

SECTOR FINANCING 1960-62

Introduction In three previous issues of this *Bulletin*, a note entitled "The Financial Surplus of the Private Sector"^(a) has analysed the financial situation of the private sector and the flow of funds between it and three other sectors—the public sector, the banking sector and overseas. The purpose of this kind of systematic analysis of financial statistics is to bring out the implications of the available information both about flows of capital funds between the main sectors of the economy and about the associated changes in the assets and liabilities of each sector. It may be used either, as in the present article, to illuminate recent history or as a framework for discussion of possible future monetary conditions. The way in which the figures have hitherto been presented was, however, less useful than might have been hoped, because the private sector contained indistinguishably such varied components as private individuals, industrial and commercial companies, and financial institutions other than banks; so that financing such as that undertaken by the building societies, or through the market in new issues of company securities, did not appear, being wholly or mainly within the private sector. To sub-divide the private sector would therefore be a desirable step forward in the analysis of financial flows. It has always been the intention to do so as soon as practicable.

A continuing increase in the provision of financial statistics now makes it possible to attempt such a sub-division. Most financial institutions in addition to banks (insurance companies, investment trusts, building societies, etc.) help by making figures available. Information about the financial assets and liabilities of industrial and commercial companies and persons is much less complete, but more is gradually coming forward. This year therefore figures for three sub-divisions of the private sector are tentatively examined and these, together with the sectors discussed in earlier years, make six groups within the economy.

The six sectors distinguished are the *public sector*, *overseas*, the *personal sector* (including

unincorporated businesses), *non-financial companies* (i.e., industrial and commercial companies), *non-bank financial institutions* and the *banking sector*. These sectors are defined in the notes on Sources and Definitions (page 191). For most sectors the starting point for analysis is, as before, the sector's *financial surplus* (or *deficit*), which is also defined in the notes on Sources and Definitions.

Financial surpluses are used to acquire domestic financial assets, or overseas assets of any kind, or to repay debt; and financial deficits are financed by sales of domestic financial assets or overseas assets, or by borrowing. The assets are claims on other sectors and the debts are liabilities to other sectors. The table on pages 186 and 187 has been designed to summarise these transactions between sectors in financial assets and debts (transactions within sectors being excluded).

To facilitate exposition financial transactions have been divided into two sections. Section A contains items which, because of their contractual nature or for some other reason, can be regarded as falling outside the field of market financing in a broad sense. Examples are government loans to or from overseas governments or to industry at home, and accruals to life assurance and pension funds. Section B contains the other transactions, which can be regarded as market financing. Examples are purchases and sales of securities, whether marketable (such as gilt-edged stocks) or non-marketable (such as National Savings), hire purchase transactions and nearly all banking operations. The distinction between Sections A and B is not determined by any precise criterion and is only one of several ways in which the material could be analysed. Its purpose is to make use of the increasing amount of financial statistical information in such a manner that developments in the markets for capital can be better understood, and better related to their wider economic background.

Obviously an analysis such as is here attempted cannot yet lay claim to exactness.

^(a) See the December 1960, June 1961 and June 1962 issues of this *Bulletin*.

At some points the estimates are little better than guesses. In particular little direct information is available on the personal sector's transactions in marketable securities and for the purpose of the present study the estimates are residuals after allowing for the estimated transactions of other sectors; the validity of the estimates for the personal sector thus depends on the quality of the estimates for other sectors. In fact some of these are known to be deficient: comprehensive statistics are not available for non-financial companies; the identified transactions of overseas residents do not include all their investments in securities; and while for some institutions the cash value of transactions is known, for others the estimates derive from changes in holdings, some at nominal, some at market and some at book values. Several other qualifications to the estimates are given in the notes on Sources and Definitions. Thus the estimated transactions of the personal sector in marketable government debt, local authority debt, U.K. company securities and overseas securities, being calculated as residuals, reflect any errors and omissions in the corresponding estimates for other sectors.

The total of identified changes in each sector's assets and liabilities differs, in some cases substantially, from the sector's financial surplus or deficit derived from national income data, and there are therefore residual errors in the sector accounts. The official estimates of the national income also contain a residual error, because estimated income and expenditure do not agree, while there may be further errors in national income figures for separate sectors; and there is another residual error in the balance of payments (the "balancing item"). The way in which these residual errors have been treated is explained in the notes on Sources and Definitions. Because of these deficiencies in the statistical material the table and the comment on it are in themselves of limited value. They do, however, serve to illustrate a method of analysis which has been found useful and which it is hoped to develop further as information becomes more complete.

