

Sector financing 1962-64

This article continues the series of annual estimates which started in the September 1963 *Bulletin*. It discusses the flow of funds between six sectors of the economy: *persons, industrial and commercial companies, the public sector, the overseas sector, and financial institutions* considered under two headings—*banks (i.e., the banking sector)* and *other financial institutions*. Definitions of sectors and of items in the tables, and notes on sources of the figures are given at the end of this article.

The pattern of financial flows in 1964 was largely determined by two, by no means separate, influences: a rise, compared with 1963, of over £1,250 million in capital expenditure on fixed investment and stockbuilding at home; and the large deficit in the balance of payments, which led to a loss of overseas confidence in sterling. All the main domestic sectors participated in the rise in capital expenditure and, although they all saved more, only the personal sector and financial institutions increased their financial surplus—and even here the improvement was small.

All six sectors were affected in one way or another by these two influences. Persons and industrial and commercial companies borrowed much more from banks and other financial institutions than in the previous year; and industrial and commercial companies reduced their deposits with these institutions. The balance of payments deficit and the associated sterling crisis led to a large outflow of foreign exchange; the sterling counterpart of this outflow provided the Government with sufficient funds to meet an enlarged financial deficit of the public sector and, in addition, to repay a substantial amount of marketable debt.

The fall in marketable government debt was borne largely by the banking sector. Bank

lending to the private sector during the year rose much faster than bank deposits, and the banks suffered a substantial loss of liquidity. The building societies also suffered in this way, as their deposits and shares failed to match the rise in mortgage loans.

All these movements are discussed more fully below. Individual sectors' accounts for 1963 and 1964 are summarised in Tables I to VI. Fuller details for all sectors and figures for 1962 are given in Table VII.

Personal sector

Persons' disposable income (total income less tax, national insurance and health contributions, and net remittances abroad) increased distinctly faster in 1964 than in 1963. The growth between the two years in current spending was less rapid, so a larger proportion of incomes was saved. Most of this additional rise in savings was offset by an acceleration of capital expenditure (mainly on new housing and stocks of goods). Nevertheless the sector's financial surplus, £580 million in 1963, rose to £605 million in 1964.

The personal sector also borrowed more in 1964 than in 1963. Most of this increase was in housing loans, associated directly or indirectly with the rise in expenditure on new housing. Part of the rise, however, was in hire-purchase debt and in bank borrowing, which is more likely to have financed current spending.

Table I shows that, taking the increases in the financial surplus and in borrowing together, the amount available to the personal sector for the acquisition of financial assets was over £300 million greater in 1964.

As in 1963, persons showed a strong preference for the more liquid assets: holdings of notes and coin, and deposits with banks and

Table I

£ millions

		Personal sector			
		1963	1964	1964 compared with 1963	Lines in Table VII
Saving (<i>less</i> stock appreciation)		+1,685	+1,865	+180	1b
Capital expenditure (and capital transfers)		-1,105	-1,260	-155	2-4
Financial surplus		<u>+ 580</u>	<u>+ 605</u>	<u>+ 25</u>	5
Borrowing (-):					
Housing loans		- 505	- 720	-215	18
Other		- 210	- 285	- 75	8, 16, 17, 19
		<u>- 715</u>	<u>-1,005</u>	<u>-290</u>	
Acquisition of financial assets (+):					
Notes and coin, deposits with financial institutions		+1,035	+1,250	+215	12-14
Public sector debt		+ 155	+ 255	+100	15, 21, 22
U.K. company and overseas securities		- 435	- 460	- 25	24
Life assurance and pension funds		+1,060	+1,145	+ 85	7
		<u>+1,815</u>	<u>+2,190</u>	<u>+375</u>	
Unidentified		- 520	- 580	- 60	26

with other financial institutions all increased more than in the previous year; and more than three-quarters of their total new funds was invested in this way.

Persons also, on balance, increased their investment in public sector debt in 1964. They placed less money with local authorities than in recent years, probably because, under the new arrangements introduced last year, local authorities were able to obtain more of their requirements of long-term funds from the Public Works Loan Board. But national savings attracted more buyers in 1964, a reflection of the popularity of the new national development bonds; and it is estimated that persons sold fewer government stocks than in 1963. Net sales of these stocks had been particularly heavy in 1963, when prices had reached a peak and began to decline; in 1964 prices were still declining.

