

## Overseas sterling area balance of payments in the third and fourth quarters of 1971

### Summary

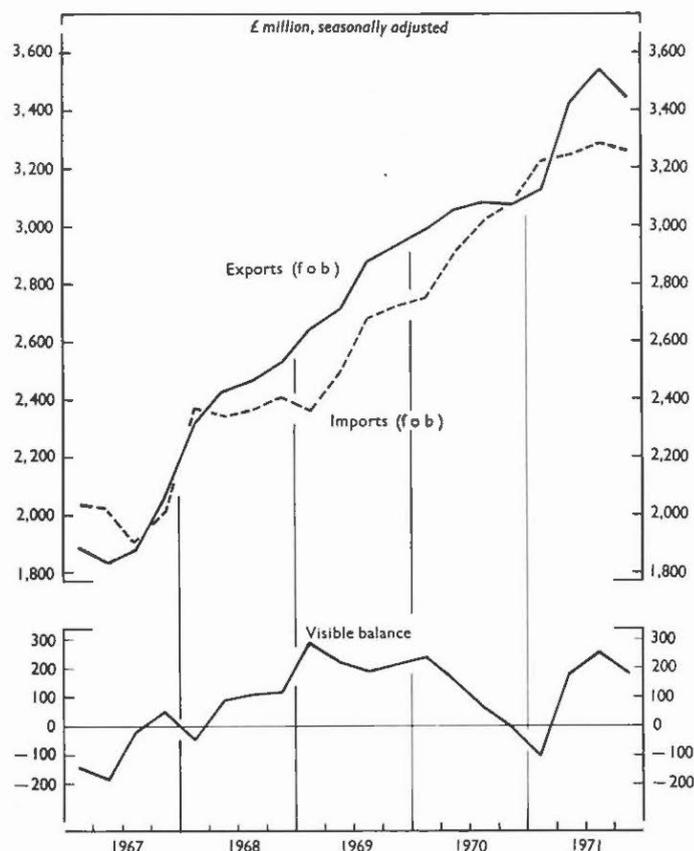
In the third quarter of 1971 the deficit on current account of the overseas sterling area was about £200 million (seasonally adjusted), nearly £100 million less than in the preceding quarter and the smallest deficit since the end of 1969. The reduction in the deficit was mainly due to a further rise in exports and the surplus on visible trade, at about £250 million, was the largest since the beginning of 1969. The improvement on the current account was accompanied by a relatively small change in the inflow of long-term capital, which remained heavy at about £600 million. In consequence, the combined balance of the current and long-term capital accounts ('basic balance') reached some £400 million.

Seasonal factors tend to reduce the balance of the current and long-term capital accounts of the overseas sterling area in the third quarter of the year and the surplus before seasonal adjustment was about £300 million. There was also some inflow of short-term capital. The total reserve and currency inflow for the third quarter of 1971 is estimated at over £300 million. There was only a small change in accounts with the International Monetary Fund and the increase in the total reserves was much the same at about £330 million. Rather less than £100 million of this rise was placed in 'Exchange reserves in sterling'. Over the first three quarters of 1971 the total reserve and currency inflow amounted to over £1,200 million, some £450 million more than in the corresponding period of the preceding year.

Preliminary figures for the fourth quarter suggest a weakening of the current account position (seasonally adjusted), with exports falling back from their peak in the third quarter. The preliminary estimates suggest a visible balance of under £200 million, about £80 million less than in the preceding quarter. The inflow of long-term capital is also thought to have been some £50 million smaller, bringing the balance of current and long-term capital down to about £300 million. This corresponds to an estimate before seasonal adjustment of about £150 million, suggesting a further substantial inflow into the reserves. Over the year as a whole the total reserve and currency inflow could well be of the order of £1,500 million, or twice as large as the average for the two preceding years.

### Visible trade

Export earnings, seasonally adjusted, which had risen very sharply in the second quarter of 1971, rose further in the third. Earnings in the first three quarters of the year were over 10 per cent above the corresponding period of 1970. Exports of the oil-producing countries showed large increases, reflecting increases in 'posted' oil prices, while those of Ghana and Zambia showed reductions, partly due to lower commodity prices.



Preliminary estimates suggest a fall back in the value of exports in the fourth quarter of 1971, but nevertheless exports over the year are expected to be about 11 per cent higher than in 1970. Prices of exports other than oil and manufactures are estimated to have been about 6 per cent lower in 1971 than in 1970 but oil prices rose sharply as a result of the agreement with members of the Organisation of Petroleum Exporting Countries and prices of manufactured goods also rose by about 6 per cent.

The value of imports, seasonally adjusted, which had been rising steadily in recent years, rose again in the third quarter of 1971. Over the first three quarters of the year the value of imports was over 12 per cent more than in the corresponding period of 1970. Between these two periods the imports of South Africa, Hong Kong and Nigeria showed the largest increases and Pakistan the heaviest fall.

