

SECTOR FINANCING 1961-63

Introduction

In the September 1963 issue of this *Bulletin*, an article entitled "Sector Financing 1960-62" discussed the flow of funds between six sectors of the economy: the *public sector*, *overseas*, the *banking sector*, *other financial institutions*, *industrial and commercial companies* and the *personal sector*. This article brings forward the study by one year and draws on some new sources of information referred to in "Sources and Definitions" on page 115.

Although the range of statistics has increased considerably over the year, some large gaps yet remain. The separate estimates of transactions in marketable securities by industrial and commercial companies and by the personal sector are particularly weak; and no estimate can yet be made of the flow of trade credit between these two sectors. For these and other reasons there are substantial differences between, on the one hand, the totals of identified changes in each sector's claims on, and liabilities to, other sectors and, on the other hand, the corresponding financial surpluses or deficits as calculated from national income data. Because of these differences comment on the figures is of necessity guarded. Work to improve the statistics continues.

As last year, the financial transactions shown in the table on pages 110 and 111 are divided into two sections, those which in general are not conducted through money and capital markets (section A), and other transactions, which may be regarded as market financing (section B). This distinction, though not based on any precise criterion, is intended to focus attention on developments in the capital markets in a broad sense.

Comment

The main feature of the financial scene in 1963, as shown by this study, was a large increase in the liquid assets of the private sector which derived from the public sector's enlarged financial deficit. The financial surpluses of persons and of industrial and commercial companies were increased, and these sectors made far bigger additions to their holdings of bank deposits than in recent years. But,

because these sectors continued to rely heavily on borrowing from the banking sector, especially in the early part of the year, and because they, rather than the banks, financed the public sector's deficit, the banking sector did not gain extra liquidity. In fact, for much of the year the authorities were concerned lest the banks might be prevented by lack of sufficient liquid assets from making a full contribution to the finance of industrial expansion. A reduction of the minimum liquidity ratio of the London clearing banks and various other measures helped to reduce this risk. The personal sector also continued to make large additions to its deposits with other financial institutions, whose rates of interest compared favourably with the reduced National Savings rates. Thus the building societies were able to finance a large increase in loans for private house purchase. With signs of rising company profits, non-bank financial institutions in general preferred to invest in ordinary shares rather than in gilt-edged and other fixed interest securities. Prices of the latter stopped rising around the middle of the year and turned downwards in the autumn, but prices of ordinary shares rose throughout the year.

The financial deficit of the *public sector* (line 5 in the table) was considerably larger in 1963 (£835 million) than in 1962 (£505 million). Within the public sector higher expenditure by the Central Government (including the National Insurance Funds) was only partly offset by increased revenue, and its current surplus, which had increased sharply in 1962, fell even more sharply in 1963; its financial surplus^(a) fell from £550 million to £175 million. Local authorities saved a little more than before but continued to increase their investment expenditure, raising their financial deficit from £535 million to £595 million. On the other hand, the public corporations, in accordance with government policy, increased their saving substantially and, although their capital expenditure was also greater, they were able to finance a larger part of it from their own resources and to reduce their financial deficit^(a) from £520 million to £415 million.

^(a) Excluding transfers between the Central Government and public corporations arising from the writing-off of debt.

