

Sector financing 1965

In 1965 the network of financial flows reflected the various measures taken to curb domestic demand and to reduce the balance of payments deficit; and the statistics show some resemblances to those for earlier periods when similar actions were taken, especially 1961-62.

The most striking changes in the sector accounts were brought about by the better external performance. In particular, the pattern of public sector finance in 1965 was very different from that in 1964, which was exceptional because of the large balance of payments deficit: in 1965 there was a much smaller increase in the Government's net liabilities to overseas. In addition, the trend continued towards meeting more of the financing needs of local authorities from the Public Works Loan Board; in 1965 local authority capital expenditure increased but most of the increased borrowing was financed by the P.W.L.B. rather than from market sources and thus had to be raised on central government debt.

There were big changes during the year in the financial portfolios of persons and of industrial and commercial companies. Both sectors found non-marketable government debt unattractive, mainly on account of the better yields to be had elsewhere; so the Government had to rely heavily on domestic sales of marketable debt. The impact of official measures on the domestic economy and pressure on sterling kept the gilt-edged market weak and uncertain at first, but growth of confidence in sterling brought a recovery, and there were large official sales in the autumn. Over the year as a whole the biggest purchases were by pension funds, insurance companies and building societies—the societies' funds rose faster than their mortgages after they raised interest rates on shares

and deposits in July. Altogether, compared with 1964, the financial institutions (other than banks) more than doubled their purchases of government stocks.

These purchases, however, were still insufficient to prevent the banking sector's holdings of government debt rising by a large amount: about £300 million, whereas they had fallen by over £500 million in the previous year. Notwithstanding the restraint imposed on the banks' lending, domestic deposits expanded more rapidly than in 1964, and faster than the gross domestic product.

These movements are discussed more fully, sector by sector, below. Detailed statistics are given in Table VII, which is accompanied by notes on sources and definitions. Articles dealing with earlier years appeared in the *Bulletins* for September 1963 and June 1964 and 1965.

Personal sector

In 1965 personal disposable incomes rose less than in the previous year, because of a large increase in tax payments. Consumers' expenditure grew about as fast as before, and estimated saving, which had increased by 12% in 1964, was unchanged. The checks to growth in both incomes and saving were the first since 1962. Capital expenditure and transfers in 1965, taken together, were little changed, and the financial surplus of the personal sector, as obtained from the preliminary national income data, was no larger than in 1964. Moreover, after allowing for seasonal movements, it was probably falling in the latter part of the year. The previous peak in the surplus was in 1961.

Identified financial transactions, on the other hand, showed that persons acquired £420 million more financial assets (net of liabilities) than in 1964. The difference between the two

sets of figures, which appears as an increase in the unidentified item in Table I, is difficult to explain. Part of it may perhaps have been caused by an increase in trade credit granted by industrial and commercial companies to the personal sector (which includes unincorporated businesses): figures for trade credit are not available, but it might have been expected to grow because of the greater degree of credit restraint imposed on persons.

The restraints on bank and hire purchase credit and the tightening of hire purchase terms control brought a net repayment of these types of borrowing in 1965. Persons, as usual, obtained a large volume of bank finance to pay taxes in the first quarter, but made heavy repayments afterwards and, on balance, repaid over £100 million during the year; whereas in 1964 they had increased their bank borrowing by nearly £200 million. Hire purchase debt rose much less than in the previous year. Both these types of borrowing are connected with consumers' expenditure on durable goods; in the first quarter this was higher than a year earlier, but thereafter it was lower.

Total borrowing for house purchase declined. It was difficult to obtain mortgages from building societies early in the year because the societies were short of funds, but borrowing began to rise again in the closing months, after the societies' liquidity position had improved. As in 1961, people turned to alternative lenders when building society loans were not so readily available. This time they obtained more funds both from local authorities, which were very willing to provide loans until their lending was curtailed in July, and from insurance companies; but the extra finance was insufficient to offset the drop in borrowing from building societies.

