Analysis of financial statistics: October-December and Year 1966

In previous years, the annual financial statistics for each sector of the economy have been discussed in a separate article in the June issue of this *Bulletin*,[1] while the figures for the October-December quarter have been described in the regular quarterly analysis of financial statistics. This year both sets of figures – annual and quarterly – are examined together: the analysis concentrates mainly on the year 1966, but also includes a discussion of the figures for the last quarter of 1966 and preliminary comment on those available for January-March this year. The annual and quarterly figures are presented in Tables H and I, accompanied by notes on sources and definitions.

The pattern of financial flows in 1966 was strongly influenced by the Government's action to contain home demand and to improve the balance of payments. Credit was already restrained at the beginning of 1966 and was further restricted during the year: terms control on hire purchase was tightened in February and again – more drastically – in July; and on 14th July Bank rate was raised from 6% to 7% and additional Special Deposits were called. Prices and incomes policy affected the behaviour of personal incomes and company profits; and changes in taxation also had a direct impact on the pattern of financial flows. Measures aimed directly at improving the balance of payments affected both the overseas sector and the financing of the company sector. Towards the end of the year, when the balance of payments was seen to be improving and the rise in domestic demand had been checked, demand for credit eased and many investors, anticipating a fall in interest rates, purchased fixed interest stocks, particularly gilt-edged. There was thus a distinct change in trend during 1966 – making it desirable, in many cases, to describe movements during the year and not merely those for the year as a whole.

Both the personal sector and companies saved less in 1966 than in 1965. Personal income was particularly affected by the standstill in wages and salaries, while company profits, as here defined,[2] were reduced, in part by selective employment tax. Persons borrowed more for house purchase, but repaid a much larger amount of consumer credit, and invested less in financial assets. Industrial and commercial companies borrowed less in total than in the previous year; but because of the restraint on bank credit they raised more through capital issues. They did much less stockbuilding, invested less abroad and considerably reduced their purchases of securities from other sectors through take-overs, but their fixed investment increased until the closing months of the year. It was then that their demand for funds began to ease.

The balance of payments on current account improved moderately in 1966. Overseas residents' net claims on the private sector, however, fell by substantially more than a year before, and there was a much larger increase in net claims on the Government.

Despite steeply rising fixed investment, the public sector's financial deficit was smaller than in 1965, mainly because taxes brought in more. The sector's position was further improved by the

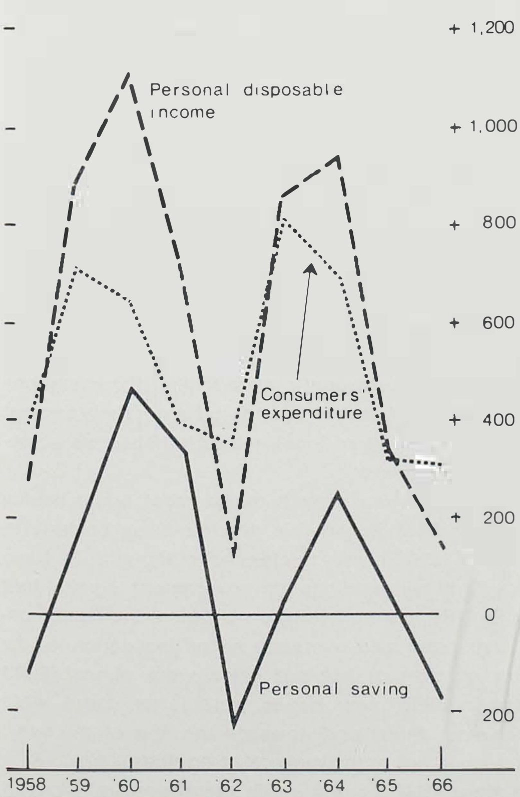
1 See, for example, the article " Sector financing 1965 " in the June 1966 *Bulletin*.
2 Company profits are estimated after payment of selective employment tax; payments were made from 5th September, whereas the first refunds and premiums were not received until early in 1967.

rise in receipts from the Government's external transactions and by a fall in local authority lending for house purchase. Within the public sector, the central government borrowed much less at home, despite heavier drawings by local authorities on the Public Works Loan Board. The greater drawings were not due to an increase in the total requirements of local authorities; their borrowing from the market was reduced.

The gilt-edged market was weak at first and, although there was a very strong demand for government stocks later in the year, in 1966, as a whole, domestic investors other than banks bought less than in 1965. The amount invested in national savings fell sharply, and the total of government debt held outside the banks was reduced. Nevertheless, because the Government's domestic borrowing requirement was very small, the banks were left to take up only a modest amount of government debt. They also lent comparatively little to the private sector. Domestic deposits and the money supply rose much more slowly than in 1965.

The other financial institutions had more funds to invest than in 1965, though the increase in these funds was smaller than in earlier years. Building societies both attracted more money and lent more; but hire purchase business was depressed and growth in life assurance and pension funds was smaller than in 1965. The institutions were active buyers of company securities early in the year, when new issues were heavy, and did not buy any large amount of government stock until the last quarter.

Annual changes £ millions at 1958 prices



Personal income, expenditure and saving followed much the same course in 1963-66 as in 1959-62.

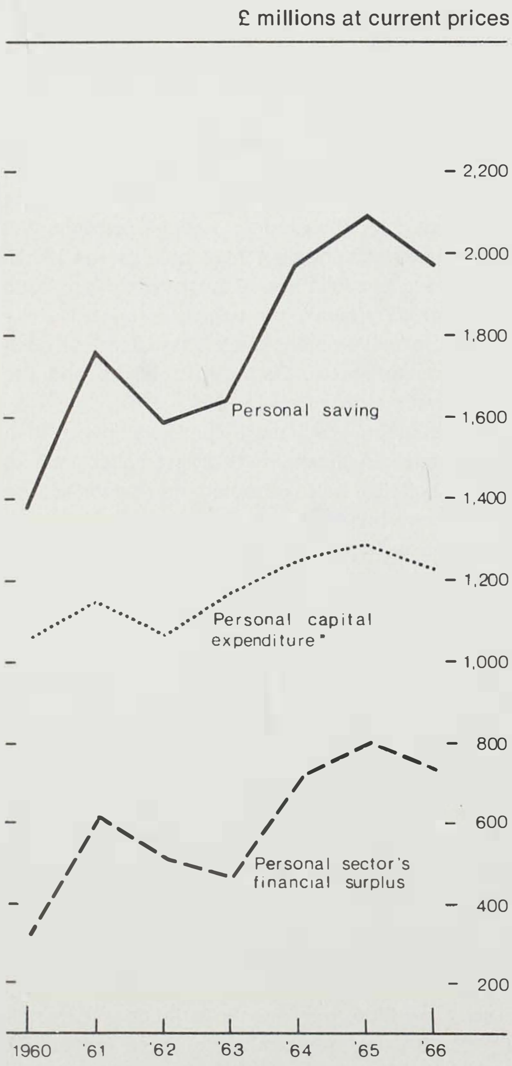
Personal sector

The standstill on wages, salaries and dividends imposed in July, together with the slackening of domestic activity, limited the increase in real personal disposable income in 1966 (that is, income after tax and after taking account of the rise in consumer prices) to $\frac{3}{4}$%, compared with $1\frac{3}{4}$% in 1965 and $4\frac{3}{4}$% in 1964. The volume of consumers' expenditure, however, although reduced in the second half of the year, rose in 1966 as a whole by almost as much as in 1965, in spite of a larger repayment of consumer borrowing. The volume of saving thus fell, and the savings ratio dropped from 8·4% to 7·6%. The last fall in real savings occurred in 1962, when real incomes also rose very little: movements in income, expenditure and saving in 1963-66 were very similar to those in 1959-62 (see the chart) and in 1954-57.

