

Analysis of financial statistics

April-June 1966

Economic growth was checked in the second quarter. After allowing for seasonal movements, the volume of personal consumption fell slightly and exports declined because of the seamen's strike. Imports were also affected by the strike, but they fell less than exports and net receipts from invisibles were lower than in the first quarter, so that the balance of payments on current account deteriorated sharply.

Industrial and commercial companies had a particularly large financial deficit in the first quarter, because they had brought forward a substantial amount of dividend payments to take advantage of the transitional arrangements in the Finance Act 1965. In the second quarter they had a financial surplus but, although they paid fewer dividends, it was small for the time of year. Many companies were probably unable to borrow all they required, and their liquid assets rose much less than is usual in this quarter.

Personal consumption fell in volume, but prices rose and the value of expenditure, after seasonal adjustment, increased slightly. Moreover, with lower receipts from dividends, personal income declined, so the personal sector saved less and its financial surplus was much smaller than in the previous quarter. The personal sector's bank borrowing—apparently by unincorporated businesses rather than by persons—rose more than seasonally. Among financial assets, bank deposits had risen substantially in the first quarter, mainly because of large receipts from dividends towards the end of the quarter and the redemption of a government stock in March; they now rose only modestly as these funds were reinvested

or spent. People found national savings certificates attractive, but they withdrew more than they invested in other forms of national savings, and they invested less in building societies than in the first quarter.

The rate at which companies were making new issues, particularly of debentures, fell considerably in the second quarter. Fewer company securities were bought by investment trusts, whose resources had been augmented earlier in the year by very large new issues, and by insurance companies and pension funds, while persons sold more company and overseas securities. The gilt-edged market was firmer; overseas residents and building societies bought more government stocks than the banks sold.

The Government had a fairly small financial deficit and lent only a moderate amount, compared with some recent quarters, to local authorities through the Public Works Loan Board. Moreover, the U.K. deficit on current account was large, and this, coupled with the switching back into currency by the banks of foreign currency deposits previously employed in sterling, led to a substantial receipt of sterling from "external transactions".⁽¹⁾ The Government's need for domestic finance was thus small.

The banks' holdings of government debt increased only slightly and their domestic lending to the private sector was still under restraint. Domestic deposits rose, but by much less than usual in the second quarter, and the increase in the money supply was probably little more than seasonally expected.

⁽¹⁾ Table 1 of the statistical annex.

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

All companies Companies' gross trading profits, seasonally adjusted, fell by 2½% in the second quarter, but their other income rose. As noted above, many dividends had been brought forward into the first quarter, and dividend payments were now considerably smaller, despite the fact that an unusually large number of payments were still being made in the first few days of April. Company saving recovered; after allowing for seasonal factors it was some £180 million greater than in the first quarter and about the same as its peak in the second quarter of 1965.

Industrial and commercial companies The saving of industrial and commercial companies taken alone also showed a marked recovery from the first quarter, but it

was somewhat smaller than a year earlier. Moreover, expenditure on fixed investment and stockbuilding was higher than a year before. So although these companies had a financial surplus in the second quarter, it was £80 million less than a year earlier—and the smallest in this quarter since 1961. Identified financial transactions, on the other hand, revealed a surplus of some £20 million compared with a small deficit in the same quarter of 1965. Financial statistics thus did not show the tighter situation, compared with a year earlier, apparent from national income data—perhaps because, with bank finance more difficult to obtain, companies were giving less trade credit to the personal sector, particularly perhaps to unincorporated businesses.⁽¹⁾

In the first quarter, when companies had been in an especially tight financial position, they had borrowed very heavily, but had reduced their financial assets by no more than a year before. In the following quarter, however, their borrowing was on a rather small scale, and no doubt smaller than many of

