

This article continues the annual series of estimates of the United Kingdom's external assets and liabilities, in sterling and foreign currencies, and gives figures for the end of 1975. These are shown in Table E, with notes and definitions for the main items given at the end. The article generally follows the same pattern as in previous years, but two changes should be noted. The first concerns the valuation of both official reserves and inter-government loans to the United Kingdom. Hitherto, both these items (unlike most other figures in this series) have been converted into sterling at parity or middle rates. But with the depreciation of the pound, this method of conversion has increasingly understated the sterling value of these items. Accordingly, for the purposes of this article, the reserves [1] and inter-government loans to the United Kingdom have been converted into sterling at middle market end-year rates; and this has increased the figures for the United Kingdom's net external assets by some £200 million at the end of both 1974 and 1975. The second change is to show public sector foreign currency borrowing under the Treasury's exchange cover schemes separately under 'official financing liabilities', in line with the way in which the balance of payments accounts are now presented: borrowing through UK banks had previously been included within UK banks' liabilities in foreign currencies, and direct borrowing either within foreign currency securities issued, or other borrowing abroad, by public corporations and local authorities.

Otherwise, the compilation and presentation are identical to those in earlier articles. Assets and liabilities are classified as 'public sector' or 'private sector' according to the status of the domestic creditor or debtor. Private sector items are grouped under the headings 'investment' and 'banking and commercial'. The limitations of an inventory of this nature must again be stressed: these stem partly from problems of identification and partly from difficulties in valuing investments. This is particularly true of portfolio investment, where the estimates should be regarded only as broad indications of magnitude.

### Summary

At the end of 1975 the total value of identified UK external assets exceeded the total value of external liabilities by over £1,750 million. The net external assets of the private sector are estimated to have risen by £450 million to £7,625 million, but the net external liabilities of the public sector rose by some £1,750 million, to £5,865 million. The fall in total net external assets over the year was not very different from the balance of payments deficit on current account of about £1,700 million. But this is largely coincidental, because the inventory figures are adjusted for changes in the value of outstanding assets and liabilities, whereas the balance of payments estimates record transactions without such adjustments. Furthermore, the balance of payments accounts include a very large positive balancing item of some £1,000 million, much of which no doubt represents unidentified capital inflows not yet included in the inventory figures.

### Private sector

The net external assets of the private sector rose by £450 million, after declining by £2,200 million in 1974. The rise was wholly accounted for by the 'investment' figures: 'banking and commercial' claims and liabilities each rose by a similar amount.

The book value of *UK direct investment abroad* rose by as much as £1,720 million, but after allowing as far as possible for changes in valuation stemming from the depreciation of sterling, the increase was a

**Table A**  
**Net external assets/liabilities (-): summary**

| £ millions   | End-1974     | End-1975     |
|--|--------------|--------------|
| Investment   | 8,680        | 9,305        |
| Banking and commercial   | -1,505       | -1,680       |
| Net external assets of the private sector                        | 7,175        | 7,625        |
| Public sector (other than reserves and other official financing) | -4,130       | -4,200       |
| Reserves and other official financing                            | 20           | -1,665       |
| Net external liabilities of the public sector                    | -4,110       | -5,865       |
| <b>Net external assets of the United Kingdom</b>                 | <b>3,065</b> | <b>1,760</b> |

[1] Apart from gold, which is still valued at the official price.

little over £1,000 million. Of this total – which included no large individual investments – some £300 million was financed through foreign currency borrowing, either direct from abroad or through UK banks, and the rest from retained profits. *Overseas direct investment in the United Kingdom* rose by a comparatively modest £430 million, of which about £260 million represented unremitted profits – slightly less than in each of the previous two years.

Despite the nationalisation of certain assets, *UK oil companies' net assets abroad* rose by about £500 million, mainly reflecting increased investment in overseas subsidiaries in Alaska and elsewhere. *Overseas oil companies' net assets in the United Kingdom* rose by about £800 million, most of which was associated with the development of North Sea oil and gas resources.

There was a considerable change in the factors affecting *UK portfolio investment overseas* last year. In 1974, the depressed state of most overseas stock markets, combined with heavy selling, had reduced the value of portfolios by some £2,850 million. But in 1975 there was very little disinvestment, stock market prices generally recovered, and the sterling value of foreign currency securities was enhanced by the pound's depreciation: the value of UK portfolios accordingly increased by some £1,150 million. However, this was more than offset by the rise in *overseas portfolio investment in UK companies' sterling securities* reflecting the much stronger recovery in the UK stock market. The international bond market was again little used by UK companies, which raised just under £80 million; but higher prices and sterling's depreciation added a further £100 million to liabilities. New *direct borrowing abroad by UK companies* rose by less than £200 million (of which a quarter was for domestic use).

