Analysis of financial statistics

This analysis is concerned primarily with the second quarter of 1965 but some developments in the third quarter are discussed briefly at the end. The general method of approach is to look first at the various sectors' financial surpluses or deficits as derived from the national income accounts; and then to compare these with the information about the sectors' transactions in financial assets which is available from the various series of financial statistics. Because seasonal movements cannot, as yet, be isolated in most of these statistics, changes in the second quarter are mostly compared with those in the same period of 1964. The sectors are: persons (including unincorporated businesses); industrial and commercial companies; public sector; overseas sector; banks; and other financial institutions. Notes on sources and definitions are given on page 326.

The second quarter shows some of the effects of the credit restrictions and of the other measures aimed at reducing the balance of payments deficit. The banks and other financial institutions lent much less to persons and companies than in the corresponding quarter of 1964. The reduction, however, was more than attributable to loans to persons; those to industrial and commercial companies increased faster than a year ago, partly because it was unusually difficult this year for them to raise funds in the capital market. Local authorities financed most of their deficit by borrowing from the Public Works Loan Board against their new year's quotas, available from the beginning of April, so the Government's own need to borrow was exceptionally great. The long-term rate of interest was still rising for most of the period and market conditions did not favour official sales of stock to the general public. In the event, therefore, most of the extra government debt was taken up by the banking sector; and, despite the slower growth of advances, domestic deposits continued to rise strongly, as they had in the previous quarter. Also as in that quarter, there was a slower growth in the private sector's other liquid assets.

Persons Persons' incomes (after tax) were nearly $6\frac{1}{2}\%$ higher in the second quarter than in the same period of 1964, but their current expenditure was only about $5\frac{3}{4}\%$ higher. Thus a greater proportion of incomes was saved: personal savings are estimated at £579 million, compared with £513 million a year earlier. Capital expenditure on physical assets was also down slightly, and this, with the larger savings, raised the personal sector's financial surplus by £83 million to £257 million. This is the amount which, according to the national income data, the personal sector had available for the net acquisition of financial assets.

The statistics of financial transactions, however, give a surplus of £497 million, £258 million more than in the second quarter of last year. Both the surplus this year, and the increase over a year ago, are much bigger than suggested by national income data. Among many possible reasons for these discrepancies, timing differences are probably important. These arise because the statistics of national income and expenditure are generally recorded when payments and receipts become due, whereas the financial data mostly record cash transactions or actual changes in assets and liabilities. It is reasonable to suppose that, if comprehensive estimates of trade credit were available, these discrepancies, and the opposite—and sometimes strikingly similar—discrepancies in the company sector, would be reduced. In the fourth quarter of each of the last two years the financial data for the personal sector have indicated a much larger surplus than the national income estimates; and this position has been partly reversed in the first quarter of the following years. It would not be unreasonable to expect persons (and unincorporated businesses) to obtain trade credit before Christmas and repay it afterwards. Nor would it be strange if trade credit taken by the personal sector had increased in the second quarter of 1965, when credit from most other sources was under restraint.

The outstanding feature of the personal sector's financial transactions in the second quarter compared with a year earlier was the much smaller increase in identified borrowing; at £29 million this was unusually small and was about £240 million lower than a year ago. Loans for house purchase continued to increase, by only £24 million less than a year ago; but this increase was nearly offset by the repayment of a substantial amount of bank advances. Persons had borrowed relatively large amounts from the banks in the first quarter, and the reduction in the second quarter was no doubt attributable to the credit restrictions first imposed in December 1964 and subsequently reinforced by the Governor's letters to the banks early in May.

Persons added much the same amount to their financial assets in the second quarter of 1965 as in 1964. Within the total they continued, as in the first quarter, to acquire more public-sector debt than they did last year and to sell more company and overseas securities; these sales seem to have been associated particularly with an increase in purchases of shares by public companies from persons and unincorporated businesses in connection with company mergers. The larger take-up of public-sector debt was entirely due to a substantial increase (of £91 million, £82 million more than a year ago) in the personal sector's lending to local authorities.(1) During the first nine months of 1964 personal holdings of local authority debt rose by only £15 million. From the fourth quarter onwards, when local authorities first suffered from the withdrawal of overseas money, the personal sector became an important alternative source of funds; and in the nine months to June 1965 it is estimated that this sector lent some £340 million to local authorities.

