

New classification of bank advances

This note introduces a new quarterly classification of bank advances. It will replace the quarterly analysis of advances published by the British Bankers' Association, which has been produced, with only minor amendments, for twenty years – and which, in recent years, has become somewhat out of date and, as described below, deficient in coverage. The last figures in the B.B.A. analysis related to mid-November 1966, and are given as usual in Table 13 of the statistical annex. The first figures in the new series will be for mid-February 1967: they were not available at the time that this *Bulletin* went to press, but as they will be released by the Bank of England about the middle of March, the opportunity is being taken to describe the new series here.

The classification

The new classification distinguishes between advances to overseas and U.K. residents, and analyses domestic advances according to the type of activity that is being financed. It is based as far as possible on the Standard Industrial Classification: this will allow more ready comparison of bank advances with other statistical series – such as the index of industrial production, and capital issues – which are already analysed according to the S.I.C. One of the main disadvantages of the former B.B.A. analysis has been that it was introduced shortly before the S.I.C. was first published by the Central Statistical Office in 1948, and that comparisons of this kind have not generally been possible.

The new analysis contains twenty-five categories (compared with twenty-seven in the B.B.A. analysis), which are set out in full at the end of this note. Those coming within the scope of the S.I.C. (*i.e.* categories 1-22) are grouped under the broad headings of manufacturing, other production, financial and services. Two further headings cover advances to persons – sub-divided between those for house purchase and for other purposes – and to overseas residents.¹ In the B.B.A. analysis, personal advances were combined with those to professional borrowers; and advances to overseas residents – to the extent that they were included – were allocated according to the business of the borrower.

The classification of companies or groups which produce or provide a variety of goods and services is always liable to present difficulties, and for this reason the residual "unclassifiable industry and trade" in the B.B.A. analysis became one of the largest individual categories. The new classification should gain from having no such general residual group. If an advance cannot be attributed to a particular activity it is classed according to the most important activity of the borrower – if necessary within the specific residual groups provided within the broad divisions of manufacturing, financial and services. This should allow meaningful sub-totals to be produced for the broad divisions in a way which was not previously possible.

Two basic differences between the new and the old analyses, arising from the adoption of the S.I.C., should be mentioned. First, classification in the new analysis is by industry, irrespective of ownership (*i.e.* private, local authority or government): for example, where a local authority obtains separate advances for housebuilding

¹ Lending to overseas residents does not include advances made under Export Credits Guarantee Department financial guarantees, which are classified according to the U.K. manufacturer providing the goods for export.

or for water supplies these will be shown under construction or public utilities. In the B.B.A. analysis, all advances to local authorities were classed together. The second important difference is that merchants, brokers, importers and exporters are classed in the new analysis under the relevant distributive trade, whereas the B.B.A. analysis included merchants etc. either under the particular commodity in which they dealt or, if their business was of a general nature, under unclassifiable industry and trade. In a similar way, shipping and shipbuilding will be separated in future: the first will be included among service activities, within transport and communication, while the second will be shown separately under manufacturing.

It must be emphasised that although some *headings* in the new analysis may appear similar to those in the B.B.A. series, the *contents* of most of these headings are by no means identical. This is largely for the kind of reasons which have just been described. For example, the aggregate figures of "cotton", "wool", "other textiles" and "leather and rubber" in the old analysis will not correspond exactly to "textiles, leather and clothing" in the new, largely because cotton and wool merchants etc. will now be shown under the appropriate distributive trade.

The main categories (or "orders") of the S.I.C. itself have, in some cases, been adapted to suit the special requirements of an analysis of bank advances. Thus, the order covering insurance, banking and finance has been sub-divided to show separately hire purchase finance companies and property companies, both of which borrow substantially from the banks. Within the manufacturing group, electrical engineering has been shown separately, although in the S.I.C. it is included in engineering and electrical goods.

The new analysis includes advances both in sterling and in foreign currencies. It is intended to cover only loans and overdrafts provided by banks to their customers: it does not include funds placed through the specialised financial markets with other banks (both in the United Kingdom and overseas), or with local authorities or finance houses.

Coverage

Contributors to the B.B.A. analysis were limited to the London clearing and Scottish banks, a few other domestic banks, and most members of the British Overseas and Commonwealth Banks Association. They did not include the other groups of overseas banks and the accepting houses, all of whose advances have grown very substantially in recent years. These other banks have kindly agreed to join in the new analysis, which will thus cover all advances made by banks operating in Great Britain.

It is hoped that, in time, the Northern Ireland banks will be brought into the analysis, which will then include all the institutions, other than the discount houses, which contribute to the U.K. banking sector statistics (Table 8 of the annex). There is a complication here in that most of the banks in Northern Ireland operate also in the Republic of Ireland, and naturally wish to analyse their advances on the same basis in both North and South. The classification used at present in Ireland contains sixteen categories: figures for Northern Ireland are published in the *Northern Ireland Digest of Statistics* and for the Republic of Ireland in the Central Bank of Ireland's *Quarterly Bulletin*. This classification, however, is being revised and, following discussions with representatives of the Central Bank of Ireland and of the banking associations in Northern Ireland and the

Republic, it is hoped that it will prove possible to introduce a form of analysis which will at the same time cater for Irish interests and be broadly comparable with the new analysis for Great Britain. In this event it will become possible to produce figures of advances, under at least the broad groups of the new classification, for the whole of the United Kingdom.

Reporting dates and publication

The new classification, like the one it supersedes, will be produced quarterly, relating to the third Wednesday in February, May, August and November. Figures will first be published by the Bank in a press release – some three weeks after the date to which they relate – and subsequently reproduced in this *Bulletin* and in *Financial Statistics* and the *Monthly Digest of Statistics*. Separate figures will be shown for the London clearing and Scottish banks (and, it is hoped, for the Northern Ireland banks in due course); those for the accepting houses, overseas banks and other domestic banks will be combined under a further heading.

Seasonal adjustment

Because of the break in continuity in nearly all items of the new classification, it will not be possible at first to adjust the figures for seasonal influences. A new seasonally adjusted series will be prepared as soon as a sufficiently long run of the new figures becomes available.

Classifications

Manufacturing

- 1 Food, drink and tobacco
- 2 Chemicals and allied industries
- 3 Metal manufacture
- 4 Electrical engineering
- 5 Other engineering and metal goods
- 6 Shipbuilding
- 7 Vehicles
- 8 Textiles, leather and clothing
- 9 Other manufacturing

Other production

- 10 Agriculture, forestry and fishing
- 11 Mining and quarrying
- 12 Construction

Financial

- 13 Hire purchase finance companies
- 14 Property companies
- 15 United Kingdom banks
- 16 Other financial

Services

- 17 Transport and communication
- 18 Public utilities (gas, electricity and water) and national government
- 19 Local government services
- 20 Retail distribution
- 21 Other distribution
- 22 Professional, scientific and miscellaneous services

Personal

- 23 House purchase
- 24 Other personal

Overseas

- 25 Overseas residents (including banks overseas)