Comment

In 1962 the financial deficit of the *public sector* was £510 million, some £265 million less than in the previous year. This reduction was due mainly to a large increase in the saving^(a) of the Central Government in the first quarter of the year, a result of the increased budget surplus above the line realised in 1961/62. The saving of the public corporations rose by about the same amount as their capital expenditure. Saving of local authorities, on the other hand, rose only a little while their capital expenditure increased by £115 million. But the public sector's net financial outlays for the reduction of borrowing or additions to assets under the categories listed in Section A totalled £530 million in 1962, compared with net receipts of £345 million in 1961. This was due mainly to the change in the external position but partly also to the reduction by £255 million in net indebtedness of the Government to the Bank of England, Banking Department, whose funds available for investment in government debt were reduced by the release of Special Deposits.

Despite the lower financial deficit, the amount the public sector was required to borrow through the categories listed under Section B was therefore nearly £1,000 million in 1962, substantially greater than the year before. Local authorities borrowed more than half of this amount: apart from a small reduction in bank advances, they raised £605 million, nearly £100 million more than in 1961, almost wholly in mortgage debt and stock issues. Net borrowing by the Central Government and the public corporations (nearly all of it through the Exchequer) amounted to about £435 million^(b) in 1962, whereas there had been a net repayment in the previous year. Within this net total, holdings of Tax Reserve Certificates^(c) were reduced by £55 million. Relatively little finance accrued to the Exchequer from the issue of notes and coin, because of the recall of the old series of notes;^(d) and little was received from the sale of iron and steel securities, which had been unusually large in 1961.^(e) The net total of £345 million borrowed on marketable debt

(continued on page 188)

(a) Excess of current income over current expenditure.

(b) Lines 13, 15, 16, 18 and 21 in the table.

(c) Included in line 15 in the table.

(d) See page 172 of the September 1962 issue of this *Bulletin*.

(e) Line 18B in the table.

SECTOR FINANCING

£ millions

	Line	Public sector			Overseas		
		1960	1961	1962	1960	1961	1962
Financial surplus (+)/deficit (-)							
Saving ^(a)	1	+ 745	+ 840	+1,260			
Taxes on capital and capital transfers	2	+ 170	+ 190	+ 180			
less Gross fixed capital formation at home	3	-1,655	-1,800	-1,940			
Value of physical increase in stocks and work in progress	4	+ 40	- 5	- 10			
TOTAL	5	- 700	- 775	- 510	+270	+ 35	- 75
Financing assets increase (+)/decrease (-)							
liabilities increase (-)/decrease (+)							
A. Net indebtedness of Government to Bank of							
England, Banking Department	6	- 165	- 90	+ 255			
Life assurance and superannuation funds	7	- 45	- 50	- 45			
Government loans	8	+ 135	+ 100	+ 130	- 90	- 15	- 90
Gold and foreign exchange reserves	9	+ 175	+ 30	- 185	-175	- 30	+185
International organisations: Interest-free notes and subscriptions	10	+ 170	- 370	+ 380	-170	+370	-380
Miscellaneous investment overseas (net)	11	- 5	+ 35	- 5	- 65	-170	- 35
	12	+ 265	- 345	+ 530	-500	+155	-320
B. Currency and bank deposits	13	- 120	- 100	- 5	+425	+ 65	+340
Deposits with other financial institutions	14				+ 10	+ 10	+ 15
Government debt: Non-marketable	15	- 320	- 150	- 80			
Marketable	16	- 110	+ 405	- 345	+255	-245	- 65
Local authority debt	17	- 405	- 510	- 605	+ 40	+ 40	+ 40
U.K. company securities and overseas securities:							
Capital issues	18A				- 5	- 5	-
Other transactions	18B	- 10	- 85	- 10	+ 50	+165	+ 30
Commercial bills and money at call	19				+ 25	- 55	- 5
Bank advances	20	- 5	+ 30	+ 5	-300	-105	-225
Hire purchase debt	21	+ 15	- 5	+ 5			
Mortgages (house purchase, etc.)	22	+ 45	+ 65	+ 50			
Other loans	23	- 35	-	-			
	24	- 945	- 350	- 985	+500	-130	+130
Unidentified	25	- 20	- 80	- 55	+270	+ 10	+115
TOTAL=Financial surplus (+)/deficit (-)	26	- 700	- 775	- 510	+270	+ 35	- 75

(a) After providing for stock appreciation but before providing for depreciation and tax, dividend and interest reserves.

(b) Estimates for the company sector as a whole. Figures of saving and investment are not available separately for non-financial companies, non-bank financial institutions and the banking sector. See notes on Sources and Definitions, page 192.

