 657	..
Oil exporting countries	584	641	794	1 225	2 275	3 172	4 335	4 680	3 667	4 822	..
Rest of world	1 966	1 897	2 253	3 003	3 705	4 224	5 256	6 129	6 774	7 366	..
Total-all areas(2)	9 043	9 437	11 937	16 394	19 330	25 191	31 728	35 063	40 687	47 396	51 100
IMPORTS											
European Community (1)	2 720	3 441	5 178	7 680	8 734	11 194	13 606	15 863	19 935	19 713	..
Other Western Europe	1 470	1 733	2 462	3 219	3 240	4 146	4 795	5 224	6 908	6 907	..
North America	1 585	1 633	2 153	2 964	2 955	3 887	4 585	4 953	5 853	6 946	..
Other developed countries	851	1 083	1 410	1 615	1 852	2 040	2 627	2 714	2 771	2 896	..
Oil exporting countries	802	775	1 122	3 393	2 948	3 854	3 421	3 033	2 963	3 980	..
Rest of world	1 425	1 520	2 198	2 874	2 934	3 999	4 978	4 818	5 706	5 769	..
Total-all areas(2)	8 853	10 185	14 523	21 745	22 663	29 120	34 012	36 605	44 136	46 211	48 087
VISIBLE BALANCE											
European Community (1)	-184	-592	-1 327	-2 134	-2 507	-2 258	-1 932	-2 515	-2 625	+712	..
Other Western Europe	-20	-182	-511	-596	-268	-284	-180	-839	-1 245	-67	..
North America	-163	-74	-274	-686	-639	-822	-812	-734	-1 065	-1 660	..
Other developed countries	+234	-143	-201	+104	-17	-108	-552	-412	-286	-239	..
Oil exporting countries	-218	-134	-328	-2 168	-673	-682	+914	+1 647	+704	+842	..
Rest of world	+541	+377	+55	+129	+771	+225	+278	+1 311	+1 068	+1 597	..
Total-all areas(2)	+190	-748	-2 586	-5 351	-3 333	-3 929	-2 284	-1 542	-3 449	+1 185	+3 013

1. Figures for all years relate to the nine countries.

2. See Table 2.3, footnotes (2) and (3).

3 Invisibles: services

This chapter covers the provision of services, e.g. shipping, insurance, tourism, consultancy, by residents of the United Kingdom to non-residents and vice versa. The full range of transactions included under 'services' is apparent from the tables in this section and from the notes below.

These notes show that it has been found convenient to include in with services debits the value of goods which are purchased and used abroad. Similarly the credits figures include the net profits on goods bought and resold abroad. There are two reasons for this practice: the goods do not pass the UK customs boundary and are not therefore included in the visible trade account; and it is in any case very often impossible to distinguish goods from services in the records of expenditure abroad by, for example, UK shipping operators and by HM Forces.

General government (Table 3.2)

This section consists of:

- (i) all credit and debit transactions in services between the UK government, including its employees stationed abroad, and overseas residents, unless these transactions are more appropriate to other items in the accounts or cannot be allocated here.
- (ii) the value of all purchases of goods from non-UK sources by UK government installations abroad (except for goods which have passed through HM Customs and Excise and have therefore been included as UK imports in the visible trade account).

The figures for UK government overseas receipts and expenditure are obtained from returns provided by government departments having transactions with overseas residents.

Credits

European Community institutions

These services comprise receipts by the UK government for its activities as an agency for the collection of contributions to the European Community budget and for the provision of services at the site of the Community's Joint European Torus project in Oxfordshire.

US forces' expenditure

These are receipts by the UK government for the United States forces stationed in the United Kingdom for supplies and services.

Other military receipts by UK government

This item includes:

- (i) receipts from offshore sales of goods to the United States government;
- (ii) contributions from overseas governments towards common defence projects;
- (iii) contributions from other NATO countries, from March 1972, towards the cost to the United Kingdom of military facilities in Malta;
- (iv) the value of goods held abroad and then handed over to overseas countries by the UK forces;
- (v) the value of services provided in the United Kingdom and elsewhere to overseas residents by the services departments, for example military training schemes. Where no charge is made, however, such entries are offset under military grants.

Other receipts

These are the value of services which the government provides to overseas residents under its economic aid programmes and which are then offset under economic grants, plus miscellaneous receipts by the UK government from overseas countries.

Debits

Military expenditure

The items included are:

- (i) wage and salary payments to locally engaged staff of UK military bases abroad;
- (ii) contributions towards common defence projects;
- (iii) local drawings of pay by UK forces;
- (iv) local purchases of food, equipment, fuel and services;
- (v) total cost of the use by the United Kingdom of military facilities in Malta from 1972-1978.

The items are recorded partly on a net basis, that is after deducting receipts arising locally and receipts arising from the most recent Anglo-German offset agreement.

Administrative, diplomatic, etc. expenditure

The operating costs of UK embassies, High Commission offices, consulates, British Council and Commonwealth War Graves Commission account for most of the expenditure under this heading. The wages and salaries of locally engaged staff and the local salary drawings of UK diplomatic and other non-military personnel stationed overseas are also included.

Private sector and public corporations

Sea transport (Tables 3.3 to 3.5)

Credits consist of the following earnings by UK operators: freight on UK exports, freight on cross-trades (i.e. trade between countries other than the United Kingdom), passenger fare receipts from, and on-board spending by, overseas residents and receipts from the chartering of ships to non-residents; also included are disbursements in the United Kingdom by overseas operators.

Conversely debits comprise UK operators' disbursements abroad, plus payments by UK residents to overseas operators for time and voyage charters, freight on UK imports, and passenger fares.

UK operators

Statistics relating to UK operators are provided by the General Council of British Shipping (GCBS), formerly the Chamber of Shipping of the United Kingdom, which conducts inquiries into their participation in overseas trade. Since the war full inquiries, covering all GCBS members, have been made in 1947, 1952, 1958, 1962, 1966, 1970, 1974 and 1978, and sample inquiries in the intervening years since 1959. The sample results are grossed up by reference to the full inquiries on the assumption that the experience of the companies included in the sample is typical of the shipping industry as a whole, with appropriate adjustments for any changes in the size of fleet. For tankers from 1970, account has also been taken of the results of the Bank of England inquiries of the oil companies.

Earnings of offshore supply vessels are not included in 'Sea transport' but in 'Other services'.

UK-owned and chartered vessels. The sub-division between ships owned by UK operators and ships on charter to UK operators involves a small amount of estimation, particularly in the allocation of disbursements abroad. In the balance of payments the definition of an 'owned' or 'chartered' vessel varies according to whether or not the UK operator is a UK resident oil company, as follows:

A ship operated by an *oil company* is regarded as being UK-owned if it is owned by *any* UK resident company; all foreign-owned ships are classified as being on charter.

A ship operated by any *other UK company* is regarded as being UK-owned if it is either owned by that company or has

been chartered in from other UK companies irrespective of whether it is UK or foreign-owned. Ships on charter to UK operators comprise ships chartered in from foreign shipping companies even if the ships are owned by a UK company.

Credits. In the GCBS inquiries, for the years up to 1969, the earnings from freight of UK tanker operators were usually valued at AFRA (Average Freight Rate Assessments compiled by the London Tanker Brokers' Panel). From 1970, tanker operators have been asked to report earnings from freight at either AFRA or an internal transfer price, whichever basis of valuation is most convenient. The change in the basis of reporting does not appear to have significantly affected the series.

Passenger receipts from overseas residents comprise estimates of fares and passengers' expenditure on board ship. Since UK shipowners are not able to distinguish between fares received from UK residents and those from overseas residents, fares collected abroad, which are identifiable, are taken as an estimate for fares from overseas residents (the amount of passenger revenue collected abroad from UK residents is thought to be small and is assumed to be counterbalanced by that collected in the United Kingdom from foreign residents). An estimate of passengers' expenditure on board ship is added, taking the proportion for overseas residents' share of the total to be the same as for fares. The very small amount of passenger revenue earned by ships on time or voyage-charter to UK operators is included with the earnings of ships owned by UK operators.

Debits. Disbursements abroad include payments by UK operators for bunkers, canal dues, maintenance of shore establishments, port charges, agency fees, handling charges, crews' expenditure, pilotage and towage, repair work, ships' stores, light dues, other miscellaneous port expenditure abroad and wages of non-resident crew paid abroad.

Overseas operators

Credits. These consist of disbursements in the United Kingdom by overseas operators. Estimates of the different types of expenditure are made by the Departments of Trade and Industry using the results of occasional inquiries and regular returns from a variety of sources. Expenditure for port charges, towage, handling costs and other port-related expenditure was surveyed in 1979-80 by the National Ports Council and crews' expenditure in 1978 by the Immigration Service. Regular returns are received on pilotage from the Pilotage Commission, on light dues from Trinity House, on repairs from the Business Statistics Office and on ships stores and bunkers from HM Customs and Excise. Of all these disbursements it is possible to allocate only bunkers separately into the dry cargo and tanker accounts on a regular basis, using information supplied by oil companies. Thus there is an element of overstatement in the dry cargo credit item, which is offset by an equal understatement in the comparable tanker item. This is estimated at £60 million in 1980.

Debits. Estimates of freight on imports, other than oil, paid to overseas residents are obtained by deducting from the estimates of total freight on imports by sea described on page 11, firstly, estimates of the land-leg freighting included in those figures, and secondly, GCBS estimates of the amount earned by UK-operated ships by carrying UK imports.

From 1970, estimates of freight on oil imports paid to overseas residents are based on information made available to the Bank of England by the oil companies; official estimates have been made for previous years. Estimates of passenger fares paid to overseas shipowners are derived mainly from the results of the International Passenger Survey which is described in the notes below on 'Travel'. Other expenditure by UK passengers on board overseas shipping is included, but not separately identified, in 'Travel' debits.

Civil aviation (Table 3.6)

Credits include receipts by the British airlines from overseas residents for passenger fares, for the carriage of UK exports, freight on cross-trades, mail and charter hire, together with disbursements in the United Kingdom by overseas airlines.

Debits include expenditure abroad by British airlines on airport charges, crews' expenses, charter payments, etc., together with payments to overseas airlines by UK residents for passenger fares, freight on UK imports and the carriage of mail.

UK airlines

The transactions of UK airlines are derived from returns supplied each quarter by British Airways and the British independent airlines.

Credits. Passenger revenue relates to all tickets sold outside the United Kingdom and used on British aircraft, together with receipts from carrying passengers' excess baggage and vehicles. Also included is passenger revenue received from overseas residents travelling on charter flights. Since it is not practicable to distinguish between fares for scheduled flights received abroad from UK residents and overseas residents it is assumed that all tickets sold abroad are to overseas residents and that the small amount actually sold to UK residents is counterbalanced by sales in the United Kingdom to overseas residents (which are not measured).

Other revenue comprises receipts from carrying overseas airmails, receipts from the charter or hire of aircraft, gross receipts of sums due from overseas airlines under pooling arrangements and for services such as consultancy and engine overhaul.

Debits. Disbursements abroad include airport landing fees, other airport charges, handling charges, purchases of fuel and stores, charter payments, crews' expenses, operating costs of overseas offices, commissions to agents, advertising, settlements of sums due to overseas airlines under pooling arrangements and other miscellaneous expenditure abroad.

Overseas airlines

Credits. These comprise expenditure in the United Kingdom by overseas airlines on landing fees, other airport charges, handling charges, purchases of fuel and stores, crews' expenses, office rentals and expenses, salaries and wages of staff at UK offices, commissions to agents and advertising. The estimates are based on information supplied to the Civil Aviation Authority by the majority of overseas airlines operating in the United Kingdom and on returns from the British Airports Authority and municipal airports on the receipts from overseas airlines for airport landing fees and other airport charges.

Debits. The information on passenger revenue is derived from the International Passenger Survey; see notes on 'Travel' below. An estimated amount is added for expenditure of UK residents on flights between the United Kingdom and the Irish Republic, which are not covered by the survey.

Estimates of total freight on imports by air are apportioned between overseas airlines and UK airlines by reference to the proportions by weight of total freight carried. Other debits comprise payments to overseas airlines for carrying UK airmails as reported by the Post Office to the Civil Aviation Authority.

Passenger revenue-visitors to the United Kingdom

The allocation of UK and overseas airlines' passenger revenue between 'visitors to the United Kingdom' and 'other passengers' is derived from the International Passenger Survey; see notes on 'Travel' below.

Travel (Table 3.7)

This covers personal expenditure by UK residents in overseas countries and by overseas residents in the United Kingdom. The figures include certain items which might be more appropriately recorded in 'Civil aviation' or 'Sea transport' but which are not measured separately; these are (a) payments made abroad by UK residents for transport within or between overseas countries, and (b) payments in the United Kingdom by overseas visitors for transport within the United Kingdom. The figures exclude the cost of air and sea travel to and from the United Kingdom; these payments, where they affect the balance of payments, are included in 'Civil aviation' and 'Sea transport'.

The travel estimates are based primarily on the International Passenger Survey, the sample survey of air and sea passengers, conducted by the Office of Population Censuses and Surveys for the Department of Trade, which provides information on the numbers and expenditure of overseas visitors to the United Kingdom and of UK residents travelling abroad. A detailed description of the survey appeared in the *Board of Trade Journal* for 23 August 1963. Subsequent developments in the coverage of the Survey are described in articles included in the *Board of Trade Journal* until 1970 and thereafter in *British business*, formerly *Trade and Industry*, the most recent one being in the issue dated 21 August 1981. Some of the more recent figures will be subject to small amendments, although these are not expected to be significant. The results of the International Passenger Survey are published as monthly, quarterly and annual features in *British business*. They are also published, in more detail, in the quarterly and annual Business Monitors *MA6* and *MQ6 Overseas Travel and Tourism*.

The survey distinguishes several purposes of visit. In Table 3.7, all except 'business' have been combined under the heading 'leisure'. The main purposes included in this category are holiday, visits to friends and relatives and study. All overseas visitors staying overnight in the United Kingdom en route to other destinations have been included under 'leisure'.

The table also gives figures for areas and individual countries. The countries are arranged in order of size of earnings and expenditure, respectively, as at the most recent year.

The survey does not cover travel between the United Kingdom and the Irish Republic for which estimates are derived from statistics published by the Irish Central Statistics Office.

Financial services (including allied services) (Table 3.8)

Items recorded under this heading are the earnings, net of expenses, of financial and allied institutions for services, including brokerage, merchanting, arbitrage, banking charges and commissions, underwriting of capital issues, risk underwriting, and other insurance. It excludes services provided by UK head offices to overseas branches and subsidiaries, which are included in the item 'Services rendered by UK enterprises' in 'Other services' (Table 3.9). Other overseas receipts of financial institutions, for example, profits of overseas branches, subsidiaries and associates and receipts of interest or dividends, are appropriate to 'Interest, profits and dividends', and are recorded there. Table 6.1 brings together, from the various balance of payments classifications, the total net overseas earnings of financial and allied institutions.

Insurance

Overseas earnings of UK insurance brokers and insurers, net of claims and expenses, from risk underwriting and other insurance, excluding profits of overseas branches, subsidiaries and associates of UK insurance companies and income received by UK head offices on portfolios of overseas securities. The figures of

insurance earnings include the whole of the net earnings of UK insurers from underwriting risks on international cargoes. An offsetting entry is included in the debit side of 'Other services', representing all premiums for cargo insurance on UK imports, whether paid to UK or overseas insurers. This is similar to the Method B described in Chapter 11 of the International Monetary Fund's *Balance of Payments Manual (Fourth Edition, 1977)*. The offsetting entries include certain transactions between residents.

Estimates are based on returns made to the Department of Trade by the Corporation of Lloyd's, the British Insurance Association and insurance brokers.

Banking

Net earnings of UK banks for services, including banking charges and commissions, arbitrage and underwriting commission, but excluding (i) net earnings on services rendered by UK banks to related enterprises overseas; (ii) net receipts of interest or discounts earned on external claims and liabilities; and (iii) profits of the overseas branches, subsidiaries and associates of the UK banks. Estimates are based on a periodic inquiry carried out by the Bank of England. The latest survey is in respect of 1976.

Commodity trading

This entry covers earnings from physical trade in commodities (industrial raw materials and primary foodstuffs) between foreign countries which is handled by UK firms, and also net flows arising from transactions on commodity futures markets. Earnings from physical trade include commissions on brokerage and agency business, and earnings from merchanting. To conform with balance of payments accounting conventions, earnings exclude, so far as possible, the effect on earnings of changes in volume of stocks which UK merchants hold abroad for resale. Such stock changes are included as 'Other transactions' in the capital account.

The net flows arising from futures transactions cover the dealings of UK residents on foreign futures markets and the dealings of non-residents on UK futures markets. The flows comprise commissions paid to members of markets through whom futures contracts are bought and sold, premiums paid for 'options' (i.e., the right to take up futures contracts at a fixed price during a given period ahead) and the settlement of 'differences' (i.e., the gains or losses caused by changes in price while futures contracts are held).

The estimates are provided by the Bank of England, and for 1974-79 are based primarily on a survey of the invisible earnings of the principal UK commodity markets which the Bank carried out for three years from mid-1974. (Some results of the survey were given in an article 'Invisible earnings of the UK commodity markets', in the *Bank of England Quarterly Bulletin* for March 1977.) An allowance is made in respect of other commodities not covered by the survey, based on broad indications from some of the trade associations concerned. Estimates for years up to 1973, when no statistics about flows from transactions on futures markets were collected, are much less reliable than those for 1974-79. They link the figures based on the recent survey with earlier estimates of earnings from physical trade which were derived mainly from exchange control data. Estimates have been made for 1980 and 1981 using information on total commodity turnover.

Other merchanting

This item covers the profit on third-country trade in goods other than commodities (see definition above). Estimates are made by the Bank of England based on an occasional survey carried out by the British Export Houses Association. The latest survey is in respect of 1977.

Brokerage, etc.

This is composed of estimates based on information obtained annually by the Bank of England in respect of the following four items (which are shown separately in Table 6.1):

Baltic Exchange. Net earnings from commissions, brokerage, agency fees, etc., in respect of chartering and sales and purchases of ships and aircraft, and miscellaneous associated activities. Earnings on the Exchange's commodities section are included in the 'Commodity trading' figures and excluded here.

Stock Exchange. Net earnings from fees, commissions, arbitrage, underwriting of capital issues and management of investment portfolios for overseas clients. Returns of overseas earnings are made to the Stock Exchange by broker members and submitted via the Bank of England.

Lloyd's Register of Shipping. Earnings from fees charged for ship classifications and other related services.

Other brokerage. This includes the commissions of gold and silver bullion dealers, net overseas receipts of foreign exchange brokers, management expenses on investment portfolios held for overseas clients, and other miscellaneous receipts.

Solicitors

Solicitors' earnings from overseas clients mainly relate to services provided in connection with financial matters and are therefore included here. The estimates from 1974 to 1977 are based on VAT returns. Estimates for other years are supported by surveys conducted by the Bank of England, the most recent of which relates to 1980.

Other services (Table 3.9)*Commissions, etc. on exports and imports*

These are agents' commissions from suppliers and the value of after-sales service provided by traders with sole concessions in certain products. The estimates of commissions on imports are made by applying appropriate percentages to the c.i.f. values of imports of various commodities; these percentages are derived from sample surveys conducted by Customs and Excise; the latest to be analysed relates to 1975. Estimates of commissions on exports are obtained from exchange control records up to the fourth quarter of 1979 with notional estimates thereafter.

Telecommunications and postal services

Comprises overseas receipts and expenditure arising from international telephone, telegraph and telex services, the UK share in the satellite system Intelsat, submarine cables, leased circuits, and surface mail. Figures are supplied by the Post Office.

Films and television

The figures are derived from the Department of Trade annual inquiries into overseas transactions in respect of production costs, royalties, rentals and purchases of cinematograph films and television material. A description of the latest inquiry is published in an article in *British business* dated 4 September 1981. A deduction is made to eliminate the overlap between this inquiry and the purchases and sales of exposed cinematograph films recorded in *Overseas Trade Statistics* and included in exports and imports of goods.

Royalties, etc.

Comprise amounts payable or receivable by UK residents in respect of the right to use processes and other information, for example royalties, licences to use patents, trade marks, designs, copyrights, etc., or manufacturing rights and use of technical

'know-how'; and amounts payable or receivable in respect of mineral royalties. Royalties on printed matter, sound recordings and performing rights are included, but film royalties are included under 'Films and television'. The figures include royalties between related companies, that is between parent companies and their branches, subsidiaries and associates. Royalties paid locally by the overseas subsidiaries of UK parent companies, for example on the production of oil, are not, however, included here; like other production costs, they are accounted for in arriving at the net profit of these subsidiaries included in 'Interest, profits and dividends'. A description of the Department of Trade annual inquiry on royalties is published regularly in an article in *British business*, the most recent one being dated 28 May 1982.

Services rendered to, and by UK enterprises

These comprise all net charges for services rendered (excluding those included above in royalties) between related companies, including management expenses, commissions, branches' contributions to head office expenses and subsidiaries' and associates' contributions to directors' fees. The estimates are obtained from returns collected by the Department of Trade which record the net amount debited or credited between parent companies and individual branches, subsidiaries and associates but exclude oil companies.

Agency expenses and advertising

The credits series represents the value of advertising services provided for non-residents by UK newspapers and other media and by advertising agencies and is based on information published by Media Expenditure Analysis Ltd.

The debits series mainly represents sales promotion costs, other than agents' commissions, incurred by unrelated companies overseas. Estimates are based on information from exchange control records for years up to 1979 and thereafter are notional.

Construction work overseas

This covers the fees of consulting engineers, architects and quantity surveyors engaged on projects overseas; and net earnings of UK building and civil engineering contractors, after deducting their local expenses, on projects managed directly from the United Kingdom; and the value of design and other work done in the United Kingdom by process engineering contractors for plants to be erected overseas. Estimates are based mainly on information provided by firms but are partly notional.

Expenditure by overseas students and journalists

The figures are obtained by applying estimates of average expenditure to the number of overseas students and journalists who are in the United Kingdom for twelve months or more. The expenditure of overseas students and journalists in the United Kingdom for shorter periods is recorded in 'Travel' credits. Some allowance is made for receipts from UK nationals living permanently overseas whose children are being maintained and educated in the United Kingdom.

Non-government receipts from foreign military forces

Comprise the personal expenditure of these forces and the purchase of goods and services by military establishments located in the United Kingdom from the private sector. The figures are derived largely from information provided by United State military authorities but involve a certain amount of estimation.

Services

Overseas governments' and non-territorial organisations' expenditure

Comprises the cost of operating and maintaining Commonwealth High Commission offices, foreign embassies and consulates in the United Kingdom, including the personal expenditure of diplomatic staff, and similar expenditure by the UK offices of non-territorial organisations. The estimates are based on information supplied by the statistical offices of certain other countries and on numbers of diplomats stationed in the United Kingdom.

Services associated with exploration for and production of oil and natural gas

The main components of the credit item are work done overseas by UK-owned drilling rigs and offshore supply boats and by UK seismic survey contractors, the income of UK residents from providing services to the owners of foreign drilling rigs, earnings from treating Norwegian oil and gas at the Seal Sands and St. Fergus terminals and for transporting Norwegian gas to the latter terminal and receipts of the UK company operating the Murchison field from the Norwegian partners in respect of their share of the operating costs of the field.

The debit item comprises services such as the hire of drilling rigs and marine support vessels, consultancy, diving and surveys. The United Kingdom's share of the development costs of the Norwegian operated Frigg and Statfjord fields is included here to the extent that this expenditure cannot be allocated to visible trade.

These series exclude items which are more appropriate to and allocated to, other items in the balance of payments accounts (for example, freight on exported goods).

The estimates are based on information supplied by companies classified to the industry (Class 13 of the Standard Industrial Classification, 1980).

In the 1974 and earlier issues of the Pink Book, the data were included unidentifiably within the oil companies' entries in 'Interest, profits and dividends'.

Consultancy earnings n.e.i.

This series covers consultancy work undertaken in the United Kingdom or overseas other than by consulting engineers, architects and quantity surveyors. The main areas covered are technical advice, feasibility studies, design, project planning, management, computing, industrial relations and finance. Medical consultancy undertaken in the United Kingdom appears under the heading 'Travel'. For the most recent years, information has been obtained through the Nationalised Industries Overseas Group and the Management Consultants' Association and a notional amount added for consultants who are not members of either body. For early years, the estimates are notional.

Research and development

This series covers research and experimental development work carried out by firms in the United Kingdom for unrelated organ-

isations overseas. Estimates for 1975 and 1978 are derived from surveys carried out by the Department of Industry. Articles were published in *Economic Trends* for July 1979 and August 1981 respectively. Notional estimates have been made for other years.

Other credits

These include the remitted earnings of UK residents, such as entertainers working temporarily overseas; earnings of UK computer services; earnings of UK road hauliers; subscriptions to UK professional associations; a contra-entry for grants given by the UK government which are spent on services, other than education, in the United Kingdom; earnings of auction houses; and other miscellaneous receipts. These estimates are based mainly on surveys and official records but some are notional.

Also include services of the oil industry other than those associated with the exploration and production of oil and natural gas but excluding those of Shell and BP (see notes on 'Oil credits' on page 29).

Other debits

These include insurance premiums on imports; see notes on 'Insurance' on page 18. Also include the following other items which are shown separately on the credit side of the account: other payments for insurance and financial services, expenditure overseas by journalists and students, and the net earnings of overseas contractors from work done in the United Kingdom. Also include the net amounts remitted back to their home countries by temporary workers in the United Kingdom, such as entertainers; professional consultants' fees; payments for road and rail haulage overseas; private pensions; services of the oil industry; and other miscellaneous payments.

References

See transport. An analysis of the overseas receipts and payments of UK shipping companies is given in the General Council of British Shipping's publication *British Shipping Statistics*. An annual article describing the international activities of the UK shipping industry appears in *British business*, usually in September.

Civil aviation. Information is published by the Civil Aviation Authority in *CAA Monthly Statistics* and *CAA Annual Statistics*.

Travel. Articles on travel to and from the United Kingdom appear regularly in *British business* and full results of surveys are published in Business Monitors *MQ6* and *MA6*.

Other services. The results of the annual enquiries by the Department of Trade into royalties, etc., services rendered by or to UK enterprises and films and television appear regularly in articles in *British business* and are published in greater detail in Business Monitor *MA4*.

British business articles. Each issue of this publication contains an index giving dates of publication of the most recent articles on the subjects mentioned above.

£ million

TABLE 3.1 SERVICES SUMMARY

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
CURRENT PRICES											
CREDITS											
General government	59	72	104	110	139	215	241	318	344	400	464
Private sector and public corporations											
Sea transport	1 615	1 607	2 055	2 665	2 651	3 233	3 433	3 149	3 804	3 816	3 772
Civil aviation	354	410	480	625	780	1 049	1 203	1 455	1 755	2 210	2 359
Travel	500	576	726	898	1 218	1 768	2 352	2 507	2 797	2 961	2 999
Financial services (1)	471	529	601	785	1 025	1 303	1 391	1 542	1 588	1 601	1 954
Other services	966	1 094	1 330	1 653	2 054	2 677	3 234	3 692	4 150	4 774	5 206
Total credits	3 965	4 288	5 296	6 736	7 867	10 245	11 854	12 663	14 438	15 762	16 754
DEBITS											
General government	374	423	513	629	709	882	965	1 016	1 141	1 188	1 239
Private sector and public corporations											
Sea transport	1 673	1 688	2 160	2 776	2 568	3 161	3 350	3 167	3 683	3 681	3 870
Civil aviation	303	340	415	540	675	840	984	1 176	1 467	1 815	1 922
Travel	442	535	695	703	917	1 068	1 186	1 549	2 109	2 738	3 285
Other services	548	601	727	1 005	1 479	1 845	2 110	2 033	2 080	2 280	2 463
Total debits	3 340	3 587	4 510	5 653	6 348	7 796	8 595	8 941	10 480	11 702	12 779
BALANCE	+625	+701	+786	+1 083	+1 519	+2 449	+3 259	+3 722	+3 958	+4 060	+3 975
CONSTANT PRICES (1975=100)											
Total credits	82	86	92	98	100	106	110	109	110	106	99
Total debits	90	95	100	101	100	99	97	98	108	113	112

1. The figures for this item are obtained net of overseas payments and the similar earnings in the United Kingdom by overseas financial institutions are negligible. For these reasons this item appears as a credit entry only.