Personal saving at current prices fell by £130 million in 1966. The sector's net capital transfers rose because death duties were larger, but people spent less on new houses, and unincorporated businesses reduced their fixed investment and did less stockbuilding. The reduction in capital expenditure was insufficient to offset the fall in saving; and the sector's financial surplus was some £60 million smaller than in 1965. So, as in 1956 and 1961, the peak in the surplus in 1965 coincided with a peak in saving.

Although investment in new private houses was smaller than in 1965, people borrowed more for house purchase. The increase came entirely from the building societies, which had benefited from a strong inflow of funds early in the year and were able to lend readily until the closing months. Borrowing from the insurance companies, which had been heavy in 1965 when the building societies were short of funds, was relatively low in 1966. So was borrowing from local authorities, which had been asked in July 1965 to restrict their lending for house purchase.[1]

1 September 1965 *Bulletin*, page 216.



Fluctuations in the personal sector's capital expenditure are small compared with those in saving, so the sector's financial surplus generally moves in line with personal saving.

* Including capital transfers.

Credit restraint was aimed particularly at borrowing for consumption, and there was a large net repayment of such credit. Hire purchase debt outstanding, which had risen by over £60 million in 1965, now fell by more than £100 million, thanks mainly to terms control and to the finance houses' efforts to reduce their lending to within the 105% ceiling. Consumers had repaid about £90 million of bank advances in 1965 and, under pressure from the banks, they repaid another £60 million or so last year. Altogether, the reduction in consumer credit was £160 million, compared with about £30 million in 1965. At 1958 prices, the repayment of consumer credit last year was about £130 million: the volume of durable goods purchased, which is generally influenced strongly by the availability of credit,[1] fell by nearly £60 million.

Other identified borrowing by the personal sector was smaller than in 1965. Less was borrowed from the banks through call money (perhaps mainly by stockbrokers), and unincorporated businesses made larger net repayments of advances. However, people borrowed somewhat more, for general purposes, from insurance companies. In all, despite the larger amount obtained for house purchase, the personal sector borrowed about £120 million less than in the previous year.

The fall in the sector's financial surplus was accompanied by a decline in identified acquisition of financial assets, which was about £75 million smaller than in 1965. Holdings of the most liquid assets – notes, coin, and deposits at banks and in ordinary accounts with savings banks – rose by only £224 million. This may have been partly a reaction to the very large increases in the two preceding years, but – as usual when credit is tightening – it also reflected improvements in yields offered by other non-marketable assets.

Relative interest rates favoured investment in building societies in the opening months of 1966, when personal saving was high, and over the year people invested about £100 million more than in 1965. The introduction of Post Office Savings Bank investment accounts, bearing a higher rate of interest, brought considerable switching out of ordinary P.O.S.B. accounts. The issue of a new higher yielding certificate at the end of March brought some net investment in national savings certificates during the last nine months of the year. On the other hand, there were large defence bond redemptions, and people were not keen to reinvest in the new national development bond, whose rate of interest, though ½% higher than the earlier issue, was unattractive in the circumstances then ruling; thus holdings of defence and national development bonds fell substantially. Holdings of local authority debt rose somewhat less than in the previous year.

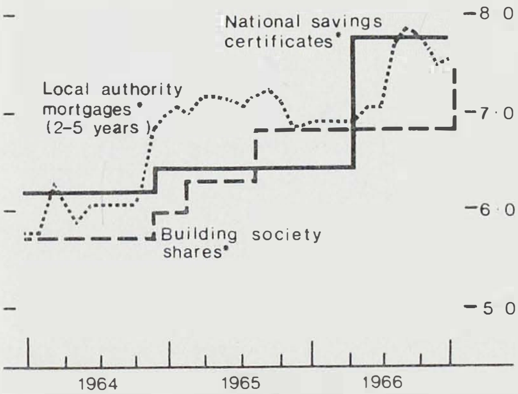
Another reason for the slower growth of the most liquid assets was the stronger demand for marketable securities, particularly in the last few months of 1966, when yields were thought to have passed their peak. Personal holdings of government stocks had fallen substantially in 1965, but last year, on balance, they were unchanged. Sales of company and overseas securities continued to be far greater than purchases, but net sales were almost £200 million smaller than in 1965: new issues were large; there were fewer company take-over deals; and, towards the end of the year, financial institutions were not active buyers of equities.

For the first time since 1948, growth in life assurance and pension funds, which has been slackening for some years, did not increase. Dividend income was reduced, and there was an increase in maturities of endowment policies.

1 September 1966 *Bulletin*, page 249.

In all, identified financial transactions indicated an increase of £45 million in the personal sector's financial surplus last year, compared with the fall of about £60 million shown by the preliminary national income statistics, and the unidentified item was over £100 million larger than in 1965. The pattern of unidentified items for the other sectors does not suggest any obvious explanation.

Per cent per annum



Movements in interest rates towards the end of 1965 increased the competitiveness of building society shares compared with local authority mortgages, but the gap widened again in the middle of 1966. The new national savings certificate, from March 1966, offers a very attractive yield.

* Yields have been grossed up at the standard rate of income tax. Those for local authority mortgages are for large loans; individuals usually get ¼%-½% less.

Table A
Personal sector

£ millions

	1964	1965	1966
Saving	+1,975	+2,097	+1,967
Capital transfers	− 199	− 157	− 179
Capital expenditure	−1,057	−1,137	−1,046
Financial surplus	**+ 719**	**+ 803**	**+ 742**
Borrowing −			
For house purchase[a]	− 742	− 679	− 721
For consumption[b]	− 184	+ 27	+ 160
Other	− 78	− 118	− 88
	−1,004	**− 770**	**− 649**
Acquisition of financial assets +			
Bank deposits[c]/notes and coin	+ 588	+ 624	+ 224
Government stocks	− 62	− 80	—
Company and overseas securities	− 567	− 663	− 474
Life assurance and pension funds	+1,140	+1,173	+1,170
Building society shares and deposits	+ 501	+ 657	+ 766
Other assets[d]	+ 454	+ 350	+ 299
	+2,054	**+2,061**	**+1,985**
Identified financial transactions	**+1,050**	**+1,291**	**+1,336**
Unidentified	− 331	− 488	− 594

a Including estimated borrowing from banks.
b The "personal and professional" group in the British Bankers' Association analysis of advances (excluding estimated borrowing for house purchase), plus consumer hire purchase debt.
c Including deposits in ordinary accounts with the P.O.S.B. and in the ordinary departments of the trustee savings banks (part of line 15 in Table H).
d Line 22, and parts of lines 14 and 15 in Table H.