Table VII shows that in recent years persons have been persistent net sellers not only of government stocks but also of U.K. company and overseas securities. There appear to be two main streams of such transactions. One is associated with the growth of life assurance and

pension funds, whose annual purchases of U.K. company and overseas securities exceed new issues on the London market. As far as these transactions are concerned, persons dispose of direct holdings of securities, for example on realisation of deceased persons' estates; while at the same time the personal sector—not, of course, necessarily the same individuals—acquires indirect claims to securities in the form of superannuation and life assurance policies. The other main volume of sales is by persons to growing industrial and commercial companies. These occur when companies take over other companies by offering the shareholders not an exchange of shares, but cash. It is estimated that in 1964 persons' net sales of U.K. company and overseas securities, apart from unit trust units, totalled some £535 million, £40 million more than in 1963 when share prices were more buoyant. Unit trusts continued to gain in popularity and net purchases of units—mainly by persons—amounted to over £75 million in 1964, compared with £60 million in the previous year.

As indicated above, the personal sector continued as usual to increase its investment in life assurance and pension funds in 1964.

Industrial and commercial companies

Gross trading profits of industrial and commercial companies remained throughout 1964 at the high level to which they had risen at the end of 1963. Their other income, both domestic and external, also increased and, partly because of the growing benefit of investment allowances, their tax payments were reduced. So, despite a large rise in dividend payments, their saving (less stock appreciation) was some £415 million greater than in 1963. The increase in their saving, however, was less than that in their capital expenditure on fixed assets, stocks and work in progress, and their financial surplus fell from about £360 million in 1963 to some £200 million in 1964.

Industrial and commercial companies borrowed more on capital issues in 1964 than in 1963, and very much more from the banks and other financial institutions. In all, the identified increase in their borrowing was £645 million (bigger, in fact, than the rise in their capital

expenditure). If the changes in their financial surplus and in their borrowing are taken together, it would seem that companies had £485 million more for investment in financial assets (including overseas investment) in 1964 than in the previous year. Only £195 million of additional investment can, however, be identified. It consists of larger purchases of U.K. company and overseas securities and of overseas investments generally, partly offset by a swing from net purchases of public sector debt to net sales. Companies' bank deposits—included in Table II under "banks (net)"—are estimated to have fallen by £80 million after rising by £210 million in 1963;⁽¹⁾ and their take-up of the more liquid of the other assets shown in the table—broadly, "public sector debt" and "other"—was, on balance, smaller than in 1963.

The big rise in the unidentified items cannot, by definition, be explained with any confidence. It might well include a rise in trade credit extended to unincorporated businesses and

Table II

£ millions

Industrial and commercial companies				1963	1964	1964 compared with 1963	Lines in Table VII
Saving (less stock appreciation)				+2,300	+2,715	+415	1b
Capital expenditure (less capital transfers) ...				-1,940	-2,515	-575	2-4
Financial surplus				<u>+ 360</u>	<u>+ 200</u>	<u>-160</u>	5
Borrowing (-):							
Capital issues				- 330	- 405	- 75	23
Banks (net)				- 280	- 745	-465	13, 16
Other				- 70	- 175	-105	8, 17 (part), 19
				<u>- 680</u>	<u>-1,325</u>	<u>-645</u>	
Acquisition of financial assets (+):							
Public sector debt				+ 35	- 65	-100	15, 20-22
U.K. company and overseas securities ...				+ 200	+ 325	+125	24
Miscellaneous investment overseas (net) ...				+ 105	+ 240	+135	11
Other				+ 105	+ 140	+ 35	12, 14, 17 (part)
				<u>+ 445</u>	<u>+ 640</u>	<u>+195</u>	
Unidentified				<u>+ 595</u>	<u>+ 885</u>	<u>+290</u>	26

⁽¹⁾ See note on *Bank deposits* at the end of this article.

individuals, for which no estimate has been made. It is also reasonable to associate it to some extent with the increase between the two years in the "residual error"⁽¹⁾ in the national income estimates. This error indicates that in recent years total expenditure has been understated relative to the independent estimate of income. The unidentified items in Table II point in the same direction: they suggest that expenditure by companies (on financial or physical assets) has been understated, or that companies' saving or their borrowing has been overstated.

