Analysis of financial statistics: July-September 1967

The first part of this analysis describes the figures for each sector in the third quarter of 1967, and makes some preliminary comment on the fourth. Seasonally adjusted figures[1] are used unless otherwise indicated. The detailed quarterly statistics presented in Table B are not seasonally adjusted.

From page 24 onwards, there is a more detailed account of the transactions of industrial and commercial companies during the year ended 30th September 1967.

Third quarter of 1967

Background and summary

Home output in the third quarter was no higher in total than in the second, and may even have fallen slightly. Divergent movements in demand account for this. Private investment (including stocks) fell and so did exports. Public expenditure increased; so, by much more, did consumer spending, stimulated mainly by relaxations of hire purchase restrictions and the greater availability of credit. Borrowing from the banks by the private sector shot up, partly to increase consumer spending, but much more – and perhaps less explicably – to increase the liquidity of the company sector.

Sterling remained weak, affecting the gilt-edged market, which had also to absorb the effects of steel re-nationalisation. Yields at first rose further, but then eased. Towards the end of September, however, rising interest rates in the United States and in the euro-dollar market led to an increase in U.K. short-term rates, and gilt-edged yields again rose.

Over the quarter as a whole, however, the authorities' net purchases of gilt-edged were remarkably small. Large official purchases of steel securities before vesting day (treated in Table B as transactions in gilt-edged) were broadly cancelled out by large sales of gilts later in the quarter, notwithstanding the issue of much steel compensation stock.[2]

Exports declined, but imports fell more, and this, together with some improvement in the invisible balance, produced a smaller deficit in the current account of the balance of payments – the overseas sector's surplus – than in the previous quarter. As to the other sectors, the financial surplus of companies was greater, and the personal sector's surplus, and the deficit of the public sector were little changed. Between the second and third quarters there was a swing in the residual error, from negative to positive, but this is not unusual.

Personal saving fell a little, even though real income rose, because expenditure, stimulated by the marked increase in borrowing, was high. Persons invested as much in financial

Table A
Financial surplus +/deficit –
Seasonally adjusted: £ millions

	1967 2nd qtr.	1967 3rd qtr.
Public sector	–364	–366
Overseas sector	+122	+ 31
Persons	+165	+162
Companies[a]	+104	+144
Residual error	– 27	+ 29

a Including banks and other financial institutions.

1 The run of quarterly figures is very short for some series, and the seasonal adjustments are, therefore, rough; nevertheless, they are considered adequate for a description of the broad trends in the main groups of assets and liabilities of each sector.

2 The exchange of steel securities for government stock is not included in the figures shown in Table B.

assets as in the second quarter – they realised fewer marketable securities but put less into other financial assets. The increased financial surplus of industrial and commercial companies was associated with a fall in fixed investment and a run-down in stocks, for saving was only slightly changed. Companies needed additional finance to make larger purchases of securities in connection with take-overs; and, by borrowing heavily from the banks, they raised a considerable volume of funds, which they used mainly to build up liquid assets. The flow of funds into the financial institutions (other than banks) remained high. These institutions, too, increased their short-term assets; at the same time they invested less in gilt-edged and debentures, but much more in ordinary shares – thereby replacing some of their steel securities.

Personal sector

The main feature was the remarkably high rate of personal borrowing – higher, even, than in the second quarter, and four times as big as at the beginning of the year. Persons saved somewhat less; income rose by as much as $1\frac{1}{2}$%, but consumer spending, boosted by the increase in borrowing, went up rather more ($1\frac{3}{4}$%). Fixed investment rose a little but there was no further addition to stocks. In consequence the sector's financial surplus was little changed.

Nearly half the increase in personal borrowing was due to a big change in instalment credit; hire purchase terms were relaxed in June and August, and in the third quarter new debt was larger than repayments, for the first time in almost two years. Persons also borrowed more from the banks, mainly to finance consumption. Their borrowing for house purchase, already high, did not increase further.

They sold considerably fewer gilt-edged, but slightly more company securities. If, however, the exchange of steel securities for government stock is taken into account, their holdings of gilts in fact rose by some £150 million, whereas their company securities fell by £450 million.

While they sold fewer marketable securities, their net acquisition of other financial assets was smaller. They put more into building societies, but less into national savings and local authority debt. Their bank deposits rose more slowly than in the previous quarter.

All companies[1]

Company income increased a little in total: income from abroad fell, but rent and non-trading income increased and profits were practically unchanged. Saving fell somewhat; tax payments were lower,[2] but dividends rose sharply, following the end of severe restraint.

Industrial and commercial companies

The most striking features were a very marked increase in company borrowing, and a large acquisition of liquid assets.