Table I

Industrial and commercial companies

	£ millions		
	1965 II	1966 I	1966 II
Saving	+975	-103	+953
Capital expenditure (<i>less</i> capital transfers)	-718	-767	-776
Financial surplus (+)/deficit (-)	<u>+257</u>	<u>-870</u>	<u>+177</u>
Borrowing (-)			
From banks	-325	-328	- 28
Capital issues	- 54	-202	-128
Other ^(a)	- 14	- 96	+ 50
	<u>-393</u>	<u>-626</u>	<u>-106</u>
Acquisition of financial assets (+)			
U.K. company, and overseas securities	+148	+ 94	+ 78
Miscellaneous investment overseas (net)	+ 16	+102	+ 35
Bank deposits/notes and coin	+184	-208	+ 25
Other (mainly liquid assets) ^(b)	+ 38	-209	- 9
	<u>+386</u>	<u>-221</u>	<u>+129</u>
Identified financial transactions	- 7	-847	+ 23
Unidentified	+264	- 23	+154

(a) Including hire purchase debt.

(b) Including hire purchase claims.

(1) Trade credit between the company and personal sectors is not included in the financial statistics.

them would have liked. They could not build up liquid assets as much as usual at this time of year, whereas they would almost certainly have preferred to see a greater increase than usual to provide for the tax payments due from September onwards.⁽¹⁾

Bank credit was still severely restricted, and companies' borrowing from banks was very small for this quarter. They raised less through new capital issues than in the first quarter, although the total was still large, and they repaid trade debt to public corporations.

Companies spent rather less than in the first quarter on acquiring U.K. subsidiaries, trade investments, and share and loan capital of overseas companies; and they extended less short-term credit abroad. In addition, reinvestment of profits in U.K. subsidiaries by foreign parents increased; in the previous quarter this had been small, because dividend payments had been large.

Among liquid assets, bank deposits and holdings of notes and coin went up by only £25 million, compared with over £100 million in the corresponding quarter of each of the three previous years; temporary loans to local authorities, which usually rise at this time of year, fell; and investment in tax reserve certificates was small (the new certificate was not introduced until almost the end of June).

Persons The timing of company dividend payments led to a large fall in personal income, after seasonal adjustment, in the second quarter; post-tax incomes were almost £115 million less than in the first. The volume of consumption, which was heavy early in the year because of purchases in anticipation of tax increases in the Budget, declined; but prices were higher and cash expenditure, seasonally adjusted, rose slightly. In consequence, personal saving was some £125 million less than in the first quarter.⁽²⁾ Unincorporated businesses invested less in fixed investment and stocks, but people spent slightly more on new dwellings; and the national income statistics indicate that the personal sector's financial surplus, seasonally adjusted, fell by about £95 million.

Table II

Persons: derivation of financial surplus

	£ millions, seasonally adjusted	
	1966 I	1966 II
Personal disposable income ...	6,578	6,465
Consumers' expenditure ...	5,991	6,001
Personal saving	587	464
Capital expenditure ^(a)	-358	-331
Financial surplus	229	133

^(a) Including capital transfers.

In the first quarter the personal sector had a sizable financial surplus and—because the large dividend payments were concentrated at the end of the quarter, and 5½% Exchequer Stock 1966 was redeemed in March—personal holdings of cash (bank deposits and notes and coin) had risen substantially. In the second quarter, when persons' financial surplus was smaller and some of the funds received in March were probably being reinvested or spent, they increased their cash holdings only moderately and invested large amounts in other financial assets.

Changes in interest rates were the main determinants of the pattern of investment in non-marketable financial assets. The higher yielding national savings certificate (offering over 7¼%, grossed up for tax at the standard rate), which was issued at the end of March, proved attractive and people put £33 million (net) into savings certificates, their first net purchases since the fourth quarter of 1964 and their largest in any quarter for nearly eight years. Interest rates on deposits with the special investment departments of the trustee savings banks, which had generally been around 5% earlier in the year, were mostly raised to 5¼% or 5½%, and these accounts attracted more money than a year earlier. Post Office Savings Bank investment accounts, which were available from 20th June paying interest at 5½%, had drawn in £7 million by the end of the month. Local authority debt also attracted personal sector funds, and on a larger scale than in the first quarter. On the other hand, less was invested in building societies, whose rates on shares and deposits were unchanged (just

⁽¹⁾ See the Commentary, page 314.