TABLE 3.2 SERVICES TRANSACTIONS OF GENERAL GOVERNMENT

£ million

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
CREDITS											
European Community institutions	—	—	13	21	34	46	78	94	115	112	122
US forces expenditure	19	19	19	18	21	25	43	59	48	84	103
Other military receipts by UK government	9	22	45	38	42	84	60	107	103	117	136
Other receipts	31	31	27	33	42	60	60	58	78	87	103
Total credits	59	72	104	110	139	215	241	318	344	400	464
DEBITS											
Military											
German Federal Republic	148	184	248	304	350	439	541	540	617	641	650
Other	167	166	176	228	245	307	284	323	355	371	386
Administrative, diplomatic, etc.	59	73	89	97	114	136	140	153	169	176	203
Total debits	374	423	513	629	709	882	965	1 016	1 141	1 188	1 239
BALANCE	-315	-351	-409	-519	-570	-667	-724	-698	-797	-788	-775

SERVICES

TABLE 3.3 SEA TRANSPORT: DRY CARGO

£ million

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
CREDITS											
Ships owned by UK operators											
Freight on exports	206	185	215	312	363	403	474	392	406	400	318
Freight on cross-trades	175	207	277	385	341	454	507	441	443	524	537
Charter receipts	68	100	139	255	298	367	377	280	294	261	227
Passenger revenue	77	88	81	92	122	141	162	170	202	237	242
Total	526	580	712	1 044	1 124	1 365	1 520	1 283	1 345	1 422	1 324
Ships on charter to UK operators											
Freight on exports	16	13	18	26	22	42	54	67	55	62	54
Freight on cross-trades	25	22	28	55	30	53	51	79	73	92	100
Charter receipts	2	3	3	10	14	17	18	14	6	7	13
Total	43	38	49	91	66	112	123	160	134	161	167
Overseas operators											
Disbursements in the United Kingdom	162	181	216	273	330	393	451	491	559	617	652
Total credits	731	799	977	1 408	1 520	1 870	2 094	1 934	2 038	2 200	2 143
DEBITS											
Ships owned by UK operators											
Disbursements abroad	287	316	359	486	553	668	767	648	677	752	723
Ships on charter to UK operators											
Charter payments	35	31	46	83	69	85	110	101	77	88	105
Disbursements abroad	23	23	29	52	40	70	81	111	105	126	129
Total	58	54	75	135	109	155	191	212	182	214	234
Overseas operators											
Freight on imports	319	347	502	681	586	765	860	1 020	1 268	1 380	1 471
Passenger revenue	23	27	31	37	54	56	52	52	74	88	91
Total	342	374	533	718	640	821	912	1 072	1 342	1 468	1 562
Total debits	687	744	967	1 339	1 302	1 644	1 870	1 932	2 201	2 434	2 519
BALANCES											
Ships owned by UK operators	+239	+264	+353	+558	+571	+697	+753	+635	+668	+670	+601
Ships on charter to UK operators	-15	-16	-26	-44	-43	-43	-68	-52	-48	-53	-67
Overseas operators	-180	-193	-317	-445	-310	-428	-461	-581	-783	-851	-910
All dry cargo	+44	+55	+10	+69	+218	+226	+224	+2	-163	-234	-376

TABLE 3.4 SEA TRANSPORT: TANKERS

£ million

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
CREDITS											
Ships owned by UK operators											
Freight on exports	6	6	9	14	11	23	23	26	37	45	45
Freight on cross-trades	287	194	254	327	305	375	378	403	505	496	627
Charter receipts	33	84	125	193	207	239	195	183	306	276	333
Total	326	284	388	534	523	637	596	612	848	817	1 005
Ships on charter to UK operators											
Freight on exports	6	5	5	4	4	9	14	22	26	39	28
Freight on cross-trades	536	505	656	646	529	645	658	504	791	664	490
Charter receipts	4	4	15	53	41	28	22	36	43	41	49
Total	546	514	676	703	574	682	694	562	860	744	567
Overseas operators											
Disbursements in the United Kingdom	12	10	14	20	34	44	49	41	58	55	57
Total credits	884	808	1 078	1 257	1 131	1 363	1 339	1 215	1 766	1 616	1 629
DEBITS											
Ships owned by UK operators											
Disbursements abroad	110	113	135	260	237	320	324	272	372	337	483
Ships on charter to UK operators											
Charter payments	708	597	732	716	590	717	727	615	650	546	518
Disbursements abroad	97	106	138	265	259	280	259	208	292	267	227
Total	805	703	870	981	849	997	986	823	942	813	745
Overseas operators											
Freight on imports	71	128	188	196	180	200	170	140	168	97	123
Total debits	986	944	1 193	1 437	1 266	1 517	1 480	1 235	1 482	1 247	1 351
BALANCES											
Ships owned by UK operators	+216	+171	+253	+274	+286	+317	+272	+340	+476	+480	+522
Ships on charter to UK operators	-259	-189	-194	-278	-275	-315	-292	-261	-82	-69	-178
Overseas operators	-59	-118	-174	-176	-146	-156	-121	-99	-110	-42	-66
All tankers	-102	-136	-115	-180	-135	-154	-141	-20	+284	+369	+278

TABLE 3.5 SEA TRANSPORT: TOTAL

£ million

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
CREDITS											
Ships owned by UK operators											
Freight on exports	212	191	224	326	374	426	497	418	443	445	363
Freight on cross-trades	462	401	531	712	646	829	885	844	948	1 020	1 164
Charter receipts	101	184	264	448	505	606	572	463	600	537	560
Passenger revenue	77	88	81	92	122	141	162	170	202	237	242
Total	852	864	1 100	1 578	1 647	2 002	2 116	1 895	2 193	2 239	2 329
Ships on charter to UK operators											
Freight on exports	22	18	23	30	26	51	68	89	81	101	82
Freight on cross-trades	561	527	684	701	559	698	709	583	864	756	590
Charter receipts	6	7	18	63	55	45	40	50	49	48	62
Total	589	552	725	794	640	794	817	722	994	905	734
Overseas operators											
Disbursements in the United Kingdom	174	191	230	293	364	437	500	532	617	672	709
Total credits	1 615	1 607	2 055	2 665	2 651	3 233	3 433	3 149	3 804	3 816	3 772
DEBITS											
Ships owned by UK operators											
Disbursements abroad	397	429	494	746	790	988	1 091	920	1 049	1 089	1 206
Ships on charter to UK operators											
Charter payments	743	628	778	799	659	802	837	716	727	634	623
Disbursements abroad	120	129	167	317	299	350	340	319	397	393	356
Total	863	757	945	1 116	958	1 152	1 177	1 035	1 124	1 027	979
Overseas operators											
Freight on imports	390	475	690	877	766	965	1 030	1 160	1 436	1 477	1 594
Passenger revenue	23	27	31	37	54	56	52	52	74	88	91
Total	413	502	721	914	820	1 021	1 082	1 212	1 510	1 565	1 685
Total debits	1 673	1 688	2 160	2 776	2 568	3 161	3 350	3 167	3 683	3 681	3 870
BALANCES											
Ships owned by UK operators	+455	+435	+606	+832	+857	+1 014	+1 025	+975	+1 144	+1 150	+1 123
Ships on charter to UK operators	-274	-205	-220	-322	-318	-358	-360	-313	-130	-122	-245
Overseas operators	-239	-311	-491	-621	-456	-584	-582	-680	-893	-893	-976
Sea transport	-58	-81	-105	-111	+83	+72	+83	-18	+121	+135	-98

TABLE 3.6 CIVIL AVIATION

£ million

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
CREDITS											
UK airlines											
Passenger revenue											
Visitors to the United Kingdom	129	152	199	257	357	488	560	585	655	685	698
Other passengers	66	81	80	88	78	127	130	262	246	319	328
Freight on exports and cross-trades	37	48	58	71	86	105	134	149	129	154	134
Other	24	23	21	35	39	44	28	65	84	97	98
Total	256	304	358	451	560	764	852	1 061	1 114	1 255	1 258
Overseas airlines											
Disbursements in the United Kingdom	98	106	122	174	220	285	351	394	641	955	1 101
Total credits	354	410	480	625	780	1 049	1 203	1 455	1 755	2 210	2 359
DEBITS											
UK airlines											
Disbursements abroad	162	183	210	290	343	448	515	623	773	905	935
Overseas airlines											
Passenger revenue											
Visitors from the United Kingdom	106	118	149	185	259	304	364	408	547	689	780
Other passengers	12	14	21	20	23	23	29	51	35	31	33
Freight on imports	20	23	33	40	46	60	71	89	107	183	168
Other	3	2	2	5	4	5	5	5	5	7	6
Total	141	157	205	250	332	392	469	553	694	910	987
Total debits	303	340	415	540	675	840	984	1 176	1 467	1 815	1 922
BALANCES											
UK airlines	+94	+121	+148	+161	+217	+316	+337	+438	+341	+350	+323
Overseas airlines	-43	-51	-83	-76	-112	-107	-118	-159	-53	+45	+114
Civil aviation	+51	+70	+65	+85	+105	+209	+219	+279	+288	+395	+437

SERVICES

TABLE 3.7 TRAVEL-ANALYSIS BY PURPOSE OF VISIT, BY AREA AND BY MOST IMPORTANT COUNTRY

£ million

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
CREDITS											
<u>By purpose</u>											
Business	111	128	159	215	267	368	499	530	600	735	772
Leisure	389	448	567	683	951	1 400	1 853	1 977	2 197	2 226	2 227
Total	500	576	726	898	1 218	1 768	2 352	2 507	2 797	2 961	2 999
<u>By area</u>											
European Community(1)	140	159	220	271	370	539	716	756	858	887	807
Rest of Western Europe (including Cyprus)	51	65	82	111	149	238	292	298	348	362	336
North America	172	191	209	221	283	385	490	506	511	509	592
Middle East	..	..	..	..	115	220	353	388	403	397	378
Africa	..	..	..	..	104	140	195	218	264	323	383
Australasia	29	43	53	74	91	112	141	158	175	172	155
Latin America	14	14	19	27	28	43	47	54	77	97	94
Other(2)	94	104	143	194	78	91	118	129	161	214	254
Total	500	576	726	898	1 218	1 768	2 352	2 507	2 797	2 961	2 999
<u>By most important country</u>											
U S A	133	148	161	173	211	288	375	406	412	427	488
German Federal Republic	31	39	54	68	93	121	176	190	226	216	204
France	27	33	46	53	74	101	136	125	139	183	163
Australia	25	37	45	62	78	97	122	133	141	141	128
Irish Republic	30	30	36	44	48	59	68	91	112	113	123
Canada	38	42	49	44	70	97	115	101	99	81	104
Italy	18	21	29	32	35	39	54	55	79	95	90
Netherlands	16	16	21	33	48	99	121	124	121	107	83
Switzerland	14	15	19	24	31	41	62	68	71	95	79
DEBITS											
<u>By purpose</u>											
Business	77	90	117	142	165	245	304	342	447	521	610
Leisure	365	445	578	561	752	823	882	1 207	1 662	2 217	2 675
Total	442	535	695	703	917	1 068	1 186	1 549	2 109	2 738	3 285
<u>By area</u>											
European Community(1)	190	229	289	295	377	439	488	630	841	1 106	1 278
Rest of Western Europe (including Cyprus)	175	210	287	266	341	358	383	521	668	802	966
North America	28	32	43	51	74	103	119	167	265	408	518
Africa	..	..	..	..	32	47	45	54	73	98	113
Middle East	..	..	..	..	18	31	42	37	49	60	66
Commonwealth Caribbean	5	7	8	10	12	16	16	20	37	50	63
Australasia	6	9	8	11	15	17	25	26	35	42	58
Eastern Europe	6	8	11	11	17	17	15	18	26	33	34
Latin America	3	3	3	5	6	9	14	15	22	19	22
Other(2)	29	37	46	54	25	31	39	61	93	120	167
Total	442	535	695	703	917	1 068	1 186	1 549	2 109	2 738	3 285
<u>By most important country</u>											
Spain	98	119	165	158	213	222	226	322	407	428	525
France	44	59	75	77	116	126	135	179	246	375	452
U S A	20	23	30	36	48	69	88	131	214	347	440
Italy	37	52	58	54	65	73	80	106	146	190	193
Greece	13	18	28	19	29	45	48	69	104	165	191
Irish Republic	51	47	58	67	75	79	97	122	139	135	151
German Federal Republic	19	25	32	34	40	46	59	66	101	109	144
BALANCE											
	+58	+41	+31	+195	+301	+700	+1 166	+958	+688	+223	-286

1. Figures for all years are on the basis of the nine countries, including Greece.

2. Includes those areas listed above for which figures are not available for certain years. Therefore "Other" is not defined consistently over the whole period.

TABLE 3.8 FINANCIAL SERVICES(1)
(including allied services)

£ million

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
CREDITS											
Insurance	244	240	217	251	323	507	599	643	576	447	607
Banking(2)	59	78	107	139	177	243	293	312	344	383	435
Commodity trading	70	90	110	140	209	201	110	163	140	180	160
Merchanting of other goods	30	35	55	80	90	108	120	132	145	160	200
Brokerage, etc.	57	74	99	160	207	215	233	248	331	370	485
Solicitors	11	12	13	15	19	29	36	44	52	61	67
Total	471	529	601	785	1 025	1 303	1 391	1 542	1 588	1 601	1 954

1. The figures for this item are obtained net of overseas payments, and the similar earnings in the United Kingdom by overseas financial institutions are negligible. For these reasons this item appears as a credit entry only.
2. Excluding the earnings on services rendered to related enterprises overseas by UK banks, which are included in the appropriate item in Table 3.9.

TABLE 3.9 OTHER SERVICES

£ million

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
CREDITS											
Commissions, etc on imports	94	99	111	124	125	166	202	230	274	282	298
Telecommunications and postal services	44	54	85	90	85	119	165	210	155	316	284
Films and television	42	35	33	33	50	59	84	107	114	156	141
Royalties etc. from:-											
Overseas parent companies, branches subsidiaries and associates	43	48	59	77	87	113	127	152	197	230	251
Other overseas concerns	104	118	142	169	188	274	296	308	297	287	315
Services rendered by UK enterprises:-											
To overseas parent companies	14	17	15	23	41	34	68	77	189	200	220
To overseas branches, subsidiaries and associates	61	57	67	83	96	130	94	96	130	164	175
Earnings on construction work overseas :											
Architects and quantity surveyors	8	11	14	18	23	36	51	63	64	79	88
Consulting engineers	48	65	84	108	136	214	305	370	401	423	487
Construction contractors	52	58	71	94	130	174	201	213	151	126	124
Process engineering contractors	55	59	70	110	170	162	200	283	284	265	290
Expenditure by overseas students and journalists	68	79	98	129	177	193	250	275	304	396	434
Overseas governments' and non-territorial organisations' expenditure	77	105	130	157	210	257	296	324	397	466	509
Non-governmental receipts from foreign military forces	58	55	58	70	84	87	113	127	165	183	211
Exploration for and production of oil and natural gas	2	2	3	15	20	63	66	73	107	148	172
Advertising	15	16	17	19	24	28	32	35	40	48	65
Consultancy earnings n.e.i.	16	22	29	43	58	86	132	138	169	188	210
Research and development	29	28	32	38	47	64	61	57	58	54	61
Other	136	166	212	253	303	418	491	554	654	763	871
Total credits	966	1 094	1 330	1 653	2 054	2 677	3 234	3 692	4 150	4 774	5 206
DEBITS											
Telecommunications and postal services	46	59	78	87	111	145	189	220	239	268	300
Films and television	21	21	26	28	36	45	42	58	73	83	95
Royalties etc. to:-											
Overseas parent companies, branches, subsidiaries and associates	70	78	94	121	151	180	214	254	288	324	356
Other overseas concerns	53	59	66	78	88	116	114	110	67	74	82
Services rendered to UK enterprises:-											
By overseas parent companies	48	55	70	77	102	134	188	212	229	254	260
By overseas branches, subsidiaries and associates	12	10	8	9	12	17	22	20	52	65	70
Exploration for and production of oil and natural gas	27	39	60	212	490	665	725	568	467	514	615
Agency expenses and advertising	82	83	85	112	116	123	112	105	113	698	685
Commissions, etc. on exports	94	98	105	113	155	178	185	161	159		
Other	95	99	135	168	218	242	319	325	393		
Total debits	548	601	727	1 005	1 479	1 845	2 110	2 033	2 080	2 280	2 463
BALANCE	+418	+493	+603	+648	+575	+832	+1 124	+1 659	+2 070	+2 494	+2 743

4 Goods and services: volume and implied price indices

In other sections of this publication all transactions are valued at the prices ruling at the time they were made (i.e. at current prices). Any difference between figures for different years therefore reflects a change in price as well as that of the underlying economic activity (e.g. physical amounts in the case of visible trade, or real resources in the case of invisibles).

In order to produce figures which correctly reflect changes in the volume of economic activity, each component of the figures is revalued at the prices of one particular year (in the figures in Table 4.1 the selected reference year, or 'base year' is 1975). For any single series it is immaterial which base year is used, since any fixed price will eliminate price movements and the residual series will correctly reflect volume changes. The choice of base year becomes important, however, as soon as two or more series are combined, since an unusual price in that year for one series would consistently over- or under-value it in relation to the other series. It is therefore the practice to review a constant price series at regular intervals, and to change to a more recent base year which might be assumed more nearly to reflect current price relatives. Figures for the years 1973 onwards have been calculated at 1975 prices in detail as described in subsequent paragraphs. Figures for earlier years calculated on previous bases have been linked with the 1975-based series so that the year to year percentage change in each published component series incorporates the relative prices of those earlier base years. Consistent with this approach, the totals have been linked independently of their components. As a final stage in the calculation the series of figures expressed at constant prices are converted to index numbers, in which the base year = 100.

Goods

The constant price estimates for goods are first calculated on an *Overseas Trade Statistics* basis using the value and quantity figures recorded against the individual trade headings of the *Tariff and Overseas Trade Classification*.

For the purpose of building up the constant price figures the headings are allocated to some 90 or so blocks. Each block normally corresponds to a Division in the *Standard International Trade Classification (SITC) Revision 2* although with Sections 7 and 8 the blocks have been defined according to the United Nations' Broad Economic Categories (BEC) classification within *SITC Revision 2*.

For a number of a fixed selection of trade headings the quotient of the value and quantity (e.g. weight) is used as the 'price' or, more properly, unit value. The selection reflects the fact that not all headings in the *Tariff and Overseas Trade Classification* are sufficiently homogenous in their product content to make the quotient a meaningful measure of 'price'. For the 1975-based series, the proportion of total trade in the base year (1975) covered by the selected headings was for imports around 70 per cent, and for exports around 60 per cent.

For most blocks the selected headings account for the major share of the trade and for these blocks the deflators (called average value or implied price indices) are derived from the figures for the selected headings or groups of headings in that block. The formula for the average value (implied price) index is

$$\frac{\sum p_n q_n}{\sum p_0 q_n}$$

Where p represents the price (i.e. unit value) and q the quantity for each selected heading or group of headings and the suffixes $_0$ and $_n$ relate them to the base year and the current year respectively.

For the remaining blocks, deflators are constructed using either the average value (implied price) indices for other blocks or special ones based on price information from other sources. The deflators are used to derive constant price estimates for each block, and are then summed.

The constant price figures on an *Overseas Trade Statistics* basis are then brought to a balance of payments basis using the same kind of valuation and coverage adjustments as are used for the current price series, and described on pages 12 and 13.

The coverage adjustments themselves are converted to constant price figures by deflating the current values for each adjustment by a suitable price index, usually the average value (implied price) indices but sometimes by price information from other sources.

In the case of the valuation adjustments for imports the constant price figures for each adjustment are derived either by the above method or by multiplying the base values by a suitable Laspeyre's volume index.

Services

The practical basis for producing a constant price series is less firm for services than for goods. Although there are some areas where figures for volume exist alongside those for value (thus enabling a constant price series to be produced easily) the most usual case is for value only to be known. The only recourse is to deflate the known value of services exported or imported by an appropriate price index. In the case of many imported services, the most appropriate method of estimating the volume of services purchased is to deflate by the price indices of the countries concerned weighted together appropriately and converted to sterling. For many exports of services, the work is carried out in the United Kingdom and a domestic price index is appropriate. For certain components of the sea transport and civil aviation accounts, more specialised indices are used.

Implied price indices

The implied price indices for goods and services are obtained by dividing estimates at current market price by the corresponding estimate at constant market price. The indices are, in effect, current weighted series. In respect of trade in goods, these indices differ from the unit value indices published by the Department of Trade which are weighted according to the pattern of trade in the base year, 1975.

References

'United Kingdom overseas trade: unit value and volume index numbers and the terms of trade' article in September 1979 edition of *Economic Trends*.

TABLE 4.1 GOODS AND SERVICES : VOLUME AND IMPLIED PRICE INDICES

Index numbers 1975=100

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
VOLUME INDICES											
Exports of goods(1)	86	86	97	104	100	110	118	121	126	128	127
Exports of services	76	86	112	102	100	131	132	160	155	150	150
General government											
Private sector and public corporations	92	95	104	112	100	96	95	84	79	74	62
Sea transport	70	79	88	90	100	111	114	135	154	166	162
Civil aviation	65	68	75	88	100	126	144	133	129	114	101
Travel	80	82	77	81	100	105	98	104	99	90	100
Financial services	84	89	95	99	100	105	110	118	123	124	119
Other services	82	86	92	98	100	106	110	109	110	106	99
Total services											
Total exports of goods and services	85	86	96	103	100	109	116	118	121	122	119
Imports of goods	85	95	108	109	100	106	108	113	126	119	119
Imports of services	100	102	98	103	100	100	95	94	103	108	108
General government											
Private sector and public corporations	103	110	119	119	100	96	88	84	87	80	73
Sea transport	78	84	93	90	100	108	116	133	163	171	177
Civil aviation	93	101	107	94	100	93	94	116	152	194	209
Travel	66	68	69	79	100	101	105	95	94	95	91
Other services	90	95	100	101	100	99	97	98	108	113	112
Total services											
Total imports of goods and services	87	95	107	108	100	104	105	109	122	118	117
IMPLIED PRICE INDICES (2)											
Exports of goods(3)	55	57	64	81	100	119	139	149	168	192	208
Exports of services	62	64	73	87	100	123	138	147	167	189	214
Exports of goods and services	56	59	66	83	100	120	138	149	168	191	209
Imports of goods(3)	46	47	59	88	100	121	139	143	155	171	178
Imports of services	59	60	71	88	100	125	140	144	153	164	180
Imports of goods and services	48	50	62	88	100	122	139	143	155	170	179

1. The 1981 figure is a provisional estimate based on the data available for ten months of the year.
2. Price changes in services, and in goods and services combined, are measured by implied price indices; unit value indices are not available.
3. The unit value indices, which are the generally accepted measures of the price changes for goods, are shown in Table 2.2.

5 Invisibles: interest, profits and dividends

IPD credits and debits are defined to include all interest, profits and dividends accruing—irrespective of whether they have been paid or not—to UK residents from non-residents or payable overseas by UK residents; they are recorded after deduction of local taxes (measured on an accruals basis) and after allowing for depreciation. Profits and dividends include the earnings of overseas affiliates of UK-registered companies and the payments of profits and dividends abroad by UK-based affiliates of foreign-based companies. Conceptually, stock appreciation and other capital gains and losses should be excluded from the flows entered in the balance of payments accounts, because they represent only valuation changes. In practice, stock appreciation and some of these gains and losses are included in IPD and also offset as reinvested profits/losses in the capital account. Profits retained abroad by overseas affiliates or retained in the United Kingdom by affiliates of overseas parent companies are included in the flows of IPD and offset in the capital account. All interest flows between UK residents and non-residents are included. These include payments and receipts of interest by UK banks; interest payments by the public sector on that part of its debt held by overseas residents; interest receipts by the public sector on its loans abroad and on holdings of foreign currency assets; interest payments by companies on their overseas borrowing whether to overseas banks, etc. or to affiliates or parents abroad; interest receipts by companies in the United Kingdom from overseas affiliates or parents; and interest receipts by private UK residents on bank deposits overseas.

Credits

Direct investment earnings (Tables 5.2 and 5.3)

(The definition, sources and methods of direct debits are so similar to those of credits that they are therefore described together.) In this context in the balance of payments the term 'direct' defines a group of transactions between companies that are financially and organisationally related and are situated in different countries. Affiliates are defined to be *subsidiaries* (as defined by the Companies Act 1948), *associates* (incorporated companies which are not subsidiaries but in which the investing company participates in the management without having a controlling interest) and *branches* (as defined for UK income tax and double taxation relief purposes, i.e. permanent establishments wholly owned by the parent company). Further details are given in the Glossary on page 67. Direct investment refers to investment that is made to add to, to deduct from, or to acquire, a lasting interest in an enterprise operating in an economy other than that of the investor, the investor's purpose being to have an effective voice in the management of the enterprise. Other investments in which the investor does not have an effective voice in the management of the enterprise are mainly portfolio investments.

Direct investment income includes interest on inter-company debt, profits from branches or other unincorporated enterprises overseas and the direct investor's share of the profits of subsidiary and associate companies. It includes the direct investor's portion of reinvested earnings, which is also treated as an investment flow out of the parent's country into the affiliate's and appears in the capital account as a contra-item.

The figures exclude the earnings of oil companies (which are included in 'other credits' or, in the case of debits, shown separately). Information on the direct investment earnings of UK-registered banks from their overseas branches, subsidiaries and associates and of overseas-registered companies from their UK banking affiliates is collected in an annual inquiry carried out by the Bank of England. The inquiry covered all listed banks up

to the end of 1981 and will be covering the monetary sector from 1982 onwards. An annual inquiry by the British Insurance Association (BIA) forms the basis for estimates of direct investment earnings by UK insurance companies. The inquiry only covers members of the BIA. Estimates are made for non-members' debit earnings but not for credit earnings which are thought to be negligible. All other earnings, both credits and debits, are estimated from the results of the Department of Trade's direct investment inquiry. In principle, this inquiry covers all UK companies (including UK public corporations other than the Commonwealth Development Corporation) that either have overseas affiliates or are affiliated to an overseas parent. The direct investment inquiry is voluntary and response is never complete. The published statistics include estimates for non-response, which are based on all available information. Results of the annual inquiry are available about fifteen months after the end of the year. However, each quarter a sample of companies submits returns which become available about two months after the end of the quarter.

Estimates of IPD are made after providing for depreciation, the companies' own estimates of depreciation being used. Although depreciation is estimated at replacement cost in the national accounts there is little doubt that the estimates in the balance of payments are, in the main, measured at historic cost. (Different treatments of depreciation simply result in different entries in the current and capital accounts, but the sum of the two entries will always be the same.) IPD are measured after provision for local taxes. Refunds of tax made retrospectively under double-taxation agreements are included in the period when they were made rather than the earlier periods in which they could be deemed to have accrued. Information on payments made to overseas direct investors by the Inland Revenue is obtained from the Inland Revenue and the amounts are added to other direct investment dividends.

Portfolio investment earnings

The published estimates of income from portfolio investments relate solely to remitted amounts except in the case of Lloyd's. Portfolio investment income accruing to the United Kingdom is the receipt of dividends and interest by UK residents on their holdings of overseas government and municipal loan stock, and stocks and shares of overseas-registered companies. The published estimates include the income earned on UK residents' holdings of sterling loan stock of overseas companies and overseas public authorities issued on the London market. A large part of this income is received by UK financial companies, accruing to them on their investments that are not considered to have been undertaken for trading purposes or have not led to UK control of the overseas company. In these cases, they are treated as portfolio rather than as direct investments. Estimates of portfolio investment income are derived from Inland Revenue records, supplemented by information from statistical inquiries to certain non-bank financial institutions.

Interest on export credit

This is shown as being earned by government and by the private sector and public corporations. For government, it refers to the interest on credit refinanced by the Export Credits Guarantee Department. In the private sector, it is interest on sterling credit extended for UK exports by UK banks (including that extended indirectly via UK suppliers) and all credit extended by suppliers of goods on their own account. Estimates are derived by applying appropriate interest rates to outstanding levels of credit of more than six months (interest on short-term credit, i.e. of six months or less, is treated as being included implicitly in the valuation of exports). Interest on foreign currency credit extended by UK

banks is included indistinguishably in net earning of UK banks, etc. on borrowing and lending abroad in foreign currencies.

Interest on borrowing and lending abroad in foreign currencies by UK banks etc. (balance)

This consists of the interest received from non-residents on loans made to them in foreign currencies (including credit for UK exports) less the interest paid to non-residents on their deposits in foreign currencies. It excludes the interest paid on deposits which are the counterpart of loans made to HM Government and to local authorities and public bodies under the exchange cover scheme. That is included in IPD debits. Estimates are made from banking statistics.

Earnings of UK banks, etc. on external sterling lending

These figures are based on returns made by the banks to the Bank of England as part of banking statistics. This lending excludes earnings from UK export credit and includes credit extended to non-residents on UK imports for which payment is made before shipment. Earnings from some sterling financing of third-country trade (when allowed under exchange control rules) are included.

Interest on bank deposits and other lending overseas

Earnings by UK residents other than banks are included from the beginning of 1976. They are estimated from levels of such assets (mainly those reported in banking statistics of countries in the BIS reporting area) and appropriate rates of interest. Adjustments are made to remove as far as possible the effects of breaks in the assets series.

Other credits (including oil companies' earnings)

From 1981 IPD credits and debits for all the United Kingdom oil companies are measured as far as possible on the same basis as direct investment earnings of non-oil companies, although interest on trade credit to and from unrelated businesses is included with direct investment of oil companies. As in the past, Shell Group earnings, both in the United Kingdom and overseas, are apportioned 60 per cent : 40 per cent to reflect the respective Dutch/UK ultimate ownership. Interest payments on borrowing from banks, etc. overseas are included in oil companies' debits. The estimates of credits are prepared by the Bank of England based on information supplied by the oil industry. In 1980, the estimates were on the same basis except in the case of BP, which was treated in the same way as in earlier years. Prior to 1980, oil credits measured not only UK oil companies' overseas profits but, in the case of both major companies—BP and Shell—represented the surplus on current transactions resulting from their operations overseas. This cash flow was allocated under the relatively readily identifiable balance of payments categories of visible transactions (crude oil, oil products, chemicals, equipment, etc.) shipping and investment. The net residual was included as an IPD credit, but covered, in addition to profits of overseas subsidiaries and affiliates, items more appropriate elsewhere in the accounts such as the companies' merchanting profits, the value of services rendered between parents and their overseas subsidiaries and affiliates, such as current expenditure in the United Kingdom on marketing, headquarters' expenses, research etc. Timing discrepancies also affected the surplus.

For all years before 1977 the credit was net of interest paid on Shell's borrowing for use on the UK Continental Shelf and the Royal Dutch Petroleum Company's 60 per cent share of earnings arising in the United Kingdom. From 1977–1980 inclusive, the Dutch share of earnings arising on the UK Continental Shelf was included in IPD debits and credits were net of only those arising on the United Kingdom mainland. From 1981, IPD credits include

only the United Kingdom's 40 per cent share of overseas earnings whilst the Dutch 60 per cent share of UK earnings is now wholly included in IPD debits.

Interest received on the official foreign exchange reserves and on the United Kingdom's holdings of Special Drawing Rights (SDRs) with the IMF is recorded within the Exchange Equalisation Account and is known by the Bank of England. Interest receipts on government loans to overseas countries are known by the government departments responsible for the loans. Earnings on trusts and annuities and on real estate are based mainly on estimates projected from Inland Revenue data obtained some while ago. The Commonwealth Development Corporation publishes information on its overseas earnings. Interest earned from currency exchanges undertaken prior to the abolition of exchange control to finance investment are estimated from levels of debt and appropriate interest rates.

Debits

Direct investment earnings—See notes under Credits

Earnings on foreign-owned oil companies' investments in the United Kingdom; and other debits of oil companies

These earnings have been estimated since 1970 by the Bank of England by a similar inquiry to that for direct investment. (Before that the item was estimated in a similar manner to oil credits, see above). Earnings are after provision for depreciation and UK taxes. As in the direct investment inquiry the companies' own estimates of depreciation are used. From 1977 the debits include the earnings of the Royal Dutch Petroleum Company arising on the UK Continental Shelf and from 1981 also include the Dutch share of earnings arising on the United Kingdom mainland. Interest on borrowing by oil companies from banks, etc. overseas and on trade credit from other sources is also included here.

