# Analysis of financial statistics

This analysis begins with a section dealing with the sterling deposits and sterling lending of the banking sector in the financial year ended in March 1968. The rest of the analysis is mainly concerned with the transactions of the various sectors in the calendar year 1967. There is also a brief description of the sector figures for the last quarter of 1967 and some preliminary comment on the first quarter of 1968.

Annual and quarterly figures are presented in Tables O, P and Q at the end of the analysis, where there are also notes on sources and definitions.

**Net sterling deposits and sterling lending: 1967/68**

With the help of all sections of the banking system steady, if sometimes modest, improvement in banking statistics continues. A stage is now reached where it is practicable to offer estimates of movements in the total of net sterling deposits in the banking system as a whole. These are set out below.

Figures relating to the analysis of net sterling deposits by type of holder are nonetheless still incomplete, primarily because some statistical returns classifying holders continue to be made in terms of foreign currency deposits and of sterling deposits combined. Difficulties arise also in determining the total of net sterling deposits because the totals of banks' reported claims on, and liabilities to each other frequently do not cancel out. Problems of consistency of classification, and of conflicts of timing, due in part to varying methods of keeping records, are not in practice open to rapid solution. This is one reason why there is a substantial difference between the total of net sterling deposits with the banking sector and the total of their identified assets.

Clearly a feature of the financial year ended in March 1968 is the large extent of the growth in net sterling deposits of U.K. residents, as compared with the previous year or indeed with the three years before that (see Table O).

**Table A**

**Changes in net sterling deposits with the banking sector[a]**

£ millions[b]

| | Financial years | | *% change 1966/67-1967/68* |
|---|---|---|---|
| | 1966/67 | 1967/68 | |
| U.K. residents | +235 | +1,065 | *+10·5* |
| Overseas | − 50 | − 270 | *−15·2* |
| **Total** | **+185** | **+ 795** | *+ 6·7* |

a The banking sector is defined as elsewhere in this *Bulletin*, see the additional notes to Table 8 of the annex.
b Rounded to nearest £5 million.

The increase in net sterling deposits of the private sector was slightly larger than the increase in net sterling deposits of U.K. residents as a whole, as net deposits of the public sector declined.

### Table B

### Changes in net sterling deposits of U.K. residents

£ millions[a]

| | Financial years 1966/67 | 1967/68 | *% change 1966/67-1967/68* |
|---|---|---|---|
| Persons | +160 | + 680 | + *9·1* |
| Industrial and commercial companies | − 10 | + 400 | +*21·1* |
| Financial institutions | + 50 | + 120 | +*24·4* |
| Total private sector | +200 | +1,200 | +*12·2* |
| *less* foreign currency | + 30 | + 70 | +*47·7* |
| Total private sector net sterling deposits | +170 | +1,130 | +*11·6* |
| Total public sector net sterling deposits | + 65 | − 65 | −*14·4* |
| **Total net sterling deposits of U.K. residents** | **+235** | **+1,065** | +*10·5* |

*a* Rounded to the nearest £5 million.

Within the private sector, the absolute increase in net sterling deposits was greatest among holdings by persons. It is to be noted that the relative movements of deposits owned by persons, industrial and commercial companies, and financial institutions may not be taken as reliable indications of relative changes in the total liquidity of these sectors – as should indeed be evident from the whole financial analysis given in this section of the *Bulletin.* There are structural differences in the composition of the portfolios of

### Table C

### Changes in sterling assets of the banking sector

£ millions[a]

| | Financial years 1966/67 | 1967/68 | *% change 1966/67-1967/68* |
|---|---|---|---|
| Central government debt | +200 | −270 | − *6·0* |
| Local government debt[b] | +215 | +325 | + *28·1* |
| Nationalised industries | − 5 | − 65 | − *73·3* |
| Other public corporations | — | + 15 | |
| Sterling lending to the private sector[c] | −115 | +690 | + *9·5* |
| Sterling lending to the overseas sector | + 35 | + 20 | + *6·5* |
| Total of identified sterling assets | +330 | +715 | + *5·4* |
| Difference between identified assets and deposits | −145 | + 80 | |
| *of which: Switching out of sterling into foreign currency*[d] | *+ 20* | *+195* | |
| **Total** | **+185** | **+795** | + *6·7* |

*a* Rounded to the nearest £5 million.
*b* Including central government debt for Northern Ireland.
*c* Including company securities.
*d* Switching out of sterling into foreign currency leads to a decrease in sterling assets with no corresponding decrease in sterling liabilities. Switching out is therefore shown as a positive entry in this table.

these different sectors. In addition, large companies and financial institutions often have better access to short-term investment facilities outside the banking sector, and are therefore better placed to economise on the size of their bank deposits.

This distribution between holders of the increase in net sterling deposits has not, however, been uniform throughout the year. Some two thirds of the very substantial increase in the third quarter of 1967 accrued to industrial and commercial companies. In the fourth quarter of 1967, however, personal sterling deposits showed the largest single rise. But, in the first quarter of 1968, personal deposits rose less than in the first quarters of 1966 or 1967 – or indeed than in any other quarter during these two years – a feature that it may be reasonable to associate with the recent high level of personal spending.

It will be seen from Table C, which shows the sterling assets matching these sterling liabilities of the banking sector, that by far the largest single increase during 1967/68, unlike 1966/67, was in the absolute level of advances to the private sector.

### Table D
### Changes in sterling lending to the private sector

£ millions[a]

| | Financial years 1966/67 | 1967/68 | *% change 1966/67-1967/68* |
|---|---|---|---|
| Persons and unincorporated businesses[b] | −130 | +195 | *+10·8* |
| Money at call and short notice | + 10 | + 25 | *+13·8* |
| Other private | + 5 | +470 | *+ 9·0* |
| **Total private sector** | **−115** | **+690** | *+ 9·5* |

*a* Rounded to the nearest £5 million.
*b* Excluding money at call and short notice to unincorporated businesses, shown separately in the line below.