Although Table I shows a relatively small change in persons' total acquisition of financial assets, there were big changes in their composition. Such changes are usually made because of movements in relative interest rates. The most notable feature this time was a switch in the second half of the year out of national savings securities and into shares and deposits with building societies. Building society interest rates are more flexible than the terms

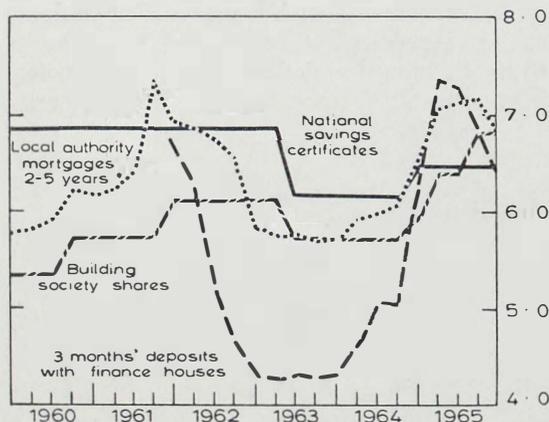
Table I

		Persons			£ millions
		1964	1965	1965 compared with 1964	
Borrowing (-)					
Housing loans ...		- 704	- 676	+ 28	18
Other ...		- 313	+ 7	+320	8, 16, 17, 19
		<u>-1,017</u>	<u>- 669</u>	<u>+348</u>	
Acquisition of financial assets (+)					
Bank deposits/notes and coin ...		+ 552	+ 602	+ 50	12, 13
Building society shares and deposits ...		+ 504	+ 662	+158	14 (part)
Other deposits ...		+ 239	+ 176	- 63	14 (part), 15 (part)
National savings securities ...		+ 143	- 71	-214	15 (part)
Other public sector debt ...		+ 42	+ 226	+184	15 (part), 21, 22
U.K. company, and overseas securities ...		- 550	- 641	- 91	24
Life assurance and pension funds ...		+1,132	+1,180	+ 48	7
		<u>+2,062</u>	<u>+2,134</u>	<u>+ 72</u>	
Identified financial transactions ...		+1,045	+1,465	+420	25
Unidentified ...		- 493	- 911	-418	26
Financial surplus (+) ...		<u>+ 552</u>	<u>+ 554</u>	<u>+ 2</u>	27

on national savings: in general they went up by $\frac{1}{2}\%$ during 1965, and for the first time for at least fifteen years were higher than the yield on national savings certificates.⁽¹⁾ As in 1962—after the societies had raised their borrowing rates while the terms for national savings were unchanged—building societies did better than national savings: in fact, over 1965 as a whole, people withdrew more from national savings securities than they invested in them. Moreover, their deposits with the Post Office and with both the ordinary and special investment departments of the trustee savings banks rose less than in 1964, because yields were relatively unattractive.

Persons took advantage of high interest rates early in the year to place more temporary money with local authorities. They also invested large amounts in local authority mortgages, on

Yields: per cent



* Rates for large mortgages arranged in London; individuals usually get $\frac{1}{4}\%$ – $\frac{1}{2}\%$ less.

which they could obtain $6\frac{1}{2}\%$ or more throughout the year, and in local authority stocks. But, as usual in recent years, they continued to sell government stocks.

The rise in the sector's holdings of notes, coin and bank deposits was £50 million larger than in 1964, mainly because of a rise, instead of the usual fall, in the first quarter, when the

interest rate on deposit accounts with the clearing banks was only slightly below that on building society shares.

Persons continued to reduce their holdings of company and overseas securities, but again added to their indirect claims to securities through contributions to life assurance and pension funds.⁽²⁾

All companies

Gross trading profits of all companies (including financial institutions) increased by much less in 1965 than in the two preceding years. Moreover, the trend was downwards after the first quarter. Meanwhile, dividend and interest payments were higher, and tax payments, which had fallen in 1964, rose a little, so company saving, according to the preliminary national income estimates, increased by a mere £82 million, compared with around £500 million in both 1963 and 1964.

Industrial and commercial companies

Industrial and commercial companies also increased their saving by only a small amount. Their fixed investment rose, but they added considerably less to their stocks, and their financial surplus was some £60 million bigger than in 1964. Identified financial transactions, however, indicate a somewhat smaller improvement in their financial position. The unidentified item was not much larger than in 1964: it may, as already mentioned, contain an increase in trade credit to the personal sector, but this could have been offset by movements representing some counterpart to the changes in the unidentified items for the public and overseas sectors, which are discussed below.

Companies' cash expenditure on acquiring securities through take-over bids and on trade investments was little different from 1964.⁽³⁾ Long-term investment abroad was again large but the inflow of long-term capital from overseas increased and less short-term credit was granted to foreigners.