Net '*banking and commercial*' liabilities rose by £175 million, to £1,680 million. The euro-currency markets recovered strongly in 1975 and *UK banks' foreign currency assets and liabilities* each rose by around £15,000 million, of which some two thirds represented an increase in business, and the remainder a rise in the sterling value of outstanding balances. Within the banks' net external liabilities in foreign currencies, the private sector borrowed £165 million (net) to finance direct investment abroad. Borrowing for portfolio investment was wholly offset by repayments of earlier loans. The remaining tranche of the \$2.5 billion syndicated loan to the Government was drawn in the first quarter; as in 1974, the drawing has been treated as an 'official financing' item, and the UK banks' share has been excluded from their foreign currency liabilities. As mentioned earlier, lending to other public sector bodies under the Treasury's exchange cover schemes has also been treated in this way.

Although *sterling liabilities of UK banks* rose by about £500 million (of which £180 million resulted from improvements in the coverage of reporting by banks), this was more than offset by an increase in sterling claims, particularly in *commercial bills discounted (including acceptances)*.

#### Public sector

The net external liabilities of the public sector – other than reserves and official financing items[1] – rose by some £70 million, after increasing by over £500 million in 1974. Net indebtedness in respect of inter-government loans rose by nearly £100 million, but entirely because of the higher sterling value of outstanding currency liabilities: the United Kingdom in fact repaid part of its long-term debts during the year, and also lent more, mainly under the aid programme. The value of British government stocks held abroad rose by £350 million in 1975: higher prices more than offset net sales by both monetary

[1] Including foreign currency borrowing by public sector bodies under the Treasury's exchange cover schemes (see Table D).

**Table B**  
**Portfolio investment**

| £ millions                                | UK investment overseas | Overseas investment in UK companies' securities |                  |
|---|------------------------|---|------------------|
|   |                        | Sterling  | Foreign currency |
| Market value:                             |                        |   |                  |
| End-1974                                  | 5,470                  | 1,150   | 450              |
| End-1975                                  | 6,625                  | 2,350   | 605              |
| Change in 1975                            | +1,155                 | +1,200  | +155             |
| of which:                                 |                        |   |                  |
| Transactions                              | - 20                   | - 25  | + 55             |
| Valuation (including currency adjustment) | +1,175                 | +1,225  | +100             |

**Table C**  
**Overseas investment in British government stocks**

| £ millions     | By overseas monetary authorities | By other holders |
|----------------|----------------------------------|------------------|
|                | Market value:                    |                  |
| End-1974       | 1,055                            | 830              |
| End-1975       | 1,145                            | 1,090            |
| Change in 1975 | + 90                             | + 260            |
| of which:      |                                  |                  |
| Transactions   | - 15                             | - 10             |
| Valuation      | + 105                            | + 270            |

**Table D**  
**Foreign currency borrowing by public sector bodies**  
**under the exchange cover schemes**

| £ millions                             | 1972       | 1973         | 1974         | 1975         |
|--|------------|--------------|--------------|--------------|
| Foreign currency borrowed through      |            |              |              |              |
| UK banks by:                           |            |              |              |              |
| Public corporations                    | —          | 782          | 1,097        | 1,274        |
| Local authorities                      | 12         | 72           | 343          | 398          |
| Foreign currency securities issued by: |            |              |              |              |
| Public corporations                    | 71         | 96           | 334          | 581          |
| Local authorities                      | —          | 108          | 103          | 156          |
| Other borrowing abroad by:             |            |              |              |              |
| Public corporations                    | 84         | 144          | 373          | 674          |
| Local authorities                      | 7          | 15           | 49           | 47           |
| <b>Total</b>                           | <b>174</b> | <b>1,217</b> | <b>2,299</b> | <b>3,130</b> |

authorities and other overseas holders. Oil-exporting countries had a much smaller surplus to invest during the year; and although they bought £200 million of stock, they were also largely responsible for the sharp reduction of £465 million in overseas holdings of Treasury bills.

