

## The capital account in the balance of payments

### *Introduction*

This article discusses the movements in, and the statistical basis of, the estimates for the long-term capital account in the United Kingdom balance of payments for the period 1952 to 1961. Short-term capital movements, which are included with banking and other financial transactions in the monetary movements section of the balance of payments accounts, are not dealt with here.<sup>(1)</sup> Estimates for the latest two or three years are published regularly in the half yearly White Papers on the United Kingdom balance of payments, the last of which was Cmnd. 1671 presented to Parliament in March 1962.

The magnitude, and changes in the level, of capital transactions are of considerable interest. The balance between outflow and inflow of capital has an important influence on the overall balance of payments result for any given year, and the trends of the respective outward and inward movements are of importance in assessing the outcome on current account transactions at which the United Kingdom must aim. The figures also provide a measure of the scale on which United Kingdom assets are being built up overseas, and the degree to which this country is participating, through loans provided by the United Kingdom Government and through private investment, in the development and expansion of overseas economies. In the opposite direction, the figures indicate the increasing rate at which assets in the United Kingdom are also being acquired by overseas residents, arising partly from greater direct investment and partly from the more recent increase in portfolio investment. The growth in international investment is a factor which will affect the future level of credits and debits included in the item 'Interest, profits and dividends' in the current account.

Many difficulties have to be faced in attempting to obtain a full statistical measure of capital flows. Several inquiries have been inaugurated in the recent past and the results of these inquiries have been incorporated in the published figures. Nevertheless there are still some gaps in the recording. Any errors and omissions in the figures will contribute towards the balancing item in the overall balance of payments account.

An analysis of the figures for the years 1952 to 1961 is given below and this is followed by a description of the statistical basis of the estimates.

### **Analysis of long-term capital movement, 1952/61**

Table 1 sets out the long-term capital transactions for the period 1952 to 1961. In this and all the subsequent tables a minus sign represents an outflow of capital from the United Kingdom, that is, an increase in United Kingdom assets abroad or a reduction in overseas-owned assets in the United Kingdom. A plus sign

represents an inflow of capital, that is, an increase in overseas assets in the United Kingdom or a reduction in United Kingdom assets abroad.

Looking first of all at the total balance, no very marked trend emerges. The figures for certain years are affected by very large Government transactions—a borrowing of £89 million in 1957 from the Export-Import Bank and its repayment in 1959, and the subscription of £232 million to the I.M.F. in 1959. If these are excluded the total net capital outflow was £173 million on the average of the years 1952/4, £172 million on average in 1955/8, and £124 million on the average of the last three years 1959/61. The final period, however, contained an exceptionally large single inward transaction, the acquisition in 1961 by the Ford Motor Company of America of the remainder of the share capital of its United Kingdom subsidiary.

There has been a constant pattern of net outflow to the rest of the sterling area and of net inflow from the non-sterling area. The trend in the net outflow to the sterling area has been gradually upward, from an average of £187 million in 1952/4 to £209 million in 1955/8 and £232 million in 1959/61. The net inflow from the non-sterling area was very small in the early years of the period but has since tended to grow and rose steeply in 1961 (even apart from the Ford transaction). Between the beginning and the end of the period Government and other official capital transactions have come to play a larger part; on the average of the first three years the official share of the total net outflow was about a fifth; over the final three years it had become more than two-fifths, again excluding the two large Government transactions in 1959.

### *Government*

A more detailed picture of inter-government transactions on capital account is given in Table 2.

The growth in new lending abroad by the Government is mainly a reflection of the expansion of loan aid to less developed countries. In the years 1952 to 1958 new lending by the United Kingdom Government totalled £111 million, an average of £16 million a year. By 1958 the development plans of the less developed countries were calling for more capital. Private investment was not providing sufficient funds and political changes were making it more difficult for colonial and newly independent Commonwealth territories to raise money in the London market. A new policy of Exchequer and Commonwealth assistance loans was introduced. This has since been reflected in a striking rise in new lending by the United Kingdom Government within the Commonwealth. Over the years 1959 to 1961 total new lending averaged £57 million a year. In recent years the main recipients have been India and East Africa. The loan to Latin America in 1955 was the

<sup>(1)</sup> The distinction between long-term and short-term capital is discussed on page xvi.