In particular, these companies borrowed heavily from the banks, although they also took more from other financial

1 All steel companies are included up to the end of July 1967; thereafter, those that were re-nationalised are included in the public sector. But this does not affect the trends in company profits, saving and fixed investment described in this analysis.

2 The seasonal adjustments are particularly rough because of the change in the tax system in 1965/66.

institutions. They did this in spite of a rise in their financial surplus. They received an unusually large amount from the public sector, because of the repayment by the British Steel Corporation of loans made by parent companies to their steel subsidiaries before re-nationalisation; but they received less by way of long-term investment from abroad. Their purchases of securities from other sectors, through take-overs, rose sharply. But, in general, companies kept the increase in their funds in liquid form, mostly bank deposits.

The transactions of industrial and commercial companies are analysed in greater detail in the second half of this article.

Financial institutions other than banks

Funds continued to flow into the institutions at about the same high rate as in the second quarter. Capital issues were larger, unit trusts attracted more funds, and building societies received more through shares and deposits. On the other hand, the institutions in general lost some overseas funds.

The building societies advanced more for house purchase, and lending on hire purchase by the finance houses began to rise again – though the houses' other lending was smaller. The institutions as a whole invested much the same in government stocks and company securities, taken together, as in the second quarter. The re-nationalisation of steel reduced their holdings of company securities, particularly ordinary shares, and they acquired gilts in exchange. They went some way towards redressing the balance by purchasing more ordinary shares and fewer gilts than in the second quarter. Even so, their holdings of company securities fell by nearly £50 million and their gilt-edged increased by as much as £300 million.

Overseas sector

The U.K. balance of payments on current account (seasonally adjusted) improved, but the unadjusted figures[1] show a moderate increase in the overseas sector's surplus. The net identified financial assets of the sector increased by considerably more, however, and there was a big change (from positive to negative) in the balancing item.

Net identified financial assets rose by £190 million: net claims on the public sector increased by over £470 million, while those on the private sector fell by about £280 million. Within the public sector, overseas gross claims on the central government (which include U.K. drawings on central bank facilities) rose substantially and there was a modest fall in the United Kingdom's reserves; but overseas residents withdrew some short-term funds from local authorities. Most of the reduction in their net claims on the private sector reflected the withdrawal of sterling deposits from banks and other financial institutions. Their net foreign currency claims on the banks also fell, as the banks switched funds which they had previously employed in sterling back into foreign currency.

1 Unadjusted figures are used when discussing the overseas sector's financial transactions, because it is difficult to isolate seasonal movements in short-term items from those caused by changes in confidence.

Public sector
In total, the sector's financial deficit was little changed between the second and third quarters. The central government's surplus rose slightly – partly because net receipts of selective employment tax were higher[1] – but the deficits of local authorities and of public corporations also increased.

The central government's net balance was in deficit to much the same extent in the third quarter as in the second,[2] but this masked some changes in official lending. Less went to local authorities (through the Public Works Loan Board) because they continued to prefer market finance, which was mostly cheaper. But substantially more was lent to public corporations, partly to cover their larger financial deficit, and partly so that the British Steel Corporation could repay some of the borrowing of the individual steel companies that it had taken over.

The Government's domestic borrowing, however, was markedly reduced (after a sharp increase in the second quarter) because of the fall in the reserves and the big rise in liabilities to overseas.

Most of the reduction in domestic holdings of government debt fell on the banking sector. Outside the banks, holdings declined, as in the previous quarter, but only slightly. Holdings of government stock fell (ignoring the steel compensation stock acquired) but holdings of most other forms of government debt were virtually unchanged.

Banking sector
Bank lending to the private sector rose very rapidly in the third quarter – the first increase for a year. Lending to local authorities, which changed very little in the second quarter, rose sharply too, mainly, it would seem, because local authorities had to make good the withdrawal of temporary money by overseas residents and by persons, and because they were unable to get as much from other financial institutions and companies. Lending to the rest of the public sector, mostly in the form of government debt, fell.

Domestic bank deposits rose much faster than in the second quarter, a reflection in the main of the company sector's preference for liquid assets.

Fourth quarter of 1967
The rise in interest rates in the United States and in the euro-dollar market, which had led to increases in U.K. short-term rates towards the end of September, continued in the fourth quarter. Bank rate was raised from $5\frac{1}{2}$% to 6% on 19th October and to $6\frac{1}{2}$% on 9th November. When sterling was devalued, on 18th November, there was a sharp increase in Bank rate to 8%; bank and hire purchase credit were severely restricted, and other measures to restrain domestic demand – including cuts in the expenditure planned for the public sector – were announced.

Consumer spending continued to rise rapidly, but imports were also higher and total output did not keep pace with the rise in demand.

