Analysis of financial statistics

Economic activity continued to expand in the first quarter of 1966. After allowing for seasonal factors, there was a sharp increase in consumers' expenditure, and a recovery in stockbuilding from its low rate in the previous quarter. The balance of payments on current account, which had shown a surplus in the fourth quarter of last year, deteriorated and there was a deficit equal to that of a year ago.

One of the main factors affecting the sector accounts was a substantial increase in dividend payments by companies; this resulted in a big financial deficit for industrial and commercial companies—which they covered by borrowing heavily from the banks, by raising a very large amount through new capital issues, and by reducing their holdings of liquid assets. Personal saving was high; the rise in dividends and other income more than offset the increase in personal expenditure. Expenditure rose less than personal income, because it was affected by credit restraint: persons borrowed little from the banks for the time of year and repaid more hire purchase debt than usual.

The central government had a particularly large financial surplus, because of higher tax receipts. But their lending to local authorities through the Public Works Loan Board was heavy and, as explained later, their net liabilities to overseas fell, whereas they had risen in the first quarter of 1965. Repayments of government debt to domestic holders were therefore smaller than a year ago.

Election uncertainties and doubts about the economy weakened the gilt-edged market, and in addition a considerable amount of 5½% Exchequer Stock 1966 was outstanding in the market on the redemption date in March, so there were substantial reductions during the quarter in holdings of government stocks by persons, banks, overseas residents and insurance companies. Competition from new company issues, three-quarters of which were in the form of loan capital, also affected the gilt-edged market. Insurance companies and pension funds preferred debentures and equities to government stocks, while investment trusts, which attracted a large amount of new money, favoured equities. Unit trusts continued to flourish and they too were active in the equity market. Persons' holdings of government stocks fell by an exceptionally large amount, but their sales of company and overseas securities were smaller than usual.

The fall in domestic holdings of government debt outside the banks was twice as great as a year earlier, so, with a smaller reduction in domestic government debt as a whole, the banks' holdings fell much less than a year ago; they reduced their holdings of stocks more sharply than last year—largely because of the redemption—and in consequence their Treasury bill holdings fell by less than half as much as they had fallen a year earlier. The banks increased their lending to the private sector by some £75 million less than in the first quarter of 1965—with companies borrowing considerably more but persons and other financial institutions much less. Overseas deposits rose more than lending abroad, and domestic deposits fell less than usual at this time of year.

The financial transactions of the individual sectors in the first quarter are described in detail below, and some preliminary comment on the second quarter is made at the end. Table VII sets out the detailed quarterly statistics.

All companies In the first quarter of 1966 the saving of companies, including financial institutions, was negative (in other words, after paying dividends, interest and taxes and deducting profits due abroad, they had a deficit) for the first time since the severe winter of 1963. Gross trading profits were lower than a year earlier, while tax payments were greater, because of the higher rate of income tax, which was mainly paid on the large profits earned in 1964. But the chief cause of the deterioration in company saving was the exceptionally high level of dividends; payments were some £200 million more than a year ago because companies brought them forward to take advantage of the transitional arrangements in the Finance Act 1965.[1]

Industrial and commercial companies Industrial and commercial companies alone also had a negative savings figure, of about £110 million, a swing of nearly £380 million compared with a year earlier. At the same time, they spent more on fixed investment than a year before and their stockbuilding, which had been sharply reduced in the previous quarter, was also larger. Consequently their financial deficit, according to national income statistics, was very large (£853 million)—over £400 million greater than in the first quarter of 1965.

Financial statistics did not show so great a deterioration; the deficit on identified financial transactions was only about £200 million more than a year earlier. The unidentified item—which is the difference between the financial deficit calculated from national income data and that derived from financial statistics—was considerably less than a year ago and was much smaller than usual. It may well be that the national income accounts have overestimated companies' financial deficit.[2] Another possibility is that companies' payments to foreigners may have been overestimated, or receipts underestimated: there was an unusually large balancing item in the overseas

Table I

Industrial and commercial companies

£ millions

	1965 I	1966 I	*Lines in Table VII*
Saving	+268	−111	*1*
Capital expenditure (*less* capital transfers)	−681	−742	*2, 3, 4*
Financial deficit (−)	−413	−853	*5*
Borrowing (−)			
Banks	−239	−328	*16*
Capital issues	− 85	−202	*23*
Other	−127	−135	*8, 17 (part), 19*
	−451	−665	
Acquisition of financial assets (+)			
Miscellaneous investment overseas (net)	+ 80	+101	*11*
U.K. company, and overseas securities	+ 89	+ 65	*24*
Bank deposits/notes and coin	−202	−208	*12, 13*
Other	−216	−205	*14, 15, 17 (part), 20, 22*
	−249	−247	
Identified financial transactions	−700	−912	*25*
Unidentified	+287	+ 59	*26*

(1) June *Bulletin*, page 116.