Portfolio investment earnings

These include interest on holdings of British government stocks by non-residents other than central monetary institutions and international organisations. (Interest paid on these stocks to central monetary institutions and international organisations is included within 'Interest paid on sterling liabilities'.) The figures are estimated by the Bank of England from information on the levels outstanding and appropriate rates of interest. Portfolio debits also include interest and dividends paid on foreign currency issues. All such issues by local authorities are included within 'general government' together with those by public corporations under the exchange cover scheme and HM Government's \$350 million New York bond issue; interest payments are known within the Bank of England. Interest on British government foreign currency bonds issued to overseas official holders of sterling in April 1977 is excluded from this item and included in 'Other debits'. Estimates of interest on foreign currency issues by the private sector and public corporations (those not made under the exchange cover scheme) are derived from Bank of England records. Estimates of interest on company securities are derived from Stock Exchange data on dividend payments, information given to the Department of Industry on overseas ownership of shares at end-1975, and details of certain transactions in securities recorded by the Bank of England more recently. Estimates of appropriate tax relief refunded under double-taxation agreements are also included.

Interest on foreign currency borrowing from UK banks by general government

Interest on general government borrowing in foreign currencies, including interest on public bodies' borrowing under the

exchange cover scheme, through UK banks is treated as if it is paid directly abroad by the public bodies themselves. These interest payments are known within the Bank of England. They include the whole of the interest on the \$2.5 billion and \$1.5 billion facilities arranged for HM Government (though parts of these facilities were raised directly from banks overseas); and interest on borrowing by local authorities as well as interest on loans raised by public bodies under the exchange cover scheme.

Interest on sterling liabilities

This comprises the interest on 'sterling balances' held by non-residents (see page 40). In the general government sector this consists of interest paid on British government stocks held by overseas central monetary institutions and international organisations and on overseas holdings of Treasury bills and local authority deposits. These estimates are made by the Bank of England on the basis of lists of holders, levels outstanding and appropriate rates of interest. Private sector interest consists of interest on overseas residents' deposits in sterling with UK banks and other financial institutions. Estimates are derived from returns by the banks as part of banking statistics.

Interest on net borrowing from banks etc. overseas

For general government, these interest payments are known within the Bank of England and refer to interest on loans raised from commercial banks and certain other institutions overseas (principally the European Investment Bank and European Coal and Steel Community) by local authorities and, under the exchange cover scheme only, by public bodies. In the private sector, interest paid on loans from banks, etc. overseas for use abroad or in the United Kingdom is estimated from levels outstanding and appropriate interest rates. Interest on oil companies' borrowing is not included here but is within oil companies' earnings. Interest on public corporations' overseas borrowing outside the exchange cover scheme is included with private sector interest; it is known by the Bank of England.

Other debits

Interest paid on import credit is estimated from levels outstanding and appropriate interest rates. Payments by oil companies are excluded from here and included in oil companies' debits. Interest on IMF loans and charges and expenses incurred for the use of SDRs is known within the Bank of England as is interest on British government foreign currency bonds issued to official

holders of sterling in April 1977. Interest paid on long-term fixed interest loans such as Lend-lease and Line of credit is known by HM Treasury. Payments overseas on real estate are rough estimates.

Interest, profits and dividends—general government

Credits and debits are shown separately for *general government* and *private sector and public corporations*, where general government is defined to include both central and local government. However, interest payments on loans (including foreign currency issues) raised by public bodies under the exchange cover scheme are included in the debits of general government in the balance of payments accounts because the loans themselves are defined as official financing transactions.

General government credits

These credits, shown in Table 5.1, comprise interest on official foreign exchange reserves, together with interest received on the United Kingdom's holdings of SDRs; interest received on inter-government loans; and interest on re-financed export credit.

General government debits

These comprise interest paid on inter-government loans and on overseas holdings of UK government stocks, foreign currency issues and Treasury bills; interest paid on official liabilities (to UK and overseas banks and overseas monetary authorities); charges for expenses incurred for the use of SDRs, and charges paid on drawings from the IMF; interest paid by UK local authorities on overseas holdings of their securities and on all their net issues abroad, borrowing in foreign currencies through UK banks and net borrowing from banks, etc. overseas irrespective of whether or not such issues/borrowings are under the exchange cover scheme; and interest paid on loans raised under the exchange cover scheme by public bodies.

References

The results of the Department of Trade inquiry into overseas direct investment and related earnings are published in *British business* and in Business Monitor MA4.

An article on interest, profits and dividends as a whole appeared in *Economic Trends* in June 1977.

TABLE 5.1 INTEREST, PROFITS AND DIVIDENDS : SUMMARY

	£ million										
	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
CREDITS											
Earnings on-											
Direct investment(1)	718	911	1 450	1 490	1 591	2 383	2 293	2 346	2 815	2 914	3 597
Portfolio investment	173	180	222	279	271	313	328	353	450	679	796
Export credit:											
General government	9	20	32	44	65	96	133	139	140	112	67
Private sector and public corporations	71	77	103	133	141	162	170	229	331	384	404
Interest on borrowing and lending in foreign currencies by UK banks, etc.(balance)	16	44	54	151	138	210	107	346	-44	352	1 010
External sterling lending by UK banks(2)	42	57	103	145	159	214	157	198	270	474	872
Bank deposits and lending overseas	-	-	-	-	-	87	102	164	283	432	584
Other(including oil companies)	457	459	859	1 044	476	506	742	1 373	3 634	2 942	2 752
TOTAL CREDITS	1 486	1 748	2 823	3 286	2 841	3 971	4 032	5 148	7 879	8 289	10 082
of which:											
General government	91	156	176	237	266	253	384	691	816	943	940
Private sector and public corporations	1 395	1 592	2 647	3 049	2 575	3 718	3 648	4 457	7 063	7 346	9 142
DEBITS											
Earnings on-											
Direct investment(1)	394	557	707	622	625	1 040	1 432	1 527	2 149	1 982	2 106
Foreign oil companies' investment in UK	63	77	37	27	-23	-76	565	703	1 940	2 965	2 774
Portfolio investment											
British government stocks (non-CMI)(3)	62	69	75	93	94	107	187	261	300	407	432
Foreign currency issues:											
General government(4)	3	4	5	22	51	81	136	127	119	131	128
Private sector and public corporations	11	16	31	49	67	82	106	119	110	129	157
Other	65	69	76	88	95	115	143	162	218	232	254
Total portfolio	141	158	187	252	307	385	572	669	747	899	971
Foreign currency borrowing from UK banks, etc.-General government(4)(5)	-	-	10	115	212	287	302	342	357	307	251
Sterling liabilities:											
General government	141	155	216	275	297	226	158	151	187	323	372
Private sector and public corporations	114	137	236	348	354	341	308	345	724	1 206	1 530
Net borrowing from banks, etc. overseas:											
General government(3)	3	5	8	24	47	81	120	180	219	211	238
Private sector and public corporations	26	31	71	107	120	143	196	326	420	454	590
Other	102	90	94	101	129	179	261	290	244	215	246
TOTAL DEBITS	984	1 210	1 566	1 871	2 068	2 606	3 914	4 533	6 987	8 562	9 078
of which:											
General government	295	298	375	589	780	901	1 104	1 283	1 356	1 557	1 620
Private sector and public corporations	689	912	1 191	1 282	1 288	1 705	2 810	3 250	5 631	7 005	7 458
BALANCE OF INTEREST, PROFITS AND DIVIDENDS	+502	+538	+1 257	+1 415	+773	+1 365	+118	+615	+892	-273	+1 004
of which:											
General government	-204	-142	-199	-352	-514	-648	-720	-592	-540	-614	-680
Private sector and public corporations	+706	+680	+1 456	+1 767	+1 287	+2 013	+838	+1 207	+1 432	+341	+1 684

1. Excluding the earnings of oil companies.

2. Excluding earnings on credit for UK exports.

3. Interest on holdings of British government stocks by overseas central monetary institutions and international organisations is included within "Debits : Earnings on sterling liabilities-General government".

4. Includes interest on loans raised by public corporations under the exchange cover scheme.

5. Includes interest payable directly to banks overseas on their participation in the HM Government \$2.5 billion and \$1.5 billion facilities.

TABLE 5.2 EARNINGS OF DIRECT INVESTMENT—ANALYSIS BY COMPONENT

(excluding the transactions of oil companies)

£ million

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
CREDITS											
Profits of branches	114	129	163	157	198	323	301	267	318	309	332
Profits of subsidiaries(1)											
Dividends remitted	257	301	414	437	472	557	648	780	808	911	1 014
Unremitted profits	329	465	840	851	879	1 454	1 292	1 259	1 636	1 646	2 184
Net interest received	18	16	33	45	42	49	52	40	53	48	67
Total	718	911	1 450	1 490	1 591	2 383	2 293	2 346	2 815	2 914	3 597
DEBITS											
Profits of branches	56	71	79	108	151	181	189	196	216	270	417
Profits of subsidiaries(1)											
Dividends remitted	138	163	257	223	179	263	335	574	585	742	518
Unremitted profits	184	304	344	251	247	541	837	720	1 297	838	1 027
Net interest paid	16	19	27	40	48	55	71	37	51	132	144
Total	394	557	707	622	625	1 040	1 432	1 527	2 149	1 982	2 106
BALANCE	+324	+354	+743	+868	+966	+1 343	+861	+819	+666	+932	+1 491

1. Including associated companies.

TABLE 5.3 EARNINGS OF DIRECT INVESTMENT – GEOGRAPHICAL ANALYSIS(1)

(excluding the transactions of oil companies)

£ million

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Credits											
EC(2)	125	174	277	269	241	440	377	449	511	395	..
Other Western Europe	34	46	89	53	82	152	158	153	141	148	..
North America	159	214	299	308	321	491	515	600	757	755	..
Other developed countries	196	239	428	409	446	583	510	521	663	749	..
Oil-exporting countries(3)	27	34	50	67	126	176	195	145	156	161	..
Rest of world	177	204	307	384	375	541	538	478	587	706	..
Total	718	911	1 450	1 490	1 591	2 383	2 293	2 346	2 815	2 914	3 597
Debits											
EC(2)	34	61	63	66	90	136	202	233	268	132	..
Other Western Europe	30	44	54	47	64	88	119	123	169	76	..
North America	305	412	541	447	387	718	1 045	1 144	1 568	1 497	..
Other developed countries	14	26	35	40	55	62	54	64	101	188	..
Oil-exporting countries(3)	—	1	1	1	1	11	7	—2	14	17	..
Rest of world	11	13	13	21	28	25	5	—35	29	72	..
Total	394	557	707	622	625	1 040	1 432	1 527	2 149	1 982	2 106
Balance											
EC(2)	+91	+113	+214	+203	+150	+304	+175	+216	+243	+263	..
Other Western Europe	+4	+2	+35	+6	+19	+64	+39	+30	—28	+72	..
North America	—146	—198	—242	—139	—66	—227	—530	—544	—811	—742	..
Other developed countries	+182	+213	+393	+369	+391	+521	+456	+457	+562	+561	..
Oil-exporting countries(3)	+27	+33	+49	+66	+125	+165	+188	+147	+142	+144	..
Rest of world	+166	+191	+294	+363	+347	+516	+533	+513	+558	+634	..
Total	+324	+354	+743	+868	+966	+1 343	+861	+819	+666	+932	+1 491

1. A more detailed geographical analysis of earnings of direct investment is published in Business Monitor MA4.

2. Figures for all years are on the basis of the nine countries, including Greece.

3. Excludes Algeria, Gabon and Ecuador.

6 The net overseas earnings of United Kingdom financial institutions ('The City')

Table 6.1 brings together all the identifiable current account transactions of City institutions.

The overseas earnings of UK financial institutions are composed of two main types of revenue: receipts for work done in the way of services, and receipts from investments, in the form of interest, profits or dividends. In the main tables of this publication these two types of income from abroad are allocated to different accounts: the service earnings are shown separately in Table 3.8, whilst the amounts earned overseas in the form of interest, profits and dividends are included in Table 5.1 (but not shown separately for these institutions).

The institutions selected for Table 6.1 are those which are generally recognised as the 'City of London'. Although this cannot be defined with precision, in the context of this table it is interpreted as a group of institutions and not as a geographical place. The institutions concerned are located very largely within the City and account for a large proportion of its economic activity, but there are exceptions: some insurance companies, for example, although included in the figures in this section, are located outside the City, while some earnings generated within the City are excluded. Examples of the latter are those of professions such as accountants and actuaries. The earnings of the institutions selected for inclusion in this section are widely accepted, however, as indicators of the earnings of the City, although the exact size of their total depends to some extent on the selection process itself.

The meaning of 'net' earnings

For financial institutions, service earnings (e.g. from insurance and commodity dealing) are entered, both in Table 6.1 and elsewhere in the balance of payments accounts, only after deduction of the relevant overseas expenses of the institutions involved. This practice is followed in order to give an estimate of the value of the service component provided by these institutions. Service earnings are thus recorded 'net' in this sense. The debit entries in Table 6.1 are the investment income due abroad from the UK insurance and banking sectors and the interest payments on borrowing from non-residents by UK banks, and these have been deducted in arriving at the total 'net' earnings of financial institutions in Table 6.1. The table therefore covers all identifiable current account transactions involving financial institutions.

Insurance

The underwriting earnings of UK insurance companies and Lloyd's consist of premiums received in the year *less* claims paid and are net of reinsurances ceded in the United Kingdom to overseas insurance companies. In this section only the estimated earnings from overseas residents are included, whereas in order to align various other entries in the balance of payments, the standard tables include (as part of 'Financial services—insurance') all earnings from underwriting risks on international cargoes, irrespective of whether these are earned from UK or overseas residents.

For Lloyd's, the underwriting net earnings cover all their overseas business written in the United Kingdom—known as home/foreign business—but for insurance companies only net earnings from marine, aviation and transit home/foreign business are covered. Net earnings by insurance companies on other home/foreign underwriting business are difficult to determine but are believed to be very small.

The estimates for insurance companies also include the net earnings from overseas direct investment. These consist of the

profits of overseas subsidiaries and branches of UK insurance companies (except those of life insurance companies, whose direct investment earnings from overseas are thought to be very small) less the profits of foreign controlled UK insurance companies and branches due to their parent companies overseas. Also included with these profits are UK insurance companies' net earnings on reinsurance, other than for marine, aviation and transit, accepted from overseas insurers.

The value of Lloyd's portfolio income is net of amounts paid to overseas members of Lloyd's in respect of their share of the profits from UK and overseas insurance business and total investment earnings of Lloyd's.

Revised estimates of certain insurance figures for the latest year sometimes become available at the moment of going to press. They are incorporated in Table 6.1 which is independent, but not in the main tables which must all be mutually consistent: these latter are amended in the following year.

Banking

In line with the definition of 'resident' on page 4, the banking figures represent the net receipts from the overseas operations of all banks in the United Kingdom, including those of branches in the United Kingdom of foreign-owned banks. To these receipts are added the total profits earned by overseas branches of British-owned banks, *less* the total profits earned in the United Kingdom and abroad by UK branches, subsidiaries and associates of foreign-owned banks, regardless of whether these profits arise from international or domestic transactions.

The receipts from overseas operations of all banks in the United Kingdom comprise:

- (i) net receipts of banks from services they provide to 'non-related' overseas customers, including arbitrage, and net receipts from banking charges and commissions;
- (ii) net receipts for services rendered by UK-registered banks to their overseas branches, subsidiaries and associates;
- (iii) interest, profits and dividends accruing to the United Kingdom from the overseas branches, subsidiaries and associates of UK-registered banks;
- (iv) interest and discounts received on lending in sterling to overseas residents;
- (v) the balance of interest flows on lending and borrowing in foreign currency excluding, as in Table 5.1, the interest paid on deposits which are the counterpart of loans made to public bodies under the exchange cover scheme. The level of net receipts from non-residents is affected particularly by the level of external net borrowing e.g. for on-lending to the UK non-bank private sector.

The total which is debited against these receipts comprises:

- (i) net payments for services rendered by overseas companies to their UK banking branches, subsidiaries and associates;
- (ii) amounts due from UK banking branches, subsidiaries and associates to overseas head offices or parent companies in the form of interest, profits and dividends;
- (iii) payments of interest by banks in the United Kingdom on liabilities denominated in sterling to overseas residents. (As indicated above, the amounts paid by the banks on their liabilities in foreign currencies are netted against receipts of interest on their lending in such currencies; the net figures are included on the credit side.)

The receipts of banks from the provision of services to non-residents, other than overseas affiliates and unrelated banks,

include commissions in respect of credit and bill transactions such as advising, opening and confirming documentary credits, collection of bills, etc.; net receipts on foreign exchange dealing; commission on new issues of overseas securities; banking charges, fees and commissions in respect of current account operations, executor and trustee services, portfolio management, commitment fees, guarantees, security transactions and similar services. It is these receipts that are recorded in 'Financial services'.

Receipts from lending to non-residents include interest on overdrafts and loans both in sterling and foreign currencies; discounts on bills connected with trade between overseas countries and with UK imports; and discount and interest on credit on UK exports extended by the banks. In the section on interest, profits and dividends, interest on short-term credit is not included in the credits shown in Table 5.1 because it is thought that this interest is included in the valuation of UK exports and is therefore in the visible trade account. In Table 6.1 notional figures are included for the interest earned by the banks on this short-term credit. Interest earned on credit extended by suppliers and by ECGD, is, of course, excluded from the banks' earnings.

Most earnings in the United Kingdom of overseas banks will be through branches or subsidiaries situated in the United Kingdom, but any other transactions directly between UK residents and overseas banks would not be included in the above figures.

Estimates are based mainly on information available to the Bank of England and from the Department of Trade annual inquiries into trade credit.

Commodity trading, etc.

Commodity trading earnings are estimated by the Bank of England. They consist of profits on third-country trade, com-

missions earnings on futures markets and earnings on 'differences'. A full description of these and other merchanting earnings is given on page 18.

Investment trust companies, etc.

The figures for investment trusts in Table 6.1 have been derived from annual returns made by the trusts. Those for unit trusts and pension funds have been estimated by assuming that the income of these institutions is at a similar rate to that of the investment trusts. The figures have been reduced by the estimated amount of interest paid abroad on foreign currency borrowing. Payments abroad by the institutions in respect of dividends or income distributions, or pensions, and the overseas receipts and payments of building societies, are believed to be very small and are not included here.

Brokerage, etc.

These estimates are of the net overseas receipts of the organisations shown. Included in 'other brokerage' are the commissions of gold and silver bullion dealers, net overseas receipts of foreign exchange brokers, management expenses on investment portfolios held for overseas clients and other miscellaneous receipts, these being based on enquiries and estimates made by the Bank of England.

Solicitors

Most of these earnings are generated within the City. The estimates are based on VAT records from 1974 to 1977. Estimates for other years are supported by Bank of England surveys, the most recent of which relates to 1980.

TABLE 6.1 OVERSEAS EARNINGS OF UNITED KINGDOM FINANCIAL INSTITUTIONS ('THE CITY')

£ million

		1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
	Location main table											
INSURANCE												
Credits												
Companies												
Underwriting(overseas business written in UK)	3.8	40	38	34	32	31	44	46	37	22	9	34
Direct investment (profits from overseas business written outside the UK through subsidiaries,etc)	5.1	62	85	76	62	46	190	230	276	256	177	106
Portfolio investment	5.1	35	37	47	54	61	73	64	77	95	111	171
Lloyd's												
Underwriting(overseas business written in UK)	3.8	141	138	114	127	166	279	334	354	312	188	254
Portfolio investment	5.1	16	19	25	37	34	57	48	71	112	153	128
Brokers	3.8	55	58	60	84	115	170	205	237	228	238	302
Total		349	375	356	396	453	813	927	1 052	1 025	876	995
Debits												
Direct investment income due to overseas parents of UK branches,etc.	5.1	4	5	9	13	5	7	14	13	16	21	21
NET EARNINGS BY UK INSURANCE INSTITUTIONS		345	370	347	383	448	806	913	1 039	1 009	855	974
BANKING												
Credits												
Financial (including inter-company) services	3.8,3.9	71	93	115	150	188	257	300	320	355	388	445
Direct investment income from overseas subsidiaries, branches,etc.	5.1	46	70	115	93	118	131	169	190	291	365	504
Portfolio investment income	5.1	—	—	—	—	10	10	15	30	40	60	130
Interest and discount on:												
Export credit	(see p34)	68	77	105	132	147	168	172	233	308	359	352
Other lending in sterling	5.1	42	57	103	145	159	214	157	198	270	474	872
Balance of interest on borrowing and lending in foreign currencies	5.1	16	44	54	151	138	210	107	346	-44	352	1 010
Total		243	341	492	671	760	990	920	1 317	1 220	1 998	3 313
Debits												
Direct investment income due to and services rendered by overseas parents	5.1(1)	58	82	97	142	194	257	282	273	293	348	456
Interest on borrowing in sterling	5.1	114	137	236	348	354	341	308	343	720	1 203	1 528
Total		172	219	333	490	548	598	590	616	1 013	1 551	1 984
NET EARNINGS BY UK BANKING INSTITUTIONS		71	122	159	181	212	392	330	701	207	447	1 329
COMMODITY TRADING,ETC.												
Commodity trading	3.8	70	90	110	140	209	201	110	163	140	180	160
Merchanting of other goods	3.8	30	35	55	80	90	108	120	132	145	160	200
TOTAL COMMODITY TRADING,ETC.		100	125	165	220	299	309	230	295	285	340	360
INVESTMENT TRUSTS												
Gross income	5.1	35	39	47	56	51	58	62	64	70	93	104
less interest paid abroad on foreign currency borrowing	5.1	4	8	14	16	10	11	11	12	12	11	13
NET INCOME OF INVESTMENT TRUSTS		31	31	33	40	41	47	51	52	58	82	91
UNIT TRUSTS(net income)	5.1	3	5	6	8	9	11	12	15	22	33	39
PENSION FUNDS(net income)	5.1	4	6	9	10	16	14	17	24	46	87	107
SOLICITORS	3.8	11	12	13	15	19	29	36	44	52	61	67
BROKERAGE ETC,EARNINGS												
Baltic Exchange		25	35	53	103	146	147	155	153	200	181	285
Stock Exchange		10	15	18	19	18	16	20	21	25	43	35
Lloyd's Register of Shipping		4	6	7	10	14	17	21	20	18	23	28
Other brokerage		18	18	21	28	29	35	37	54	88	123	137
TOTAL BROKERAGE,ETC,EARNINGS	3.8	57	74	99	160	207	215	233	248	331	370	485
TOTAL NET EARNINGS OF ABOVE INSTITUTIONS		622	745	831	1 017	1 251	1 823	1 822	2 418	2 010	2 275	3 452

1. The services elements within these figures, believed to be small, are contained within the items for services rendered by overseas parents, etc, in Table 3.9

7 Transfers

The other sections of this publication relate to transactions in which it is assumed that there is an interchange of goods, services and financial items of equal value. Thus the grand total of such transactions might be expected to be zero. In practice, however, there are examples of imbalance where one of the parties in the transaction does not expect, or receive, anything in return, i.e. has no *quid pro quo*. The object of the transfers entries is to provide the notional counterparts of such free gifts in order to bring the overall accounts to a balance.

General government transfers

These comprise grants to overseas countries, subscriptions and contributions to international organisations, other transfer payments by the UK government to overseas residents and similar receipts from overseas by the United Kingdom government.

Credits.

European Community institutions. More details of these credits are given in Table 13.2 and in the note on the Green Pound on page 12 of the 1981 and earlier editions of this publication.

Debits

Bilateral aid. This heading covers:

(i) *Project grants:* Cash grants to developing countries for the establishment or expansion of production and infrastructure facilities. Even though these grants are used for capital purposes by their recipients, they are treated as current account items in the balance of payments as no financial claim is created. Financial aid in loan form is included in the capital account.

(ii) *Non-project grants:* Cash grants to developing countries for use in financing imports and budgetary support including the value of goods and services provided without charge by the UK government e.g. as food aid or disaster relief. Grants given to cancel existing debt are included here.

(iii) *Technical co-operation:* This represents the value of the provision of 'know-how' to developing countries either as the provision of qualified manpower or facilities for the training of nationals of these countries. It excludes the pensions of former technical co-operation personnel.

Subscriptions and contributions to international organisations. This heading covers:

(i) contributions to institutions of the European Community, including levy payments made by the steel industry under EC regulations;

(ii) contributions to international organisations for multilateral economic assistance to the developing countries and other international projects;

(iii) subscriptions to meet the United Kingdom's part of the administrative expenses of (a) the United Nations and other international bodies and (b) international military agencies (SEATO, CENTO, etc.).

This heading does *not* include subscriptions to the International Development Association and other international lending bodies, nor gold subscriptions to the IMF: these are capital

transactions and are shown in Tables 8.4 and 1.1 respectively.

Military grants. These consist of cash grants for military purposes and goods and services of a military nature provided without charge to overseas countries and international organisations by the UK government.

Pensions and benefits. These include national insurance pensions and benefits and war pensions paid to overseas residents by UK government departments. Also included are payments of pensions and compensation to individuals from the United Kingdom who were formerly employed by overseas governments but who had their local salary supplemented by the UK government under the overseas aid programme.

Except where economic or military aid is involved, no entry is made either under government grants or under government receipts, in respect of fixed assets transferred without charge to overseas countries.

Information on general government transfers is obtained from official records.

Private transfers

This item comprises gifts of goods sent by parcel post, payments by UK residents to their dependants overseas, transfers of sums by missionary societies, relief organisations and other charitable institutions, legacies and those migrants' assets, other than their personal and household belongings, which are transferred at the time of migration. The transactions in goods are recorded in visible trade in the first instance and offset here. A similar treatment is adopted for cash gifts and other private assets transferred between UK residents and overseas residents, where the prime entry is in the capital account.

The credit series includes receipts of pensions and other benefits from overseas governments and other non-residents.

Some transfers may be of a capital nature and not wholly appropriate to the current account. However, because of the difficulty in practice of distinguishing between those arising from current transactions (for example, dependants' allowances) and those arising from gifts of capital, all private sector transfers are included here in the current account.

Estimates of debits are based on exchange control records until the third quarter of 1979 (when restrictions were lifted) and on the value of the 'gift' element in parcel post trade as derived from a sample inquiry carried out by the Department of Trade. Notional estimates have been made since then. Credits are based on information made available by the statistical offices of selected countries. In other cases, a suitable percentage of a country's published global figure has been used.

Capital transfers

These comprise payments made by the central government in implementation of the guarantee clauses of the Sterling Agreements of 1968, as renewed in 1971 and further extended on the basis of a unilateral declaration by HM Government. The extension of the Agreements expired in December 1974.

The information is obtained from official records.

£ million

TABLE 7.1 TRANSFERS - CURRENT AND CAPITAL

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
CURRENT TRANSFERS											
General government											
Credits											
European Community institutions	-	-	67	132	366	253	298	439	550	958	1 658
Debits											
Contributions and subscriptions to international organisations	-	-	187	186	350	474	750	1 364	1 626	1 783	2 188
European Community institutions	6	9	10	10	15	25	26	28	24	31	37
Military	24	16	25	19	47	53	105	78	150	112	109
Multilateral economic assistance	33	35	45	61	81	114	123	127	151	138	137
Other											
Bilateral grants											
Project grants	29	29	29	27	38	61	61	123	147	201	331
Non-project grants	21	10	4	15	32	88	103	145	198	142	61
Technical co-operation	50	54	62	66	90	115	114	119	152	194	189
Military grants	6	5	5	3	2	2	5	6	5	7	17
Pensions and benefits	35	51	59	66	80	108	125	150	154	181	269
Other transfers	1	1	1	2	1	1	1	2	1	1	1
Total government debits	205	210	427	455	736	1 041	1 413	2 142	2 608	2 790	3 339
Balance	-205	-210	-360	-323	-370	-788	-1 115	-1 703	-2 058	-1 832	-1 681
Private transfers											
Credits	246	264	320	357	393	537	614	774	796	808	844
Debits	234	298	398	454	503	509	614	848	992	1 083	1 119
Balance	+12	-34	-78	-97	-110	+28	-	-74	-196	-275	-275
CAPITAL TRANSFERS											
	-	-	-59	-75	-	-	-	-	-	-	-

8 Investment and other capital transactions

'Investment and other capital transactions' comprise investment transactions, official long-term capital transactions, trade credit, external borrowing and lending in foreign currencies and sterling, changes in external sterling liabilities and other capital flows. These transactions do not include capital flows associated with 'official financing'.

In the balance of payments accounts, the term 'investment' has a wide coverage. It does not refer only to the physical creation of capital but also, for example, to the purchase (or sale) of paper assets, to the financing of trade movements, and to other financial transactions between related companies in the United Kingdom and the rest of the world and transactions in stocks and shares and other securities.

The main items are summarised in Table 1.3 where they are given identification numbers which are quoted in other tables and in the notes below. Sub-divisions of these item numbers are shown against individual series in the tables where these are associated with series of assets or liabilities shown in Tables 11.1 or 11.2.

Summary of investment and other capital transactions (Table 8.1)

Overseas investment in UK—UK public sector This comprises items 5b, c, d, e and f of Table 8.2

Overseas investment in UK—UK private sector This comprises items 3, 4, 5a and 6 of Table 8.2

Inward and outward investment (Table 8.2)

Direct investment

Inward direct investment comprises net investment by overseas companies in branches, subsidiaries or associated companies in the United Kingdom. Outward direct investment comprises net investment by UK companies in their overseas branches, subsidiaries or associated companies (see page 28). Transactions of government departments, the Commonwealth Development Corporation and oil companies are excluded. The figures of outward investment cover the transactions of a number of public corporations, namely, the British Steel Corporation, British Airways, British Gas, British Aerospace (from 1977) and Cable and Wireless (British Aerospace and Cable and Wireless ceased to be public corporations at the end of 1980 and October 1981 respectively). The estimates of direct investment include the parent's share of the unremitted profits of the subsidiary or associated company, the net acquisition of share and loan capital, changes in intercompany accounts and changes in branch/head office indebtedness. Estimates of direct investment are derived from regular inquiries by the Department of Trade, the Bank of England and the British Insurance Association, the results of which are published periodically in *British business* and *Business Monitor MA4*. A geographical analysis is given in Table 8.3.