The central government's net balance showed a much larger deficit: lending to nationalised industries and local

1 It is not yet possible to determine any seasonal pattern in net receipts.
2 However, the seasonal adjustment is precarious.

authorities fell, but government expenditure rose, partly because of an increase in investment grants to industry. Owing to a large balance of payments deficit, however, external transactions continued to produce a substantial amount of sterling, and the Government's domestic debt was reduced – though by considerably less than in the third quarter.

The banks' holdings of government debt continued to fall, but debt held by other investors increased, mainly because they bought gilt-edged heavily just after devaluation. On the other hand, investors outside the banks surrendered tax reserve certificates, and withdrew a small amount from national savings.

The banks lent less to the private sector, partly because of the new credit restrictions and the rise in interest rates. Their lending to local authorities was also smaller and, as noted above, their holdings of government debt continued to fall; so domestic deposits rose more slowly – at only half the rate of the third quarter.

Persons borrowed less from the banks, but more from the finance houses and the building societies. They invested less in the societies, and withdrew some funds from national savings. Although they probably sold fewer gilts – or, on balance, even added to their holdings – their bank deposits still rose more than in the third quarter.

Industrial and commercial companies borrowed considerably less from the banks, and added much less to their bank deposits; at the same time they ran down their tax reserve certificates. They bought fewer securities for cash through take-overs, and raised more by capital issues.

Trends in the finance of industrial and commercial companies: October 1966-September 1967[1]

Background

At the beginning of the twelve months under review the standstill on prices and incomes was in force, interest rates were high (Bank rate was 7%) and credit was severely restricted. The first payments of selective employment tax were made in September 1966, but no refunds or premiums were received until early in 1967. By then policy had begun to ease a little. The standstill on prices and incomes ended in January, and was followed by a six-month period of severe restraint. Bank rate was reduced from 7% to $5\frac{1}{2}$% in stages in January, March and May, and credit restrictions were relaxed. A number of other measures to stimulate domestic demand, including the speeding up of investment grants, and increases in pensions, were announced in June and July.[2]

Demand rose very little in total during the year. Personal consumption, public spending and private housebuilding increased, but other private fixed investment and exports fell, and stockbuilding ceased. Although the distributive and other service trades became busier over the year, industrial output fell. Thus profitability varied and some companies were able to build up their liquid assets, while

1 Longer-term trends in company finance were discussed in "Company finance: 1952-65" in the March 1967 *Bulletin*.
2 September 1967 *Bulletin*, page 231.

others became less liquid. It is, therefore, more difficult than usual to discuss companies in the aggregate.

Summary

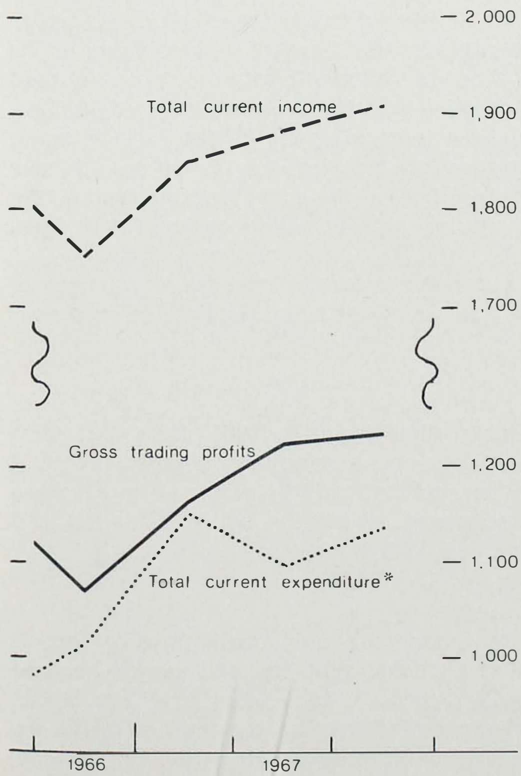
Seasonally adjusted figures[1] show that company profits in total rose during the twelve months under review. Tax payments were larger, but they fell after the first quarter of 1967; dividends were kept down by the incomes policy until the third quarter, when they rose sharply; but interest payments continued to rise slowly throughout. Company saving (which on the whole had been falling since the middle of 1965) declined until the second quarter of 1967, but then improved; the improvement is even more marked if receipts of investment grants, which began in the second quarter of 1967, are taken into account.

Fixed capital formation generally was well maintained, but fewer capital assets were acquired in total; although purchases of securities in connection with take-overs were heavy, investment abroad fell and, it appears, less trade credit was extended to persons. So, although their bank borrowing was severely restricted until April 1967, companies managed with a much lower rate of capital issues than earlier in 1966 – and their liquid assets still did not fall. In the third quarter of 1967, companies borrowed heavily from the banks, and considerably built up their liquid assets.