'Official financing liabilities' exceeded the official reserves by over £1,650 million at the end of 1975: the reserves fell by over £250 million to £2,698 million, while liabilities rose by some £1,430 million to £4,365 million, partly because of new borrowing but also because the depreciation of the pound increased the sterling value of foreign currency liabilities. The final drawing on the Government's \$2.5 billion euro-currency loan added some £425 million to liabilities, but by the end of the year the sterling value of the borrowing had risen by £600 million. Similarly, net new borrowing by the rest of the public sector (all by public corporations) amounted to some £400 million during the year, but the sterling value of outstanding liabilities rose by over £800 million (see Table D). Higher prices added an estimated £100 million to the value of bond issues; the remainder was accounted for by the depreciation of sterling. Some 60% of the new borrowing was from the European Investment Bank and the European Coal and Steel Community, with the rest made up of issues privately placed.

## Notes and definitions

Assets and liabilities denominated in overseas currencies are generally valued at the exchange rates ruling at the time. All sub-totals, and many of the individual items, are rounded to the nearest £5 million.

### Assets

#### Private sector

##### *Direct investment*

This represents investment by UK companies in their overseas branches, subsidiaries, and associates. The figures are based on Department of Industry surveys which relate to total net asset values attributable to investing companies, i.e. book values of fixed assets less accumulated depreciation provisions, plus current assets, less current liabilities. Book values of fixed assets acquired some years ago may differ considerably from current market or replacement values, and in individual cases may be quite unrealistic.

##### *Oil companies' net assets abroad*

The estimates are approximate book values of the net external assets of UK oil companies, and include the Shell Transport and Trading Company's 40% share of the net assets of the Royal Dutch/Shell Group outside the United Kingdom. The treatment of fixed assets varies, and a large part may not have been revalued to take account of changes in exchange rates.

##### *Portfolio investment*

Estimates of the value of UK portfolio investment overseas are based on surveys and exchange control information compiled mainly for measuring 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 resultant total is accordingly a very precarious estimate, the full composition and geographical distribution of which are not known.

##### *UK banks' assets*

The assets included in this group comprise, in the main, the external claims of banks and certain other financial institutions on non-residents. The coverage and consistency of reporting were improved with effect from end-1974. 'Commercial bills discounted (including acceptances)' does not include bills drawn by UK residents and lodged with banks for collection; these are covered by 'suppliers' trade credit on exports'.

##### *Suppliers' trade credit on exports*

This comprises trade credit extended by UK traders to overseas concerns other than affiliates or parent companies. Trade credit extended to parent companies and affiliates overseas is included under direct investment.

##### *Other identified assets held abroad by UK companies*

These represent the working balances of various UK companies held direct with banks abroad. The figures are partly estimated.

### Public sector

#### *Official reserves*

Since July 1972 includes the reserve position in the International Monetary Fund. Except for gold, which is still valued at the official price, the reserves have been converted into sterling at middle market end-year rates.

#### *Other official assets*

These comprise other overseas assets of the central government and of such official organisations as the Commonwealth Development Corporation and the UK Atomic Energy Authority.

### Liabilities

#### Private sector

##### *Direct investment*

This represents investment by companies incorporated abroad in their UK branches, subsidiaries, and associates. The estimates relate to book values and are comparable with those for outward direct investment.

##### *Overseas oil companies' net assets in the United Kingdom*

The estimated book value of assets includes the 60% share of the net assets of the Royal Dutch/Shell Group in the United Kingdom owned by the Royal Dutch Petroleum Company.

##### *Portfolio investment in UK companies' sterling securities*

Estimates of market value are derived from a Department of Industry inquiry based on company registers as at 1970, adjusted for subsequent cash flows and estimated changes in market values resulting from price fluctuations. The figures are, therefore, only approximate.

*Portfolio investment in UK companies' foreign currency securities*  
Issues abroad by oil companies are not included: they are deducted instead from 'oil companies' net assets abroad'.

##### *Direct borrowing abroad by UK companies*

The figures for this borrowing outside the Scheduled Territories – whether for the purchase of foreign currency securities, or direct investment abroad, or for use in the United Kingdom – are derived from information supplied to the UK exchange control. Borrowing of overseas currencies from banks in the United Kingdom is excluded because some of the overseas currency deposits which are being on lent originated in the United Kingdom, while those which originated abroad are reflected in the totals of UK banks' external liabilities in overseas currencies.

##### *UK banks' liabilities*

These figures, which relate to banks and certain other financial institutions, are in line with the figures now included in Tables 20 and 21 of the statistical annex, except that borrowing by UK banks to provide the Government's \$2.5 billion loan, and loans to other public sector bodies under the Treasury's exchange cover schemes, are included in 'official financing liabilities'. The coverage and consistency of reporting were improved with effect from end-1974. Commercial bills for imports drawn on UK residents and lodged with UK banks by non-residents are included in 'suppliers' trade credit on imports'.