Public sector The public sector's financial deficit, like the financial surpluses of persons and industrial and commercial companies, was strongly affected by the investment boom in 1964. Public corporations, local authorities and, in particular, the central government all increased their saving, but the total increase of £280 million was well below the rise of £530 million in capital expenditure (less net receipts of capital transfers). The financial deficit, therefore, representing the net amount which the public sector needed to borrow, increased by £250 million.

Local authorities borrowed £80 million less from the market in 1964 than in 1963, despite an increased financial deficit, and a sharp rise in their lending for house purchase. This was because, under the new arrangements introduced in April 1964, they were allowed to borrow more from the central government; and in 1964 they borrowed £175 million net from this source, whereas in 1963 they had made net repayments amounting to £30 million. As a result the central government's own requirements from the market were larger than they would otherwise have been; those of the public sector as a whole were not affected.

Official sales of gold and foreign exchange, however, substantially reduced these requirements. The fall in the official reserves was, in the event, largely made good by loans of foreign exchange from the I.M.F. and from overseas central banks (against which the Government issued interest-free notes and Treasury bills). But the Exchange Equalisation Account received a very large amount of sterling against the original outflow and, as a result, the Government was able to make net repayments of loans from other sources. It in fact borrowed more on national savings and

Table III

				Public sector			£ millions
				1963	1964	1964 compared with 1963	Lines in Table VII
Saving (<i>less</i> stock appreciation)	...	...	...	+1,090	+1,370	+280	1b
Capital expenditure (<i>less</i> capital transfers)	...	...	...	-1,905	-2,435	-530	2-4
Financial deficit	...	...	...	<u>- 815</u>	<u>-1,065</u>	<u>-250</u>	5
Assets increase (+)/liabilities increase (-)							
Reserves/I.M.F. position/ central bank aid	...	...	...	- 60	- 700	-640	9, 10, 11 (part), 20 (part)
Non-marketable government debt, etc.	...	...	...	- 250	- 400	-150	6, 12, 15
Marketable government debt (excluding central bank swaps)	...	...	...	+ 100	+ 635	+535	20 (part), 21
Local authority debt	...	...	...	- 630	- 550	+ 80	22
House purchase loans	...	...	...	+ 55	+ 120	+ 65	18
Other (net)	...	...	...	- 20	- 5	+ 15	7, 8, 11 (part), 13, 16, 17, 19, 24
	...	...	...	<u>- 805</u>	<u>- 900</u>	<u>- 95</u>	
Unidentified	...	...	...	- 10	- 165	-155	26

(1) See note on *Financial surplus/deficit* at the end of this article.

tax reserve certificates and from the Banking Department of the Bank⁽¹⁾ than in 1963; but market holdings of government stocks and Treasury bills (excluding central bank swaps), which had fallen by £100 million in 1963, were reduced by as much as £635 million. Most of the change in marketable debt was in the banking sector's holdings. These were drawn down by some £45 million in 1963, but by £545 million in 1964. Overseas holdings (excluding central bank swaps) fell by £20 million, after rising by nearly £100 million in 1963. Net purchases by other financial institutions were about the same in both years, while net sales by persons and industrial and commercial companies taken together were some £85 million lower in the more recent year.

Overseas sector The financial surplus of the overseas sector in 1964—the counterpart of the U.K. deficit on current account—was £375 million. The movement in the reserves and the receipt of overseas aid referred to above, reflected not only the current account deficit and the reduction in overseas holdings of marketable government debt, but also a considerable net outflow of other capital from the United Kingdom. This included, in particular, government loans to developing countries and private investment abroad.

The fall of £20 million in overseas holdings of marketable government debt (excluding central bank swaps) in 1964 is a net figure comprising a rise of £95 million in holdings of government stocks (mainly by overseas sterling countries) and a fall of £115 million in Treasury bills (about equally divided between overseas sterling and non-sterling countries).

Overseas residents increased their net claims on U.K. commercial banks (deposits, less borrowing) by a total of £95 million in 1964, slightly more than in 1963. But the increase in 1964 was all in foreign currency transactions, and there was a substantial fall in sterling funds held by overseas residents with U.K. banks.

Financial institutions

In previous articles in this series a rough estimate of £100 million has been made for the annual financial surplus of financial institutions, including the banks. Separate national income data for these institutions are now available which indicate a financial surplus of some £50 million in 1963, rising to £80 million in 1964. The national income statistics do not distinguish between banks and other financial institutions, but the financial transactions of the two sectors can be looked at separately.