The personal sector continued to dispose of government stocks, but on a smaller scale than a year earlier. On the other hand, net investment in national savings amounted to only £4 million as against £55 million in the second quarter last year. As noted in September, the growth in persons' holdings of liquid assets was slackening distinctly in the first half of 1965. In the second quarter holdings of notes and coin, and deposits with commercial banks and other financial institutions, rose by only £6 million more than a year earlier, and deposits with savings banks (included in line 15 of Table VII) rose by about the same amount in both periods.

Table I

Persons

£ millions

	1964 II	1965 II	*Lines in Table VII*
Saving	+513	+579	*1*
Capital expenditure (and capital transfers)	−339	−322	*2, 3, 4*
Financial surplus	+174	+257	*5*
Borrowing (−)			
Loans for house purchase	−175	−151	*18*
Other	− 98	+122	*8, 16, 17, 19*
	−273	− 29	
Acquisition of financial assets (+)			
Notes and coin, deposits with financial institutions	+343	+349	*12, 13, 14*
Public-sector debt	+ 2	+ 80	*15, 21, 22*
U.K. company, and overseas securities	−114	−178	*24*
Life assurance and pension funds	+281	+275	*7*
	+512	+526	
Unidentified	− 65	−240	*26*

(1) This is defined in the June *Bulletin*, page 131.

Industrial and commercial companies

Allowing for seasonal factors, gross trading profits of all companies (including banks and other financial institutions) were rising throughout 1963 and 1964 and in the first quarter of 1965. In the second quarter this trend was checked and profits were £25 million lower than in the corresponding quarter of last year. Other income increased by more than this, however, and industrial and commercial companies' saving is estimated to have been £10 million higher than a year earlier (see Table II). At the same time these companies spent £19 million less on capital account (they spent rather more on fixed investment, but distinctly less on stockbuilding) and their financial surplus of £210 million was thus nearly £30 million larger than in the second quarter of last year.

The analysis of their financial transactions, however, suggests a very different story. These figures show a small deficit, compared with a surplus of over £100 million a year ago; with borrowing nearly £80 million more than a year earlier, and net acquisition of financial assets some £90 million less. The rise in borrowing was more than accounted for by increased bank finance, a development which undoubtedly owed something to the uncertain state of the capital markets in the second quarter, when interest rates were rising and details of the new corporation and capital gains taxes were being debated. Capital issues at this time totalled £53 million, only half as much as in the same period of 1964, and, indeed, the lowest for any quarter since the end of 1961.

Among assets, companies' net investment overseas was smaller this year and they bought less local authority and central government debt. But they increased their buying-in of company securities through take-over deals. As already mentioned, the large increase in " unidentified " (which is the difference between the financial figures and the national income figures) may well represent more trade credit extended to persons (including unincorporated businesses), which in turn may be associated with the sharp reduction in the personal sector's borrowing from the banks.

Table II

Industrial and commercial companies

£ millions

	1964 II	1965 II	*Lines in Table VII*
Saving	+900	+910	*1*
Capital expenditure (*less* capital transfers)	−719	−700	*2, 3, 4*
Financial surplus	+181	+210	*5*
Borrowing (−)			
Capital issues	−110	− 53	*23*
Banks (net)	− 63	−189	*13, 16*
Other	—	− 8	*8, 17 (part), 19*
	−173	−250	
Acquisition of financial assets (+)			
Public-sector debt	+ 61	+ 14	*15, 20, 22*
U.K. company, and overseas securities	+ 59	+100	*24*
Miscellaneous investment overseas (net)	+133	+ 23	*11*
Other	+ 36	+ 63	*12, 14, 17 (part)*
	+289	+200	
Unidentified	+ 65	+260	*26*

Public sector The public sector's deficit was nearly £60 million larger in the second quarter than in the comparable period of 1964. This was because increased capital expenditure was only partly offset by increased saving,[1] which was mainly the result of a larger trading surplus of the public corporations. All three constituent parts of the public sector—central government, local authorities, and especially the public corporations—spent more on capital account.

The financing of the deficit of the whole public sector fell more heavily than is usual on the central government. This was because local authorities drew very heavily on their increased quotas of loans from the P.W.L.B. and raised only £22 million (net) from outside the public sector, compared with £140 million in the same quarter of 1964.