## Long-term capital account

TABLE I

£ million

	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
<i>Total all areas</i>										
Inter-government loans (net)	—	- 30	- 20	- 52	- 52	+ 72	- 45	-118	- 91	- 14
U.K. subscriptions to I.M.F., I.F.C., I.D.A. and European Fund ... ..	—	—	—	—	- 5	—	—	-236	- 10	- 9
Other U.K. official capital (net)	- 20	- 19	- 8	- 10	- 11	- 6	- 4	+ 1	- 2	- 18
Private investment abroad (net of disinvestment)										
Direct <sup>(1)</sup> ... ..	-147	-180	-240	-185	-268	-316	-144	-196	-247	-211
Other <sup>(2)</sup> ... ..										
In the U.K. (net of disinvestment)										
Direct <sup>(1)</sup> ... ..	+ 33	+ 35	+ 77	+125	+149	+144	+ 87	+146	+135	+225
Other <sup>(2)</sup> ... ..										
Balance of long-term capital transactions ... ..	-134	-194	-191	-122	-187	-106	-186	-499	-202	+ 8
<i>Non-sterling areas</i>										
Inter-government loans (net)	+ 12	- 18	+ 1	- 33	- 42	+ 86	- 15	- 66	- 39	+ 39
U.K. subscriptions to I.M.F., I.F.C., I.D.A. and European Fund ... ..	—	—	—	—	- 5	—	—	-236	- 10	- 9
Other U.K. official capital (net)	- 8	- 7	—	—	—	—	—	+ 3	+ 2	—
Private investment abroad (net of disinvestment)										
Direct <sup>(1)</sup> ... ..	- 38	- 30	- 87	- 95	-109	-122	- 65	- 90	- 92	- 91
Other <sup>(2)</sup> ... ..										
In the U.K. (net of disinvestment)										
Direct <sup>(1)</sup> ... ..	+ 59	+ 60	+ 96	+133	+167	+210	+ 77	+138	+121	+216
Other <sup>(2)</sup> ... ..										
Balance of long-term capital transactions ... ..	+ 25	+ 5	+ 10	+ 5	+ 11	+174	+ 47	-294	+ 28	+268
<i>Rest of sterling area</i>										
Inter-government loans (net)	- 12	- 12	- 21	- 19	- 10	- 14	- 30	- 52	- 52	- 53
Other U.K. official capital (net)	- 12	- 12	- 8	- 10	- 11	- 6	- 4	- 2	- 4	- 18
Private investment abroad (net of disinvestment)										
Direct <sup>(1)</sup> ... ..	-109	-150	-153	- 90	-159	-194	- 79	-106	-155	-120
Other <sup>(2)</sup> ... ..										
In the U.K. (net of disinvestment)										
Direct <sup>(1)</sup> ... ..	- 26	- 25	- 19	- 8	- 18	- 66	+ 10	+ 8	+ 14	+ 9
Other <sup>(2)</sup> ... ..										
Balance of long-term capital transactions ... ..	-159	-199	-201	-127	-198	-280	-233	-205	-230	-260

(<sup>1</sup>) Excluding oil and insurance.

(<sup>2</sup>) Including oil and insurance.

result of an agreement to enable Argentina to meet its payments obligations to the sterling area.

During the last few years there have been three substantial borrowings by the United Kingdom Government from abroad. In 1957 £89 million was borrowed from the Export-Import Bank, and in 1961 £18 million was borrowed from Switzerland. The third transaction—a receipt of £37 million from Western Europe in 1959—arose from the conversion by the Federal German Government of the balance remaining in the post-war debt payment account into a Treasury Bond.