(1) Comparing yields grossed up at the standard rate of income tax. The yield on national savings certificates is also free of surtax, so to the surtax payer it remained higher than that on building society shares.

(2) Personal sales of company and overseas securities were discussed in detail in the June 1965 *Bulletin*, page 122.

(3) The figures include new estimates by the Central Statistical Office for purchases of trade investments in the United Kingdom: see *Financial Statistics* for May 1966, page 103.

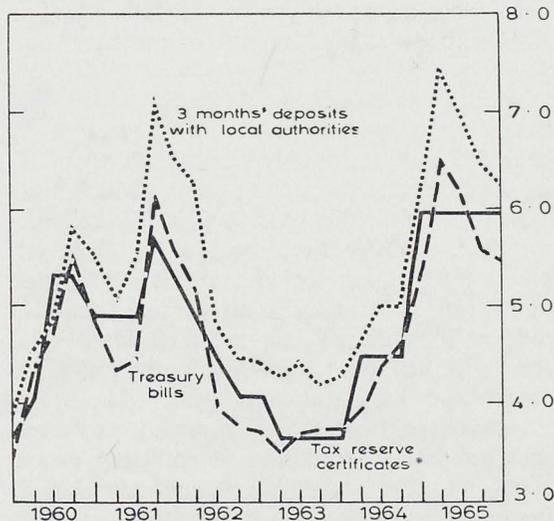
Companies increased their liquid assets compared with 1964 and borrowed less: liquid assets (defined here as notes and coin, bank deposits, deposits with other financial institu-

tions, tax reserve certificates, marketable government debt and local authority debt) increased by some £30 million, whereas they were unchanged in the previous year; and borrowing was over £70 million less.

There were big changes in the composition of liquid assets. Purchases of tax reserve certificates were well down on 1964, and as surrenders were heavy, holdings fell for the fifth year in succession: interest rates were low compared with alternative forms of investment and there was uncertainty in connection with the new tax arrangements. In addition, and by contrast with 1964, companies withdrew temporary money from local authorities. Moreover, they again reduced their Treasury bill holdings, though on a smaller scale. On the other hand, companies' bank deposits increased by about £120 million, following a fall of £75 million in 1964. Deposits with accepting houses and overseas banks, on which interest rates are generally higher than on those with the clearing banks, rose by some £160 million.

As in 1961, companies turned to the capital market when bank lending came under restraint. Bank borrowing was much smaller

Yields: per cent



* Grossed up for income tax at standard rate.

Table II

Industrial and commercial companies				£ millions
	1964	1965	1965 compared with 1964	Lines in Table VII
Saving	+ 3,033	+ 3,068	+ 35	1
Capital expenditure (less capital transfers) ...	- 2,802	- 2,778	+ 24	2, 3, 4
Financial surplus (+)	<u>+ 231</u>	<u>+ 290</u>	<u>+ 59</u>	5
Borrowing (-)				
Banks	- 669	- 523	+ 146	16
Capital issues	- 406	- 406	—	23
Other	- 171	- 242	- 71	8, 17 (part), 19
	<u>- 1,246</u>	<u>- 1,171</u>	<u>+ 75</u>	
Acquisition of financial assets (+)				
U.K. company, and overseas securities ...	+ 409	+ 399	- 10	24
Miscellaneous investment overseas (net) ...	+ 266	+ 192	- 74	11
Other (mainly liquid assets)	—	+ 34	+ 34	12, 13, 14, 15, 17 (part), 20, 22
	<u>+ 675</u>	<u>+ 625</u>	<u>- 50</u>	
Identified financial transactions	- 571	- 546	+ 25	25
Unidentified	+ 802	+ 836	+ 34	26

than in 1964, the whole of the shortfall being in the second half. Capital issues again amounted to over £400 million; the flow was small early in the year when there was uncertainty in the market, but swelled later, after the market had improved and when bank advances were more difficult to obtain. There was a marked switch in the type of security issued, debentures and other loan stocks being favoured far more than equities because of the changes in company taxation, which made equities a distinctly more expensive form of raising funds. The switch also owed something to the extension of the capital gains tax, which kept the equity market subdued and therefore less suitable for the issue of new shares.

