# Analysis of financial statistics

Improvements in national income and financial statistics over the past few years made it possible to present, in the March issue of the *Bulletin*, quarterly financing accounts for the six main sectors of the economy: persons (including unincorporated businesses); industrial and commercial companies; the public sector; the overseas sector; banks; and other financial institutions. These accounts are brought forward by one quarter in the table on page 118.[1]

Sector accounts draw on a wide range of information some of which (including the national income data) is subject to a time lag of about four months. Complete accounts cannot therefore be compiled for the quarter on which this analysis has hitherto been centred, that is, the quarter preceding that in which the *Bulletin* is issued. Because of this it seems better for the analysis in future issues of the *Bulletin* to deal mainly with the latest quarter for which full information is available. This would be, for the current issue, the fourth quarter of 1964. However, as this quarter was discussed at some length in March, using the incomplete information then available, the analysis this time merely provides a few additions to that discussion. There are also brief comments on developments in the first quarter of 1965 and some notes on the prospects for the current financial year. A separate article on page 121—continuing the regular annual series—looks at the whole year 1964.

**Fourth quarter 1964**

The only marked change in the underlying positions of the various sectors in the fourth quarter was a decline in the overseas sector's surplus (the current account deficit in the U.K. balance of payments).[2] Interpretation of other movements is hampered by fluctuations in the " residual error " in the national income estimates.[2] But it seems that persons, whose saving (seasonally adjusted) was a little higher than in the third quarter, may have added to their underlying surplus; that the public sector's underlying deficit may have increased with the continuing growth of expenditure on fixed investment; and that the surplus of companies was little changed.

Financial markets in the fourth quarter were, as noted in March, dominated by the effects of the sterling crisis—which showed up chiefly in a reduction in the Exchequer's borrowing from the market, pressure on the liquidity of some of the banks, and substantial shifts in the disposition of short-term funds.

Two factors were of prime importance in seeing local authorities through a difficult period, in which the banking sector withdrew about £100 million of loans (largely because overseas residents were withdrawing bank deposits), and the overseas sector withdrew about £15 million of direct loans. One was their wider access (under the arrangements introduced in April 1964) to the Public Works Loan Board, which supplied them with a net amount of some £90 million in medium and long-term loans. These loans, at an unchanged rate of interest, enabled the local authorities to limit their recourse to the stock, bond and mortgage markets, in which rates rose sharply with the 7% Bank rate. In fact, their new borrowing in these markets was, on balance, no greater than their repayments. The second important factor was local authorities' competitive rate policy in

(1) Similar tables giving a full run of quarterly figures are published regularly by the Central Statistical Office in their monthly *Financial Statistics*.

(2) See note on *Financial surplus/deficit* on page 130.

the markets for temporary money, which enabled the amount withdrawn by the banking and overseas sectors to be more than replaced from other sources. Most of the new money came from the personal sector, not usually an important source of short-term funds for local authorities. The figure of £101 million shown in the table probably overstates the true increase in the personal sector's holding of local authority debt, because it includes funds which cannot be allocated positively to any sector. Nevertheless, allowing for this, persons must have lent distinctly more than in previous quarters. By contrast, industrial and commercial companies lent only a moderate amount.

The hire-purchase finance houses also suffered some withdrawals of deposits by the banks. Some of these losses were made good by additional deposits from industrial and commercial companies and from persons, but for the most part the finance houses met the situation by borrowing on commercial bills.

Other financial institutions, as a group, are concerned more with the long-term than with the short-term markets. Compared with the fourth quarter of 1963 they lent less to local authorities, who were apparently concerned to confine their high-rate borrowing to the shorter maturities, and took up appreciably fewer company securities, although these still absorbed the largest share of their new investment funds. The fall was mainly in equities and reflected the sharp reduction of new issues in unsettled market conditions. The gilt-edged market was also beset by uncertainties at the end of 1964 but some of the institutions, and in particular the insurance companies and pension funds, none the less saw opportunities for investment in government stocks at the high yields then being offered.