The central government's borrowing from domestic sources depends not only on the size of the public sector's deficit but also on the course of the country's balance of payments and the associated monetary movements. (This was discussed in detail in September, page 231) In the second quarter of 1964, although the United Kingdom incurred a large deficit (£163 million) on current and long-term capital transactions (after including the balancing item), this was financed largely by an increase in overseas residents' sterling claims on U.K. banks, on local authorities and on the central government. In the second quarter of 1965 there was, by contrast, a small surplus in the balance of payments, but overseas holders were withdrawing sterling funds. There was thus a run on the official reserves, which had to be replenished by drawings on special assistance from abroad. In total, the Government's net liabilities to overseas (the sum, in Table III, of " reserves/I.M.F. position/central bank aid " and overseas holdings of marketable government debt) rose by less in the second quarter of this year (£49 million) than in the second quarter of 1964 (£71 million).

The three factors noted above—the larger public-sector deficit, less borrowing in the market by local authorities, and a smaller increase

Table III

Public sector

£ millions

	1964 II	1965 II	*Lines in Table VII*
Saving	+125	+146	*1*
Capital expenditure (*less* capital transfers)	−570	−649	*2, 3, 4*
Financial deficit	−445	−503	*5*
Of which:			
Central government	−209	−239	
Local authorities	−165	−175	
Public corporations	− 71	− 89	
Increase in assets or decrease in liabilities (+)			
Reserves/I.M.F. position/central bank aid	+ 12	−146	*9, 10, 11 (part), 20 (part)*
Marketable government debt (excluding central bank aid):			
Overseas	− 83	+ 97	*20 (part), 21*
Domestic sectors	+ 30	−180	
Non-marketable government debt, etc.	−192	−249	*6, 12, 15*
Local authority debt	−140	− 22	*22*
Loans for house purchase	+ 20	+ 30	*18*
Other (net)	−118	− 89	*7, 8, 11 (part), 13, 16, 17, 19, 24*
	−471	−559	
Unidentified	+ 26	+ 56	*26*

[1] As in other sectors, the excess of current receipts over current expenditure.

in net liabilities to overseas—led to a substantial rise in the Government's net borrowing at home. Non-marketable debt raised more than a year ago; the Bank of England's call for Special Deposits, which absorbed some of the banks' liquid assets on which an expansion of private credit might otherwise have been based, meant that the Government's net indebtedness to the Banking Department was considerably increased, but, partly offsetting this, much less was raised by national savings and by tax reserve certificates (only £37 million compared with £123 million). Nevertheless, the Government's domestic borrowing on marketable debt was substantial (£180 million), compared with a small repayment in the same quarter of 1964. Persons and companies were reducing their holdings of marketable debt; and the banks bought £202 million, £149 million more than a year earlier.

Overseas sector

The overseas sector's financial surplus or deficit is the counterpart of the deficit or surplus on current account in the U.K. balance of payments. In the second quarter the overseas sector was in deficit (that is, the United Kingdom had a current account surplus) for the first time since the second quarter of 1963. In Table IV, this deficit is matched by the identified net decrease in overseas assets (less liabilities) and by the balancing item. The identified items comprise both long-term capital transactions and monetary movements as shown in the balance of payments estimates (see Table 19 of the statistical annex).

Most long-term capital transactions are included in "other (net)" in Table IV, and this item reflects the considerable reduction in the net outflow on this account compared with a year earlier. The other three items distinguished relate substantially to monetary movements, and together indicate the slower rate at which overseas claims were accumulating in the second quarter. Individually these items also show a different pattern from a year ago: this year overseas residents were withdrawing funds from the banking sector, whereas last year they were building them up quite fast; similarly overseas holdings of marketable government debt were reduced this year (leaving aside the counterpart of central bank assistance), instead of being increased. The consequent drain on the official reserves is shown in the item "reserves/I.M.F. position/central bank aid", which records the movement that would have taken place in the reserves had overseas assistance not been made available.