Table D shows that rather less than one third of the increase in lending to the private sector was to persons and unincorporated businesses. Moreover, by far the greater part of this lending to the personal sector had taken place by end-September 1967, particularly if money at call is excluded (see Table O). Lending to other private borrowers – corporate business and financial institutions – on the other hand, rose more than seasonally in the first quarter of 1968. Lending to central and to local government counted heavily during April-December 1967. In the first quarter of 1968 lending to local government continued to rise, but holdings of central government debt fell very considerably, indeed by more than could be accounted for by the fact that this is the time when tax revenues of the central government are at their highest. This seasonal influence was supplemented, first, by the substantial sterling receipts accruing to the central government from the external situation and, secondly, by the much smaller than usual fall in domestic holdings of government debt outside the banking sector. After taking into account seasonal movements in the first quarter of 1968, non-bank holders within the private sector acquired notes, tax reserve certificates, national savings and gilt-edged stocks.

### Sector financing: 1967

*Background*

The balance of payments continued to dominate events. The year seemed to begin well, with the external position improving and interest rates abroad falling. At home, output was showing signs of recovery and no substantial action was taken in the Budget to influence demand. Bank rate was reduced from 7% to 5½% in three stages in January, March and May, and the ceiling on lending to the private sector was lifted in April for the London clearing banks and the Scottish banks.

The situation changed in May, when the trade figures showed a deterioration and overseas interest rates began to rise. Sterling came under pressure, and this increased with the Middle East war and the closure of the Suez Canal. In September the docks strikes aggravated the weakness of sterling. Bank rate was raised to 6% in October. Meanwhile, domestic activity had not picked up much and unemployment was still rising. Hire purchase restrictions were relaxed in June and August, and other mildly reflationary measures were taken.

Consumer demand, helped by the credit relaxations and the rapid rise in incomes after the end of severe restraint in July, strengthened rapidly. By November, confidence in sterling was very low. Bank rate was raised to 6½% on 9th November; but sterling soon came under intense pressure, and on 18th November the pound was devalued; at the same time Bank rate was raised sharply, to 8%, credit restrictions were tightened, and cuts in prospective public expenditure were announced.

Gross domestic product rose in real terms by just over 1% – about half the increase in 1966. Public spending rose faster than in the previous year, and personal consumption continued to increase. But there was again less stockbuilding, and private investment (apart from housebuilding) turned down. Exports fell back, whereas imports were larger than in 1966.

The deterioration in the balance of payments on current account was reflected in a rise of no less than £480 million in the overseas sector's financial surplus. The public sector's deficit increased by nearly £850 million, and the private sector's surplus rose by about £300 million – though all the increase went to companies, persons having a smaller surplus.

**Table E**

**Financial surplus +/deficit –**

£ millions

| | 1966 | 1967 |
|---|---|---|
| Overseas sector | + 31 | + 514 |
| Public sector | –798 | –1,644 |
| Persons | +853 | + 749 |
| Industrial and commercial companies | — | + 458 |
| Financial institutions | + 42 | – 8 |
| Residual error | –128 | – 69 |

*Summary*

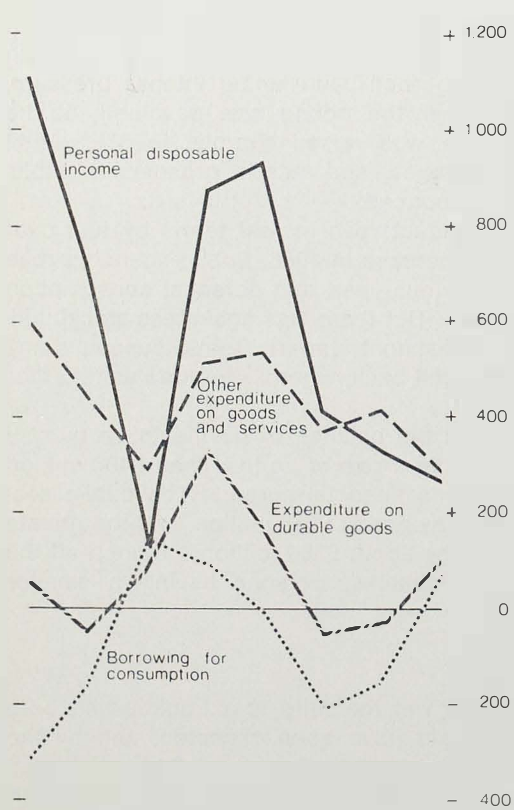
One feature of the year was the build-up of liquid assets both by companies, as might have been expected, and by the personal sector. Companies used some of their additional funds to increase their purchases of ordinary shares through take-overs; and they borrowed less. The rise in the personal sector's short-term financial assets was greater than in 1966, partly because they were able to borrow more, and partly because they realised more marketable securities.

**Table F**
**Personal saving**

£ millions at 1958 prices

| | 1965 | 1966 | 1967 |
|---|---|---|---|
| Disposable income | 21,111 | 21,434 | 21,703 |
| Consumption | 19,397 | 19,772 | 20,162 |
| **Saving** | **1,714** | **1,662** | **1,541** |

Annual changes £ millions at 1958 prices




The public sector's need for finance was much greater. The banks lent an extra £375 million – £265 million to local authorities and £110 million to the central government. A substantial take-up of gilt-edged, and a big improvement in national savings, provided most of the rest.

The banks lent more both to the public sector, and to private borrowers. But they lent less to overseas residents, although overseas deposits rose almost as much as in the previous year. Domestic deposits rose much faster than in 1966, however, and the money supply increased by considerably more – by almost 10%, as against only 4%.

Other financial institutions obtained more funds from persons and from banks. They increased their gilt-edged purchases by nearly £400 million and lent more for house purchase; but they invested less in debentures and in longer-term local authority debt. Their short-term assets increased by less than in 1966 – bank deposits rose more, but claims on companies fell.

*Personal sector*

Because of the period of severe restraint and the slow growth of activity, real incomes rose less than in 1966; but consumption rose more, so real saving fell – for the second year running. The savings ratio declined from 7·8% to 7·1%. Saving also fell in money terms, and the personal sector's financial surplus was smaller.

Consumer borrowing, which had been reduced in 1966, increased appreciably. Restrictions were partially relaxed during the year: the ceiling for advances by the London clearing banks and the Scottish banks (which together provide over 80% of total advances to finance personal consumption) was lifted in April, and a new ceiling was not imposed until November. Terms controls on hire purchase were relaxed in June (on cars) and at the end of August (on most goods). People bought more durable goods, but spent less on other goods and services – their consumption of which is generally more susceptible to changes in real income and less to variations in borrowing.[1]

Borrowing for house purchase also increased sharply; it was easier to obtain mortgages from building societies and from local authorities, so people borrowed less from insurance companies. The banks were called on to extend more temporary bridging finance. Borrowing for other purposes was smaller than in 1966. It is possible that the true rise in personal borrowing in 1967 was greater than the figures show, for the unidentified item for the sector was much larger than in 1966.

