

## Analysis of financial statistics

This analysis is concerned mainly with the first quarter of 1965, but it includes, at the close, some brief comments on developments in the second quarter so far as they are known. It examines the changes in the financial position of the six main sectors of the economy as inferred from national income data and identified in financial statistics. The sectors are: persons (including unincorporated businesses); industrial and commercial companies; public sector; overseas sector; banks; and other financial institutions. Definitions of the sectors are included in the general notes on sources and definitions on page 237.

**Summary** The national income figures for the first quarter indicate that, allowing for seasonal factors, total output was still expanding. There was a pause, perhaps temporary, in the growth of fixed investment and stockbuilding was lower. On the other hand, there was a sharp rise in consumers' expenditure and imports fell. These developments, along with changes in income discussed below, affected the financial position of all sectors. Still allowing for seasonal movements, the financial surplus of the overseas sector was eliminated; the financial deficit of the public sector seems to have been reduced; there was no marked change in the financial surplus of companies; while the financial surplus of the personal sector may have fallen slightly.

The actual financial surpluses or deficits were affected by strong seasonal movements, principally because the central government receives a large part of its annual tax revenue in the first quarter. Thus the public sector (central government, local authorities and state-owned corporations), which for most of the year incurs a financial deficit, was in surplus, and com-

panies were in deficit. Because seasonal movements cannot yet be fully identified in the records of financial transactions, the analysis of financial developments which follows compares the first quarter with the same period of 1964.

The main features which emerge from this analysis are as follows: the net repayment of debt by the government to domestic sectors was greater than in the first quarter of 1964 but the whole of the difference was outside the banking sector; the banks' own lending to the private sector was somewhat higher than it had been a year earlier but lending by other financial institutions, direct and through the security markets, was somewhat lower; lastly, whilst persons' and industrial and commercial companies' bank deposits were relatively buoyant, the growth in their total stock of liquid assets was being checked.

**Persons** According to the national income data, the personal sector's financial surplus was some £30 million higher in the first quarter than it had been a year earlier. Personal incomes (after tax) and consumers' expenditure were both about 6% higher, and personal saving rose by £50 million. Only part of this rise was taken up by increased capital expenditure on physical assets—mainly housing.

The evidence from financial statistics points in the opposite direction. It suggests that the personal sector increased its financial assets (less liabilities) by about £65 million less than in the same quarter of 1964. Even in the annual accounts (published in the June 1965 *Bulletin*) there are sizable discrepancies—arising from defects in the statistics—between the various sectors' financial surpluses (or deficits) as measured by national income data on the one

Table I

	Persons										£ millions	
											1964 I	1965 I
Saving ... ..	...	...	...	...	...	...	...	...	...	...	+667	+717
Capital expenditure (and capital transfers) ... ..	...	...	...	...	...	...	...	...	...	...	-322	-340
<b>Financial surplus</b> ... ..	...	...	...	...	...	...	...	...	...	...	+345	+377
<b>Borrowing (-):</b>												
Housing loans ... ..	...	...	...	...	...	...	...	...	...	...	-157	-162
Other <sup>(a)</sup> ... ..	...	...	...	...	...	...	...	...	...	...	-118	-170
											-275	-332
<b>Acquisition of financial assets (+):</b>												
Notes and coin, deposits with financial institutions ... ..	...	...	...	...	...	...	...	...	...	...	+161	+172
Public sector debt <sup>(b)</sup> ... ..	...	...	...	...	...	...	...	...	...	...	+89	+132
U.K. company and overseas securities ... ..	...	...	...	...	...	...	...	...	...	...	-77	-156
Life assurance and pension funds ... ..	...	...	...	...	...	...	...	...	...	...	+290	+305
											+463	+453
<b>Unidentified</b> ... ..	...	...	...	...	...	...	...	...	...	...	+157	+256

(a) Table VII, lines 8, 16, 17 and 19.

(b) „ „ „ 15, 21 and 22.

hand and as identified in financial statistics on the other, although the two versions generally move in the same direction. In the quarterly accounts an additional factor assumes importance. The national income estimates, with some exceptions, record income and expenditure as they are due, whilst financial statistics usually reflect actual payments and receipts. Entries are made in the financial accounts (line 19 of Table VII) for some elements of this timing difference (for example, between accrued liabilities for, and payments of, purchase tax and local authority rates) but parts of it remain among unidentified items (line 26). Hence there can be no certainty whether the personal sector's total financial position in the first quarter of this year was better or worse than in the same quarter of 1964; but it is nevertheless useful to compare the pattern of financial transactions in the two periods.