Table IV

Overseas sector

£ millions

	1964 II	1965 II	*Lines in Table VII*
Financial surplus (+)	+ 63	− 25	*5*
Increase in assets or decrease in liabilities (+)			
Reserves/I.M.F. position/central bank aid	− 12	+146	*9, 10, 11 (part), 20 (part)*
Marketable government debt (excluding central bank aid) ...	+ 83	− 97	*20 (part), 21*
Bank deposits/bank lending	+108	− 47	*13, 16*
Other (net)	−123	− 8	*8, 11 (part), 12, 14, 22–4*
	+ 56	− 6	
Unidentified (balancing item in the balance of payments) ...	+ 7	− 19	*26*

Banks Reference has already been made to the larger amount of marketable government debt taken up by the banking sector in the quarter, and to the increase in the Government's net indebtedness to the Banking Department arising from Special Deposits. The banking sector's total holdings of central government debt in fact rose by about £260 million more than they had a year earlier. The rise in the banks' total assets, however, was slightly smaller this year, because their claims on the remaining parts of the public sector and on other sectors increased much less. In particular, the banks sharply reduced their holdings of local authority debt in the second quarter whereas last year they had increased them. This change is closely associated with the somewhat similar movement in overseas deposits with the banks, which fell by £10 million in the second quarter but rose by £168 million a year earlier. Following the credit restrictions, there was also a much smaller increase this year in bank lending to the private sector. Both the personal sector and the financial institutions repaid advances, but lending to industrial and commercial companies continued to rise.

As in the first quarter, the banks' domestic deposits increased by more than last year, a reflection of the private sector's reluctance to take up much of the additional government debt being issued. In all, they rose by £387 million, £83 million more than a year earlier.

Table V

Banks

£ millions

	1964 II	1965 II	*Lines in Table VII*
Liabilities *increase* (−)			
Deposits:			
Domestic sectors	−304	−387	*13*
Overseas sector	−168	+ 10	
Capital issues	− 14	—	*23*
	−486	−377	
Assets *increase* (+)			
Treasury bills	+129	+163	*20*
Government stocks	− 76	+ 39	*21*
Notes and coin/Government's net indebtedness to Banking Department	+ 49	+155	*6, 12*
Local authority debt	+ 45	−128	*22*
Other public-sector debt	+ 6	+ 24	*16 (part), 19*
Claims on:			
Private sector	+281	+198	*16 (part), 24*
Overseas sector	+ 60	+ 37	*16 (part)*
	+494	+488	
Net increase in assets	+ 8	+111	*25*

Other financial institutions In the second quarter, as in the first, the other financial institutions added less to their resources than they did last year. In all, their liabilities rose by £51 million less. Their deposits, indeed, rose by more than a year earlier, but they raised less from the capital market, repaid some of their other borrowing (chiefly bank finance) instead of adding to it, and received rather less on account of life assurance.

The increase in total financial assets was £96 million less than a year ago; although the more liquid assets (deposits with banks and holdings of local authority temporary money) increased by more than they had a year earlier. The building societies were receiving less money from shareholders and depositors but they were also lending less on mortgage (£96 million compared with £146 million), and were building up their liquid funds. Insurance companies lent more for house purchase (£25 million instead of £9 million). The hire-purchase companies extended the same amount of credit to the private sector as a year earlier. Altogether, total direct lending by the financial institutions to the private sector was about £40 million lower than a year earlier; it nevertheless represented a slightly larger share of the smaller growth in their total assets.

In the security markets, the institutions were considerably less active than a year earlier. They acquired much the same amount of marketable government debt but their net purchases of company and overseas securities, at £107 million, were only half those of the second quarter of 1964. The reduction was almost entirely in ordinary shares.

Activity in the gilt-edged market generally, which had already been lower in the first quarter of 1965 than in the last three months of 1964, was even lower in the second quarter when total turnover was down by a further 10% (Table 16 of the annex). In over five-year stocks the fall was more than 25%. Official activity, in all maturities, was greater than in the first quarter, but switching by the institutions was reduced in a market still upset by uncertainties surrounding the new tax legislation. Apart from the building societies, however, most institutions bought stock and their net purchases totalled £17 million.

Table VI

Other financial institutions

£ millions

	1964 II	1965 II	*Lines in Table VII*
Liabilities *increase* (−)			
Life assurance and pension funds	−270	−262	*7*
Deposits (including shares in building societies)	−199	−208	*14*
Capital issues (including sales of unit trust units)	− 34	− 25	*23*
Other (mainly bank) borrowing	− 31	+ 12	*8, 16*
	−534	−483	
Financial assets *increase* (+)			
Bank deposits	+ 36	+ 50	*13*
Hire-purchase claims	+ 54	+ 54	*17*
House-purchase and other loans	+228	+194	*11, 18, 19*
Government debt	+ 24	+ 21	*20, 21*
Local authority debt	+ 29	+ 64	*22*
U.K. company, and overseas securities:			
Ordinary shares	+157	+ 58	*24*
Other	+ 58	+ 49	
	+586	+490	
Net increase in assets	+ 52	+ 7	*25*

Total turnover[1] in debentures and preference shares, which had increased in the first quarter, fell back in the second by about 15%. Transactions by the institutions were about 12% lower, and their net purchases, at £53 million, were well below the figure of £82 million for the first quarter.