Deposits with the *banking sector* rose by some £920 million in 1964, £85 million less than

Table IV

Overseas sector

£ millions

	1963	1964	1964 compared with 1963	Lines in Table VII
Financial deficit (-)/surplus (+)	- 95	+ 375	+ 470	5
Assets increase (+)/liabilities increase (-)				
Reserves/I.M.F. position/ central bank aid	+ 60	+ 700	+ 640	9, 10, 11 (part), 20 (part)
Marketable government debt (excluding central bank swaps)	+ 100	- 20	- 120	20 (part), 21
Government loans/miscellaneous investment overseas (net)	- 220	- 365	- 145	8, 11 (part)
Bank deposits/bank lending	+ 75	+ 95	+ 20	13, 16
Other (net)	- 35	- 35	—	14, 22-24
	- 20	+ 375	+ 395	
Unidentified	- 75	—	+ 75	26

⁽¹⁾ See note on *Net indebtedness of Government to Bank of England, Banking Department* at the end of this article.

Table V

£ millions

		Banking sector			
		1963	1964	1964 compared with 1963	Lines in Table VII
Liabilities increase (-)					
Deposits	...	-1,005	- 920	+ 85	13
Capital issues	...	- 25	- 25	—	23
		<u>-1,030</u>	<u>- 945</u>	<u>+ 85</u>	
Assets increase (+)					
Treasury bills	...	- 35	- 330	-295	20
Government stocks	...	- 10	- 215	-205	21
Notes and coin/Government's net indebtedness to Bank of England, Banking Department	...	+ 50	+ 20	- 30	6, 12
Local authority debt	...	+ 65	+ 150	+ 85	22
Private and overseas debt	...	+1,010	+1,385 ^(a)	+375 ^(a)	16, 19, 24
		<u>+1,080</u>	<u>+1,010</u>	<u>- 70</u>	
Increase in net assets	...	+ 50	+ 65	+ 15	25

(a) Including an increase of 5 in claims on the public sector.

in 1963. Of this increase, less than one-third was in deposits with the domestic banks; the larger share of the accepting houses and overseas banks reflected the increase in foreign currency deposits of overseas residents already referred to. Domestic deposits with the whole banking sector rose by only £390 million (4¼%) in 1964, compared with £625 million (7½%) in 1963. Thus in both years the rise was proportionately less than that in the gross domestic product (measured at current prices from fourth quarter to fourth quarter).

While bank deposits, of domestic sectors and in total, rose less in 1964 than in 1963, bank lending (here comprising changes in advances and overdrafts—other than to local authorities—in money at call and short notice, and in commercial bills discounted) rose by much more. As is shown in Table V, the banks' total claims outside the public sector rose by £1,380 million, £370 million more than in 1963. Only about one-third of the rise in 1964 was in claims on overseas; and, largely for this reason, the accepting houses and overseas banks accounted for only half the year's rise in bank lending, as against some two-thirds of the rise in deposits. Bank lending to domestic sectors totalled £925 million in 1964, a rise of nearly 17% following one of nearly 14% in 1963.

The counterpart of the larger rise in lending than in deposits was a big reduction in the

banks' holdings of public sector debt. Loans to local authorities indeed rose by £150 million, more than double the previous year's figure (despite a reduction of £100 million in the fourth quarter when the banks were faced with large withdrawals of overseas sterling deposits), but, for the reasons already described, holdings of Treasury bills fell by £330 million and government stocks by £215 million.

These movements substantially reduced the more liquid assets of the banking system, particularly those of the domestic banks. This was exemplified by a fall in the London clearing banks' liquidity ratio from 32.7% at mid-December 1963 to 30.6% at mid-December 1964.

A further reflection of the tightness of the banking system's liquidity at end-1964 is the small rise of £20 million over the year, as against a rise of £50 million in 1963, in the banks' holdings of other forms of public sector debt, namely, notes and coin and the Banking Department's net claims on the Government. These movements are largely the counterpart of increases in the banks' cash reserves less borrowing by the discount market from the Bank of England. Cash reserves increased by much the same amount in 1964 as in 1963, and the main difference between the two years was in advances to the market, of which £25 million were outstanding at end-1964 compared with only £4 million at end-1963.

Other financial institutions⁽¹⁾ taken together received a larger inflow of funds from all their main sources in 1964 than in 1963. In all, their receipts are estimated at £2,060 million in 1964, and their net acquisition of financial assets at £2,030 million. Most of their new funds came from the personal sector by way of premiums on life assurance policies, contributions to pension funds, and savings deposits. The rise in bank borrowing was more than accounted for by the hire-purchase finance companies, which financed from this source about half of their increased lending.