Loan repayments to the United Kingdom have come mainly from Western Europe following the loans made to these countries during the war and early post-war years. Western Germany and France account for the bulk of these and both have made substantial advance

repayments in the last three years.

Repayments by the United Kingdom have been largely to the United States and Canada, arising from the loans made by these countries during the war and shortly afterwards. In 1959 payments to North America were swollen by the repayment of the Export-Import Bank loan (£89 million). The payments to the rest of sterling area in 1958 and 1959 arose from the advance repayment of the bulk of the instalments due to India in respect of pension liabilities.

From 1959 onwards repayments to and from Western Europe have included settlements arising from the liquidation of the European Payments Union and the conversion of the outstanding debts into long-term loans.

On balance, repayments made have exceeded those

## Inter-government loans

TABLE 2

£ million

	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
<i>Loans made by the U.K.</i>										
Rest of sterling area ... ..	3	4	16	13	8	11	18	44	57	59
Western Europe ... ..	1	—	—	—	—	3	2	3	2	—
Latin America ... ..	—	—	—	19	—	—	—	—	—	1
Other non-sterling countries ... ..	2	—	—	—	3	5	2	2	2	—
<b>Total ... ..</b>	<b>6</b>	<b>4</b>	<b>16</b>	<b>32</b>	<b>11</b>	<b>19</b>	<b>22</b>	<b>49</b>	<b>61</b>	<b>60</b>
<i>Loans repaid to the U.K.</i>										
Rest of sterling area ... ..	—	1	8	1	3	4	5	4	5	6
Western Europe ... ..	16	24	38	23	22	21	25	65	30	97
Latin America ... ..	—	—	—	—	—	1	—	1	2	1
Other non-sterling countries ... ..	6	6	4	4	4	6	7	7	5	6
<b>Total ... ..</b>	<b>22</b>	<b>31</b>	<b>50</b>	<b>28</b>	<b>29</b>	<b>32</b>	<b>37</b>	<b>77</b>	<b>42</b>	<b>110</b>
<i>Inter-government loans by the U.K. (net)</i> ... ..	<b>+16</b>	<b>+27</b>	<b>+34</b>	<b>- 4</b>	<b>+18</b>	<b>+13</b>	<b>+15</b>	<b>+28</b>	<b>-19</b>	<b>+50</b>
<i>Loans made to the U.K.</i>										
Western Europe ... ..	9	—	—	—	—	—	—	37	—	18
North America ... ..	17	—	—	—	—	89	—	—	—	—
<b>Total ... ..</b>	<b>26</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>89</b>	<b>—</b>	<b>37</b>	<b>—</b>	<b>18</b>
<i>Loans repaid by the U.K.</i>										
Rest of sterling area ... ..	9	9	13	7	5	7	17	12	—	—
Western Europe ... ..	—	5	4	4	5	4	4	53	42	51
North America ... ..	33	43	37	37	60	19	39	118	30	31
<b>Total ... ..</b>	<b>42</b>	<b>57</b>	<b>54</b>	<b>48</b>	<b>70</b>	<b>30</b>	<b>60</b>	<b>183</b>	<b>72</b>	<b>82</b>
<i>Inter-government loans to the U.K. (net)</i> ... ..	<b>-16</b>	<b>-57</b>	<b>-54</b>	<b>-48</b>	<b>-70</b>	<b>+59</b>	<b>-60</b>	<b>-146</b>	<b>-72</b>	<b>-64</b>
<i>Inter-government loans (net)</i> ... ..	<b>—</b>	<b>-30</b>	<b>-20</b>	<b>-52</b>	<b>-52</b>	<b>+72</b>	<b>-45</b>	<b>-118</b>	<b>-91</b>	<b>-14</b>
of which:										
New loans (net) ... ..	+20	- 4	-16	-32	-11	+70	-22	- 12	-61	-42
Repayments (net) ... ..	-20	-26	- 4	-20	-41	+ 2	-23	-106	-30	+28

received. Net repayments averaged £17 million between 1952 and 1954 and £6 million between 1959 and 1961, excluding the repayment of the Export-Import Bank loan. Advance repayments of debts by France and Western Germany are responsible for the smaller average for the last three years.