The first point of interest, shown in Table I and in more detail in Table VII, is that, despite the credit squeeze, the personal sector borrowed some £55 million more this year. Borrowing for house purchase was £5 million higher, additional loans from local authorities and insurance companies more than making good a small cut, enforced by shortage of funds, in loans by building societies. Borrowing of other kinds, however, was over £50 million higher; and the increase was very largely in borrowing from banks. It needs to be borne in mind,

however, that, in the U.K. national accounts, the personal sector includes unincorporated businesses as well as individuals (and non-profit-making bodies). Judging from the analysis of bank advances made by members of the British Bankers' Association (Table 14 of the statistical annex), advances to individuals (included in the "personal and professional" category) had started to decline in the first quarter whereas they were still rising a year earlier; so it seems reasonable to conclude that the extra advances to the whole personal sector recorded this year were, in fact, to unincorporated businesses.

On the assets side, the personal sector added slightly less to its total (identified) holdings than in 1964. Its holdings of notes and coin and deposits with commercial banks and other financial institutions rose by £11 million more this year, but deposits with savings banks (part of "non-marketable government debt" in line 15 of Table VII) rose by £12 million less, so, altogether, there seems to have been little change in the sector's liquidity position. This may well mark the beginning of a new trend, for throughout 1964 the personal sector was increasing its liquid assets faster than it had done in 1963.

Persons took up more public sector debt this year but, as in the previous quarter, the increase by comparison with a year earlier was all in local authority debt. As was noted in the March

1965 *Bulletin* (page 20), their contributions to local authorities' market borrowing fell sharply in the first three quarters of 1964. This trend was reversed in the fourth quarter (see June 1965 *Bulletin*, page 116) when persons bought just over £100 million of local authority debt. Their purchases in the first quarter this year were higher still (£131 million). Most of this was apparently in the form of mortgages or stocks, whereas the previous quarter's increase was mainly in temporary money.

It is estimated that persons, on balance, sold government stock whereas the year before they were probably net buyers; and their net contributions to national savings (both securities and deposits) were lower this year. They did, however, surrender slightly fewer tax reserve certificates, despite a higher tax bill. The personal sector's sales of U.K. company and overseas securities were also on a larger scale than in 1964. On the other hand, they continued to increase their indirect investment in long-term securities through the medium of insurance and pension funds.

#### Industrial and commercial companies

Gross trading profits of companies (financial and non-financial) in the first quarter were 8% up on the same period of 1964; but, chiefly because of a 28% rise in dividend payments,<sup>(1)</sup> saving was slightly lower. Capital expenditure, though no longer on a rising trend, was still higher than a year earlier. So, as shown in the national income accounts, industrial and commercial companies' financial deficit was larger. (This sector always incurs a deficit in the first quarter because this is when companies pay most of the year's taxes)

As with persons, and probably for the same reasons, identified financial transactions tell a different story from the national income accounts. The transactions suggest a slightly smaller net reduction in companies' financial assets (less liabilities) this year: although companies' gross assets fell compared with no change last year, their borrowing was distinctly lower. They borrowed much less from banks and on capital issues, though rather more from the Government (under the shipbuilding credit

**Table II**  
Industrial and commercial companies

	1964 I	1965 I
Saving ... ..	+278	+264
Capital expenditure ( <i>less</i> capital transfers) ... ..	-619	-672
<b>Financial deficit</b> ... ..	<u>-341</u>	<u>-408</u>
<b>Borrowing (-):</b>		
Capital issues ... ..	-133	-85
Banks (net) <sup>(a)</sup> ... ..	-499	-399
Other <sup>(b)</sup> ... ..	-77	-112
	<u>-709</u>	<u>-596</u>
<b>Acquisition of financial assets (+):</b>		
Public sector debt <sup>(c)</sup> ... ..	-131	-198
U.K. company and overseas securities ... ..	+86	+82
Miscellaneous investment overseas (net) ... ..	+30	+54
Other <sup>(d)</sup> ... ..	+15	-42
	<u>—</u>	<u>-104</u>
<b>Unidentified</b> ... ..	+368	+292

(a) Table VII, lines 13 and 16.

(b) " " " 8, 17 (part) and 19.

(c) " " " 15 and 20-22.

(d) " " " 12, 14 and 17 (part).

(1) The rise in dividends was partly due to tax changes announced in November 1964, which led a number of companies to advance their dividend dates from the second quarter to the first. Some companies may also have sought to pay as high dividends as they could, in view of the advantage of having a good quotation for their shares on Budget day, the starting point for the new capital gains tax.

scheme) and from other financial institutions. The run-down in financial assets was limited to the more liquid forms, such as notes and coin, Treasury bills, tax reserve certificates, local authority debt and deposits with other financial institutions. (Deposits with banks are included in borrowing from "banks (net)" in Table II) Companies continued to expand their overseas investments, and their purchases of company shares from other sectors through take-over bids were also maintained. Altogether, therefore, it seems that companies were appreciably less liquid than in the first quarter of 1964.