Investment by oil companies

Overseas investment by oil companies is measured on a basis comparable to the estimates of direct investment except that in the cases of Shell and BP, trade credit to and from unrelated businesses is also included. Also included for earlier periods are borrowing from banks overseas (up to the end of 1976) and deposits with banks overseas (up to the end of 1975). From 1980, international issues of securities by UK oil companies have been treated as inward portfolio investment. In earlier years any such issues would have been included indistinguishably in oil companies' investment. The estimates of outward investment

include 40 per cent of the Royal Dutch/Shell Group's investment outside the United Kingdom representing the Shell Transport and Trading Co. Ltd. (i.e. UK) share of the Group. Similarly the estimates of inward investment include 60 per cent of the Royal Dutch/Shell Group's investment in the United Kingdom representing the share of the Royal Dutch Petroleum Co. in the Group. Estimates of both inward and outward investment are based on information supplied by the oil industry to the Bank of England.

Portfolio investment

Overseas investment in UK company securities. The figures shown for this item represent net transactions by overseas residents in UK company securities, including securities issued both on the domestic market and in international, including eurobond, markets. (International issues by oil companies, however, were included under *Investment by oil companies* before 1980). The estimates are based on information obtained by the Bank of England.

British government stocks. This item, which consists of net transactions by private overseas residents (other than central monetary institutions and international organisations) in government and government-guaranteed stocks, is measured from banking statistics and other Bank of England sources. Although coverage was formerly far from complete, it has been improved progressively.

British government foreign currency bonds are dated bonds offered in April 1977 to overseas official holders of sterling. Transactions are measured from official records.

Local authorities' securities include mortgages in all years up to the end of 1980. They are denominated in sterling.

Public corporations' and local authorities' net issues abroad exclude issues under the exchange cover scheme (which are included in *Official financing*). They are measured from official records.

UK portfolio investment overseas. This represents net transactions by UK residents in overseas securities. Such securities may be issued by overseas governments, municipal authorities or companies. Investment by Lloyd's in its trust funds held in North America and other overseas investment is also included.

From 1971 to mid-1980 the figures were based partly on continuing use of exchange control returns (together with returns submitted on a voluntary basis after the ending of controls in October 1979) and partly on a Bank of England inquiry into overseas portfolio investment. From the middle of 1980 a new Bank of England inquiry has been used together with information obtained from existing inquiries to insurance companies, pension funds, unit trusts and investment trusts. Investment by Lloyd's continues to be included. Some allowance is made, where possible, for transactions not reported directly.

Miscellaneous investment

Inward investment mainly consists of identified transactions in real estate. Outward investment includes real estate transactions; non-bank financial institutions' loans and mortgages to overseas residents; and, until 1977, net investment by the Commonwealth Development Finance Company (from 1978 figures are incorporated in direct investment). Some of the information was derived from exchange control sources and is no longer available. Other information is obtained by the Department of Trade and the Central Statistical Office, some of which is published in *Financial Statistics* and *Business Monitor MQ5*.

Official long-term capital (Table 8.4)

This heading comprises inter-government loans and other official long-term capital (net).

Inter-government loans

This covers drawings and repayments of loans between the UK government and overseas governments. Short-term loans are included within 'Other official short-term transactions' and loans raised to support the UK official reserves form part of 'Official financing'.

Where there has been an agreement to cancel loans made by the United Kingdom, the practice in recent years has been to include repayments of interest and capital as originally scheduled but to offset them under transfers debits.

The information is obtained from various UK government departments. End-year levels outstanding are given in Table 11.3. Loans and repayments associated with the purchase of US military aircraft and missiles are detailed on page 65 in *United Kingdom Balance of Payments 1963-73*.

Other official long-term capital (net)

This covers all long-term capital transactions with overseas residents by the central government, other than transactions in British government stocks, inter-government loans and borrowing overseas. The heading also covers loans and investment overseas by the Commonwealth Development Corporation together with any subsequent loan repayment and disinvestment.

It includes capital subscriptions to international lending bodies other than the IMF, that is, the International Development Association, regional development banks and the European Investment Bank (from 1973), the International Finance Corporation and the International Fund for Agricultural Development. Some transactions are in the form of non-interest-bearing promissory notes and are included in the accounts as the subscriptions fall due, irrespective of the time of encashment of the notes. Also included are payments to the International Bank for Reconstruction and Development to maintain the dollar value of UK subscriptions consequent upon the devaluation of sterling in November 1967, and the repayment of the subscription to the European Fund in 1973. Subscriptions and contributions to international organisations to meet administrative expenses are not included here but under general government transfers (debits) in the current account.

'Other assets' comprise repayments of capital and payments of interest to the IBRD by the UK government as guarantor of loans to Rhodesia; a capital contribution to the reserves of the European Coal and Steel Community; transactions in the shares of the Compagnie Financière de Suez and repayments by Alcan Aluminium Ltd of Canada on a wartime loan.

Liabilities comprise a loan, repaid in 1971, to the United Kingdom government from the Deutsche Bundesbank.

The information is obtained from official records.

Trade credit (Table 8.5)

Trade credit represents the extent to which the flow of payments for imports and exports follows or precedes the flow of goods recorded in the current account. Export credit also includes credit extended by UK institutions for the financing of trade between other countries. Except for ships and North Sea installations the estimates do not cover oil companies' transactions, which are included in oil companies' private investment or other commercial short-term transactions. UK government transactions are also excluded. Goods received under financial leasing

agreements are treated as being purchased by the lessee, with the purchase being financed by trade credit from the lessor.

Trade credit between related firms (i.e. credit received or extended between a UK business and an overseas affiliate or parent company) is treated as an investment in an affiliate or parent company and is therefore recorded under direct investment.

Trade credit between 'unrelated' concerns (items 13 and 14)

Import credit (item 13) consists of net credit received by UK firms from overseas concerns less changes in advance and progress payments made by UK firms to overseas suppliers. When these advance or progress payments are financed out of credit arranged with overseas banks, both the credit received and the payments made to the overseas manufacturer are recorded separately in Table 8.5 but these transactions net out within import credit as a whole.

Identified long-term credit comprises credit received on ships, commercial aircraft and North Sea installations. An estimate of the credit on ships is obtained from the Department of Industry capital expenditure inquiry. For the other items, information is made available by individual companies. Prior to 1973, information on credit received on oil companies' ships is not available separately and is included in *other commercial short-term transactions (net)*.

Estimates of other credit received and changes in advance and progress payments are derived from annual inquiries carried out by the Department of Trade into trade credit received or extended, the estimates for the latest year being based on corresponding quarterly inquiries.

For convenience import deposits paid direct to HM Customs and Excise by overseas firms are also included under import credit in the summary tables, the estimates being derived from information available to the Bank of England.

Export credit (item 14) consists of net credit extended to overseas firms by banks in the United Kingdom and directly by UK firms (suppliers' credit) less changes in advance and progress payments. Detailed information is given in Table 8.5

Credit extended by UK banks, including credit to the overseas affiliates and parent companies of UK firms, comprises credit covered by bills of exchange discounted by (sold to) banks and by promissory notes held, including those in connection with ECGD buyer credit schemes (in sterling and foreign currencies), specific bank guarantees and comprehensive bank guarantees.

Long-term credit covers that extended under buyer credit and specific bank guarantee schemes. It is at a fixed rate of interest for a period of two years or more, with insurance cover being provided by the ECGD. Buyer credit is extended directly to overseas customers, whereas specific bank guarantees relate to credit extended through UK suppliers. Amounts refinanced before April 1972 with the Issue Department of the Bank of England and subsequently with the ECGD are included, as are amounts refinanced from September 1979 with the Trustee Savings Banks and the Central Trustee Savings Bank. When overseas customers make advance and progress payments to UK businesses by borrowing from UK banks under buyer credit schemes, the transactions recorded as credit extended by UK banks are offset by corresponding entries recorded as advance and progress payments by overseas customers and total net export credit extended is not affected.

Comprehensive bank guarantees cover credit extended for less than two years with interest related to base rate and insured through the ECGD.

Suppliers' credit extended by UK businesses excludes amounts covered by unmatured bills of exchange and promissory notes discounted by (sold to) banks in the United Kingdom, which are

Investment and other capital transactions

included under credit extended by UK banks. Bad debts taken over by the ECGD are also included under this heading.

The estimates are based largely on annual inquiries carried out by the Department of Trade.

Foreign currency borrowing or lending abroad by UK banks (Table 8.6)

This item comprises external borrowing and lending denominated in foreign currencies by UK resident banks and certain other UK institutions (those which had permission to take foreign currency deposits and make foreign currency loans when exchange controls existed). This is part of the euro-currency market and consists of changes in deposits of foreign currencies with UK banks by non-residents and in loans by UK banks in foreign currencies to non-residents.

It covers the financing of UK banks' net foreign currency business with UK residents (subject to certain exclusions listed below) plus any switching by the banks between foreign currencies and sterling. The transactions which are excluded are borrowing to finance lending to Her Majesty's Government (e.g. as part of the \$2.5 billion and \$1.5 billion facilities) and to local authorities and public bodies under the exchange cover scheme—all of which are included under *Official financing*; and lending in the form of export credit in foreign currencies under ECGD schemes—which was introduced from the third quarter of 1977 and is included in UK banks' export credit.

The series includes changes in UK banks' holdings of foreign notes and coin. It excludes commercial bills lodged with UK banks for their customers (which are part of trade credit, *items 13 and 14*) and, for 1975 onwards, excludes acceptances (which are not thought to represent direct credit by UK banks to overseas residents). Also excluded are net purchases of overseas securities, which are included in direct or portfolio investment (*items 8 and 10*).

The series has been calculated from the end-quarter balances of liabilities net of claims as reported by all UK banks and similar institutions to the Bank of England. Adjustments have been made to exclude revaluations resulting from floating exchange rates. The table on page 51 reconciles the estimates and those of borrowing to finance lending to HM Government, local authorities and public bodies under the exchange cover scheme with the change in net external liabilities shown in Table 11.5.

External sterling liabilities (Table 8.6)

These are commonly referred to as 'sterling balances' and fall into two categories. The exchange reserves in sterling ('official holdings') are the sterling reserves of overseas countries and international organisations (other than the IMF). The second category ('private holdings') comprises the holdings by individuals, companies and banks resident overseas and overseas government accounts other than the central monetary institutions. In each case the liabilities cover external sterling deposits with UK banks, finance houses and local authorities, and holdings of UK Treasury bills; the official holdings also include British government stocks and non-interest-bearing notes. The entries in Table 8.6 are measures of transactions in external sterling liabilities. End-year levels are given in Table 11.7.

They are derived from banking statistics supplemented by returns from other financial institutions and, before 1980, the Crown Agents for Oversea Governments and Administrations.

Exchange reserves in sterling ('Official holdings')

Items 16 and 17 in Table 8.6 show transactions by overseas central monetary institutions and international organisations (other than the IMF) in:

British government stocks (item 16)

The estimates, including those for government guaranteed stocks, are compiled at transaction values. Because the market values of these stocks vary over time, transactions are not necessarily equal to the changes in levels, which are at end-period market values, shown in Table 11.7 (see notes on page 52).

Banking and money market liabilities in sterling and non-interest-bearing notes (item 17)

- (a) current and deposit accounts and sterling certificates of deposit;
- (b) temporary loans to, and bills drawn on, local authorities, and deposits with finance houses, whether made directly or by UK banks or other UK agents for accounts of overseas residents;
- (c) UK Treasury bills;
- (d) non-interest-bearing notes held by international organisations.

Other external banking and money market liabilities in sterling ('Private holdings')

This item (*item 18* in Table 8.6) consists of changes in UK external banking and money market liabilities in sterling to overseas residents other than central monetary institutions and international organisations. The composition of the liabilities is the same as the exchange reserves items (a), (b) and (c) above.

External sterling lending by UK banks (Table 8.6)

This series (*item 19*) consists of changes in the level of sterling advances and overdrafts provided to overseas residents (including banks abroad) by UK banks and certain other UK financial institutions, and in the value of sterling commercial bills discounted and acceptances, other than bills connected with UK export credit.

Other external borrowing or lending (Table 8.6)

These items comprise borrowing or lending abroad, net of repayments, by UK residents other than UK banks. They cover transactions with banks, EC institutions (e.g. EIB, ECSC), unrelated companies and some persons abroad. Borrowing by public corporations and local authorities (*items 20a and 20b*) excludes borrowing under the exchange cover scheme. Borrowing by the United Kingdom non-bank private sector (*item 21a*) includes bank borrowing by UK oil companies and some short-term liabilities from the beginning of 1977 only. Deposits with banks overseas (*item 21b*) include, indistinguishably, changes in balances under minor government accounts overseas and any deposit balances of public corporations; these have been included within the UK private sector figures (*item 21* in Table 1.3).

Information on *borrowing from banks, etc. overseas (items 20a, 20b and 21a)* was derived mainly from official records and exchange control sources until the third quarter of 1979.

From the fourth quarter of 1979, information is being used on borrowing by UK residents other than banks from banks in the reporting area covered by the Bank for International Settlements (BIS). The countries covered by the BIS data are Austria, Belgium/Luxembourg, Canada, Denmark, France, the Federal Republic of Germany, Italy, Japan, the Netherlands, the Republic of Ireland, Sweden, Switzerland and the United States of America.

The BIS data relate to levels of liabilities. The flows have been estimated from changes in levels, adjusted to remove the effects

of exchange rate movements. The coverage of the series increased in the second quarter of 1980 (see note to Table 11.2) but the discontinuity has been removed as far as possible from Table 8.6.

Details of borrowing by the UK public sector from banks overseas continue to be derived from official records and any duplication with BIS-derived data is removed from the BIS series. Trade credit advanced by banks overseas to UK residents for the purchase of ships has also been deducted from the BIS series. The BIS series is thus used as the main source of data for UK non-bank private sector borrowing from banks, etc. abroad (*item 21a*); it includes, indistinguishably, bank borrowing by oil companies. To this information is added such other data as are available on borrowing from overseas sources other than banks and related companies. UK private sector borrowing from EC institutions is included in this category. Also included are overseas residents' shares in and deposits with UK building societies (from the third quarter of 1978) and other financial institutions.

Bank deposits and lending abroad (item 21b) consist of UK residents' (other than banks') deposits with banks in the BIS reporting area plus assets (commercial paper, bankers' acceptances and US Treasury bills) held in the custody of banks in the USA, UK companies' net lending to unrelated companies overseas and certain short-term assets. Information on the levels of bank deposits is obtained from the BIS and the changes in levels are adjusted for exchange rate movements. The BIS series is only available from the end of 1975 and there are several discontinuities in coverage—in the fourth quarter of 1977, the first quarter of 1979 and the second and fourth quarters of 1980; the flows included in Table 8.6 omit the effects of these breaks as far as possible. Information on UK companies' net lending to unrelated companies abroad was derived from exchange control sources.

Other transactions (Table 8.6)

Official short-term transactions (n.e.i.) include short-term inter-government loans and transactions with non-residents under minor government accounts in the form of changes in

balances not attributable elsewhere in the accounts. Balances held by the Paymaster General on the EC's account are included. Up to 1976 an adjustment is included aligning the calendar year receipts under the Anglo-German offset agreement for British forces stationed in Germany with the receipts included in the current account which are treated as accruing throughout the financial year. There are additional entries for the purchase of US military aircraft and missiles (see page 12) and entries of a similar nature for the sales of Harrier aircraft and spares to the US.

Other commercial short-term transactions (net) include the overseas short-term transactions of UK investment trusts, unit trusts, pension funds and insurance companies up to the end of 1975 for assets and 1976 for liabilities; certain short-term transactions of oil companies excluding, from 1973, trade credit on ships and platforms, but including some credit on oil; changes in gold dealers' balances, silver dealers' stocks, commodity dealers' stocks held overseas (when available from exchange control sources); certain unremitted earnings of service industries; and some holdings of commercial bills by international organisations. Transactions in both assets and liabilities are covered.

IMF expenditure and receipts in sterling comprises IMF receipts of sterling (re-purchased in 1972) from the United Kingdom as charges on drawings, and IMF administrative and operational expenditure in sterling. *IMF gold deposits in the United Kingdom* were made from 1965 to 1967 and repaid between 1968 and 1972; more details are given in 1981 and earlier editions of this publication. The entry for 1978, comprising an increase in sterling liabilities, was for the third IMF gold restitution which was repurchased in 1979.

References

The results of the Department of Trade inquiry into overseas direct investment are published in *British business* and in *Business Monitor MA4*.

Further information on inter-government loans and other official long-term capital transactions is available in the *Consolidated Fund and National Loans Fund Accounts* and the *Annual Report of the Commonwealth Development Corporation*.

INVESTMENT AND OTHER CAPITAL TRANSACTIONS

TABLE 8.1 SUMMARY OF INVESTMENT AND OTHER CAPITAL TRANSACTIONS (1)

	£ million										
	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Overseas investment in UK:											
UK public sector	+103	+113	+156	+180	-13	+179	+1 432	-97	+902	+589	+188
UK private sector	+912	+659	+1 341	+2 024	+1 527	+1 912	+2 967	+2 005	+3 459	+4 654	+3 168
UK private investment overseas	-860	-1 402	-1 760	-1 148	-1 367	-2 269	-2 334	-4 634	-6 555	-8 204	-10 637
Official long-term capital	-274	-254	-255	-287	-291	-161	-303	-336	-401	-91	-334
Trade credit	-233	-211	-203	-722	-518	-992	-355	-631	-795	-1 170	-884
Foreign currency borrowing or lending abroad by UK banks	+471	+471	+535	-295	+253	-106	+364	-433	+1 623	+2 018	+1 404
Changes in external sterling liabilities(2)	+1 422	+196	+154	+1 558	-66	-1 145	+1 471	+180	+3 336	+3 820	+2 747
External sterling lending by UK banks(3)	+39	-241	+35	+53	+96	-350	+58	-504	+205	-2 500	-2 980
Other external borrowing or lending	+144	+146	+339	+351	+316	+121	+813	+116	+601	-763	+39
Other transactions	+66	-161	-176	-120	+200	-198	+56	+51	-68	-217	+80
TOTAL INVESTMENT AND OTHER CAPITAL TRANSACTIONS	+1 790	-684	+166	+1 594	+137	-3 009	+4 169	-4 283	+2 307	-1 864	-7 209

1. Assets: increase-/decrease+. Liabilities: increase+/decrease-. Excluding official financing.
 2. Exchange reserves and other external banking and money market liabilities in sterling.
 3. Excluding credit for UK exports.

TABLE 8.2 INWARD AND OUTWARD INVESTMENT (1)

TABLE 8.2 INWARD AND OUTWARD INVESTMENT (1)

£ million

		1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
	Item number											
OVERSEAS INVESTMENT IN UK												
Direct(2)												
Unremitted profits of subsidiaries(3)		+184	+304	+344	+251	+247	+541	+837	+720	+1 297	+838	+1 027
Net acquisition of share and loan capital		+156	+149	+346	+477	+232	+252	+220	+229	+108	+651	+695
Change in inter-company accounts		+75	-78	+49	+143	+106	+45	+87	+231	+167	+1 021	-938
Change in branch indebtedness		+35	+33	-5	-17	+30	-39	+182	+112	+246	+66	+90
Total direct investment	3	+450	+408	+734	+854	+615	+799	+1 326	+1 292	+1 818	+2 576	+874
Investment by oil companies	4	+282	+78	+382	+924	+883	+819	+1 131	+666	+1 215	+1 714	+1 904
Portfolio												
Investment in UK company securities	5a	+183	+177	+230	+143	+9	+259	+421	+12	+351	+264	+320
British government stocks(4)	5b	+82	+108	+42	+105	-13	+116	+979	-3	+929	+571	+201
British government foreign currency bonds	5c	-	-	-	-	-	-	+395	-	-	-	-
Local authorities' securities	5d	+21	+5	+32	-10	+4	+14	+28	+4	+41	+19	-
Net issues abroad(5):												
Public corporations	5e	-	-	+52	+85	-4	+49	+30	-93	-6	-1	-13
Local authorities	5f	-	-	+30	-	-	-	-	-5	-62	-	-
Total portfolio	5	+286	+290	+386	+323	-4	+438	+1 853	-85	+1 253	+853	+508
Miscellaneous investment	6	-3	-4	-5	+103	+20	+35	+89	+35	+75	+100	+70
TOTAL OVERSEAS INVESTMENT IN UK	7	+1 015	+772	+1 497	+2 204	+1 514	+2 091	+4 399	+1 908	+4 361	+5 243	+3 356
UK PRIVATE INVESTMENT OVERSEAS												
Direct(2)												
Unremitted profits of subsidiaries(3)		-329	-465	-840	-851	-879	-1 454	-1 292	-1 259	-1 636	-1 646	-2 184
Net acquisition of share and loan capital		-229	-197	-563	-380	-301	-485	-473	-993	-1 303	-1 719	-2 290
Change in inter-company accounts		-108	-6	-185	-220	+52	-126	-	-257	+350	-14	-576
Change in branch indebtedness		-10	-69	-33	-124	-43	-80	-120	-231	-199	-112	-107
Total direct investment	8	-676	-737	-1 621	-1 575	-1 171	-2 145	-1 885	-2 740	-2 788	-3 491	-5 157
Investment by oil companies and miscellaneous investment	9	-139	-61	-415	-298	-137	-214	-461	-821	-2 858	-1 566	-1 380
Portfolio(6)	10	-45	-604	+276	+725	-59	+90	+12	-1 073	-909	-3 147	-4 100
TOTAL UK PRIVATE INVESTMENT OVERSEAS	11	-860	-1 402	-1 760	-1 148	-1 367	-2 269	-2 334	-4 634	-6 555	-8 204	-10 637

1. Assets: increase-/decrease+. Liabilities: increase+/decrease-. Net of disinvestment.
 2. Overseas direct investment in the UK excludes the transactions of oil companies but includes investment by a number of public corporations.
 3. Including associated companies.
 4. Excluding net investment by central monetary institutions and international organisations which is shown as item 16 of Tables 1.3 and 8.6.
 5. Excluding net foreign currency issues abroad under the exchange cover scheme, which are included under 'Official Financing'.
 6. Portfolio investment overseas by investment trusts, unit trusts, insurance companies and pension funds amounted to £2,520 million in 1980 and £2,810 million in 1981.

TABLE 8.3 DIRECT INVESTMENT (1) - GEOGRAPHICAL ANALYSIS (2)
(net of disinvestment and excluding the transactions of oil companies)

£ million

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
DIRECT INVESTMENT IN UK											
By EC(3)	+39	+44	+112	+76	+98	+176	+268	+310	+270	+157	..
Other Western Europe	+27	+48	+62	+120	+113	+79	+171	+124	+255	+228	..
North America	+324	+251	+422	+472	+282	+503	+695	+844	+1 114	+1 760	..
Other developed countries	+41	+45	+17	+12	+67	-3	+155	+8	+58	+204	..
Oil exporting countries(4)	-1	-	-1	+109	-3	-18	-15	+10	+62	+23	..
Rest of world	+20	+20	+122	+65	+58	+62	+52	-4	+59	+204	..
TOTAL	+450	+408	+734	+854	+615	+799	+1 326	+1 292	+1 818	+2 576	+874
DIRECT INVESTMENT OVERSEAS BY UK											
In EC(3)	-287	-244	-523	-365	-168	-497	-385	-584	-34	-483	..
Other Western Europe	-14	-45	-101	-99	-48	-192	-184	-271	-96	-117	..
North America	-156	-161	-511	-483	-350	-593	-583	-1 107	-1 801	-1 896	..
Other developed countries	-151	-202	-284	-409	-308	-416	-334	-318	-261	-424	..
Oil exporting countries(4)	-25	-24	-25	-44	-41	-107	-177	-155	-69	-97	..
Rest of world	-43	-61	-177	-175	-256	-340	-222	-305	-527	-474	..
TOTAL	-676	-737	-1 621	-1 575	-1 171	-2 145	-1 885	-2 740	-2 788	-3 491	-5 157

1. Assets: increase-/decrease+. Liabilities: increase+/decrease-.
 2. A more detailed geographical analysis is published in Business Monitor MA4.
 3. Figures for all years are on the basis of the nine countries, including Greece.
 4. Excluding Algeria, Gabon and Ecuador.

TABLE 8.4 OFFICIAL LONG-TERM CAPITAL (1)

£ million

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
<u>Item number</u>											
INTER-GOVERNMENT LOANS BY THE UK											
Loans made	-125	-110	-93	-108	-113	-54	-44	-71	-81	-61	-76
Loans repaid	+32	+34	+31	+33	+34	+37	+48	+46	+70	+112	+85
Loans (net)	12a	-93	-77	-62	-75	-79	-17	+5	-25	-12	+9
INTER-GOVERNMENT LOANS TO THE UK											
Loans received	+4	-	-	-	-	-	-	-	-	-	-
Loans repaid	-100	-112	-91	-84	-83	-21	-68	-65	-116	-57	-73
Loans (net)	12b	-96	-112	-91	-84	-83	-21	-68	-65	-116	-73
OTHER OFFICIAL LONG-TERM CAPITAL ASSETS											
Subscriptions to international lending bodies:-											
International Development Association	-41	-48	-52	-69	-80	-76	-181	-159	-226	-2	-185
Regional Development Banks	-1	-1	-6	-16	-10	-20	-23	-37	-19	-48	-23
European Investment Bank	-	-	-23	-23	-12	-5	-6	-17	-15	-4	-11
Other subscriptions	-2	-2	+2	-2	-2	-8	-3	-12	-	-	-
Commonwealth Development Corporation:-											
Loans and investment	-23	-20	-21	-35	-27	-26	-36	-30	-44	-45	-68
Repayments and disinvestment	+6	+8	+8	+9	+11	+11	+12	+10	+9	+13	+17
Other assets	-2	-3	-10	+7	-10	+3	-2	-1	+21	-	-
Total(2)	12c	-63	-66	-102	-128	-129	-123	-239	-246	-273	-270
LIABILITIES											
Loan from Deutsche Bundesbank	12d	-23	-	-	-	-	-	-	-	-	-
TOTAL OFFICIAL LONG-TERM CAPITAL	12	-274	-254	-255	-287	-291	-161	-303	-336	-401	-334

1. Assets: increase-/decrease+. Liabilities: increase+/decrease-. Components are rounded independently from the totals.

INVESTMENT AND OTHER CAPITAL TRANSACTIONS

TABLE 8.5 TRADE CREDIT (2)

(excluding credit between related businesses)

£ million

		1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
	Item number											
IMPORT CREDIT												
Credit received												
Identified long-term credit (3)		+131	+176	+148	+68	+24	-79	+76	-70	-173	+1	-68
Other		+11	+41	+216	+138	+65	+246	+130	+163	+364	-211	+162
Total	13a	+142	+217	+364	+206	+89	+167	+206	+93	+191	-210	+94
Advance and progress payments												
Identified long-term credit(3)		-66	-22	-10	-104	-32	+35	+115	+120	-62	-36	+21
Other		+6	+3	-5	-14	+2	-91	-41	+78	-68	-22	-
Total	13b	-60	-19	-15	-118	-30	-56	+74	+198	-130	-58	+21
Import deposits paid directly from overseas	13c	-28	-	-	-	-	-	-	-	-	-	-
NET IMPORT CREDIT RECEIVED	13	+54	+198	+349	+88	+59	+111	+280	+291	+61	-268	+115
EXPORT CREDIT												
Credit extended by UK banks												
Identified long-term credit		-353	-312	-254	-419	-633	-706	-601	-625	-440	-808	-797
Other		-25	-10	-45	-119	-108	-120	-15	+33	+27	-95	+115
ECGD Comprehensive bank guarantees		-19	-15	-75	-79	+59	+9	+28	+25	+62	+18	+12
Total(1)	14a	-397	-337	-374	-617	-682	-817	-588	-567	-351	-885	-670
Suppliers' credit extended	14b	-13	-167	-324	-493	-129	-580	-315	-490	-805	-204	-475
Advance and progress payments	14c	+123	+95	+146	+300	+234	+294	+268	+135	+300	+187	+146
NET EXPORT CREDIT EXTENDED	14	-287	-409	-552	-810	-577	-1103	-635	-922	-856	-902	-999
TRADE CREDIT (NET)	13,14	-233	-211	-203	-722	-518	-992	-355	-631	-795	-1170	-884
1. of which, credit to finance transactions between UK businesses and:												
their overseas affiliates		-5	+8	-4	-44	-53	-56	-91	-26	+94	+3	..
their overseas parent companies		-13	-46	-99	-48	+28	+4	+54	-41	+16	-144	..
other overseas concerns		-379	-299	-271	-525	-657	-765	-551	-500	-461	-744	..
Total credit extended by UK banks		-397	-337	-374	-617	-682	-817	-588	-567	-351	-885	-670

2. New credit received/extended less existing credit repaid. Assets: increase- decrease+. Liabilities: increase+/decrease-.

3. Credit on ships, commercial aircraft and North Sea installations. Prior to 1973 ships owned by oil companies are excluded.