In the equity market, turnover[1] was also lower than in the previous quarter (by 12%) though the value of the institutions' deals was some 8% higher. Their total net purchases, however, were only £58 million, compared with £91 million in the first quarter and £157 million in the second quarter of last year.

Third quarter

The increase in overseas claims on the Government and the banks in the third quarter of this year was a little smaller than a year ago, probably reflecting a slight improvement in the balance of payments on current account compared with last year.

The Government's internal deficit (Exchequer and extra-Exchequer funds in Table 1 of the annex) was £14 million smaller in the third quarter than last year; but the rise in their net liabilities to overseas was some £45 million smaller, and they therefore needed to borrow some £30 million more at home.

National savings have persistently brought in less money this year than last. In the third quarter they fell further behind, net withdrawals by the general public of £58 million contrasting with net subscriptions of £40 million in the same quarter of 1964. This development probably owed something to the restrictions on borrowing from the banks and to the increased attraction of investment in building societies following the rise in their rates in July. There was a small reduction in the note circulation in the third quarter, but there was a substantial change in its distribution between the banks and the general public. (This distribution is sharply affected by the particular day of the week on which a quarter begins and ends) Banks' holdings of notes fell by about £70 million and the general public's holdings rose by some £65 million; the corresponding changes in the third quarter of last year were comparatively small. Altogether the Government repaid some £70 million of non-marketable types of debt, whereas a year ago these raised about £45 million; this swing, together with a total domestic borrowing requirement which, as has been seen, was about £30 million greater, meant that some £145 million more had to be raised at home from sales of stocks and Treasury bills. Most of this extra borrowing, as in the second quarter, was met by the banking sector.

Bank deposits continued to rise in the third quarter, despite a fall in bank lending to the whole private sector (£177 million, compared with a rise of £80 million a year earlier). But the rise in the private sector's deposits was less steep than earlier in the year: in the first half of 1965 they rose faster than a year ago but in the third quarter they were rising more slowly (by £119 million, as against £232 million a year ago). This change was particularly marked in the personal sector's deposits, which increased by only £42 million compared with £133 million. The slower growth in the deposits of the whole private sector may have been associated with the larger holdings of notes referred to above; while that in persons' deposits may also owe something to greater investment in building societies' shares and deposits—which rose by £237 million, over £100 million more than in the third quarter of 1964. Nevertheless, as in the second quarter of 1965, the personal sector's liquid assets, as a whole, were growing less fast than a year earlier.

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

Table
Sector financing :

Financial surplus (+)/deficit (−)	Line	Persons 1964 II	Persons **1965 II**	Persons *1965 III*	Industrial and commercial companies 1964 II	Industrial and commercial companies **1965 II**	Industrial and commercial companies *1965 III*
Saving[a]	1	+513	**+579**		+900	**+910**	
Taxes on capital and capital transfers	2	− 52	**− 43**		+ 2	**+ 3**	
less: Gross fixed capital formation at home ...	3	−251	**−255**		−504	**−541**	
Increase in value of stocks and work in progress	4	− 36	**− 24**		−217	**−162**	
Financial surplus (+)/deficit (−)	5	+174	**+257**		+181	**+210**	
Financing *assets increase (+)/decrease (−)* *liabilities increase (−)/decrease (+)*							
Net indebtedness of Government to Bank of England, Banking Department	6						
Life assurance and superannuation funds	7	+281	**+275**				
Government loans	8	− 1	**− 2**		− 5	**− 13**	
Gold and foreign exchange reserves	9						
Account with I.M.F.	10						
Miscellaneous investment overseas (net)	11				+133	**+ 23**	
Notes and coin	12	+ 10	**+ 38**	*+ 30*	+ 10	**+ 39**	*+ 29*
Bank deposits	13	+167	**+157**	*+ 42*	+ 93	**+146**	*+ 74*
Deposits with other financial institutions	14	+166	**+154**	*+257*	+ 32	**+ 30**	*+ 15*
Non-marketable government debt	15	+ 65	**+ 16**	*− 53*	+ 58	**+ 21**	*− 3*
Bank lending	16	− 82	**+129**	*+ 60*	−156	**−335**	*+ 72*
Hire-purchase debt	17	− 35	**− 25**	*− 12*	− 20	**− 29**	*− 2*
Loans for house purchase	18	−175	**−151**				
Other loans	19	+ 20	**+ 20**		+ 19	**+ 28**	
Marketable government debt:							
Treasury bills	20				− 35	**− 16**	
Stocks	21	− 72	**− 27**				
Local authority debt	22	+ 9	**+ 91**		+ 38	**+ 9**	
U.K. company, and overseas securities:							
Capital issues	23				−110	**− 53**	
Other transactions	24	−114	**−178**		+ 59	**+100**	
Total identified financing	25	+239	**+497**		+116	**− 50**	
Unidentified	26	− 65	**−240**		+ 65	**+260**	
Total=Financial surplus (+)/deficit (−)	27	+174	**+257**		+181	**+210**	