### *Private investment*

Table 3 sets out the estimates for private investment for the years 1952 to 1961. The figures include—

- (1) direct investment by companies in branches, subsidiaries and associates (including the parents' share of re-invested net earnings, but excluding depreciation);
- (2) portfolio investment, that is, transactions in securities by both individuals and companies other than transactions included under direct investment;
- (3) other investment, which covers numerous types of transactions; some examples are investment in building societies, and dealings in real estate other than property company investments included under the direct investment head.

The published figures of direct investment are based on regular inquiries by the Board of Trade; these figures do not however, cover the capital transactions of the oil and insurance industries which are included

in 'Other private investment'.

The basis of the figures is described in the final section of the article. The approximate nature of some of the estimates for the earlier years should be borne in mind in reading the following paragraphs. It should also be noted that the flows in each direction are after allowing for disinvestment.

### **Private investment**

*Net of disinvestment*

TABLE 3

£ million

	Outward	Inward	Net
1952 ... ..	147	33	-114
1953 ... ..	180	35	-145
1954 ... ..	240	77	-163
1955 ... ..	185	125	- 60
1956 ... ..	268	149	-119
1957 ... ..	316	144	-172
1958 ... ..	330	193	-137
1959 ... ..	344	198	-146
1960 ... ..	336	237	- 99
1961 ... ..	357	406	+ 49

In the years 1952 to 1954 outward private investment averaged £189 million a year and inward investment £48 million. By 1959 to 1961 outward investment averaged £346 million and inward investment, £280 million. The last figure includes the exceptionally large Ford transaction which took place in 1961.

Investment abroad by the United Kingdom consistently exceeded investment in the United Kingdom by overseas residents until 1961. Although the flows were increasing rapidly in both directions, the amount of net outflow showed no basic trend up to 1959. In 1960, however, a rise in overseas portfolio investment in the United Kingdom and an increase in United Kingdom disinvestment abroad considerably reduced the net outflow, and in 1961, with the Ford transaction and a further steep rise in inward portfolio investment, the balance changed to a net inflow.

The causes of the rapid growth of long-term private capital movements and, especially towards the end of the period, the marked changes in their pattern are manifold and complex, and it is possible only to indicate some of the influences which may have contributed to them.

Controls exercised in the United Kingdom affect both outward and inward investment *vis-a-vis* the non-sterling countries. Consent for inward direct investment projects financed in cash has been virtually unconditional since 1958 and the repatriation of capital and profits is allowed for all approved investments made since 1950. Outward direct investment to the non-sterling area has remained subject to restrictions, with little variation in their scope up to July 1961 when a more severe test was imposed, namely that the investment should produce clear and commensurate benefits to United Kingdom export earnings, and thus to the balance of payments, in the short term. Some modification of these rules was made in May 1962.

In the case of inward portfolio investment in the United Kingdom by residents of non-sterling countries, the individual holder can in general only realise his investments by direct sale to another non-sterling resident or through the security sterling market; in neither case does any net withdrawal of funds take place. New outward portfolio investment by United Kingdom residents in the non-sterling area is not in general permitted.

Investment in the sterling area countries has been free from restriction although borrowing in the London market has been controlled by the Capital Issues Committee and the timing of new issues subject to supervision.

The growth of United States investment in foreign countries, of which a large share has normally come to the United Kingdom, has played an important part in the inward flow of capital, which has also been encouraged by the generally high level of economic activity and profits in the United Kingdom throughout the period. The higher level of interest rates prevailing in the United Kingdom in the second half of the decade has almost certainly also been an influence.