All companies

The slower growth of output in 1966, together with price restraint and the payment of selective employment tax, brought a fall of over 4½% in company trading profits. Although other income continued to rise, total income was £80 million lower than in 1965. When profits fall, dividend payments usually tend to fall much less, if at all,[1] but last year payments on ordinary and preference shares fell by 3%, the first significant decline since 1952. It is clear that official discouragement of dividend increases, after July, was an important reason; there were virtually no increases to offset the cuts which some companies were compelled to make. Interest payments were considerably higher, however, both because of the increase in outstanding liabilities in the form of debentures,[2] and because of the rise in interest rates. Profits due, and taxes paid, abroad, and U.K. tax payments – which related mainly to the increased profits of 1964 – were also greater. Total current expenditure thus rose

1 March *Bulletin*, page 35.
2 The introduction of corporation tax has generally made it distinctly cheaper to raise money through debentures, rather than through equities, and the amount of debentures outstanding has grown rapidly since the middle of 1965.

and, with the fall in income, companies saved nearly £200 million less than in 1965. Financial companies, however, which generally do well when interest rates are high, saved over £40 million more, so the saving of industrial and commercial companies declined by almost £240 million.

Table B
All companies

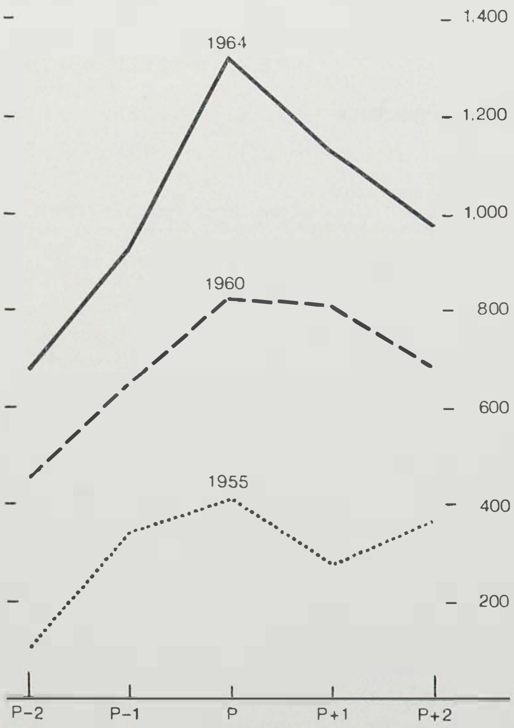
£ millions

	1964	1965	1966
Income			
Gross trading profits[a]	4,408	4,566	4,351
Other current income[b]	2,279	2,545	2,680
	6,687	**7,111**	**7,031**
Allocation of income			
Dividends on ordinary and preference shares	1,614	1,812	1,754
Other interest etc.	657	803	929
Profits due abroad and taxes paid abroad	705	740	765
U.K. taxes on income	765	746	771
	3,741	**4,101**	**4,219**
Saving[a]	**2,946**	**3,010**	**2,812**

a After allowing for stock appreciation but before allowing for capital depreciation.
b Rent, non-trading income and current income from abroad.

£ millions

Company borrowing



P represents peak year for expenditure.

In the most recent years company borrowing has risen and fallen more sharply than in previous cycles.

Industrial and commercial companies

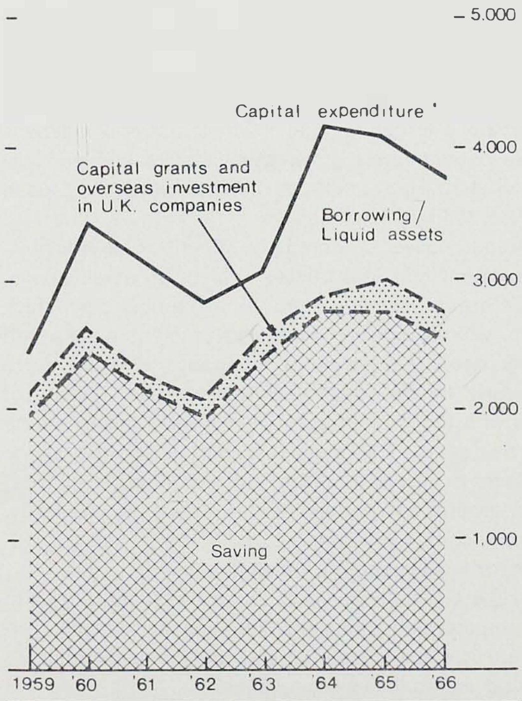
Industrial and commercial companies not only had less internal finance available, but also – for the second year running – borrowed less. The chart shows that borrowing also fell in 1961 and 1962, the two years after the previous peak in capital expenditure. With their borrowing restricted, companies were, in fact, short of funds for most of the year. They reacted to this mainly by reducing their stockbuilding and by making fewer take-overs. Their position was somewhat eased, however, by the receipt of rather more funds from overseas and by the limitations on investment abroad.

Companies went through a very tight period early in 1966. Many of them had brought forward dividend payments to take advantage of the provisions in the Finance Act 1965;[1] at the same time they were still increasing their capital expenditure on fixed investment and stocks. They raised an exceptionally large amount through new capital issues and also borrowed heavily from the banks. With bank lending to the private sector almost at the 105% ceiling, it soon became difficult to get bank finance, so more capital issues were planned; and by July the queue of would-be borrowers, regulated by the Bank, was very long. Pressure from the banks, together with smaller payments of dividends (following the exceptionally large payments made earlier) and of taxes (because of the changes in company taxation), brought repayments of bank advances during the summer; and thereafter the demand for bank finance eased – as fixed investment ceased to rise and there was some reduction in stocks and work in progress. The amount raised through new issues, however, although smaller than in the first quarter, was still large, partly because of calls on issues made earlier. In the year as a whole, new issues provided some £170 million more than in 1965; bank borrowing £220 million less. Other borrowing by companies was also smaller, partly because less finance was obtained from the Government under the shipbuilding credit scheme.

1 June 1966 *Bulletin*, page 116.

£ millions

Companies : Financing of capital expenditure



Capital expenditure by companies generally tends to follow the same course as saving, the most important source of finance.

* Including the unidentified item.

As in 1965, with borrowing difficult, companies increased their liquid assets only moderately. But the pattern was rather different. Notes, coin and bank deposits, taken together, rose less than in 1965 and companies' deposits with finance houses were virtually unchanged; in the previous year they had risen by over £50 million. Net surrenders of tax reserve certificates, however, were smaller, partly because holdings were lower at the beginning of the year than for some time past, and partly because a new certificate, carrying a higher interest rate, was issued in June 1966 and proved attractive. Holdings of local authority debt were reduced by much the same amount as in the previous year.

Companies received rather more funds from overseas, partly because foreign oil companies invested more in connection with North Sea gas. This helped to maintain company fixed investment.

Identified capital expenditure (including some financial investment, see Table C), which had reached a peak in 1964, fell by 7½% between 1965 and 1966. Fixed investment was on an upward trend until the last quarter, when it began to fall, and was a little higher over the year as a whole, but there was less than half as much stockbuilding as in 1965. Rather less was invested abroad; long-term investment was affected by measures to improve the balance of payments and fell considerably in the second half of the year. There was a substantial fall in payments to other sectors to acquire controlling interests in other companies, and a reduction in hire purchase credit extended by shops; but more trade credit was extended by companies to public corporations.