⁽²⁾ The savings ratio (seasonally adjusted) for the half year was 8.1%, compared with 8.3% for the year 1965, continuing the decline from the peak of 8.4% in 1964.

over 6¼% on shares, grossed up for tax at the standard rate), and in premium savings bonds; and there were net withdrawals from defence bonds and national development bonds⁽¹⁾ and from ordinary accounts at the P.O.S.B.

Persons bought a small amount of government stocks, possibly the reinvestment of some of the funds held in cash at the end of March. Their net sales of company and overseas securities were considerably larger than in the first quarter: as there were fewer new issues people probably bought fewer company securities and their gross sales—mainly to financial institutions—may not have increased. Life assurance and pension funds continued to grow, but not quite as fast as in the previous quarter; the timing of the funds' receipts of company dividends must have been an important factor.

The personal sector's borrowing from banks, which had been much smaller than usual in the first quarter, now rose; so far as can be judged from a short run of figures the rise was not attributable to seasonal causes. Seasonally adjusted figures for the British Bankers'

Association analysis of advances show a substantial decrease in advances to the personal and professional category between mid-February and mid-August; so it seems likely that unincorporated businesses, which, as mentioned earlier, were probably receiving less trade credit from companies—and may have had to grant more to individuals—borrowed more from the banks in the second quarter. On the other hand, the sector's outstanding hire purchase debt continued to be affected by terms control and by the restriction on finance companies' lending, and failed to show its usual seasonal rise; and borrowing for house purchase, though greater than a year ago, did not increase as much as seasonally expected.

The personal sector's financial surplus derived from national income data was £191 million before seasonal adjustment, whereas that given by identified financial transactions was £267 million. The unidentified item, of £76 million, was £130 million smaller than a year ago; part of the explanation may be that, as suggested above, the personal sector was obtaining less trade credit from companies.

Table III
Persons

	£ millions		
	1965 II	1966 I	1966 II
Borrowing (—)			
From banks and through hire purchase	+108	—	— 38
Other (mainly for house purchase)	—138	—221	—191
	<u>— 30</u>	<u>—221</u>	<u>—229</u>
Acquisition of financial assets (+)			
Bank deposits/notes and coin	+196	+142	+ 70
National savings certificates and savings bank investment accounts ^(a) ...	+ 6	— 20	+ 66
Other national savings and deposits with other financial institutions ...	+152	+274	+137
Government stocks	— 24	—152	+ 9
Other public sector debt ^(b)	+115	— 8	+ 90
U.K. company, and overseas securities	—215	—103	—161
Life assurance and pension funds	+272	+310	+285
	<u>+502</u>	<u>+443</u>	<u>+496</u>
Identified financial transactions	<u>+472</u>	<u>+222</u>	<u>+267</u>
Unidentified	—206	+169	— 76
Financial surplus	<u>+266</u>	<u>+391</u>	<u>+191</u>

(a) Deposits in P.O.S.B. investment accounts and in special investment departments of the trustee savings banks.

(b) Local authority debt and tax reserve certificates.

(1) The new national development bonds, offering a higher rate of interest, were not issued until July.

Financial institutions other than banks

The liabilities of the other financial institutions, which had increased particularly fast in the first quarter, now grew more slowly. There was a smaller inflow to building societies and slower growth in life assurance and pension funds (discussed above), and a drop in new capital issues by investment trusts. Unit trusts, on the other hand, sold almost as many units as in the record previous quarter, and repurchased slightly fewer than before. Finance companies repaid bank borrowing.

On the assets side, lending for house purchase was greater than in the previous quarter, but the trend was no longer upwards; building society mortgages rose only seasonally, and insurance company lending, which had reached a peak in the autumn of 1965, was virtually unchanged. The increase in finance companies' hire purchase claims was less than usual in the second quarter; and other lending by the institutions, though much the same as in the first quarter, was smaller than a year before.