TABLE 8.6 OTHER CAPITAL TRANSACTIONS (1)

£ million

		1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
	Item number											
FOREIGN CURRENCY BORROWING OR LENDING ABROAD BY UK BANKS (2)	15	+471	+471	+535	-295	+253	-106	+364	-433	+1 623	+2 018	+1 404
EXCHANGE RESERVES IN STERLING												
British government stocks	16	+55	+65	+74	-124	+7	+12	+6	-113	+247	+945	+258
Banking and money market liabilities etc.												
External deposits with:												
Banks and other institutions	17a	+250	-105	+259	+569	-224	-645	+132	-251	+270	+436	-138
Local authorities	17b	+45	+147	+152	-107	+87	-174	-130	+15	-27	+5	+20
Treasury bills	17c	+335	+154	-347	+1 038	-507	-622	-114	+97	+81	-76	-109
Non-interest-bearing notes	17d	+28	+26	+23	+34	+22	+28	+96	+139	+185	-48	+82
Total	17	+658	+222	+87	+1 534	-622	-1 413	-16	-	+509	+317	-145
TOTAL	16,17	+713	+287	+161	+1 410	-615	-1 401	-10	-113	+756	+1 262	+113
OTHER EXTERNAL BANKING AND MONEY MARKET LIABILITIES IN STERLING												
External deposits with:												
Banks and other institutions	18a	+692	-88	-7	+162	+529	+269	+1 475	+308	+2 518	+2 608	+2 635
Local authorities	18b	+17	-3	-1	-16	-1	-	-	-	-	-	-
Treasury bills	18c	-	-	+1	+2	+21	-13	+6	-15	+62	-50	-1
TOTAL	18	+709	-91	-7	+148	+549	+256	+1 481	+293	+2 580	+2 558	+2 634
EXTERNAL STERLING LENDING BY UK BANKS(3)	19	+39	-241	+35	+53	+96	-350	+58	-504	+205	-2 500	-2 980
OTHER EXTERNAL BORROWING OR LENDING(4)												
Borrowing from banks, etc overseas by:												
Public corporations(5)	20a	+4	+7	+19	+69	+56	+27	+746	+11	-18	-184	-29
Local authorities(5)(6)	20b	-	-	-	+3	-	-	+4	+11	+11	+11	+4
UK private sector	21a	+140	+139	+320	+279	+260	+240	+318	+720	+1 013	+436	+574
Bank deposits and lending overseas	21b	-	-	-	-	-	-146	-254	-626	-405	-1 026	-510
TOTAL	20,21	+144	+146	+339	+351	+316	+121	+813	+116	+601	-763	+39
OTHER TRANSACTIONS												
Official short-term transactions (n.e.i.)	22a	+21	+10	+19	-20	+15	+19	+52	+77	+145	-150	+196
Other commercial short-term transactions(net)	22b	+47	-77	-195	-100	+185	-217	+4	-40	-200	-67	-116
IMF expenditure and receipts in sterling	22c	-	-83	-	-	-	-	-	+14	-13	-	-
IMF gold deposits in UK	22c	-2	-11	-	-	-	-	-	-	-	-	-
TOTAL	22	+66	-161	-176	-120	+200	-198	+56	+51	-68	-217	+80

1. Assets: increase-/decrease+. Liabilities: increase+/decrease-.

2. The figures are net of repayments. External borrowing by UK banks to finance their participation in foreign currency borrowings by HM Government, and their lending under the exchange cover scheme, is excluded.

3. Excluding credit for UK exports.

4. Net of repayments.

5. Excluding net foreign currency borrowing under the exchange cover scheme which is included under "Official Financing".

6. Includes a loan from the European Investment Bank to the Northern Ireland Central Government (£1million in 1981).

9 The UK Continental Shelf oil and gas programme

The Continental Shelf oil and gas programme has been having an impact on the UK balance of payments for many years now. At first, the effects of the programme were restricted to inflows on the capital account to finance the purchase of equipment, and on the current account to finance the costs incurred by the subsidiaries of foreign-owned companies on exploration. Later, these were supplemented by the import-saving effect of the production of gas. Now that oil is being produced in large quantities, there are even greater contributions to the current account. Table 9.1 brings together the identifiable transactions directly associated with the Continental Shelf programme from 1973 to 1981. However, no attempt is made to measure the total effects of Continental Shelf production and development on the UK balance of payments. Any such attempt would require a number of arbitrary assumptions about how the UK economy would have developed in the absence of indigenous sources of oil and gas. The series presented in Table 9.1 are restricted to the identifiable relevant aspects of the programme and ignore indirect effects such as those on the exchange rate, the official reserves, employment, output and the imports and exports of goods other than those directly associated with the oil programme. However, for purposes of comparison, UK exports and imports of oil over the period are shown in footnote⁽¹⁾ to Table 9.1. Different presentations of the effect of UK Continental Shelf development on the balance of payments have been used in some other official publications (details were given in the 1979 edition of the Pink Book).

Table 9.1 shows total domestic oil and gas production (thus assuming all of it directly benefits the visible trade balance). Offsetting oil and gas production there have been, within visible trade, goods imported for the exploration, development, and production programmes. Within the invisibles account, services have been imported for the programme. On the other hand, there are some credits to the UK balance of payments for services provided to foreign rig operators on the Continental Shelf; in Table 9.1 these are netted off the debit figures.

The profits earned by subsidiaries of foreign-owned companies further reduce the balance on invisibles. These profits are payable overseas, and their full value is debited to the current account, though profits retained in the United Kingdom appear also as an inflow in the capital account. The current account debits associated with the North Sea programme cannot be identified completely. In particular, it is not possible to identify all those goods which are eventually destined to be used in the Continental Shelf programme, and only those which have been specifically nominated for such use are included in the table. On the other hand, it has not been possible to exclude the UK export content of certain large imports. For example, modules have been exported for inclusion on certain platforms that have been assembled overseas and later imported, and the full value of these imports has then been included. In these cases this presentation overstates the offsetting effects of imported goods.

Apart from the effects on the current account, there have also been large net inflows on the capital account. The identified entries are aggregated under the heading 'Overseas investment in the UK Continental Shelf, etc.' The major part of the capital flows in the early years was inward investment by foreign parent companies, which began as soon as the companies became involved in the Continental Shelf programme and, together with company borrowing from banks overseas, constituted the main source of finance for the programme for several years. However, with the growth of profits, that part of them which is retained for re-investment in the United Kingdom also makes a contribution to capital inflows while repayment of bank borrowing results in some outflows. Another source of finance for both foreign companies and UK-owned companies has been foreign

currency borrowing from UK banks and, in Table 9.1, such borrowing (net of repayments) has been treated as an inflow. There have also been inflows of foreign currency borrowed overseas by public corporations, (e.g. in 1977 when the British National Oil Corporation raised a large sum of money overseas by the forward sale of oil) and outflows when borrowing has been repaid (e.g. in 1980).

Notes and definitions

Definitions and details of the series included in Table 9.1 are given below.

Volume of gas sales

The volume of sales is measured in cubic metres (as a rough guide, a cubic metre of natural gas is approximately equivalent to 0.36 therms). The figures are obtained from returns made by companies to Government. Sales refer to gas delivered on sale (almost entirely to the British Gas Corporation). Sales figures differ from production figures in that they exclude, for example, the filling of pipelines, flaring off, and gas used by the producers themselves.

Volume of oil sales

Sales are measured in tonnes. They include crude petroleum and natural gas liquids. Sales of oil from production on the mainland are also included, though they are relatively small. The figures are obtained from returns made by the companies to Government. Sales refer to oil delivered on sale, or appropriated for use in processing plants or refineries of associated companies, or otherwise disposed of. They differ from production figures because they exclude, for example, the filling of pipelines and stock changes.

Value of oil and gas sales

The figures represent the sterling valuation of the volume of sales of crude petroleum, natural gas liquids and natural gas (defined above). Valuation is undertaken by the producers who make returns to Government. Where sales take place on delivery to a third party, the value recorded is the amount charged. The values of other oil or gas (for example, oil delivered to the reporting company's refinery) are based on the market valuation used for Petroleum Revenue Tax purposes (i.e. the landed c.i.f. value or the post-initial treatment market valuation). Gas is valued at the prices paid by the Gas Corporation (and others).

Imports of goods

Estimates in Table 9.1 are on a balance of payments basis and therefore include various adjustments and are expressed f.o.b. For the early years (1973 and 1974) there are no precise estimates of imports of goods for use in the Continental Shelf programme; they were included within the *Overseas Trade Statistics* but were not identified as being specifically for the North Sea programme. Estimates have therefore been made to indicate the broad magnitude of these imports of goods in these years. For the later years, direct imports of two kinds have been identifiable. The first kind is imports of large items such as production platforms, offshore loading equipment, and mobile drilling rigs etc., and Table 9.1 includes balance of payments figures for items which would be classified to SITC (Rev 2) item 793.82, 1978 tariff heading 8903 1910. The second kind of goods identified is those imported for use on the UK Continental Shelf landed in bond (SITC (Rev 2) item 931.0, 1978 tariff heading 9999 0202). Any imported goods not included in these two categories but which are used in the programme are excluded from Table 9.1.

Imports of services

These services are also included in Table 3.9 and are defined in detail on page 20.

Exports of certain services

Only those services directly associated with UK Continental Shelf oil and gas production, mainly the supply of catering and labour services to foreign rig operators on the Shelf, are included in Table 9.1. Table 3.9 includes these as well as other credits for services provided by companies classified to the UK oil and gas production industry (MLH 104); see page 20 for further details.

Interest, profits and dividends due abroad

This includes four separately distinguishable series obtained from information provided to the Bank of England by the oil industry:

- (i) Interest, profits and dividends of the UK subsidiaries of foreign-owned companies, including the Dutch share of the Shell Group (see page 29). This series includes interest paid to overseas residents (including parent companies) for funds borrowed for the finance of the programme; profits earned on the output from oil and gas fields; and dividends paid overseas to parent companies. The profits include those retained in the United Kingdom for re-investment.
- (ii) Interest paid on foreign currency borrowing from UK banks. This interest is, in fact, a domestic transaction being a payment by one resident to another. However, a reasonable approach when measuring the contribution of the programme to the balance of payments is to ignore the banks' intermediary role, and to assume that the interest is being paid directly overseas.
- (iii) Interest paid on borrowing from overseas banks (other than that already included in (i)).
- (iv) Interest paid by public corporations on their overseas borrowing.

Overseas investment in the UK Continental Shelf

This includes five separately distinguishable series:

- (i) Inward investment by subsidiaries of overseas companies, including the Dutch share of the Royal Dutch/Shell Group (see page 38). This includes profits retained in the United Kingdom by oil companies. The estimates are based on information supplied by the oil industry to the Bank of England. The split between funds designated for the Continental Shelf and those designated for the mainland is made by the oil companies themselves. This is part of 'Overseas investment in UK: investment by oil companies' shown in Table 8.2.
- (ii) Foreign currency borrowing from UK banks, net of repayments. These figures are also obtained from information supplied by the oil industry to the Bank of England. They are included as a contribution to the balance of payments although they do, of course, represent a transaction between two residents. However it is assumed that the funds originate overseas and the UK banks participate purely as intermediaries.
- (iii) Borrowing from overseas banks, net of repayments.
- (iv) Overseas borrowing by UK public corporations, net of repayments. These figures are based on information supplied by the corporations and include receipts from forward sales of oil by the British National Oil Corporation.
- (v) Import trade credit and advance and progress payments on platforms etc. Imported goods are treated as offsets to the benefits of production of oil and gas because they represent a payment overseas. However, this payment may be delayed by obtaining import credit from an overseas resident. This entry takes account of this timing difference, delaying and offsetting effects until the repayment of the import credit. Likewise advance and progress payments are included to adjust for another timing difference i.e. the payment in part for goods before importation. The estimates are based on information sent to Government by the oil companies. They exclude transactions between related concerns (such transactions are included within inward investment).

TABLE 9.1 THE UK CONTINENTAL SHELF OIL AND GAS PROGRAMME(2)

	1973	1974	1975	1976	1977	1978	1979	1980	1981
VOLUME OF SALES									
Gas (billion cubic metres)	28.8	34.7	36.1	38.3	40.4	38.5	38.8	36.4	35.5
Oil (million tonnes)	0.4	0.4	1.4	11.8	37.8	53.1	77.5	79.2	89.6
VALUE OF SALES									
	£ million								
Gas	133	166	190	258	317	432	538	647	843
Oil(1)	2	3	58	645	2 226	2 805	5 689	8 851	12 341
IDENTIFIABLE BALANCE OF PAYMENTS ENTRIES(3)									
Imports of goods (f.o.b.)	-100	-125	-341	-536	-531	-185	-171	-144	-217
Imports of services less exports of certain services	-57	-207	-481	-647	-704	-543	-436	-469	-561
Interest, profits and dividends due abroad	-9	-10	-23	-24	-550	-744	-1 368	-2 215	-2 351
Overseas investment in UK Continental Shelf, etc.	+65	+231	+946	+1 142	+1 508	+791	+696	+841	+1 661

1. For comparison, UK trade in oil (balance of payments basis, £ million).

Exports	344	710	734	1 172	1 979	2 235	4 158	6 120	..
Imports	1 285	4 067	3 791	5 119	4 750	4 219	4 889	5 847	..
Balance	-941	-3 357	-3 057	-3 947	-2 771	-1 984	-731	+273	..

2. The full effects of the Continental Shelf programme on the UK balance of payments cannot be measured precisely. An explanation of the difficulties of measurement is given in the preceding notes together with details of the items included in each series. The figures include oil and gas extracted from the mainland.

3. See detailed definitions in text above.

10 Official financing

The composition of official financing shown in the balance of payments accounts in any period, summarises the way that the UK monetary authorities have reacted to the net demand for, or accommodated the net supply of, foreign currency at whatever exchange rate prevailed. The direct effects are drawings on or accruals to the official reserves (*item 27* of Table 1.3); the other official financing transactions represent the effects of directly reconstituting or supporting the official reserves by borrowing or similar arrangements (net of repayments). Historically such arrangements have been with overseas monetary authorities (including the IMF) (*item 25*) but in the 1970's HM Government borrowed on the euro-currency and New York securities markets (*item 26a*) and, since 1969, public corporations and local authorities have borrowed foreign currencies under the exchange cover scheme (*item 26b*). Under the scheme, public bodies are able to borrow in foreign currencies from abroad with the guarantee of the Treasury that the foreign currency required for interest payments and capital repayments will be available at the same cost in sterling terms as at the time that the loan was raised. The public bodies require sterling to finance domestic projects and the foreign currency supplements the United Kingdom's official reserves.

Net transactions with overseas monetary authorities — IMF (*item 25a*)

These include drawings and repurchases by the United Kingdom, and drawings and repurchases in sterling by other countries which affect the UK's repurchase obligations to the IMF. From July 1972 any drawing or repurchase in sterling by another country which affects the UK's reserve position in the Fund results in a change in the published total of UK official reserves and is accordingly shown in the balance of payments accounts as a drawing on or addition to official reserves, *item 27* instead of in *item 25* as previously. Any transaction by the United Kingdom, which affects the United Kingdom's reserve position in the Fund, merely alters the composition rather than the level of the reserves.

Liabilities to the IMF which are considered inappropriate to the official financing category are included in 'Other transactions' (*item 22*). The UK gold subscription is shown separately in Table 1.1.

Net transactions with overseas monetary authorities — Other (*item 25b* and *c*)

This item covers net borrowing from Switzerland, with a sterling counterpart, in parallel with drawings from the IMF under the General Arrangements to Borrow, and other net borrowing from monetary authorities in the form of assistance with a sterling counterpart; net borrowing from other monetary authorities in the form of foreign currency deposits; amounts swapped forward into later months with overseas monetary authorities in 1971 and 1972; and net borrowing from The Group of Ten countries, Switzerland and the BIS under the \$5.3 billion facility in 1976.

Foreign currency borrowing by HM Government (*item 26a*)

These are primarily drawings on two euro-dollar facilities, of \$2500 million and \$1500 million respectively, arranged by the Bank of England with UK clearing banks and their associates on behalf of HM Government, and repaid during 1980 and 1981. The transactions are allocated to the debtor (HM Government) rather than the transactor (the clearing banks). Also included is an issue of \$350 million of HM Government 7 and 15 year bonds made in New York in April 1978.

Foreign currency borrowing (net) by public bodies under exchange cover scheme (*item 26b*)

This is all borrowing by UK public corporations, local authorities and other public bodies under the 1969 and subsequent exchange cover schemes. These borrowings (net of repayments) are in the form of issues abroad, borrowing from banks, etc. overseas (in recent years, largely the European Investment Bank and European Coal and Steel Community) and borrowing through UK banks; they are included in official financing because they are regarded as primarily motivated by considerations of reserve management, the foreign currency generated being added to the official reserves.

Official reserves (*item 27*)

This item consists of the sterling equivalent of drawings on, and additions to, the gold, convertible currencies and Special Drawing Rights (SDRs) held in the Exchange Equalisation Account, and, from July 1972, of changes in the UK reserve position in the IMF. From July 1979, reserve holdings include European Currency Units acquired from swaps with the European Monetary Co-operation Fund.

Sterling valuation

Up to 20 August 1971 the sterling equivalent of the net amount of gold, SDRs and foreign currencies drawn on or added to the official reserves was derived by conversion at par or middle rates of exchange. The small difference between figures valued in terms of sterling in this way and at the rates at which transactions occurred was regarded as negligible at a time when market rates of exchange were within a 1 per cent band on either side of parity. The drawings on or additions to the official reserves were therefore the same as the difference between the opening and closing levels of the reserves.

From 23 August 1971 the exchange rate of sterling was allowed to fluctuate more freely than before against other currencies and in consequence there has been a widening in the possible range of difference between conversion at par or middle rates of exchange and conversion at the rates at which transactions occurred. Drawings on and additions to the reserves have therefore been valued at market-related rates of exchange from that date and no longer equal the difference between the opening and closing levels of the reserves. This procedure automatically excludes from the figures changes resulting from the currency re-alignment in December 1971 and subsequent exchange rate movements.

Official financing transactions in 1972

Under the EC narrower margins scheme the settlement in July 1972 of the borrowing from EC central banks in the previous month was made partly in currencies and partly in gold-guaranteed assets. The appropriate amount in gold-guaranteed assets was \$634 million and this was taken from the UK reserve position with the IMF. The balance of the IMF reserve position, amounting to \$126 million, remained in the official reserves.

References

Monthly figures of the reserves are published in a press notice issued by HM Treasury and reproduced in *Financial Statistics*.

A breakdown of the reserves into gold, SDRs, reserve position in the Fund and convertible currencies is published quarterly in arrears in the *Bank of England Quarterly Bulletin*, in *Financial Statistics* and with the quarterly balance of payments articles in *Economic Trends*.

TABLE 10.1 SUMMARY OF OFFICIAL FINANCING (1)

£ million

		1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
	<u>Item number</u>											
Net transactions with overseas monetary authorities												
International Monetary Fund (2)		-	-	-	-	-	+1 018	+1 525	-	-	-	-
UK drawings		-541	-313	-	-	-	-	-412	-948	-596	-140	-145
UK repurchases		-13	-102	-	-	-	-	-	-68	-	-	-
Other net drawings												
Total	25a	-554	-415	-	-	-	+1 018	+1 113	-1 016	-596	-140	-145
Other monetary authorities												
Foreign currency deposits	25b	-	-	-	-	-	-20	-	-	-	-	-
Other	25c	-1 263	+864	-	-	-	-14	-	-	-	-	-
Total		-1 263	+864	-	-	-	-34	-	-	-	-	-
Foreign currency borrowing (net):												
by HM Government	26a	-	-	-	+644	+423	-	+871	+191	-	-629	-1 234
by public bodies under exchange cover scheme(3)	26b	+82	-	+999	+1 107	+387	+1 791	+243	-378	-250	-312	-353
Drawings on (+)/additions to (-) official reserves	27	-1 536	+692	-228	-105	+655	+853	-9 588	+2 329	-1 059	-291	+2 419
TOTAL OFFICIAL FINANCING	28	-3 271	+1 141	+771	+1 646	+1 465	+3 628	-7 361	+1 126	-1 905	-1 372	+687

1. From 23 August 1971, valued in sterling at current market rates of exchange.
2. From July 1972, excludes transactions which affect the United Kingdom's reserve position in the Fund (thereafter part of official reserves - see notes). UK drawings on the oil facility are included.
3. See footnote (1) to Table 10.2

TABLE 10.2 FOREIGN CURRENCY BORROWING BY HM GOVERNMENT AND BY PUBLIC BODIES UNDER THE EXCHANGE COVER SCHEME

£ million

		1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
	<u>Item number</u>											
HM GOVERNMENT BORROWING (NET)												
Through UK banks		-	-	-	+506	+314	+28	+729	+22	-	-543	-1 002
From banks, etc. overseas		-	-	-	+138	+109	-28	+142	-22	-	-86	-232
Issues abroad		-	-	-	-	-	-	-	+191	-	-	-
Total	26a	-	-	-	+644	+423	-	+871	+191	-	-629	-1 234
BORROWING BY PUBLIC BODIES UNDER THE EXCHANGE COVER SCHEME(NET):												
Through UK banks:												
Public corporations		-	-	+736	+325	-1	+424	-41	-290	-406	-154	+124
Local authorities		+10	-	+88	+270	-21	-24	-1	-149	-208	-25	+1
Net issues abroad												
Public corporations		+36	-	+28	+250	+166	+581	+45	-126	+109	-233	-377
Local authorities		-	-	+96	+25	+25	-1	+1	-4	-59	-64	-38
From banks, etc. overseas(1)												
Public corporations		+36	-	+43	+210	+227	+811	+219	+185	+279	+129	-100
Local authorities		-	-	+8	+27	-9	-	+20	+6	+35	+35	+37
Total	26b	+82	-	+999	+1 107	+387	+1 791	+243	-378	-250	-312	-353

1. Includes loans from the European Investment Bank to the Northern Ireland Central Government (£15 million in 1979 and £4 million in 1981) and to British Nuclear Fuels Ltd. (£4 million in 1979, £44 million in 1980 and £17 million in 1981).

11 External assets and liabilities

The figures in the balance of payments accounts relate to transactions taking place within a particular period. But current account and other transactions affect the stock of external assets or liabilities held by the United Kingdom at the end of the relevant period. Changes in the stocks of external assets and liabilities (shown in this section) between two points in time do not necessarily equate to the transactions recorded for that period (shown in sections 8 and 10). Revaluations and other changes also take place, including:

- (i) the change in the book or market value of stocks of assets and liabilities apart from the actual sales or purchases which occurred. For example, private portfolio investments and overseas holdings of British government stocks are shown at market value, the change in which, apart from the effect of any change in exchange rates, reflects not only purchases and sales of securities but also rises and falls in the prices of shares and stocks. Direct investments, on the other hand, are measured at book values which do not always exactly match the recorded flows of direct investment for such reasons as exchange rate changes or revaluation of existing assets and disposals of assets for more or less than their book value;
- (ii) where assets and liabilities are denominated in foreign currencies, the change in their sterling value resulting from any change in exchange rates;
- (iii) in principle, the creation or extinction of assets and liabilities such as the writing-off of bad debts, where there is no associated flow of investment;
- (iv) certain coverage changes resulting from modified reporting systems for (a) UK banks introduced at end-1974 and affecting all entries for UK banks and also local authority deposits (UK banks' sterling entries were similarly affected for 1975); and (b) the United Kingdom monetary sector introduced at end-1981;
- (v) coverage differences resulting from changes in the population of reporting institutions.

Tables 11.1 and 11.2 bring together estimates of the levels of all the identified external assets and liabilities of the United Kingdom. Because of the very varied data sources used to derive these estimates there are many inconsistencies in the tables resulting particularly from different methods of valuation. These valuation problems, and the fact that certain assets and liabilities are unidentifiable, mean the balance between the estimates of external assets and liabilities is an inexact measure of the United Kingdom's debtor/creditor position with the rest of the world. The headings in Tables 11.1 and 11.2 are arranged according to the economic sector (private or public) of the UK creditors or debtors and according to the principal types of assets and liabilities. The columns of reference numbers in the tables indicate the table and item numbers of the investment, other capital transaction or financing transaction corresponding to the asset or liability in each line thus facilitating comparisons between transactions and levels. Some further account of sources and methods used in estimating assets and liabilities as shown in Tables 11.1 and 11.2 is given in June issues of the *Bank of England Quarterly Bulletin*.

Assets (Table 11.1)

Private sector

Direct investment. This represents the stock of investment by UK non-oil companies in their overseas branches, subsidiaries and associates. Also included is direct investment overseas by public corporations. Figures, other than for banks and insurance companies, are based on the Department of Trade's periodic surveys which relate to total net asset values attributable to investing companies, i.e. book values of fixed assets *less* accu-

mulated depreciation provisions, *plus* current assets, *less* current liabilities. The book values of direct investments are likely to be less than the values at written down replacement cost and less than the market values. Values for years between surveys are interpolated; the latest available survey results relate to 1978 and values for years since then have been extrapolated taking account of investment transactions and exchange rate movements. The comparison between transactions in the balance of payments estimates and changes in total assets and liabilities is not affected by allowances for depreciation of fixed assets as charged to the profit and loss account; such allowances are deducted before arriving at the earnings included in the current account, and the provision for depreciation is regarded as maintaining the total book value of the existing assets. Similarly, the comparison is unaffected by the treatment of unremitted profits from direct investments, since these appear both in the current account as earnings and in the capital account as a flow of capital adding to the stock of assets.

From end-1976 the figures include investment by UK listed banks in their overseas branches, subsidiaries and associates based on a census of overseas assets and liabilities at end-1977 carried out by the Bank of England. For the years 1976 and 1978 onwards, estimates are derived from the flows of direct investment reported by those banks which completed the census. The level of investment is defined as the sum of equity, loan and working capital plus reserves.

The end-year levels exclude insurance companies' investments other than in the USA (derived from US Department of Commerce estimates) while figures of investment transactions in Table 8.2 include them.

Oil companies' investment overseas is measured on a basis broadly comparable to the other estimates of direct investment, except that some unrelated trade credit is included. Borrowing abroad was deducted from assets in years prior to the end of 1976, and for end-1976 onwards is included under *borrowing from banks, etc. overseas* or *portfolio investment in UK company securities*, as appropriate, to correspond with the treatment of capital flows in section 8. The estimates include the Shell Transport and Trading Company's 40 per cent share of the net assets of the Royal Dutch/Shell Group outside the United Kingdom. The treatment of fixed assets varies, but an attempt has been made to allow for movement in the value of sterling.

Portfolio investment. Up to 1979, estimates of the value of UK portfolio investment overseas were based on surveys and exchange control information and were compiled mainly from measured capital flows; broad adjustments have been made to allow for deficiencies of coverage, and changes in the market values resulting from price fluctuations have been estimated. The figures contain an unmeasurable element representing the investment currency premium.

For 1980 onwards the total is calculated using a combination of the results of a new portfolio investment inquiry, which was introduced with effect from July 1980, and of temporary reporting arrangements which bridged the gap after the ending of exchange control, with information available, or estimated, on a sectoral basis.

Miscellaneous. This includes property investments and related overseas loans of non-bank financial institutions.

UK banks' assets. The assets included in Table 11.1 comprise, in the main, the external sterling claims on non-residents of UK banks and certain other UK financial institutions. There were increases in coverage at end-1974 and 1981, the latter amounting

to £344 million. Commercial bills discounted (including acceptances) do not include bills drawn by UK residents and lodged with banks for collection; these are covered by suppliers' trade credit on exports. UK banks' export credit which is refinanced with the Issue Department of the Bank of England and ECGD is deducted and included as a public sector asset. Claims of UK banks in foreign currencies, except those relating to export credit under ECGD fixed rate schemes, are not included in Table 11.1 but are netted off the liabilities in Table 11.2. They are, however, shown separately in Table 11.5 and comprise:

- (i) deposits with and advances to overseas residents;
- (ii) commercial bills drawn on overseas residents and owned by the reporting institutions;
- (iii) until end-1974 those claims arising from acceptances (some £100 million at that time).

UK non-banks' assets

Suppliers' export credit and advance and progress payments on imports. These trade credit entries are shown in detail in Table 11.4 and described below.

Bank deposits and lending abroad

These estimates are derived from the banking statistics of countries in the BIS reporting area (as defined in the notes to section 8) and cover the United Kingdom non-bank private sector's deposits with banks overseas. They include the working balances of various UK companies. There are breaks in the series of +£20 million in 1977, +£215 million in 1979 and +£680 million in 1980 which are the results of expansions in coverage. Also included are currency exchanges between unrelated companies in the United Kingdom and overseas which, in 1978 and 1979, were used to finance investment abroad.

Public sector

External lending etc. (also Table 11.3)

Some inter-government loans made by the UK government have been 'forgiven'. In these cases the practice in recent years has been to regard repayments of capital and interest as being made on schedule (and reflected in Tables 5.1, 8.4 and 11.3). Amounts equal to these repayments are then included in Table 7.1 as *transfers debits: bilateral non-project grants*. Official long-term assets include, until end-1978, central government holdings of shares in the Compagnie Financière de Suez. Also included are assets of official bodies such as the Commonwealth Development Corporation and the United Kingdom Atomic Energy Authority. Refinanced export credit comprises UK banks' export credit refinanced with the Issue Department of the Bank of England and ECGD.

Official reserves, etc. (also Table 11.10)

The official reserves are described in the notes on page 48 and their valuation in units of US dollars and of sterling on page 66. In Table 11.1 gold is valued at the ruling official price of 35 SDRs per fine ounce until end-1977 and at end-year market rates in 1978 onwards. Foreign currencies and SDRs are valued throughout at the direct market rate against sterling. Official swaps comprise claims arising from amounts swapped forward with overseas monetary authorities.

Liabilities (Table 11.2)

Private sector

Direct investment. This represents the stock of investment by non-oil companies incorporated abroad in their UK branches,

subsidiaries and associates. The estimates relate to book values and are measured in the same way as those for outward direct investment. Banks are included from 1976 onwards. The end-year levels exclude the investments of overseas insurance companies while figures of investment transactions in Table 8.2 include them. Estimates for 1979 onwards have been extrapolated and take account solely of annual flows; no adjustment has been made to take account of revaluations in companies' books.

Overseas oil companies' net assets in the United Kingdom. The estimated book value of assets includes the Royal Dutch Petroleum Company's 60 per cent share in the net assets of the Royal Dutch/Shell Group.

Portfolio investment. The market value of inward portfolio investment in listed ordinary shares has been obtained from the Department of Industry's survey of UK company share registers at end-1975, adjustments being made to exclude holdings of a direct investment nature. An estimate of holdings of debentures and preference shares has been added. The result has been used as a benchmark for subsequent years, the estimates for which are calculated by applying changes in market values and adding or subtracting transactions. Up to July 1980, nominal amounts outstanding for each issue of foreign currency securities were estimated and adjusted for changes in the market price of the security. The new portfolio investment inquiry introduced in mid-1980 covers inward investment in both sterling and foreign currency securities issued by UK companies. It embraces transactions in foreign currency securities issued by UK oil companies, outstanding issues abroad by these companies are thus included here from 1980; for previous years they are netted off oil companies' assets abroad.

UK banks' liabilities

Sterling deposits form part of 'external sterling liabilities' (Table 11.7). Notes are given below.