**Public sector** The public sector, which normally incurs a financial deficit, moves into surplus in the first quarter of the year because of the seasonal inflow of tax revenue. This year, in spite of increased capital expenditure by public corporations and local authorities, its surplus was considerably larger than in 1964. This was almost entirely due to increased saving by the central government, largely as a result of the November Budget. The central government's financial

surplus, at £978 million, was greater than in any first quarter since 1962. Public corporations and local authorities, on the other hand, had considerable deficits which they financed by borrowing from the central government and from the market. Local authorities' market borrowing, at £251 million, was the highest for any quarter since comprehensive statistics began in 1961. A further £83 million was borrowed from the central government. Public corporations, whose deficit is almost entirely financed by the central government, borrowed £147 million from that source.

The central government's need to borrow at home depends not only on its own revenue and expenditure and the financial deficits of the local authorities and public corporations, but also on the course of the U.K. balance of payments. This is because the United Kingdom's net balance of payments over a period must produce one of three results, or a combination of them. It leads either to a change in U.K.-owned gold and foreign exchange reserves, which means principally the holdings of the Exchange Equalisation Account which is a

**Table III**  
**Public sector**

	£ millions	
	1964 I	1965 I
Saving ... ..	+1,026	+1,275
Capital expenditure ( <i>less</i> capital transfers) ... ..	- 610	- 705
<b>Financial surplus</b> ... ..	<b>+ 416</b>	<b>+ 570</b>
Of which :		
Central government ... ..	+ 762	+ 978
Local authorities ... ..	- 170	- 212
Public corporations ... ..	- 176	- 196
<b>Increase in assets or decrease in liabilities (+)</b>		
Reserves/I.M.F. position/central bank aid <sup>(a)</sup> ... ..	+ 1	- 137
Marketable government debt (excluding central bank swaps): <sup>(b)</sup>		
Overseas ... ..	+ 2	+ 68
Domestic sectors ... ..	+ 533	+ 604
Non-marketable government debt, etc. <sup>(c)</sup> ... ..	+ 89	+ 200
Local authority debt ... ..	- 212	- 251
Loans for house purchase ... ..	+ 29	+ 34
Other (net) <sup>(d)</sup> ... ..	+ 89	+ 102
	<b>+ 531</b>	<b>+ 620</b>
<b>Unidentified</b> ... ..	<b>- 115</b>	<b>- 50</b>

(a) Table VII, lines 9, 10, 11 (part) and 20 (part). The figures represent the actual movement in the reserves, together with the loss (-) which was made good by overseas assistance.

(b) Table VII, lines 20 (part) and 21.

(c) " " " 6, 12 and 15.

(d) " " " 7, 8, 11 (part), 13, 16, 17, 19 and 24.

central government account; or to a contrary change in overseas claims on the United Kingdom held in the form of Treasury bills or government stocks; or to a change in such claims held in other forms. In the two cases where there is a change in the E.E.A.'s gold and foreign exchange reserves or in overseas holdings of government debt, the effect on the Government's total domestic borrowing is just the same. When, for instance, the U.K. balance of payments is in deficit, then, in the first case, the E.E.A. acquires sterling for the Government in exchange for the foreign currency it has sold: in the second case the Government in effect borrows direct from overseas residents. In both these cases the Government's need to borrow from other sources is reduced, or, if it does not need to borrow currently, it will be able to redeem debt. Conversely, when the U.K. balance of payments is in surplus, government borrowing from domestic sectors will be higher than it would otherwise be. In neither case do the operations of the E.E.A. mitigate the natural consequences of a balance of payments deficit or surplus.

In the third case, the overseas sterling funds are not invested in government debt, but are most likely to be held as deposits with banks or other financial institutions, in local authority debt, or in commercial bills. A sterling payment by the United Kingdom to an overseas resident which is held by him in this form makes no call on the foreign exchange reserves and therefore makes no difference to the amount of sterling which accrues to the Government from the E.E.A.; neither does a payment out of such funds by an overseas resident to the United Kingdom.

When an overseas resident withdraws funds held in London the effect again depends on whether the funds, while here, were invested in U.K. government debt or were held, for example, as a sterling deposit with a U.K. bank. In the first case there is no net effect on the Government's domestic borrowing, because the reduction in overseas holdings of government debt is balanced by the Government's receipt of sterling from the sale of foreign exchange. In the second case the amount that the Government needs to borrow from domestic sources is reduced by the amount of sterling received

from the sale of exchange. In both cases the converse is also true.