Table C
Industrial and commercial companies

£ millions

	1964	1965	1966
Capital expenditure			
Gross fixed investment	2,241	2,317	2,345
Physical increase in stocks	521	312	130
Investment abroad[a]	471	475	443
U.K. company securities	353	355	261
Other[b]	86	42	57
	3,672	**3,501**	**3,236**
Financing of capital expenditure			
Saving[c]	2,765	2,763	2,524
Capital transfers (net)	13	20	20
Borrowing:			
From banks	697	467	247
Capital issues	411	404	572
Other	219	272	213
Decrease in liquid assets (increase —):			
Bank deposits/notes and coin	— 59	—240	—160
Tax reserve certificates	44	119	23
Other	23	69	97
Overseas investment in U.K. companies[d]	119	205	249
	4,232	**4,079**	**3,785**
Unidentified	560	578	549

a Gross long-term investment and net short-term investment (parts of lines 11 and 24 in Table H).
b Hire purchase claims, and net trade credit extended to public corporations.
c After allowing for stock appreciation.
d Gross long-term inflow, excluding foreign purchases of portfolio securities and share and loan capital, which are mainly from other sectors (part of line 11 in Table H).

Financial institutions other than banks

The inflow of funds to the other financial institutions in 1966 was only about £65 million greater than in 1965, less than half the increase recorded in each of the two previous years. Deposits, capital issues and sales of unit trust units each raised more than in 1965, but life assurance and pension funds added less to their assets and the institutions repaid some bank borrowing.

The larger amount raised on deposit was attributable to building societies and P.O.S.B. investment accounts – and, to a smaller extent, to the special investment departments of the trustee savings banks. By contrast, only £22 million was placed with hire purchase finance companies, compared with some £125 million in 1965, because the companies, whose business was contracting, did not compete so actively for funds. Moreover, they had no great need for bank credit, and repaid some advances. Most of the increase in new capital issues was attributable to special 'split share' issues by investment trusts.[1]

On the assets side, the institutions lent much more for house purchase and invested a larger amount in company and overseas securities, but they bought fewer government stocks and put less into local authority debt. Hire purchase claims, which had risen by £83 million in 1965, fell by £72 million.

The increase in purchases of company securities was mainly attributable to investment and unit trusts – which, as noted above, had considerably more to invest – and to insurance companies and pension funds, which acquired fewer government stocks and less local authority debt. Purchases of company securities were particularly large early in the year, when new issues – many of which were placed with the institutions – were heavy, and when the gilt-edged market was affected by election uncertainties and by the weakness of sterling. Building societies also acquired less local authority debt; they were building up liquid assets more slowly. P.O.S.B. investment accounts provided £25 million for local authorities and £27 million for investment in government stocks.

Other lending by the institutions was at much the same rate as in 1965: insurance companies lent more to persons for general purposes – partly offsetting a fall in their lending for house purchase – but finance houses advanced less to companies.

Table D
Other financial institutions

£ millions

	1964	1965	1966
Sources of funds			
Life assurance and pension funds	1,084	1,121	1,106
Deposits	724	923	984
Capital issues	84	36	100
Unit trust units (net)	77	59	105
Other (mainly bank) borrowing	76	41	−52
	2,045	**2,180**	**2,243**
Increase in financial assets			
Bank deposits	6	55	66
Treasury bills	12	−12	− 4
Local authority debt	188	268	210
Government stocks	102	241	118
Company and overseas securities	787	656	807
Loans for house purchase	599	550	732
Hire purchase claims	127	83	−72
Other lending	226	224	233
	2,047	**2,065**	**2,090**

1 June 1966 *Bulletin*, page 116.

Overseas sector

The balance of payments deficit on current account was about £60 million in 1966, compared with nearly £110 million in 1965; there was therefore a fall of nearly £50 million in the overseas sector's surplus. Identified financial transactions, however, indicated that overseas residents' net financial assets increased by £40 million more in 1966 than in the previous year; the balancing item was about £90 million smaller, perhaps because the big improvement in the trading position of the United Kingdom towards the end of the year had not yet been fully reflected in the financial statistics.[1]

There was again a decrease in overseas net claims on the private sector, excluding those on the banks, but, at nearly £35 million, the net outflow from the United Kingdom was about half that in 1965. U.K. investment abroad (other than in securities) was smaller; while foreigners invested more in this country at long term and bought more overseas securities from U.K. holders. On the other hand, they deposited less with financial institutions outside the banks.

Overseas net claims on the banking system, which had risen by about £50 million in 1965, fell by over £260 million. An important element in this change was the movement in sterling deposits, which had increased in 1965 but were reduced last year by heavy withdrawals during the summer. Foreign currency deposits and borrowing both rose sharply, for the growth of the euro-dollar market, which had been curbed by U.S. balance of payments measures in 1965, was rapidly resumed last year. The rise in foreign currency borrowing, however, greatly exceeded that in deposits: demand for euro-dollars was strong, particularly by American banks because of the tightness of money in the United States; and relative interest rates made it advantageous for U.K. banks to make foreign currency loans rather than to maintain their investment in sterling assets.

Altogether, overseas net claims on the private sector fell by about £295 million last year, compared with only £20 million the year before. By contrast, net claims on the public sector rose by £341 million, £316 million more than in 1965. Overseas holdings of government debt, including the counterpart of drawings on central bank facilities and on the International Monetary Fund, rose much less, and more overseas money was withdrawn from local authority debt, but foreign liabilities to the United Kingdom in the form of the reserves, which had risen by nearly £250 million in 1965, fell by just over £280 million – after adjustment for the transfer, in February, from the Government's portfolio of dollar securities.

Table E
Overseas sector

£ millions	1964	1965	1966
Increase in assets or decrease in liabilities +			
Bank deposits/borrowing	+103	+ 51	−263
Other private sector (net)	−324	− 71	− 33
Government debt etc.[a]	+515	+360	+175
U.K. reserves[b]	+122	−246	+282
Other public sector (net)[c]	− 50	− 89	−116
Identified financial transactions	**+366**	**+ 5**	**+ 45**
Unidentified	+ 27	+104	+ 16
Financial surplus	**+393**	**+109**	**+ 61**

a Lines 10, 20 and 21, and parts of lines 8 and 11 in Table H.
b See footnote *c* to Table 1 of the statistical annex.
c Line 22 and parts of lines 8 and 11 in Table H.

1 See *Economic Trends* for March, page xiv.

Public sector

The central government's current surplus was some £300 million greater in 1966 than in 1965: current expenditure rose, but receipts from taxes, including selective employment tax and the higher taxes on expenditure imposed in July, rose more. There was some increase in fixed investment, but the central government's financial surplus was still £280 million larger than a year before.

Local authorities also had a larger current surplus, because current grants from the Government were higher, and although their fixed investment rose faster than in 1965, their financial deficit was somewhat smaller. On the other hand, public corporations had a smaller current surplus: the increase in their gross trading surplus was slight, because of the slow growth in economic activity, and did not offset larger interest payments. In addition their fixed investment and stockbuilding rose, and their financial deficit was about £240 million greater than in the previous year. On balance, the financial deficit of the whole public sector was some £70 million less than in 1965.

The financial position of the sector was further improved by a decline in central government lending through the shipbuilding credit scheme, by a substantial reduction in local authority lending for house purchase, and by much larger receipts through the Government's "external transactions" (changes in government debt etc. and in U.K. reserves in Table E). Altogether, the sector had to borrow £587 million in 1966, about half as much as in the previous year.