The personal sector, while lending more at short term to local authorities and hire-purchase finance houses than it had done a year earlier, lent less to the building societies, whose rates had become unattractive.

**First quarter 1965** Developments in the first quarter will be discussed in detail in the September *Bulletin* when comprehensive information will be available about the sectors' financial positions. Meanwhile, a few points may be noted.

Because of annual tax payments, bank deposits of the private sector tend to fall in the first quarter of the year. In the first quarter of this year, however, deposits were relatively buoyant : those held by persons actually rose by £55 million (compared with a fall of £74 million in the first quarter of 1964), while those held by industrial and commercial companies fell by less than last year (£184 million, as against £242 million). One reason for this relative buoyancy is to be found in the distribution of notes and coin between the banks and their customers, which varies with the day of the week and the incidence of public holidays.[1] As a result, banks' holdings of notes and coin fell by only £26 million in the first quarter this year, compared with a fall of £99 million in the same quarter of 1964. Holdings of persons and companies fell by £47 million this year, as against a rise of £60 million last year.

In the personal sector there is evidence that increases in other liquid assets also were comparatively small in the first quarter, offsetting the bigger rise in bank deposits. Persons' deposits with other financial institutions increased by only £143 million compared with £210 million in the corresponding quarter of 1964. In particular the building societies, despite the increase in their borrowing rates, received a much smaller net inflow of new funds than they had done a year earlier, as is described on page 113. Persons' net purchases of non-marketable government debt were also somewhat lower (£41 million, as against £60 million in the first quarter of 1964); and it may well be that persons added less to their holdings of local authority debt, which had risen so exceptionally in the fourth quarter of 1964.

**Prospects** In the current financial year, the expected improvement in the U.K. balance of payments (or reduction in the overseas sector's financial surplus) implies a corresponding net improvement in the financial position of all domestic sectors taken together. A lower rate of expenditure on stockbuilding than in 1964 should contribute to a recovery in the financial surplus of companies. In the public sector, a marked rise in the central govern-

[1] See the article "The note circulation" in March 1965.