More than half of this sector's new investment in 1964 was in the capital markets for public sector debt and for U.K. company and overseas securities; but, on balance, the institutions invested less in this way than they had in 1963. A small reduction between the two years in their net purchases of government stocks was approximately matched by larger purchases of Treasury bills; and, while they

bought about the same amount of ordinary shares as in 1963, they took up slightly more company debentures and loan stocks. But they invested £50 million less in local authority debt and added less to their bank deposits.

The fastest growth in this sector's activities in 1964 was in hire-purchase debt, associated with the boom in car sales, and in other loans to persons and to industrial and commercial companies. The loans to persons were mainly for house purchase and were made partly by insurance companies but mainly by the building societies. The rapid rise in the building societies' loans (£130 million more than in 1963) was accompanied by a much slower growth of their deposits and shares (only £20 million more than in 1963). Consequently the societies had to draw down their more liquid assets. Their holdings of government and local authority securities, which had risen by £75 million in 1963, were reduced by £10 million in 1964.

Table VI

Other financial institutions

£ millions

	1963	1964	1964 compared with 1963	Lines in Table VII
Liabilities increase (—)				
Life assurance and pension funds	— 990	—1,090	—100	7
Deposits (including building society shares)	— 700	— 735	— 35	14
Capital issues (including sales of unit trust units)	— 145	— 160	— 15	23
Other (mainly bank) borrowing	— 30	— 75	— 45	8, 16
	<u>—1,865</u>	<u>—2,060</u>	<u>—195</u>	
Financial assets increase (+)				
Bank deposits	+ 40	+ 5	— 35	13
Hire-purchase claims	+ 30	+ 125	+ 95	17
House purchase and other loans	+ 585	+ 810	+225	11, 18, 19
Government debt	+ 115	+ 115	—	20, 21
Local authority debt	+ 235	+ 185	— 50	22
U.K. company and overseas securities:				
Ordinary shares	+ 505	+ 505	—	} 24
Other	+ 275	+ 285	+ 10	
	<u>+1,785</u>	<u>+2,030</u>	<u>+245</u>	
Increase in net assets	— 80	— 30	+ 50	25

⁽¹⁾ A more detailed description of these institutions is given in the article "The financial institutions" on page 132. (The figures in Table XV of that article differ from those in Tables VI and VII here because they are arranged differently and relate to slightly fewer institutions)

Table
Sector financing :

	Line	Persons			Industrial and commercial companies		
		1962	1963	1964	1962	1963	1964
Financial surplus (+)/deficit (-)							
Saving ^(a)	1	+ 1,572	+ 1,723	+ 1,922	+ 2,097	+ 2,463	+ 2,965
less stock appreciation	1a	- 45	- 36	- 57	- 97	- 164	- 250
	1b	+ 1,527	+ 1,687	+ 1,865	+ 2,000	+ 2,299	+ 2,715
Taxes on capital and capital transfers	2	- 189	- 222	- 201	+ 12	+ 9	+ 13
less: Gross fixed capital formation at home ...	3	- 795	- 843	- 988	- 1,831	- 1,804	- 2,098
Value of physical increase in stocks and work in progress	4	- 26	- 42	- 72	- 58	- 145	- 432
Financial surplus (+)/deficit (-)	5	+ 517	+ 580	+ 604	+ 123	+ 359	+ 198
Financing assets increase (+)/decrease (-) <i>liabilities increase (-)/decrease (+)</i>							
Net indebtedness of Government to Bank of England,							
Banking Department	6						
Life assurance and superannuation funds	7	+ 937	+ 1,058	+ 1,145			
Government loans	8	-	- 2	- 3	- 51	- 20	- 20
Gold and foreign exchange reserves	9						
Account with I.M.F.	10						
Miscellaneous investment overseas (net)	11				+ 62	+ 103	+ 240
Notes and coin	12	- 35	+ 36	+ 105	- 35	+ 36	+ 104
Bank deposits	13	+ 260	+ 367	+ 454	+ 96	+ 208	- 82
Deposits with other financial institutions	14	+ 481	+ 632	+ 690	- 12	+ 52	+ 30
Non-marketable government debt	15	+ 129	+ 187	+ 216	- 52	- 61	- 44
Bank lending	16	- 193	- 150	- 191	- 282	- 486	- 663
Hire-purchase debt	17	+ 17	- 49	- 89	+ 24	+ 9	- 45
Loans for house purchase	18	- 382	- 508	- 723			
Other loans	19	+ 1	- 8	- 1	- 47	- 48	- 109
Marketable government debt:							
Treasury bills	20						
Stocks	21	- 74	- 231	- 99	- 40	- 30	- 83
Local authority debt	22	+ 313	+ 203	+ 139	+ 27	+ 133	+ 63
U.K. company and overseas securities:							
Capital issues	23				- 325	- 328	- 405
Other transactions	24	- 266	- 436	- 460	+ 200	+ 200	+ 325
Total identified financing	25	+ 1,188	+ 1,099	+ 1,183	- 435	- 237	- 689
Unidentified	26	- 671	- 519	- 579	+ 558	+ 596	+ 887
Total = Financial surplus (+)/deficit (-)	27	+ 517	+ 580	+ 604	+ 123	+ 359	+ 198