(2) The figure for stockbuilding may be too large; see *Economic Trends* for July, page iii.

sector accounts. A third possible reason for the smallness of the unidentified item is that companies gave less trade credit to persons and unincorporated businesses than usual: it was suggested in the June *Bulletin* that a particularly large amount might have been granted at Christmas, and this might now have been repaid; moreover, in view of the restraint on bank lending, companies may have been less willing than usual to extend new trade credit.

In the first quarter of the year, companies normally borrow heavily and at the same time run down their financial assets. This year they borrowed much more than usual, but reduced their financial assets by no more than a year earlier. Many individual companies could maintain their expenditure and pay their taxes only by borrowing, because they were short of liquid assets; in particular, total company holdings of tax reserve certificates and of marketable government debt were already low and the scope for further reductions was limited.

Companies obtained more bank finance than in the first quarter of 1965; and it is probable that had there been no restriction on credit their bank borrowing would have been even greater. They also raised an exceptionally large amount, over £200 million, through capital issues—some £40 million more than recorded in any previous quarter.

On the assets side, net investment overseas was slightly larger than a year earlier: companies' long-term investment was greater and more short-term credit was extended to foreigners; these changes more than offset higher inward investment. On the other hand, companies paid somewhat less to acquire subsidiaries through take-overs.

The reduction of about £400 million in the more liquid assets was much the same as a year before, and was spread among all the main categories. There was the usual large decline in bank deposits; the fall in holdings of tax reserve certificates was smaller than a year earlier; but holdings of local authority debt, which had been built up considerably in 1961-64, were reduced by more than a year ago.

Persons The exceptionally large dividend payments by companies were the main cause of a sharp rise in personal income in the first quarter: although tax payments were heavy, disposable incomes were $4\frac{1}{2}\%$ higher, seasonally adjusted, than in the fourth quarter of 1965. Consumers' expenditure, after seasonal adjustment, rose by rather less than this (3%), and personal saving increased by some £110 million. Capital expenditure and capital transfers also increased, but the seasonally adjusted financial surplus[1] was still some £90 million larger than in the previous quarter.

Before seasonal adjustment, the financial surplus derived from national income data was some £140 million higher than in the first quarter of 1965. Identified financial transactions, however, showed a slightly smaller increase, of about £115 million, and the unidentified item was nearly £25 million larger. The estimate of consumers' expenditure in the first quarter of this year may be too high;[2] if so, the financial surplus derived from national income data would be too small, and the unidentified item would show a greater increase over a year ago—which could well be explained by a larger net repayment of trade credit to companies.

The net increase of about £115 million in the surplus on identified financial transactions, compared with the first quarter of last year, comprised some £80 million less borrowing and an increase of about £35 million in the acquisition of financial assets.

After making net repayments to the banks for three successive quarters, persons now borrowed £40 million, but this was a small amount for the time of year—some £60 million less than a year ago. Persons usually make net repayments of hire purchase debt in the first quarter, and this time the net amount repaid was particularly large (£40 million), because terms control and the restriction of finance companies' lending were affecting new credit. Borrowing for house purchase was somewhat greater than in the first quarter of last year; more was obtained from building

(1) The Central Statistical Office now publish seasonally adjusted figures for the financial surpluses/deficits of the main sectors, derived from national income figures. See, for example, *Financial Statistics* for August, Table 1.

(2) See *Economic Trends* for July, page iii.