Quarterly figures of gross trading profits, other current income, and current expenditure (such as taxes and dividends), are not separately available for industrial and commercial companies, and it is necessary to use figures for companies as a whole. Saving by financial companies is, however, relatively small (about 5% of the total for all companies) and changes in saving by industrial and commercial companies – which are known – are generally much the same as those in total company saving.

Seasonally adjusted | £ millions

All companies: current income and expenditure



* Including payments of U.K. taxes, which are net of receipts of investment grants.

Current income

Gross trading profits of companies in aggregate fell in the second half of 1966 – mainly because of selective employment tax[2] – but then increased. Sales rose little, if at all, but profit margins may have improved slightly. The incomes policy kept wages and salaries down, and, with productivity rising and employment falling, labour costs per unit of output declined. Prices of imported materials and fuel also fell. Selling prices were broadly maintained, or raised to cover higher indirect taxes.

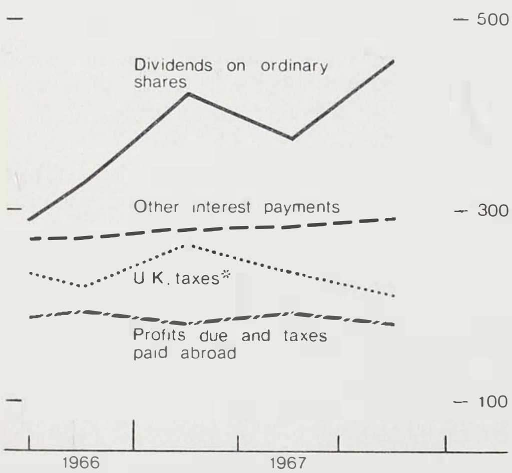
Conditions changed towards the end of the period. Wages and salaries rose in July 1967, following the end of severe restraint, and prices of imported fuels turned upwards in the third quarter. As selling prices rose only slightly, margins may have narrowed. Meanwhile, total turnover probably changed very little. Company profits, however, did not fall,

1 Seasonally adjusted figures are used throughout this part of the analysis. The adjustments are rough, but are thought to be sufficient to give a general indication of the movements in the series covered by the charts. The movements in company profits, saving and fixed investment have been adjusted slightly in the charts to include the re-nationalised steel companies throughout the third quarter of 1967.

2 The accounting treatment of selective employment tax differs from company to company. In official statistics, however, company profits are reduced by payments of selective employment tax, and increased by refunds and premiums. Payments began in September 1966, but receipts not until January 1967.

Seasonally adjusted £ millions

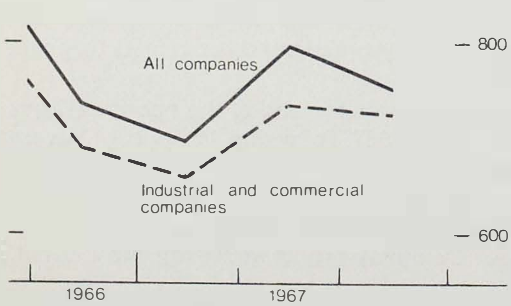
All companies: current expenditure



* Tax payments on income, net of receipts of investment grants.

Seasonally adjusted £ millions

Company saving*



* Including investment grants.

because they included a sizable change in stock appreciation.[1]

Other current income, such as rent and income from abroad, did not change much, so total company income increased slightly over the year.

Current expenditure

Companies paid more U.K. tax in 1966, as they were assessed generally on the higher profits earned in 1965. They received the first investment grants in the second quarter of 1967; these replaced investment allowances, under which firms offset part of the cost of their fixed investment against tax. If, to make a true comparison with earlier figures, the new grants are taken into account, net tax payments declined in the second and third quarters of 1967.

The small rise in profits made the policy of dividend restraint more acceptable. Companies paid out in dividends much the same proportion of current income, after interest and tax, as in the previous twelve months. The proportion would have been smaller, however, had dividends not risen sharply in the third quarter of 1967; some companies paid larger dividends, arranged before the period of severe restraint but then deferred, and others increased theirs, both to benefit shareholders and to improve their market status.

Interest payments continued to rise, because of the heavy borrowing and higher interest rates of recent years. The other major item of current expenditure – profits due abroad and taxes paid abroad – was fairly steady. (It might have been expected that the large increase in foreign investment in the United Kingdom in the past few years would have caused profits to rise, but, in the period under review, the decline in manufacturing activity seems to have kept them down.)

Total current expenditure rose in the fourth quarter of 1966 and the first quarter of 1967, but declined a little over the next six months.

Saving

At first, saving fell further from its 1965 peak, but, with income higher and current expenditure slightly lower, it recovered in the second half of the period. There was a similar fall, and recovery, in the saving of industrial and commercial companies by themselves.

