

Analysis of financial statistics

In the third quarter of 1965 economic activity recovered from the slight check of the previous quarter. The main growth elements were consumers' expenditure and exports, both of which had been subdued in the second quarter, and stockbuilding, which had been growing since the early months of the year. Total expenditure on fixed investment was virtually unchanged, a fall in private investment being offset by greater expenditure by the public sector. Public authorities' current expenditure levelled off.

In the sector accounts, the overseas sector's surplus (that is, the deficit on current account in the U.K. balance of payments) was smaller than a year before; and the public sector's deficit a little greater. This implies an increase in the private sector's surplus,⁽¹⁾ as indeed appears in the analysis of financial statistics, derived from identified transactions in financial assets and liabilities. But in the national income accounts all the improvement shows up in the "residual error", and the private sector's surplus there comes out somewhat lower than a year earlier.

In the financial statistics, further effects of credit restraint are apparent. Both persons and companies were repaying their borrowing from the banks. Some other types of borrowing were also affected: the rise in total hire-purchase debt, for example, was very small. Another feature in the third quarter was that, although the public sector's deficit was only a little greater than a year earlier, the Government had to obtain a much larger amount of finance from domestic sales of marketable debt. There were two main reasons for this. First, there

were net repayments of non-marketable debt (a most unusual event at this time of year); and, secondly, external transactions resulted in a smaller increase in overseas net claims on the Government than in 1964.

The gilt-edged market improved early in August, and various financial institutions—notably investment trusts, building societies and pension funds—made sizable purchases of stocks. Persons and overseas residents, however, sold gilt-edged during the quarter, and on balance the authorities purchased a total of £32 million of stock.

There was a sharp reduction in bank advances to U.K. residents; and the growth of domestic deposits was slower than a year earlier, partly because persons found investment in building societies very attractive—and the societies did not immediately expand their lending on mortgage, but acquired liquid assets instead, including government stocks (see the charts on page 12).

Activity in the gilt-edged market rose sharply in August and September and the value of turnover was almost 60% higher in the third quarter than in the second. Activity⁽²⁾ in other fixed-interest securities was over 25% higher, new issues of debentures being large; but turnover in ordinary shares fell by a sixth. The financial institutions (excluding banks) appear to have had a smaller share of turnover in the fixed-interest market, but to have virtually maintained their share of activity in equities.

The figures for the third quarter are examined below, sector by sector. In most cases

(1) The private sector comprises persons (including unincorporated businesses), industrial and commercial companies, and banks and other financial institutions.

(2) Purchases plus sales on the London stock exchange (Table 15 of the statistical annex), plus new issues and redemptions.

seasonal movements cannot be isolated because a sufficiently long run of statistics is not yet available. Comparisons are therefore made with the third quarter of 1964. Few figures are yet available for the fourth quarter, but some brief comments on them are given at the end. Table VII sets out the detailed statistics and is accompanied by some notes on sources and definitions.

Persons Consumers' expenditure recovered somewhat in the third quarter from the check administered by the Budget; and personal saving was estimated to be a little lower than a year earlier. But capital expenditure and transfers were also lower; so that the personal sector's financial surplus, as derived from national income data, was much the same as it had been a year before. Figures of identified financial transactions, however, indicate a surplus some £120 million larger than before. The difference reflects the large "unidentified" movements, which are a persistent problem in any analysis of this kind.

Persons borrowed about half as much in the third quarter of 1965 as a year earlier. They were still repaying bank advances, though not so fast as in the second quarter—because, since persons do not usually have large unused credit facilities, restrictions on their bank borrowing

tend to take effect quite quickly and repayments lose momentum as time passes. Hire-purchase debt—on which controls were strengthened in June and July—increased by some £20 million less than a year earlier, and so, too, did loans for house purchase.

The identified increase in assets was much the same as that recorded in 1964. There was, however, considerable switching between different types of asset. Notably, investment in building societies was more attractive, following the increase in the societies' borrowing rates in July, and they drew in £236 million compared with £112 million.

In the previous quarter, persons had acquired more public sector debt than a year earlier, but now they disposed of some £50 million (compared with purchases of £40 million in 1964); a net withdrawal of £58 million from national savings, the first in any quarter for four years, and sales of some £55 million of government stocks outweighed increases of about £30 million each in persons' holdings of local authority debt and of notes and coin. Bank deposits rose by only £45 million, compared with £133 million in 1964; deposits with the special investment departments of the trustee savings banks also grew at a slower rate.