In brief, the Government's domestic borrowing is determined by two main influences: the size of the public sector's deficit, and the balance of payments, including associated monetary movements such as changes in overseas holdings of U.K. government debt.<sup>(1)</sup>

In the first quarter both influences were working in the same direction—towards a reduction in domestic borrowing by the Government. The public sector's surplus, as noted above, was larger than in the same period of 1964. There was also a substantial increase, as against a small decrease last year, in the Government's net liabilities to overseas. Although the balance of payments deficit on current and long-term capital account was smaller than a year earlier, there were substantial net withdrawals of overseas claims on the private sector which last year were being built up (that is, in 1965 overseas residents no longer refrained from presenting these sterling claims for payment in foreign exchange out of the reserves). Furthermore, unidentified transactions (the balancing item) showed a deficit instead of a surplus.

The resulting reduction in domestic borrowing was partly in marketable debt, of which some £70 million more was repaid than in the first quarter of last year, and partly in other government debt, of which over £100 million more was repaid. This fall in other government debt was partly in national savings which, as noted above, were not as popular as they were a year ago. In addition the Government's net indebtedness to the Banking Department of the Bank was reduced this year whereas it had risen in the first quarter of 1964. The change here was primarily the counterpart of movements in the distribution of notes and coin between the banks and the general public, which fluctuates with the days of the week and the incidence of public holidays.

<b>Overseas sector</b>	During the first quarter of 1965, the surplus of the overseas sector (the counterpart of the deficit on current account in the U.K. balance of payments) was much reduced; Table IV shows
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(1) See also "Inflows and outflows of foreign funds" in the June 1962 *Bulletin*, page 93.

**Table IV**  
**Overseas sector**

	<i>£ millions</i>	
	<b>1964 I</b>	<b>1965 I</b>
<b>Financial surplus (+)</b> ... ..	+56	+ 7
<b>Increase in assets or decrease in liabilities (+)</b>		
Reserves/I.M.F. position/central bank aid <sup>(a)</sup> ... ..	- 1	+137
Marketable government debt (excluding central bank swaps) <sup>(b)</sup> ... ..	- 2	- 68
Bank deposits/bank lending ... ..	+71	+ 33
Other (net) <sup>(c)</sup> ... ..	-70	- 64
	<u>- 2</u>	<u>+ 38</u>
<b>Unidentified</b> ... ..	+58	- 31

(a) Table VII, lines 9, 10, 11 (part) and 20 (part).

(b) „ „ „ 20 and 21 (part).

(c) „ „ „ 8, 11 (part), 12, 14 and 22-24.

that it was lower than in the same quarter last year, and it was substantially lower than in the fourth quarter.

The main transactions between overseas and the public sector have already been discussed above. Table IV shows that net overseas claims on the banking sector (that is, their deposits with, less their borrowing from, U.K. banks), which fell sharply in the fourth quarter of 1964, increased again in the first quarter, although the increase was less than it had been a year earlier. There were, too, substantial differences in the make-up of the net figures. In the first quarter of 1964 overseas deposits in sterling as well as in foreign currencies were rising, but this year sterling deposits continued on the decline started at the end of 1964 (see Table 11

of the annex). The decline during the quarter was more than offset by higher foreign currency deposits, but the increase in net overseas claims was principally the result of reduced borrowing from banks. The fall here was wholly in foreign currencies.

**Banks** It was mentioned above that the reduction in marketable government debt in the first quarter of this year was larger than it had been a year earlier. This was not reflected in the banking sector's holdings which in total fell by much the same in both periods. The banks lent appreciably more to local authorities than in the first quarter of 1964, and their lending outside the public sector was also somewhat greater this year. There were, too,

**Table V**  
**Banks**

	<i>£ millions</i>	
	<b>1964 I</b>	<b>1965 I</b>
<b>Liabilities increase (-)</b>		
Deposits ... ..	+235	+177
Capital issues ... ..	- 3	-
	<u>+232</u>	<u>+177</u>
<b>Assets increase (+)</b>		
Treasury bills ... ..	-481	-568
Government stocks ... ..	-112	- 38
Notes and coin/Government's net indebtedness to Banking Department ... ..	- 64	- 60
Local authority debt ... ..	+ 73	+121
Private and overseas debt <sup>(a)</sup> ... ..	+387	+429
Other public sector debt <sup>(b)</sup> ... ..	- 1	- 22
	<u>-198</u>	<u>-138</u>
<b>Increase in net assets</b> ... ..	+ 34	+ 39

(a) Table VII, lines 16 (part) and 24.