SECTOR FINANCING

£ millions, to nearest £5 million

Financial surplus (+)/deficit (-)	Line	Public sector			Overseas		
		1961	1962	1963	1961	1962	1963
Saving ^(a)	1	+ 855	+1,270	+1,050			
Taxes on capital and capital transfers	2	+ 190	+ 175	+ 210			
less Gross fixed capital formation at home	3	-1,800	-1,940	-2,130			
Value of physical increase in stocks and work in progress	4	- 5	- 10	+ 35			
TOTAL	5	- 760	- 505	- 835	+ 10	-100	-120
Financing assets increase (+)/decrease (-) liabilities increase (-)/decrease (+)							
A. Net indebtedness of Government to Bank of							
England, Banking Department	6	- 90	+ 255	+ 30			
Life assurance and superannuation funds	7	- 50	- 45	- 50			
Government loans	8	+ 100	+ 130	+ 110	- 15	- 90	- 95
Gold and foreign exchange reserves	9	+ 30	- 185	- 50	- 30	+185	+ 50
International organisations: Interest-free notes and subscriptions	10	- 375	+ 380	+ 5	+375	-380	- 5
Miscellaneous investment overseas (net)	11	+ 40	- 5	+ 5	-170	- 35	- 75
	12	- 345	+ 530	+ 50	+160	-320	-125
B. Currency and bank deposits	13	- 95	- 5	- 145	+ 65	+360	+375
Deposits with other financial institutions	14				+ 10	+ 15	- 15
Government debt: Non-marketable	15	- 150	- 80	- 125			
Marketable	16	+ 415	- 330	+ 105	-245	- 85	+ 95
Local authority debt	17	- 500	- 600	- 635	+ 40	+ 55	+ 35
U.K. company and overseas securities:							
Capital issues	18				- 10	+ 5	- 15
Other transactions	19	- 90	- 10	- 20	+165	+ 15	- 40
Bank lending	20	+ 15	—	- 5	-160	-230	-305
Hire purchase debt	21	- 5	+ 5	+ 10			
Loans for house purchase	22	+ 65	+ 50	+ 50			
Other loans	23	- 10	- 35	- 75			
	24	- 355	-1,005	- 840	-135	+135	+130
Unidentified	25	- 60	- 30	- 45	- 15	+ 85	-125
TOTAL=Financial surplus (+)/deficit (-)	26	- 760	- 505	- 835	+ 10	-100	-120

(a) The surplus of current income over current expenditure 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 banks, other financial institutions and other companies.

Banking sector			Private sector									Line
			Other financial institutions			Industrial and commercial companies			Personal			
1961	1962	1963	1961	1962	1963	1961	1962	1963	1961	1962	1963	
			+2,175	+2,065	+2,235 ^(b)				+1,905	+1,710	+1,960	1
			+ 10	+ 10	+ 10				- 200	- 190	- 220	2
			-1,895	-1,845	-1,780				- 885	- 885	- 920	3
			- 255	- 55	- 130				- 45	- 30	- 45	4
			+ 35	+ 175	+ 335							
			+100	+100	+100 ^(c)	- 65	+ 75	+235	+ 775	+ 605	+ 775	5
+ 90	-255	- 30	- 790	- 875	- 945	- 40	- 50	- 20	+ 840	+ 920	+ 995	6
			- 45	+ 10	+ 5							7
												8
												9
					+ 10	+130	+ 40	+ 60				10
												11
+ 90	-255	- 30	- 835	- 865	- 930	+ 90	- 10	+ 40	+ 840	+ 920	+ 995	12
-230	-665	-920	+ 10	+ 10	+ 40	- 40	+ 75	+325	+ 290	+ 225	+ 325	13
			- 310	- 470	- 655	+ 25	- 15	+ 50	+ 275	+ 470	+ 620	14
						- 5	- 50	- 60	+ 155	+ 130	+ 185	15
-120	+220	- 50	+ 105	+ 305	+ 110	- 60	- 40		- 95	- 70	- 260	16
+ 25	+ 70	+ 65	+ 145	+ 160	+ 200	+ 50	+ 40	+140	+ 240	+ 275	+ 195	17
- 50	- 50	- 25	- 110	- 110	- 150	-430	-325	-325				18
- 20	+ 35	+ 25	+ 575	+ 490	+ 775	+200	+200	+150	- 230	- 250	- 375	19
+420	+695	+985	+ 15	+ 5	- 40	-255	-275	-485	- 35	- 195	- 150	20
			+ 10	- 45	+ 30	- 25	+ 30	+ 5	+ 20	+ 10	- 45	21
			+ 295	+ 330	+ 455				- 360	- 380	- 505	22
			+ 85	+ 80	+ 105	- 75	- 50	- 30		+ 5		23
+ 25	+305	+ 80	+ 820	+ 755	+ 870	-615	-410	-230	+ 260	+ 220	- 10	24
				+160	+110	+460	+495	+425	- 325	- 535	- 210	25
			+100	+100	+100	- 65	+ 75	+235	+ 775	+ 605	+ 775	26

(c) Estimates for banks and other financial institutions combined.

