

Mr. Funt

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Division of International Finance

REVIEW OF FOREIGN DEVELOPMENTS

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The United Kingdom Balance of Payments Accounts

8 pages

Thomas M. Klein

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The United Kingdom Balance of Payments Accounts*

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It is well-known that in recent years sterling has been under pressure from large-scale speculation against the pound, particularly in the Spring of 1961 following the revaluation of the deutsche mark and the guilder. It is also well-known that in the first half of 1963, sterling was supported by increased earnings of the overseas sterling area with non-sterling countries because of the rise in raw material prices. Unfortunately, the official balance of payments statistics, while much improved over those of earlier years,^{1/} do not reveal the magnitude of these two significant sources of strength or weakness for sterling. A rearrangement of the official statistics is proposed here which will enable the student of British balance of payments problems to understand more clearly than has been done hitherto:

(1) the role of "volatile" capital movements in recent sterling crises, (2) the effects of the overseas sterling area's transactions with non-sterling countries, and (3) the approximate magnitude of the United Kingdom's over-all balance of payments deficit or surplus. The International Monetary Fund has improved upon the official presentation in some respects,^{2/} but some additional changes are suggested here.

The official format classifies all transactions into three broad categories: current account, long-term capital account, and monetary movements (see Table 1). The latter group consists of changes in official gold and foreign exchange reserves, changes in net sterling liabilities to foreigners, and a catch-all component, miscellaneous capital, of which the main element is net commercial bank foreign exchange assets, including bank acceptances given by British banks for the account of non-residents.^{3/}

* This paper owes much to a suggestion of Mr. Poul Høst-Madsen of the International Monetary Fund that the appropriate measure of the British balance-of-payments surplus or deficit is the change in official gold and foreign exchange reserves net of the change in net sterling liabilities to foreign central monetary institutions. An earlier version of this balance-of-payments presentation shown here has been included in the author's memoranda, "Recent Economic Developments in the United Kingdom," issued quarterly, commencing in June 1962. A somewhat similar presentation has been produced simultaneously by the Balance of Payments Division of the International Monetary Fund, published in the fourteenth Balance of Payments Yearbook and in the Annual Report for 1963 (p. 126).

^{1/} Detailed quarterly data are now published in Economic Trends. Seasonally adjusted current account figures have been developed. In place of the semi-annual White Papers an "orange book" is now being issued annually with relatively detailed explanatory comments and longer runs of retrospective annual data than have hitherto been available in a single publication.

^{2/} I.M.F., Annual Report for 1963, p. 126.

^{3/} Miscellaneous capital also includes changes in foreign currency balances held by the Government departments and oil companies and identified short-term credits.

-2- The United Kingdom Balance of Payments Accounts

Table 1. United Kingdom Balance of Payments: Official Presentation

(in millions of pounds)

	1961		1962		1963		
	Jan.- June	July- Dec.	Jan.- June	July- Dec.	Jan.- June	1st Qtr.	2nd Qtr.
A. CURRENT ACCOUNT	- 34	--	98	- 24	144	75	69
B. LONG TERM CAPITAL	- 16	62	- 16	- 74	- 85	-67	-18
C. TOTAL (A and B)	- 50	62	82	- 98	59	8	51
D. NET ERRORS AND OMISSIONS	- 8	16	78	37	- 21	12	-33
E. MONETARY MOVEMENTS							
Miscellaneous capital	77	-139	84	31	- 22	84	-106
Sterling balances	-184	256	-203	-195	- 49	-101	52
International organi- zations	(3)	(406)	(-173)	(-180)	(5)	(2)	(3)
Sterling area	(119)	(34)	(52)	(-8)	(115)	(41)	(74)
Non-sterling countries	(-306)	(-184)	(-82)	(-7)	(-169)	(-144)	(-25)
Gold and foreign exchange	165	-195	-41	225	33	- 3	36
Total	58	- 78	-160	61	-38	- 20	-18

Source: U.K. Central Statistical Office, Economic Trends, September 1963.