Much of the early increase in outward investment was in direct investment and in the sterling area countries. The early 1950's were a prosperous period for primary producers even after the Korean war boom had subsided and this attracted both fresh investment and the

ploughing back of profits on a considerable scale. The tariff protection given to local industries encouraged the establishment of subsidiaries to manufacture locally in a number of markets.

More recently, the high rate of growth in the economies of the Common Market countries and the even faster growth of inter-trade among them must have influenced the expansion of investment in that direction.

It is not possible to provide an analysis of the component parts of the private capital movements over the whole of the past ten years. The analyses which follow therefore relate only to the period from 1958 onwards.

#### *Direct investment (excluding oil and insurance)*

As Table 4 shows, outward direct investment increased rapidly during the period 1958 to 1960 but fell in 1961. The non-sterling component showed a large increase between 1958 and 1959, after which the figure has remained at about the same level. The largest fluctuations have been in the rest of the sterling area, which not only showed substantial increases between 1958 and 1960 but took the brunt of the fall in 1961. Inward direct investment, nearly all of which comes from the non-sterling area, also increased markedly in 1959, but fell back slightly in 1960. The figure for 1961 is swollen by the Ford transaction, but for which there would have been some further fall.

### Direct investment (excluding oil and insurance)

*Net of disinvestment*

TABLE 4 £ million

	1958	1959	1960	1961
<b>Abroad</b>				
Rest of sterling area ...	79	106	155	120
Non-sterling area ...	65	90	92	91
Total ...	144	196	247	211
<b>In the United Kingdom</b>				
Rest of sterling area ...	10	8	14	9
Non-sterling area ...	77	138	121	216
Total ...	87	146	135	225
Direct investment (net)...	-57	-50	-112	+14

#### *Outward*

Table 4(a) shows the estimates of direct investment from the United Kingdom, broken down into its different forms, and gives country and industry analyses. The *Board of Trade Journal* of 30 March 1962 gives greater detail.

During the period 1958 to 1960 Australia and New Zealand have received about one-third of the total invested in the sterling area although other sterling area countries, particularly South Africa, Rhodesia and Nyasaland, India and Pakistan have also been large recipients. Amongst the non-sterling countries Canada

## United Kingdom direct investment abroad (excluding oil and insurance)

Net of disinvestment

TABLE 4(a)

£ million

	1958	1959	1960	1961 <sup>(1)</sup>
<i>Total direct investment abroad</i> <sup>(2)</sup> ...	144	196	247	211
Re-invested profits ...	74	93	85	84
New investments ...	70	103	162	127
of which:				
Net acquisition of share and loan capital ...	41	52	80	72
Change in branch indebtedness ...	16	34	30	15
Change in inter-company accounts ...	13	17	52	40
<i>By area</i>				
Rest of sterling area total ...	79	100	150	120
of which:				
Australia and New Zealand	23	32	63	
South Africa ...	20	10	18	
Rhodesia and Nyasaland ...	—	13	13	
India and Pakistan ...	6	15	14	
Other ...	30	30	42	
Non-sterling area total ...	65	89	88	91
of which:				
U.S.A. ...	11	16	15	
Canada ...	27	36	28	
European Economic Community ...	8	16	21	
Other Western Europe ...	6	4	4	
Latin America ...	5	12	14	
Rest of the World ...	8	5	6	
<i>By industry</i>				
Rest of sterling area total ...	79	100	150	120
of which:				
Agriculture ...	12	10	10	
Mining ...	—	7	9	
Manufacturing industry ...	34	40	68	
Other industries (including unallocated) ...	33	43	63	
Non-sterling area total ...	65	89	88	91
of which:				
Agriculture ...	2	2	3	
Mining ...	10	4	5	
Manufacturing industry ...	48	59	54	
Other industries (including unallocated) ...	5	24	26	

<sup>(1)</sup> Provisional estimates. No country or industry analysis yet available.