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

Notes on sources and definitions

Sources

The main statistical series used in compiling the tables appear in the statistical annex to this *Bulletin* or in the following publications: *Financial Statistics* and *Economic Trends* issued by the Central Statistical Office, and *Preliminary Estimates of National Income and Balance of Payments 1959 to 1964* (Cmnd. 2629).

Definitions

Persons (or personal sector): 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, including the National Insurance Funds, the Exchange Equalisation Account and the Issue Department (but not the Banking Department) of the Bank of England; local authorities; the nationalised industries and other public corporations.

Overseas sector: as defined for the balance of payments estimates (see *United Kingdom Balance of Payments 1964*, H.M.S.O., August 1964).

Banks (or banking sector): as defined in the additional notes to Table 9 of the annex.

Other financial institutions: insurance companies, superannuation funds, building societies, investment trusts, hire-purchase finance companies, special investment departments of trustee savings banks, unit trusts, special finance agencies (e.g., the Agricultural Mortgage Corporation) and some other institutions which accept deposits but which are outside the banking sector.

Financial surplus/deficit: for domestic sectors, a surplus is calculated as shown in Table VII, i.e., it is the amount by which saving and net receipts of capital transfers exceed expenditure at home on fixed assets and stocks of goods and work in progress. It thus represents the sum available for the net acquisition of financial claims on other domestic sectors or for net investment, in real or financial assets, abroad. A financial surplus of the overseas sector is the counterpart of a deficit on current account in the U.K. balance of payments, which is taken as a measure of the United Kingdom's net external capital transactions. 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: 1962, -111; 1963, -75; 1964, -194; the figures in each year indicating an excess of estimated income over estimated expenditure).

Net indebtedness of Government to Bank of England, Banking Department: the Banking Department's holdings of government debt, notes and coin, less the deposits of the Exchequer and Paymaster General with the Bank. Changes in this item corres-

pond very closely to movements in the Banking Department's net liabilities to the rest of the banking sector. These movements, which do not appear in the consolidated account for the whole sector, are shown below. (Changes in bankers' deposits are influenced by movements in the banks' holdings of notes and coin—1962, +76; 1963, +82; 1964, -52)

	£ millions		
	1962	1963	1964
Bankers' deposits, increase (+)	- 39	-45	+84
Special Deposits, increase (+) ...	-233	—	—
Advances to the discount market, increase (-)	+ 20	+ 4	-21
	<u>-252</u>	<u>-41</u>	<u>+63</u>

Life assurance and superannuation funds: the increase in persons' net claims on other financial institutions in respect of these funds and on the Government under certain pension schemes for which no separate fund is maintained.

Government loans: loans (less repayments) to building societies, to industrial and commercial companies and to housing associations; and inter-government loans (net).

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

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

Miscellaneous investment overseas (net): U.K. official long-term investment overseas (apart from inter-government loans); private net long-term investment (inward and outward) other than that identified as transactions in securities; part of "miscellaneous capital (net)" in the balance of payments estimates; and, since 1963, part of the movements in U.K. external liabilities both in sterling and in foreign currencies. The main entries in these last two categories relate to transactions in commercial bills between overseas residents and industrial and commercial companies, the overseas transactions of some institutions which contribute to the statistics of external liabilities and claims but which are not included in the financial sectors, and official liabilities in foreign currencies arising from central bank assistance.