Domestic private sectors												Line
Personal			Non-financial companies			Non-bank financial institutions			Banking			
1960	1961	1962	1960	1961	1962	1960	1961	1962	1960	1961	1962	
+ 1,485	+ 1,865	+ 1,640				+ 2,495	+ 2,090	+ 2,005 ^(b)				1
- 185	- 200	- 190				+ 15	+ 10	+ 10				2
- 775	- 890	- 885				- 1,675	- 1,890	- 1,785				3
- 65	- 40	- 30				- 565	- 260	- 45				4
+ 460	+ 735	+ 535	+ 170	- 150	+ 85	+ 100 + 100 + 100 ^(c)						5
	(d)								+ 165	+ 90	- 255	6
+ 795	+ 845	+ 935	- 5	- 40	- 50	- 750	- 795	- 890				7
						- 40	- 45	+ 10				8
			+ 70	+ 135	+ 40							9
												10
+ 795	+ 845	+ 935	+ 65	+ 95	- 10	- 790	- 840	- 880	+ 165	+ 90	- 255	11
												12
+ 205	+ 290	+ 235	- 15	- 30	+ 95	+ 10	+ 10	+ 10	- 505	- 235	- 675	13
+ 265	+ 275	+ 480	+ 60	+ 25	- 15	- 335	- 310	- 480				14
+ 295	+ 155	+ 130	+ 25	- 5	- 50							15
+ 300	- 90	- 175	- 5	- 60	-	+ 180	+ 105	+ 365	- 620	- 115	+ 220	16
+ 150	+ 245	+ 280	+ 50	+ 50	+ 50	+ 90	+ 140	+ 160	+ 75	+ 35	+ 75	17
			- 320	- 430	- 325	- 105	- 110	- 110	- 20	- 55	- 45	18A
- 295	- 250	- 270	+ 200	+ 200	+ 200	+ 495	+ 590	+ 475	+ 10	- 20	+ 55	18B
			- 55	- 155	- 125	-	-	+ 15	+ 30	+ 210	+ 115	19
- 290	- 35	- 195	- 325	- 110	- 160	- 30	+ 15	- 10	+ 950	+ 205	+ 585	20
- 20	+ 20	+ 10	- 70	- 25	+ 30	+ 75	+ 10	- 45				21
- 350	- 365	- 380	- 40	- 45	- 50	+ 345	+ 345	+ 380				22
- 15	- 5	- 5	- 5	- 30	- 20	+ 55	+ 35	+ 25				23
+ 245	+ 240	+ 110	- 500	- 615	- 370	+ 780	+ 830	+ 785	- 80	+ 25	+ 330	24
- 580	- 350	- 510	+ 605	+ 370	+ 465	+ 25 - 5 + 120						25
+ 460	+ 735	+ 535	+ 170	- 150	+ 85	+ 100 + 100 + 100 ^(c)						26

(c) Estimates for non-bank financial institutions and the banking sector combined.

(d) See Introduction for important qualifications to some of the estimates for the personal sector.

See also notes on Sources and Definitions, page 191.

conceals a reduction in indebtedness on Treasury Bills of nearly £270 million, rather greater than the fall which had occurred in the previous year. In contrast, net sales of gilt-edged stocks reached the large total of nearly £600 million in 1962, against net purchases of £235 million in 1961. Rather more than half of the £600 million was taken up by the banking sector and the remainder by other domestic sectors.

By itself, this résumé of public sector financing is relatively unilluminating; indeed it cannot be properly discussed without some analysis of financing in the overseas and domestic private sectors.

The account for *overseas* is a rearrangement of the capital account of the U.K. balance of payments which appears in its conventional form in Table 19 of the Statistical Annex. The "financial deficit" of the overseas sector is the same as the U.K. surplus on current account in the balance of payments. The true U.K. surplus may however be greater than shown in the table, because a substantial part of the unidentified transactions (the "balancing item") may represent unidentified credits in the current account. In Section A of the table are grouped certain government transactions with overseas together with miscellaneous net overseas investment by or in U.K. companies. The increase in the United Kingdom's net foreign assets included in this section exceeded the current surplus in 1962; and the remaining items, grouped in Section B, together with some part of the unidentified transactions,^(a) represent a net inflow of funds from overseas of about £150 million. This net total includes a reduction of about £85 million in overseas official holdings of public sector debt, so that the private inflow of funds from overseas was probably not far short of £250 million. Most of this occurred in the early part of 1962. It is estimated that about £110 million of these funds was placed with the banking sector, this being the amount by which the increase in deposits exceeded that in advances and acceptances for overseas account.^(b) Much of the rest, so far as identified, apparently went into local authority debt; there was probably only a small

net movement of private funds into marketable government debt. In future years a more reliable analysis of movements of overseas funds will be made possible by new statistics, for example those on external liabilities and claims described in a note on page 98 of the June 1963 issue of this *Bulletin*.