<sup>(2)</sup> An allowance has been made for returns not received.

has had the largest share of outward direct investment, about £28 million out of £88 million in 1960. The Common Market countries collectively received more in 1960 than the United States (£21 million against £15 million). Most of the rest of the outward investment goes to other countries in Western Europe and to Latin America.

The industrial pattern of outward direct investment has been changing. The share of agriculture (plantations, etc.) and mining has fallen although in absolute terms investment in these industries has increased, whilst the share of manufacturing and other industries has risen. This has occurred in the sterling area as well as in the non-sterling countries. In the sterling area investment in industries producing food and raw materials is still an important element. Although the absolute amount

of re-invested profits of subsidiaries and trade associates has changed little over the recent years, because of the general upward trend of total investment the re-invested element now accounts for only about one-third against a half in 1958.

### Inward

Inward direct investment has been much heavier in the three subsequent years than in 1958, but no clear trend can be established since in each of the last three years there have been large individual transactions entailing greater North American participation in United Kingdom industry. The largest of these was, of course, the acquisition of the remainder of the shares of the British Ford Motor Company by the American parent company in 1961, entailing a gross inflow of capital of £131 million. As in the case of outward direct investment, re-invested profits have contributed a significant part of the total. The falling off in 1961 may have owed something to President Kennedy's exhortation to American companies with overseas interests to remit a larger proportion of their earnings.

The United States provided on average 70 per cent. of all direct investment in the United Kingdom in the years 1958/60. Canada accounted for slightly more than the whole of Western Europe over the period.

## Overseas direct investment in the United Kingdom (excluding oil and insurance)

TABLE 4(b)

Net of disinvestment

£ million

	1958	1959	1960	1961 <sup>(1)</sup>
<i>Total direct investment in the United Kingdom</i> <sup>(2)</sup> ...	87	146	138	225
Re-invested profits ...	44	76	67	49
New investments ...	43	70	68	176
of which:				
Net acquisitions of share and loan capital ...	21	55	35	165
Change in branch indebtedness ...	11	-2	3	-7
Change in inter-company accounts ...	11	17	30	18
<i>By area</i>				
Rest of sterling area total ...	10	7	13	9
Non-sterling area total ...	77	130	119	216
of which:				
United States of America ...	62	97	84	
Canada ...	10	16	18	
European Free Trade Area	4	8	12	
European Economic Community ...	1	9	4	
Rest of the world ...	—	—	1	
<i>By industry</i>				
Total all areas ...	87	137	132	225
of which:				
Electrical and mechanical engineering ...	19	30	13	
Other manufacturing industries ...	45	76	84	
Distribution ...	8	23	12	
Other industries (including banking) ...	15	7	23	

<sup>(1)</sup> Provisional estimates. No country or industry analysis yet available.

<sup>(2)</sup> An allowance has been made for returns not received.

In no year covered by the Board of Trade inquiry has investment by concerns in the sterling area accounted for more than about 10 per cent. of the total. Most of this small investment came from South Africa.

Inward direct investment has been concentrated in manufacturing industries and distribution. Manufacturing industries absorbed 75 per cent. of the total and distribution took another 12 per cent. in the years 1958/60.

#### Other private investment

Included under this heading are outward and inward portfolio investment, the overseas investment of United Kingdom oil companies and investment by foreign oil companies in this country, certain capital transactions of insurance companies, and a small residual category embracing such items as the receipt in 1960 of £24 million as compensation from Egypt for sequestrated British assets.

Only total figures for this group of items are so far available for publication. These are shown in Table 5.