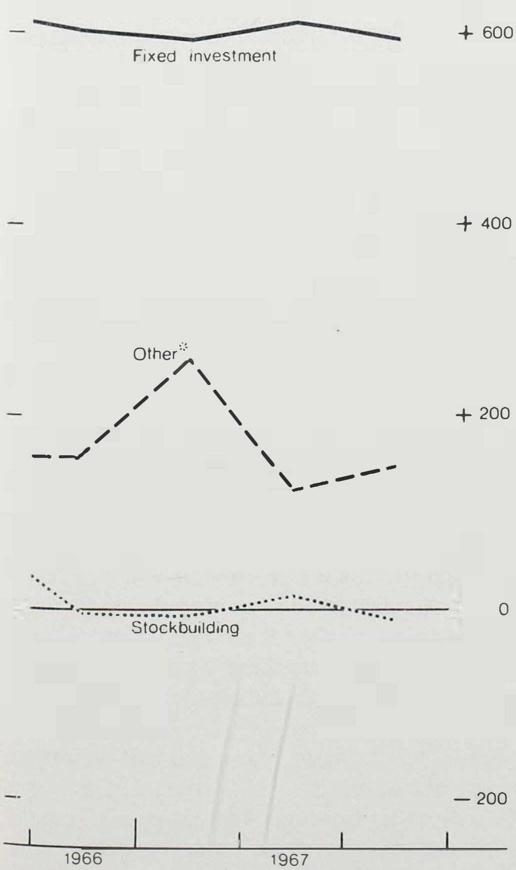
Capital expenditure

Companies' use of funds to acquire both physical assets (fixed investment and stocks) and financial assets, such as purchases of equities through take-overs, and lending to other sectors, is here called 'capital expenditure'. This expenditure is financed from internal sources (saving) or from external sources (borrowing, and investment from abroad). Liquid assets may be regarded either as a source of funds or as a use of them. In the fourth quarter of 1966 and the second quarter of 1967, when capital expenditure fell, liquid

1 It would have been preferable to have examined profits after deducting stock appreciation, but quarterly figures for the latter are not available by sector.

Seasonally adjusted £ millions

Industrial and commercial companies: identified capital expenditure



* Purchases of company securities, investment abroad, trade credit extended to public corporations, hire purchase credit extended, etc.

assets were increased; while in the first quarter of 1967, when capital expenditure rose, they were run down. During the period under discussion, therefore, it seems best to regard them as a source of finance – even though, in the third quarter of 1967 when capital expenditure rose, liquid assets were also built up.

Since 1952 there has consistently been a large positive unidentified item in the company sector, indicating that expenditure is understated, or income overstated, or both.[1] At the same time, there has been a large negative item in the personal sector. These items have tended to be particularly large in boom years, and changes in them may well be linked with movements in trade credit extended by companies to the personal sector – for which figures are not available. It seems reasonable, therefore, to treat the unidentified item in the company sector as a use of funds.

The trend in total capital expenditure was generally downwards, as it had been since 1965. Fixed investment (about three quarters of the total) was – contrary to earlier forecasts – maintained at a steady rate until the third quarter of 1967, when it fell a little. Stockbuilding had already fallen back from its high rate in 1965, and stocks were, on balance, reduced in the year under review. To some extent this was, perhaps, to bring them into line with expected demand; but they were probably run down also because bank credit was difficult to obtain for much of the period.

Cash purchases of company securities from other sectors, to acquire controlling interests, had fallen in 1966 but increased again in 1967. A recent study[2] indicates that most of the companies taken over at this time were not, in general, earning lower rates of return than those which acquired them; nor were they usually less liquid. It may be that the take-over boom owes something to increasing competition, both at home and abroad; and, because there has been much official encouragement of concentration and rationalisation, the climate has been right for take-overs.

Other financial assets generally increased more slowly, or fell. Stricter exchange control regulations and the voluntary programme of restraint introduced in the 1966 Budget brought a fall in long-term investment abroad. Net short-term claims on overseas fell until the third quarter of 1967, when lending through commercial bills increased and foreigners repaid less trade credit. Restrictions on hire purchase caused a reduction in the amount of outstanding instalment credit extended by companies (mainly shops). Trade credit extended to public corporations, which had grown rapidly in 1966, grew more slowly after the first quarter of 1967, and fell in the third quarter.