Table II

Persons

£ millions

	1965 I	1966 I	*Lines in Table VII*
Borrowing (−)			
From banks and through hire purchase	− 89	—	*16, 17*
Other	−215	−227	*8, 18, 19*
	−304	−227	
Acquisition of financial assets (+)			
Bank deposits/notes and coin	+ 29	+142	*12, 13*
Other deposits	+198	+339	*14, 15 (part)*
National savings securities	+ 8	− 85	*15 (part)*
Government stocks	− 41	−151	*21*
Other public sector debt	+108	− 9	*15 (part), 22*
U.K. company, and overseas securities	−159	− 61	*24*
Life assurance and pension funds	+305	+310	*7*
	+448	+485	
Identified financial transactions	+144	+258	*25*
Unidentified	+127	+151	*26*
Financial surplus (+)	+271	+409	*27*

societies but less from insurance companies and there was a small net repayment to local authorities, whose lending was restrained by the July 1965 measures.[1]

The personal sector's holdings of the most liquid assets—bank deposits, and notes and coin—rose by about £115 million more than a year ago, of which £90 million was attributable to bank deposits; while holdings of other financial assets increased by some £80 million less. Uncertainties about the economy, and the influence of the general election, were probably important reasons for this quest for liquidity. In addition, many of the exceptionally large dividends were concentrated at the end of the quarter—and the redemption of $5\frac{1}{2}\%$ Exchequer Stock was also in March—so that some of the funds received in these ways were probably still on deposit at the banks waiting to be reinvested or spent.

There was also considerable switching between various financial assets. Investment with building societies continued to be favoured because of the relatively attractive interest rates. The personal sector's net sale of company and overseas securities was much smaller than usual, influenced by the high rate of company new issues. By contrast, withdrawals from national savings securities exceeded investment for the fourth successive quarter; the higher-yielding national savings certificate was not issued until the end of March. Moreover, investment in local authority debt totalled only about £15 million, compared with £130 million a year earlier; rates of interest on local authority temporary money had then been exceptionally high, whereas in the first quarter of this year local authorities reduced their outstanding borrowing on temporary money and interest rates were much lower.

The increase in life assurance and pension funds, at £310 million, was £15 million above the quarterly average for 1965, continuing the long-term upward trend.[2]

Financial institutions other than banks

The liabilities of the other financial institutions grew rapidly in the first quarter: the increase was nearly £180 million more than a year ago and about £120 million more than in the previous quarter. Building societies, which had difficulty in attracting funds early in 1965, experienced a large inflow into shares and deposits this year, although seasonally adjusted figures show that the inflow has not accelerated since the third quarter of last year.

(1) September 1965 *Bulletin*, page 216.

(2) See the article on page 246.

Capital issues were very high because some investment trusts made issues of a special kind, offering equity capital divided between income shares appealing to investors looking for a high yield and capital shares attractive to those mainly interested in capital appreciation.[1] Unit trusts became even more popular and net sales of units were nearly twice as great as in any previous quarter. By contrast, however, the institutions borrowed very little from the banks; hire purchase finance companies, in particular, which had borrowed heavily at the beginning of 1965, now took only a small amount.

Among assets, bank deposits did not fall as much as usual at this time of year. Like persons, the financial institutions may have had funds awaiting reinvestment: investment trusts' deposits, for example, increased by £14 million. Following the lean quarters in the middle of 1965, demand for loans for house purchase from building societies and insurance companies remained high, partly because of the restriction on local authority loans for this purpose. The building societies, with their large inflow of funds, continued to increase their lending; but insurance companies, because of increased repayments, lent less for house purchase (net) than a year earlier. The finance houses' hire purchase claims barely rose and other lending by the sector was a little smaller than a year ago.

The institutions invested nearly £50 million more than a year earlier in public sector debt and some £90 million more in company and overseas securities, but the pattern of investment varied considerably within the sector. The building societies, which were still increasing their liquid assets as well as lending more on mortgage, acquired both local authority debt and government stocks. Insurance companies reduced their holdings of government stocks by £24 million, the first substantial fall since quarterly figures became available in 1963, and they took up only slightly more local authority debt than a year earlier; but they invested much more in company securities, especially debentures, issues of which were very large. Pension funds had invested sizable amounts in government stocks throughout 1965, but their holdings now fell a little; they put less than a year ago into local authority debt; and they too bought more company securities—both ordinary shares and fixed interest stocks. Investment and unit trusts made substantial purchases of U.K. equities; these purchases were appreciably larger than in the previous quarter and much greater than a year earlier.