(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: Banks			Financial institutions: Other			
1964 II	**1965 II**	*1965 III*	1964 II	**1965 II**	*1965 III*	1964 II	**1965 II**	*1965 III*	1964 II	**1965 II**	*1965 III*	Line
+125	**+146**					+93	**+130**					1
+ 50	**+ 40**											2
−594	**−663**					−30	**− 33**					3
− 26	**− 26**											4
−445	**−503**		+ 63	**− 25**		+63	**+ 97**					5
− 13	**−121**	*+ 9*				+ 13	**+121**	*− 9*				6
− 11	**− 13**								−270	**−262**		7
+ 22	**+ 25**		− 17	**− 11**	*− 28*				+ 1	**+ 1**	—	8
+ 16	**+165**	*− 13*	− 16	**−165**	*+ 13*							9
+ 1	**−503**	*+ 5*	− 1	**+503**	*− 5*							10
− 15	**+107**		−113	**−133**					− 5	**+ 3**		11
− 56	**− 91**	*+ 5*	—	**− 20**	—	+ 36	**+ 34**	*− 64*				12
+ 8	**+ 34**	—	+168	**− 10**	*+164*	−472	**−377**	*−283*	+ 36	**+ 50**	*+ 3*	13
			+ 1	**+ 24**	*+ 79*				−199	**−208**	*−351*	14
−123	**− 37**	*+ 56*										15
− 2	**− 24**	*− 1*	− 60	**− 37**	*−175*	+332	**+256**	*− 1*	− 32	**+ 11**	*+ 45*	16
+ 1	—	—							+ 54	**+ 54**	*+ 14*	17
+ 20	**+ 30**								+155	**+121**		18
−121	**−118**					+ 4	—	*+ 6*	+ 78	**+ 70**		19
−181	**+ 21**	*−387*	+ 96	**−172**	*+118*	+129	**+163**	*+245*	− 9	**+ 4**		20
+123	**− 12**	*+ 32*	− 8	**− 17**	*− 64*	− 76	**+ 39**	*+ 5*	+ 33	**+ 17**		21
−140	**− 22**		+ 19	**− 14**		+ 45	**−128**	*+ 32*	+ 29	**+ 64**		22
			− 19	**+ 4**		− 14	—	*− 2*	− 34	**− 25**	*− 18*	23
—	—		+ 6	**+ 42**		+ 11	**+ 3**	*+ 9*	+215	**+107**		24
−471	**−559**		+ 56	**− 6**		+ 8	**+111**	*− 62*	+ 52	**+ 7**		25
+ 26	**+ 56**		+ 7	**− 19**		+ 3	**− 21**					26
−445	**−503**		+ 63	**− 25**		+63	**+ 97**					27

Notes on sources and definitions(1)

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 II, −36; 1965 II, −36).

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 II	1965 II	1965 III
Bankers' deposits, *increase* (+) ...	+37	+ 45	−44
Special Deposits, *increase* (+) ...	—	+ 92	+ 2
Advances to the discount market, *increase* (−)	−13	− 10	+26
	+24	+127	−16

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 intergovernment 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.

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.

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