See also "Sources and Definitions", page 115.

The financial transactions of the whole public sector included in section A were small compared with the previous year, when there had been an exceptionally large outlay of over £500 million. There were two main reasons for this: in the first place, repayments of debt by the Government to the Banking Department of the Bank of England^(a) amounted to only about £30 million in 1963 whereas in 1962, with the repayment of Special Deposits to the banks, they had totalled some £255 million; secondly, in 1963 the Government's overseas assets in the form of official gold and foreign exchange reserves and the net position with the International Monetary Fund^(b) were reduced by about £45 million whereas they had been increased by some £195 million in 1962.

Because outlays in section A were much less, the public sector was able to have a larger financial deficit in 1963 and yet make much smaller demands on the market. Market financing (section B) totalled £840 million, about equal to the financial deficit and £165 million less than in the previous year. Following the abnormally small increase of £5 million in the currency circulation in 1962, due to the recall of the old series of £1 notes, notes and coin in circulation rose by the very high figure of £155 million in 1963.^(c) Net sales of non-marketable debt also brought in more in 1963 than in 1962, £125 million as against £80 million. This increase was all in National Savings, which did particularly well early in 1963, before yields on Savings Certificates and Defence Bonds were reduced; holdings of Tax Reserve Certificates fell by about £60 million in both years. On the other hand, there was a sharp reversal in transactions in marketable debt, net official sales of £330 million in 1962

being replaced by net purchases of £105 million. Furthermore, while the 1962 figure included net sales of about £600 million of government stocks and a net repayment of nearly £270 million of Treasury Bills, in 1963 there were net official purchases of some £130 million of government stocks and net issues of Treasury Bills of about £25 million—the first rise in the market's holding for any year since 1959. Thus the Government's requirement of market financing in 1963, though considerably lower than it had been in the previous year, was met in a more liquid form. A larger part of local authorities' borrowing was also short term: in 1962, when total market borrowing rose by £600 million, temporary money (that is, debt with an original maturity of under one year) rose by £60 million only, but in 1963 over £200 million of the total rise of some £635 million was in temporary money.

The financial deficit of the *overseas* sector was only a little higher in 1963 than in the previous year. In other words, the U.K. surplus on current account in the balance of payments was a little higher. In 1963, however, the United Kingdom's identified net overseas assets (sections A and B taken together) fell slightly, whereas in 1962 they had risen by £185 million. There was, therefore, a similar swing, in the opposite direction, in the total of unidentified items, both current and capital (the balancing item). This movement, by definition, cannot be explained, though there is a strong presumption that such a sharp change is likely to be associated with an unidentified capital outflow from the United Kingdom. (A partial explanation might be an increase in unidentified trade credit granted by exporters)

(a) Changes in this item largely reflect movements in the rest of the banking sector's net claims on the Banking Department (which are offset against the corresponding net liabilities of the Banking Department in the consolidated account for the whole banking sector), viz:

<i>£ millions</i>	1961	1962	1963
Bankers' Deposits (increase +)	+ 9	- 39	-45
Special Deposits (increase +)	+81	-233	—
Advances to the discount market (increase -)	+ 6	+ 20	+ 4
	<u>+96</u>	<u>-252</u>	<u>-41</u>

(b) Lines 9 and 10 in the table. The large entries for line 10 in 1961 and 1962 relate to the United Kingdom's drawing on the I.M.F. and its subsequent repayment.

(c) The figure of £145 million shown for line 13 in the table includes a rise of £10 million in the public sector's holdings of bank deposits.

Looking just at the identified items in the table, section A shows some increase between the years in private and in official net investment abroad, apart from movements in the reserves and the net position with the I.M.F. already referred to. The net total of section B items was roughly the same in both years but the pattern of investments was somewhat different. Overseas residents invested £95 million in marketable government debt, mostly Treasury Bills, in 1963 whereas in the previous year they ran down their holdings of government debt; on the other hand, the net amount raised by overseas residents through capital issues on the London market was about £20 million more than in 1962, while other identified transactions in U.K. company and overseas securities showed a net outflow of £40 million from the United Kingdom in 1963 compared with a net inflow of £15 million in 1962. Deposits, in sterling and foreign currencies, with U.K. banks rose sharply as they had done in 1962; but the rise in overseas residents' bank borrowing, which includes U.K. banks' balances with banks abroad, was substantially greater in 1963.