Notes and coin: changes in bank notes and coin, including changes in banks' liabilities on account of issues of Scottish and Northern Irish notes. Changes in holdings outside the banking sector have been arbitrarily divided into equal parts between persons and industrial and commercial companies.

Bank deposits: changes in gross current and deposit accounts, except for the banking sector and industrial and commercial companies. The entries for the banking sector are changes in net deposits, i.e., current and deposit accounts after allowing for transit items (see Table 9 of the annex). The proper

allocation of transit items is not known, but it is believed that most of the net change arises from transactions between industrial and commercial companies. For convenience it has been assumed that the net change attributable to the other sectors is nil; and the entries for industrial and commercial companies are the changes in gross current and deposit accounts less the total change in transit items. Figures for 1962 and the first quarter of 1963 are partly estimated.

Deposits with other financial institutions: shares and deposits with building societies (including accrued interest), and deposits with special investment departments of trustee savings banks, hire-purchase finance houses, and some other institutions.

Non-marketable government debt: tax reserve certificates and all forms of national savings (including accrued interest) other than deposits with special investment departments of trustee savings banks (included above).

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 *Local authority debt*). Figures for the first quarter of 1963 are partly estimated. Distribution between debtor sectors in 1963 and 1964 is taken from comprehensive statistics for the banking sector (see Table 9 of the annex). Figures for 1962 are based mainly on the analysis of advances by members of the British Bankers' Association (see Table 14), and hence are not strictly comparable with those for the later years.

Hire-purchase debt: changes in hire-purchase and other instalment credit extended by finance houses and household goods shops (including nationalised gas and electricity undertakings). Entries relate to capital sums only; unearned finance charges are excluded.

Loans for house purchase: new loans, less repayments, by building societies, insurance companies, superannuation funds and local authorities. Loans for house purchase by banks are included indistinguishably in *Bank lending*.

Other loans: loans between domestic sectors not elsewhere included. These are mainly loans by other financial institutions to persons and industrial and commercial companies. The entries also include the difference between accruals and payments of purchase tax and local authority rates; and an estimate of net trade credit extended to public corporations by industrial and commercial companies.

Marketable government debt: defined as for Table 3 of the annex. The entries for Treasury bills under industrial and commercial companies are residuals and include any changes in personal and unidentified overseas holdings. The figures for transactions in government stocks by industrial and commercial companies

are derived from the articles "Distribution of the national debt" in the March 1964 and 1965 issues of this *Bulletin*. (The relevant figure in the 1965 issue has been amended from £295 million to £225 million since publication) The estimate of no change in 1964 is largely conjectural. The residual entries for persons include any unidentified overseas transactions. The change in overseas holdings of Treasury bills in 1964 includes the sterling side of central bank swap transactions (see note "The statistical treatment of aid", March 1965 *Bulletin*, page 15).

Local authority debt: total identified borrowing by local authorities from outside the public sector, including bank advances. Figures for changes in banks' holdings are taken from banking statistics. The entries for persons are residuals and include unidentified changes in the holdings of other sectors.

U.K. company and overseas securities:

Capital issues include net sales of unit trust units and issues by U.K. companies in overseas centres as well as issues on the U.K. market. (See Table 15 of the annex)

Other transactions for the public sector relate to sales of iron and steel securities. For the overseas sector the entries (which exclude capital issues in the United Kingdom) comprise transactions by overseas residents in U.K. company securities and by U.K. residents in overseas securities in so far as these have been identified in the balance of payments estimates for private investment. The entries for the banking sector represent the change in the banks' investments other than government stocks; the 1962 figure has been roughly adjusted to allow for changes in the scope of the figures. The figures for other financial institutions are taken from statistical returns supplemented to some extent, particularly in 1962, by balance-sheets and other available data. The estimates for industrial and commercial companies relate mainly to their cash payments for the acquisition of shares or unincorporated businesses in the United Kingdom (derived from an analysis of deals reported in the press);⁽¹⁾ and to their acquisition of share and loan capital in overseas companies (part of direct investment abroad). Some allowance is also made for industrial and commercial companies' sales of securities in connection with take-over deals, and for their subscriptions to new capital issues. The entries for persons are obtained as residuals from the estimates for all other sectors.

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

⁽¹⁾ See article by the Central Statistical Office "More light on personal savings" in the April 1965 issue of *Economic Trends*.