Preliminary estimates for the fourth quarter of 1971 point to a levelling off in imports so that imports in the second half of the year were only 1 per cent higher than those in the first half. For the year as a whole the increase compared with 1970 is expected to be some 11 per cent. The rise in import prices was probably of the order of 4 per cent, implying an increase in volume of about 7 per cent.

As a consequence of these movements the surplus on visible trade in 1971 was about £500 million. This represents an improvement of about £50 million on the preceding year, but is well below the exceptionally high surplus in 1969 which amounted to about £900 million.

#### *Gold production and invisibles*

Earnings from gold production continued to rise during 1971 mainly due to the higher price received from sales on the free market, and preliminary estimates suggest the total for the year will be nearly £30 million higher than that in 1970. The deficit on transactions on the invisibles account is expected to be about £100 million greater in 1971 than in 1970. This increase is due mainly to the worsening of the balance, seasonally adjusted, in the first quarter of the year. The deficit in the second and third quarters of 1971 was close to the quarterly average for 1970 and some further improvement is expected in the fourth quarter of 1971. During the first three quarters of the year invisible credits rose by 7 per cent and debits by less than 8 per cent compared with the corresponding period in 1970.

#### *Current balance*

The deficit on current account (seasonally adjusted) of £200 million in the third quarter of 1971 was the lowest since the beginning of 1969, reflecting the recovery in the balance of visible trade. The deficit for the first three quarters of the year taken together was about £250 million higher than that in the corresponding period of the preceding year, owing to the particularly large deficit in the first quarter of 1971.

#### *Long-term capital account*

In the third quarter of 1971 there was a small reduction (seasonally adjusted) in the net inflow of long-term capital which had increased in each of the previous four quarters. This was due to a slackening in net private investment in Australia, where there had been heavy inflows until late August when restrictions were imposed for about a month. There was little overall change in the third quarter in the net inflow of official capital, reductions in the inflow to India and Malaysia being mainly offset by smaller increases to a number of other countries. Market issues of official stocks raised about £10 million more than redemptions.

The total net inflow of long-term capital during the first three quarters of 1971 was some £1,750 million (seasonally adjusted), about £500 million more than in the corresponding period of the preceding year. There was a greater increase in private investment than in the supply of official funds, and the additional private investment was directed mainly into the developed countries.

In the fourth quarter of 1971 the inflow of long-term capital is expected to be smaller, at about £550 million (seasonally adjusted) compared with an inflow of about £600 million in each of the two preceding quarters. This gives a preliminary estimate of the total net inflow for the year 1971 of some £2,300 million, bringing the 'basic balance' to around £900 million.

#### *Total reserve and currency flow*

The total reserve and currency flow, which is not seasonally adjusted, reflects miscellaneous short-term capital movements and the unidentified flows giving rise to the balancing item as well as the outcome on the 'basic balance'. The total reserve and currency inflow, at some £700 million, was particularly high in the second quarter of 1971, when an appreciable inflow of short-term capital and a large balancing item combined with a 'basic balance' of nearly £500 million, which was in part seasonally large. In the third quarter the net inflow was approximately halved but it was still higher than in the first quarter of the year and over £250 million more than in the corresponding quarter of the preceding year. The total inflow for the first three quarters of the year is estimated at over £1,200 million, exceeding the inflow in the corresponding period of the preceding year by about £450 million.

There was little change in accounts with the International Monetary Fund in the third quarter of 1971 and the total reserve and currency inflow into the overseas sterling area was reflected in a corresponding rise of £330 million in the reserves. About a quarter of this rise was placed in 'Exchange reserves in sterling' held in the United Kingdom.

The total increase in the reserves for the first three quarters of 1971 including an allocation of Special Drawing Rights of £153 million at the beginning of the year, reached nearly £1,400 million. This rise is much higher than any recent annual total. About £500 million of the rise was placed in 'Exchange reserves in sterling' held in the United Kingdom.

#### **Notes**

Previous articles have contained separate estimates of the transactions of the overseas sterling area with the sterling area and with the non-sterling areas, but this breakdown, together with the derived table showing sterling area transactions with the rest of the world are now discontinued, because of the amount of work involved in their preparation. The remaining tables have been rearranged and in order to facilitate comparisons both seasonally adjusted and unadjusted estimates of current and long-term capital transactions are now included in Table 1. Preliminary estimates of these items for the latest quarter are included for the first time; formerly preliminary estimates for the latest quarter were given only for transactions with the non-sterling areas.