##### *Suppliers' trade credit on imports*

This comprises trade credit received on imports from non-residents, other than affiliates or parents. Trade credit received from affiliates or parents overseas is included under direct investment.

### Public sector

#### *British government stocks*

The figures comprise British government and government-guaranteed stocks. The market values are estimated from an analysis of the stock registers at the Bank of England. No detailed geographical distribution is available. Overseas monetary authorities comprise central monetary institutions and international organisations (other than the IMF).

#### *Local authorities' securities and mortgages*

The figures relate mainly to amounts held direct by non-residents or lodged with the Crown Agents and banks in the United Kingdom. Information regarding holdings through other UK agents is not available.

#### *Foreign currency securities issued by public corporations and local authorities*

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

#### *Other borrowing abroad from banks etc. by public corporations and local authorities*

These figures represent borrowings, net of repayments, which are not covered by the Treasury's exchange cover schemes, expressed in sterling at end-year exchange rates. Any foreign currency borrowing from UK banks is excluded.

#### *Net drawings on the IMF*

Comprises drawings on the International Monetary Fund, less repayments, less other countries' net purchases of sterling from the Fund. Sterling liabilities to the IMF resulting from the UK sterling subscription are excluded altogether, as is the sterling subscription from the assets side.

#### *Foreign currency borrowing by the Government*

This represents drawings under the \$2.5 billion facility announced in the March 1974 Budget, and includes borrowing from both UK and overseas banks. Total drawings have been valued at the middle market end-year rate.

#### *Foreign currency borrowing by public sector bodies under the exchange cover schemes*

This includes foreign currency borrowed through UK banks, the issue of foreign currency securities, and other borrowing abroad from banks etc., by public corporations and local authorities: details are given in Table D. Each issue has been valued at the end-year market price. Any holdings of public sector foreign currency bonds by UK residents have been excluded. Conversions into sterling are at middle market end-year rates.

**Table E**  
**UK external assets and liabilities**

£ millions

**External assets**

End: 1972 | 1973 | 1974 | 1975

**Private sector**

Private UK investment abroad:

|   |       |       |        |        |
|---|-------|-------|--------|--------|
| Direct investment (excluding oil, insurance and banking)[a]               | 7,860 | 9,975 | 11,140 | 12,860 |
| Oil companies' net assets abroad[a]                                       | 2,250 | 2,600 | 2,700  | 3,200  |
| Banks' and insurance companies' direct investment in the United States[b] | 680   | 655   | 600    | 715    |
| Portfolio investment[c]   | 9,490 | 8,320 | 5,470  | 6,625  |

Total private investment abroad 20,280 21,550 19,910 23,400

**UK banks' assets:**

Advances and overdrafts in:

|   |        |        |        |        |
|---|--------|--------|--------|--------|
| Sterling  | 609    | 628    | 817    | 838    |
| Foreign currencies  | 23,579 | 35,719 | 43,016 | 58,155 |
| Commercial bills discounted (including acceptances)       | 2,593  | 3,037  | 3,810  | 4,391  |
| Suppliers' trade credit on exports                        | 1,590  | 1,866  | 2,137  | 2,267  |
| Advance and progress payments on imports by UK businesses | 150    | 189    | 223    | 185    |
| Other identified assets held abroad by UK companies       | 120    | 235    | 270    | 165    |

Total banking and commercial claims 28,640 41,675 50,275 66,000

**Total external assets of the private sector 48,920 63,225 70,185 89,400**

**Public sector**

|  |       |       |       |       |
|--|-------|-------|-------|-------|
| Inter-government loans by the United Kingdom                               | 1,015 | 1,074 | 1,148 | 1,254 |
| Subscriptions to international financial organisations (excluding the IMF) | 364   | 448   | 554   | 632   |
| Government holdings of Suez Finance Company shares[c]                      | 25    | 25    | 15    | 30    |
| Other official assets  | 212   | 225   | 234   | 250   |

Total public sector lending etc. 1,615 1,770 1,950 2,165

Total official reserves[d]

2,405 2,795 2,955 2,700

**Total external assets of the public sector 4,020 4,565 4,905 4,865**

**Total of identified external assets 52,940 67,790 75,090 94,265**

- nil or less than £½ million.

[a] Estimated book value of net assets.

[b] Derived from US Department of Commerce estimates; these include market valuation of securities held by insurance companies.