The pattern of the institutions' take-up of financial assets reflected the state of the various markets and the differing needs of the various

institutions. In the first quarter there had been an exceptionally high rate of company debenture issues (including numerous placings) and, although the gilt-edged market was weak, yields on debentures had been much higher than those on government stocks. So the institutions had invested very large amounts in company securities. Subsequently, the flow of company new issues eased and the margin between debenture and gilt-edged yields narrowed. Local authorities were borrowing less at long term—that is through mortgages and securities—and here too yields rose less than those on government stocks. The building societies were well enough supplied with the most liquid assets; and they continued to acquire government stocks but reduced their temporary loans to local authorities. Insurance companies and pension funds bought small amounts of gilt-edged, but invested less in company and overseas securities and in local authority debt. Investment trusts bought company securities on a smaller scale than in the first quarter, and sold overseas securities. Unit trusts, however, continued to make heavy purchases of equities, which provided the main support for the equity market.

Table IV
Other financial institutions

								<i>£ millions</i>		
								1965 II	1966 I	1966 II
Increase in liabilities (—)										
Life assurance and pension funds	...	...	...	...	...	...	-259	-291	-267
Deposits (including building society shares)	...	...	...	...	...	...	-208	-325	-214
Capital issues	...	...	...	...	...	...	- 15	- 54	- 11
Unit trust units (net)	...	...	...	...	...	...	- 10	- 38	- 35
Other (mainly bank) borrowing	...	...	...	...	...	...	+ 12	- 5	+ 22
								<u>-480</u>	<u>-713</u>	<u>-505</u>
Increase in assets (+)										
Bank deposits	...	...	...	...	...	...	+ 50	- 15	+ 28
Loans for house purchase	...	...	...	...	...	...	+123	+180	+212
Hire purchase claims	...	...	...	...	...	...	+ 54	+ 3	+ 23
Other loans ^(a)	...	...	...	...	...	...	+ 83	+ 41	+ 43
Marketable government debt	...	...	...	...	...	...	+ 18	+ 2	+ 35
Local authority debt	...	...	...	...	...	...	+ 64	+119	+ 12
U.K. company, and overseas securities	...	...	...	...	...	...	+107	+266	+226
								<u>+499</u>	<u>+596</u>	<u>+579</u>

(a) Including miscellaneous investment overseas (net).

Overseas sector The seamen's strike caused a worsening of the U.K. balance of payments on current account in the second quarter; the overseas sector's surplus, which was about £25 million in the first quarter, rose to nearly £75 million. Seasonally adjusted figures show a rise of much the same order. Identified financial transactions, however, showed a net acquisition of some £115 million of financial assets by overseas residents, so that the unidentified item—the balancing item in the balance of payments—was negative by about £40 million; it seems likely that there was an unrecorded outflow of short-term funds from the United Kingdom.

Although the overseas sector added to its financial assets in total, it increased its obligations to the private sector. The largest movement was a rise of some £295 million in borrowing from U.K. banks, only partly offset by a growth of £175 million in deposits. Eurodollars were in great demand because of tight money conditions abroad and the banks switched currency deposits previously employed in sterling back into foreign currency. Overseas deposits with the banking sector would have risen more, however, but for the repayment of a £54 million swap between the U.S. and the U.K. authorities, the sterling counterpart of which had been held on deposit with the

Banking Department.⁽¹⁾ Overseas transactions with the rest of the private sector resulted in a net outflow of £40 million, partly because deposits with other U.K. financial institutions fell, for the first time for over a year. Altogether, transactions with the private sector gave rise to a net increase of some £160 million in overseas liabilities to this country.

By contrast, overseas holdings of government debt rose by £186 million, while the reserves fell by £106 million—giving a total of nearly £300 million for the Government's "external transactions". Nearly all of the rise of £186 million was in marketable debt; it included the counterpart of £99 million of swaps with the U.S. authorities outstanding at the end of June and an increase of £80 million in overseas holdings of government stocks—partly, no doubt, the reinvestment of the proceeds of 5½% Exchequer Stock, which had been redeemed in the previous quarter.

Public sector As usual, the public sector was in financial deficit in the second quarter. Both the central government and local authorities had smaller deficits than in the same quarter a year earlier, but that of public corporations was larger because of higher expenditure on fixed investment and stockbuilding.