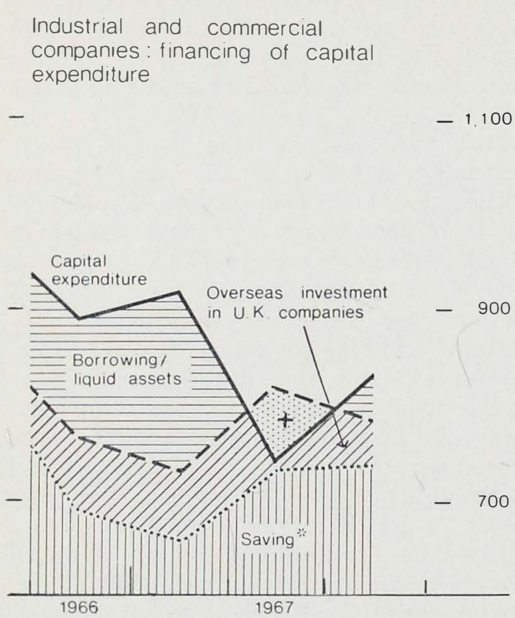
External finance

In the past, when saving has fallen, capital expenditure has fallen even more, so that companies have had less need for external finance. This happened during the period under review.

Between October 1966 and June 1967, both capital expen-

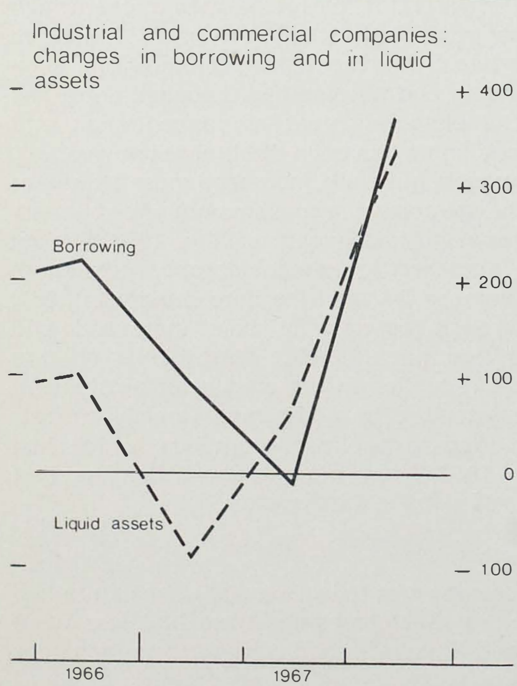
1 See pages 364 to 373 (Tables A to E, line 27) of the December 1967 *Bulletin*.
2 H. B. Rose and G. D. Newbould, "The 1967 Take-Over Boom", *Moorgate and Wall Street*, Autumn 1967. This study discusses take-overs generally; the Bank's statistics relate only to acquisitions for cash.

Seasonally adjusted £ millions



* Receipts of investment grants are included in saving.
+Borrowing was repaid and liquid assets built up in the second quarter of 1967.

Seasonally adjusted £ millions



diture and borrowing fell, while liquid assets were, on balance, built up. In the third quarter of 1967, however, when only a modest amount of external finance was needed, companies borrowed heavily and accumulated liquid assets on a very large scale.

Long-term investment from abroad – which is not generally subject to control by U.K. companies, but which reduces their need to borrow or to run down liquid assets – has been increasing in recent years, but there was no further rise during the twelve months under review.

Borrowing

The most important sources of company borrowing are bank advances and capital issues (issues of shares are, for convenience, classified as borrowing). Companies also borrow from various other financial institutions and, to a small extent, from the public sector.

Bank credit was severely restricted until April 1967. On balance, companies borrowed a small amount from banks in the last quarter of 1966, but repaid borrowing during the next six months. At the same time, they were repaying other financial institutions, which had been another important source of funds during 1966. Their capital issues were large in the fourth quarter of 1966 – when they were making calls on earlier issues of debentures – but not thereafter.

In the third quarter of 1967 bank borrowing increased sharply, and borrowing from the financial institutions also rose. Some companies probably preferred to rely on bank borrowing, rather than capital issues, until prospects had become less uncertain.

Total company borrowing, however, rose sharply in the third quarter. No doubt reduced activity increased the needs of some firms for temporary finance. But this does not seem to be the main explanation because, at the same time, there was a large increase in the liquid assets of companies as a whole – almost equal to the amount they borrowed.

Liquid assets

As already noted, fluctuations in companies' liquid assets seem to have been associated with changes in capital expenditure until the last quarter of the period. This is probably because companies had less control over quarterly fluctuations in their borrowing – because of credit restrictions and the need to arrange capital issues in advance – than over their liquid assets; so the latter were generally used as a cushion. It was also noted earlier that total liquid assets were built up moderately over the first three quarters of the period, and were then added to substantially in the last quarter.

In recent years liquid assets have grown more slowly than turnover, apparently because, in the early 1950's, they included a reserve to meet longer-term fluctuations in capital expenditure, and this reserve has since been run down. It is possible that, as bank credit had been restricted for a long period, companies decided to borrow as much as they could after restrictions were eased in April 1967, so as to reconstitute their reserves of liquid assets. The Government had already taken some action to stimulate demand, and some companies, whose output was expanding, were short of working capital.