(b) „ „ „ 16 (part) and 19.

marked differences in its distribution between sectors. Some of these have already been mentioned—less lending to overseas and to industrial and commercial companies and an increase in loans to the personal sector. Apart from these movements there was a particularly large increase in lending to other financial institutions, mainly the hire-purchase finance companies. These institutions were suffering some withdrawals of deposits by other sectors at a time when their own lending business was expanding.

There was thus a smaller contraction in total assets this year, and bank deposits also fell by less than in the first quarter of 1964. Overseas deposits were little changed but they had been rising strongly last year; domestic deposits, on the other hand, fell by only £185 million, compared with £346 million a year earlier. As was noted in the June *Bulletin* (page 117), the relative buoyancy this year was to some extent associated with short-term changes in the distribution of notes between banks and the general public, which is affected, for example, by the particular days of the week on which a quarter begins and ends. More generally, however, it reflected the lower take-up of government debt of all kinds by persons and non-

financial companies. This trend continued into the second quarter and is discussed further below. In the first quarter it meant that the banking sector as a whole was not subject to as much pressure on its liquidity as it had been a year earlier.

**Other financial institutions** Table VI below shows that the growth in financial assets and liabilities of other financial institutions was considerably lower in the first quarter this year than last year. In the fourth quarter, compared with a year earlier, it had been slightly lower but previously it had been increasing strongly.

On the liabilities side, as mentioned above, the institutions borrowed more from the banks, and receipts by life assurance and pension funds were higher than a year earlier. On the other hand, new capital issues by the institutions were lower than they had been for some years, sales of unit trust units (which had been growing fast since the end of 1961) declined somewhat, and receipts of deposits fell to about half the rate of the first quarter of 1964. Most of this decline in deposit receipts can be attributed to the building societies, whose

**Table VI**  
**Other financial institutions**

	<i>£ millions</i>	
	<b>1964 I</b>	<b>1965 I</b>
<b>Liabilities increase (—)</b>		
Life assurance and pension funds ... ..	-274	-292
Deposits (including building society shares) ... ..	-209	-112
Capital issues (including sales of unit trust units) ... ..	- 60	- 19
Other (mainly bank) borrowing <sup>(a)</sup> ... ..	- 13	-108
	<u>-556</u>	<u>-531</u>
<b>Financial assets increase (+)</b>		
Bank deposits ... ..	- 39	- 29
Hire-purchase claims ... ..	+ 29	+ 28
House-purchase and other loans <sup>(b)</sup> ... ..	+166	+175
Government debt <sup>(c)</sup> ... ..	+ 22	+ 52
Local authority debt ... ..	+117	+ 18
U.K. company and overseas securities :		
Ordinary shares ... ..	+130	+ 90
Other ... ..	+ 89	+ 79
	<u>+514</u>	<u>+413</u>
<b>Increase in net assets</b> ... ..	<u>- 42</u>	<u>-118</u>

<sup>(a)</sup> Table VII, lines 8 and 16.

<sup>(b)</sup> " " " 11, 18 and 19.

<sup>(c)</sup> " " " 20 and 21.

borrowing rates, particularly in the early part of the quarter, were comparatively unattractive. Even the higher rates which came into force on 1st February did little to stem the unusually high rate of withdrawals. (The situation changed in the second quarter, as indicated in the Commentary)

On the assets side, there was only a slight reduction in net lending by building societies, which in consequence ran down their liquid assets rather more than is usual in the first quarter of the year. The insurance companies' loans for house purchase were slightly higher than in the first quarter of 1964, so the total of finance of this kind extended to persons by financial institutions was the same in both periods. Other loans and mortgages, mainly to companies, were up slightly, and the rise in hire-purchase debt was very much the same in both periods. Altogether these direct loans extended to the personal sector and industrial and commercial companies represented about half the quarter's addition to the institutions' financial assets, a rather larger share than in the same quarter of 1964.

It follows that the institutions' indirect lending through the security markets comprised a smaller share of their total purchases of financial assets than in the previous year. Their take-up of local authority debt was almost £100 million lower this year; this was to some extent a reflection of the extra drain on the liquid assets of the building societies, whose holdings of local authority debt fell by £16 million, as against a rise of £25 million a year earlier. The shortfall of almost £100 million was very largely in temporary money; the institutions' purchases of local authority quoted securities and mortgages were only slightly lower. In the other security markets the institutions displayed a distinct preference for fixed-interest securities (government stocks and company debentures) over ordinary shares.