Table V

Overseas sector

	£ millions		
	1965 II	1966 I	1966 II
Increase in assets or decrease in liabilities (+)			
Bank deposits/borrowing	- 58	+ 79	- 119
Other private sector (net)	+ 35	- 18	- 40
Local authority debt	- 26	+ 1	- 5
Borrowing from the Government ^(a)	- 16	- 24	- 12
Government debt	+ 192	- 185	+ 186
Reserves	- 165	+ 113 ^(b)	+ 106
Identified financial transactions	- 38	- 34	+ 116
Unidentified	+ 49	+ 58	- 42
Financial surplus	+ 11	+ 24	+ 74

^(a) Parts of lines 8 and 11 in Table VIII.

^(b) Net of a fall of 316 in the Government's portfolio of dollar securities; the reserves rose by 203.

⁽¹⁾ June *Bulletin*, page 110.

The Government's current expenditure was over £125 million higher than in the second quarter of 1965, but capital expenditure (including transfers) was about the same and current receipts were some £170 million greater, so the central government's financial deficit was about £45 million smaller; in fact it was the smallest in this quarter since 1962. Moreover, the Government lent only a moderate amount to local authorities, less than in the previous quarter when the balance of the authorities' annual P.W.L.B. quotas was being drawn and far less than a year earlier—before arrangements to phase their P.W.L.B. borrowing had begun. These factors were only partly offset by greater lending than a year ago to the public corporations. In addition, as already described, the balance of payments deficit and the banks' switching out of sterling led to a particularly large receipt of sterling from "external transactions". In all, the Government had to borrow only £146 million at home, a relatively small figure for the second quarter and much less than a year ago.

The note circulation rose more than seasonally, but net Exchequer indebtedness to the

Banking Department, which might have been expected to increase in line with the rise in bankers' deposits with the Bank, fell a little, because the Banking Department's deposits were reduced by the repayment of the £54 million swap with the U.S. authorities, mentioned above. There were net withdrawals of £15 million from national savings, though thanks to sales of the new savings certificate the figure was smaller than in any of the three preceding quarters. Tax reserve certificates raised rather less than usual in this quarter, though as much as a year earlier. Altogether, these items contributed £115 million of finance for the Government, rather little for the time of year. But as the Government's domestic borrowing requirement was so small, only about £30 million had to be raised by sales of marketable government debt. Holders outside the banks, mainly the building societies, bought £35 million of stocks, while their holdings of Treasury bills were virtually unchanged. So the banks' holdings of marketable government debt fell slightly; they sold about £25 million of stocks and acquired less than £20 million of Treasury bills.

Table VI
Public sector

	1965 II	1966 I	£ millions 1966 II
Saving	+147	+1,510	+221
Capital expenditure (<i>less</i> capital transfers)	-649	- 684	-695
Financial surplus (+)/deficit (-)	<u>-502</u>	<u>+ 826</u>	<u>-474</u>
Of which:			
Central government	-240 ^(a)	+1,191	-196
Local authorities	-187	- 174	-162
Public corporations	- 75 ^(a)	- 191	-116
Increase in assets or decrease in liabilities (+)			
Government "external transactions" ^(b)	- 27	+ 72	-292
Government domestic borrowing:			
Marketable debt	-180	+ 548	- 31
Other	-269	+ 213	-115
Local authority debt	- 22	- 101	-113
Miscellaneous	- 54	+ 72	- 18
Identified financial transactions	-552	+ 804	-569
Unidentified	+ 50	+ 22	+ 95

^(a) These figures do not reflect the write-off of British Overseas Airways Corporation debt (110).

^(b) As defined in Table 1 of the annex.

Banks The banks' holdings of non-marketable debt, mostly notes and coin, rose a little during the second quarter, and their total holdings of government debt were up by £30 million; this compared with increases of £357 million a year earlier and £102 million in the second quarter of 1964. Lending to the private sector was also small; the banks had little scope for expansion within the 105% ceiling, and after rough allowance for seasonal movements advances to the private sector rose by considerably less than in the first quarter. As mentioned earlier, however, new lending to overseas increased by more than overseas deposits.