Financial institutions other than banks The inflow of funds to financial institutions other than banks was about £150 million greater than in 1964, an increase slightly smaller than that in the previous year. The greatest expansion was in deposits, which rose by some £200 million more than in 1964—the building societies and hire purchase finance companies gained considerably, but the special investment departments of the trustee savings banks obtained somewhat less. Contributions

to life assurance and pension funds were also greater than in 1964. By contrast, capital issues fell sharply, mainly because investment trusts were much less active; and sales of unit trust units were also smaller, though they were recovering towards the end of the year. Bank borrowing through advances and bills was also smaller, because the hire purchase finance companies took less.

Among assets, bank deposits, which had barely risen in 1964, were now increased by over £50 million, mainly attributable to building societies and investment trusts. Much more than in the previous year went into public sector debt, almost entirely because of big investments by building societies in the second half of the year, when they received more funds but did not immediately increase their loans—and thus built up liquid assets, including gilt-edged stocks and local authority debt. The sector invested less, however, in company and overseas securities: purchases of company debentures and other loan stocks were greater, largely because new issues of such securities were high, but fewer ordinary shares were bought by investment trusts and insurance companies; the investment trusts, in particular, sold foreign securities, following the tax changes made in the Budget.

Table III

	Other financial institutions			£ millions
	1964	1965	1965 compared with 1964	
Liabilities increase (—)				<i>Lines in Table VII</i>
Life assurance and pension funds	— 1,076	— 1,128	— 52	7
Deposits (including shares in building societies)	— 725	— 924	— 199	14
Capital issues (including sales of unit trust units)	— 161	— 96	+ 65	23
Other (mainly bank) borrowing	— 76	— 41	+ 35	8, 16
	<u>— 2,038</u>	<u>— 2,189</u>	<u>— 151</u>	
Financial assets increase (+)				
Bank deposits	+ 6	+ 55	+ 49	13
Public sector debt	+ 299	+ 495	+ 196	20, 21, 22
U.K. company, and overseas securities:				
Ordinary shares	+ 525	+ 326	— 199	} 24
Other	+ 264	+ 335	+ 71	
Housing loans	+ 599	+ 544	— 55	18
Hire purchase claims	+ 127	+ 83	— 44	17
Other lending	+ 217	+ 224	+ 7	11, 19
	<u>+ 2,037</u>	<u>+ 2,062</u>	<u>+ 25</u>	

Other claims on the private sector grew more slowly than in 1964. Loans to persons for house purchase were lower, but were rising in the final quarter. Hire purchase claims, which were subject to credit restraint, had expanded particularly fast in 1964 and still grew rapidly at first, but the growth slowed down in the second half of the year, after terms control had been tightened in June and July.

Overseas sector In 1965 the U.K. balance of payments deficit on current account was cut by two-thirds, from £406 million to £136 million. There was thus a fall of £270 million in overseas acquisitions of financial assets. In 1964 there had been an increase in net overseas liabilities to the private sector, largely on account of U.K. investment abroad, which was outweighed by a large increase in net overseas claims on the public sector. In 1965, however, identified transactions indicated that liabilities to the private sector did not change much and that claims on the public sector rose by only a small amount. The balance of payments balancing item—"unidentified" in the sector accounts—was over £100 million (it was particularly large in the fourth quarter), compared with only £22 million in 1964, suggesting an unrecorded flow of foreign funds to this country and probably

some change in the timing of payments—which might have been expected to affect also the "unidentified" item for industrial and commercial companies.

Net overseas claims on the banking system increased by only half as much as in 1964. The expansion of the euro-dollar market was curbed in the first half of the year by the repatriation of funds in response to the U.S. balance of payments measures.⁽¹⁾ By the time it was resumed relative yields had made it advantageous for U.K. banks to switch funds back into foreign currency, and, with sterling lending under restraint, foreign currency borrowing by their overseas customers increased more than currency deposits in London. On the other hand, foreigners' net sterling funds with the banks rose, whereas they had fallen at the end of 1964; deposits went up, and borrowing, which came under the 5% limit on U.K. bank lending, was repaid.

The smaller increase compared with 1964 in net overseas claims on the banking system was balanced by a greater increase in overseas deposits with other financial institutions. In addition, foreign investors sold fewer U.K. company securities and invested more long-term capital in this country. Moreover, domestic investors sold foreign securities because of exchange control and taxation measures and there were big redemptions of Commonwealth government issues.