| | Line | Persons 1963 IV | Persons 1964 IV | Persons 1965 I | Industrial and commercial companies 1963 IV | Industrial and commercial companies 1964 IV | Industrial and commercial companies 1965 I |
|---|---|---|---|---|---|---|---|
| **Financial surplus (+)/deficit (—)** | | | | | | | |
| Saving[b] ... ... ... ... ... ... ... ... | 1 | +318 | +344 | | +959 | +904 | |
| Taxes on capital and capital transfers ... ... ... | 2 | — 49 | — 42 | | + 3 | + 4 | |
| *less*: Gross fixed capital formation at home ... ... | 3 | —235 | —274 | | —504 | —585 | |
| Increase in value of stocks and work in progress | 4 | — 29 | — 28 | | —166 | —162 | |
| **Financial surplus (+)/deficit (—)** ... ... ... ... | 5 | + 5 | — | | +292 | +161 | |
| **Financing** *assets increase (+)/decrease (—)* *liabilities increase (—)/decrease (+)* | | | | | | | |
| Net indebtedness of Government to Bank of England, Banking Department ... ... ... ... ... | 6 | | | | | | |
| Life assurance and superannuation funds ... ... | 7 | +291 | +275 | | | | |
| Government loans ... ... ... ... ... ... | 8 | — 1 | — 1 | | — 1 | — 5 | |
| Gold and foreign exchange reserves ... ... ... | 9 | | | | | | |
| Account with I.M.F. ... ... ... ... ... | 10 | | | | | | |
| Miscellaneous investment overseas (net) ... ... ... | 11 | | | | — 23 | + 84 | |
| Notes and coin ... ... ... ... ... ... | 12 | + 13 | + 64 | **— 23** | + 13 | + 64 | **— 24** |
| Bank deposits ... ... ... ... ... ... | 13 | +222 | +221 | **+ 55** | +222 | — 58 | **—184** |
| Deposits with other financial institutions ... ... | 14 | +175 | +159 | **+143** | + 3 | + 9 | **— 11** |
| Non-marketable government debt ... ... ... | 15 | + 35 | + 46 | **+ 41** | + 34 | + 25 | **—154** |
| Bank lending ... ... ... ... ... ... | 16 | + 4 | — 8 | **—116** | —121 | —217 | **—218** |
| Hire-purchase debt ... ... ... ... ... ... | 17 | — 24 | — 25 | | + 19 | + 10 | |
| Loans for house purchase ... ... ... ... ... | 18 | —161 | —192 | | | | |
| Other loans ... ... ... ... ... ... ... | 19 | + 41 | + 46 | | — 11[d] | — 24[d] | |
| Marketable government debt: | | | | | | | |
| Treasury bills ... ... ... ... ... ... | 20 | | | | — 45 | — 61 | |
| Stocks ... ... ... ... ... ... ... | 21 | — 43[e] | — 43[e] | | .. | .. | |
| Local authority debt ... ... ... ... ... | 22 | + 52 | +101 | | + 39 | + 28 | |
| U.K. company and overseas securities: | | | | | | | |
| Capital issues ... ... ... ... ... ... | 23 | | | | — 98 | — 57 | **— 85** |
| Other transactions ... ... ... ... ... | 24 | —139 | —138 | | + 75 | + 75 | |
| **Total identified financing** ... ... ... ... ... ... | 25 | +465 | +505 | | +106 | —127 | |
| **Unidentified** ... ... ... ... ... ... ... ... | 26 | —460 | —505 | | +186 | +288 | |
| **Total=Financial surplus (+)/deficit (—)** ... ... | 27 | + 5 | — | | +292 | +161 | |

[a] See notes on sources and definitions on page 130. The entries in line 4 are not comparable with those in line 4 of the annual table on page 128 (because quarterly details of stock appreciation are not available separately).

[b] The surplus of current income over current expenditure before providing for depreciation, stock appreciation and additions to reserves.

## quarterly figures[a]

£ millions

| Public sector | | | Overseas sector | | | Financial institutions: Banks | | | Financial institutions: Other | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1963 IV | 1964 IV | 1965 I | 1963 IV | 1964 IV | 1965 I | 1963 IV | 1964 IV | 1965 I | 1963 IV | 1964 IV | 1965 I | Line |
| + 8 | +131 | | | | | +92 | +127 | | | | | 1 |
| + 46 | + 38 | | | | | | | | | | | 2 |
| −605 | −690 | | | | | −31 | − 34 | | | | | 3 |
| + 11 | + 4 | | | | | | | | | | | 4 |
| −540 | −517 | | + 7 | + 78 | | +61 | + 93 | | | | | 5 |
| + 15 | − 39 | + 34 | | | | − 15 | + 39 | − 34 | | | | 6 |
| − 11 | − 12 | | | | | | | | −280 | −263 | | 7 |
| + 48 | + 38 | | − 51 | − 33 | −12 | | | | + 5 | + 1 | — | 8 |
| − 28 | − 80 | + 5 | + 28 | + 80 | − 5 | | | | | | | 9 |
| — | −359 | + 6 | — | +359 | − 6 | | | | | | | 10 |
| − 5 | − 10 | | + 22 | − 74 | | | | | + 6 | — | | 11 |
| −160 | −137 | + 53 | — | — | +20[c] | +134 | + 9 | − 26 | | | | 12 |
| − 25 | + 9 | − 30 | − 16 | + 40 | − 7 | −464 | −238 | +195 | + 61 | + 26 | − 29 | 13 |
| | | | + 5 | − 6 | −21 | | | | −183 | −162 | −111 | 14 |
| − 69 | − 71 | +113 | | | | | | | | | | 15 |
| + 16 | + 8 | + 14 | + 1 | −201 | +40 | +113 | +433 | +388 | − 13 | − 15 | −108 | 16 |
| + 5 | + 5 | | | | | | | | — | + 10 | | 17 |
| + 22 | + 39 | | | | | | | | +139 | +153 | + 28 | 18 |
| − 80[d] | −100[d] | | | | | + 4 | + 4 | − 8 | + 46 | + 74 | | 19 |
| −248 | +287 | +597 | +119 | − 62 | − 6 | +171 | −178 | −568 | + 3 | + 14 | | 20 |
| + 32 | − 87 | − 45 | − 21 | + 64 | +58 | + 44 | + 46 | − 38 | − 12 | + 20 | | 21 |
| −149 | − 40 | | + 2 | − 17 | | + 17 | − 99 | +120 | + 39 | + 27 | | 22 |
| | | | − 13 | − 13 | −23 | − 4 | — | — | − 54 | − 30 | − 19 | 23 |
| — | − 18 | | − 11 | + 13 | | + 7 | + 5 | + 11 | +237 | +163 | | 24 |
| −637 | −567 | | + 65 | +150 | | + 7 | + 21 | + 40 | − 6 | + 18 | | 25 |
| + 97 | + 50 | | − 58 | − 72 | | +60 | + 54 | | | | | 26 |
| −540 | −517 | | + 7 | + 78 | | +61 | + 93 | | | | | 27 |