Deposit liabilities of the *banking sector* to all other sectors rose by £1,000 million,^(a) well over half of the increase being in deposits (by U.K. and overseas customers) with the overseas banks and accepting houses. Total domestic holdings of bank deposits rose by 7½% (£625 million) in 1963, much more than in recent years. Even so, this rate of growth in deposits was less than that in the value of the gross domestic product between the fourth quarters of 1962 and 1963. Bank lending (other than to local authorities, which is shown separately in the table) was also well up on the previous year, £985 million as against £695 million. Lending (which here comprises advances and overdrafts, money at call and short notice, and commercial bills discounted) to the private sector in 1963 amounted to £675 million, a rise of nearly 14%. Taking deposits and bank lending together, the banks continued to draw funds on balance from overseas residents (although the net inflow was reduced from £130 million in 1962 to £70 million in 1963) and to lend to the private sector, though the net lending fell from £85 million in 1962 to £60 million in 1963. As in

previous years, they were net borrowers from the personal sector and net lenders to companies.

Banks' holdings of government debt (line 6, part of line 13 and line 16), including notes and coin and the net claims on the Government by the Banking Department of the Bank of England, were little changed in total in 1963. Their holdings of Treasury Bills fell by £35 million, somewhat less than in 1962 (£110 million) and they sold a small amount of government stocks (£15 million), in marked contrast to the large purchases (£330 million) in 1962, when Special Deposits were released. The banks contributed £65 million to local authorities' needs for market finance, about the same as in 1962.

The activities of *other financial institutions* continued to expand in 1963. The inflow of funds available for financial investment (lines 7, 8, 14, 18 and 20), which had increased by 16% in 1962, rose by a further 24% (£345 million) to about £1,785 million in 1963. £945 million, or rather more than half, of this was in accruals to life assurance and superannuation funds. Deposits with other institutions—mainly with building societies and the Special Investment Departments of the Trustee Savings Banks—rose by £655 million, £185 million more than in 1962, largely it seems because of the attractive rates of interest offered. Sales of unit trusts' units (part of line 18) continued to grow: they were just over £5 million in 1961, £35 million in 1962 and £60 million in 1963. Other capital issues, mainly by the investment trusts, raised £90 million, rather more than in 1962 (£75 million); and financial institutions borrowed £40 million net from the banking sector, whereas in 1962 it is estimated that they made a small net repayment of bank loans.

Loans by these institutions to persons for house purchase rose strongly in 1963 with a growing demand for housing and house prices rising. The net amount advanced, at £455 million, was some £125 million greater than in 1962; within the total, building societies lent £420 million, £150 million more than in the previous year, but insurance companies lent only £35 million, some £25 million less than in 1962. There was also a rise, of £30 million, in hire purchase debt to finance houses which had

^(a) Because of an increase of £80 million in the banks' net holdings of notes and coin the net increase in currency and bank deposits shown in line 13 in the table is only £920 million.

fallen by £45 million in 1962. Other loans (line 23) were also well up on 1962, totalling £105 million, as against £80 million; most of these loans are to companies. But the bulk of the financial institutions' new funds, about £1,085 million, compared with some £955 million in 1962, was used in the capital markets for acquiring government debt, local authority debt, and company and overseas securities. Within the total there was a marked fall in net purchases of government securities, which amounted to only £110 million, compared with the unusually large figure of £305 million in 1962. More was invested in local authority debt (£200 million, against £160 million in 1962). But the main increase in 1963 by comparison with the previous year was in net purchases of U.K. company and overseas securities (£775 million against £490 million). These purchases were so much in excess of recorded new issues of these securities that it is clear that the combined holdings of other sectors must have been substantially reduced.