After rising steeply between 1958 and 1961, personal saving is estimated to have fallen back in 1962 and there was as a result a fall of about £200 million in the financial surplus of the *personal sector* to a total of some £535 million. The steady increase in life assurance and superannuation funds (Section A of the table) continued, and totalled £935 million in 1962, substantially more than the financial surplus of persons as estimated above.

Identified new borrowing by the personal sector appears to have totalled about £570 million,^(c) or £185 million more than in 1961. Most of the change was in bank advances; there was also a moderate increase in the rate of borrowing for house purchase (included in "mortgages") and a slightly smaller fall in hire purchase debt. The identified increase in personal assets included in Section B of the table was some £680 million^(d) in total, £55 million more than in 1961, though there were larger changes in the component items. The main feature of 1962 was the striking rise of some £480 million, much more than in the previous year, in deposits with financial institutions other than banks, *i.e.*, with the building societies and the Special Investment Departments of the Trustee Savings Banks. There appear to have been net sales of gilt-edged stocks by persons (the greater part of the estimated reduction of £175 million in personal holdings of marketable government debt probably relates to gilt-edged stocks rather than Treasury Bills). The lower level of new capital issues by companies, combined with estimates of the amount of company securities taken up by other sectors, implies that persons also made considerable net sales of company securities. These sales are a persistent and somewhat puzzling feature of the estimates. Possible reasons are the effects of inheritance, when the payment of estate duty and the

(a) Assuming that the greater part of the unidentified transactions relates to the current account.

(b) Lines 13, 19 and 20 in the table.

(c) Lines 20-23 in the table.

(d) Lines 13-18 in the table.

break-up of estates may result in sales; and the substantial volume of cash payments to shareholders arising from amalgamations of companies. The bulk of these net sales are apparently absorbed by insurance and other companies. Personal holdings of local authority debt rose considerably in 1962, as they had in 1961. There was also a considerable rise in personal bank deposits, about the same as in 1961; but probably some fall in currency holdings, because of the recall of the old series of £1 notes.

The personal sector's contribution to the financing of the public sector as a whole was probably less than in 1961; this was due not only to the net sales of gilt-edged stocks already mentioned, but also to the fall in holdings of bank notes, which is one of the ways in which the public sector is financed. There was a discrepancy between the personal sector's financial surplus in 1962 (£535 million) and identified financial transactions (£1,045 million in Sections A and B together), implying unidentified borrowing (or sale of assets) totalling some £510 million. There was a similar but smaller discrepancy in 1961; and a persistent error of this kind seems to be a feature of the estimates for the personal sector. There is probably a variety of reasons for this concerned not only with the estimates of financial transactions but also with the calculation of the sector's financial surplus.

The *company sector* taken as a whole (*i.e.*, including banks and other financial institutions)^(a) had been in financial deficit in 1961 but moved back into surplus in 1962. This was not due to any improvement in savings. Company profits were about the same in total in 1962 as in 1961, and because of a rise in tax payments^(b) the amount of company savings was in fact less. Capital expenditure, particularly on stocks, was, however, some £320 million lower^(c) in 1962 than in 1961 and this alone accounted for the elimination of the financial deficit of companies.

Non-financial companies probably also moved back into financial surplus in 1962. In

addition, there was a fall of nearly £100 million in the estimated rate of miscellaneous net investment overseas^(d) and this, together with their lower financial deficit, resulted in identified net borrowing by non-financial companies under the various headings included in Section B being about £245 million less than in 1961.

New capital issues were down by just over £100 million; less was also borrowed on commercial bills and there was a net reduction in hire purchase debt. Bank advances, however, rose more than in 1961. In addition to borrowing less, non-financial companies may have added something in 1962 to their liquid assets, which were perhaps drawn down in 1961 (though the evidence here is particularly incomplete). For example, currency and bank deposits seem to have risen appreciably, whereas they did not do so in 1961. Non-financial companies may also have avoided net sales of marketable government debt in 1962; and they probably took up local authority debt in 1962 on much the same scale as in 1961, though more of it was in the form of mortgages and less was temporary money. On the other hand, their holdings of Tax Reserve Certificates were reduced by £50 million, perhaps because the interest rate was relatively unattractive for most of the year. If all forms of public sector debt are considered together, a tentative conclusion is that non-financial companies' holdings changed little, either in 1961 or in 1962.