Table III

Other financial institutions

£ millions

	1965 I	1966 I	*Lines in Table VII*
Increase in liabilities (−)			
Life assurance and pension funds	−293	−291	*7*
Deposits (including building society shares)	−111	−325	*14*
Capital issues	− 3	− 51	*23*
Unit trust units (net)	− 17	− 38	
Other (mainly bank) borrowing	−107	− 5	*8, 16*
	−531	−710	
Increase in assets (+)			
Bank deposits	− 29	− 15	*13*
Loans for house purchase	+130	+180	*18*
Hire purchase claims	+ 28	+ 3	*17*
Other loans	+ 51	+ 46	*11, 19*
Public sector debt	+ 74	+120	*20, 21, 22*
U.K. company, and overseas securities:			
Ordinary shares	+ 92	+122	*24*
Other	+ 79	+140	
	+425	+596	

(1) June *Bulletin*, page 116.

Overseas sector The U.K. balance of payments on current account, which had shown a surplus in the final quarter of 1965, was back in deficit in the first quarter of this year. The overseas sector thus had a surplus, of £26 million—the same figure as a year earlier.

Identified transactions in financial assets and liabilities, however, showed that overseas residents reduced their net holdings of financial assets by about £50 million; so that there was a positive balancing item of £77 million, larger than usual in this quarter.

Foreigners' net assets with U.K. banks increased by nearly £80 million, of which £54 million represented the counterpart of the special swap with the U.S. authorities in March, which was deposited with the Banking Department.(1) Within the total, net sterling assets increased, reflecting the better balance of payments position of overseas sterling area countries, but net foreign currency assets fell—although currency deposits rose, foreign borrowing rose more because relative interest rates made it profitable for U.K. banks to switch funds formerly employed in sterling back into foreign currency.

Transactions with the rest of the private sector resulted in a rise of about £30 million in net overseas liabilities to this country. Net U.K. investment abroad and short-term borrowing by foreigners was only partly offset by an increase in overseas deposits with financial institutions other than banks.

Overseas holdings of marketable government debt (excluding the counterpart of special transactions with the U.S. authorities during the quarter) changed little: a weak gilt-edged market and the redemption of $5\frac{1}{2}\%$ Exchequer Stock brought a fall in holdings of government stocks, but this was offset by an increase in overseas sterling area countries' holdings of Treasury bills. There was little change in foreign holdings of local authority debt, but the special West German deposit(2) fell by £17 million, and the Government lent over £20 million in connection with the aid programme. In all, miscellaneous foreign liabilities to the public sector increased by over £50 million.

These various transactions meant that it was possible to repay central bank assistance or to augment the reserves to the extent of about £55 million. In the event the United Kingdom repaid the balance, of £169 million, which had been outstanding at the end of 1965 under the credit facilities with the U.S. authorities; and the reserves, together with the Government's portfolio of dollar securities, fell by £113 million.(3)

Table IV

Overseas sector

£ millions

	1965 I	1966 I	*Lines in Table VII*
Increase in assets or decrease in liabilities (+)			
Bank deposits/borrowing	+ 47	+ 79	*13, 16*
Other private (net)	−106	− 33	*11 (part), 14, 23, 24*
Marketable government debt (excluding aid)	− 68	+ 9	*20 (part), 21*
Miscellaneous public sector (net)	+ 17	− 53	*8, 11 (part), 12, 22*
Reserves, dollar portfolio, central bank aid, etc.	+137	− 53	*9, 10, parts of 11, 20*
Identified financial transactions	+ 27	− 51	*25*
Unidentified (balancing item in the balance of payments) ...	− 1	+ 77	*26*
Financial surplus (+)	+ 26	+ 26	*27*

(1) June *Bulletin*, page 110.

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

(3) In fact, the reserves rose by £203 million, but this includes the transfer of £316 million from the portfolio of dollar securities.

Public sector

The public sector had a much larger financial surplus than usual in the first quarter, some £200 million greater than a year earlier. Larger current surpluses of the central government and local authorities, resulting mainly from last year's tax increases and from higher local rates, more than offset greater capital expenditure.