Net external liabilities of UK banks in foreign currencies (Tables 11.5 and 11.6). These liabilities of banks and certain other institutions include deposits and advances received from overseas residents and negotiable dollar certificates of deposit issued in London which are held by banks on behalf of their overseas customers. In Table 11.2 the liabilities are entered net of UK banks' assets in foreign currencies (except assets relating to foreign currency lending in the form of fixed rate export credit under ECGD schemes: these are included in UK banks' assets as part of export credit). Also excluded are liabilities arising from UK banks' participation in the \$2,500 million and \$1,500 million facilities arranged for HM Government and in borrowing by public bodies under the exchange cover scheme (see section on *Official financing*). In Tables 11.5 and 11.6 the gross liabilities are shown and include those on behalf of HM Government and the other public bodies mentioned above. Neither table includes official liabilities in foreign currencies arising from short-term loans to the UK government and from drawings on central bank facilities (see section on *Official financing*). Until end-1971 the liabilities and claims series include commercial bills lodged with banks for their customers.

The figures are derived from banking statistics (which are completed by all UK banks) and inquiries to certain other institutions known to have liabilities and claims in foreign currencies. There was a small increase in coverage at end-1978. The figures are converted into sterling at the end-year middle-market closing exchange rates. The following table reconciles the changes in net external liabilities with the estimates of transactions:

Assets and liabilities

	£ million			
	1978	1979	1980	1981
Foreign currency borrowing or lending abroad (<i>item 15</i>) . . .	- 433	+ 1,623	+ 2,018	+ 1,404
Foreign currency borrowing: by HM Government (part of <i>item 26</i>)	+ 22	-	- 543	- 1,002
by public bodies under exchange cover scheme (part of <i>item 26</i>)	- 439	- 614	- 179	+ 125
ECGD foreign currency export credit (part of <i>item 14a</i>)	- 207	- 461	- 853	- 994
Adjustments to exclude revaluations and coverage changes	- 96	- 322	- 378	+ 737
Change in net liabilities (derived from Table 11.5)	- 1,153	+ 226	+ 65	+ 270

UK non-banks' liabilities

The *trade credit* entries included here are shown in detail in Table 11.4. Notes are given below.

Borrowing from banks, etc. overseas

The figures relate to borrowing from all overseas sources except related companies for use in the United Kingdom or abroad. Estimates up to and including 1978 cover borrowing outside the former Scheduled Territories and were derived mainly from UK exchange control sources. Estimates from 1979 are derived mainly from the banking statistics of countries in the BIS reporting area (as defined in section 8). Adjustments have been made to eliminate overlap with other items (for example, to exclude borrowing by the UK public sector). There is a break of +£110 million in the series in 1980 which is the result of an expansion of coverage. Borrowing by UK oil companies is included in this item for end-1976 onwards; before that it was included under oil companies' net assets abroad. Deposits with UK building societies are included from end-1978; information is supplied by the societies.

Public sector

Local authorities' securities and mortgages. The figures relate mainly to amounts held directly by non-residents or lodged with the Crown Agents and banks in the United Kingdom. Information about holdings through other UK agents is not available.

Net foreign currency securities issued abroad. These figures represent issues outstanding which are not covered by the Treasury's exchange cover scheme. Each issue has been valued at end-year market price and then converted into sterling at middle-market end-year rates. Identified holdings of public sector foreign currency bonds by UK residents have been excluded.

Net borrowing from banks, etc. overseas. These figures represent borrowing, net of repayments, which is not covered by the Treasury's exchange cover scheme, expressed in sterling at end-year exchange rates. Foreign currency borrowing from UK banks is excluded.

Official long-term liabilities. The sterling value of inter-government loans made to the UK government in foreign currencies is calculated at end-year parity rates until end-year 1971 and at end-year middle-market closing rates thereafter. Changes in amounts outstanding resulting from changes in exchange rates are reflected in the entries in Table 11.3 but not as transactions (loans or loan repayments) in Tables 1.3 and 8.4.

British government stocks, Treasury bills and notes, sterling deposits with UK local authorities. These liabilities form part of

'external sterling liabilities' (Table 11.7) which are described below, except those British government stocks held by overseas residents other than monetary authorities.

British government foreign currency bonds. These bonds are denominated in US dollars, Deutschmarks, Swiss francs and yen and were sold to overseas official holders of sterling in April 1977. They have been translated to sterling at end-year middle-market rates.

Liabilities to the IMF (apart from Official financing)

These liabilities are described in the notes on page 41.

Official financing liabilities (also Table 11.8). These liabilities are described in the notes on pages 48 and their valuation in sterling terms on page 66.

Trade credit (Table 11.4)

The amounts shown outstanding under the various trade credit headings reflect the flows recorded in the investment figures (Table 8.5) and the effect of revaluations due to exchange rate fluctuations and changes in coverage. The figures exclude import deposits paid directly from overseas which are shown in Tables 8.5 and 11.2. Amounts outstanding on advance and progress payments for imports and exports (assets and liabilities respectively) have been deducted in Table 11.4 from the respective levels of import and export credit (liabilities and assets). This is different from the treatment in Tables 11.1 and 11.2 where advance and progress payments are added to the appropriate asset or liability figures, e.g. advance and progress payments on exports are aggregated with import credit as a liability of the United Kingdom. The overall figure for assets net of liabilities is, however, unaffected.

External sterling liabilities (Tables 11.7 and 11.8)

Exchange reserves and other banking and money market liabilities in sterling. The tables show the levels of outstanding liabilities arising from sterling deposited in the United Kingdom by overseas residents. Coverage of the items shown is described in the notes to *items 16, 17 and 18* on page 40. A modified reporting system (banking statistics) was introduced by the Bank of England at the end of 1974 giving rise to some changes in definitions, improvements in coverage and consistency of reporting. The main difference from earlier data is that holdings of British government stocks are reported by banks at approximate market values instead of at nominal values. For earlier years market valuations of total holdings have been estimated by the Bank of England and these have been used in Table 11.2. In Table 11.7 figures are shown both at nominal values and approximate market values. As regional and quarterly data are not available up to 1974 at market values, the nominal values have been used in calculating total exchange reserves up to that year in Table 11.8. There were further improvements in coverage in 1975 which added some £180 million at end-1975 to external deposits with banks of holders other than overseas monetary authorities. A further expansion of coverage of £492 million took place at end-1981 following the introduction of the monetary sector. The market values shown for 1974 onwards differ slightly from those shown in Table 11.2 because of timing differences. For Table 11.2 the end-year market value is available but, as a breakdown by area is only available at mid-November, Tables 11.7 and 11.8 include holdings valued as at mid-November plus net transactions between then and the end of December.

TABLE 11.1 UNITED KINGDOM EXTERNAL ASSETS

£ million

			Balance end-year											
			1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
References(1)														
Table			Item number											
PRIVATE SECTOR														
UK private investment overseas:														
Direct(2)	8.2	8	6 750	7 030	7 720	9 100	11 631	13 777	17 791	18 564	21 256	22 711	24 873	32 560
Oil companies(2)	8.2	9	2 050	2 100	2 250	2 750	2 900	3 050	3 400	3 550	4 200	6 500	7 550	9 100
Portfolio	8.2	10	5 600	6 050	9 200	7 650	5 400	6 850	8 550	7 800	9 000	10 700	16 500	22 000
Miscellaneous	8.2	9	..	..	..	..	..	645	680	690	710	900	940	1 120
Total	8.2	11	14 400	15 180	19 170	19 500	19 931	24 322	30 421	30 604	35 166	40 811	49 863	64 780
Banking and other claims:														
UK banks' assets(3):														
Export credit extended by UK banks(4)	8.5	14a	1 332	1 729	2 066	2 440	3 057	3 744	4 561	5 149	5 704	6 020	6 842	7 929
less Refinanced export credit(5)			153	349	544	740	1 102	1 512	2 030	2 171	2 011	1 937	1 661	852
Other sterling claims	8.6	19	537	498	739	704	935	980	1 330	1 272	1 776	1 571	4 059	7 383
Total			1 716	1 878	2 261	2 404	2 890	3 212	3 861	4 250	5 469	5 654	9 240	14 460
UK non-banks' assets:														
Suppliers' export credit to unrelated firms	8.5.	14b	1 425	1 438	1 611	1 941	2 439	2 592	3 237	3 485	3 963	4 652	4 688	5 313
Export credit refinanced with Trustee Savings Bank			-	-	-	-	-	-	-	-	-	196	418	-
Advance and progress payments on imports	8.5	13b	100	160	297	312	430	460	516	442	212	342	400	379
Bank deposits and lending abroad	8.6	21b	140	90	120	235	270	1 072	1 406	1 570	2 169	2 638	4 069	4 989
Total banking and other claims			3 381	3 566	4 289	4 892	6 029	7 336	9 020	9 747	11 813	13 482	18 815	25 141
Total identified external assets of UK private sector			17 781	18 746	23 459	24 392	25 960	31 658	39 441	40 351	46 979	54 293	68 678	89 921
PUBLIC SECTOR														
External lending, etc.:														
Inter-government loans by UK(net)	8.4	12a	880	969	1 020	1 079	1 152	1 231	1 248	1 243	1 269	1 281	1 230	1 221
Other official long-term assets	8.4	12c	479	539	607	709	837	970	1 098	1 334	1 578	1 839	1 924	2 194
Refinanced export credit(5)			153	349	544	740	1 102	1 512	2 030	2 171	2 011	1 741	1 243	852
Total			1 512	1 857	2 171	2 528	3 091	3 713	4 376	4 748	4 858	4 861	4 397	4 267
Official reserves, etc.:														
Official reserves(6)	10.1	27	1 178	2 526	2 405	2 795	2 955	2 700	2 485	10 975	10 380	13 170	13 275	11 960
Official swaps with overseas monetary authorities	10.1	25c(7)	-	864	-	-	-	-	-	-	-	-	-	-
Total identified external assets of UK public sector			2 690	5 247	4 576	5 323	6 046	6 413	6 861	15 723	15 238	18 031	17 672	16 227
TOTAL IDENTIFIED UK EXTERNAL ASSETS			20 471	23 993	28 035	29 715	32 006	38 071	46 302	56 074	62 217	72 324	86 350	106 148

1. These table and item reference numbers indicate the investment, other capital transactions or financing transactions corresponding to the assets in each line.
2. See text for details of coverage differences.
3. Excluding claims in foreign currencies, other than for export credit, which are netted off liabilities in Table 11.2.
4. Including credit extended by the Insurance Export Finance Company.
5. That part of export credit which is refinanced with the Issue Department of the Bank of England and ECGD is deducted from UK banks' assets and included in public sector claims. Other export credit is refinanced with Trustee Savings Banks.
6. In July 1972 the official reserves were redefined to include the UK reserve position in the IMF.
7. Part of this item—see footnote(7) to Table 11.2.

ASSETS AND LIABILITIES

TABLE 11.2 UNITED KINGDOM EXTERNAL LIABILITIES

£ million

			Balance end-year											
			1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
References(1)														
Item Table number														
PRIVATE SECTOR														
Overseas investment in UK private sector:														
Direct (2)	8.2	3	3 335	3 820	4 395	5 385	7 024	7 735	8 769	10 401	11 869	13 855	16 315	16 975
Oil companies(2)	8.2	4	1 550	1 750	1 850	2 200	3 050	4 100	4 600	4 850	5 250	6 750	8 150	9 550
Portfolio	8.2	5a	2 075	2 990	3 405	2 675	1 625	3 000	3 390	4 700	4 580	4 530	5 100	5 800
Total	8.2	7	6 960	8 560	9 650	10 260	11 699	14 835	16 759	19 951	21 699	25 135	29 565	32 325
Banking and commercial liabilities:														
UK banks' liabilities:														
Deposit liabilities in sterling(3)	8.6	17a,18a	2 325	3 267	3 074	3 326	4 082	4 566	4 190	5 797	5 854	8 642	11 564	14 555
Liabilities in foreign currencies (net of assets)(4)	8.6	15	467	915	1 429	1 824	1 787	2 217	2 607	2 497	2 169	3 702	5 472	7 694
Total			2 792	4 182	4 503	5 150	5 869	6 783	6 797	8 294	8 023	12 344	17 036	22 249
UK non-banks' liabilities														
Unrelated import credit received	8.5	13a	536	678	951	1 368	1 603	1 787	2 169	2 307	2 407	2 491	2 176	2 313
Advance and progress payments on exports	8.5	14c	282	405	500	646	946	1 180	1 474	1 742	1 877	2 177	2 496	2 642
Borrowing from banks, etc. overseas	8.6	21a	425	565	725	1 115	1 435	1 810	2 350	3 388	4 173	3 167	3 347	4 264
Deposits with UK building societies	8.6		-	-	-	-	-	-	-	-	64	38	25	25
Total banking and commercial liabilities			4 035	5 830	6 679	8 279	9 853	11 560	12 790	15 731	16 544	20 217	25 080	31 493
Total UK private sector			10 995	14 390	16 329	18 539	21 552	26 395	29 549	35 682	38 243	45 352	54 645	63 818
PUBLIC SECTOR														
UK public corporations' and local authorities' liabilities (other than official financing):														
Local authorities' securities and mortgages														
Net foreign currency securities issued abroad	8.2	5d, 8.6	55	75	75	110	100	100	115	145	150	175	200	230
Net borrowing from banks, etc. overseas	8.2	5e,5f	9	8	13	96	170	219	367	391	275	187	163	164
Sterling deposits with UK local authorities	8.6	20a,20b	4	8	9	29	113	185	258	902	882	822	620	686
Total	8.6	17b,18b	56	118	262	413	247	333	159	29	44	17	22	42
HM Government borrowing, etc (other than official financing):														
Inter-government loans to UK(net)	8.4	12b	2 137	1 943	2 000	1 928	1 823	2 021	2 390	2 017	1 804	1 547	1 376	1 649
Other official long-term liabilities	8.4	12d	23	-	-	-	-	-	-	-	-	-	-	-
British government stocks held by:														
Overseas monetary authorities	8.6	16	1 180	1 355	1 280	1 230	1 055	1 145	1 145	1 330	1 091	1 290	2 248	2 484
Other holders overseas	8.2	5b	705	950	980	850	760	930	1 050	2 266	2 050	2 900	3 471	3 523
British government foreign currency bonds	8.2	5c	-	-	-	-	-	-	-	393	412	376	335	402
Overseas holdings of Treasury bills and notes(5)	8.6	17c,d,18c	458	821	1 001	678	1 752	1 288	681	669	890	1 218	1 044	1 014
IMF	8.6	22c	96	94	-	-	-	-	-	-	14	-	-	-
Import deposits paid directly from overseas	8.5	13c	28	-	-	-	-	-	-	-	-	-	-	-
Total			4 627	5 163	5 261	4 686	5 390	5 384	5 266	6 675	6 261	7 331	8 474	9 072
Official financing liabilities:														
IMF(6)	10.1	25a	678	123	-	-	-	-	1 160	2 129	1 142	482	301	191
Borrowing from other monetary authorities:														
Foreign currency deposits	10.1	25b	-	-	-	-	-	-	-	-	-	-	-	-
Other	10.1	25c(7)	399	-	-	-	-	-	-	-	-	-	-	-
Other foreign currency borrowing by:														
HM Government	10.1	26a	-	-	-	-	638	1 235	1 469	2 085	2 131	1 955	1 191	183
Public bodies under exchange cover scheme	10.1	26b	59	158	180	1 266	2 332	3 171	5 851	5 656	4 724	4 090	3 460	3 889
Total			1 136	281	180	1 266	2 970	4 406	8 480	9 870	7 997	6 527	4 952	4 263
Total UK public sector			5 887	5 653	5 800	6 600	8 990	10 627	14 645	18 012	15 609	15 059	14 431	14 457
TOTAL IDENTIFIED UK EXTERNAL LIABILITIES			16 882	20 043	22 129	25 139	30 542	37 022	44 194	53 694	53 852	60 411	69 076	78 275

- These table and item reference numbers indicate the investment, other capital transactions or financing transactions corresponding to the liabilities in each line.
- See text for details of coverage differences.
- Includes banks' and finance houses' liabilities. See Table 11.7 for further details.
- Excluding liabilities incurred by UK banks in respect of foreign currency borrowings by HM Government and UK public bodies under the exchange cover scheme. Net of UK banks' claims in foreign currency, other than for export credit.
- Excluding liabilities to central banks as the counterpart of official borrowing.
- Net drawings on the IMF excluding those which affect the UK's reserve position in the Fund. Sterling liabilities to the IMF resulting from the UK sterling subscription (and the counterpart on the assets side) are excluded.
- End-1971 excludes a claim arising from amounts swapped forward which are recorded in item 25c, Table 10.1. The claim is included in Table 11.1.

TABLE 11.3 INTER-GOVERNMENT LOANS (1) -AMOUNTS OUTSTANDING

£ million

	End of year											
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
LOANS BY THE UK GOVERNMENT(2)												
India	325	374	413	448	507	550	547	534	520	497	469	439
Pakistan and Bangladesh	75	80	89	94	98	109	114	110	115	113	88	84
Other countries	480	515	518	537	548	573	587	598	634	671	673	698
Total all countries	880	969	1 020	1 079	1 152	1 231	1 248	1 243	1 269	1 281	1 230	1 221
LOANS TO THE UK GOVERNMENT												
USA												
Lend-lease	188	173	184	181	174	197	235	202	184	164	147	177
Line of credit	1 208	1 111	1 179	1 162	1 119	1 264	1 507	1 296	1 180	1 050	942	1 137
Other	313	251	206	160	118	103	101	79	63	48	34	31
Canada-line of credit	353	350	374	369	357	393	471	374	315	284	251	303
Other countries	75	58	57	56	55	64	76	67	62	1	1	1
Total all countries	2 137	1 943	2 000	1 928	1 823	2 021	2 390	2 017	1 804	1 547	1 376	1 649

1. Official short- and medium-term borrowing are not included. The sterling value of loans to the UK government in foreign currencies has varied with changes in exchange rates; see notes on page 52.
2. Some loans have also, by agreement with the debtor country, been written down either in whole or in part and this is reflected in the entries in this table. However, not all such changes are recorded as loan repayments in Tables 1.3 and 8.4. The sums of the rounded figures for individual loans do not necessarily equal the totals shown, which have been rounded independently.

TABLE 11.4 TRADE CREDIT-AMOUNTS OUTSTANDING

£ million

(excluding credit with related business)

	End of year											
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
IMPORT CREDIT												
Credit received												
Identified long-term credit	192	323	541	730	818	917	1 006	1 037	976	747	701	676
Other	344	355	410	638	785	870	1 163	1 270	1 431	1 744	1 475	1 637
Total	536	678	951	1 368	1 603	1 787	2 169	2 307	2 407	2 491	2 176	2 313
less Advance and progress payments on imports:												
Identified long-term credit	78	144	284	294	398	430	395	280	160	222	258	237
Other	22	16	13	18	32	30	121	162	52	120	142	142
Total	100	160	297	312	430	460	516	442	212	342	400	379
NET IMPORT CREDIT OUTSTANDING	436	518	654	1 056	1 173	1 327	1 653	1 865	2 195	2 149	1 776	1 934
EXPORT CREDIT												
Credit extended by UK banks												
Identified long-term	971	1 324	1 636	1 890	2 309	2 950	3 656	4 257	4 870	5 275	6 020	7 234
Other												
ECGD Comprehensive bank guarantees	196	221	231	276	395	500	620	635	602	575	670	555
Other	165	184	199	274	353	294	285	257	232	170	152	140
Total(1)	1 332	1 729	2 066	2 440	3 057	3 744	4 561	5 149	5 704	6 020	6 842	7 929
Suppliers' credit	1 425	1 438	1 611	1 941	2 439	2 592	3 237	3 485	3 963	4 652	4 688	5 313
less Advance and progress payments on exports	282	405	500	646	946	1 180	1 474	1 742	1 877	2 177	2 496	2 642
NET EXPORT CREDIT OUTSTANDING	2 475	2 762	3 177	3 735	4 550	5 156	6 324	6 892	7 790	8 495	9 034	10 600
TRADE CREDIT: NET ASSETS	2 039	2 244	2 523	2 679	3 377	3 829	4 671	5 027	5 595	6 346	7 258	8 666

1. Of which, relating to transactions between UK businesses and:

their overseas affiliates	126	131	123	127	171	224	280	371	397	303	299	..
their overseas parent companies	112	125	171	270	318	290	286	232	273	257	400	..
other overseas concerns	1 094	1 473	1 772	2 043	2 568	3 230	3 995	4 546	5 034	5 460	6 143	..
Total credit extended by UK banks	1 332	1 729	2 066	2 440	3 057	3 744	4 561	5 149	5 704	6 020	6 842	7 929

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TABLE 11.5 EXTERNAL LIABILITIES AND CLAIMS OF UNITED KINGDOM BANKS IN FOREIGN CURRENCIES
-GEOGRAPHICAL AND CUSTOMER ANALYSIS (1)(2)

	End of year											£ million
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
UNITED KINGDOM LIABILITIES												
Customer analysis												
Central monetary institutions	..	..	..	..	..	55 225	75 291	76 642	20 548	27 591	24 526	27 969
Other banks(3)	..	..	..	..	..	..	..	..	67 923	76 662	92 483	142 622
Other	..	..	..	..	..	8 143	12 028	12 696	16 095	22 503	27 945	48 831
Geographical analysis												
EC countries(4)	9 045	10 423	14 327	12 606	11 996	15 972	20 477	20 727	23 566	26 505	29 702	40 862
Other Western Europe	..	..	..	9 737	11 011	13 241	15 898	17 167	20 251	22 637	24 707	34 691
North America	2 557	2 676	3 294	4 240	4 738	6 771	9 334	10 790	14 952	19 963	20 800	41 064
Other developed countries	..	310	604	1 408	1 489	1 743	2 480	1 360	2 362	3 795	7 314	11 597
Oil exporting countries	..	934	1 698	2 012	7 888	11 198	16 648	16 614	14 979	20 472	24 601	34 179
Eastern Europe	..	..	..	..	..	766	1 147	917	1 234	2 012	1 656	1 555
Off-shore banking centres	3 681	..	..	..	..	7 770	12 040	11 052	14 048	15 517	20 337	30 334
Other developing countries	..	3 262	5 537	9 014	10 329	5 015	7 366	8 597	10 664	11 847	10 806	13 715
Unallocated(5)	..	..	..	..	..	892	1 929	2 114	2 510	4 008	5 031	11 425
Total liabilities	15 283	17 605	25 460	39 017	47 451	63 368	87 319	89 338	104 566	126 756	144 954	219 422
UNITED KINGDOM CLAIMS												
Customer analysis												
Central monetary institutions	..	..	..	..	..	42 556	60 045	60 940	3 594	1 710	1 543	2 136
Other banks(3)	..	..	..	..	..	..	..	..	69 656	90 130	102 962	151 711
Other	..	..	..	..	..	15 884	21 031	22 066	26 137	29 511	34 979	59 835
Geographical analysis												
EC countries(4)	6 270	8 139	11 165	12 518	12 086	15 362	21 309	24 432	30 943	34 263	38 456	59 280
Other Western Europe	..	..	..	3 923	4 987	6 548	9 016	10 089	11 748	13 993	17 411	23 268
North America	4 528	2 479	3 206	4 424	5 066	4 041	6 022	6 948	7 314	13 033	12 482	23 780
Other developed countries	..	1 701	2 681	3 780	7 036	9 640	12 074	8 382	8 660	10 576	16 177	23 797
Oil exporting countries	..	305	522	825	992	1 677	3 193	4 783	7 044	8 073	8 472	11 787
Eastern Europe	..	..	..	..	..	2 970	4 675	4 608	5 344	5 866	5 950	7 428
Off-shore banking centres	4 018	..	..	..	..	12 576	17 014	15 512	18 160	22 160	23 496	35 311
Other developing countries	..	4 056	6 445	10 804	13 484	5 610	7 752	8 136	9 979	12 939	16 443	25 481
Unallocated(5)	..	..	..	..	..	16	21	116	195	448	597	3 550
Total claims	14 816	16 680	24 019	36 274	43 651	58 440	81 076	83 006	99 387	121 351	139 484	213 682
NET LIABILITIES(6)												
Customer analysis												
Central monetary institutions	..	..	..	..	..	12 669	15 246	15 702	16 954	25 881	22 983	25 833
Other banks(3)	..	..	..	..	..	..	..	..	-1 733	-13 468	-10 479	-9 089
Other	..	..	..	..	..	-7 741	-9 003	-9 370	-10 042	-7 008	-7 034	-11 004
Geographical analysis												
EC countries(4)	2 775	2 284	3 162	88	-90	610	-832	-3 705	-7 377	-7 758	-8 754	-18 418
Other Western Europe	..	..	..	5 814	6 024	6 693	6 882	7 078	8 503	8 644	7 296	11 423
North America	-1 971	197	88	-184	-328	2 730	3 312	3 842	7 638	6 930	8 318	17 284
Other developed countries	..	-1 391	-2 077	-2 372	-5 547	-7 897	-9 594	-7 022	-6 298	-6 781	-8 863	-12 200
Oil exporting countries	..	629	1 176	1 187	6 896	9 521	13 455	11 831	7 935	12 399	16 129	22 392
Eastern Europe	..	..	..	..	..	-2 204	-3 528	-3 691	-4 110	-3 854	-4 294	-5 873
Off-shore banking centres	-337	..	..	..	..	-4 806	-4 974	-4 460	-4 112	-6 643	-3 159	-4 977
Other developing countries	..	-794	-908	-1 790	-3 155	-595	-386	461	685	-1 092	-5 637	-11 766
Unallocated(5)	..	..	..	..	..	876	1 908	1 998	2 315	3 560	4 434	7 875
Total net liabilities	467	925	1 441	2 743	3 800	4 928	6 243	6 332	5 179	5 405	5 470	5 740

- Including: certain other financial institutions; revaluations in sterling terms in 1971 onwards which are excluded from Table 8.6; liabilities incurred by UK banks in respect of foreign currency borrowings by HM Government and by UK public bodies under the exchange cover scheme: see notes on page 51.
- The following breaks in series have occurred:
End-1971 onwards excludes commercial bills held by banks on behalf of customers. The effect at end-1971 was to reduce liabilities by £62 million and claims by £106 million. Figures for 1971 including these bills were given in the 1980 and earlier editions of the Pink Book.
End-1974 onwards: UK claims exclude those on overseas customers arising from acceptances.
End-1977 onwards includes improved coverage of UK financial institutions reporting holdings of US dollar certificates of deposit. The resulting reduction in UK external liabilities at end-1977 was about £50 million.
End-1979 onwards incorporates other coverage changes. A comparable figure for total net liabilities at end-1978 would be about £300 million more than that shown.
End-1981 onwards incorporates an increase in coverage; on the old basis total liabilities at end-1981 were £216,413 million and total claims £209,957 million.
- Includes items unallocated geographically even though some of them, particularly certificates of deposit, may be held by these banks on behalf of non-bank customers.
- Figures for all years up to 1980 are on the basis of eight countries, excluding Greece.
- Comprises international organisations and items not allocated by country, including within liabilities certificates of deposit which are thought to be held by residents of overseas countries. From end-1981 the reporting population for total liabilities and claims is larger than before, but the reporting population for the area detail is smaller than before with a consequent rise in unallocated liabilities and claims.
- Minus sign indicates that claims exceed liabilities.

TABLE 11.6 EXTERNAL LIABILITIES AND CLAIMS OF UNITED KINGDOM BANKS IN FOREIGN CURRENCIES

£ million

ANALYSIS BY CURRENCY (1)(2)

	End of year											
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
UNITED KINGDOM LIABILITIES												
<i>Analysis by currency</i>												
US dollars	13 086	14 146	20 539	29 770	37 810	51 488	71 958	71 213	81 943	98 901	115 799	175 482
Deutschemarks	1 154	1 995	2 522	5 126	5 102	6 630	8 711	10 132	12 541	15 466	14 446	17 821
Swiss francs	676	1 046	1 658	2 943	3 263	3 079	3 477	3 878	4 030	4 741	6 153	10 492
Other currencies	367	418	741	1 178	1 276	2 171	3 173	4 115	6 052	7 648	8 556	15 627
Total liabilities	15 283	17 605	25 460	39 017	47 451	63 368	87 319	89 338	104 566	126 756	144 954	219 422
UNITED KINGDOM CLAIMS												
<i>Analysis by currency</i>												
US dollars	12 189	13 023	19 422	28 174	35 194	47 914	66 139	65 585	76 880	95 173	109 865	167 836
Deutschemarks	1 363	1 955	2 500	4 403	4 797	6 301	8 278	10 142	12 829	15 111	14 829	18 869
Swiss francs	868	1 341	1 540	2 829	2 490	2 961	4 046	4 410	4 891	5 641	7 281	10 770
Other currencies	396	361	557	868	1 170	1 264	2 613	2 869	4 787	5 426	7 509	16 207
Total claims	14 816	16 680	24 019	36 274	43 651	58 440	81 076	83 006	99 387	121 351	139 484	213 682
NET LIABILITIES (6)												
<i>Analysis by currency</i>												
US dollars	897	1 123	1 117	1 596	2 616	3 574	5 819	5 628	5 063	3 728	5 934	7 646
Deutschemarks	-209	40	22	723	305	329	433	-10	-288	355	-383	-1 048
Swiss francs	-192	-295	118	114	773	118	-569	-532	-861	-900	-1 128	-278
Other currencies	-29	57	184	310	106	907	560	1 246	1 265	2 222	1 047	-580
Total net liabilities	467	925	1 441	2 743	3 800	4 928	6 243	6 332	5 179	5 405	5 470	5 740

See footnotes to Table 11.5

TABLE 11.7 EXTERNAL STERLING LIABILITIES-ANALYSIS BY COMPONENT

£ million

	End of year											
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
EXCHANGE RESERVES IN STERLING HELD BY OVERSEAS MONETARY AUTHORITIES (1)												
British government stocks(2)												
At nominal values	1 381	1 416	1 572	1 556								
At market values	1 180	1 355	1 280	1 230	1 053	1 143	1 101	1 322	1 103	1 281	2 348	2 546
Banking and money market liabilities, etc.												
External deposits(3) with:												
Banks and other institutions(4)	659	909	804	1 063	1 589	1 365	720	852	601	871	1 272	1 133
Local authorities(5)	52	97	244	396	246	333	159	29	44	17	22	42
Treasury bills	397	732	886	539	1 577	1 070	448	334	431	512	436	325
Non-interest-bearing notes	58	86	112	135	169	191	219	315	454	639	591	673
Total	1 166	1 824	2 046	2 133	3 581	2 959	1 546	1 530	1 530	2 039	2 321	2 173
Total exchange reserves(2)	2 547	3 240	3 618	3 689	4 634	4 102	2 647	2 852	2 633	3 320	4 669	4 719
BANKING AND MONEY MARKET LIABILITIES TO HOLDERS OTHER THAN OVERSEAS MONETARY AUTHORITIES(6)												
External deposits(3) with:												
Banks and other institutions(4)	1 666	2 358	2 270	2 263	2 493	3 201	3 470	4 945	5 253	7 771	10 292	13 422
Local authorities(5)	4	21	18	17	1	-	-	-	-	-	-	-
Treasury bills	3	3	3	4	6	27	14	20	5	67	17	16
Total(3)	1 673	2 382	2 291	2 284	2 500	3 228	3 484	4 965	5 258	7 838	10 309	13 438

1. Central monetary institutions and international organisations (other than the IMF).

2. Prior to 1974 the total exchange reserves included the nominal values of British government stocks and thereafter the approximate market values. At end-1974 the nominal value of British government stocks (under the old reporting system—see footnote 3 below) was £1,421 million. The market valuations for 1974 onwards differ slightly from those shown in Table 11.2 because of timing differences. See note on page 52.