The residual error in the non-financial companies' account indicates substantial unidentified lending; this presumably includes trade credit extended to the personal sector and is to that extent a direct counterpart of an opposite error in the figures for the personal sector. It may also reflect errors in many other parts of the estimates.

The total amounts borrowed and lent by *non-bank financial institutions* in 1962 showed an increase over 1961. Accruals to life assurance and superannuation funds, included in Section A in the table, reached £890 million

(a) Figures of saving and investment are not available separately for non-financial companies, banks and other financial institutions. See notes on Sources and Definitions.

(b) Relating to increases in profits in an earlier period.

(c) See lines 3 and 4 in the table.

(d) Long and short-term, but excluding security transactions. See notes on Sources and Definitions.

in 1962, £95 million more than in 1961. Borrowing by building societies from the Exchequer also appears in Section A: this scheme was suspended towards the end of 1961 and building societies made a small repayment in 1962. Of the other sources of funds for financial institutions, which are included in Section B, the most important is their short-term deposits. These rose by £480 million in 1962 (compared with an increase of £310 million in 1961). The bulk of the increase was in the shares and deposits of building societies, rates of interest on which remained relatively high throughout 1962, when many other rates and yields were falling. Deposits with the Special Investment Departments of the Trustee Savings Banks also rose—the average return on these increased during 1962—but there was no change in the level of deposits with hire purchase finance houses (which in general did not require additional funds in this period). New capital issues by financial institutions (including unit trusts' sales of units) raised £110 million, the same as in the previous year. Bank advances to them changed little on balance.

One of the principal uses of the funds borrowed by financial institutions is lending for house purchase. Net lending for this purpose, by building societies and insurance companies taken together, totalled perhaps £335 million in 1962.^(a) The other main outlets for the funds of financial institutions are company securities, both U.K. and overseas (net purchases of these amounted to some £475 million), and lending to the public sector. The latter totalled £525 million, comprising marketable government debt (£365 million) and local authority debt (£160 million); it was £280 million more than in 1961, owing no doubt to the attractive yields on marketable stocks and the expectation that these yields would decline, while the prospects for equities were not such as to exercise a counter-attraction: purchases of company securities, although large, were less than in 1961. Hire purchase finance houses were exceptional in that there was a net decline of

£45 million in their outstanding claims under hire purchase agreements.

Deposits held with the *banking sector*, on the definition used here, rose by some £750 million.^(b) Some £430 million of this total relates to deposits, including foreign currency deposits, with the overseas banks in London and the accepting houses. Similarly the large increase of £585 million in advances includes some £255 million advanced by the overseas banks and accepting houses, much of it also being in foreign currencies. If deposits, advances and some smaller items are considered together,^(c) the banking sector drew funds totalling around £35 million net from the overseas and domestic private sectors together. This comprised a substantial net increase in funds from overseas and a smaller amount of net lending to domestic private sectors. It follows that the banking sector was a net lender to the public sector. The net claims on the public sector of the Bank of England, Banking Department, which are included in Section A of the table, were reduced by £255 million as a result of the repayment of Special Deposits to the London clearing banks and Scottish banks. Among the categories included in Section B, the banking sector acquired £75 million of Bank of England notes and about £290 million of public sector debt;^(d) the latter masked a decline of £110 million in Treasury Bills and an increase of £330 million in gilt-edged stocks. This was, of course, an important element in the strength of the gilt-edged market during 1962. The clearing banks were the largest buyers in the banking sector but not the only ones—purchases by the overseas banks and accepting houses contributed £90 million to the total.

Mention was made earlier of the large increase between 1961 and 1962 in public sector borrowing of the kind included in Section B of the table, *i.e.*, that which affects the capital

(a) Line 22 in the table. The total of £380 million shown includes mortgages on commercial property, etc., as well as houses.

(b) Because of an increase of £75 million in the banks' holdings of notes and coin, the net increase in "currency and bank deposits" shown in line 13 of the table is only £675 million.

(c) Lines 13 (part), 18, 19 and 20 (part) in the table.

(d) The total includes a net reduction of about £5 million in bank advances to the public sector (included in line 20 in the table).

markets in a broad sense. The analysis shows that well over half of this increase in borrowing was financed by the banking sector, partly as a natural first reaction to the return of Special Deposits. There was also a greatly increased contribution from other financial institutions; but persons and non-financial companies probably lent less to the public sector in 1962 than in 1961. Overseas purchases of public sector debt were probably negligible on balance, but contrasted with substantial sales in 1961.

Within the private sector, there was a fall in the rate of borrowing by non-financial companies. New capital issues were lower; and at the same time fewer steel company securities were being sold by the public sector. Fewer new company securities thus became available; and fewer were bought by financial institutions and by overseas investors.^(a) There was a marked rise in personal borrowing. At the same time an increasing share of the funds accruing to the personal sector was directed into deposits, etc., with financial institutions other than banks, especially with building societies.