Public corporations covered most of the increase in their financial deficit by borrowing much more from the Government, although they also took more trade credit from companies. Local authorities borrowed £60 million less in aggregate; they drew about £100 million more from the P.W.L.B., but raised some £160 million less in the market, where interest rates were distinctly higher.[1] Longer-term market borrowing – through stocks, bonds and mortgages – was down by nearly £140 million, mostly mortgages; outstanding temporary money fell a little.

Despite the additional lending by the central government to public corporations and to local authorities, the Exchequer's domestic borrowing requirement was only £74 million, £409 million smaller than in 1965.

There were much larger net withdrawals from national savings; the poor performance of defence and national development bonds and the reduction of deposits in ordinary savings bank accounts offset lower net encashments of national savings certificates. Notes held by the public rose less than in 1965; this was partly because consumer spending was restrained, but partly because 1965 had ended on a Friday – when the public's holdings of notes were at their weekly peak – whereas 1966 ended on a Saturday – when notes would have started to flow back to the banks. Moreover, despite the strong recovery in the gilt-edged market from September onwards, investors outside the banks purchased fewer government stocks during the year as a whole: personal holdings were unchanged, whereas they had fallen by £80 million in 1965; but the financial institutions, which had bought steadily throughout most of 1965, bought little gilt-edged until the last quarter of 1966. Tax reserve certificates (held outside the banks) alone showed no appreciable movement, whereas in the previous year there had been net surrenders of more than £100 million.

1 See the article " Local authorities and the capital and money markets " in the December 1966 *Bulletin*.

In all, there was a fall of almost £50 million in holdings of government debt outside the banks – the first fall for at least four years – compared with a rise of £175 million in 1965. This swing, however, was still less than the large reduction in the Government's total domestic borrowing requirement; and the banking system was left to take up only £121 million of government debt, about £185 million less than in 1965.

Table F
Public sector

£ millions

	1964	1965	1966
Financial surplus + / deficit −			
Central government	+310	+ 628[a]	+908
Local authorities	−726	− 834	−807
Public corporations	−583	− 621[a]	−857
Financial deficit	**−999**	**− 827**	**−756**
Government lending[b]	− 91	− 112	− 92
Loans for house purchase	−104	− 144	− 8
Government "external transactions"	+637	+ 114	+457
Other identified (net)	+ 69	− 29	− 66
Unidentified	+ 59	− 75	−122
	+570	**− 246**	**+169**
Financing			
Trade debt of public corporations[c]	+ 82	+ 32	+114
Local authority debt	+561	+ 558	+399
Government domestic borrowing:			
Outside the banks	+316	+ 175	− 47
Banking sector	−530	+ 308	+121
Total financing	**+429**	**+1,073**	**+587**

a The figures do not reflect the write-off of debt of the National Coal Board or of British Overseas Airways Corporation.

b To the private and overseas sectors (parts of lines 8 and 11 in Table H).

c Net trade credit taken from companies.

Banking sector

Although the banks acquired considerably less government debt in total than in 1965, they bought nearly £120 million of gilt-edged, rather more than in the previous year. Their holdings of other government debt, which had risen by £235 million in 1965, were little changed: holdings of notes and of tax reserve certificates, and the Banking Department's net claims on the Government, all rose, but there was a reduction of over £200 million in Treasury bills.

The banks' lending to the private sector also increased less than a year before, for it was affected by credit restraint and by some falling off in demand for advances as economic activity slackened; the rise in 1966 was only £113 million, compared with £462 million in the previous year and £940 million in 1964. The domestic banks' lending was little changed, but the accepting houses and overseas banks advanced more and so did the discount market, mainly through commercial bills.

Holdings of local authority debt rose rather less than in the year before. The domestic banks, whose lending to local authorities had fallen in 1965, now increased it a little, as did the discount market, but lending by the accepting houses and overseas banks was little changed, whereas it had risen by nearly £140 million in 1965. As discussed earlier, these banks found foreign currency lending attractive, and this increased by considerably more than the rise in the banks' foreign currency deposits; at the same time they also had less to invest with local authorities because foreigners were reducing their sterling deposits.

Domestic bank deposits rose much more slowly than in 1965, and the money supply went up by just over 4%, compared with 7½% in the previous year.

Table G
Banking sector

£ millions

	1964	1965	1966
Increase in assets +			
Government debt	— 530	+ 308	+ 121
Lending to private sector	+ 940	+ 462	+ 113
Lending to overseas	+ 427	+ 361	+1,005
Local authority debt	+ 152	+ 117	+ 81
Other	+ 19	+ 31	+ 42
	+1,008	**+1,279**	**+1,362**
Increase in liabilities —			
Overseas deposits	— 530	— 412	— 742
Domestic deposits	— 388	— 720	— 470
Capital issues	— 24	— 2	— 20
	— 942	**—1,134**	**—1,232**

Fourth quarter of 1966

The pressure of home demand eased in the fourth quarter of last year; stocks were reduced, private fixed investment began to fall, and the volume of consumers' expenditure was a little lower. Exports rose strongly, and there was a sharp fall in imports, partly in anticipation of the removal of the import surcharge. Expectation of a fall in interest rates was widespread and there was an exceptional demand for gilt-edged stocks – official sales amounted to no less than £410 million.

Personal sector Personal income, seasonally adjusted, rose by some £100 million in the fourth quarter. Income from wages and salaries, however, which was affected by the standstill and by the absence of any rise in economic activity, was little changed; but dividend receipts were considerably larger. This did not represent a change in trend; dividends had been smaller than usual in the previous quarter, because many payments had been made earlier in the year. Persons bought fewer durable goods, although the volume of spending on other goods and on services increased; and total consumption, in real terms and after seasonal adjustment, fell slightly. But prices rose and the value of consumption was some £45 million higher. Saving thus rose by about £55 million, and – with unincorporated businesses spending less on fixed investment and reducing their stocks – the sector's financial surplus, seasonally adjusted, was over £70 million larger than in the third quarter.

After allowing for seasonal movements, the personal sector borrowed about as much in the fourth quarter as in the third: repayments to the banks were smaller, but people borrowed less for house purchase. The sector's total acquisition of financial assets, however, was greater than in the previous quarter. Persons bought government stocks on an exceptionally large scale, mainly because yields were expected to fall, and also favoured local authority mortgages, partly for the same reason. Moreover, their net sales of company and overseas securities were smaller. Thus, although the sector's financial surplus rose, the increase in personal bank deposits was very small for the time of year.

Industrial and commercial companies While personal saving rose, company saving fell: a full quarter's selective employment tax was paid but no refunds were received until after the end of the quarter, while dividend payments were larger, as noted above. Industrial and commercial companies, whose saving, after seasonal adjustment, was about £200 million smaller than in the third quarter, reduced their total capital expenditure:[1] their stocks fell significantly; their fixed investment, after seasonal adjustment, declined; they invested less abroad; and they spent less on company securities through take-overs.

Although borrowing very little from the banks, companies raised slightly more through new capital issues in the fourth quarter, and were able to add considerably more to their liquid assets, mostly bank deposits. Some of the cash raised through new issues may have been used to repay bank borrowing; while some issues may have been planned to finance fixed investment in the future – and in the meantime went to build up liquid assets instead. New issues of loan capital increased, but only because of calls on earlier issues, while less was raised through shares. There was a noticeable fall in announcements of new issues, both share and loan, partly perhaps because of the postponement of some fixed investment plans and partly because some companies may have expected interest rates to fall further and decided not to raise capital until rates were lower.