Table IV

	Overseas sector		1965 compared with 1964	£ millions
	1964	1965		Lines in Table VII
Increase in assets or decrease in liabilities (+)				
Bank deposits	+ 530	+ 412	- 118	13
Bank borrowing	- 425	- 361	+ 64	16
Deposits with other financial institutions	+ 18	+ 82	+ 64	14
Other private sector (net)	- 327	- 132	+ 195	11 (part), 23, 24
Local authority debt	+ 29	- 19	- 48	22
Marketable government debt (excluding aid)	- 22	- 153	- 131	20 (part), 21
Other government transactions (net)	+ 581	+ 202	- 379	8, 9, 10, 11 (part), 20 (part)
	+ 384	+ 31	- 353	25
Unidentified (balance of payments balancing item)	+ 22	+ 105	+ 83	26
Financial surplus (+)	+ 406	+ 136	- 270	27

⁽¹⁾ June 1965 *Bulletin*, page 107.

There was some decline in overseas holdings of local authority debt, compared with a rise in 1964: holdings of temporary money increased, mainly in the opening months of the year when interest rates were particularly high, but those of mortgages were reduced. Overseas holdings of marketable government debt (excluding the counterpart of aid) also fell, and by much more than in 1964, though they were increasing again towards the end of 1965, when confidence in sterling was returning and the balance of payments of overseas sterling area countries was improving.

Although the U.K. balance of payments was better than in 1964 the deficit remained large and there was heavy pressure on sterling at times. Some repayments of central bank aid were made, but on balance the amount outstanding fell only slightly, and there was another large drawing from the International Monetary Fund. The U.K. reserves, down by £122 million in 1964, went up by nearly £250 million.

Public sector

There was a big increase in public sector saving in 1965, mainly because of a rise in the Government's revenue from taxes, but partly because local authorities had a bigger current account surplus and the public corporations' gross trading surplus was larger. So, although capital expenditure increased, national income data show the public sector's deficit some £190 million smaller than in 1964. Identified financial transactions, however, indicate a public sector deficit about £50 million bigger than in the previous year. The reasons for the discrepancy are not known, but it seems likely that it arose because of timing differences between the two sets of figures.

The central government had to borrow a large amount, about £480 million, at home, compared with a net repayment of some £210 million in the previous year. There were two main reasons for this big change. First, there was a much smaller increase in the Government's liabilities to overseas and a rise, instead

Table V

	Public sector		1965 compared with 1964	£ millions
	1964	1965		
Saving	+ 1,452	+ 1,907	+ 455	<i>Lines in Table VII</i> 1
Capital expenditure (<i>less</i> capital transfers) ...	- 2,423	- 2,690	- 267	2, 3, 4
Financial deficit (-)	<u>- 971</u>	<u>- 783</u>	<u>+ 188</u>	5
Increase in assets or decrease in liabilities (+)				
Housing loans	+ 105	+ 132	+ 27	18
Local authority debt	- 561	- 595	- 34	22
Central government "external transactions" ^(a)	- 637	- 117	+ 520	8 (part), 9, 10, 11 (part), 20 (part), 21 (part)
Non-marketable debt, etc.	- 397	- 211	+ 186	6, 12, 15
Marketable government debt (domestic holdings)	+ 611	- 268	- 879	20 (part), 21 (part)
Other (net)	- 41	+ 88	+ 129	7, 8 (part), 11 (part), 13, 16, 17, 19, 24
Identified financial transactions	<u>- 920</u>	<u>- 971</u>	<u>- 51</u>	25
Unidentified	- 51	+ 188	+ 239	26

^(a) As defined in the additional notes to Table 1 of the statistical annex.

of a fall, in the reserves. Secondly, the Government provided £455 million of finance for local authorities, almost three times as much as in 1964: the policy of allowing the local authorities greater access to the P.W.L.B. meant that almost all their extra borrowing (£283 million out of an additional £314 million) was met by the Government, and the local authorities' market borrowing was not much greater than in 1964.

National savings, which had raised over £200 million in 1964, now cost the Government some £30 million, and the amount of tax reserve certificates outstanding again fell, and by nearly three times as much as in the previous year. Against this, the rise in net indebtedness to the Bank of England, Banking Department, was greater than in 1964 because of the Bank's call for Special Deposits, totalling £96 million. There was a bigger increase in the note circulation too.