Table B
Sector financing: quarterly figures, 1967

Not seasonally adjusted: £ millions

	Line	Public sector 2nd qtr.	Public sector 3rd qtr.	Public sector 4th qtr.	Overseas sector 2nd qtr.	Overseas sector 3rd qtr.	Overseas sector 4th qtr.
Financial surplus +/deficit −							
Saving	1	+324	+261				
Taxes on capital and capital transfers	2	− 8	− 10				
less:							
Gross fixed capital formation at home	3	−856	−917				
Increase in value of stocks and work in progress	4	− 44	− 37				
Financial surplus +/deficit −	5	**−584**	**−703**		**+ 87**	**+116**	
Changes in financial assets and liabilities							
assets increase +/decrease − liabilities increase −/decrease +							
Net indebtedness of Government to Bank of England, Banking Department	6	− 76	+108	− 36			
Life assurance and pension funds	7						
Government loans	8	− 15	+ 16		+ 13	− 15	
Gold and foreign exchange reserves	9	−152	− 36	− 57[a]	+152	+ 36	+ 57[a]
Government transactions with I.M.F.	10	+166	+ 5		−166	− 5	
Miscellaneous investment overseas (net)	11	+ 14	+ 7		+ 25	− 40	
Notes and coin	12	− 27	− 10	−194			
Bank deposits	13	− 2	− 20	− 2	+208	+185	+104[b]
Deposits with other financial institutions	14				− 5	− 89	
Non-marketable government debt	15	− 98	− 25	− 5			
Bank lending	16	− 1	− 19[c]	− 27	−220	−355	−262[b]
Hire purchase debt	17	− 4	− 3				
Loans for house purchase	18	+ 12	+ 11				
Other loans	19	−153	+179				
Marketable government debt:							
Treasury bills	20	−544	−636	−253	− 3	+474	+467
Stocks[d]	21	+324	+ 44	−297	− 5	+ 15	− 15
Local authority debt	22	−199	−187		+ 23	− 26	
U.K. company and overseas securities:							
Capital issues	23				− 23	− 9	− 47
Other transactions[d]	24	+ 1	+ 15		+ 34	+ 19	
Unit trust units	25						
Identified financial transactions	26	**−754**	**−551**		**+ 33**	**+190**	
Unidentified	27	**+170**	**−152**		**+ 54**	**− 74**	
Total = Financial surplus +/deficit −	28	**−584**	**−703**		**+ 87**	**+116**	

a These figures include the change not only in the reserves (a rise of 147), but also in the Government's portfolio of dollar securities (a fall of 204).

b Excluding so far as they can be estimated, changes due to the revaluation of foreign currency assets and liabilities (arising from the devaluation of sterling).

c Excluding the transfer to the public sector of the steel industry's outstanding borrowing at the time of re-nationalisation.

d The figures are of cash transactions only, so those for the third quarter of 1967 exclude the exchange of securities of the re-nationalised steel companies for government stock. Official purchases of steel securities in the two weeks immediately before vesting day are included under government stocks.

Private sector												
Persons			Industrial and commercial companies			Banks			Other financial institutions			
2nd qtr.	3rd qtr.	4th qtr.	2nd qtr.	3rd qtr.	4th qtr.	2nd qtr.	3rd qtr.	4th qtr.	2nd qtr.	3rd qtr.	4th qtr.	Line
+410	+415		+916	+802		+105	+106					1
− 43	− 35		+ 51	+ 45								2
−231	−248		−605	−561		− 56	− 44					3
− 22	+ 5		− 27	− 10								4
+114	**+137**		**+335**	**+276**		**+ 49**	**+ 62**					5
						+ 76	−108	+ 36				6
+320	+315								−320	−315		7
+ 1	—		+ 1	− 2					—	+ 1	+ 1	8
												9
												10
			− 40	+ 33					+ 1	—		11
+ 21	− 11	+ 28	+ 22	− 21	+ 28	− 16	+ 42	+138				12
+240	+128	+310	+ 90	+401	+155[b]	−630	−749	−604[b]	+ 94	+ 55	+37	13
+311	+337		+ 5	+ 8					−311	−256		14
+ 39	− 3	− 13	+ 42	+ 33	+ 17	+ 11	− 5	+ 1	+ 6	—	—	15
− 48	− 57	− 47	+ 15	− 62[c]	− 64[b]	+238	+535	+417[b]	+ 16	− 42	− 17	16
+ 21	− 16		− 13	+ 7					− 4	+ 12	—	17
−233	−263					+ 15	+ 15	+ 5	+206	+237		18
+ 24	− 18		+119	−170		+ 2	+ 6	+ 2	+ 8	+ 3		19
			+ 5	+ 16		+518	+155	−194	+ 24	− 9		20
−210	− 62					−195	− 50	+182	+ 86	+ 53		21
+ 49	− 45		+ 45	+ 25		− 38	+166	+ 51	+120	+ 67		22
			− 63	− 87	−113	—	− 1	—	− 14	− 22	−23	23
−226	−230		+ 85	+125		+ 35	− 7	+ 3[b]	+171	+197		24
+ 16	+ 20	+ 29							− 16	− 20	−29	25
+325	**+ 95**		**+313**	**+306**		**+ 16**	**− 1**	**+ 37**	**+ 67**	**− 39**		26
−211	**+ 42**		**+ 22**	**− 30**		**− 34**	**+102**					27
+114	**+137**		**+335**	**+276**		**+ 49**	**+ 62**					28