Overseas sector There was a big improvement in the balance of payments on current account, and the overseas sector swung into heavy deficit. Overseas net claims on the private sector were little changed; U.K. banks switched back into foreign currency some deposits which they had previously invested in sterling, but foreigners were rebuilding their sterling deposits. Overseas claims on the Government, including the North American loans and outstanding drawings on central bank facilities, were reduced by nearly £100 million, and the reserves fell by some £20 million.

Public sector The public sector's financial deficit, after seasonal adjustment, was smaller than in the third quarter. Local authorities borrowed more from the market, and rather less from the central government. External transactions, however, which had led to a large receipt of sterling in the previous quarter, now resulted in a payment; and the Government's domestic borrowing requirement was relatively large.

People continued to withdraw money from national savings, but domestic investors other than banks bought government stocks on a very large scale; their purchases totalled £223 million. After allowing for a decrease in notes and in Treasury bills held outside the banks, and for purchases of tax reserve certificates by companies and persons, total holdings of government debt outside the banks increased by nearly £170 million. This left the banks to take up about £390 million of government debt, much more than in the previous quarter, and more than seasonally expected.

Banking sector There was a further reduction, smaller than in the third quarter, in the banks' lending to the private sector; but after rough seasonal adjustment the change was about the same. On the other hand, there was little change in the banks' net overseas liabilities, following a fall of over £200 million in the third quarter. Net domestic deposits with the banks, seasonally adjusted, rose by

1 Including investment in certain financial assets, as in Table C.

about as much as in the previous quarter; but after allowing for the fall in the public's holdings of notes, the increase in the total money supply, after rough seasonal adjustment, was somewhat smaller in the fourth quarter than in the third.

Other financial institutions The other financial institutions had more funds to invest than in the third quarter, mainly because life assurance and pension funds, which received more dividends from companies, grew faster. The inflow of funds to building societies fell in November but revived in December, after it had been announced that interest rates on shares and deposits would be raised in January. In the quarter as a whole, the societies' receipts increased, but no more than seasonally. Deposits in the special investment departments of the trustee savings banks rose less fast.

Among the institutions' assets, building societies' loans for house purchase grew more slowly and the finance companies' hire purchase claims again fell. The institutions invested less in local authority debt and in company and overseas securities, but bought a particularly large amount – nearly £100 million – of government stocks. These purchases were attributable partly to the building societies, which increased their liquid assets but ran down their holdings of local authority debt, but mainly to the insurance companies and pension funds, which bought fewer company securities, and to the investment trusts, which made substantial purchases of gilt-edged for the first time for over a year.

First quarter of 1967

Economic activity showed some signs of recovery in the first quarter, led by exports, public sector expenditure and some revival in consumers' spending; private fixed investment probably continued to fall. A number of pay increases became effective as the standstill on incomes was succeeded by the period of severe restraint. Bank rate was reduced by ½% to 6½% on 26th January, and by a further ½% on 16th March. Investors took advantage of high yields while they were still available, and official sales of gilt-edged stocks, at £601 million, were even larger than in the previous quarter.

After allowing as far as possible for the very large seasonal fluctuations in the main revenue quarter, the central government's financial position deteriorated; the first refunds and premiums in respect of selective employment tax were paid, and lending to local authorities and nationalised industries was heavy. Moreover, the inflow of foreign exchange meant that the Exchequer had to pay out much more sterling on account of external transactions than in the fourth quarter: the balance of payments on current account was less favourable but leads and lags were being reversed, overseas residents rebuilt their sterling balances, and the banks switched some foreign currency deposits into sterling.[1] Only £144 million of government debt was repaid to domestic holders, a very small amount for this quarter.

Domestic holdings of government debt outside the banks, which usually fall in the first quarter, rose by over £200 million. Purchases of gilt-edged stocks amounted to nearly £300 million, even more than in the previous quarter, and net surrenders of tax reserve certificates were smaller than usual. Withdrawals from national savings, after seasonal adjustment, were at much the same rate as in the fourth quarter. The fall in the banks' holdings of government debt – about £360 million – was small for the time of year. The banks

[1] See page 112.

bought nearly £300 million of government stocks, and their holdings of Treasury bills fell substantially.

The banks lent about £175 million to the private sector, mostly to industrial and commercial companies and probably rather less than seasonally expected. There was a sharp increase in net liabilities to the overseas sector, mainly because, as noted above, sterling deposits were rising and foreign currency deposits were being switched into sterling. Consequently, the banks lent a particularly large amount to local authorities. Domestic deposits fell by about £300 million; the public's holdings of notes and coin rose by only about £60 million; and the money supply declined. After rough seasonal adjustment, however, there was a larger rise in the money supply than in the fourth quarter, partly perhaps because of the change in the pattern of company taxation.

Industrial and commercial companies raised rather more through new capital issues in the first quarter than in the fourth but, after allowing for the usual seasonal increase, they probably borrowed much the same from the banks as in the previous quarter. The reduction in their bank deposits was large for the time of year, especially as companies were receiving refunds and premiums on account of selective employment tax. Their net surrenders of tax reserve certificates were relatively small: purchases of securities in connection with take-overs were larger than in the previous quarter.

After allowing for seasonal factors, the personal sector repaid rather more bank credit than in the fourth quarter of 1966: personal bank advances rose moderately, but there were repayments of call money, probably by stockbrokers. On the other hand, borrowing from building societies increased. People also invested more with the societies, attracted by the higher interest rates paid on shares and deposits from 1st January; net withdrawals from national savings, seasonally adjusted, continued at much the same rate as before. The sector's bank deposits rose, somewhat surprisingly in view of the strength of the gilt-edged market: it is difficult to trace seasonal movements from the short run of figures available, but there seems to have been a rise in the trend compared with the fourth quarter.

Table H
Sector financing: annual figures

£ millions

	Line	Public sector 1964	Public sector 1965	Public sector 1966	Overseas sector 1964	Overseas sector 1965	Overseas sector 1966
Financial surplus +/deficit −							
Saving	1	+1,427	+1,870	+2,267			
Taxes on capital and capital transfers	2	+ 186	+ 137	+ 159			
less:							
Gross fixed capital formation at home	3	−2,583	−2,806	−3,118			
Increase in value of stocks and work in progress	4	− 29	− 28	− 64			
Financial surplus +/deficit −	5	**− 999**	**− 827**	**− 756**	**+393**	**+109**	**+ 61**
Changes in financial assets and liabilities							
assets increase +/decrease − liabilities increase −/decrease +							
Net indebtedness of Government to Bank of England, Banking Department	6	− 68	− 152	− 44			
Life assurance and pension funds	7	− 56	− 52	− 64			
Government loans	8	+ 121	+ 114	+ 79	−101	− 66	− 61
Gold and foreign exchange reserves	9	− 122	+ 246	− 282	+122	−246	+ 282
Government transactions with I.M.F.	10	− 359	− 496	+ 17	+359	+496	− 17
Miscellaneous investment overseas (net)	11	− 56	+ 53	+ 38	−232	−267	− 170
Notes and coin	12	− 157	− 193	− 149			
Bank deposits	13	+ 10	+ 39	+ 13	+530	+412	+ 742
Deposits with other financial institutions	14				+ 17	+ 82	+ 31
Non-marketable government debt	15	− 172	+ 134	+ 125			
Bank lending	16	+ 7	− 7	− 14	−427	−361	−1,005
Hire purchase debt	17	+ 7	+ 2	+ 17			
Loans for house purchase	18	+ 104	+ 144	+ 8			
Other loans	19	− 109	—	− 59			
Marketable government debt:							
Treasury bills	20	+ 375	+ 39	+ 10	+ 26	− 87	+ 221
Stocks	21	+ 114	− 222	− 229	+ 96	− 2[a]	− 8[a]
Local authority debt	22	− 561	− 558	− 399	+ 29	− 17	− 38
U.K. company and overseas securities:							
Capital issues	23				− 66	− 19	+ 16
Other transactions	24	− 18	+ 7	+ 55	+ 13	+ 80	+ 52
Identified financial transactions	25	**− 940**	**− 902**	**− 878**	**+366**	**+ 5**	**+ 45**
Unidentified	26	**− 59**	**+ 75**	**+ 122**	**+ 27**	**+104[a]**	**+ 16[a]**
Total=Financial surplus +/deficit −	27	**− 999**	**− 827**	**− 756**	**+393**	**+109**	**+ 61**