Before turning to industrial and commercial companies it is useful to look briefly at the position of all companies taken together (banks, other financial institutions, and industrial and commercial companies). The increase of £330 million in the financial deficit of the public sector between the two years was reflected almost equally in increases in the financial surpluses of companies and of the personal sector. Company saving increased, reflecting much higher profits, while fixed investment had not yet risen above the 1962 level. The upturn in economic activity was, however, reflected in large additions to stocks of goods and work in progress at the end of the year.

It is thought that the improvement in the financial surplus of all companies, from £175 million in 1962 to £335 million in 1963, related mainly to *industrial and commercial companies*.^(a) This was reflected in a reduction of £180 million in their identified net receipts of market finance (line 24), comprising an increase in liabilities outweighed by a larger increase in assets. Capital issues raised the same amount as in 1962 (£325 million), but company borrowing from banks is estimated to have risen much more sharply than in 1962. Borrowing early in 1963 was exceptionally high and the

increase in the whole year is put at £485 million. Their liquid assets (lines 13-17), which were probably little changed in 1962, are thought to have risen by £455 million by the end of 1963. It seems likely, however, that companies were even more liquid in the middle of the year, before the upsurge in expenditure on stockbuilding and the beginning of the upturn in fixed investment.

The *personal sector's* saving rose by £250 million, reflecting a rise in incomes and an increase in the proportion of income saved. Expenditure on fixed investment (largely on housing) was only slightly higher and the personal sector's financial surplus rose from £605 million to £775 million.

The personal sector's borrowing (lines 20-23) during 1963 totalled £700 million, £140 million more than in 1962. Despite only a modest increase in private expenditure on new housing between the two years, net borrowing on mortgages for house purchase rose by the record total of £505 million (£125 million more than in 1962). Bank advances rose by about £150 million; and there was a moderate increase in borrowing on hire purchase following a small decrease in the previous year.

Taking together the financial surplus and the amount of new borrowing, the net sum available for the acquisition of financial assets totalled £1,475 million, some £310 million more than in 1962. Claims on life assurance and superannuation funds rose by £995 million and the identified net increase in other financial assets (lines 13-19) was £690 million. The outstanding feature of this part of the personal sector's investments was, as in other recent years, the strong attraction of the more liquid funds—currency and bank deposits, and deposits with other financial institutions. Personal holdings of National Savings and of local authority debt, much of which is also liquid, increased as well. But it seems that there were very substantial reductions in holdings of marketable government debt and of company and overseas securities.

The apparent size of the personal sector's net sales (£325 million in 1961, £320 million in 1962, and £635 million in 1963) is one of the more surprising points brought out in this study. The statistics are far from perfect and

^(a) In the table it has been assumed that there was no change in the surplus of financial companies and the whole of the improvement has been allocated to industrial and commercial companies.

several qualifications to the figures are noted under "Sources and Definitions" below. Nevertheless, it is clear that large net sales must have been made by this sector.^(a) One of the main reasons may be the realisation of securities from deceased persons' estates, either in part settlement of death duties—total death duties exceeded £300 million in 1963—or simply as a result of the distribution of assets among legatees who have reacted by increasing their expenditure. Other explanations may be found in the amalgamation of firms, which often results in the transfer of shares from personal to company shareholders, and in the granting of Stock Exchange quotations, which provides opportunities for financial institutions to acquire shares being marketed for the first time by the original shareholders. More generally it is likely that many people supplement their income by periodic sales of capital held in the form of securities.

When the price of securities is rising the stream of sales does not necessarily imply a decrease in total personal wealth held in this form. The latest annual report of the Inland Revenue Commissioners (Cmnd. 2283) estimated personal holdings of ordinary shares of U.K. companies (quoted and unquoted) at over £11,600 million in 1962; it needs only an average increase in the value of these securities of about 2½% in a year to allow sales of £300 million without causing any reduction in the total market value of holdings. Even if sales exceeded the rise in the market value, so that persons as a whole were reducing their direct title to securities, they would still be increasing their indirect title through their investment in financial institutions, for example, through life assurance policies.