Nevertheless, some £270 million had to be raised through domestic sales of marketable government debt, in contrast to net repayments of over £600 million in 1964. Holders outside the banking system ran-down their holdings of Treasury bills, as in all recent years, though by only half as much as in 1964. On the other hand, they added nearly £150 million on balance to their holdings of government

stocks, their first sizable purchases since 1962. Persons again sold stocks, but, as has been seen, some financial institutions—notably building societies, private sector pension funds and insurance companies—made large purchases, particularly after August. Altogether, holders outside the banks took up £110 million of marketable government debt. In consequence, the banks acquired about £160 million, compared with sales of some £550 million in 1964. This was only the third time in the last ten years that the banks' holdings of marketable government debt had not fallen. They added £73 million to their holdings of government stocks and £85 million to their Treasury bills.

Banks Net deposits with the banking system rose by £1,132 million during 1965, over £200 million more than in the previous year. Overseas deposits rose less than in 1964, but domestic deposits rose by £720 million, or 7½%—much faster than the increase of 4¼% in 1964 and about the same rate as in 1963. In each of these previous years the percentage increase had been smaller than that in the gross domestic product (measured at current prices from fourth quarter to fourth quarter), but in 1965 it was bigger. Domestic deposits

Table VI

	Banks			£ millions
	1964	1965	1965 compared with 1964	
Liabilities increase (—)				
Deposits :				
Overseas	— 530	— 412	+118	} 13
Domestic	— 388	— 720	—332	
Capital issues	— 25	— 2	+ 23	23
	— 943	—1,134	—191	
Assets increase (+)				
Overseas sector	+ 425	+ 361	— 64	16 (part)
Private sector	+ 962	+ 492	—470	16 (part), 19, 24
Local authority debt	+ 152	+ 116	— 36	22
Marketable government debt	— 546	+ 158	+704	20, 21
Other public sector	+ 13	+ 155	+142	6, 12, 16 (part)
	+1,006	+1,282	+276	

with the accepting houses and overseas banks again grew faster than those with the other banks; they went up by no less than 27% and accounted for a third of the total increase.

In 1964, the banking system's claims on the overseas and private sectors, taken together, had risen faster than these sectors' deposits with the banks, while banking claims on the public sector had been reduced. The picture was completely different in 1965, when the banks' claims on the overseas and private sectors rose much less than deposits and some £430 million of public sector debt was acquired.

The check to the growth of the banks' claims on the overseas sector, which has been discussed earlier, was the first since 1961. Banking claims on the private sector rose by only about half as much as in 1964. There was a big increase in the first half; then, as credit restraint bit deeper, substantial repayments were made to the banks. The accepting houses and overseas banks had accounted for a quarter of the rise in claims on the private sector in 1964; this time they accounted for just over one-third—much the same as their share of the rise in domestic deposits.

The swing in the banks' acquisition of public sector debt was due, as already mentioned, to a large increase in government debt, com-

pared with a reduction in 1964. Loans to local authorities (by way of advances, bills and securities), on the other hand, rose less than in 1964, mainly because of a big reduction in the second quarter, when the local authorities were borrowing heavily from the P.W.L.B. and overseas residents were withdrawing deposits from the accepting houses and overseas banks.

All in all, the banks' more liquid assets increased relatively quickly during the year and their liquidity position became rather less tight. The London clearing banks, for example, had a combined liquidity ratio of 32.1% at mid-December, higher than a year earlier, but lower than in 1963—the December 1964 figure had been unusually low, because of the sterling crisis. The position in 1965 would have been easier but for Special Deposits, which, for the clearing and Scottish banks together, set aside £96 million of the increase in holdings of government debt. This figure explains most of the £155 million rise shown in Table VI for the banks' holdings of "other public sector" debt (almost wholly notes and coin and the Banking Department's net claims on the Government). The remaining £59 million increase in this item represents mainly an increase in the banks' cash reserves—larger than in 1964 and according with the steeper rise in bank deposits.

Notes on sources and definitions

Sources

The main statistical series used in compiling the tables appear in the statistical annex to this *Bulletin* or in the following: *Financial Statistics and Economic Trends* issued by the Central Statistical Office, and *Preliminary Estimates of National Income and Balance of Payments 1960 to 1965* (Cmnd. 2966).

Definitions

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

Overseas sector: as defined for the balance of payments estimates (see *United Kingdom Balance of Payments 1965*, H.M.S.O., August 1965).

Persons (or personal sector): 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 (or banking sector): as defined in the additional notes to Table 8 of the annex.