a The figures for changes in overseas holdings of government stocks are consistent with Table 21 of the annex, and include revisions made since the balance of payments estimates were published: the unidentified item (the balancing item in the balance of payments) therefore differs from that given in Table 19.

. . Not available.

	Private sector												
	Persons			Industrial and commercial companies			Banks			Other financial institutions			
	1964	1965	1966	1964	1965	1966	1964	1965	1966	1964	1965	1966	Line
	+1,975	+2,097	+1,967	+3,032	+3,056	+2,811	+181	+247	+288				1
	− 199	− 157	− 179	+ 13	+ 20	+ 20							2
	− 898	−1,008	− 955	−2,241	−2,317	−2,345	−126	−156	−183				3
	− 159	− 129	− 91	− 788	− 605	− 417							4
	+ 719	**+ 803**	**+ 742**	**+ 16**	**+ 154**	**+ 69**	**+ 55**	**+ 91**	**+105**				5
							1964	1965	1966	1964	1965	1966	
							+ 68	+ 152	+ 44				6
	+1,140	+1,173	+1,170							−1,084	−1,121	−1,106	7
	− 6	− 9	− 13	− 17	− 41	− 8				+ 3	+ 2	+ 3	8
													9
													10
				+ 280	+ 211	+ 140				+ 8	+ 3	− 8	11
	+ 75	+ 77	+ 38	+ 134	+ 118	+ 29	− 52	− 2	+ 82				12
	+ 447	+ 504	+ 260	− 75	+ 122	+ 131	− 918	−1,132	−1,212	+ 6	+ 55	+ 66	13
	+ 676	+ 795	+ 951	+ 31	+ 46	+ 2				− 724	− 923	− 984	14
	+ 216	− 15	− 187	− 44	− 119	− 23	. .	. .	+ 85				15
	− 125	+ 33	+ 66	− 697	− 467	− 247	+1,321	+ 845	+1,151	− 79	− 43	+ 49	16
	− 109	− 63	+ 102	− 25	− 22	− 47				+ 127	+ 83	− 72	17
	− 742	− 679	− 721				+ 39	− 15	− 19	+ 599	+ 550	+ 732	18
	− 22	− 52	− 83	− 91	− 167	− 101	+ 4	− 2	+ 2	+ 218	+ 221	+ 241	19
				− 82	− 25	− 18	− 331	+ 85	− 209	+ 12	− 12	− 4	20
	− 62	− 80	—	− 35	− 10	—	− 215	+ 73	+ 119	+ 102	+ 241	+ 118	21
	+ 129	+ 270	+ 227	+ 63	− 80	− 81	+ 152	+ 117	+ 81	+ 188	+ 268	+ 210	22
				− 411	− 404	− 572	− 24	− 2	− 20	− 161	− 95	− 205	23
	− 567	− 663	− 474	+ 425	+ 414	+ 315	+ 22	+ 26	+ 26	+ 787	+ 656	+ 807	24
	+1,050	**+1,291**	**+1,336**	**− 544**	**− 424**	**− 480**	**+ 66**	**+ 145**	**+ 130**	**+ 2**	**− 115**	**− 153**	25
	− 331	**− 488**	**− 594**	**+ 560**	**+ 578**	**+ 549**	**− 13**	**+ 61**	**+128**				26
	+ 719	**+ 803**	**+ 742**	**+ 16**	**+ 154**	**+ 69**	**+ 55**	**+ 91**	**+105**				27

Table I
Sector financing: quarterly figures

£ millions

	Line	Public sector 1966 3rd qtr.	Public sector 1966 4th qtr.	Public sector 1967 1st qtr.	Overseas sector 1966 3rd qtr.	Overseas sector 1966 4th qtr.	Overseas sector 1967 1st qtr.
Financial surplus +/deficit −							
Saving	1	+306	+331				
Taxes on capital and capital transfers	2	+ 33	+ 33				
less:							
Gross fixed capital formation at home	3	−810	−816				
Increase in value of stocks and work in progress	4	− 31	− 6				
Financial surplus +/deficit −	5	**−502**	**−458**		**+111**	**−157**	
Changes in financial assets and liabilities							
assets increase +/decrease − liabilities increase −/decrease +							
Net indebtedness of Government to Bank of England, Banking Department	6	− 59	+ 8	+ 24			
Life assurance and pension funds	7	− 12	− 15				
Government loans	8	+ 16	+ 53		− 13	− 47	
Gold and foreign exchange reserves	9	− 41	− 22	+ 57	+ 41	+ 22	− 57
Government transactions with I.M.F.	10	− 3	+ 3	+ 21	+ 3	− 3	− 21
Miscellaneous investment overseas (net)	11	− 14	− 7		− 22	+ 3	
Notes and coin	12	+ 41	−143	+ 79			
Bank deposits	13	− 11	− 43	+ 36	+ 17	+321	+235
Deposits with other financial institutions	14				− 4	− 5	
Non-marketable government debt	15	− 9	− 4	+131			
Bank lending	16	− 29	− 14	+ 27	−225	−338	+ 44
Hire purchase debt	17	+ 5	+ 3				
Loans for house purchase	18	+ 3	+ 21				
Other loans	19	+ 79	− 79				
Marketable government debt:							
Treasury bills	20	−262	+ 47	+919	+249	− 26	−419
Stocks	21	− 89	−410	−601	+ 6	− 33	+ 11
Local authority debt	22	− 54	−131		− 23	− 13	
U.K. company and overseas securities:							
Capital issues	23				+ 15	+ 3	− 27
Other transactions	24	+ 11	+ 7		+ 32	+ 21	
Identified financial transactions	25	**−428**	**−726**		**+ 76**	**− 95**	
Unidentified	26	**− 74**	**+268**		**+ 35**	**− 62**	
Total = Financial surplus +/deficit −	27	**−502**	**−458**		**+111**	**−157**	