Monetary movements have the superficial appearance of a category which should measure the deficit or surplus in the balance of payments in an analytic sense, in that the net balance of current and long-term capital account (adjusted for errors and omissions) gives rise to a corresponding movement of official reserves and short-term capital. However, as the U.K. Treasury has recently explained, ". . . because transactions within the balance of monetary movements offset one another. . . the balance of monetary movements is not a good indicator of the pressures on sterling when confidence is disturbed. . . . No single line in the balance of payments provides by itself a full guide to how the balance of payments has been developing." ^{4/} In spite of this disclaimer, the official format suggests a closer relationship between the balance of current and long-term capital accounts, on the one hand, and reserves movements on the other, than in fact exists. It is not at all apparent in the official format that the impact on sterling of short-term capital movements in and out of the U.K. in recent years has far outweighed that of the balance of current and long-term capital accounts. Therefore, the following changes in the official presentation are suggested:

^{4/} U.K. Treasury, Bulletin for Industry, No. 167 (October 1963).

Measuring volatile capital flows

Before non-resident convertibility of sterling was re-established at the end of 1958, speculation against sterling took the form mainly of leads and lags which were difficult to identify in the available statistics. ^{5/} Today, however, speculation against sterling takes, in part, more open forms. Unfortunately, in the official presentation, the various types of capital account transactions which have been collectively responsible for the temporary, but sharp, pressures on sterling in the past few years are mostly included in monetary movements where they are shown net of the offsetting financing components (e.g.--increases in foreign central bank holdings of sterling). They may be seen more clearly by making two adjustments to the official statistics:

(a) Following the IMF's procedure, we can separate the components of monetary movements which are clearly financing transactions (changes in the gold and foreign exchange reserves, changes in the United Kingdom's net drawing rights on the IMF, and net liabilities to central monetary institutions) from the components which have a substantial autonomous character (miscellaneous capital and changes in net sterling liabilities to individuals and institutions outside the sterling area other than central monetary institutions). The breakdown of sterling balances between central monetary institutions (formerly labeled "official") and other creditors does not appear in the current balance-of-payments publications, but it is available in the Bank of England Quarterly Bulletin.

(b) In order to achieve a more complete measure of volatile capital movements, we must group together in the balance of payments all capital movements--long term as well as short term--which are predominantly speculative or highly interest-sensitive. Our ability to isolate the relevant long-term capital account transactions is hampered by a lack of detailed figures. In the balance of payments accounts private long-term capital is broken down only into four components: British private investment abroad is separated from investment in the United Kingdom; these broad categories are each separated into direct investment and "other" investment (See Table 2.)

However, it is desirable to separate from private direct investment and Government long-term capital "other" United Kingdom investment abroad (shown in the upper half of Table 2) and "other" investment in the United Kingdom (shown in the lower half of Table 2). These two components combined can be grouped with the short-term volatile capital movements. The fluctuations in the "other" investment in the United Kingdom are believed to be mainly movements of private foreign funds in and out of British Government securities. These investments shifted along with the fortunes of sterling from 1961 through the first half of 1963, showing a low figure for the first half of 1961, (following the revaluation of the DM) a high figure for the second half of 1961 and the first half of 1962, (a period of high interest rates in the U.K.) a low figure again in the first quarter

^{5/} See: S. I. Katz, "Leads and Lags in Sterling Payments," Review of Economics and Statistics, February 1953, pp. 75-80.

Table 2. United Kingdom Net Long-term Capital Movements

1961-June 1963

(in millions of pounds)

	1961		1962		1963		
	Jan.- June	July- Dec.	Jan.- June	July- Dec.	Jan.- June	1st Qtr.	2nd Qtr.
OFFICIAL	- 13	- 32	- 25	- 80	- 21	-10	-11
PRIVATE							
Abroad							
Direct	-129	- 97	-111	-101	-114	-64	-50
Other	- 63	- 37	- 44	- 3	1/ - 62	-26	-36
In the U.K.							
Direct	167	69	74	63	75	39	36
Other	22	159	90	47	1/ 37	- 6	43
Total Private	- 3	94	9	6	- 64	-57	- 7
Total -	- 16	62	- 16	- 74	- 85	-67	-18

1/ Figures for 1963 not entirely comparable with figures for earlier years.
See Bank of England Quarterly Bulletin, June 1963, pp. 98-103.
Source: Economic Trends, September 1963.

of 1963 and a relatively high figure for the second quarter of 1963 (speculation against sterling followed by recovery). The category "other private long-term investment abroad" does not fit as clearly into the volatile capital group as it contains the net overseas investment of British oil companies, transactions which are more akin to direct investment. 6/ However, a significant part of oil company investment abroad consists of transfers of funds-movements which are believed to be some extent motivated by speculative and interest rate considerations. Therefore, it is not too unrealistic to associate this category of private investment with the volatile short-term capital movements.