SOURCES AND DEFINITIONS

Sources The main statistical series used in the compilation of the table appear in the Statistical Annex to this *Bulletin* or in the following publications issued by the Central Statistical Office: *Financial Statistics* (monthly); *National Income and Expenditure, 1963*; *United Kingdom Balance of Payments, 1963*. Figures of insurance companies' financial transactions in 1962 only are in *Financial Statistics* (August 1963 issue); estimates for the earlier years are based on summaries of insurance companies' accounts published by the British Insurance Association and in the Central Statistical Office's *Annual Abstract of Statistics*. The estimated transactions of private pension funds have been based on figures published in *Financial Statistics* and in the Statistical Appendix to Volume 2 of the *Memoranda of Evidence to the Radcliffe Committee*. Figures

for the special finance agencies have been derived from published balance sheets.

The sectors The *public sector* comprises the Central Government, including the National Insurance Funds, the Issue Department (but not the Banking Department) of the Bank of England, the Exchange Equalisation Account, local authorities, the nationalised industries and other public corporations.

Overseas is as defined for the balance of payments estimates (see *United Kingdom Balance of Payments, 1963*).

The *personal sector* includes unincorporated businesses and private non-profit-making bodies as well as private individuals.

Non-financial companies comprise all corporate bodies other than public corporations, banks and other financial institutions.

Non-bank financial institutions are insurance companies, hire purchase finance companies, building societies, the Special Investment Departments of Trustee Savings Banks, superannuation funds, investment trusts and unit trusts and certain special finance agencies, e.g., the Agricultural Mortgage Corporation.

The *banking sector* consists of the Banking Department of the Bank of England, the London clearing banks, Scottish banks, Northern Ireland banks, discount houses, accepting houses and, so far as statistics are available, the overseas banks in London.^(b)

The numbers of the following paragraphs refer to lines in the table.

Financial surpluses/deficits 1-5. A sector's *financial surplus* (or *deficit*) is the amount by which its saving exceeds (or falls short of) its expenditure at home on fixed capital assets and stocks of goods or work in progress, and its net capital transfers^(c) to other sectors. Saving means the excess of current income over current expenditure; it is reckoned after providing for stock appreciation

^(a) The purchase of Ford shares by the U.S. parent company swelled the total for 1961.

^(b) See Table 11 A, B and C of the Statistical Annex.

^(c) For example, taxes on capital (estate duty) and grants by the Government towards capital expenditure on education and other services.

but before providing for depreciation and for tax, dividend and interest reserves.

Figures of saving, capital expenditure and capital transfers in the first section of the table are taken from national income and expenditure data. The national income accounts do not provide full details separately for banks, other financial institutions and non-financial companies as here defined. Details are given for companies in insurance, banking and finance, but this category includes property companies, which are here treated as non-financial companies. From these the financial surplus of the banking and non-bank financial institutions sectors taken together has been roughly estimated at £100 million per annum. The remainder of the financial surplus/deficit for all companies is shown under the non-financial companies sector. The financial surplus/deficit of the overseas sector represents the current surplus (—) in the U.K. balance of payments.

The net total of the financial surpluses/deficits for all sectors should be nil, but is not, the discrepancy corresponding to the “residual error” between the independent estimates of national income and of national expenditure (—£300 million, +£55 million and —£135 million in 1960, 1961 and 1962 respectively). The discrepancies indicate, for 1960 and 1962, an overstatement of financial surpluses (or understatement of financial deficits) and, for 1961, an understatement of surpluses (or overstatement of deficits). The balancing item in the balance of payments, to the extent that it arises on the current account estimates, contributes to these discrepancies; the remainder of them most probably relates to the private sectors at home. Elimination of the discrepancies would affect the financial surpluses/deficits for all sectors (lines 5 and 26 in the table) and unidentified transactions (line 25), making each of these lines add to nil, but would not necessarily affect the estimates of identified financial transactions, which are based on financial statistics largely independent of the national income data.