Personal sales of marketable securities were twice as great as in 1966. Persons bought a large amount of gilt-edged in the first quarter, in the hope that U.K. interest rates would fall further; but they sold heavily in the second, when sterling came under pressure and it seemed that interest rates were more likely to rise; and they continued to sell during the rest of the year, perhaps unloading some of the steel compensation stock that they acquired in August (see

1 September 1966 *Bulletin*, page 249.

Table L). On balance, they sold £225 million gilts during the year.[1]

The need to ease tight financial positions and the desire to become more liquid may have been partly responsible for persons' heavier sales of equities; and some sales were doubtless encouraged by the rise in share prices. In the main, however, take-over activity was much greater than in 1966, and this tended to deplete personal portfolios; also, there were fewer new equity issues for investors to acquire (only £74 million, compared with £159 million in 1966). On balance, the stock of equities was considerably diminished and this contributed to the rise in prices.

## Table G
## Personal sector

£ millions

| | 1965 | 1966 | 1967 |
|---|---|---|---|
| Saving | +2,018 | +2,030 | +1,924 |
| Capital transfers | − 138 | − 166 | − 156 |
| Capital expenditure | −1,097 | −1,011 | −1,019 |
| **Financial surplus** | **+ 783** | **+ 853** | **+ 749** |
| **Borrowing −** | | | |
| For consumption[a] | + 20 | + 167 | − 94 |
| For house purchase | − 710 | − 758 | − 963 |
| Other | − 84 | − 62 | − 30 |
| | **− 774** | **− 653** | **−1,087** |
| **Acquisitions of financial assets +** | | | |
| Life assurance and pension funds | +1,166 | +1,198 | +1,250 |
| Government stocks | − 90 | − 3 | − 225[b] |
| Company and overseas securities | − 740 | − 581 | − 789[b] |
| Unit trust units | + 59 | + 105 | + 84 |
| Bank deposits, notes and coin | + 589 | + 290 | + 778 |
| Building society shares and deposits | + 660 | + 729 | +1,109 |
| National savings | − 28 | − 202 | − 43 |
| Other assets[c] | + 419 | + 437 | + 304 |
| | **+2,035** | **+1,973** | **+2,468** |
| **Identified financial transactions** | **+1,261** | **+1,320** | **+1,381** |
| Unidentified | − 478 | − 467 | − 632 |

a The "personal" category in the analysis of advances (Table 11 of the annex) excluding house purchase, plus hire purchase debt.

b Cash transactions only: exchanges of steel securities for government stock are excluded (see Table L).

c Deposits with other financial institutions, local authority debt, tax reserve certificates and claims on the Northern Ireland central government.

Persons added some £2,150 million to their other assets (mainly short-term), nearly £900 million more than in the previous year. They acquired less local authority debt, but built up their bank deposits nearly three times as much as in 1966 and also invested heavily in building societies. They withdrew little more than £40 million from national savings, compared with over £200 million in 1966. National savings certificates proved more popular and there were fewer maturities of defence bonds.

1 However, their holdings of gilts after including steel compensation stock acquired by conversion, were little changed (see Table L).

*All companies*

A separate appropriation account is not available for industrial and commercial companies and it is necessary, when examining saving, to look at figures for all companies, including those for financial institutions – which, however, are but a small part of the total.

Gross trading profits rose by nearly 8% last year, but the figure is inflated by the effects of selective employment tax.[1] The true rise in profits probably owed more to higher margins than to larger sales. Current income from other sources was little changed.

Dividend payments generally fluctuate less than profits, because companies try to maintain distributions even when profits fall, and do not raise them to the full extent of profit increases. Last year, however, when total profits rose, distributions actually fell, because companies with larger profits were officially discouraged from raising dividends, while others were unable to maintain payments. The upward trend in interest payments continued, mainly reflecting increased reliance on fixed interest finance.

## Table H
## All companies

£ millions

| | 1965 | 1966 | 1967 |
|---|---|---|---|
| **Income** | | | |
| Gross trading profits[a] | 4,547 | 4,323 | 4,658 |
| Other current income[b] | 2,644 | 2,754 | 2,753 |
| | **7,191** | **7,077** | **7,411** |
| **Allocation of income** | | | |
| Dividends on ordinary shares | 1,690 | 1,685 | 1,610 |
| Other interest etc. | 940 | 1,096 | 1,222 |
| U.K. taxes[c] | 626 | 719 | 857 |
| Profits due abroad and taxes paid abroad | 785 | 791 | 765 |
| | **4,041** | **4,291** | **4,454** |
| **Saving** | **3,150** | **2,786** | **2,957** |

*a* After deducting stock appreciation, and payments of selective employment tax (net of refunds and premiums) but before allowing for capital depreciation.
*b* Rent, non-trading income, and current income from abroad.
*c* Taxes on income less (in 1967) investment grants.

In Table H, U.K. taxes on income are presented net of investment grants (which replaced investment allowances during 1967) so as to make the comparison of the annual figures more meaningful. Even after this adjustment, the figures show a big rise in tax payments last year; partly because many payments related to high profits earned in 1965.

In total, current expenditure rose, but by less than the rise in income, and company saving (after including investment grants) increased by £171 million. The saving of financial institutions, however, fell, and industrial and commercial companies saved £222 million more than in 1966.

1 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.

*Industrial and commercial companies*

While their saving rose, industrial and commercial companies spent less on fixed investment and reduced their stocks. Their financial position thus improved, and they had a surplus of nearly £460 million, their largest since 1963, compared with no surplus at all in 1966.

Although the financial position of companies improved in the aggregate, however, there were great differences in individual experience. In the second half of the year, after allowing for seasonal movements, companies built up liquid assets and, at the same time, borrowed more. A possible interpretation is that, as bank finance was again readily available, some companies took the opportunity to rebuild their liquid assets. But it is also possible that some found their liquid assets increasing without borrowing, while others were in a tighter financial position and needed to borrow.