6/ This investment abroad is to some extent offset by net investment of foreign oil companies in their British subsidiaries. The remaining components of "other private investment" which are not easily reversible are: British-owned tobacco stocks held abroad, certain investments by the Commonwealth Development Finance Company, and payments received by U.K. residents as compensation for nationalization of overseas assets. It is believed that collectively these are of minor importance.

The relative importance of volatile capital movements vis-a-vis other components is indicated by the fluctuations in Group D of Table 3. In the first half of 1961, they were ten times the size of the combined deficit on goods, services, transfer payments, direct investment and government long-term capital (see Table 3). We also see that about half of the capital outflow measured in Group D was recovered in the remainder of 1961 and in the first half of 1962. Reduction in sterling balances accounted for the outflow, but other forms of investment were more significant in the reflux. A similar movement out of sterling, although on a smaller scale, can be seen to have taken place in the first half of 1963.

Role of the overseas sterling area

The United Kingdom's reserves rise or fall as the result of the overseas sterling area's transactions with non-sterling countries as well as because of the U.K.'s own transactions with non-sterling countries. Ideally, we should like to know to what extent the changes in the overseas sterling area countries' sterling balances are due to their sales of non-sterling assets to the Bank of England. This, of course, is not known. But we can discover approximately how much of the change in the net sterling balances of overseas sterling countries was due to transactions with non-sterling countries and approximately how much was due to transactions with the United Kingdom. This may be derived from the series labeled "inter-area transfers" in the balance of payments table in Economic Trends showing the balance of payments of the overseas sterling areas with non-sterling countries. It is intended to measure that part of the payments balance with non-sterling countries which is not financed by changes in overseas sterling area countries holdings of gold and foreign currencies other than sterling. The difference between the inter-area transfers figure and changes in net sterling balances of the outer sterling area shows how much sterling was acquired, on balance, in other transactions with the United Kingdom. This breakdown is shown in Group G of Table 3.^{7/}

Admittedly, the usefulness of this breakdown is limited. First, there is a wide margin of error in the "inter-area transfers" series as those figures include the combined errors and omissions of all the outer sterling countries' balance of payments. ^{8/} Small changes

^{7/} The reader will note that net sterling liabilities to residents of overseas sterling area countries are not shown in Table 3 in a manner parallel to the treatment of liabilities to residents of non-sterling countries. This latter group is separated into official sterling balances (central monetary institutions for 1963), which are included in Group G, and private sterling balances, which are included in Group D, as changes in this category are governed mainly by interest rate and speculative motives. (The breakdown between private and official is not shown in the balance of payments statistics: one must refer to the Bank of England Quarterly Bulletin.)

Table 3. United Kingdom Balance of Payments: Proposed Presentation
(In millions of pounds)

	1961		1962		Jan.- June	1963	
	Jan.- June	July- Dec.	Jan.- June	July- Dec.		1st. Qtr.	2nd. Qtr.
A. CURRENT ACCOUNT	- 34	--	98	- 24	144	75	69
B. PVT. DIRECT INVESTMENT & GOVT. LONG-TERM CAPITAL	<u>a/- 20</u>	<u>a/- 97</u>	<u>- 62</u>	<u>b/-110</u>	<u>- 60</u>	<u>- 35</u>	<u>-25</u>
C. TOTAL (A and B)	- 54	- 97	36	-134	84	40	44
D. OTHER PRIVATE CAPITAL							
Other long-term	- 41	122	46	44	<u>c/- 25</u>	- 32	7
Sterling balances of non- sterling countries	<u>a/-454</u>	<u>a/ 23</u>	- 36	12	<u>c/- 81</u>	- 95	14
Miscellaneous capital	<u>a/- 49</u>	<u>a/- 13</u>	<u>84</u>	<u>31</u>	<u>- 22</u>	<u>d/- 5</u>	<u>d/-17</u>
Total	<u>-544</u>	<u>132</u>	<u>94</u>	<u>87</u>	<u>-128</u>	<u>-132</u>	<u>4</u>
E. NET ERRORS AND OMISSIONS	- 8	16	78	37	- 21	12	-33
F. TOTAL (C through E)	<u>-606</u>	<u>51</u>	<u>208</u>	<u>- 10</u>	<u>- 65</u>	<u>- 80</u>	<u>15</u>
G. NET RESERVE MOVEMENTS							
Special aid received	<u>a/ 368</u>	<u>a/-278</u>	--	--	18	101	-83
Drawing rights on IMF (increase-)	- 15	389	-180	-198	3	--	3
Sterling balances of:							
Non-sterling official	- 31	- 1	- 39	- 9	-104	- 59	-45
Outer sterling area							
Sterling acquired in direct transactions with the U.K.	5	- 28	12	- 25	<u>c/- 23</u>	- 17	- 6
Sterling acquired thru transactions with non-sterling countries	114	62	40	17	<u>c/ 138</u>	58	80
Gold and foreign exchange (increase-)	<u>165</u>	<u>-195</u>	<u>- 41</u>	<u>225</u>	<u>33</u>	<u>- 3</u>	<u>36</u>
Total	<u>606</u>	<u>- 51</u>	<u>-208</u>	<u>10</u>	<u>65</u>	<u>80</u>	<u>-15</u>