Notes on sources and definitions[1]

Sources

The main statistical series used in compiling Table B appear in the statistical annex to this *Bulletin*, or in *Financial Statistics* or *Economic Trends*, both issued by the Central Statistical Office.

Definitions

Public sector The central government, local authorities and public corporations. (The British Steel Corporation is included from the end of July 1967.)

Overseas sector As defined for the balance of payments estimates.

Persons Individuals, unincorporated businesses and private non-profit-making bodies.

Industrial and commercial companies All corporate bodies other than public corporations, banks and other financial institutions.

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

Other financial institutions Insurance companies, pension funds, building societies, investment trusts, hire purchase finance companies, Post Office Savings Bank (investment accounts only), special investment departments of trustee savings banks, unit trusts, special finance agencies 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 and stock appreciation. It includes additions to tax, dividend and interest reserves.

Line 5 Financial surplus/deficit For domestic sectors, the excess/shortfall of saving and net receipts of capital transfers, compared with capital expenditure at home on physical assets. A 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 in the national income accounts (£ millions: 1967, 2nd qtr. —1; 3rd qtr. 112).

Line 6 Net indebtedness of Government to Bank of England, Banking Department See footnote e to Table 1 of the annex.

Line 7 Life assurance and pension funds Includes public sector pension schemes where separate pension funds are not maintained.

Line 8 Government loans Loans to building societies, industrial companies, etc. 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 by the Exchange Equalisation Account.

Line 10 Government transactions with I.M.F. The United Kingdom's subscription to the I.M.F., less changes in the Fund's holding of interest free notes issued by the U.K. Government.

Line 11 Miscellaneous investment overseas (net) Domestic sectors' net investment overseas not elsewhere included.

Line 12 Notes and coin Changes in Bank of England notes – treated here as liabilities of the public sector – in banks' liabilities on account of issues of Scottish and Northern Irish notes, and in coin.

Line 13 Bank deposits Changes in gross current and deposit accounts, except that entries for the banking sector are changes in net deposits (see Table 8 of the annex) and those for industrial and commercial companies are the changes in gross current and deposit accounts less the total net change in transit items.

Line 14 Deposits with other financial institutions Includes building society shares (plus accrued interest).

Line 15 Non-marketable government debt Tax reserve certificates and all forms of national savings (including accrued interest) other than deposits in P.O.S.B. investment accounts and with 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 estimates of loans for house purchase (included in line 18) and all lending to local authorities (included in line 22).

Line 17 Hire purchase debt Entries relate to capital sums only; unearned finance charges are excluded.

Line 18 Loans for house purchase New loans, less repayments, including lending by banks, and lending by the public sector to housing associations.

Line 19 Other loans Includes trade credit given or received by public corporations, and lending by other financial institutions not elsewhere included.

Lines 20 and 21 Marketable government debt See Table 3 (1) of the annex. The residual entries for industrial and commercial companies in line 20 include any changes in personal and unidentified overseas holdings. The residual entries for persons in line 21 include any transactions by industrial and commercial companies and unidentified overseas transactions.

Line 22 Local authority debt Total identified borrowing by local authorities from outside the public sector, including bank advances and overdrafts.

1 More detailed notes were given in the December 1967 *Bulletin*, page 361.

Lines 23 and 24 U.K. company and overseas securities:

Capital issues Includes issues by U.K. companies in overseas centres as well as issues on the U.K. market.

Other transactions Includes acquisitions of share and loan capital in overseas companies, subscriptions to new capital issues, and estimated purchases by industrial and commercial companies of trade investments and in connection with take-over deals (see Table 15 of the annex). The entries for persons are residuals.

Line 25 Unit trust units Purchases less sales of units. It is assumed that all transactions are between unit trust managers and persons.

Line 27 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.