[c] At estimated market value.

[d] Official reserves were redefined in July 1972 to include the reserve position in the IMF.

**External liabilities**

End: 1972 | 1973 | 1974 | 1975

**Private sector**

|  |               |               |               |               |
|--|---------------|---------------|---------------|---------------|
| Overseas investment in the UK private sector:                        |               |               |               |               |
| Direct investment (excluding oil, insurance and banking)[a]          | 4,115         | 4,705         | 5,320         | 5,750         |
| Overseas oil companies' net assets in the United Kingdom[a]          | 1,700         | 2,100         | 2,900         | 3,700         |
| Portfolio investment in UK companies' sterling securities[c]         | 2,950         | 2,100         | 1,150         | 2,350         |
| Portfolio investment in UK companies' foreign currency securities[c] | 420           | 540           | 450           | 605           |
| Direct borrowing abroad by UK companies                              | 725           | 1,105         | 1,410         | 1,690         |
| <b>Total overseas investment in the private sector</b>               | <b>9,910</b>  | <b>10,550</b> | <b>11,230</b> | <b>14,095</b> |
| UK banks' liabilities in:  |               |               |               |               |
| Sterling   | 3,052         | 3,310         | 4,082         | 4,567         |
| Foreign currencies[e]  | 25,448        | 38,163        | 45,505        | 60,702        |
| Overseas sterling deposits with finance houses                       | 22            | 16            | 16            | 18            |
| Suppliers' trade credit on imports                                   | 882           | 1,178         | 1,302         | 1,352         |
| Advance and progress payments on exports by overseas customers       | 500           | 641           | 874           | 1,040         |
| <b>Total banking and commercial liabilities</b>                      | <b>29,905</b> | <b>43,310</b> | <b>51,780</b> | <b>67,680</b> |
| <b>Total external liabilities of the private sector</b>              | <b>39,815</b> | <b>53,860</b> | <b>63,010</b> | <b>81,775</b> |

**Public sector**

|   |               |               |               |               |
|---|---------------|---------------|---------------|---------------|
| Inter-government loans to the United Kingdom  | 2,000         | 1,928         | 1,822         | 2,021         |
| Overseas investment in the UK public sector:  |               |               |               |               |
| British government stocks held by: [c]  |               |               |               |               |
| Overseas monetary authorities   | 1,280         | 1,230         | 1,055         | 1,145         |
| Others  | 980           | 860           | 830           | 1,090         |
| Local authorities' securities and mortgages   | 75            | 110           | 100           | 100           |
| Foreign currency securities issued by:  |               |               |               |               |
| Public corporations[c] [f]  | 13            | 66            | 141           | 174           |
| Local authorities[c] [f]  | -             | 33            | 35            | 45            |
| Other borrowing abroad by:  |               |               |               |               |
| Public corporations[f]  | 8             | 24            | 96            | 163           |
| Local authorities[f]  | -             | -             | 3             | 3             |
| Other public sector capital:  |               |               |               |               |
| Overseas holdings of Treasury bills and notes[g]                                    | 1,001         | 678           | 1,752         | 1,288         |
| Overseas deposits with local authorities  | 262           | 412           | 247           | 334           |
| <b>Total public sector borrowing (other than official financing)</b>                | <b>5,560</b>  | <b>5,340</b>  | <b>6,080</b>  | <b>6,365</b>  |
| Official financing liabilities:   |               |               |               |               |
| Net drawings on the IMF excluding gold tranche*                                     | -             | -             | -             | -             |
| Foreign currency borrowing by the Government  | -             | -             | 638           | 1,236         |
| Foreign currency borrowing by public sector bodies under the exchange cover schemes | 174           | 1,217         | 2,299         | 3,130         |
| <b>Total official financing liabilities</b>   | <b>175</b>    | <b>1,215</b>  | <b>2,935</b>  | <b>4,365</b>  |
| <b>Total external liabilities of the public sector</b>                              | <b>5,795</b>  | <b>6,555</b>  | <b>9,015</b>  | <b>10,730</b> |
| <b>Total of identified external liabilities</b>                                     | <b>45,610</b> | <b>60,415</b> | <b>72,025</b> | <b>92,505</b> |

\*Total net drawings on the IMF  
Gold tranche

[e] Excludes borrowing by UK banks on behalf of the Government and of other public bodies under the Treasury's exchange cover schemes, which is included under official financing liabilities.

[f] Excludes borrowing under the Treasury's exchange cover schemes.

[g] Excludes official financing liabilities.