In the first half of 1965 the personal sector (which includes unincorporated businesses)

Table I

Persons

	1964 III	1965 III	£ millions Lines in Table VII
Borrowing (—)			
Bank advances	— 26	+ 61	16
Other	—257	—214	8, 17, 18, 19
	—283	—153	
Acquisition of financial assets (+)			
Building society shares and deposits	+112	+236	14 (part)
Other deposits	+169	+ 66	13, 14 (part)
National savings	+ 40	— 58	15 (part)
Other public sector debt (including notes and coin)	+ 1	+ 10	12, 15 (part), 21, 22
U.K. company, and overseas securities	—157	— 78	24
Life assurance and pension funds	+289	+270	7
	+454	+446	
Identified financial transactions (net increase in assets +) ...	+171	+293	25
Unidentified	— 75	—200	26
Financial surplus	+ 96	+ 93	27

disposed of more company and overseas securities than in the corresponding period of 1964, but in the third quarter it sold fewer than a year earlier, probably mainly because public companies were buying less in connection with take-over deals. Life assurance and pension funds grew more slowly than a year earlier; but 1964 had been a particularly expansive year for these funds. The falling away in 1965 seems to have been mainly in annuity business.

Industrial and commercial companies Gross trading profits of all companies (including banks and other financial institutions), after seasonal adjustment, were slightly higher in the third quarter than in the second, but were still below the record levels reached at the end of 1964 and the first quarter of 1965. Payments of dividends and interest were rather higher than in the same quarter of 1964, and undistributed income (saving) is estimated to have been slightly lower. Within the total, saving by industrial and commercial companies was distinctly lower, whereas that by financial companies was a record.

Industrial and commercial companies' capital expenditure was much the same as a year

earlier, fixed investment being a little higher and stockbuilding a little lower: so national income data suggest some decline in their financial surplus. Financial statistics, however, suggest that their financial position was rather easier than a year earlier, the identified increase in assets, net of liabilities, being some £60 million greater. In the second quarter the difference had been the other way, financial statistics suggesting a much tighter financial position than national income data. Taking the two quarters together, both series tell the same story—a slightly lower surplus than in the same period of 1964.

The improvement recorded by the financial statistics in the third quarter showed up partly in less borrowing than a year ago and partly in a larger acquisition of financial assets.

As a result of the restrictions on credit, there were considerable repayments of bank advances (£111 million, compared with a rise of nearly £50 million the year before): at the same time company deposits with the banks were rising more slowly. The reduction in bank advances represented a considerable change on the previous quarter, when advances rose by over £300 million. This change was partly due to seasonal reasons, but it also reflected a substantial increase in new capital issues: at

Table II

Industrial and commercial companies								£ millions		
								1964 III	1965 III	Lines in Table VII
Saving	...	...	...	...	...	...	...	+ 830	+ 777	1
Capital expenditure (<i>less</i> capital transfers)	...	...	...	...	...	...	...	- 697	- 696	2, 3, 4
Financial surplus	...	...	...	...	...	...	...	+ 133	+ 81	5
Borrowing (-)										
Banks (net of deposits)	...	...	...	...	...	...	...	+ 89	+ 150	13, 16
Capital issues	...	...	...	...	...	...	...	- 105	- 130	23
Other	...	...	...	...	...	...	...	- 79	- 78	8, 17 (<i>part</i>), 19
								- 95	- 58	
Acquisition of financial assets (+)										
Miscellaneous investment overseas (net)	...	...	...	...	...	...	...	+ 4	+ 56	11
U.K. company, and overseas securities	...	...	...	...	...	...	...	+ 125	+ 54	24
Public sector debt	...	...	...	...	...	...	...	+ 14	+ 45	12, 15, 20, 22
Other	...	...	...	...	...	...	...	+ 1	+ 10	14, 17 (<i>part</i>)
								+ 144	+ 165	
Identified financial transactions (net increase in assets +)	...	...	...	...	...	...	...	+ 49	+ 107	25
Unidentified	...	...	...	...	...	...	...	+ 84	- 26	26

£130 million, these were much more than double the level in the previous quarter, and were £25 million more than in the same quarter of 1964.