a/ Basle aid transactions included in Special Aid (See: Bank of England, Quarterly Bulletin, Sept. 1961). See also note b. b/ Long-term capital in the second half of 1961 and 1962 includes subscription to IDA (-9) net of increases in sterling liabilities to IDA (8). c/ Figures are not entirely comparable with those for earlier periods. See Bank of England, Quarterly Bulletin, June 1963, pp. 98-103. d/ Assistance received from continental central banks is here classified as special aid.

Source: U.K. Central Statistical Office, Economic Trends, September 1963.

in this item, therefore, have no clear meaning. Secondly, one must bear in mind that it is not possible to link directly with changes in U.K. reserves the changes in sterling balances of overseas sterling countries stemming from transactions with non-sterling countries. While it is true that a significant portion of a current payments surplus may be settled in U.S. dollars or some other non-sterling currency which will then be sold to the Bank of England for sterling, current payments may also be settled directly in sterling -- e.g., a sterling area surplus may result in an offsetting decline in non-sterling area sterling balances. We should also bear in mind that non-sterling assets, acquired from some previous payments surplus, may be converted to sterling; but this is probably of limited importance.

In spite of these limitations, however, the breakdown of changes in sterling balances of the overseas sterling area by ultimate source is still useful. From Group G (Net Reserve Movements) of Table 3 we can see that settlements in sterling of the outer sterling area's surplus with non-sterling countries (or conversion to sterling of other currencies acquired) provided substantial relief to the British balance of payments in two recent periods when sterling was under severe speculative pressure (the first half of 1961 and the first quarter of 1963). Assistance in this form amounted to over £100 million in the first half of 1961 and a comparable amount (measured at an annual rate) in the first quarter of 1963.

Extraordinary aid.

To arrive at a measure of the overall balance of payments surplus or deficit which is as meaningful as is possible, given the available breakdown of capital account transactions, it is necessary to show reserve movements net of all aid extended to the United Kingdom given expressly to help finance an existing balance of payments deficit. Some of the special assistance extended during recent years has been included in the monetary movements category of the official presentation, showing up as increases in sterling liabilities or miscellaneous capital. The £323 million Basle Aid in 1961 and central bank assistance in 1963 (£89 million) have been isolated in the IMF's presentation, but two further adjustments are called for:

(1) The advance debt payments by France and Germany in the first half of 1961 were made to ease the current pressure on British reserves, and they should be shifted from Government long-term capital to special aid.

7/ While some residents of overseas sterling area countries shift funds into or out of London as the result of interest rate changes, changes in holdings of sterling area non-official sterling balances have not been as volatile as those held by creditors outside the sterling area. Therefore, no great distortion is introduced by retaining in Group G changes in sterling balances held by sterling area residents other than official.

8/ Central Statistical Office, United Kingdom Balance of Payments: 1963 (H.M.S.O., August 1963), p. 36.

(2) Assistance to sterling under the Federal Reserve-Bank of England Reciprocal Currency Agreements can now be isolated from changes in sterling balances to non-sterling official institutions (credits of £12 million in the first quarter of 1963 and £6 million in the second quarter) and included with special aid.^{9/}

Line F and Group G of Table 3 show a deficit of over £600 million in the first half of 1961 as contrasted with a balance of monetary movements (Table 1.) of less than £30 million. For the first half of 1962, the magnitude of the surplus shown by Table 3 is somewhat closer to that indicated by the balance of monetary movements, but for the first quarter of 1963 Table 3 reveals a deficit of £80 million as compared with a surplus of £20 million as suggested by the monetary movement component of the official presentation.