(c) See footnote (f) to Table 2 of the statistical annex.
(d) Estimates of trade credit extended to public corporations by industrial and commercial companies included in the annual table are not available quarterly.
(e) Including any change in the holdings of industrial and commercial companies and any unidentified change in overseas holdings.

ment's financial surplus, augmented by the budget proposals, should more than offset increases in the deficits of local authorities and public corporations due to higher capital expenditure. A further increase is likely in the personal sector's surplus.

An increasing proportion of the whole public sector's deficit will need to be financed by the central government in 1965/66, because local authorities' entitlement to loans from the P.W.L.B. has been raised by £130 million. This does not, of course, increase the public sector's need for finance above what it would otherwise have been, because while the central government's demands on the market increase, the demands of local authorities decrease by a like amount.

Loans to local authorities and other public bodies, to overseas governments, and to nationalised and private industry are expected to total £1,268 million in 1965/66. Set against the Exchequer's estimated revenue surplus of £544 million, this leaves £724 million to be raised by the Exchequer in one way or another. By no means all this amount will have to be borrowed from the private sector. Some £300 million can be expected to accrue to the Exchequer from other government sources (for example, from the surplus on the National Insurance Funds and from sales of gold and foreign exchange—though the latter should be very much less than last year). This would leave about £400 million to be raised from outside sources.

Increases in the currency circulation and sales of national savings and of tax reserve certificates have on average over the past five years yielded about £270 million a year to the Exchequer. The corresponding figure in the present financial year should not be far below this. In addition the calls for Special Deposits from the London clearing banks and the Scottish banks, announced on 29th April as part of the measures taken to strengthen official control over bank lending, will mean that some £100 million of government debt, which might have been held by the commercial banks, will instead be held by the Banking Department of the Bank. All in all, it is unlikely that the Government will need to raise more than a small amount during the year from net sales of Treasury bills and stocks to the private sector. The authorities, in their market operations, will need to ensure that as little as possible of this residual requirement is raised by sales to the banks, and as much as possible by sales of stocks to the rest of the private sector. Although it can only be helpful that the net requirement is comparatively small, the task, even so, may not be easy. It has to be related both to the general condition of the market, and to the fact that any net sale of stock by the authorities will, as usual, be achieved only out of the very much larger gross sales needed, for example, to take account of maturing stocks and other normal market operations.