## Table I
## Industrial and commercial companies

£ millions

| | 1965 | 1966 | 1967 |
|---|---|---|---|
| Saving[a] and investment grants | +2,904 | +2,533 | +2,755 |
| Other capital transfers | + 16 | + 25 | + 15 |
| Fixed investment | −2,388 | −2,427 | −2,344 |
| Physical increase (−) in stocks | − 331 | − 131 | + 32 |
| **Financial surplus** | **+ 201** | **—** | **+ 458** |
| **Acquisition of financial assets +** | | | |
| Investment abroad[b] | + 497 | + 425 | + 318 |
| Company securities | + 385 | + 291 | + 408 |
| Miscellaneous claims[c] | + 42 | + 40 | + 57 |
| | **+ 924** | **+ 756** | **+ 783** |
| Overseas investment in U.K. companies[d] | **− 211** | **− 250** | **− 318** |
| Borrowing: | | | |
| From banks | − 475 | − 223 | − 246 |
| Capital issues | − 413 | − 579 | − 411 |
| Other | − 278 | − 180 | − 43 |
| | **−1,166** | **− 982** | **− 700** |
| Liquid assets (increase +): | | | |
| Bank deposits, notes and coin | + 232 | + 167 | + 366 |
| Tax reserve certificates | − 119 | − 16 | + 30 |
| Other[e] | − 59 | − 93 | + 25 |
| | **+ 54** | **+ 58** | **+ 421** |
| **Identified financial transactions** | **− 399** | **− 418** | **+ 186** |
| Unidentified | + 600 | + 418 | + 272 |

*a* Excluding stock appreciation.
*b* Including net short-term claims.
*c* Hire purchase lending by shops, and trade credit extended to public corporations.
*d* Long-term only.
*e* Deposits with other financial institutions, Treasury bills and local authority debt.

In the year as a whole companies increased their liquid assets by as much as £420 million, whereas they had added little to them in the two previous years. Their borrowing was £280 million less than in 1966, and they would probably have taken even less but for their apparent desire to build up liquid assets. Companies borrowed rather more from banks, but raised considerably less through capital issues – it seems likely that some preferred to borrow from banks while they could; and until prospects had become less uncertain, or interest rates lower. They also took much less from other financial institutions: they borrowed less at long term and repaid a substantial amount of short-term debt.

Companies' new investment overseas was about £100 million less than in 1966. Roughly half the fall was in long-term investment, and about half in short-term claims, such as credit extended on exports. At home, take-over activity, which had slackened in 1966, expanded and companies bought more shares from other sectors.

Overseas long-term investment in U.K. companies rose by nearly £70 million, because of a sharp increase in investment by foreign oil companies, partly associated with refinery construction.

The unidentified item for industrial and commercial companies was much smaller than in 1966. This, taken in conjunction with a big change in the balancing item in the balance of payments,[1] suggests that companies received substantial unidentified short-term funds from abroad in 1967.

*Financial institutions other than banks*

As may be seen from Table J, the flow of funds to the other financial institutions was about £320 million greater than in 1966. The flow of funds into building societies increased early in the year, after interest rates on their shares and deposits had been raised. It became particularly large in the autumn, but tailed off later when some competing rates rose and personal saving declined.

Deposits with the special investment departments of trustee savings banks and in Post Office investment accounts went up by as much as in 1966 (though investment accounts did not grow as fast as in the first six months or so after they were introduced in June 1966). Deposits with finance houses fell – at first hire purchase business was contracting, and later overseas residents withdrew funds – but the finance houses were able to borrow from the banks.

The fall in capital issues was attributable to investment trusts, which had made large 'split share' issues early in 1966,[2] and to special finance agencies. Although unit trust units did well at times, they attracted less money on balance, despite rapidly rising share prices.

The institutions bought £518 million of gilt-edged – £213 million more than their previous record (in 1962). Altogether their holdings, after including acquisitions through the conversion of steel securities, went up by nearly £770 million (see Table L). The building societies, which received far more money than they needed to lend for house purchase, invested £130 million in gilts – twice as much as in 1966 – and most of the other institutions, particularly insurance companies and pension funds, also bought more.

Because of their preference for gilts and the comparative lack of new issues of company fixed interest securities the institutions invested £100 million less in debentures than in

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1 See *Economic Trends* for March, pages xviii-xix.
2 June 1966 *Bulletin*, page 116.

the previous year (if the exchange of steel securities is taken into account, the rise in debenture holdings was probably very small). But they bought more ordinary shares – though, as mentioned above, unit trusts had less new money to invest.

The institutions' preference for gilts also caused them to invest less in longer-term local authority debt – though not all that much less, for building societies took up more than in 1966.

## Table J
## Other financial institutions

£ millions

| | 1965 | 1966 | 1967 |
|---|---|---|---|
| **Sources of funds** | | | |
| Life assurance and pension funds | 1,166 | 1,198 | 1,250 |
| Building society shares and deposits | 654 | 727 | 1,107 |
| Other deposits | 267 | 222 | 66 |
| Capital issues | 36 | 106 | 67 |
| Unit trust units | 59 | 105 | 84 |
| Other (mainly bank) borrowing | 65 | – 46 | 54 |
| | **2,247** | **2,312** | **2,628** |
| **Increase in financial assets** | | | |
| Bank deposits | 55 | 66 | 153 |
| Local authority temporary money | 14 | 51 | 18 |
| Other short-term assets[a] | 63 | 64 | – 49 |
| Government stocks | 241 | 122 | 518[b] |
| Company and overseas securities: | | | |
| Ordinary shares | 316 | 403 | 484[b] |
| Fixed interest | 338 | 395 | 283[b] |
| Longer-term lending to local authorities | 254 | 153 | 139 |
| Loans for house purchase | 550 | 728 | 842 |
| Hire purchase claims | 83 | – 72 | – 30 |
| Other lending | 203 | 214 | 128 |
| | **2,117** | **2,124** | **2,486** |

*a* Tax reserve certificates, Treasury bills, sums due from stockbrokers, and short-term claims on companies and overseas.

*b* Cash transactions only: exchanges of steel securities for government stocks are excluded (see Table L).

The institutions' short-term assets continued to increase, but the rise was smaller than in 1966. With the notable exception of building societies, they placed less temporary money with local authorities; and they built up their bank deposits by no less than £150 million. But their short-term claims on other sectors fell.