The banks' holdings of local authority debt rose by over £40 million, some £30 million being acquired by the accepting houses and overseas banks: this increase occurred, despite the switching back into foreign currency of funds previously employed in sterling, because domestic deposits with these banks rose by more than £80 million, over half of the rise in total domestic deposits with the banking sector.

The rise in domestic deposits with the sector as a whole was £140 million, less than half as much as in the same quarter in any of the three previous years; thus after seasonal adjustment deposits probably fell. Although the public's holdings of notes and coin seem to have risen more than seasonally, in total there was probably little increase in the domestic money supply,⁽¹⁾ after seasonal adjustment.

Third quarter In the third quarter industrial and commercial companies' holdings of cash, that is bank deposits and notes and coin, which had increased only modestly in the previous quarter, rose more than seasonally, and investment in tax reserve certificates, stimulated by higher rates of interest, was greater than in any quarter for over two years. These increases occurred despite a sizable repayment of bank advances—even larger than usual in this quarter—and a lower level of new capital issues. Although the financial position of many individual companies was still undoubtedly very tight, the figures so far available suggest that the position of industrial and commercial companies as a whole may have eased a little. Several factors contributed to this: tax payments in the third quarter seem to have been no greater than usual, despite the different tax pattern this year, because many companies improved their immediate position by delaying the payment of taxes due in September;⁽²⁾ dividends were lower than usual because, as already mentioned, some had been brought forward to earlier in the year; and expenditure on fixed investment probably fell.

The personal sector repaid a considerable amount of bank borrowing and there was a substantial reduction in its outstanding hire purchase debt. Moreover, people borrowed less from building societies—at a time of year when they usually take more. Among financial assets,

Table VII

Banks

	<i>£ millions</i>		
	1965 II	1966 I	1966 II
Increase in assets (+)			
Marketable government debt	+202	-385	- 6
Other government debt	+155	- 56	+ 36
Lending to private sector	+179	+374	+ 47
Lending to overseas (net of change in overseas deposits)	+ 58	- 79	+119
Local authority debt	-128	+ 32	+ 42
Other (net) ^(a)	- 79	+ 16	- 98
Increase (+) in domestic deposits	<u>+387</u>	<u>- 98</u>	<u>+140</u>

(a) A residual, which includes lending to public corporations and purchases of company and overseas securities.

(1) Defined as in *Financial Statistics*.

(2) See page 314.

the personal sector again invested less in building societies and there was a large withdrawal from national savings. Holdings of cash again increased only moderately.

The central government's net balance (Table 1 of the annex) showed a deficit of £435 million, which was large for the time of year. Public sector fixed investment was probably still rising; and lending to the nationalised industries was very high. In addition, a considerable amount was lent to local authorities through the P.W.L.B. On the other hand, the balance of payments deficit, which was seasonally large, was accompanied by an outflow of short-term capital; and the Government's domestic borrowing requirement was substantially reduced by "external transactions", to only £141 million.

The net amount of government debt taken up outside the banks was negligible. There was a sizable investment in tax reserve certificates but a very large withdrawal from national savings. The note circulation did not rise very much and, on balance, the general public acquired only £13 million of government stocks during the quarter, although the gilt-edged market strengthened in September.

The banks thus acquired £140 million of government debt, much more than in the previous quarter, but not an unusual amount for the third quarter of the year. Net indebtedness to the Banking Department rose by nearly £60 million, an important factor being the call for Special Deposits, totalling £100 million. Holdings of notes and coin fell seasonally, by about £55 million. The banks bought £70 million of government stocks and nearly £50 million of tax reserve certificates; their holdings of Treasury bills rose by only £20 million.

The private sector repaid nearly £250 million of bank advances during the quarter: the fall was due partly to seasonal causes but it owed much to the very tight restraint on credit. Bank lending to overseas again rose considerably, but overseas deposits rose only slightly: there was a marked increase in foreign currency deposits by overseas residents but a fall in those in sterling. Domestic deposits rose by about £120 million, probably only slightly more than could be attributed to seasonal factors; this rise followed a probable fall, after seasonal adjustment, in the previous quarter, but was modest compared with the growth of deposits during 1965.