### Other private investment

	1958	1959	1960	1961
<b>Abroad</b>				
Rest of sterling area ...	106	75	45	90
Non-sterling area ...	80	73	44	56
	186	148	89	146
<b>In the United Kingdom</b>				
Rest of sterling area ...	-24	22	12	12
Non-sterling area ...	130	30	90	169
	106	52	102	181
<b>Other private investment (net) ...</b>	<b>-80</b>	<b>-96</b>	<b>+13</b>	<b>+35</b>

#### Outward

The predominant item on the outward side is the overseas investment by British oil companies. This was rising steadily up to 1959 but has fallen back somewhat in the last two years. The proportion of oil investment in the non-sterling area has been slightly higher in recent years; the relatively greater emphasis placed on marketing and distribution (including refineries) as distinct from the development of production facilities has been particularly apparent in this area.

New portfolio investment in the non-sterling area by United Kingdom residents is, with minor exceptions, not permitted under Exchange Control regulations (although sales and purchases within the existing 'pools' of United Kingdom holdings have been allowed). Net movements have therefore been relatively small. Transactions with the rest of the sterling area are of course not subject to this control. There has been a regular outflow of new investment to the rest of sterling area partly in the form of subscriptions to issues made

in the London market and partly by purchases of securities issued in sterling area countries. But there has also been some disposal of existing portfolio holdings; this dis-investment, particularly of holdings in South Africa and other African territories, increased in 1960 and the early part of 1961, but slackened after the imposition of controls in South Africa in the middle of the year. (A fuller account of recent movements in United Kingdom overseas portfolio investment is given in the Bank of England *Quarterly Bulletin* for June 1962).

As a result of the reduction in oil investment, increased portfolio disinvestment in the sterling area, and the receipt of compensation from Egypt (which is treated as a disinvestment) the total of 'Other private investment' abroad by the United Kingdom fell sharply in 1960. In 1961, however, it regained the level of 1959.

#### Inward

Investment by foreign oil companies in the United Kingdom has tended to increase in the last few years. In 1958 the Shell Group raised £76 million by a new share issue abroad. A large part of this is reflected in the figure for inward investment from the non-sterling area in that year.

Practically all the increase in the total figure in 1960 and again in 1961 has, however, been due to inward portfolio investment. Up to 1959 the net amount of such investment is believed to have been very small. In 1960, however, there was a considerable movement of overseas funds into equity shares, which continued in 1961 and spread also to fixed-interest stocks. Relatively high interest rates in the United Kingdom, a favourable evaluation by overseas investors of the yields and prices of United Kingdom securities, and the growth of institutional facilities for making international investments of this kind have probably all contributed to the inflow.

#### Private investment in less developed countries

Nearly half of private investment overseas takes place in the less developed countries. These are the estimates for recent years:

	Less developed countries	All countries
1958 ...	147	330
1959 ...	160	344
1960 ...	154	336
1961 ...	138	357

The great bulk of private investment in less developed countries is in the form of direct investment, including that made by the United Kingdom oil companies. A fuller account of the United Kingdom's total contribution to the growth of the economies of the less developed countries is given in *Assistance from United*

#### **The statistical basis of the estimates**

The capital movements discussed in this article comprise the transactions which are grouped together in the standard presentation of the United Kingdom balance of payments as the 'Long-term capital account'. The definition of 'long-term' for this purpose includes transactions where either there is no firm date for repayment or where the date is more than a year ahead; it also includes, however, portfolio investment in dated securities whose original term was more than one year but which may be within twelve months of redemption date. 'Short-term' investments, for example in Treasury Bills or temporary loans to local authorities, are included in the 'monetary movements' section of the balance of payments accounts.

This definition necessarily disregards the intentions of investors, as regards the realising of their investments, which may in any case not be determined at the time of the initial transaction or may be changed. To this extent the description 'long-term' is not an exact one, and its limitations have become greater as the pattern of capital movements has changed in recent years. The figures of direct investment include changes in the balance of indebtedness between related companies; these balances contain some elements of permanent or near-permanent capital provided by parent company to subsidiary, etc., or vice-versa, but they also undoubtedly contain some temporary balances which are frequently adjusted and whose location may be responsive to short-term changes in interest rates or to sentiment about exchange rates. Portfolio investments may be realised by sale in the market, although in the case of holdings of United Kingdom securities by non-sterling residents Exchange Control regulations prohibit the remittance of the proceeds.