The finance houses' business increased after the relaxations of June and August, but their hire purchase claims were nevertheless lower at the end of the year than twelve months earlier. Insurance companies lent less through loans and mortgages, while a £20 million loan to the steel industry before re-nationalisation from the Finance Corporation for Industry was repaid by the British Steel Corporation.

### *Public sector*

Each of the main components of the public sector – central government, local authorities and public corporations – contributed to the increase of nearly £850 million in its deficit in 1967. The Government's own financial surplus was about £500 million smaller, partly because of selective employment tax – the figure for 1966 included four months' receipts but no refunds or premiums – and partly because of a big rise in expenditure.

Local authorities had a smaller current surplus, spent much more on fixed investment and lent more for house purchase; so they borrowed £135 million more than in 1966. They obtained less finance from the Public Works Loan Board, because in May rates on P.W.L.B. loans (which are usually for at least ten years) were brought into line with long-term interest rates generally; and they raised about £280 million more in the market – a good deal of it temporary money, for they were unwilling to borrow at comparatively high rates for longer than necessary.

## Table K
## Public sector

£ millions

| | 1965 | 1966 | 1967 |
|---|---|---|---|
| **Financial surplus +/deficit –** | | | |
| Central government | + 636[a] | + 923 | + 432 |
| Local authorities | – 856 | – 874 | –1,101 |
| Public corporations | – 628[a] | – 847 | – 975 |
| **Financial deficit** | **– 848** | **– 798** | **–1,644** |
| **Increase in financial assets or decrease in liabilities +** | | | |
| Government lending to private sector and overseas | + 107 | + 92 | + 85 |
| Loans for house purchase | + 175 | + 55 | + 81 |
| Local authority debt | – 558 | – 389 | – 672 |
| Miscellaneous financial transactions (net) | – 10 | – 112 | – 114 |
| Central government "external transactions"[b] | – 114 | – 458 | – 487 |
| Government domestic borrowing: | | | |
| From banks[b] | – 308 | – 121 | – 231 |
| Other[b] | – 175 | + 45 | – 416 |
| **Identified financial transactions** | **– 883** | **– 888** | **–1,754** |
| Unidentified | + 35 | + 90 | + 110 |

a The figures do not reflect the write-off of debt of the National Coal Board or of British Overseas Airways Corporation.
b These items, added together, give the central government's net balance. External transactions, defined as in Table 1 of the annex, comprise changes in overseas holdings of government debt and in the United Kingdom's gold and foreign exchange reserves.

The larger financial deficit of public corporations was due to higher expenditure on fixed investment – they had a somewhat larger current surplus. Their borrowing requirement was further increased by the British Steel Corporation's need for finance to repay debt incurred by steel companies before re-nationalisation.

Thus the fall in the Government's own financial surplus, together with the greatly increased needs of public corporations, raised the Government's borrowing requirement by £600 million, to £1,134 million. External transactions again produced a large amount (£487 million) but, even so, the domestic borrowing requirement amounted to almost £650 million. About two thirds of this was met without recourse to the banks.

Notes in circulation with the public[1] rose more than in 1966, influenced, no doubt, by a bigger increase – comparing fourth quarter with fourth quarter – in consumers' expenditure. Companies bought tax reserve certificates as part of their build-up of liquid assets. And net withdrawals from national savings were, as noted above, smaller than in 1966.

Most of the finance provided from outside the banks, however, was through official sales of gilt-edged, which brought in almost £300 million (net). Sales were heaviest in the first quarter and in the fourth, when interest rates were expected to fall. However, the financial institutions other than banks bought in the intervening quarters too. As noted above, their purchases totalled £518 million during the year; they were facilitated by the large amount of funds invested with them by the personal sector. It was also noted earlier that persons themselves sold £225 million of gilts. Companies' transactions in gilts were probably small, but their greater liquidity contributed to a fall in issues of debentures, and this helped gilts indirectly. Over and above the large official sales of gilts, £486 million of steel compensation stock was absorbed by the market (see Table L).

## Table L
## Changes in holdings of government stocks: 1967

£ millions

| | Cash transactions (sale –) | | | Conversion of steel securities[b] | Change in holdings |
|---|---|---|---|---|---|
| | 'Steels'[a] | Other | Total | | |
| **Banking sector** | **– 9** | **+242** | **+233** | **+ 14** | **+ 247** |
| **Other financial institutions** | | | | | |
| Insurance companies | – 32 | +251 | +219 | +138 | + 357 |
| Pension funds | – 29 | + 95 | + 66 | + 69 | + 135 |
| Investment trusts | – 30 | – 5 | – 35 | + 37 | + 2 |
| Unit trusts | – 6 | – 1 | – 7 | + 7 | — |
| Other | — | +275 | +275 | — | + 275 |
| | **– 97** | **+615** | **+518** | **+251** | **+ 769** |
| **Overseas** | **—** | **+ 3** | **+ 3** | **—** | **+ 3** |
| **Persons[c]** | **– 73** | **–152** | **–225** | **+221** | **– 4** |
| **Public sector** | **+179** | **–708** | **–529** | **–486** | **–1,015** |

a Sales of steel securities to the authorities in the two weeks immediately before vesting day (28 July), which are treated as transactions in gilt-edged, because settlement was after vesting day.

b These figures include steel securities sold in the last two weeks of July.

c These figures are residuals: it is assumed that transactions by industrial and commercial companies are negligible. The figure for personal sales of steel securities to the authorities in the second half of July may be a little too large, as it is thought that sales by the banking sector may have been slightly larger than given here, and there may have been a few sales by overseas residents.

*Banking sector*

The banks took up almost twice as much government debt as in 1966. It was again all in the form of gilt-edged, thanks to the domestic banks, which bought in each quarter. The gilt-edged holdings of the discount market and the other banks showed little change: they bought large amounts in the first and fourth quarters, but sold in the other two.

1 In this analysis the Issue Department of the Bank of England is regarded as part of central government, so notes are treated as government debt.

Bank lending to the private sector increased by almost £500 million. In the first quarter, when credit restraint was still in force, the rise was probably less than seasonal, but lending rose very sharply during the summer, and restrictions were not reimposed until the middle of November. Half of the increase went to companies, about a third to persons, and the rest to the financial institutions.