Activity in the gilt-edged market was generally low in this period. Total turnover in all government stocks (purchases *plus* sales, as measured by the London stock exchange—see Table 16 of the annex) was £700 million (about 17%) lower than in the fourth quarter of 1964. In over five-year stocks, the fall was about £400 million (23%). There was less

switching by the institutions—at a time when the details of the new capital gains and corporation taxes were being awaited by the market—and also a reduction in official activity. Even so, most groups of institutions, and especially the insurance companies and private pension funds, found opportunities for buying stock. Total net purchases, at £65 million, were much greater than in the first quarter of 1964 and, indeed, greater than in any quarter of the two years for which figures are available.

Activity in debentures and preference shares was higher than in the last quarter of 1964. Total turnover<sup>(1)</sup> increased by some £35 million (22%) and the institutions' dealings were also higher (by £14 million, or 14%). Their net purchases (£82 million) were well above the fourth-quarter figure (£57 million) and only slightly below the high level attained in the first quarter of 1964.

Turnover in the equity market<sup>(1)</sup> was very slightly higher (£20 million, or 2%) than in the fourth quarter but, although new issues were very small (£13 million) and dividends were high, prices were tending downwards. The institutions increased their turnover by a small amount (£10 million, or 5%) but their net purchases were nearly £20 million lower than in the fourth quarter, and £40 million lower than in the first quarter of 1964.

#### Second quarter

It has been suggested in the Commentary that there was probably a substantial improvement in the U.K. balance of payments in the second quarter, compared with the same quarter of 1964. As measured by movements in overseas claims on the central government and on the banking sector the improvement was about £170 million: net claims on the Government (mainly the change in the reserves, in special assistance, and in overseas holdings of marketable debt) rose by some £30 million less than last year and net claims on the banking sector by about £140 million less.

The Government's internal deficit (Exchequer and extra-Exchequer funds in Table 1 of the annex) was some £250 million larger than a year earlier; the main reason for this increase was the bunching of drawings by local authori-

<sup>(1)</sup> Purchases plus sales on the London stock exchange (Table 16 of the annex) plus new issues and redemptions.



ties on their enlarged entitlement to loans from the Public Works Loan Board, which was matched by less recourse by them to the market. For this reason and because they borrowed £30 million less from overseas than a year earlier, the Government needed to borrow some £280 million more from domestic sectors.

Comparatively little of this extra borrowing was in fact met outside the banking sector, and the banks' holdings rose by over £250 million more this year. (The calls for Special Deposits prevented some £90 million of this from being added to the banks' credit base) On the other hand, the banks lent £175 million less to local authorities and £210 million less to the personal sector (where lending fell by £130 million instead of rising by £80 million); and these falls were only partly offset by greater lending to industrial and commercial companies and to the nationalised industries (£370 million, as against £160 million).

Domestic deposits with the banking sector, which in the first quarter had fallen less than a year earlier, rose by £85 million more than in the second quarter last year. In both the first and second quarters interest rates were rising, so conditions were not generally favourable for official sales of government debt; and in the second quarter the exceptionally heavy local authority borrowing from the central government, and the consequent increase in the central government's borrowing, almost certainly accelerated the growth of bank deposits.

The faster growth in bank deposits was confined to companies' holdings. Persons' deposits rose by slightly less than they had done a year earlier; and, as in the first quarter, their holdings of other liquid assets were also rising less fast. This confirms the impression, formed from the analysis of the figures for the first quarter, that the rate of growth in the personal sector's liquid assets, which was increasing sharply in 1963 and 1964, has begun to slacken in 1965.

## Notes on sources and definitions<sup>(1)</sup>

### Sources

The main statistical series used in compiling Table VII appear in the statistical annex to this *Bulletin*, or in *Financial Statistics* or *Economic Trends*, both issued by the Central Statistical Office.

### Definitions

*Persons*: unincorporated businesses, private non-profit-making bodies and individuals.

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

*Public sector*: the central government, local authorities and public corporations.

*Overseas sector*: as defined for the balance of payments estimates.

*Banks*: *i.e.*, the banking sector as in Table 9 of the annex.

*Other financial institutions*: insurance companies, superannuation funds, building societies, investment trusts, hire-purchase finance companies, the special investment departments of trustee savings banks, unit trusts, special finance agencies and certain other institutions which accept deposits but which are outside the banking sector.

*Line 5. Financial surplus/deficit*: for domestic sectors a financial surplus (deficit) is the excess (shortfall) of current saving and net receipts of capital transfers compared with capital expenditure on physical, as opposed to financial, assets. For the overseas sector a surplus (deficit) is the counterpart of a deficit (surplus) on current account in the U.K. balance of payments. For all sectors together, financial surpluses/deficits should add to nil, but they do not because of the "residual error" between the independent estimates of national income and national expenditure (£ millions: 1964 I, -302; 1965 I, -366; the figure for the first quarter of 1964 differs slightly from that published in *Financial Statistics* for August—see footnote (b) to Table VII).