SOURCES AND DEFINITIONS

Sources The main statistical series used in compiling the table appear in the Statistical Annex to this *Bulletin* or in the

following publications: *Financial Statistics* (May 1964 issue) and *Economic Trends* (April 1964 issue) issued by the Central Statistical Office; and *Preliminary Estimates of National Income and Balance of Payments 1963* (Cmnd. 2328). Definitions of the categories of assets, except where noted below, are the same as in the article entitled "Sector Financing 1960-62" in the September 1963 issue of this *Bulletin*. Details of building societies' financial transactions have been taken from the new series published in Table 48 of *Financial Statistics*. For 1963, the figures for private sector superannuation funds are those included in Table 40 of *Financial Statistics*. These estimates cover funds which do not make returns to the Board of Trade and funds of co-operative societies. Some revisions have been made to the previous estimates for 1962 in the light of these new statistics. The 1963 figures for the special finance agencies are estimates. Figures for the banking sector in 1963 are based on Table 9 of the Statistical Annex to this *Bulletin*; those for the first quarter are partly estimated.

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 *banking sector* in 1963 includes a somewhat larger number of banks than in previous years, as described in an article in the December 1963 issue of this *Bulletin*.

Other financial institutions are insurance companies, hire purchase finance companies, building societies, the Special Investment Departments of Trustee Savings Banks, super-

^(a) The division of the estimates between industrial and commercial companies and the personal sector is one of the principal weaknesses in the statistics. Estimates for these two sectors combined are therefore more firmly based; for 1963 they can be further analysed by quarters as follows:

£ millions (sales - /purchases +)	1st quarter	2nd quarter	3rd quarter	4th quarter	Year
Treasury Bills	+ 85	-105	+ 30	- 35	- 25
British government stocks	-125	- 25	-40	- 45	-235
U.K. company and overseas securities	- 15	- 85	-70	- 55	-225
	<u>- 55</u>	<u>-215</u>	<u>-80</u>	<u>-135</u>	<u>-485</u>

annuation funds, investment trusts, unit trusts and certain special finance agencies, e.g., the Agricultural Mortgage Corporation.

Industrial and commercial companies comprise all corporate bodies other than public corporations, banks and other financial institutions.

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

The last three sectors are taken to comprise the *private sector*.

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,^(a) together with its net capital transfers to other sectors, exceed (or fall short of) its expenditure at home on fixed capital assets and stocks of goods or work in progress.

The net total of the financial surpluses/deficits for all sectors together should be nil, but is not. The discrepancies correspond to the "residual error" between the independent estimates of national income and national expenditure. This amounted to some £60 million in 1961, £175 million in 1962 and £155 million in 1963, indicating in each year an overstatement of financial surpluses or an understatement of financial deficits.

As in the September 1963 article, the financial surplus of banking and other financial institutions has been estimated at a round £100 million a year. The national income data provide no guidance for dividing this figure between banks and other financial institutions.

Financing 11. *Miscellaneous investment overseas (net)*. The new statistics of U.K. external liabilities and claims^(b) provide separate figures for transactions in commercial bills between overseas residents and the private sector. These transactions, available only for 1963, are entered in line 11. This item also includes the overseas transactions of some institutions which contribute to the statistics

of external liabilities and claims but which are not included in the banking sector in 1963.

13. *Currency and bank deposits*. The change in total net deposits with the banks (i.e., in the net liability of the banking sector to all other sectors) in 1963 is taken from the new series of banking statistics together with an estimate for the first quarter of the year. Funds borrowed by discount houses from outside the sector are included throughout. The sector analysis of changes in *net* deposits has been based on that of changes in *gross* deposits by allocating the difference between the two (the net change in transit items) to companies and persons in the proportions in which these sectors' gross deposits changed over the year. The change in bank notes and coin held outside the banking sector has been arbitrarily divided into equal parts between the personal sector and industrial and commercial companies.

14. *Deposits with other financial institutions*. The statistics compiled by the hire purchase finance houses for 1963 contain an analysis of deposits by the sectors from which they have been drawn. Details are given in *Financial Statistics* (May 1964 issue), Table 49.

16. *Marketable government debt* is defined as for Table 1 of the Statistical Annex. The entry for "overseas" for 1963 is calculated in the same way as the figures in Table 2 of the Statistical Annex. The estimate for the transactions of industrial and commercial companies in 1962 is derived from the article "Distribution of the National Debt: March 1963" in the March 1964 issue of this *Bulletin*; the estimate of no change for 1963 is largely conjectural.