During 1971 a number of major countries floated their exchange rates, and the United States suspended the convertibility of its currency into gold on 15 August. However, realignment of their exchange rates was agreed by the Group of Ten countries in Washington on 18 December 1971. Sterling was revalued by just over 8½ per cent against the dollar, the new middle rate being £1 = \$2.6057, compared with the old parity of £1 = \$2.40. The par value for sterling against gold remained unchanged. A number of other countries made consequential changes in their parities or exchange rates. Overseas sterling area countries which changed their exchange

rates with sterling during the re-alignment period are given below.

Country	Percentage appreciation or depreciation against sterling
Malta	+ 2.50
Australia	- 2.05
New Zealand	
British Solomon Islands	
Gilbert & Ellice Islands	
Papua & New Guinea	
Bahamas	- 3.07
India	- 5.11
Ceylon	- 7.26
British Virgin Islands	- 7.89
Guyana	
Jordan	
Kenya	
Pakistan	
Tanzania	
Uganda	
Zambia	
Iceland	
South Africa	
Ghana	- 48.31 <sup>(1)</sup>

(<sup>1</sup>) Followed by an appreciation of 41.82 per cent from 7 February 1972, resulting in a net depreciation of 26.70 per cent since December 1971.

Under the Washington agreement the market rate of exchange is now allowed to move within a margin of 2½

per cent on either side of the 'middle rate', instead of 1 per cent as formerly. This widening of the allowable movement in market rates increases the possible errors in the sterling valuation of transactions. Such errors are a constituent of the balancing item in the accounts.

As far as possible the accounts for each country have been compiled on the basis of the rates of exchange at which transactions took place. Generally, in each country's accounts, the value of transactions in foreign currencies is recorded at the market rate of exchange although some capital transactions may be recorded at parity or middle rates as appropriate. Changes in the value of assets and liabilities arising from revaluation consequent on changes in exchange rates have been excluded as far as possible. In converting the accounts of each individual country into sterling, fixed parity rates have been used up to 18 December and middle rates thereafter.

Libya left the sterling area during December 1971, but in compiling the accounts for the fourth quarter estimates have been made which include Libya's transactions up to the end of the quarter. Thus official holdings of sterling reflect the extent to which Libya has transferred these assets from the United Kingdom, but not the effect of Libya leaving the overseas sterling area.

In general the methods and definitions used in compilation of these estimates follow the principles described in the *Balance of Payments Manual* (third edition) of the International Monetary Fund. Further information is included in the notes at the end of the article in the September 1971 issue of *Economic Trends*. Copies of these notes are available on request.

Central Statistical Office

# APPENDIX

## Overseas sterling area Current and long-term capital transactions

TABLE 1

£ million

	Visible trade			Gold production	Invisible balance	Current balance	Balance of long-term capital transactions	Balance of current and long-term capital transactions
	Exports and re-exports (fob)	Imports (fob)	Visible balance					
1964 .. .. .	6,568	6,876	-308	+398	- 868	- 778	+ 850	+ 72
1965 .. .. .	6,863	7,628	-765	+429	- 993	-1,329	+ 1,126	-203
1966 .. .. .	7,194	7,382	-188	+405	- 956	- 739	+ 854	+115
1967 .. .. .	7,646	7,963	-317	+413	-1,186	-1,090	+ 1,324	+234
1968 .. .. .	9,734	9,471	+263	+474	-1,628	- 891	+ 1,645	+754
1969 .. .. .	11,160	10,250	+910	+517	-2,043	- 616	+ 1,384	+768
1970 .. .. .	12,200	11,739	+461	+516	-2,330	-1,353	+ 1,731	+378
1971 <sup>(1)</sup> .. .. .	13,530	13,018	+512	+543	-2,430	-1,375	+ 2,298	+923
<b>Unadjusted</b>								
1969 1st quarter .. .. .	2,609	2,319	+290	+132	- 405	+ 17	+ 442	+459
2nd quarter .. .. .	2,741	2,506	+235	+117	- 447	- 95	+ 339	+244
3rd quarter .. .. .	2,857	2,656	+201	+131	- 563	- 231	+ 226	- 5
4th quarter .. .. .	2,953	2,769	+184	+137	- 628	- 307	+ 377	+ 70
1970 1st quarter .. .. .	2,942	2,697	+245	+117	- 556	- 194	+ 450	+256
2nd quarter .. .. .	3,114	2,924	+190	+130	- 515	- 195	+ 427	+232
3rd quarter .. .. .	3,057	2,986	+ 71	+132	- 572	- 369	+ 368	- 1
4th quarter .. .. .	3,087	3,132	- 45	+137	- 687	- 595	+ 486	-109
1971 1st quarter .. .. .	3,073	3,162	- 89	+124	- 635	- 600	+ 584	- 16
2nd quarter .. .. .	3,484	3,268	+216	+138	- 530	- 176	+ 657	+481
3rd quarter .. .. .	3,510	3,263	+247	+142	- 612	- 223	+ 516	+293
4th quarter <sup>(1)</sup> .. .. .	3,463	3,325	+138	+139	- 653	- 376	+ 541	+165
<b>Seasonally adjusted</b>								
1969 1st quarter .. .. .	2,644	2,358	+286	+132	- 450	- 32	+ 403	+371
2nd quarter .. .. .	2,710	2,489	+221	+117	- 507	- 169	+ 306	+137
3rd quarter .. .. .	2,874	2,680	+194	+131	- 541	- 216	+ 296	+ 80
4th quarter .. .. .	2,932	2,723	+209	+137	- 545	- 199	+ 379	+180
1970 1st quarter .. .. .	2,985	2,749	+236	+117	- 603	- 250	+ 406	+156
2nd quarter .. .. .	3,065	2,903	+162	+130	- 585	- 293	+ 393	+100
3rd quarter .. .. .	3,082	3,016	+ 66	+132	- 550	- 352	+ 443	+ 91
4th quarter .. .. .	3,068	3,071	- 3	+137	- 592	- 458	+ 489	+ 31
1971 1st quarter .. .. .	3,122	3,227	-105	+124	- 684	- 665	+ 539	-126
2nd quarter .. .. .	3,427	3,244	+183	+138	- 602	- 281	+ 622	+341
3rd quarter .. .. .	3,542	3,287	+255	+142	- 587	- 190	+ 593	+403
4th quarter <sup>(1)</sup> .. .. .	3,439	3,260	+179	+139	- 557	- 239	+ 544	+305