The rise of £20 million in identified acquisitions of financial assets, compared with a year earlier, included higher company investment overseas and lower foreign investment in this country; a greater rise in holdings of public sector debt; but a smaller increase in acquisitions of company securities through take-over deals. Within the total for public sector debt, companies' holdings of Treasury bills and of notes and coin both increased, but those of local authority debt fell a little. There were only small purchases of tax reserve certificates, perhaps because yields were relatively unfavourable and there was uncertainty about future taxes; for the first time in this quarter for many years companies' purchases of certificates failed to exceed repayments.

Overseas sector The balance of payments deficit on current account in the third quarter was £128 million. This was considerably less than the corresponding figure in 1964 (£192 million) and, on a seasonally adjusted basis, was more favourable than in the second quarter. The balancing item in the balance of payments accounts was small (£19 million); and the financing items, consisting of long-term capital transactions together with the monetary movements, produced an identified financial surplus for the overseas sector of

£109 million, £81 million smaller than a year earlier.

Compared with the third quarter of 1964, there was a swing of £100 million in overseas transactions with banks; deposits rose less and borrowing, especially through bills, rose more. Working the other way, there was a change of over £40 million in transactions with the rest of the private sector. Overseas deposits with financial institutions other than banks rose more, and U.K. portfolio holdings of foreign securities declined more, than a year earlier; on the other hand, U.K. companies invested more abroad, and there was a small outflow from private investment in the United Kingdom, compared with an inflow the year before. Miscellaneous public sector items also showed a large change compared with 1964, an important factor being the West German deposit, in July 1965, of £41 million.⁽¹⁾

Taken together, the changes in transactions with the private sector, and in miscellaneous public sector items, compared with a year earlier, virtually cancelled out; so the reduction in the surplus of the overseas sector was reflected in a smaller rise in overseas net claims on the Government—through transactions in marketable government debt and through changes in “reserves/central bank aid”. Overseas holdings of marketable government debt (excluding the counterpart of central bank aid) fell by £85 million, whereas in 1964 they had risen by £27 million: and the reserves fell less in 1965, but there was more central bank aid than a year earlier.

Table III
Overseas sector

	1964 III	1965 III	£ millions
Financial surplus	+192	+128	Lines in Table VII 5
Increase in assets or decrease in liabilities (+)			
Bank deposits/lending	+ 89	- 12	13, 16
Other private (net)	- 12	+ 32	11 (part), 14, 23, 24
Miscellaneous public sector (net)	- 40	+ 21	8, 11 (part), 22
Marketable government debt (excluding aid)	+ 27	- 85	20 (part), 21
Reserves/I.M.F. position/central bank aid	+126	+153	9, 10, 11 (part), 20 (part)
	+190	+109	
Unidentified (balancing item in the balance of payments) ...	+ 2	+ 19	26

⁽¹⁾ December 1965 *Bulletin*, page 305.

Public sector In the third quarter, the financial deficit of the public sector as a whole was £486 million, only a little greater than in the same quarter of 1964. The central government's deficit was over £50 million less: because of higher taxes there was a surplus on current account instead of the deficit more usual in this quarter. By contrast, both local authorities and public corporations, whose capital expenditure had continued to grow, had larger deficits.

As already explained, the increase in government liabilities to overseas, in the form of "reserves/central bank aid" and marketable government debt, was much less than a year earlier (£68 million compared with £153 million). In addition, there was a net reduction of £56 million in non-marketable government debt, compared with a rise of £63 million. It has been noted earlier, in the discussion of persons' financial transactions, that they found

investment in building societies much more attractive than national savings; and net repayment of national savings cost £58 million, whereas £40 million had been raised a year earlier. Tax reserve certificates brought in only £2 million, compared with £23 million.

Mainly because of the West German deposit, miscellaneous items cost £33 million less, despite a £19 million rise in local authority loans for house purchase.

Local authorities borrowed £61 million more than a year earlier from outside the public sector,⁽¹⁾ the increase in their borrowing from financial institutions more than offsetting a fall in that from the banks. In addition, much more Exchequer finance had to be raised from domestic sales of marketable government debt (£301 million, almost double the amount in 1964); and this was obtained largely through Treasury bills, which increased by £269 million, £82 million more than a year before.