	Private sector							
	Persons			Industrial and commercial companies			Banks / Other financial institutions	
	1966		1967	1966		1967	1966	
	3rd qtr.	4th qtr.	1st qtr.	3rd qtr.	4th qtr.	1st qtr.	3rd qtr.	4th qtr.
Line 1	+287	+358		+994	+856		+153	+139
2	− 39	− 37		+ 6	+ 4			
3	−231	−232		−579	−624		− 45	− 57
4	− 16	+ 16		− 74	+ 54			
5	**+ 1**	**+105**		**+347**	**+290**		**+108**	**+ 82**

	Persons			Industrial and commercial companies			Banks			Other financial institutions		
	1966		1967	1966		1967	1966		1967	1966		1967
Line	3rd qtr.	4th qtr.	1st qtr.	3rd qtr.	4th qtr.	1st qtr.	3rd qtr.	4th qtr.	1st qtr.	3rd qtr.	4th qtr.	1st qtr.
6							+ 59	− 8	− 24			
7	+245	+320								−233	−305	
8	− 3	− 3		− 1	− 4					+ 1	+ 1	+ 1
9												
10												
11				+ 34	− 1					+ 2	+ 5	
12	− 12	− 3	+ 9	+ 28	− 13	+ 49	− 57	+159	−137			
13	+ 48	+ 34	+42	+114	+232	−346	−138	−627	+ 66	− 30	+ 83	−33
14	+222	+234		− 6	+ 9					−212	−238	
15	− 79	− 54	−54	+ 40	+ 28	− 60	+ 48	+ 30	− 17			
16	+ 90	+ 41	+12	+146	− 19	−156	+ 13	+303	+104	+ 5	+ 27	−31
17	+ 40	+ 19		− 15	+ 46					− 30	− 68	−39
18	−201	−153					− 8	− 10	+ 2	+206	+142	
19	− 50	+ 25		− 81	− 28		+ 3	− 1	− 8	+ 49	+ 83	
20				+ 9	− 8		+ 20	− 9	−479	− 16	− 4	
21	+ 10	+126					+ 70	+220	+296	+ 3	+ 97	
22	+ 18	+120		+ 17	− 17		− 18	+ 25	+167	+ 60	+ 16	
23				−119	−123	−141	− 19	—	—	− 37	− 30	−27
24	−134	− 87		+ 72	+ 54		+ 9	+ 7	+ 11	+170	+148	
25	**+194**	**+619**		**+238**	**+156**		**− 18**	**+ 89**	**− 19**	**− 62**	**− 43**	

Line	Persons 1966 3rd qtr.	Persons 1966 4th qtr.	Persons 1967 1st qtr.	Ind. & comm. 1966 3rd qtr.	Ind. & comm. 1966 4th qtr.	Ind. & comm. 1967 1st qtr.	Banks / Other fin. inst. 1966 3rd qtr.	Banks / Other fin. inst. 1966 4th qtr.
26	**−193**	**−514**		**+109**	**+134**		**+188**	**+ 36**
27	**+ 1**	**+105**		**+347**	**+290**		**+108**	**+ 82**

Notes on sources and definitions

Sources

The main statistical series used in compiling Tables H and I appear in the statistical annex to this *Bulletin* or in the following publications prepared by the Central Statistical Office: *Financial Statistics, Economic Trends* and *Preliminary Estimates of National Income and Balance of Payments 1961 to 1966* (Cmnd. 3244).

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 1966,* H.M.S.O., August 1966).

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 The banking sector, as in Table 8 of the annex.

Other financial institutions Insurance companies, pension funds, building societies, investment trusts, hire purchase finance companies, Post Office Savings Bank (investment accounts only), special investment departments of the trustee savings banks, unit trusts, special finance agencies (*e.g.* the Agricultural Mortgage Corporation) and certain other institutions which accept deposits but which are not included in the banking sector.

Line 1 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 current saving and net receipts of capital transfers compared with investment at home in fixed assets and in stocks of goods and work in progress. A surplus 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/deficit of the overseas sector is the counterpart of a deficit/surplus on current account in the U.K. balance of payments. For all sectors together, financial surpluses/deficits should add to nil, but they do not because of the residual error between the independent estimates of national income and national expenditure (£ millions: 1964, —184; 1965, —330; 1966, —221; the figures in each year indicating an excess of estimated income over estimated expenditure).

Line 6 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 the Paymaster General with the Bank. Changes in this item correspond fairly 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: 1964, —52; 1965, —2; 1966, +82.)

£ millions

	1964	1965	1966
Bankers' deposits (increase +)	+84	+ 67	— 31
Special Deposits (increase +)	—	+ 96	+102
Advances to the discount market (increase —)	—21	— 9	— 48
	+63	**+154**	**+ 23**

Line 7 Life assurance and pension funds The increase in persons' net claims in respect of these funds and on the Government under certain pension schemes for which no separate fund is maintained.

Line 8 Government loans Loans (less repayments) 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 E.E.A., other than the increase arising from the transfer from the Government's portfolio of dollar securities.

Line 10 Government transactions 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.

Line 11 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 portfolio investment and the share and loan element of direct investment (included in lines 23 and 24); part of "miscellaneous capital (net)" in the balance of payments estimates; and part of the movements in U.K. external liabilities and claims, 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 changes in official liabilities in foreign currencies arising from drawings on central bank facilities.

Line 12 Notes and coin Changes in bank notes, including banks' liabilities on account of issues of Scottish and Northern Irish notes, and in coin. Changes in holdings outside the banking sector have been arbitrarily divided between persons and industrial and commercial companies, but some allowance has been made for movements between these two sectors attributable to the day of the week on which the periods end.

Line 13 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 the additional notes to 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 companies. It has been assumed that the net change attributable to the other sectors is nil; and the entries for industrial and commercial companies are the changes in their gross current and deposit accounts less the total change in transit items.

Line 14 Deposits with other financial institutions Shares and deposits with building societies (including accrued interest), and deposits in P.O.S.B. investment accounts, with special investment departments of trustee savings banks, and with hire purchase finance houses and some other institutions.

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 special investment departments of 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 loans for house purchase (included in line 18) and all lending to local authorities (included in line 22). The 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; the division of the residual call money figures between persons (*e.g.* stockbrokers) and industrial and commercial companies has been roughly estimated.

Line 17 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.

Line 18 Loans for house purchase New loans, less repayments, by building societies, insurance companies, pension funds, banks and local authorities.

Line 19 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 given or received by public corporations.

Lines 20 and 21 Marketable government debt As defined in the additional notes to Table 3 (1) 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 changes in overseas holdings of Treasury bills include the sterling counterpart of inter-central bank transactions.

Line 22 Local authority debt Total identified borrowing by local authorities from outside the public sector, including bank advances and overdrafts. Figures for changes in the banks' and other financial institutions' holdings are taken from their statistical returns; changes in overseas holdings are as in the balance of payments statistics; and changes in company holdings are taken from local authority returns. The entries for persons are residuals and include unidentified changes in the holdings of other sectors.

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 (see Tables 14 and 18 of the annex).

Other transactions 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 and local authority securities. 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 subsidiaries or minority interests in the United Kingdom (see Table 15 of the annex) and for the acquisition of unincorporated businesses; to their purchases of trade investments; and to their acquisition of share and loan capital in overseas companies (part of direct investment abroad). The entries for persons, which include purchases of unit trust units, are obtained as residuals from the estimates in lines 23 and 24 for all other sectors.

Line 26 Unidentified The net totals for all sectors together represent the residual error in the national income accounts referred to 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.