There was an exceptionally large increase – double that in any previous year – in the banks' holdings of local authority debt. This was mainly temporary money: in the first quarter the accepting houses and overseas banks invested foreign currency deposits that they had switched into sterling; and, during the rest of the year, local authorities were eager to borrow in the temporary money market, where the banks were keen to lend.

The banks lent less overseas than in 1966. This was partly because they received less by way of foreign currency deposits, but mainly because they employed some currency deposits in sterling – whereas in 1966 they had switched into foreign currency funds previously invested in sterling. Overseas residents continued to withdraw sterling deposits from the banks.

**Table M**
**Banking sector**
£ millions

| | 1965 | 1966 | 1967[a] |
|---|---|---|---|
| **Increase in assets +** | | | |
| Government debt | + 308 | + 121 | + 231 |
| Lending to private sector | + 470 | + 89 | + 497 |
| Lending to overseas | + 353 | +1,029 | + 810 |
| Local authority debt | + 117 | + 81 | + 346 |
| Other | + 31 | + 42 | + 67 |
| | **+1,279** | **+1,362** | **+1,951** |
| **Increase in liabilities –** | | | |
| Overseas deposits | – 412 | – 742 | – 731 |
| Domestic deposits | – 720 | – 470 | –1,184 |
| Capital issues | – 2 | – 20 | – 1 |
| | **–1,134** | **–1,232** | **–1,916** |

a Excluding revaluation of foreign currency items at 18 November.

Domestic deposits with the banks rose much more than in 1966 – persons, companies and financial institutions all deposited more – despite the large balance of payments deficit and the substantial take-up of government debt outside the banks, which might have been expected to reduce them. The bigger rise was mainly associated with the expansion of bank lending to the private sector. The sharp increase in deposits and the larger rise than in 1966 in the public's holdings of notes and coin caused the domestic money supply to increase by almost 10% (compared with 7½% in 1965 and only 4% in 1966).

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

| | 1967 | |
|---|---|---|
| | 3rd qtr. | 4th qtr. |
| Overseas sector | + 45 | +370 |
| Public sector | –410 | –522 |
| Persons | +195 | +157 |
| Companies[a] | +162 | +117 |
| Residual error | + 8 | –122 |

a Including banks and other financial institutions.

**Fourth quarter of 1967**

The outstanding events of the fourth quarter were the devaluation of sterling, the associated rise in Bank rate and the tightening of credit restrictions. There was a marked deterioration in the balance of payments. Consumer spending and public expenditure continued to rise and stockbuilding was renewed, but exports and private investment fell.

The discussion of the quarterly figures is in seasonally adjusted terms (it should be noted, however, that the figures in Table Q at the end are not seasonally adjusted). The rise in the overseas sector's surplus was matched partly by a substantial increase in the public sector's deficit and partly by falls in the surpluses of both companies and persons. Companies borrowed less and their liquid assets rose less, but persons borrowed rather more, sold fewer securities and added more to their other assets, notably bank deposits. Other financial institutions, on the other hand, invested heavily in gilts and ran down their liquid assets.

*Personal sector*

Personal income continued to rise, but consumption rose more (by nearly 2%) and saving fell. The sector spent less on fixed investment but added more to its stocks, and had a smaller financial surplus.

Persons again borrowed heavily; their bank borrowing was smaller, but their hire purchase debt increased more – the November restrictions probably had little effect during the quarter. Borrowing for house purchase continued to be about as high as before.

Persons sold fewer marketable securities: they realised rather more government stocks, but considerably fewer equities. Their other (mainly short-term) assets grew more quickly – particularly lending to local authorities, and bank deposits; they invested less with building societies, whose rate of interest became less attractive.

*All companies*

Companies' gross trading profits increased by 5%, though they would probably have fallen except for the appreciation of stocks in sterling terms following devaluation; other income rose. Current expenditure rose less than income: interest, U.K. tax, and profits due and taxes paid abroad increased, but dividend payments, which had been particularly large in the third quarter following the end of severe restraint, fell back. Consequently, company saving was larger. Rather more than half the increase of about £80 million was by financial institutions.

*Industrial and commercial companies*

Saving by these companies increased by £35 million. It was augmented by a reduction in the delay in receiving investment grants (effectively, companies were reimbursed for two quarters' expenditure). Companies spent slightly less on fixed assets; but after allowing for the increase in the value of their stocks[1] they had a smaller financial surplus. As they also acquired more financial assets, apart from liquid ones, their need for finance was a good deal larger. They acquired fewer securities through take-overs, but invested more abroad. Companies received more by way of long-term

1 The actual increase in stocks and work in progress, together with the book entry for appreciation.

investment from abroad, and continued to borrow heavily, though with more emphasis on capital issues and less on bank borrowing. However, their borrowing was not as large as in the previous quarter (when it had been exceptionally high) despite their smaller financial surplus; so they were less favourably placed to strengthen their short-term financial position – liquid assets again increased, but by only £110 million or so, compared with some £340 million in the third quarter.

*Other financial institutions*

The net flow of funds into the institutions increased; the building societies received less from shares and deposits, and other institutions borrowed less from banks, but in aggregate the institutions suffered a smaller withdrawal of overseas money than in the third quarter.

They ran down liquid assets, which had risen substantially in the two preceding quarters, and invested heavily in gilts and debentures, partly because they thought that the high yields obtainable after devaluation would not be available for long. They also invested more in equities. The finance houses' hire purchase claims rose a little more than in the third quarter.

*Public sector*

The public sector's financial deficit was larger, as there was a fall in the central government's current surplus – expenditure, particularly on investment grants, continued to rise but revenue increased little, if at all. In consequence, the central government's borrowing requirement was greater.

Sterling provided by external transactions, however, was again greater than the borrowing requirement – so domestic debt declined further. Debt held by the banks fell – by as much as it had done in the third quarter – but other domestic holdings rose a little, for the financial institutions were buying gilts more heavily.

*Banking sector*

Although the banks' holdings of government debt continued to fall, they lent more to local authorities. They also lent a good deal more to the private sector. Domestic deposits increased more slowly and the money supply rose less; nevertheless, it still went up by as much as $2\frac{1}{4}$% (compared with 4% in the third quarter).