Table IV
Public sector

				£ millions
		1964 III	1965 III	<i>Lines in Table VII</i>
Saving	...	+146	+220	1
Capital expenditure (<i>less</i> capital transfers)	...	-621	-706	2, 3, 4
Financial deficit	...	<u>-475</u>	<u>-486</u>	5
Of which:				
Central government	...	- 80	- 27	
Local authorities	...	-168	-218	
Public corporations	...	-227	-241	
Increase in assets or decrease in liabilities (+)				
Reserves/I.M.F. position/central bank aid/overseas holdings of marketable government debt	...	-153	- 68	9, 10, 11 (<i>part</i>), 20 (<i>part</i>), 21 (<i>part</i>)
Non-marketable government debt	...	- 63	+ 56	15
Miscellaneous items (net)	...	+145	+112	6, 7, 8, 11 (<i>part</i>), 12, 13, 16, 17, 18, 19, 24
Local authority debt	...	-155	-216	22
Domestic holdings of:				
Stocks	...	+ 33	- 32	21 (<i>part</i>)
Treasury bills	...	-187	-269	20 (<i>part</i>)
		<u>-380</u>	<u>-417</u>	
Unidentified	...	- 95	- 69	26

(1) At the end of July the authorities were required to phase their drawings from the Public Works Loan Board more evenly throughout the rest of the financial year.

Domestic holdings of stocks rose by £32 million during the quarter, following the revival of the gilt-edged market in August; a year earlier they had fallen by much the same amount. The banks took up £5 million, compared with sales of £73 million; while other financial institutions bought £84 million, double their purchases a year before. The personal sector, on the other hand, whose holdings were unchanged in the third quarter of 1964, sold some £55 million.

As already mentioned, £269 million had to be raised from domestic sales of Treasury bills, of which £245 million came from the banking sector, £46 million more than in the previous year.

Banks In the third quarter both domestic and foreign deposits with the banks rose more slowly than a year earlier. The slower growth in domestic deposits was partly due to the transfer of personal deposits into building societies—which invested part of their additional funds in government debt. It was also associated with a large rise during the quarter in the general public's holding of

notes,⁽¹⁾ which was described in the December 1965 *Bulletin* (page 323).

The slower growth in liabilities was more than matched, among assets, by the unchanged total of the banks' lending, compared with a rise of £208 million a year earlier (see Table V); by a fall of over £100 million in their lending to local authorities—mainly attributable to the accepting houses and overseas banks and connected, as in the previous quarter, with the slower rise in overseas deposits; and by the swing in the banks' holdings of notes. Holdings of marketable government debt rose much faster than a year earlier; by £250 million, compared with £126 million.

Other financial institutions Growth in the financial assets and liabilities of the other financial institutions, which had slowed down in the first half of 1965, accelerated in the third quarter, when they rose by about £100 million more than a year earlier. This was more than attributable to the building societies: most of the other groups of institutions experienced a smaller rise in their total funds.

Table V

Banks

	1964 III	1965 III	£ millions Lines in Table VII
Liabilities increase (—)			
Deposits:			
Domestic	—232	—122	} 13
Overseas	—211	—164	
Capital issues	— 7	— 2	23
	<u>—450</u>	<u>—288</u>	
Assets increase (+)			
Notes and coin	+ 2	— 64	12
Lending:			
Domestic	+ 86	—177	} 16
Overseas	+122	+176	
Local authority debt ^(a)	+133	+ 32	22
Government stocks	— 73	+ 5	21
Treasury bills	+199	+245	20
Other (net)	— 17	+ 6	6, 19, 24
	<u>+452</u>	<u>+223</u>	

^(a) Including bank advances.

⁽¹⁾ Changes in the distribution of notes between the banks and the public are particularly affected by the day of the week on which a quarter begins and ends.

The large increase in building society shares and deposits was not immediately accompanied by a rise in mortgages; and liquidity ratios, which had been falling since early in 1963, rose. Some of the funds available for investment went into government stocks, but there was a big rise (£130 million) in the societies' holdings of local authority debt. However, mortgage advances began to rise in September.

Contributions to life assurance and pension funds were again somewhat smaller than a year earlier. Insurance companies lent £14 million more for house purchase than in 1964, but bought £30 million less of government stocks. Pension funds bought £10 million more of government stocks, but they reduced their holdings of local authority debt, which a year earlier had increased. Both groups of institutions acquired much the same amount of company and overseas securities as a year before; but their purchases of ordinary shares were smaller, as in the second quarter, and those of other securities, particularly debentures, larger.

Hire-purchase finance companies had been asked to co-operate in restricting credit; controls on hire purchase were tightened during the summer; and in the third quarter these companies' assets, most of which are in hire-purchase debt, grew more slowly. To finance their activities, they took more deposits than a

year earlier, while reducing their outstanding borrowing in the form of commercial bills and bank advances.