Notes on sources and definitions⁽¹⁾

Sources

The main statistical series used in compiling Table VIII 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 the 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 II, 112; 1966 II, 82).

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 lending to local authorities (included in line 22).

(Continued on page 336)

(1) More detailed notes were given in the June *Bulletin*, page 137.

Table
Sector financing :

	Line	Public sector			Overseas sector		
		1965 II	1966 II	1966 III	1965 II	1966 II	1966 III
Financial surplus (+)/deficit (-)							
Saving	1	+147	+221				
Taxes on capital and capital transfers	2	+39	+46				
<i>less:</i> Gross fixed capital formation at home	3	-663	-697				
Increase in value of stocks and work in progress	4	-25	-44				
Financial surplus (+)/deficit (-)	5	-502	-474		+11	+74	
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	-121	+4	-59			
Life assurance and superannuation funds	7	-13	-18				
Government loans	8	+25	-14		-11	+21	
Gold and foreign exchange reserves	9	+165	-106	-41	-165	+106	+41
Account with I.M.F.	10	-503	+7		+503	-7	
Miscellaneous investment overseas (net)	11	+107	+22		-132	-50	
Notes and coin	12	-91	-101	+41	-20	-	-
Bank deposits	13	+34	+85	-11	-10	+175	+17
Deposits with other financial institutions	14				+24	-19	
Non-marketable government debt	15	-37	-18	-9			
Bank lending	16	-24	+24	-29	-48	-294	-223
Hire purchase debt	17	-	-				
Loans for house purchase	18	+27	-13				
Other loans	19	-108	-130				
Marketable government debt:							
Treasury bills	20	+21	-122	-280	-172	+102	+249
Stocks	21	-12	-91	-89	-17	+80	+6
Local authority debt	22	-22	-113		-26	-5	
U.K. company, and overseas securities:							
Capital issues	23				+6	-1	
Other transactions	24	-	+15		+30	+8	
Identified financial transactions	25	-552	-569		-38	+116	
Unidentified	26	+50	+95		+49	-42	
Total=Financial surplus (+)/deficit (-)	27	-502	-474		+11	+74	

VIII

quarterly figures

£ millions

Private sector												Line
Persons			Industrial and commercial companies			Banks			Other financial institutions			
1965 II	1966 II	1966 III	1965 II	1966 II	1966 III	1965 II	1966 II	1966 III	1965 II	1966 II	1966 III	
+599	+531		+975	+953								1
-42	-50		+3	+4					+113	+157		2
-261	-255		-551	-574					-33	-43		3
-30	-35		-170	-206								4
+266	+191		+257	+177					+80	+114		5
						1965 II	1966 II	1966 III	1965 II	1966 II	1966 III	
+272	+285		-13	-5		+121	-4	+59	-259	-267		6
-2	-2								+1	-	+1	7
			+16	+35					+9	-7		8
												9
+39	+34	+8	+38	+34	+8	+34	+33	-57				10
+157	+36	+48	+146	-9	+116	-377	-315	-138	+50	+28	-32	11
+154	+218		+30	+15					-208	-214		12
+16	-1	-79	+21	+12	+40		+7	+48				13
												14
+135	-41	+123	-325	-28	+116	+251	+317	+4	+11	+22	+9	15
-27	+3		-27	-26					+54	+23	-31	16
-150	-199								+123	+212		17
+14	+10		+20	+64		-	+6	+3	+74	+50		18
												19
			-16	-7		+163	+18	+20	+4	+9		20
-24	+9					+39	-24	+70	+14	+26		21
+103	+76		+9	-12		-128	+42	-18	+64	+12		22
			-54	-128	-107	-	-1	-19	-25	-46		23
-215	-161		+148	+78		+3	+10	+10	+107	+226	-40	24
+472	+267		-7	+23		+106	+89	-18	+19	+74		25
-206	-76		+264	+154								26
									-45	-49		
+266	+191		+257	+177					+80	+114		27

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.⁽¹⁾ 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.

⁽¹⁾ See the article on page 348.