**First quarter of 1968**[1]

Consumers' expenditure continued to rise strongly and exports were higher – mainly because goods previously held up by the docks strikes were still being cleared – but other forms of demand seem to have lacked vigour. Imports increased, however, and domestic output did not rise much. There was another large deficit on current account in the balance of payments, but it was probably less than in the fourth quarter. Bank rate was reduced from 8% to $7\frac{1}{2}$% on 21st March.

1 This discussion is also in seasonally adjusted terms.

Bank advances were more difficult to obtain because of the tightening of restrictions in November, and persons repaid a small amount of bank borrowing. Their hire purchase debt probably rose as much as in the fourth quarter. The rise in consumption seems to have been financed, to some extent, by withdrawals from building societies and banks, or by a reduction in the funds placed with them. The receipt of funds by the building societies was halved and personal bank deposits rose much less than in the fourth quarter. On balance, however, people invested a small amount in national savings, whereas they had withdrawn funds in the fourth quarter. They borrowed more from building societies.

Companies may have built up their liquid assets as much as in the fourth quarter (this is indicated by figures for bank deposits, notes and tax reserve certificates taken together). At the same time, there was a bigger increase in their bank borrowing, partly to finance exports and partly, presumably, because companies did not wish to borrow at long term while interest rates remained high: there were few capital issues.

The central government's borrowing requirement was bigger than in the fourth quarter, mainly because of higher government lending to public corporations (which repaid bank borrowing) and to local authorities. Once again, a large amount of finance was provided by external transactions, so domestic debt was again repaid. As in the fourth quarter, the banks' holdings of government debt were reduced, while other holdings increased. On balance, investors other than banks took up gilts, and their holdings of notes, tax reserve certificates and national savings also rose.

The banks' holdings of public sector debt fell; though there was a further rise in their lending to local authorities, their holdings of government debt were reduced and their advances to the British Steel Corporation were repaid. The banks lent rather more to the private sector than in the previous quarter, and they lent much more to overseas residents. Overseas deposits with the banks rose a lot faster than in the fourth quarter, but the rise in domestic deposits slackened appreciably. Taking account of the increase in domestic deposits, and the rise in the public's holdings of notes and coin, the domestic money supply went up by only $\frac{3}{4}$%.

## Table O
## Banking sector: financial year and quarterly figures

£ millions[a]

| | Financial years | | | | |
|---|---|---|---|---|---|
| | 1963/64 | 1964/65 | 1965/66 | 1966/67 | 1967/68 |
| **Changes in net sterling deposits with the banking sector[b]** | | | | | |
| U.K. residents | + 620 | +560 | + 790 | +235 | +1,065 |
| Overseas | + 305 | −125 | + 270 | − 50 | − 270 |
| **Total** | **+ 925** | **+435** | **+1,060** | **+185** | **+ 795** |
| **Changes in net sterling deposits of U.K. residents** | | | | | |
| Persons | + 375 | +575 | + 595 | +160 | + 680 |
| Industrial and commercial companies | + 175 | − 15 | + 95 | − 10 | + 400 |
| Financial institutions | + 45 | + 15 | + 70 | + 50 | + 120 |
| Total private sector | + 595 | +575 | + 760 | +200 | +1,200 |
| *less* foreign currency | + 25 | − 15 | + 20 | + 30 | + 70 |
| Total private sector net sterling deposits | + 570 | +590 | + 740 | +170 | +1,130 |
| Total public sector net sterling deposits | + 50 | − 30 | + 50 | + 65 | − 65 |
| **Total net sterling deposits of U.K. residents** | **+ 620** | **+560** | **+ 790** | **+235** | **+1,065** |
| **Changes in sterling assets of the banking sector** | | | | | |
| Central government debt | + 255 | −540 | + 535 | +200 | − 270 |
| Local government debt[d] | + 115 | +200 | + 25 | +215 | + 325 |
| Nationalised industries | + 5 | − 30 | + 20 | − 5 | − 65 |
| Other public corporations | + 5 | + 5 | − 5 | — | + 15 |
| Sterling lending to the private sector[f] | + 575 | +980 | + 370 | −115 | + 690 |
| Sterling lending to the overseas sector | + 100 | + 85 | − 40 | + 35 | + 20 |
| Total of identified sterling assets | +1,055 | +700 | + 905 | +330 | + 715 |
| Difference between identified assets and deposits | − 130 | −265 | + 155 | −145 | + 80 |
| *of which: Switching out of sterling into foreign currency[g]* | *+ 5* | *−180* | *+ 245* | *+ 20* | *+ 195* |
| **Total** | **+ 925** | **+435** | **+1,060** | **+185** | **+ 795** |
| **Changes in sterling lending to the private sector** | | | | | |
| Persons and unincorporated businesses[h] | + 120 | +230 | − 170 | −130 | + 195 |
| Money at call and short notice | − 25 | − 5 | + 20 | + 10 | + 25 |
| Other private | + 480 | +755 | + 520 | + 5 | + 470 |
| **Total private sector** | **+ 575** | **+980** | **+ 370** | **−115** | **+ 690** |

*a* Rounded to nearest £5 million.
*b* The banking sector is defined as elsewhere in this *Bulletin*, see the additional notes to Table 8 of the annex.
*c* The figures are for 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.
*d* Including central government debt for Northern Ireland.
*e* Excluding the transfer to the public sector of the steel industry's outstanding borrowing at the time of re-nationalisation.
*f* Including company securities.
*g* Switching out of sterling into foreign currency leads to a decrease in sterling assets with no corresponding decrease in sterling liabilities. Switching out is therefore shown as a positive entry in this table.
*h* Excluding money at call and short notice to unincorporated businesses, shown separately in the line below.