Local authorities had a slightly smaller financial deficit than a year earlier and their lending for house purchase, which had totalled over £30 million a year ago, was affected by the July 1965 measures and now showed a small net repayment. This reduced their need for finance and altogether they borrowed about £50 million less than in the first quarter of 1965. As they obtained over £100 million more from the public sector—because they were drawing the balance of their P.W.L.B. quotas before the end of the financial year—their borrowing from other sectors was £150 million less.

The central government's financial surplus was over £200 million larger than in the first quarter of 1965. But they lent more to local authorities; and their net liabilities to overseas were reduced by about £100 million, a swing of some £170 million on a year earlier. They were therefore unable to repay as much debt to domestic holders as in the same quarter of last year.

There were net withdrawals of £27 million from national savings, compared with net investment of £63 million a year ago. But holdings of tax reserve certificates fell by about £45 million less, and the decrease in the domestic note circulation was about £20 million smaller. Moreover, net Exchequer indebtedness to the Banking Department fell by only £3 million, compared with £34 million, because it included the counterpart of the £54 million special swap with the U.S. authorities. The total reduction in these items was thus about the same as in the first quarter of 1965.

The decrease in domestic holdings of marketable government debt, however, was £56 million smaller than a year earlier. There were large reductions in holdings of gilt-edged by persons, banks and insurance companies: building societies alone made sizable purchases.

Table V

Public sector

£ millions

	1965 I	1966 I	*Lines in Table VII*
Saving	+1,267	+1,519	*1*
Capital expenditure (*less* capital transfers)	− 681	− 738	*2, 3, 4, 5*
Financial surplus (+)	+ 586	+ 781	
Of which:			
Central government	+ 967[a]	+1,190	
Local authorities	− 189	− 177	
Public corporations	− 192[a]	− 232	
Increase in assets or decrease in liabilities (+)			
Loans for house purchase	+ 32	− 6	*18*
Local authority debt	− 251	− 101	*22*
Government liabilities to overseas (net)	− 73	+ 99	*9, 10, 11, parts of 8, 12, 20, 21*
Miscellaneous capital assets (net)	+ 75	+ 94	*7, 8 (part), 13, 16, 17, 19, 24*
Non-marketable debt, etc.	+ 220	+ 213	*6, 12 (part), 15*
Domestic holdings of marketable government debt	+ 604	+ 548	*parts of 20, 21*
Identified financial transactions	+ 607	+ 847	*25*
Unidentified	− 21	− 66	*26*

(a) A capital transfer of 415 from the central government to public corporations, representing the write-off of National Coal Board debt, has not been taken into consideration.

These reductions were partly due to the weakness of the gilt-edged market, because of economic and election uncertainties, although official purchases of the maturing Exchequer Stock, and its redemption, were also an important influence. Total domestic holdings of stocks decreased by £305 million, compared with only £13 million in the first quarter of last year. This meant that there was a much smaller reduction in Treasury bills—some £240 million, compared with about £590 million a year ago.

Banks Bank deposits usually fall in the first quarter of the year, but this year they rose, by £132 million, compared with a fall of £177 million a year earlier. The swing occurred mainly because of a large increase in overseas deposits, which has already been described. In addition, there was an unusually small reduction in domestic deposits, despite the Government's bigger current surplus, because of a substantial fall in government debt held outside the banks.

The large amount of lending to overseas residents in foreign currency has already been discussed. In addition, there was room for a substantial amount of sterling lending to the domestic private sector, within the 105% limit; as mentioned earlier, industrial and commercial companies obtained most of this.

The banks took up a much smaller amount of local authority debt than a year ago; local authorities' borrowing needs were smaller, and the banks, which had met the local authorities' requirements by switching foreign currency deposits into sterling early in 1965, were now switching back into foreign currency because domestic interest rates were less attractive. But the reduction in the banks' holdings of marketable government debt was much smaller than a year earlier; their government stocks fell more sharply but the reduction in their Treasury bill holdings, of £238 million, was considerably less than that of £568 million a year before.