There remains some difficulties with the proposed presentation in Table 3. Group G contains some autonomous capital movements (e.g. -- part of non-official sterling balances of the outer sterling area). Group D gives only a very crude estimate of volatile capital movements. But in spite of these drawbacks, Table 3 is offered as a means for achieving a better understanding of the recent pressure on sterling.

^{9/} Details are available in the Federal Reserve Bulletin, September 1963, pp. 1216-23.

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Role of the overseas sterling area

The United Kingdom's reserves rise or fall as the result of the overseas sterling area's transactions with non-sterling countries as well as because of the U.K.'s own transactions with non-sterling countries. Ideally, we should like to know to what extent the changes in the overseas sterling area countries' sterling balances are due to their sales of non-sterling assets to the Bank of England. This, of course, is not known. But we can discover approximately how much of the change in the net sterling balances of overseas sterling countries was due to transactions with non-sterling countries and approximately how much was due to transactions with the United Kingdom. This may be derived from the series labeled "inter-area transfers" in the balance of payments table in Economic Trends showing the balance of payments of the overseas sterling areas with non-sterling countries. It is intended to measure that part of the payments balance with non-sterling countries which is not financed by changes in overseas sterling area countries holdings of gold and foreign currencies other than sterling. The difference between the inter-area transfers figure and changes in net sterling balances of the outer sterling area shows how much sterling was acquired, on balance, in other transactions with the United Kingdom. This breakdown is shown in Group G of Table 3.^{7/}

Admittedly, the usefulness of this breakdown is limited. First, there is a wide margin of error in the "inter-area transfers" series as those figures include the combined errors and omissions of all the outer sterling countries' balance of payments.^{8/} Small changes

^{7/} The reader will note that net sterling liabilities to residents of overseas sterling area countries are not shown in Table 3 in a manner parallel to the treatment of liabilities to residents of non-sterling countries. This latter group is separated into official sterling balances (central monetary institutions for 1963), which are included in Group G, and private sterling balances, which are included in Group D, as changes in this category are governed mainly by interest rate and speculative motives. (The breakdown between private and official is not shown in the balance of payments statistics: one must refer to the Bank of England Quarterly Bulletin.)

Table 3. United Kingdom Balance of Payments: Proposed Presentation
(In millions of pounds)

	1961		1962		Jan.- June	1963	
	Jan.- June	July- Dec.	Jan.- June	July- Dec.		1st. Qtr.	2nd. Qtr.
A. CURRENT ACCOUNT	- 34	--	98	- 24	144	75	69
B. PVT. DIRECT INVESTMENT & GOVT. LONG-TERM CAPITAL	<u>a/- 20</u>	<u>a/- 97</u>	<u>- 62</u>	<u>b/-110</u>	<u>- 60</u>	<u>- 35</u>	<u>-25</u>
C. TOTAL (A and B)	- 54	- 97	36	-134	84	40	44
D. OTHER PRIVATE CAPITAL							
Other long-term	- 41	122	46	44	<u>c/- 25</u>	- 32	7
Sterling balances of non- sterling countries	<u>a/-454</u>	<u>a/ 23</u>	- 36	12	<u>c/- 81</u>	- 95	14
Miscellaneous capital	<u>a/- 49</u>	<u>a/- 13</u>	<u>84</u>	<u>31</u>	<u>- 22</u>	<u>d/- 5</u>	<u>d/-17</u>
Total	<u>-544</u>	<u>132</u>	<u>94</u>	<u>87</u>	<u>-128</u>	<u>-132</u>	<u>4</u>
E. NET ERRORS AND OMISSIONS	- 8	16	78	37	- 21	12	-33
F. TOTAL (C through E)	<u>-606</u>	<u>51</u>	<u>208</u>	<u>- 10</u>	<u>- 65</u>	<u>- 80</u>	<u>15</u>
G. NET RESERVE MOVEMENTS							
Special aid received	<u>a/ 368</u>	<u>a/-278</u>	--	--	18	101	-83
Drawing rights on IMF (increase-)	- 15	389	-180	-198	3	--	3
Sterling balances of:							
Non-sterling official	- 31	- 1	- 39	- 9	-104	- 59	-45
Outer sterling area							
Sterling acquired in direct transactions with the U.K.	5	- 28	12	- 25	<u>c/- 23</u>	- 17	- 6
Sterling acquired thru transactions with non-sterling countries	114	62	40	17	<u>c/ 138</u>	58	80
Gold and foreign exchange (increase-)	<u>165</u>	<u>-195</u>	<u>- 41</u>	<u>225</u>	<u>33</u>	<u>- 3</u>	<u>36</u>
Total	<u>606</u>	<u>- 51</u>	<u>-208</u>	<u>10</u>	<u>65</u>	<u>80</u>	<u>-15</u>