Financing 6. *Net indebtedness of Government to Bank of England, Banking Department* comprises the Banking Department's holdings of Treasury Bills, government stocks, Tax Reserve Certificates, and Bank of

England notes, and its Ways and Means Advances, less the balances of the Exchequer and Paymaster General held with the Bank. Thus this item comprises the bulk of the Banking Department's transactions outside the banking sector, and changes in it correspond very closely to movements in the rest of the banking sector's net claims on the Banking Department, which do not appear in the consolidated account for the whole sector, viz.:

<i>£ millions</i>			
	1960	1961	1962
Bankers' Deposits (inc. +)	+ 9	+ 9	— 39
Special Deposits (inc. +)	+152	+81	—233
Advances to the discount market (inc. —) ...	— 6	+ 6	+ 20
	<u>+155</u>	<u>+96</u>	<u>—252</u>

7. *Life assurance and superannuation funds.* The personal sector's net investment in these funds is given in the national income accounts. The entry under the public sector represents the Government's liabilities under certain pension schemes for which no separate fund is maintained.

8. *Government loans* comprise loans (less repayments) to overseas governments, to building societies and to industrial companies.

9. *Gold and foreign exchange reserves* means the holdings of gold and convertible and non-convertible currencies of the Exchange Equalisation Account.

10. *International organisations: Interest-free notes and subscriptions.* In the years shown, the entries represent the United Kingdom's subscription to the International Development Association, less the increase in that organisation's holdings of interest-free notes issued by the U.K. Government, and the movements in holdings of interest-free notes by the International Monetary Fund and the International Bank for Reconstruction and Development.

11. *Miscellaneous investment overseas (net)* represents U.K. official net long-term investment overseas, apart from inter-government loans and the U.K. subscription to the I.D.A.; private net long-term investment (inward and outward) other than that identified as transactions in securities; and part of “miscellaneous capital (net)” in the balance of payments estimates.

13. *Currency and bank deposits* comprise coin, Bank of England notes in circulation outside the Bank of England, Scottish and Northern Ireland bank notes, and net deposits with the banking sector.^(a) Credits in course of transmission through the banking system in respect of payments made through the credit rather than the debit clearing should also be included, but are not separately identified in the banking statistics. It seems reasonable to conclude from the sharp rise in the London clearing banks' "other accounts" in 1960^(b) that there was a large increase in credits in course of transmission in that year, when the credit clearing was instituted. Accordingly a round sum of £100 million has been added to the recorded figure of the increase in bank deposits in 1960. No allowance has been made for changes in credits in course of transmission in 1961 or 1962. The sector distribution of the movements in bank notes and coin held outside the banks is not known, but in the table the total change has been arbitrarily divided into equal parts between the personal and non-financial companies sectors.^(c) The entries under "overseas" represent changes in overseas holdings of bank deposits (sterling and currency) with the accepting houses and overseas banks in London (details of overseas holdings with other banks not being available for 1960-62). A small increase in non-bank financial institutions' holdings of deposits has been assumed in each year, and no change in the public sector's holding. A conjectural division of the remaining deposits between the personal and non-financial companies sectors has been based mainly on the series of "net personal deposits" with the London clearing banks.^(d)

14. *Deposits with other financial institutions.* Separate figures are published for movements

in deposits and shares held by persons with building societies. Changes in deposits with Trustee Savings Banks (Special Investment Departments) have been allocated to the personal sector; and deposits with hire purchase finance companies, apart from an estimated small inflow from overseas, to the non-financial companies sector.^(e)

15. *Non-marketable government debt* comprises Tax Reserve Certificates and all forms of National Savings (including accrued interest) other than deposits with the Special Investment Departments of the Trustee Savings Banks (line 14).

16. *Marketable government debt.* The entry under the public sector represents the cash value of transactions in Treasury Bills and government and government guaranteed stocks with the other sectors.^(f) Figures for the banking sector are the changes in the banks' holdings, mainly at book values. For non-bank financial institutions the figures for 1962 (partly the cash value of transactions and partly derived from changes in book or market values) are fairly complete. Estimates for the earlier years are less reliable. The figures for non-financial companies are incomplete: in 1960 and 1961 they are the movements in industrial and commercial companies' holdings of government stocks as estimated, from balance sheets, in articles on the "Distribution of the National Debt" in earlier issues of this *Bulletin*;^(g) the estimate of no change in 1962 is partly conjectural. The entry for "overseas" is the change in overseas official holdings plus the remaining movement, not otherwise identifiable, in "overseas sterling holdings" (e.g., excluding the change in identified overseas net claims on the

(a) Current and deposit accounts with the banking sector, less debit items in transit, and excluding balances held by one U.K. bank with another.

(b) See Table 7 of the Statistical Annex.

(c) This division assumes substantial amounts held by unincorporated businesses and companies in shops, etc., as well as by individuals, but it takes no account of changes in sums held by public corporations (e.g., transport, gas or electricity undertakings). The total of notes and coin in circulation outside the banks amounts to some £40 per head of population in the United Kingdom.

(d) See capital account of personal sector in *National Income and Expenditure, 1963*.