Second quarter Preliminary figures for the second quarter suggest that although companies were paying less tax, and probably smaller dividends, than usual, their liquid resources were coming under further strain. During this quarter industrial and commercial companies usually start to rebuild their deposits with banks and finance houses, following their heavy tax payments in the first quarter. This year, however, their bank deposits fell slightly, and deposits with finance houses rose less than usual. Companies' net purchases of tax reserve certificates were smaller than a year ago (the new certificate was not issued until 27th June), and also smaller than in the same quarters of 1963 and

Table VI

Banks

£ millions

	1965 I	1966 I	*Lines in Table VII*
Increase in liabilities (−)			
Deposits:			
Overseas	− 8	−230	*13*
Domestic	+185	+ 98	
	+177	−132	
Increase in assets (+)			
Lending:			
Overseas	− 39	+151	*16*
Domestic	+434	+369	
Local authority debt[a]	+121	+ 32	*22*
Marketable government debt	−606	−385	*20, 21*
Other (net)	− 59	− 63	*6, 12, 19, 24*
	−149	+104	

(a) Including bank advances.

1964. Their bank borrowing continued to be limited by credit restrictions, and they obtained much less bank finance than usual; but new capital issues, although smaller than in the previous quarter, were still very large.

Persons' borrowing from building societies was much heavier than a year earlier but, allowing for seasonal factors, no greater than in the previous quarter. The personal sector borrowed about £40 million from the banks; this compared with a large net repayment in the second quarter of last year, but was only half as much as was borrowed in the same quarter of the two previous years. Personal bank deposits rose little for the time of year: it was suggested earlier that there were unusually large amounts on deposit at the end of the first quarter, and these may now have been spent or reinvested. Moreover, people invested less in building society shares and deposits, seasonally adjusted, than in the first quarter.

The central government's net balance (Table 1 of the statistical annex) was about £40 million smaller than a year earlier. External transactions, however, rose by £265 million more than a year ago; and the Government borrowed some £300 million less at home than in the second quarter of 1965. Domestic borrowing outside the banking sector was about £25 million greater than a year earlier, because of sizable official sales of government stocks. The gilt-edged market improved in April—when calls on new fixed interest issues by companies fell sharply and some of the proceeds of the redemption of 5½% Exchequer Stock in March were probably being reinvested—and, as noted in the Commentary, it remained quite firm until the middle of June.

The banks, which had provided some £360 million of government finance a year earlier, were now left to provide only £30 million. Moreover, their lending to the domestic private sector, which expanded rapidly in the second quarter of last year, rose only modestly. On the other hand, the banks took up some £40 million of local authority debt, whereas they had sharply reduced their holdings a year ago, and their foreign currency lending rose substantially—partly because they were gaining foreign currency deposits and partly because, as described in the Commentary (page 211), they continued to switch back into foreign currency large amounts previously employed in sterling assets. Overseas deposits with the banks rose by £175 million (attributable entirely to deposits in foreign currency), whereas they had fallen a little in the second quarter of last year; but domestic deposits rose much less than a year ago.

Table

Sector financing :

	Line	Public sector 1965 I	Public sector **1966 I**	Public sector *1966 II*	Overseas sector 1965 I	Overseas sector **1966 I**	Overseas sector *1966 II*
Financial surplus (+)/deficit (—)							
Saving	1	+1,267	**+1,519**				
Taxes on capital and capital transfers	2	+ 36	**+ 43**				
less: Gross fixed capital formation at home	3	— 723	**— 780**				
Increase in value of stocks and work in progress	4	+ 6	**— 1**				
Financial surplus (+)/deficit (—)[a]	5	+ 586	**+ 781**		+ 26	**+ 26**	
Changes in financial assets and liabilities							
assets increase (+)/decrease (—)							
liabilities increase (—)/decrease (+)							
Net indebtedness of Government to Bank of England, Banking Department	6	+ 34	**+ 3**	*+ 4*			
Life assurance and superannuation funds	7	— 12	**— 19**				
Government loans	8	+ 26	**+ 27**		— 15	**— 23**	
Gold and foreign exchange reserves	9	+ 5	**— 113[b]**	*—106*	— 5	**+113[b]**	*+106*
Account with I.M.F.	10	+ 6	**— 3**		— 6	**+ 3**	
Miscellaneous investment overseas (net)	11	— 27	**+ 32**		— 53	**—134**	
Notes and coin	12	+ 53	**+ 54**	*—101*	+ 20		
Bank deposits	13	— 30	**— 18**	*+ 85*	+ 8	**+230[c]**	*+175*
Deposits with other financial institutions	14				— 21	**+ 59**	
Non-marketable government debt	15	+ 113	**+ 156**	*— 18*			
Bank lending	16	+ 14	**+ 5**	*+ 24*	+ 39	**—151[c]**	*—295*
Hire purchase debt	17	+ 1	**— 3**				
Loans for house purchase	18	+ 32	**— 6**				
Other loans	19	+ 91	**+ 109**				
Marketable government debt:							
Treasury bills	20	+ 597	**+ 347**	*—122*	— 6	**—104**	*+102*
Stocks	21	— 45	**+ 361**	*— 91*	+ 58	**— 56**	*+ 80*
Local authority debt	22	— 251	**— 101**		+ 13	**+ 2**	
U.K. company, and overseas securities:							
Capital issues	23				— 23	**— 1**	
Other transactions	24	—	**+ 16**		+ 18	**+ 11**	
Identified financial transactions	25	+ 607	**+ 847**		+ 27	**— 51**	
Unidentified	26	— 21	**— 66**		— 1	**+ 77**	
Total=Financial surplus (+)/deficit (—)[a]	27	+ 586	**+ 781**		+ 26	**+ 26**	