a/ Basle aid transactions included in Special Aid (See: Bank of England, Quarterly Bulletin, Sept. 1961). See also note b. b/ Long-term capital in the second half of 1961 and 1962 includes subscription to IDA (-9) net of increases in sterling liabilities to IDA (8). c/ Figures are not entirely comparable with those for earlier periods. See Bank of England, Quarterly Bulletin, June 1963, pp. 98-103. d/ Assistance received from continental central banks is here classified as special aid.

Source: U.K. Central Statistical Office, Economic Trends, September 1963.

in this item, therefore, have no clear meaning. Secondly, one must bear in mind that it is not possible to link directly with changes in U.K. reserves the changes in sterling balances of overseas sterling countries stemming from transactions with non-sterling countries. While it is true that a significant portion of a current payments surplus may be settled in U.S. dollars or some other non-sterling currency which will then be sold to the Bank of England for sterling, current payments may also be settled directly in sterling -- e.g., a sterling area surplus may result in an offsetting decline in non-sterling area sterling balances. We should also bear in mind that non-sterling assets, acquired from some previous payments surplus, may be converted to sterling; but this is probably of limited importance.

In spite of these limitations, however, the breakdown of changes in sterling balances of the overseas sterling area by ultimate source is still useful. From Group G (Net Reserve Movements) of Table 3 we can see that settlements in sterling of the outer sterling area's surplus with non-sterling countries (or conversion to sterling of other currencies acquired) provided substantial relief to the British balance of payments in two recent periods when sterling was under severe speculative pressure (the first half of 1961 and the first quarter of 1963). Assistance in this form amounted to over £100 million in the first half of 1961 and a comparable amount (measured at an annual rate) in the first quarter of 1963.

Extraordinary aid.

To arrive at a measure of the overall balance of payments surplus or deficit which is as meaningful as is possible, given the available breakdown of capital account transactions, it is necessary to show reserve movements net of all aid extended to the United Kingdom given expressly to help finance an existing balance of payments deficit. Some of the special assistance extended during recent years has been included in the monetary movements category of the official presentation, showing up as increases in sterling liabilities or miscellaneous capital. The £323 million Basle Aid in 1961 and central bank assistance in 1963 (£89 million) have been isolated in the IMF's presentation, but two further adjustments are called for:

(1) The advance debt payments by France and Germany in the first half of 1961 were made to ease the current pressure on British reserves, and they should be shifted from Government long-term capital to special aid.

7/ While some residents of overseas sterling area countries shift funds into or out of London as the result of interest rate changes, changes in holdings of sterling area non-official sterling balances have not been as volatile as those held by creditors outside the sterling area. Therefore, no great distortion is introduced by retaining in Group G changes in sterling balances held by sterling area residents other than official.

8/ Central Statistical Office, United Kingdom Balance of Payments: 1963 (H.M.S.O., August 1963), p. 36.

(2) Assistance to sterling under the Federal Reserve-Bank of England Reciprocal Currency Agreements can now be isolated from changes in sterling balances to non-sterling official institutions (credits of £12 million in the first quarter of 1963 and £6 million in the second quarter) and included with special aid.^{9/}

Line F and Group G of Table 3 show a deficit of over £600 million in the first half of 1961 as contrasted with a balance of monetary movements (Table 1) of less than £30 million. For the first half of 1962, the magnitude of the surplus shown by Table 3 is somewhat closer to that indicated by the balance of monetary movements, but for the first quarter of 1963 Table 3 reveals a deficit of £80 million as compared with a surplus of £20 million as suggested by the monetary movement component of the official presentation.

There remains some difficulties with the proposed presentation in Table 3. Group G contains some autonomous capital movements (e.g. -- part of non-official sterling balances of the outer sterling area). Group D gives only a very crude estimate of volatile capital movements. But in spite of these drawbacks, Table 3 is offered as a means for achieving a better understanding of the recent pressure on sterling.

^{9/} Details are available in the Federal Reserve Bulletin, September 1963, pp. 1216-23.