Other financial institutions: insurance companies, superannuation funds, building societies, investment trusts, hire purchase finance companies, special investment departments of trustee savings banks, unit trusts, special finance agencies (e.g., the Agricultural Mortgage Corporation) and 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.

Financial surplus/deficit: for domestic sectors, a surplus is calculated as shown in Table VII, *i.e.*, it is the amount by which current saving and net receipts of capital transfers exceed expenditure at home on fixed assets and stocks of goods and work in progress. It thus represents the sum available for the net acquisition of financial claims on other domestic sectors or for net investment, in real or financial assets, abroad. A financial surplus of the overseas sector is the counterpart of a deficit on current account in the U.K. balance of payments. 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: 1963, -61; 1964, -291; 1965, -287; the figures in each year indicating an excess of estimated income over estimated expenditure).

Net indebtedness of Government to Bank of England, Banking Department: the Banking Department's holdings of government debt, and of notes and coin, less the deposits of the Exchequer and Paymaster General with the Bank. Changes in this item correspond very closely to movements in the Banking Department's net liabilities to the rest of the banking sector. These movements, which do not appear in the

consolidated account for the whole sector, are shown below. (Changes in bankers' deposits are influenced by movements in the banks' holdings of notes and coin—£ millions: 1963, +82; 1964, -52; 1965, -2.)

	£ millions		
	1963	1964	1965
Bankers' deposits, increase (+)	-45	+84	+ 67
Special Deposits, increase (+) ...	—	—	+ 96
Advances to the discount market, increase (-)	+ 4	-21	- 9
	<u>-41</u>	<u>+63</u>	<u>+154</u>

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

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

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

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

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

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

Bank deposits: changes in gross current and deposit accounts, except for the banking sector and industrial and commercial companies. The entries for the banking sector are changes in net deposits, *i.e.*, current and deposit accounts after allowing for transit items (see Table 8 of the annex). The proper allocation of transit items is not known, but it is believed that most of the net change arises from transactions between industrial and commercial companies. For convenience it has been assumed that the

(continued on page 140)

Table
Sector financing :

	Line	Public sector			Overseas sector		
		1963	1964	1965	1963	1964	1965
Financial surplus (+)/deficit (-)							
Saving	1	+ 1,077	+ 1,452	+ 1,907			
Taxes on capital and capital transfers	2	+ 211	+ 186	+ 138			
<i>less</i> : Gross fixed capital formation at home	3	- 2,129	- 2,580	- 2,803			
Increase in value of stocks and work in progress	4	+ 21	- 29	- 25			
Financial surplus (+)/deficit (-)	5	- 820	- 971	- 783	- 105	+ 406	+ 136
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	+ 32	- 68	- 152			
Life assurance and superannuation funds	7	- 68	- 56	- 52			
Government loans	8	+ 113	+ 122	+ 93	- 97	- 101	- 63
Gold and foreign exchange reserves	9	- 53	- 122	+ 246	+ 53	+ 122	- 246
Account with I.M.F.	10	- 5	- 359	- 499	+ 5	+ 359	+ 499
Miscellaneous investment overseas (net)	11	+ 8	- 57	+ 56	- 127	- 212	- 245
Notes and coin	12	- 154	- 157	- 193			
Bank deposits	13	+ 10	+ 10	+ 39	+ 378	+ 530	+ 412
Deposits with other financial institutions	14				+ 17	+ 18	+ 82
Non-marketable government debt	15	- 126	- 172	+ 134			
Bank lending	16	- 5	+ 7	- 7	- 313	- 425	- 361
Hire purchase debt	17	+ 10	+ 7	+ 2			
Loans for house purchase	18	+ 58	+ 105	+ 132			
Other loans	19	- 64	- 90	+ 8			
Marketable government debt :							
Treasury bills	20	- 24	+ 375	+ 39	+ 91	+ 26	- 87
Stocks	21	+ 121	+ 114	- 222	+ 7	+ 96	+ 2
Local authority debt	22	- 636	- 561	- 595	- 1	+ 29	- 19
U.K. company, and overseas securities:							
Capital issues	23				- 16	- 66	- 19
Other transactions	24	- 22	- 18	-	- 34	+ 8	+ 76
Identified financial transactions	25	- 805	- 920	- 971	- 37	+ 384	+ 31
Unidentified	26	- 15	- 51	+ 188	- 68	+ 22	+ 105
Total=Financial surplus (+)/deficit (-)	27	- 820	- 971	- 783	- 105	+ 406	+ 136