(e) The domestic sector with the largest identified holding at 31st December 1962. See *Financial Statistics* (Table 37 in the August 1963 issue).

(f) Excluding transactions included in "net indebtedness of Government to Bank of England, Banking Department". Including Northern Ireland government and government guaranteed debt.

(g) See the June 1962 and March 1963 issues.

banking sector), together with estimated transactions in government stocks by private overseas residents outside the scope of the "overseas sterling holdings" series. The entries under the personal sector are residuals.

17. *Local authority debt.* Identified borrowing, excluding bank advances, by local authorities from outside the public sector has been allocated so far as possible between the other sectors, using information assembled by the local authorities themselves and statistics of the banking sector, non-bank financial institutions and the balance of payments. The total for 1960 is estimated and its allocation is largely conjectural.

18. *U.K. company securities and overseas securities.*

A. *Capital issues* comprise receipts (—) from net sales of unit trust units and from calls on new issues, less redemptions, on the U.K. market by quoted companies in the United Kingdom and by overseas public authorities and companies, together with some issues by U.K. companies in overseas centres.

B. *Other transactions.* For the public sector the entries represent sales of iron and steel securities. Under "overseas" are entered such transactions (excluding capital issues) by U.K. residents in overseas securities and by overseas residents in U.K. securities as can be identified in the balance of payments estimates (part of portfolio investment and direct investment). The 1961 figure includes the purchase of Ford shares. (This transaction also occasioned an increase of £130 million in overseas holdings of Treasury Bills in 1960, and a corresponding decrease in 1961.) The estimates for non-financial companies relate to cash purchases by quoted companies of U.K. and overseas securities;^(a) no estimates have been made for securities sold or purchased by non-quoted companies. Non-bank financial institutions'

transactions are as recorded in statistical returns where available (they are reasonably complete only for 1962) and otherwise estimated from annual accounts or other available data. The figures for the banking sector represent the change in the banks' investments other than government securities.^(b) The entries under the personal sector are residuals.

19. *Commercial bills and money at call.* The figures for the banking sector give the increase in commercial bills held by the banks and discount houses together with money at call lent outside the sector,^(c) less the discount houses' borrowing from outside the sector. The entries under "overseas" are the changes in the banks' acceptances for overseas account; and under "non-bank financial institutions" in 1962 is shown the decrease in the hire purchase finance houses' recourse to bill finance. The figures for non-financial companies are residuals.

20. *Bank advances.* Figures for the banking sector are the totals of the banks' advances and other accounts^(c) (*i.e.*, excluding the loans to local authorities by the overseas banks and accepting houses shown separately in Tables 11 and 12 of the Statistical Annex). Advances to overseas residents are as given in Tables 11 and 12; and a rough allocation of the remainder between domestic sectors has been based on the analysis of advances by members of the British Bankers' Association (Table 10 of the Statistical Annex).

21. *Hire purchase debt.* The division between finance houses and household goods shops of total debt outstanding is as given in the official figures.^(d) A portion of debt owed to household goods shops has been allocated to the nationalised industries (public sector) and the remainder to non-financial companies. Part of the liability for hire purchase debt has been allocated to the personal sector, using figures from the capital account of the personal sector

(a) *Viz.*, increases in trade investments and cash payments for the acquisition of subsidiaries. See an article by the Board of Trade on "Acquisitions and amalgamations of quoted companies 1954-1961" in the April 1963 issue of *Economic Trends*.

(b) The figure for 1962 is affected by changes in the statistics of the overseas banks and accepting houses and most of the increase shown probably arises from this statistical change rather than from purchases of securities.

(c) Figures for 1961 have been adjusted by £40 million for the transfer in the London clearing banks' figures of certain short-term loans from "advances and other accounts" to "money at call".

(d) See *Financial Statistics* (Table 53 in the August 1963 issue). Figures used for finance houses exclude estimated amounts of unearned finance charges.

in *National Income and Expenditure, 1963*, and the remainder attributed to non-financial companies.

22. *Mortgages (house purchase, etc.)*. This item comprises advances by building societies, local authority loans for house purchase, and mortgage loans by insurance companies and by the Agricultural Mortgage Corporation.

23. *Other loans* comprise the claims of non-bank financial institutions not already classified, including loans from pension funds to parent organisations, insurance companies' loans on

policies, and loans, other than hire purchase credit, extended by hire purchase finance companies.

25. *Unidentified*. The net totals for all sectors together represent the errors and omissions in the national income data referred to in the note on financial surpluses/deficits above. Figures for individual sectors also reflect the balancing item in the balance of payments and deficiencies in the sector division of the national income accounts as well as in the estimates of financial transactions.