(<sup>1</sup>) Preliminary estimates.

**Overseas sterling area**  
**Summary balance of payments<sup>(1)</sup>**  
**Not seasonally adjusted**

TABLE 2

£ million

	Current balance ( <sup>2</sup> )	Balance of long-term capital transactions	Miscellaneous short-term capital	Balancing item	Total reserve and currency flow	Allocation of Special Drawing Rights	Financed by		
							Change in accounts with IMF	Total change in reserves ( <sup>3</sup> )	of which:
									Exchange reserves in sterling ( <sup>4</sup> )
1964 .. .. .	- 778	+ 850	+ 51	- 67	+ 56	-	- 16	- 40	- 32
1965 .. .. .	-1,329	+ 1,126	+ 96	+ 31	- 76	-	+ 64	+ 12	+ 68
1966 .. .. .	- 739	+ 854	+ 73	+173	+361	-	+ 35	-396	+ 71
1967 .. .. .	-1,090	+ 1,324	+ 21	-153	+102	-	+ 63	-165	+107
1968 .. .. .	- 891	+ 1,645	+ 43	+ 77	+874	-	- 87	-787	+ 84
1969 .. .. .	- 616	+ 1,384	- 12	- 74	+682	-	-105	-577	-311
1970 .. .. .	-1,353	+ 1,731	+237	+163	+778	+184	-136	-826	-179
1971 .. .. .	-1,375 <sup>(5)</sup>	+ 2,298 <sup>(5)</sup>				+153			-479
1969 1st quarter .. .. .	+ 17	+ 442	- 16	- 7	+436	-	- 8	-428	-188
2nd quarter .. .. .	- 95	+ 339	- 19	-112	+113	-	+ 9	-122	- 53
3rd quarter .. .. .	- 231	+ 226	+ 31	- 74	- 48	-	- 43	+ 91	- 42
4th quarter .. .. .	- 307	+ 377	- 8	+119	+181	-	- 63	-118	- 28
1970 1st quarter .. .. .	- 194	+ 450	+ 13	- 38	+231	+184	- 27	-388	-148
2nd quarter .. .. .	- 195	+ 427	+ 98	+153	+483	-	+ 3	-486	- 82
3rd quarter .. .. .	- 369	+ 368	+ 83	- 31	+ 51	-	- 11	- 40	- 21
4th quarter .. .. .	- 595	+ 486	+ 43	+ 79	+ 13	-	-101	+ 88	+ 72
1971 1st quarter .. .. .	- 600	+ 584	+139	+ 81	+204	+153	- 18	-339	-208
2nd quarter .. .. .	- 176	+ 657	+117	+102	+700	-	+ 6	-706	-201
3rd quarter .. .. .	- 223	+ 516	+ 64	- 34	+323	-	+ 9	-332	- 84
4th quarter .. .. .	- 376 <sup>(5)</sup>	+ 541 <sup>(5)</sup>				-			+ 14

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

(2) For details see Table 1.

(3) Including changes in holdings of commercial banks and in holdings of Special Drawing Rights.

(4) As shown in Table 6 of the article on the United Kingdom balance of payments. Reserves in sterling as reported by banks, etc. in the United Kingdom, including British government securities. Excludes other official sterling assets, such as United Kingdom equities.

(5) Preliminary estimates.