(a) As in *Financial Statistics* for August, except that the overseas sector's surplus in 1965 I has been revised, as in Table 18 of the annex; the implied residual error, therefore, also differs slightly.

(b) These figures include not only the change in the reserves (a rise of 203), but also that in the Government's portfolio of dollar securities (a fall of 316).

VII
quarterly figures

£ millions

<table>
<tr><th colspan="12">Private sector</th><th></th></tr>
<tr><th colspan="3">Persons</th><th colspan="3">Industrial and commercial companies</th><th colspan="3">Banks</th><th colspan="3">Other financial institutions</th><th></th></tr>
<tr><th>1965 I</th><th>1966 I</th><th>1966 II</th><th>1965 I</th><th>1966 I</th><th>1966 II</th><th colspan="6">1965 I / 1966 I / 1966 II</th><th>Line</th></tr>
<tr><td>+621</td><td>+768</td><td></td><td>+268</td><td>−111</td><td></td><td colspan="6">−148 / −116</td><td>1</td></tr>
<tr><td>− 42</td><td>− 49</td><td></td><td>+ 6</td><td>+ 6</td><td></td><td colspan="6"></td><td>2</td></tr>
<tr><td>−260</td><td>−259</td><td></td><td>−544</td><td>−565</td><td></td><td colspan="6">− 39 / − 38</td><td>3</td></tr>
<tr><td>− 48</td><td>− 51</td><td></td><td>−143</td><td>−183</td><td></td><td colspan="6"></td><td>4</td></tr>
<tr><td>+271</td><td>+409</td><td></td><td>−413</td><td>−853</td><td></td><td colspan="6">−187 / −154</td><td>5</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><th>1965 I</th><th>1966 I</th><th>1966 II</th><th>1965 I</th><th>1966 I</th><th>1966 II</th><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td>− 34</td><td>− 3</td><td>− 4</td><td></td><td></td><td></td><td>6</td></tr>
<tr><td>+305</td><td>+310</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>−293</td><td>−291</td><td></td><td>7</td></tr>
<tr><td>− 2</td><td>− 3</td><td></td><td>− 10</td><td>− 2</td><td></td><td></td><td></td><td></td><td>+ 1</td><td>+ 1</td><td>—</td><td>8</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>9</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>10</td></tr>
<tr><td></td><td></td><td></td><td>+ 80</td><td>+101</td><td></td><td></td><td></td><td></td><td>—</td><td>+ 1</td><td></td><td>11</td></tr>
<tr><td>− 23</td><td>—</td><td>+ 34</td><td>− 24</td><td>− 1</td><td>+ 34</td><td>− 26</td><td>− 53</td><td>+ 33</td><td></td><td></td><td></td><td>12</td></tr>
<tr><td>+ 52</td><td>+142</td><td>+ 36</td><td>−178</td><td>−207</td><td>− 9</td><td>+177</td><td>−132(c)</td><td>−315</td><td>− 29</td><td>− 15</td><td>+ 28</td><td>13</td></tr>
<tr><td>+143</td><td>+281</td><td></td><td>− 11</td><td>− 15</td><td></td><td></td><td></td><td></td><td>−111</td><td>−325</td><td></td><td>14</td></tr>
<tr><td>+ 41</td><td>− 53</td><td>− 1</td><td>−154</td><td>−103</td><td>+ 12</td><td></td><td></td><td>+ 7</td><td></td><td></td><td></td><td>15</td></tr>
<tr><td>−101</td><td>− 40</td><td>− 41</td><td>−239</td><td>−328</td><td>− 34</td><td>+395</td><td>+520(c)</td><td>+318</td><td>−108</td><td>− 6</td><td>+ 28</td><td>16</td></tr>
<tr><td>+ 12</td><td>+ 40</td><td></td><td>− 41</td><td>− 40</td><td></td><td></td><td></td><td></td><td>+ 28</td><td>+ 3</td><td>+ 22</td><td>17</td></tr>
<tr><td>−162</td><td>−174</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>+130</td><td>+180</td><td></td><td>18</td></tr>