The growth of deposits with the special investment departments of the trustee savings banks continued at a slower rate than in the previous year. Sales of unit trust units were similarly lower, but they were no smaller than in the previous quarter. New issues by investment trusts continued to be very low, and the trusts' total assets did not rise very much. There was, however, a fair amount of switching out of ordinary shares, particularly overseas equities, into government stocks: the trusts' investment of £17 million in gilt-edged during the quarter was the largest to have yet appeared in their quarterly figures.

Fourth quarter

The improvement in the balance of payments continued in the fourth quarter, when there was probably a small surplus on current account. The figures so far available for financial transactions, given in Table VII, show a small fall in net overseas claims on the United Kingdom, compared with a rise of nearly £300 million a year earlier. The fall in 1965, however, concealed big movements in individual items. As confidence in sterling improved from September onwards, overseas holders continued to

Table VI
Other financial institutions

	1964 III	1965 III	£ millions Lines in Table VII
Liabilities increase (—)			
Life assurance and pension funds	—271	—259	7
Deposits (including shares in building societies)	—156	—350	14
Capital issues (including sales of unit trust units)	— 37	— 18	23
Other (mainly bank) borrowing	— 20	+ 41	8, 16
	<hr/>	<hr/>	
	—484	—586	
Financial assets increase (+)			
Bank deposits	— 17	+ 3	13
Hire-purchase claims	+ 34	+ 14	17
House-purchase and other loans	+194	+147	11, 18, 19
Government debt	+ 34	+ 78	20, 21
Local authority debt	+ 15	+162	22
U.K. company, and overseas securities:			
Ordinary shares	+128	+ 54	} 24
Other	+ 64	+101	
	<hr/>	<hr/>	
	+452	+559	

replenish their bank deposits and holdings of marketable government debt. Overseas residents' net claims on the banks rose by £75 million—deposits increasing by £250 million but borrowing from the banks also rising, by £176 million—and their holdings of marketable government debt (excluding central bank assistance) by some £95 million. It was possible to repay nearly £100 million of central bank aid; and to add £89 million to the reserves.

In the public sector's figures, net government liabilities to overseas fell by £95 million in the fourth quarter. As the central government's net balance (Table 1 of the annex) showed a deficit of £528 million, the Government had to borrow £623 million at home. There was a further net repayment of national savings, but this was offset by net receipts on account of tax reserve certificates. The seasonal rise in the note circulation brought in £160 million and net indebtedness to the Bank of England, Banking Department, increased by about £75 million, reflecting higher bankers' deposits with the Bank. This left nearly £400 million to be

provided by domestic sales of marketable government debt. The firmness of the gilt-edged market, particularly early in the quarter, enabled the authorities to sell £105 million of stock to holders outside the banks, although these holders sold £26 million of Treasury bills. The banks took up the remaining £312 million of marketable government debt, £67 million in gilt-edged and £245 million in Treasury bills.

The total of bank deposits rose in the fourth quarter by nearly £650 million, of which £250 million was attributable to overseas residents. Among assets, marketable government debt increased by £312 million; other claims on the public sector by over £200 million, including some £90 million of local authority debt; and lending to overseas residents by some £175 million. There was scarcely any increase in lending to the private sector, where repayments by other financial institutions and persons almost offset borrowing by companies, which appears to have been small for the time of year.

Table
Sector financing :