17. *Local authority debt* comprises total identified borrowing by local authorities from outside the public sector, including borrowing from banks.

18. and 19. *U.K. company and overseas securities*. Entries for all sectors against these two lines taken together add to nil but, unlike other lines in sections A and B, not individually. Line 18 records net increases in liabilities through the issue of new securities; and line 19 incorporates subscriptions to these

(a) The surplus of current income over current expenditure after providing for stock appreciation but before providing for depreciation and tax, dividend and interest reserves.

(b) See Table 24 of the Statistical Annex for the sterling series, described in the June 1963 issue of this *Bulletin*; and the parallel series described in the article "U.K. Banks' External Liabilities and Claims in Foreign Currencies" on page 100 of this issue.

new issues together with purchases and sales of existing securities.

Capital issues (line 18) 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 registered in the United Kingdom and by overseas public authorities and companies, together with some issues by U.K. companies in overseas centres. No estimates have been made of capital issues by unquoted companies.

Other transactions (line 19). The figures for the public sector relate to sales of iron and steel securities. For the overseas sector the entries (which exclude capital issues in the United Kingdom—line 18) comprise transactions by overseas residents in U.K. company securities and by U.K. residents in overseas securities, insofar as these have been identified in the balance of payments estimates (part of portfolio investment and of direct investment). The 1961 figure includes a large purchase (£130 million) of Ford shares against sales of Treasury Bills (in line 16). The entries for the banking sector represent the change in the banks' investments other than government securities; the 1962 figure has been roughly adjusted to allow for changes in the scope of the figures. Figures for other financial institutions are taken from statistical returns supplemented, in 1961 and to some extent in 1962, by balance-sheets or other available data. The 1962 and 1963 estimates for industrial and commercial companies are precarious. They derive from a somewhat firmer estimate for 1961 based on the change in quoted companies' trade investments together with cash payments for the acquisition of subsidiaries.^(a) There is some evidence that quoted companies' purchases were at least as high in 1962 as in 1961, but that they were reduced in 1963. No estimates have been made of unquoted companies' purchases or sales.

The large net sales shown for the personal sector are deduced from the estimates (including capital issues) for the other sectors; and the reliability of the figures, therefore, depends on the quality of the estimates for the other

sectors. As has been noted above, this is not always first class. One point, in particular, needs to be borne in mind. Line 19 includes any purchases by, for example, insurance companies of debentures issued by unquoted companies. Such purchases are not, however, shown separately in the insurance companies' returns; nor are they identified from other sources. They do not, therefore, form part of companies' capital issues entered in line 18; but they would appear as a sale in the residual entries for the personal sector in line 19.

20. *Bank lending* comprises the banks' advances and overdrafts, money at call and short notice, and transactions in commercial bills, excluding all loans to local authorities (included in line 17). Figures for the first quarter of 1963 are partly estimated. The distribution of the total between debtor sectors in 1963 is based on the new banking statistics; in earlier years it was based mainly on the analysis of advances by members of the British Bankers' Association (Table 13 of the Statistical Annex). Because of this change in the basis of the estimates, figures for 1963 are not strictly comparable with those for previous years.

22. *Loans for house purchase* comprise new loans, less repayments, by building societies, insurance companies and local authorities. Loans for house purchase by banks are indistinguishable in line 20.

23. *Other loans.* This item includes the claims of non-bank financial institutions not classified elsewhere, such as loans from pension funds to parent organisations, insurance companies' loans and mortgages other than for house purchase, hire purchase finance companies' loans other than for hire purchase credit and loans by the Agricultural Mortgage Corporation. Changes in the amount of purchase tax paid by consumers but not yet received by the Exchequer and in the net amount of trade credit extended to public corporations are also included (under industrial and commercial companies and the public sector).

^(a) An analysis of quoted companies' accounts, prepared by the Board of Trade, is given in *Financial Statistics* (May 1964 issue), Table 57. The Board of Trade also contributed an article "Acquisitions and amalgamations of quoted companies 1954-1961" to the April 1963 issue of *Economic Trends*.