3. A modified reporting system was introduced at end-1974. Figures for 1974 are given on the old and new systems in 1980 and earlier editions of the Pink Book. The effect at end-1974 was to decrease the external deposits of overseas monetary authorities by £86 million and to increase the external deposits of other non-residents by £68 million. The value of British government stocks also changed (see footnote 2).

4. Further improvements in coverage in 1975 added some £180 million at end-1975 to external deposits with banks of holders other than overseas monetary authorities.

5. Excludes local authorities' securities and mortgages.

6. From end-1981 onwards the reporting population was increased—see footnote 4 of Table 11.8.

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TABLE 11.8 EXTERNAL STERLING LIABILITIES AND CLAIMS—GEOGRAPHICAL ANALYSIS

		£ million								
		End of year								
		1973	1974	1975	1976	1977	1978	1979	1980	1981
EXCHANGE RESERVES IN STERLING HELD BY OVERSEAS MONETARY AUTHORITIES (1)										
EC countries(2)		288	177	125	186	174	171	153	158	216
Other developed countries		..	..	412	252	234	213	307	508	349
Eastern Europe		..	..	..	..	..	..	..	..	..
Offshore banking centres		..	..	..	..	..	..	..	..	..
Oil-exporting countries		959	3 101	2 839	1 420	1 360	1 006	1 205	2 238	2 469
Other developing countries		..	..	323	328	334	325	506	588	447
International organisations		310	331	386	445	720	898	1 102	1 108	1 144
Unallocated		..	..	17	16	30	20	47	69	94
Total(3)		3 689	4 634	4 102	2 647	2 852	2 633	3 320	4 669	4 719
BANKING AND MONEY MARKET LIABILITIES TO HOLDERS OTHER THAN OVERSEAS MONETARY AUTHORITIES										
EC countries(2)		468	518	774	898	1 310	1 265	1 781	2 425	3 469
Other developed countries		..	..	864	935	1 252	1 335	2 076	2 708	3 356
Eastern Europe		..	..	65	59	59	68	93	114	117
Offshore banking centres		..	..	228	230	411	351	708	1 081	1 532
Oil-exporting countries		314	344	467	498	747	984	1 588	1 998	2 286
Other developing countries		..	..	815	852	1 180	1 246	1 583	1 957	2 302
Unallocated(4)		..	..	15	12	6	9	9	26	376
Total(3)(4)		2 284	2 500	3 228	3 484	4 965	5 258	7 838	10 309	13 438
of which: overseas banks		..	..	1 157	1 128	1 877	1 696	2 740	4 176	6 058
CLAIMS OF UK BANKS(5)										
EC countries(2)		369	508	577	719	1 052	1 281	992	2 454	3 338
Other developed countries		..	..	1 608	2 024	1 811	1 958	1 856	2 443	3 532
Eastern Europe		..	..	318	471	560	689	752	840	949
Offshore banking centres		..	..	302	343	329	422	480	824	1 151
Oil-exporting countries		369	496	646	860	1 083	1 216	1 097	1 111	917
Other developing countries		..	..	1 246	1 448	1 558	1 692	1 760	1 748	2 240
International organisations		..	..	3	5	..	..	1	33	65
Unallocated(4)		..	..	6	8	9	14	22	27	288
Total(3)(4)		3 110	3 966	4 706	5 878	6 402	7 272	6 960	9 480	12 480
of which: overseas banks		..	..	469	607	678	740	710	2 828	4 130

1. Central monetary institutions and international organisations (other than the IMF).
2. Figures for all years up to 1980 are on the basis of eight countries, excluding Greece; thereafter Greece is included.
3. A modified reporting system was introduced at end-1974. (See footnotes (2) and (3) of Table 11.7.) The principal difference is that holdings of British government stocks by area are now shown at approximate market values instead of at nominal values. Figures for 1974 are given both on the old and new systems in 1980 and earlier editions of the Pink Book. Further improvements in 1975 added some £180 million at end-1975 to external deposits of holders other than overseas monetary authorities. The market valuation for 1974 onwards differs slightly from that shown in Table 11.2 because of timing differences. See notes on page 52. Totals for 1973 and 1974 include substantial amounts which cannot be allocated to the geographical groups shown.
4. From end-1981 onwards the reporting population for total liabilities and claims is larger than before but the reporting population for the area detail is smaller than before, with a consequent rise in unallocated liabilities and claims. For exchange reserves the effect of these changes in coverage is minimal. On the old basis total banking and money market liabilities to other holders at end-1981 were £12 943 million; total claims of UK banks were £12 136 million.
5. Loans, advances and balances; and bills and acceptances, many of which represent export credit including those which have been refinanced (see Table 8.5).

TABLE 11.9 FOREIGN CURRENCY BORROWING BY HM GOVERNMENT AND BY PUBLIC BODIES UNDER THE EXCHANGE

COVER SCHEME - AMOUNTS OUTSTANDING

	End of year												£ million
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	
HM GOVERNMENT BORROWING(1)													
Through UK banks	-	-	-	-	501	984	1 198	1 701	1 622	1 494	849	-	
From banks, etc. overseas	-	-	-	-	137	251	271	384	338	304	196	-	
Issues abroad	-	-	-	-	-	-	-	-	171	157	146	183	
Total	-	-	-	-	638	1 235	1 469	2 085	2 131	1 955	1 191	183	
BORROWING BY PUBLIC BODIES UNDER THE EXCHANGE COVER SCHEME													
Through UK banks	-	-	-	814	1 131	1 312	1 988	1 745	1 333	810	565	873	
Public corporations	-	10	12	105	381	415	450	399	260	30	5	5	
Local authorities	-	-	-	-	-	-	-	-	-	-	-	-	
Net issues abroad	46	67	76	99	316	585	1 506	1 476	1 137	1 162	888	697	
Public corporations	-	-	-	107	101	159	210	192	163	94	31	4	
Local authorities	-	-	-	-	-	-	-	-	-	-	-	-	
From banks, etc. overseas(2)	7	75	85	127	354	653	1 641	1 772	1 758	1 894	1 848	2 122	
Public corporations	6	6	7	14	49	47	56	72	73	100	123	188	
Local authorities	-	-	-	-	-	-	-	-	-	-	-	-	
Total(3)	50	140	156	1 283	2 380	3 174	5 646	5 219	4 579	4 129	3 525	3 998	
Total(4)	59	158	180	1 266	2 332	3 171	5 851	5 656	4 724	4 090	3 460	3 889	

1. Converted to sterling at the end-year dollar/sterling middle market closing rate.

2. From 1979, includes loans to the Northern Ireland Central Government and British Nuclear Fuels Ltd. (see footnote to Table 10.2).

3. For this total, individual currencies are converted first to units of US dollars, using middle or central rates, prior to being converted to sterling, see notes on page 66. Within this total net issues abroad are at nominal values.

4. For this total and for the components shown, individual currencies are converted directly to sterling at end-year middle-market closing rates, see notes on page 66. Net issues abroad are valued at end-year market prices.

TABLE 11.10 OFFICIAL RESERVES(1)

\$ million

	End of year												
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	
Gold	1 348	843	801	887	888	888	888	938	964	3 259	6 987	7 334	
IMF Special Drawing Rights	266	642	656	724	830	840	728	604	500	1 245	560	1 043	
Convertible currencies	1 213	5 097	4 063	4 725	4 823	3 335	2 513	19 015	14 230	18 034	18 621	13 457	
Reserve position in the IMF	-	-	126	140	248	366	-	-	-	-	1 308	1 513	
Total official reserves													
\$ million(2)	2 827	6 582	5 646	6 476	6 789	5 429	4 129	20 557	15 694	22 538	27 476	23 347	
£ million(3)	1 178	2 526	2 404	2 787	2 890	2 683	2 426	10 715	7 689	10 129	11 487	12 217	
£ million(4)			2 405	2 795	2 955	2 700	2 485	10 975	10 380	13 170	13 275	11 960	

1. In July 1972 the official reserves were redefined to include the UK reserve position in the IMF, which at that time amounted to \$760 million. From end-1970 to end-1971 this was nil.

2. Until end-1978, gold is valued at the official price of SDR35 per fine ounce and SDRs and convertible currencies are valued in dollars at middle or central rates. Thereafter they are valued at market-related rates; details are given on page 66.

3. Total reserves as expressed above in dollars are converted to sterling at middle or central rates to end-1971 and at end-year middle market closing rates thereafter, see notes on page 66.

4. Until end-1977, gold is valued at the official price of SDR35 per fine ounce. Thereafter it is valued at the end-year market price. Other components within the official reserves are converted directly to sterling at end-year middle market closing rates throughout.

12 United Kingdom transactions with the European Community

There are major conceptual problems, as well as practical difficulties, in producing regional balance of payments statements. Thus this presentation can provide no more than a general indication of this regional dimension of the UK balance of payments.

This section provides estimates of a comprehensive balance of payments account of the United Kingdom with the other member countries and institutions of the European Community. These figures and the corresponding account of the rest of the world have been assembled in part to assist the Statistical Office of the European Community in their production of a balance of payments account for the Community as a whole with the rest of the world. More generally there is interest in estimates of various of the components of the UK balance of payments which involve the European Community.

UK balance of payments accounts are put together on the basic premise that the United Kingdom is a multilateral trading country and that the total of economic transactions between UK residents and non-residents as a whole is paramount.

Conceptually, a regional balance of payments account should allocate transactions in a way which reflects flows of economic resources, consistent with the global balance of payments account. It is important to stress that such a regional account is likely to be very different from a financial statement which records all the financial flows between countries or regions since the source and destination of financial flows will often not reflect the underlying economic relationships; this is particularly true of such statements involving countries such as the United Kingdom which are centres for international financial settlements.

In order to reflect the flows of resources appropriately, a regional balance of payments account should allocate transactions as follows:

Visible trade to the country of residence of the new or former owner;

Services to the region the residents of which rendered or received the service;

IPD to the region from or by whose residents the income was earned;

Financial claims and liabilities to the region where the foreign debtor or creditor is resident (which is preferable to, for example, allocation by currency denomination).

In practice it is often extremely difficult to follow the desired criteria with the information available. To take as an example one area of transactions only, UK residents may act as intermediaries for a whole range of financial and allied activities where the principals involved are non-resident, but where the full payments may be made via UK intermediaries. For example, a UK broker may earn commission on arranging the charter of a Norwegian ship for the carriage of goods between an American parent company and its French subsidiary. Payment for the charter plus the broker's commission may be made to the broker in London through a British subsidiary, with consequential settlements over inter-company accounts and between the broker and the shipping company.

Additionally there are other practical difficulties which stem from the extensive use of global estimates supplied voluntarily by the transactors who may be unable to provide any subdivision of their transactions by country or may be able to provide allocations by country only by criteria which are not relevant, e.g. the source or destination of the flows of finance.

In the accompanying table the figures against most, if not all, headings unavoidably contain mis-allocations to a greater or lesser extent. Many categories of transactions have been allocated only by reference to other series associated in economic terms and therefore thought likely to reflect a similar regional pattern. A balance has therefore not been struck for combined current and identified capital transactions.

The following notes summarise the main criteria of country attribution adopted for the various categories of transactions. In general the figures are not likely to be consistent with those recorded by countries which allocate regional balance of payments estimates on a cash settlements basis.

Visible trade

Estimates of the value of UK exports and imports of goods are those shown in Table 2.4. In general, imports are those consigned from the other member countries of the Community and exports, from 1974, are those whose last known destination was within the Community. A more detailed account of the method of allocation of visible trade by area is given on page 13.

Invisibles

General government services and transfers

Detailed geographical information is available from returns provided by government departments.

Sea transport

For 1974 and 1978 the estimates relating to ships owned by and on charter to UK operators are taken from the censuses carried out in those years by the General Council of British Shipping. Freight earnings on goods can only be allocated by the port of discharge of the goods rather than the country of the importer who ultimately receives the service.

Estimates for other years have been obtained by interpolation and extrapolation taking account of movements in the global estimates.

Payments to overseas operators of freight on UK imports cannot be disaggregated properly. For dry cargo, flag shares have been used as a proxy for nationality of operator. For tankers the nationality of the parent oil company has been used as nationality of operator.

Passenger revenue credit and debit estimates are made partly from the International Passenger Survey, which gives the required country analyses of fares paid. Other parts of the estimates rely on assumptions about the market for cruises.

Disbursements in the United Kingdom by overseas operators of dry cargo ships have been allocated in line with freight on imports since no adequate estimator can be found and the tanker disaggregation depends again on nationality of parent company.

Civil aviation

Transactions with overseas airlines are allocated by nationality of airline but receipts by UK airlines from overseas passengers are allocated by the country in which the ticket is purchased. In the case of payments for freight on imports, the only estimates available relate to country of origin of the imports and not to the nationality of the carrier.

Travel

The allocation of expenditure of overseas visitors is by country of residence. UK residents' expenditures abroad are allocated to the country in which most time was spent, or, if this cannot be determined, the furthest country visited; as a result, expenditure in countries with appreciable numbers of transit tourists may be understated.

Financial and other services

The estimates of financial services suffer from severe conceptual problems consequent on the United Kingdom role as an intermediary and also severe practical problems. There is therefore considerable scope for error in the estimates.

For many components of other services the methods of allocation used vary widely. At best there will be geographical data from the transactor; at worst we have to rely on the presumption that the regional pattern of a particular series will resemble that of another series.

More detail of the methods of regional allocation employed for individual components is given in the corresponding notes in the 1980 and 1981 editions of this publication.

IPD: direct investment earnings

Figures are based on the various annual overseas investment inquiries and exclude the earnings of oil companies. Reinvested profits are included. Geographical distribution is based on the country of the immediate overseas parent company or location of overseas affiliate. The accuracy of the estimates, particularly for individual countries, is affected by the allowances which have to be made because of the incomplete response to these inquiries.

IPD: portfolio investment earnings

Estimates of earnings on portfolio investment overseas by UK residents have been derived from a partial analysis available from the Inland Revenue, supplemented by incomplete information for certain financial institutions and estimates for Lloyd's. Earnings of overseas residents on portfolio investment in the United Kingdom have been estimated in three broad groups on the basis of very little relevant information. Interest payments on all British government stocks are dealt with under sterling liabilities (see below). Interest on private sector foreign currency issues has been allocated *pro rata* to UK banks' external foreign currency liabilities after making certain adjustments; interest on issues abroad by public corporations has been allocated largely to country of creditor, using information where readily available from official records, or alternatively to the country whose currency is received or repaid. Interest on other UK company securities has been allocated *pro rata* to the countries with direct investment earnings in the United Kingdom. Even if these methods gave an apparently reasonable result they would not resolve the further problems which can arise when investments are held through nominees, thus concealing the country of residence of the owner.

IPD: oil companies

The regional allocation of credits has been roughly assessed in relation to the scale of activities as given by the net assets held in different countries. Debits in respect of the transactions of UK affiliates of overseas oil companies are generally allocated by nationality of parent.

IPD: UK banks' interest from borrowing and lending in foreign currencies

The methodology used for the regional allocation of this item reflects the intermediary nature of the banks' activities: the banks retain only a fraction of the total servicing payments of the borrowers (i.e. the margin between borrowing and lending rates). This margin has been estimated by deriving average interest rates on all transactions, since country detail exists only for the stock of borrowing and lending: the overall margin of UK banks on all lending operations is allocated in proportion to the United Kingdom's gross claims on each country. This presup-

poses, however, that all external borrowing is on-lent abroad. Further allowance is made for funds actually used in the United Kingdom and not on-lent abroad: the estimated interest on such funds is allocated in proportion to the United Kingdom's gross liabilities to each country.

The flows of interest between UK banks and all overseas residents net out to the margin less interest on net external liabilities, but this is not the case for the individual region. The table below compares: (i) the margin earned on borrowing and lending in foreign currencies, less earnings on net external liabilities, with the EC with (ii) the gross interest flows involved, estimated by allocating the global interest receipts and payments to the EC in proportion to the corresponding assets and liabilities of UK banks (figures have been rounded to nearest £25 million):

	£ million	
	(i) Estimated earnings ¹	(ii) Estimated balance of interest flows
1973	+ 25	+ 175
1974	+ 25	+ 75
1975	—	+ 50
1976	—	+ 75
1977	— 25	+ 150
1978	+ 25	+ 425
1979	— 75	+ 650
1980	+ 75	+ 1200
1981	+ 275	+ 2450

¹These figures are incorporated in the IPD series shown in Table 12.1.

IPD: interest on trade credit

Interest on export credit has been allocated according to information available to the Export Credits Guarantee Department on supplier and buyer credit outstanding.

Interest on import credit has been allocated on the basis of information from airlines and on visible trade in ships, etc. to which this series is related.

IPD: interest on other sterling liabilities and claims

Estimated from data on the levels outstanding (obtained from official records and from UK banks' returns to the Bank of England) using appropriate rates of interest; includes British government stocks.

IPD: interest on official reserves, inter-government loans and official foreign currency borrowing

Estimated from information available from official records.

IPD: interest on borrowing from and deposits with banks etc. overseas

Interest payments on public sector borrowing are estimated from records of such borrowing available from official sources. Interest due abroad on non-bank private sector borrowing is estimated from data on capital flows, available from exchange control sources up to October 1979, and from levels of UK liabilities available from the Bank for International Settlements (BIS) thereafter. Interest earned on UK non-bank deposits with banks, etc. in the EC is estimated primarily from BIS data on the levels of those assets.

Private transfers

Until October 1979 the regional allocation of debits is based on exchange control data; thereafter the estimates are notional. Credits are based on data made available by partner countries.

Capital account transactions

Overseas investment in the UK

Difficulties can arise if the nationality of the investor is concealed when the investments are made through nominees. Foreign currency issues and net borrowing abroad by public corporations and local authorities are generally allocated on a creditor basis but where this is not readily identifiable are allocated according to the country whose foreign currency is received or repaid. For purposes of regional allocation, foreign currency issues and net borrowing abroad under the exchange cover scheme have been included under this heading.

Private direct investment

These figures are based on the nationality of the overseas parent company or location of overseas affiliates. Figures for 1973-80 are taken from the full annual inquiries. Those for 1981 are based on the quarterly inquiries from which no area or country detail is available.

Portfolio investment overseas

This is allocated according to nationality of security. No information is available after mid-1980.

Other overseas investment in the UK

Investment transactions between oil companies and their affiliates are allocated by country on a basis broadly comparable with other direct investment transactions.

Official long-term capital

Detailed information is available from returns provided by government departments.

Foreign currency borrowing or lending abroad by UK banks

There is a problem connected with the intermediary role of banks. The United Kingdom's position *vis-à-vis* the EC may be distorted to the extent that EC countries act as intermediaries between the United Kingdom and the rest of the world or similarly, the United Kingdom acts as an intermediary between the EC and the rest of the world.

Exceptionally these regional figures also include liabilities incurred by UK banks in respect of borrowings by UK public bodies under the exchange cover scheme and on behalf of HM Government (see below) as it is not possible to identify to what extent the UK banks' contribution is backed by borrowing in the EC.

External sterling liabilities; also sterling lending by UK banks

These figures are reported by UK banks, etc. regionally allocated on a creditor or debtor basis, respectively.

Other external borrowing or lending

Until the fourth quarter of 1979 geographical data on borrowing by UK companies from banks etc. overseas are estimated from exchange control information. Since then estimates have been based mainly on partner countries' figures of banking data supplied by the BIS.

Estimates of bank deposits abroad have been included since 1975 and are also based upon partner country information provided by the BIS.

Trade credit (other than between related companies) and miscellaneous short-term capital

The regional allocation of these inherently volatile series is, for the most part, based on inadequate information. EC figures for unrelated export credit are identified from the annual enquiry and for unrelated import credit, limited information is available on ships and aircraft.

Foreign currency borrowing by HM Government

The amounts represent the direct contribution by the EC-based banks participating in the loans. The proportion implied for the rest of the world includes all non-EC banks participating in the loans together with the UK banks involved, although an unidentifiable part of the latter's contribution will be backed by borrowing in turn from EC banks (see above).

Official reserves

The figures represent changes, converted at market-related rates of exchange, in currencies of EC denominations.

General government transactions with the institutions of the European Community

General government services

These figures comprise receipts by the UK government for its activities as an agency for the collection of contributions to the institutions of the European Community, and for the provision of services at the site of the Community's Joint European Torus project in Oxfordshire. Debits comprise payments to UK teachers in European schools by UK government.

General government transfers

A more detailed analysis of transfers to and from the institutions of the European Community is presented in Table 12.2.

Apart from payments to the budget of the European Community, the other main payments to Community institutions are towards the cost of maintaining the European University Institute and the European Schools, for medical expenses incurred in other member countries by United Kingdom nationals and a levy paid to the Coal and Steel Community.

The European Agricultural Guidance and Guarantee Fund has the functions of stabilising prices and diversifying agricultural production in the Community countries in order to reduce surplus stocks of various products. The resources of the Social Fund are used to promote employment and training schemes, mainly for disadvantaged persons or in disadvantaged areas. The Regional Development Fund was set up to correct major regional economic imbalances within the Community by contributing to the finance of investment in the affected regions. Transfers from the European Coal and Steel Community are mainly grants for projects connected with the coal and steel industries and their employees.

References

Further information on UK payments to and refunds from the budget of the European Community are given in the *Economic Progress Report* for July 1980 and in the Public Expenditure White Paper Cmnd 8494-II Chapter 2.2 (March 1982).

TABLE 12.1 UNITED KINGDOM TRANSACTIONS WITH COUNTRIES (1) AND INSTITUTIONS OF THE EUROPEAN
COMMUNITY: SUMMARY ACCOUNT

£ million

	1973	1974	1975	1976	1977	1978	1979	1980	1981
CURRENT ACCOUNT									
CREDITS									
Exports(f.o.b.)(2)	3 851	5 546	6 227	8 936	11 674	13 348	17 310	20 425	21 000
Services									
General government	18	33	52	92	92	112	141	149	172
Private sector and public corporations									
Sea transport	726	902	858	1 041	1 080	986	1 247	1 222	1 213
Civil aviation	103	141	173	232	270	320	402	496	521
Travel	220	271	370	539	716	756	858	887	807
Financial services	114	157	217	251	247	296	332	356	426
Other services	209	273	323	431	508	558	640	752	814
Interest, profits and dividends									
General government	5	7	8	8	14	25	40	45	50
Private sector and public corporations	582	681	461	774	726	1 095	1 790	1 605	2 065
Transfers									
General government	67	132	366	253	298	439	550	958	1 658
Private sector	48	46	52	68	106	161	164	173	172
Total invisibles	2 092	2 643	2 880	3 689	4 057	4 748	6 164	6 643	7 898
Total credits	5 943	8 189	9 107	12 625	15 731	18 096	23 474	27 068	28 898
DEBITS									
Imports(f.o.b.)(2)	5 178	7 680	8 734	11 194	13 606	15 863	19 935	19 713	20 800
Services									
General government	289	353	408	537	615	644	722	729	735
Private sector and public corporations									
Sea transport	740	954	882	1 090	1 154	1 097	1 274	1 276	1 341
Civil aviation	92	114	134	170	186	228	299	320	357
Travel	289	295	377	439	488	630	841	1 106	1 278
Other services	174	251	373	461	544	515	504	546	585
Interest, profits and dividends									
General government	39	85	105	174	258	345	350	365	385
Private sector and public corporations	195	242	297	411	530	690	1 130	1 600	1 700
Transfers									
General government	200	202	374	502	784	1 407	1 668	1 834	2 275
Private sector	39	39	54	61	67	99	103	112	112
Total invisibles	2 057	2 535	3 004	3 845	4 626	5 655	6 891	7 888	8 768
Total debits	7 235	10 215	11 738	15 039	18 232	21 518	26 826	27 601	29 568
BALANCES									
Visible trade(2)	-1 327	-2 134	-2 507	-2 258	-1 932	-2 515	-2 625	+712	+200
Total invisibles	+35	+108	-124	-156	-569	-907	-727	-1 245	-870
of which private sector and public corporations: services and IPD	+464	+569	+339	+697	+645	+851	+1 221	+470	+585
All current account transactions	-1 292	-2 026	-2 631	-2 414	-2 501	-3 422	-3 352	-533	-670
CAPITAL ACCOUNT(3)									
Overseas investment in United Kingdom(4)	+570	+674	+473	+643	+760	+105	+830	+1 117	+768
UK private investment overseas(5)	-653	-671	-278	-526	-423	-1 213	-1 172	-1 002	-630
Official long-term capital	-31	-31	-20	-5	-6	-17	-71	-4	-11
Foreign currency borrowing or lending abroad by UK banks(4)	+863	-157	+691	-1 220	-3 388	-3 573	-1 340	-2 116	-8 010
Change in external sterling liabilities	+23	-21	+78	+179	+486	-10	+542	+727	+917
Other external borrowing or lending(net)(4)(6)	+190	+331	+511	+448	+341	-107	+1 160	-2 227	-571
Trade credit and miscellaneous short-term capital	+120	+26	+14	-96	+77	+32	-63	-222	+99
Net transactions with overseas monetary authorities	-	-	-	-10	-	-	-	-	-
Foreign currency borrowing by HM Government	-	+106	+69	-	+76	-	-	-68	-175
Official reserves(7)	-18	+10	-8	-233	-313	-447	-446	-155	+333
Capital transfers	-4	-7	-	-	-	-	-	-	-
All identified capital transactions	+1 060	+260	+1 530	-820	-2 390	-5 230	-560	-3 950	-7 280

1. Figures for all years include transactions with Greece.

2. The 1981 figures are provisional estimates produced especially for this table; the exports figure is based on the data available for ten months of the year.

3. Assets: increase-/decrease+. Liabilities: increase+/decrease-.

4. Includes foreign currency borrowing by UK public bodies under the exchange cover scheme.

5. The figure for 1981 excludes UK portfolio investment in the EC for which no estimate is available.

6. Including sterling lending by UK banks; excluding UK trade credit.

7. Additions to (-) or drawings on (+) in currencies of EC denominations.

TABLE 12.2 GENERAL GOVERNMENT TRANSACTIONS WITH THE INSTITUTIONS OF THE EUROPEAN COMMUNITY:

SERVICES AND TRANSFERS (1)

£ million

	1973	1974	1975	1976	1977	1978	1979	1980	1981
CREDITS									
Services	13	21	34	46	78	94	115	112	122
Transfers									
European Community budget:									
Agricultural Guidance and Guarantee Fund	63	112	342	207	181	329	371	550	683
Social Fund	-	16	19	11	48	63	87	95	107
Regional Development Fund	-	-	-	29	60	35	71	173	145
Budget refunds	-	-	-	-	-	-	-	98	693
Other	-	-	-	2	2	6	14	34	27
European Coal and Steel Community	4	4	4	4	8	7	7	8	3
Total transfers	67	132	366	253	298	439	550	958	1 658
Services and transfers	80	153	400	299	376	533	666	1 070	1 780
DEBITS									
Services	-	-	-	-	-	-	1	1	1
Transfers									
European Community Budget									
Treasury advances	30	6	-	-	-	-	-	-	-
E.C. own resources									
Sugar and iso-glucose levies	1	2	2	4	8	15	17	19	26
Agricultural levies	8	12	30	34	146	227	230	241	192
Customs protective duties	142	192	320	438	613	714	868	861	861
G.N.P. financial contributions	-	-	-	-	-	596	-	-	-
V.A.T. own resources	-	-	-	-	-	-	844	741	1 188
Total	181	212	352	475	767	1 553	1 958	1 862	2 267
less budget adjustments(2)	-	33	11	13	30	204	352	95	93
Contributions to European Community budget(3)	181	179	341	463	737	1 348	1 606	1 767	2 174
Other payments	6	7	9	11	13	16	20	16	14
Total transfers	187	186	350	474	750	1 364	1 626	1 783	2 188
Services and transfers	187	186	350	474	750	1 364	1 626	1 784	2 189

1. Components do not always add to totals in this table as all figures have been rounded independently.

2. These comprise adjustments in respect of Article 32, Financial Regulations 73/91 for 1974-1977; and adjustments for full own resources relating to Article 131 of the Accession Treaty for 1978 onwards.

3. Before allowing for budget refunds negotiated in May 1980, included under Credits above.

13 Exchange rates

The balance of payments accounts are a picture of the counterparts to any official financing that takes place and, particularly when exchange rates are allowed to float, are of only limited use in identifying sources of weakness or strength to the exchange rate. The rate will remain steady, without official intervention, only if the quantity of a currency demanded and the quantity supplied at the prevailing exchange rate are exactly equal. 'Pressure' on an exchange rate exists when sellers outweigh buyers, whatever the reason, and results in a fall in the exchange rate, frequently combined with a balance of payments outflow.

Weakened confidence in sterling can affect the current account; for example, if sterling is expected to depreciate, UK importers may try to hasten, and exporters to delay, the movement of goods. This process is termed 'physical leading and lagging' and the current account would worsen. Similarly there is a scope for leading and lagging of payments. Pressure on sterling can also result from capital movements not related to current account transactions, for example, purchases and sales of British government stocks or transfers of funds to or from UK banks.