	Line	Public sector			Overseas sector		
		1964 III	1965 III	1965 IV	1964 III	1965 III	1965 IV
Financial surplus (+)/deficit (-)							
Saving ^(a)	1	+ 146	+ 220				
Taxes on capital and capital transfers	2	+ 44	+ 29				
<i>less</i> : Gross fixed capital formation at home	3	- 642	- 715				
Increase in value of stocks and work in progress	4	- 23	- 20				
Financial surplus (+)/deficit (-)	5	- 475	- 486		+ 192	+ 128	
Changes in financial assets and liabilities							
<i>assets increase (+)/decrease (-)</i>							
<i>liabilities increase (-)/decrease (+)</i>							
Net indebtedness of Government to Bank of England,							
Banking Department	6	+ 19	+ 9	- 74			
Life assurance and superannuation funds	7	- 18	- 11				
Government loans	8	+ 34	+ 11		- 27	- 23	- 17
Gold and foreign exchange reserves	9	- 59	- 13	+ 89	+ 59	+ 13	- 89
Account with I.M.F.	10	- 1	- 1	+ 2	+ 1	+ 1	- 2
Miscellaneous investment overseas (net)	11	- 36	- 43		+ 28	- 13	
Notes and coin	12	- 3	+ 5	- 160	—	—	—
Bank deposits	13	- 16	—	+ 35	+ 211	+ 164	+ 250
Deposits with other financial institutions	14				+ 9	+ 78	
Non-marketable government debt	15	- 63	+ 56	+ 2			
Bank lending	16	+ 4	- 1	+ 4	- 122	- 176	- 176
Hire-purchase debt	17	+ 2	—				
Loans for house purchase	18	+ 29	+ 48				
Other loans	19	+ 71	+ 94				
Marketable government debt :							
Treasury bills	20	- 203	- 387	- 192	+ 16	+ 118	- 27
Stocks	21	+ 15	+ 32	- 197	+ 18	- 64	+ 25
Local authority debt	22	- 155	- 216		+ 10	+ 1	
U.K. company, and overseas securities:							
Capital issues	23				- 6	—	
Other transactions	24	—	—		- 7	+ 10	
Identified financial transactions	25	- 380	- 417		+ 190	+ 109	
Unidentified	26	- 95	- 69		+ 2	+ 19	
Total = Financial surplus (+)/deficit (-)	27	- 475	- 486		+ 192	+ 128	

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

VII
quarterly figures

£ millions

Private sector												
Persons			Industrial and commercial companies			Banks			Other financial institutions			
1964 III	1965 III	1965 IV	1964 III	1965 III	1965 IV	1964 III	1965 III	1965 IV	1964 III	1965 III	1965 IV	
+421	+401		+830	+777								Line 1 2 3 4
- 47	- 35		+ 3	+ 6					+116	+150		
-251	-243		-532	-547					- 29	- 34		
- 27	- 30		-168	-155								
+ 96	+ 93		+133	+ 81					+ 87	+116		5
						1964 III	1965 III	1965 IV	1964 III	1965 III	1965 IV	
+289	+270		- 7	+ 13		- 19	- 9	+ 74	-271	-259		6
- 1	- 1								+ 1	-		7
												8
			+ 4	+ 56					+ 4	-		9
												10
+ 1	+ 30	+ 53	-	+ 29	+ 53	+ 2	- 64	+ 54	-	-		11
+133	+ 45	+250	+132	+ 74	+ 80	-443	-286	-646	- 17	+ 3	+ 31	12
+148	+257		- 1	+ 15					-156	-350		13
+ 45	- 53	- 19	+ 18	- 3	+ 17							14
												15
- 26	+ 61	+ 23	- 43	+ 76	- 64	+208	- 1	+189	- 21	+ 41	+ 24	16
- 30	- 12		- 6	- 2					+ 34	+ 14		17
-191	-170								+162	+122		18
- 35	- 31		- 64	- 94		-	+ 6	-	+ 28	+ 25		19
			- 6	+ 30		+199	+245	+245	- 6	- 6		20
- 5	- 57		-			- 73	+ 5	+ 67	+ 40	+ 84		21
	+ 32		+ 2	- 11		+133	+ 32	+ 91	+ 15	+162		22
			-105	-130	-133	- 7	- 2	-	- 37	- 18	- 33	23
-157	- 78		+125	+ 54		+ 2	+ 9	+ 17	+192	+155		24
+171	+293		+ 49	+107		+ 2	- 65	+ 91	- 32	- 27		25
- 75	-200		+ 84	- 26					+117	+208		26
+ 96	+ 93		+133	+ 81					+ 87	+116		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

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

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

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

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

Banks: the banking sector as in Table 8 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 III, -33; 1965 III, +68).

Line 6. Net indebtedness of Government to Bank of England, Banking Department: see footnote (c) to Table 1 of the annex. 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
	III	III	IV
Bankers' deposits, increase (+) ...	-30	-44	+117
Special Deposits, increase (+) ...	—	+ 2	+ 2
Advances to the discount market, increase (-) ...	+13	+26	- 34
	-17	-16	+ 85

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 8 of the annex) 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 of local authority rates.

Lines 20 and 21. Marketable government debt: see Table 3 (i) of the annex. 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 1965 *Bulletin*, page 130.