VII
annual figures

£ millions

Private sector										Line		
Persons			Industrial and commercial companies			Banks			Other financial institutions			
1963	1964	1965	1963	1964	1965	1963	1964	1965	1963	1964	1965	
+1,684	+1,887	+1,887	+2,521	+3,033	+3,068				+175	+199	+246	1
- 220	- 199	- 158	+ 9	+ 13	+ 20							2
- 839	- 998	-1,047	-1,823	-2,105	-2,245				-109	-126	-156	3
- 90	- 138	- 128	- 322	- 710	- 553							4
+ 535	+ 552	+ 554	+ 385	+ 231	+ 290				+ 66	+ 73	+ 90	5
						1963	1964	1965	1963	1964	1965	
+1,048	+1,132	+1,180				- 32	+ 68	+ 152	- 980	-1,076	-1,128	6
+ 4	- 6	- 10	- 19	- 18	- 22				+ 7	+ 3	+ 2	7
			+ 110	+ 266	+ 192				+ 9	+ 3	- 3	8
+ 36	+ 105	+ 98	+ 36	+ 104	+ 97	+ 82	- 52	- 2				9
+ 367	+ 447	+ 504	+ 208	- 75	+ 122	-1,003	- 918	-1,132	+ 40	+ 6	+ 55	10
+ 632	+ 677	+ 795	+ 52	+ 30	+ 47				- 701	- 725	- 924	11
+ 187	+ 216	- 15	- 61	- 44	- 119							12
- 140	- 194	+ 102	- 481	- 669	- 523	+ 977	+1,360	+ 832	- 38	- 79	- 43	13
- 69	- 109	- 63	+ 29	- 25	- 22				+ 30	+ 127	+ 83	14
- 504	- 704	- 676							+ 456	+ 599	+ 544	15
- 8	- 4	- 22	- 48	- 124	- 211		+ 4	- 2	+ 120	+ 214	+ 227	16
												17
- 236	- 95	- 95	- 31	- 82	- 22	- 35	- 331	+ 85	- 1	+ 12	- 15	18
+ 207	+ 130	+ 308	+ 133	+ 63	- 78	- 12	- 215	+ 73	+ 120	+ 100	+ 242	19
						+ 65	+ 152	+ 116	+ 232	+ 187	+ 268	20
												21
- 505	- 550	- 641	- 330	- 406	- 406	- 24	- 25	- 2	- 147	- 161	- 96	22
			+ 270	+ 409	+ 399	+ 26	+ 20	+ 28	+ 782	+ 787	+ 661	23
												24
+1,001	+1,045	+1,465	- 132	- 571	- 546	+ 44	+ 63	+ 148	- 71	- 1	- 127	25
												26
- 466	- 493	- 911	+ 517	+ 802	+ 836				+ 93	+ 11	+ 69	27
+ 535	+ 552	+ 554	+ 385	+ 231	+ 290				+ 66	+ 73	+ 90	

net change attributable to the other sectors is nil; and the entries for industrial and commercial companies are the changes in gross current and deposit accounts less the total change in transit items.

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

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

Bank lending: the banks' advances and overdrafts, money at call and short notice, and transactions in commercial bills, excluding all loans to local authorities (included in *Local authority debt*). Distribution of advances between debtor sectors is taken from comprehensive statistics for the banking sector (see Table 8 of the annex). The overseas sector figures for call money and commercial bills are taken from returns made by the banks; the figures for other financial institutions from returns made by the institutions. The residual commercial bill figures are attributed to industrial and commercial companies and the residual call money figures are divided between persons (e.g., stockjobbers) and industrial and commercial companies according to a rough estimate.

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

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

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

Marketable government debt: as defined in the additional notes to Table 3 (i) of the annex. The

entries for Treasury bills under industrial and commercial companies are residuals and include any changes in personal and unidentified overseas holdings. The residual entries for stocks under persons include any changes in holdings of industrial and commercial companies and any unidentified overseas transactions. The change in overseas holdings of Treasury bills in 1964 and 1965 includes the sterling side of central bank swap transactions.

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

U.K. company, and overseas securities:

Capital issues: 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 (see Table 14 of the annex).

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

Unidentified: the net totals for all sectors together represent the residual error in the national income data referred to in *Financial surplus/deficit*. 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.