*Line 6. Net indebtedness of Government to Bank of England, Banking Department*: see the additional notes to Table 9. Changes in this item correspond very closely to movements in the Banking Department's net liabilities to the rest of the banking sector.

	£ millions		
	1964	1965	1965
	I	I	II
Bankers' deposits, <i>increase</i> (+) ...	+19	-52	+ 45
Special Deposits, <i>increase</i> (+) ...	—	—	+ 92
Advances to the discount market, <i>increase</i> (-) ...	+ 4	+ 8	- 10
	<u>+23</u>	<u>-44</u>	<u>+127</u>

*Line 7. Life assurance and superannuation funds*: includes the increase in persons' net claims on the Government under certain pension schemes for which no separate fund is maintained.

*Line 8. Government loans*: loans to building societies, industrial companies and housing associations; and inter-government loans (net).

*Line 9. Gold and foreign exchange reserves*: changes in the sterling equivalent of gold and convertible and non-convertible currencies held in the Exchange Equalisation Account.

*Line 10. Account with I.M.F.*: the United Kingdom's subscription to the I.M.F. less changes in the Fund's holdings of interest-free notes issued by the U.K. Government.

*Line 11. Miscellaneous investment overseas (net)*: domestic sectors' net investment overseas not elsewhere included.

*Line 12. Notes and coin*: includes changes in banks' liabilities on account of issues of Scottish and Northern Irish notes; changes in domestic holdings outside the banks have been equally divided between persons and industrial and commercial companies.

*Line 13. Bank deposits*: changes in current and deposit accounts, except that entries under the banking sector are changes in net deposits (see Table 9) and figures for industrial and commercial companies include the total net change in transit items, *i.e.*, amounts due to be debited or credited to bank customers' accounts.

*Line 14. Deposits with other financial institutions*: includes building society shares (plus accrued interest).

*Line 15. Non-marketable government debt*: 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 (included in line 14).

*Line 16. Bank lending*: 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 22).

*Line 17. Hire-purchase debt*: entries relate to capital sums only; unearned finance charges are excluded.

(Continued on page 240)

(1) More detailed notes were given in the June *Bulletin*, page 130.

**Table**  
**Sector financing :**

	Line	Persons			Industrial and commercial companies		
		1964	1965	1965	1964	1965	1965
		I	I	II	I	I	II
<b>Financial surplus (+)/deficit (-)</b>							
Saving <sup>(a)</sup> ... ..	1	+667	<b>+717</b>		+278	<b>+264</b>	
Taxes on capital and capital transfers ... ..	2	- 58	<b>- 42</b>		+ 4	<b>+ 6</b>	
less: Gross fixed capital formation at home ... ..	3	-223	<b>-253</b>		-471	<b>-533</b>	
Increase in value of stocks and work in progress	4	- 41	<b>- 45</b>		-152	<b>-145</b>	
<b>Financial surplus (+)/deficit (-)<sup>(b)</sup></b> ... ..	5	<b>+345</b>	<b>+377</b>		<b>-341</b>	<b>-408</b>	
<b>Financing assets increase (+)/decrease (-)</b> <i>liabilities increase (-)/decrease (+)</i>							
Net indebtedness of Government to Bank of England, Banking Department ... ..	6						
Life assurance and superannuation funds ... ..	7	+290	<b>+305</b>				
Government loans ... ..	8	—	—		- 3	- 12	
Gold and foreign exchange reserves ... ..	9						
Account with I.M.F. ... ..	10				+ 30	+ 54	
Miscellaneous investment overseas (net) ... ..	11						
Notes and coin ... ..	12	+ 30	- 23	+ 38	+ 30	- 24	
Bank deposits ... ..	13	- 74	+ 52	+157	-242	-178	
Deposits with other financial institutions ... ..	14	+205	<b>+143</b>	+154	- 10	- 11	
Non-marketable government debt ... ..	15	+ 60	<b>+ 41</b>	+ 17	-145	-154	
Bank lending ... ..	16	- 75	<b>-114</b>	+129	-257	-221	
Hire-purchase debt ... ..	17	- 8	- 4	- 28	- 20	- 25	
Loans for house purchase ... ..	18	-157	<b>-162</b>				
Other loans ... ..	19	- 35	<b>- 52</b>		- 59	- 82	
Marketable government debt:							
Treasury bills ... ..	20				+ 19	- 10	
Stocks ... ..	21	+ 19	- 40				
Local authority debt ... ..	22	+ 10	<b>+131</b>		- 5	- 34	
U.K. company and overseas securities :							
Capital issues ... ..	23				-133	- 85	
Other transactions ... ..	24	- 77	<b>-156</b>		+ 86	+ 82	
<b>Total identified financing</b> ... ..	25	<b>+188</b>	<b>+121</b>		<b>-709</b>	<b>-700</b>	
<b>Unidentified</b> ... ..	26	<b>+157</b>	<b>+256</b>		<b>+368</b>	<b>+292</b>	
<b>Total=Financial surplus (+)/deficit (-)<sup>(b)</sup></b> ... ..	27	<b>+345</b>	<b>+377</b>		<b>-341</b>	<b>-408</b>	