Nevertheless, the bulk of the movements of capital included under these headings can properly be regarded as of a more durable kind than those included in monetary movements. The figures for direct investment to a great extent represent the acquisition of interests in producing or trading assets which are intended to be permanent ones. Much of the portfolio investment in company equities and in fixed interest stock is probably also intended to be for medium or long terms, and the exchange control regulations referred to below in any case limit the reversibility of investment from the non-sterling area.

#### **Sources**

##### *Direct investment*

Since 1958 estimates have been derived from a continuing inquiry by the Board of Trade. A reconciliation of the results from this inquiry for 1958 and 1959 with the previous estimates for these years, which were based on a variety of sources, indicated that the

only serious deficiency in the previous figures was the measurement of the re-invested profit element of direct investment in the United Kingdom. This was to be expected in view of the fact that the Exchange Control information previously used measured in general only actual flows and not normally the retained profit element. On the assumption that there was a similar deficiency in the years earlier than 1958 an examination of the accounts of some fifty of the largest companies included in the Board of Trade's inquiry was made to estimate the value of retained profits for the period 1955/57. On the basis of this examination, the figures for this period have been revised to bring them in line with the latest figures. For the years 1952/54, a similar, although rougher allowance has been made to ensure a more consistent series.

##### *Oil*

Estimates of the change in the net worth of United Kingdom oil companies' investment abroad and of overseas oil companies' investment in their United Kingdom subsidiaries are based on information supplied by the oil industry.

##### *Outward portfolio investment*

The estimates of outward portfolio investment are based on the Bank of England's survey, which includes United Kingdom portfolio transactions in overseas government and municipal loans and in the shares and debentures of overseas registered companies in so far as these securities are dealt in on the London Stock Exchange or are United States and Canadian dollar securities quoted abroad. Adjustments based on balance of payments information compiled in other countries ('partner-country' information) have to be made to cover types of securities falling outside the range of the Bank's survey. Since Exchange Control regulations closely restrict portfolio investment in the non-sterling area, any capital outflow is normally confined to the rest of the sterling area.

##### *Inward portfolio investment*

For the period 1952/59 estimates of portfolio investment from the sterling area in United Kingdom securities are based on 'partner-country' sources. As regards the non-sterling area, net inward investment during this period is likely to have been negligible. This deduction is based on the Exchange Control arrangements for repatriation and on the level of the security sterling rate. An individual non-sterling investor may only realise his investment either by selling direct to another non-sterling resident or by selling the blocked proceeds to another non-sterling resident who wishes to invest in the United Kingdom. The pool of sterling through which these transactions flow is known as security sterling. As the security sterling rate for most of the period in question stood at a discount on the official market rate, inward portfolio investment will tend to have taken place through this pool, so that only

a negligible amount of net inward investment in the United Kingdom is likely to have occurred.

Since about the middle of 1960, however, the rate for security sterling has, except for brief periods, been close to parity with the official rate. The advantage in making purchases through security sterling therefore disappeared and much new portfolio investment must have taken place through the official market. For the two years 1960 and 1961 new sources of information have been used to take account of the change in circumstances. The Board of Trade have conducted an inquiry directed to companies to ascertain the change in the holdings in such companies by non-residents. At

the same time, an inquiry has been conducted to measure changes in holdings of Government securities by private non-residents. Changes in holdings of Government stock by overseas banks and official bodies are already included in 'monetary movements' as increases or decreases of sterling liabilities.

#### *Other investment*

Estimates are based mainly on exchange control records for non-sterling transactions and on 'partner-country' sources for the sterling area.

*Central Statistical Office*