In the years up to 1971, exchange rates for most of the major currencies were relatively stable for long periods and it was reasonably satisfactory to measure such changes as there were in terms of rates against the US dollar. From 23 August 1971 the authorities ceased to intervene in the foreign exchange markets to maintain the upper limit and the sterling exchange rate floated upwards until the currency realignment on 18 December 1971. Following a period of uncertainty in international exchange markets, particularly affecting the dollar, a general international realignment of exchange rates was agreed at a meeting held in December 1981 in the Smithsonian Institute in Washington, in which all the main currencies were, in effect, revalued against the dollar. Sterling was then revalued to £1 = \$2.6057 and the market rate was permitted to vary within wider margins of 2½ per cent on either side of the new middle rate. From 23 June 1972 the sterling exchange rate was allowed to float.

The 'overall' change in the position of sterling cannot accurately be identified with any of the rates against other currencies individually. In Table 13.1 the exchange rate for sterling is expressed not only against the dollar but also against Special Drawing Rights (SDRs) and is also expressed as an effective exchange rate index. The spot market rates against the dollar are expressed both as period averages and at end-of-period rates.

Special Drawing Rights

The SDR was introduced in 1970 in a move towards the more rational control of international liquidity. Responsibility for supervising its use rests with the IMF. Its value was originally defined in terms of a certain quantity of gold, but with the move towards floating exchange rates and the abolition of an official price of gold, it is defined as a weighted average or 'basket' of currencies. This characteristic gives greater stability in value, providing a unit of account which does not fluctuate in value to the extent that a national currency might. Since the beginning of 1981 the basket has consisted of the currencies of five countries (USA, UK, France, Germany, Japan) weighted with regard to their relative importance in world trade. Prior to that date a sixteen currency basket was used.

Sterling effective exchange rate index

If we want to know the 'overall' change in the value of a currency, what is required is some weighted average of changes in its exchange rate against other individual currencies with the

weights reflecting the relative 'importance', in some sense to be defined, of the other currencies; this is the role of effective exchange rate indices.

Ideally the choice of weights should depend on the purpose for which the index is to be used. We are mainly interested in finding what unilateral change in the exchange rates of sterling against all other currencies would have had the same effect on the UK trade balance as the various changes actually occurring. Clearly, then, the weights should be related to the volume of trade with each country. However, account must be taken of inter-country differences in the response of trade flows to price changes and in the effects of exchange rate changes on the prices of exports and imports. The IMF's multilateral exchange rate model (MERM) attempts to incorporate this and other relevant information and the official effective exchange rate calculation uses weights derived from the IMF's model.

For each currency the weight is applied to the average, taken over the period in question, of the London daily closing rates. The series has been scaled so as to set the 1975 average figure to 100.

Table 13.1 Exchange rates

	US dollars per £		SDRs per £	Sterling effective exchange rate index (Average 1975 = 100)
	End of period ¹	Annual average ²	End of period ³	Annual average
1970	2.3937	2.3960	2.3937	128.1
1971	2.5522	2.4445	2.3510	127.9
1972	2.3481	2.5015	2.1627	123.3
1973	2.3235	2.4526	1.9258	111.8
1974	2.3495	2.3402	1.9182	108.3
1975	2.0233	2.2200	1.7285	100.0
1976	1.7020	1.8049	1.4653	85.7
1977	1.9185	1.7455	1.5691	81.2
1978	2.0410	1.9197	1.5616	81.5
1979	2.2250	2.1223	1.6883	87.3
1980	2.3920	2.3281	1.8699	96.1
1981	1.9110	2.0254	1.6392	94.9

1. Middle market telegraphic transfer rates as recorded in London by the Bank of England during the late afternoon. End of period relates to the last working day.

2. Average of trading day rates as described above.

3. As calculated by the IMF.

It is important to note that an effective rate index does not attempt to allow for inflation differentials between countries and does not of itself, therefore, tell us anything about changes in a country's competitive position.

Exchange rates used in the balance of payments estimates

When information is recorded in currencies other than sterling, the figures are as far as possible converted into sterling at the rate of exchange at the time of the transaction.

Valuation of current account transactions

The transactions values of goods are declared on Customs documents in sterling. For imports where any invoice amounts are expressed in a foreign currency there is a requirement for the UK trader, or his agent, to convert to sterling at the market rate appropriate at the time of lodgment of the Customs docu-

ment. For exports, it is likely that amounts in foreign currency are converted in a similar way. If the rates of exchange appropriate to the time of lodgment of documents differ from those at which the payments are recorded, the difference would be reflected in the balancing item. Invisibles earnings and payments, if denominated in foreign currency, are generally converted at the rates of exchange used in traders' books.

Valuation of capital transactions

Where capital flows are derived as the difference between opening and closing levels of assets and liabilities, special steps have been taken to exclude the revaluation element in the sterling valuation of balances denominated in foreign currencies. This affects the changes in balances from 1971 onwards. The main item affected is the foreign currency borrowing or lending abroad by UK banks which is expressed in terms of sterling by conversion generally at market rates of exchange on the reporting date. See notes on page 57. In general, other commercial transactions are based on direct inquiries of the transactors, who are asked to use the same rate of exchange as in their own accounts when conversion from a foreign currency to the sterling equivalent is involved.

Valuation of official reserves transactions

Up to 20 August 1971 the sterling equivalent of the net amount drawn on or added to the official reserves has been derived by conversion at par or middle rates of exchange. The small differences between figures valued in terms of sterling in this way and at the rates at which transactions occurred have been regarded as negligible when market rates of exchange were within the permitted band on either side of parity. From 23 August 1971 the possible range of difference widened, and net drawings on and additions to the official reserves have since then been valued at current market rates of exchange.

Valuation of official financing liabilities and official reserves

Levels of holdings of official reserves, and the main components, are shown in Table 11.10 valued in units of US dollars. Until March 1979, non-dollar components are converted to dollars at historic middle or central rates. From March 1979 the rates at which reserves are valued are revised annually. The rates used for the various components are as follows:

Gold is valued at \$35 per fine ounce until end-1970; at \$38 per fine ounce from end-1971 to end-1972; at \$42.2222 per fine ounce from end-1973 to end-March 1979; thereafter at the average of the London fixing prices for the 3 months up to end-March less a 25 per cent discount or (from end-March 1980) at 75 per cent of the final fixing price on the last working day in March, whichever is the lower.

Special Drawing Rights are valued at SDR 1 = \$1 until end-1970; at SDR 1 = \$1.08571 for end-1971 and end-1972; at SDR 1 = \$1.20635 from end-1973 to end-March 1979; thereafter at the average of the exchange rates in the 3 months to end-March or (from end-March 1980) at their actual dollar values on the last working day in March, whichever is the lower.

Non-dollar convertible currencies are converted to dollars at middle or central rates until end-March 1979; thereafter at the average of the exchange rates in the 3 months to end-March or (from end-March 1980) at the rate on the last working day in March, whichever is the lower.

From July 1979 the official reserves include European Currency Units acquired when 20 per cent of the gold and dollar holdings in the official reserves were deposited on a swap basis with the European Monetary Cooperation Fund, the swap arrangement being renewed quarterly. As non-dollar convertible currencies these are valued as indicated above.

Levels of total holdings of official reserves are shown in Table 11.10 valued in terms of sterling in two ways. In the first series, the components as expressed in US dollars are converted to sterling at \$2.4 = £1 until end-1970; at \$2.60571 = £1 at end-1971; and at end-year dollar/sterling middle market closing rates thereafter.

In the second series, gold is converted into SDRs at the official price (35 SDRs per fine ounce) until end-1977 and thereafter is valued at the end-year market price. SDRs and convertible currencies are converted directly into sterling at their end-year middle market rates.

The same two systems are used when converting the holdings of official financing liabilities shown in Table 11.9 to sterling. The totals are calculated by the first method to produce annual figures comparable with the quarterly figures elsewhere.

References

Sterling exchange rates against the US dollar, SDRs, and other currencies are published on a weekly or monthly basis in the *Bank of England Quarterly Bulletin*, *Financial Statistics*, *Economic Trends*, and *International Financial Statistics* (IMF).

The calculation of the sterling/SDR rate was described in an article in the March 1981 *Bank of England Bulletin*.

More detailed figures and further information on the sterling effective exchange rate index are given in *Financial Statistics*, the *Bank of England Quarterly Bulletin* and the March 1977 and February 1981 issues of *Economic Progress Report* prepared by HM Treasury.

Glossary

Acceptances

See 'Bills and acceptances'.

Advance and progress payments

Payments made for goods in advance of completion and delivery of the goods. This is part of trade credit.

Affiliates

Branches, subsidiaries or associate companies.

Allocation of SDRs

See Special Drawing Rights.

Arbitrage

Buying in a market in one centre and selling in a similar market in another centre.

Assets

This term commonly refers to financial assets that are claims on non-residents, from whose point of view the same item is a liability to a UK resident. Among reserve assets, however, gold and SDRs have a value which exists independently of any corresponding liabilities. Real assets such as merchandise, although they may be entered in company accounts as assets, are seldom described as assets in balance of payments analysis.

Associated companies

Companies in which the investing company has a substantial equity interest (usually this means that it holds between 20 per cent and 50 per cent of the equity share capital) and is in a position to exercise a significant influence on the company. (See 'subsidiaries'.)

Balancing item

The item included to bring the sum of all balance of payments entries to zero. A description of its characteristics is given on page 6.

Banking and money market liabilities in sterling

These are a part of sterling balances and consist of certain UK liabilities, denominated in sterling, to overseas residents. They include:

- current and deposit accounts and sterling certificates of deposit;
- temporary loans to, and bills drawn on, local authorities;
- deposits with finance houses;
- UK Treasury bills.

That part held by central monetary institutions is part of 'exchange reserves in sterling', the rest is 'other external banking and money market liabilities in sterling'.

'Banking statistics'

A term used in this publication to denote an integrated set of returns, covering all UK banks, which was introduced in stages late in 1974 and during 1975 by the Bank of England. It covered all listed banks up to the end of 1981 and the monetary sector from 1982 onwards. It collects on a regular basis extensive information relating to the levels of, and changes in, assets and liabilities.

Banks

See 'UK banks'.

Billion

This term is taken as meaning a thousand million.

Bills and acceptances

A bill is an unconditional order in writing addressed by the drawer to the drawee to pay to the drawer a fixed sum on a specified date. A UK resident may draw a bill in sterling on an overseas resident representing credit extended by the UK resident to the overseas resident. If the UK resident sells the bill to a UK bank, generally at a price less than the nominal value of the bill, the bank is said to *discount* the bill, and the claim on the overseas resident is transferred to the UK bank.

A bill is known as an *acceptance* when the drawee accepts the bill. A UK bank may accept a bill on behalf of an overseas resident in which case the UK resident draws the bill on the UK bank and not on the overseas resident. The accepting bank has a claim on the overseas resident and expects to be paid by him before the bill matures.

Borrowing from banks, etc. overseas

This refers to foreign currency or sterling borrowed from banks, other financial institutions or, in some instances, unrelated commercial companies abroad, rather than from a UK intermediary e.g. a UK bank.

Branch

An unincorporated office which is wholly owned by the parent company, and which is a permanent establishment as defined for UK income tax and double taxation relief purposes.

Branch indebtedness

Net amounts owed by a branch to its parent company (or *vice versa*).

British government stocks

Stocks issued or guaranteed by the UK government.

Capital account

The account consisting of capital transfers, investment and other capital transactions and official financing.

Capital transfers

See 'Sterling Agreements'.

Central monetary institutions (CMIs)

Institutions (usually central banks) which control the centralised monetary reserves and the supply of currency in accordance with government policies, and which act as their governments' bankers and agents. In the United Kingdom this is equivalent to the Bank of England and part of the Treasury (the Exchange Equalisation Account).

Certificate of deposit

A certificate of deposit is a document issued by a UK office of a British or foreign bank certifying that a deposit has been made with that bank which is repayable to the bearer upon the surrender of the certificate at maturity. It also states the rate of interest and the date of repayment and is negotiable by simple delivery. It is denominated in either sterling or foreign currency.

C.i.f. (Cost, insurance and freight)

A 'c.i.f.' price includes the cost of insurance and freight from the country of consignment.

Commonwealth Development Corporation

A public corporation which finances development projects overseas.

Counterpart items

Certain items in the balance of payments exist only as counterpart items introduced to balance the inclusion of other items that do not fall naturally into the double-entry system. The allocation of SDRs is an example of an artificial counterpart item introduced into the balance of payments to offset the corresponding increase in SDR holdings within official reserves (see under Special Drawing Rights).

Credits and debits

A credit in the balance of payments records the provision of goods or services, a decrease in holdings of a financial asset, or an increase in liabilities. Credits and debits form the two elements in the simple double-entry system used for recording the balance of payments. See notes on page 4.

Cross-trades

See 'Third country trade'.

Current account

The account of transactions in respect of visible trade, services, interest, profits and dividends, and transfers (other than capital transfers).

Current balance

The balance of current account transactions.

Direct investment

Net investment by UK/overseas companies in their overseas/UK branches, subsidiaries or associated companies. A direct investment in a company means that the investor has a significant influence on the operations of the company. (See 'branch', 'subsidiaries' and 'associated companies'.) The direct investment figures exclude investment by oil companies.

Disbursements

Operating expenses e.g. by operators of ships or aircraft.

Eurocurrency market

All borrowing and lending by banks in currencies other than the currency of the country in which the banks are situated.

European Community (EC)

See 'Geographical analysis'.

European Fund

A fund established in the 1950s under the European Monetary Agreements to provide 2-year credits to member countries to assist them to overcome balance of payments difficulties. It was wound up in 1973.

European Monetary System (EMS)

This was established in March 1979. Its most important element is the mechanism whereby the exchange rates between the currencies of the participating member states (all EC countries except the United Kingdom and Greece) are kept within narrow ranges.

Exchange control

The Exchange Control Act of 1947 is 'an Act to confer powers and impose duties and restrictions, in relation to gold, currency, payments, securities, debts, and the import, export, transfer and settlement of property, and for purposes connected with the matters aforesaid'. It is concerned not only with controlling certain types of payments but also with ensuring that funds due from abroad are properly received, without delay, and are not

used for unauthorised purposes. During the period in which controls were in force, they were operated by a department of the Bank of England. The controls were considerably reduced in June and July 1979 and finally abolished in October 1979 (apart from residual controls on transactions with Rhodesia which remained until December 1979).

Exchange cover scheme (ECS)

A scheme first introduced in 1969 whereby UK public bodies raise foreign currency from overseas residents, either directly or through UK banks, and generally surrender it to the EEA in exchange for sterling for use to finance expenditure in the United Kingdom. HM Treasury sells the borrower foreign currency to service and repay the loan at the exchange rate that applied when the loan was taken out.

Exchange Equalisation Account (EEA)

The government account at the Bank of England in which transactions in the official reserves are recorded.

Exchange reserves in sterling

That part of the reserves of overseas countries deposited in the United Kingdom and denominated in sterling. They are UK liabilities to overseas central monetary institutions and international organisations, and consist of British government stocks, banking and money market liabilities denominated in sterling, and non-interest-bearing notes held by international organisations other than the IMF. They are part of 'Sterling balances.'

Export credit

Credit extended overseas by UK institutions primarily in connection with UK exports but also including some credit in respect of third-country trade.

Export credit: identified long-term

Credit extended by UK banks under the ECGD's buyer credit and specific bank guarantees schemes (see also notes on page 39).

Export Credits Guarantee Department (ECGD)

A government department whose main function is to provide insurance cover for export credit transactions.

F.o.b. (Free on board)

The seller's price includes all charges in placing goods into wagons, on board ships/aircraft, etc.

Foreign currencies

All currencies except UK sterling.

General government

Central government and local authorities.

Geographical analysis

The geographical and economic groupings used in most tables are as follows:

European Community member countries (EC countries): Belgium, Denmark, France, German Federal Republic, Greece, Irish Republic, Italy, Luxembourg and the Netherlands. Although Greece did not become a member until January 1981, the figures in most tables include Greece for all years; appropriate footnotes are included where this is not so.

Other Western Europe: Austria, Andorra, Faroe Islands, Finland, Gibraltar, Iceland, Malta, Norway, Portugal (including Azores and Madeira), Spain, Sweden, Switzerland, Turkey, Vatican City, Yugoslavia and Continental Shelf (foreign part).

North America: USA, Canada, Puerto Rico, Greenland, and St. Pierre and Miquelon.

Other developed countries: Australia, Japan, New Zealand and South Africa.

Oil exporting countries: Algeria, Bahrain, Brunei, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, Trinidad and Tobago, United Arab Emirates and Venezuela.

European Community comprises the European Economic Community (EEC), the European Atomic Energy Community (EURATOM) and the European Coal and Steel Community (ECSC). The EEC is responsible for the administration of several funds: the European Social Fund, Regional Development Fund and the European Agricultural Guidance and Guarantee Fund (known by the initials of its French title: FEOGA). Also within the EEC is the European Investment Bank (EIB), set up to contribute to the balanced development of the Community.

International organisations: The United Nations and its specialised agencies; the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), the International Development Association (IDA) and other international organisations. Transactions with the International Monetary Fund (IMF) are treated as separate items in the accounts.

Gold

See 'Monetary gold' and 'Non-monetary gold'.

Gold subscriptions to IMF

Made when quotas were increased in March 1966 and November 1970.

Government

When used without qualification this means the central government of the United Kingdom.

Gross

This item is used in balance of payments terminology as the antithesis of 'net'.

Import credit

Credit on imports received by UK firms from overseas concerns less changes in advance and progress payments by UK firms on imports.

Import credit: identified long-term

Credit received on imported ships, commercial aircraft and certain North Sea installations.

Inter-company accounts

Accounts recording transactions between parent and subsidiary or associated companies, and balances owed by one to the other.

Interest, profits and dividends

All interest, profits and dividends accruing to UK residents from non-residents or payable overseas by UK residents, after deduction of local taxes and after allowing for depreciation. The balance on credits and debits equals 'net property income from abroad' as shown in the National Accounts.

International Monetary Fund (IMF)

A Fund set up as a result of the Bretton Woods Conference of 1944 which began operations in 1947. It currently has 145 member countries including most of the major countries of the

world with the exception of some of the Sino-Soviet bloc countries. The Fund was set up to supervise the fixed exchange rate system agreed at Bretton Woods and to make available to its members a pool of foreign exchange resources to assist them when they have balance of payments difficulties. Further definitions relating to the IMF are given in the IMF section, in the 1981 and earlier editions of this publication; see also 'Special Drawing Rights'.

Intervention Board for Agricultural Produce

The UK agency which operates the support arrangements of the EEC Common Agricultural Policy within the United Kingdom.

Investment

In a balance of payments context this covers acquisition of fixed assets, stock building, stock appreciation, and other financial transactions such as additions to, or payments of, working capital, other loans and trade credit, and acquisitions of securities. Estimates of investment exclude depreciation.

Investment and other capital transactions

All capital transactions both long and short-term other than those classed as 'official financing', except:

Capital transfers

Allocation of Special Drawing Rights

Gold subscriptions to the IMF.

Investment currency pool

A pool of foreign currency, maintained when exchange controls were in force, originating mainly from the sale abroad of foreign currency securities owned by UK residents. The currency normally commanded a premium over the official exchange rate. The pool could be used by residents of the Scheduled Territories and was used mainly to enable portfolio investments in foreign currency securities to be transferred amongst residents; other uses included, to a small extent, the financing of direct investments abroad and the purchase of properties abroad. It disappeared with the abolition of exchange controls during 1979.

Invisibles

Transactions in services, interest, profits and dividends, and transfers (other than capital transfers).

Invisibles balance

The balance of invisible transactions.

Leads and lags

International payments for goods, services, or financial assets which have been accelerated or delayed. If unrecorded within short-term capital, it will fall into the balancing item (see note on page 6).

Liabilities

In balance of payments terminology, liabilities are the financial claims of non-residents. See also *assets*.

Local authorities

Elected councils responsible for the administration of certain services in particular areas within the United Kingdom.

Merchanting

Profit on third-country trade in goods. See notes on page 18.

Monetary gold

Gold held as a financial asset; in practice, gold held by banks and members of the London Gold Market. Net sales by these

institutions to other UK residents which, since the abolition of exchange control in 1979, can include trade in gold bullion, are included in imports of goods.

Navy, Army and Air Force Institute (NAAFI)

A body which provides goods and services for the use of the UK forces overseas.

Net

In this presentation of the balance of payments accounts, the term 'net' is generally applied only to transactions in financial assets or liabilities; purchases of assets (–) are recorded net of sales (+); similarly with liabilities. In the current account the term 'net' is used only in relation to the earnings of UK financial institutions and the meaning is defined on page 33. Elsewhere in the current account, where the operations of UK and overseas residents are taken together in particular transactions areas, the term 'balance' is used.

Non-monetary gold

All gold used for industrial and commercial purposes, e.g. for jewellery, dentistry, electronic use, the minting of coins, etc. Trade in non-monetary gold, gold coins and other coins is included in visible trade (Section 2) together with net purchases of gold from banks and the London Gold Market.

Official financing

Changes in the UK's official reserves, and transactions which are concerned directly with the management of the reserves.

Official records of transactions

These include those of government, and of the Bank of England acting as agent for the government.

Official reserves

The UK official holdings of gold, convertible currencies, Special Drawing Rights, and, from July 1972, changes in the UK reserve position in the IMF. From July 1979, includes European Currency Units acquired from swaps with the EMCF.

Overseas

Outside the United Kingdom. In some contexts 'external' or 'abroad' are used, with the same meaning. ('Foreign' connotes nationality, e.g. foreign ships means ships registered abroad.) See notes on 'residence' on page 4.

Parent

In a balance of payments context this means a company with direct investments in other countries.

Pink Book

The name given to this and other issues in the annual series *United Kingdom Balance of Payments*.

Portfolio investment

Investment in securities issued by overseas registered companies, other than that investment in share capital which is classed as direct investment, and in securities issued by overseas governments. A portfolio investment does not entitle the investor to any significant influence over the operations of the company.

Private sector

Privately-owned companies and the personal sector (including persons operating as sole traders or in partnership).

Public corporations

These are public trading bodies which have a substantial degree of financial independence from the public authority which created them. A public corporation is publicly controlled to the extent that the public authority, i.e. central or local government, appoints the whole or a majority of the board of management.

Public sector

Central government, local authorities and public corporations (see also 'General government').

Refinanced export credit

Identified long-term credit extended for UK exports initially by banks and refinanced with ECGD (prior to April 1972 with the Issue Department of the Bank of England), the Trustee Savings Banks and the Central Trustee Savings Bank.

Related companies

Branches, subsidiaries, associates or parents.

Related import or export credit

Trade credit between related companies included in direct investment.

Reserves

See 'Official reserves' and 'Sterling balances'.

Residents

These comprise the general government, individuals, private non-profit-making bodies serving households, and enterprises, which lie within the territory of a given economy. For a fuller discussion of the criteria used for defining residence see the notes on 'residence' in the 'General description of the accounts' (page 4).

Royalties

A part of services. They represent payments for services, by, or to, UK residents in respect of the right to use processes and other information, e.g. licences to use patents, trade marks, designs, copyrights, etc.

Scheduled Territories

These are defined for the purposes of exchange control and, immediately prior to the abolition of control in 1979, comprised the United Kingdom, including the Channel Islands and Isle of Man and Gibraltar. The Republic of Ireland was included until the end of 1978.

Securities

This is a general term covering a large variety of types of stocks and shares. *Shares* (or *equities*) represent a title to ownership in a firm and a share in the profits, and *stocks* are loans which earn the lender a fixed interest return.

Services

Provision of services between UK residents and non-residents, and transactions in goods which are not freighted out of the country in which they take place e.g. purchases for local use by overseas forces in the United Kingdom and by UK forces overseas, purchases by tourists, etc. Transactions in goods which are freighted into/out of the United Kingdom are included under visible trade.

Special Drawing Rights. (SDRs)

These are reserve assets created and distributed by decision of the members of the IMF. Participants accept an obligation to

provide convertible currency, when designated by the IMF to do so, to another participant in exchange for SDRs equivalent to three times their own allocation. Only these countries with a sufficiently strong balance of payments are so designated by the IMF. SDRs may also be used in certain direct payments between participants in the scheme and for payments of various kinds to the IMF.

Sterling Agreements

Agreements made in 1968 and renewed in 1971 under which the UK government guaranteed certain sterling holdings of other countries against exchange rate loss. Payments made under these agreements are recorded as 'Capital transfers'.

'Sterling balances'

A term in common usage referring to certain UK liabilities denominated in sterling to non-residents. These are exchange reserves in sterling ('official sterling balances'), and other non-resident holdings of banking and money market liabilities in sterling ('private sterling balances'). See 'sterling liabilities' and 'banking and money market liabilities'.

Sterling claims

These are, strictly, all external assets denominated in sterling of UK residents. In the balance of payments accounts the term is more usually used to define claims arising from sterling lending by UK banks to non-residents (*items 14a and 19* in Tables 8.5, 8.6 and 1.3).

Sterling liabilities

These are, strictly, all liabilities denominated in sterling of UK residents to non-residents, and include British government stocks, banking and money market liabilities, the inventory of inward direct investments in the United Kingdom and UK sterling stocks and shares held by non-residents. The term sterling liabilities is often used to refer to the limited group of liabilities known as 'sterling balances'.

Subsidiaries

Companies owned or controlled, according to section 154 of the Companies Act 1948, broadly speaking, by another company which either holds more than half the equity share capital or controls the composition of the board of directors. Also included are subsidiaries of subsidiaries.

Suppliers' credit

Export credit extended overseas directly by UK firms other than to related concerns (see 'Export credit').

Third-country trade or cross-trade

Trade between two countries other than the United Kingdom, in which the United Kingdom may participate as an intermediary or by providing transport, insurance services or credit facilities.

Trade credit

See 'export credit' and 'import credit'.

Transfers

These represent the value of goods, services, and financial assets passing between UK residents and overseas residents without any *quid pro quo*.

Travel

The travel account gives the earnings from and expenditure on international tourism, excluding transport between countries. An international tourist is a person resident in one country who visits another country and stays for a period of less than 12 months in the country visited, for any reason other than following an occupation remunerated from within the country visited or serving in a diplomatic, consular or military capacity.

Treasury bills

Bills issued by Her Majesty's Treasury generally for a period of 91 days.

United Kingdom (UK)

The United Kingdom of Great Britain and Northern Ireland. For balance of payments purposes residence in the United Kingdom involves a wider definition—see note on 'Residence' on page 4.

UK banks

Any bank located in the United Kingdom and recognised by the Bank of England as a bank for statistical purposes. This includes branches of foreign banks, but not the offices abroad of these or of any British-owned banks. A list of banks is published with the *Bank of England Quarterly Bulletin*. From the beginning of 1982 the term will be used to cover the monetary sector.

Visible trade

Transactions in goods which are freighted into/out of the United Kingdom.

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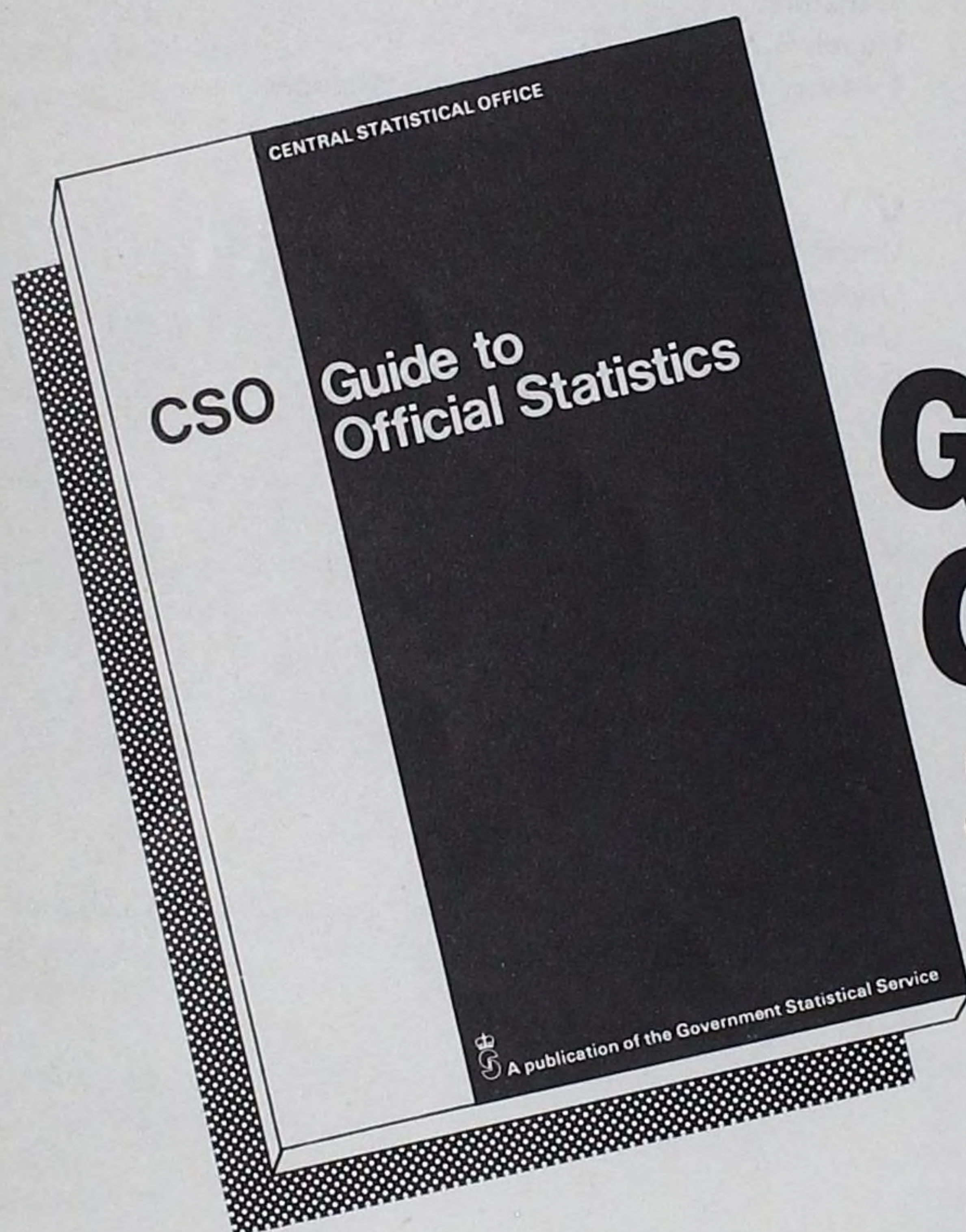
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