(a) The surplus of current income over current expenditure before providing for depreciation, stock appreciation and additions to reserves.

**VII**  
quarterly figures

£ millions

Public sector			Overseas sector			Financial institutions						Line
						Banks			Other			
1964 I	1965 I	1965 II	1964 I	1965 I	1965 II	1964 I	1965 I	1965 II	1964 I	1965 I	1965 II	
+1,026	+1,275					-144	-141					1
+ 54	+ 36					- 30	- 39					2
- 680	- 747											3
+ 16	+ 6											4
+ 416	+ 570		+ 56	+ 7		-174	-180					5
						1964 I	1965 I	1965 II	1964 I	1965 I	1965 II	
- 35	+ 34	-121				+ 35	- 34	+121	-274	-292		6
- 16	+ 13		- 25	- 12								7
+ 28	+ 24											8
+ 1	+ 5	+165	- 1	- 5	-165							9
-	+ 6	-503	-	- 6	+503							10
+ 9	- 18		- 42	- 37					+ 3	+ 1		11
+ 39	+ 53	- 91		+ 20	- 20	- 99	- 26	+ 34				12
+ 9	- 30	+ 34	+111	+ 8	- 10	+235	+177	-377	- 39	- 29	+ 50	13
+ 85	+ 113	- 37	+ 14	- 20	+ 24				-209	-112	-208	14
- 3	+ 14	- 24	- 40	+ 25	- 21	+388	+404	+250	- 13	-108	+ 11	16
- 1	+ 1								+ 29	+ 28	+ 54	17
+ 29	+ 34								+128	+128		18
+ 63	+ 96					- 4	- 8		+ 35	+ 46		19
+ 472	+ 597	+ 21	- 24	- 6	-172	-481	-568	+163	+ 14	- 13		20
+ 63	- 45	- 12	+ 22	+ 58	- 17	-112	- 38	+ 39	+ 8	+ 65		21
- 212	- 251		+ 17	+ 15		+ 73	+121	-128	+117	+ 18		22
			- 28	- 23	+ 4	- 3	-	-	- 60	- 19	- 25	23
			- 6	+ 21		+ 2	+ 11	+ 3	+219	+169		24
+ 531	+ 620		- 2	+ 38		+ 34	+ 39	+105	- 42	-118		25
- 115	- 50		+ 58	- 31					-166	-101		26
+ 416	+ 570		+ 56	+ 7					-174	-180		27

(b) Financial surpluses/deficits are as shown in *Financial Statistics* (August, 1965) except that, for the first quarter of 1964, the data for the overseas sector are based on the revised figures in Table 19 of the annex. Because of this revision the implied residual error (the sum of financial surpluses/deficits for all sectors) differs slightly from the residual error shown in *Financial Statistics*.

*Line 18. Loans for house purchase:* new loans, less repayments; such loans by banks are indistinguishable in line 16.

*Line 19. Other loans:* entries include the difference between accruals and payments of purchase tax and local authority rates.

*Lines 20 and 21. Marketable government debt:* see Table 3. The residual entries under industrial and commercial companies in line 20 include any changes in personal and unidentified overseas holdings of Treasury bills. The residual entries for persons in line 21 include any transactions by industrial and commercial companies and unidentified overseas transactions.

*Line 22. Local authority debt:* total identified borrowing by local authorities from outside the public sector, including bank advances.

*Lines 23 and 24. U.K. company and overseas securities:*

*Capital issues:* includes net sales of unit trust units and issues by U.K. companies in overseas centres as well as issues on the U.K. market.

*Other transactions:* includes acquisitions of share and loan capital in overseas companies, subscriptions to new capital issues, and estimated purchases by industrial and commercial companies in connection with take-over deals. The entries for persons are residuals.

*Line 26. Unidentified:* the net totals for all sectors together represent the errors and omissions in the national income data quoted in the note on line 5. 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.