<tr><td>− 51</td><td>− 50</td><td></td><td>− 83</td><td>− 98</td><td></td><td>− 8</td><td>− 6</td><td>+ 6</td><td>+ 51</td><td>+ 45</td><td></td><td>19</td></tr>
<tr><td></td><td></td><td></td><td>− 10</td><td>− 13</td><td></td><td>−568</td><td>−238</td><td>+ 18</td><td>− 13</td><td>+ 8</td><td></td><td>20</td></tr>
<tr><td>− 41</td><td>−151</td><td></td><td></td><td></td><td></td><td>− 38</td><td>−147</td><td>− 24</td><td>+ 66</td><td>− 7</td><td></td><td>21</td></tr>
<tr><td>+130</td><td>+ 17</td><td></td><td>− 34</td><td>− 69</td><td></td><td>+121</td><td>+ 32</td><td>+ 41</td><td>+ 21</td><td>+119</td><td></td><td>22</td></tr>
<tr><td></td><td></td><td></td><td>− 85</td><td>−202</td><td>−128</td><td>—</td><td>—</td><td>− 1</td><td>− 20</td><td>− 89</td><td>− 45</td><td>23</td></tr>
<tr><td>−159</td><td>− 61</td><td></td><td>+ 89</td><td>+ 65</td><td></td><td>+ 9</td><td>− 1</td><td>+ 11</td><td>+171</td><td>+262</td><td></td><td>24</td></tr>
<tr><td>+144</td><td>+258</td><td></td><td>−700</td><td>−912</td><td></td><td>+ 28</td><td>− 28</td><td>+ 90</td><td>−106</td><td>−114</td><td></td><td>25</td></tr>
<tr><td>+127</td><td>+151</td><td></td><td>+287</td><td>+ 59</td><td></td><td colspan="6">−109 / − 12</td><td>26</td></tr>
<tr><td>+271</td><td>+409</td><td></td><td>−413</td><td>−853</td><td></td><td colspan="6">−187 / −154</td><td>27</td></tr>
</table>

(c) After allowing for the change in the method of reporting inter-branch accounts of overseas banks, see footnote (d) to Table 10 of the annex.

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, Post Office Savings Bank investment accounts, 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.

Saving: the surplus of current income over current expenditure before providing for depreciation, stock appreciation and additions to reserves.

Line 5. Financial surplus/deficit: for domestic sectors the excess (shortfall) of saving and net receipts of capital transfers compared with capital expenditure on physical assets. The overseas sector's 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 in the national income accounts (*£ millions*: 1965 I, −283;[2] 1966 I, −209).

Line 6. Net indebtedness of Government to Bank of England, Banking Department: see footnote [d] to Table 1 of the annex.

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 in P.O.S.B. investment accounts and 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 (excluding tax reserve certificates), 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 included indistinguishably 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. 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 of trade investments and in connection with take-over deals. The entries for persons are residuals.

Line 26. Unidentified: the net totals for all sectors together represent the national income residual error quoted in the note on line 5. Figures for individual sectors also reflect the balancing item in the balance of payments accounts and deficiencies in the sector division of the national income accounts as well as in the estimates of financial transactions.

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[1] More detailed notes were given in the June 1966 *Bulletin*, page 137.

[2] See footnote [a] to Table VII.