| Quarter ended 1965/66 | 1966/67 | | | | 1967/68 | | | | % change |
|---|---|---|---|---|---|---|---|---|---|
| Mar. | June | Sept. | Dec. | Mar. | June | Sept. | Dec. | Mar. | *1966/67-1967/68* |
| −110 | +140 | +115 | +290 | −310 | +405 | +555 | +440 | −335 | *+10·5* |
| +115 | − 40 | −230 | + 50 | +170 | + 5 | −155 | − 95 | − 25 | *−15·2* |
| **+ 5** | **+100** | **−115** | **+340** | **−140** | **+410** | **+400** | **+345** | **−360** | *+ 6·7* |
| +130 | + 45 | + 45 | + 30 | + 40 | +240 | +130 | +310 | — | *+ 9·1* |
| −195 | − 20 | +120 | +235 | −345 | + 90 | +400 | +155 | −245 | *+21·1* |
| − 15 | + 30 | − 30 | + 85 | − 35 | + 95 | + 55 | + 35 | − 65 | *+24·4* |
| − 80 | + 55 | +135 | +350 | −340 | +425 | +585 | +500 | −310 | *+12·2* |
| + 10 | — | + 10 | + 15 | + 5 | + 15 | + 10 | + 60 | − 15 | *+47·7* |
| − 90 | + 55 | +125 | +335 | −345 | +410 | +575 | +440 | −295 | *+11·6* |
| − 20 | + 85 | − 10 | − 45 | + 35 | − 5 | − 20 | — | − 40 | *−14·4* |
| **−110** | **+140** | **+115** | **+290** | **−310** | **+405** | **+555** | **+440** | **−335** | *+10·5* |
| −440 | + 30 | +140 | +390 | −360 | +395 | + 35[c] | +165 | −865 | *− 6·0* |
| + 25 | + 50 | − 15 | + 25 | +155 | − 35 | +175 | + 50 | +135 | *+28·1* |
| − 5 | − 30 | + 30 | + 5 | − 10 | — | − 5[e] | + 35 | − 95 | *−73·3* |
| — | + 5 | — | + 10 | − 15 | — | + 20 | − 5 | — | |
| +350 | + 35 | −220 | − 80 | +150 | + 40 | +155[e] | + 90 | +405 | *+ 9·5* |
| + 10 | + 15 | − 60 | + 35 | + 45 | + 20 | − 10 | + 10 | — | *+ 6·5* |
| − 60 | +105 | −125 | +385 | − 35 | +420 | +370 | +345 | −420 | *+ 5·4* |
| + 65 | − 5 | + 10 | − 45 | −105 | − 10 | + 30 | — | + 60 | |
| *+ 35* | *+ 90* | *+ 10* | *+ 40* | *−120* | *+ 5* | *+ 30* | *+ 65* | *+ 95* | |
| **+ 5** | **+100** | **−115** | **+340** | **−140** | **+410** | **+400** | **+345** | **−360** | *+ 6·7* |
| + 45 | + 40 | −120 | − 80 | + 30 | + 90 | + 70 | + 10 | + 25 | *+10·8* |
| − 20 | — | + 20 | + 30 | − 40 | − 25 | — | + 40 | + 10 | *+13·8* |
| +325 | − 5 | −120 | − 30 | +160 | − 25 | + 85 | + 40 | +370 | *+ 9·0* |
| **+350** | **+ 35** | **−220** | **− 80** | **+150** | **+ 40** | **+155** | **+ 90** | **+405** | *+ 9·5* |

## Table P
## Sector financing: annual figures

£ millions

| | Line | Public sector 1965 | Public sector 1966 | Public sector 1967 | Overseas sector 1965 | Overseas sector 1966 | Overseas sector 1967 |
|---|---|---|---|---|---|---|---|
| **Financial surplus +/deficit −** | | | | | | | |
| Saving | 1 | +1,853 | +2,239 | +2,116 | | | |
| Taxes on capital and capital transfers | 2 | + 122 | + 141 | − 48 | | | |
| less: | | | | | | | |
| Gross fixed capital formation at home | 3 | −2,795 | −3,112 | −3,605 | | | |
| Increase in value of stocks and work in progress | 4 | − 28 | − 66 | − 107 | | | |
| **Financial surplus +/deficit −** | 5 | **− 848** | **− 798** | **−1,644** | **+110** | **+ 31** | **+514** |
| **Changes in financial assets and liabilities** | | | | | | | |
| assets increase +/decrease − liabilities increase −/decrease + | | | | | | | |
| Net indebtedness of Government to Bank of England, Banking Department | 6 | − 152 | − 44 | + 19 | | | |
| Life assurance and pension funds | 7 | | | | | | |
| Government loans | 8 | + 109 | + 77 | + 43 | − 66 | − 62 | − 38 |
| Gold and foreign exchange reserves[a] | 9 | + 246 | − 282 | − 188 | −246 | + 282 | +188 |
| Government transactions with I.M.F. | 10 | − 496 | + 17 | + 318 | +496 | − 17 | −318 |
| Miscellaneous investment overseas (net) | 11 | + 45 | + 27 | − 60[b] | −276 | − 140 | + 69[b] |
| Notes and coin | 12 | − 193 | − 148 | − 152 | | | |
| Bank deposits[c] | 13 | + 39 | + 13 | + 12 | +412 | + 742 | +731 |
| Deposits with other financial institutions | 14 | | | | + 82 | + 31 | − 78 |
| Non-marketable government debt | 15 | + 134 | + 123 | + 7 | | | |
| Bank lending[c] | 16 | − 7 | − 14 | − 20[d] | −353 | −1,029 | −810 |
| Hire purchase debt | 17 | + 2 | − 17 | − 10 | | | |
| Loans for house purchase | 18 | + 175 | + 55 | + 81 | | | |
| Other loans | 19 | − 51 | − 141 | − 99 | | | |
| Marketable government debt: | | | | | | | |
| Treasury bills | 20 | + 39 | + 10 | − 514 | − 87 | + 221 | +519 |
| Stocks[e] | 21 | − 222 | − 230 | − 529 | − 2 | − 8 | + 3 |
| Local authority debt | 22 | − 558 | − 389 | − 672 | − 15 | − 38 | + 10 |
| U.K. company and overseas securities: | | | | | | | |
| Capital issues | 23 | | | | − 19 | + 15 | −107 |
| Other transactions[e] | 24 | + 7 | + 55 | + 10 | + 80 | + 47 | +125 |
| Unit trust units | 25 | | | | | | |
| **Identified financial transactions** | 26 | **− 883** | **− 888** | **−1,754** | **+ 6** | **+ 44** | **+294** |
| **Unidentified** | 27 | **+ 35** | **+ 90** | **+ 110** | **+104** | **− 13** | **+220** |
| **Total=Financial surplus +/deficit−** | 28 | **− 848** | **− 798** | **−1,644** | **+110** | **+ 31** | **+514** |

. . Not available.

a The figures for 1966 and 1967 include the changes not only in the reserves (increases of 34 and 16), but also in the Government's portfolio of dollar securities (falls of 316 and 204).

b See footnote d to Table 18 of the annex; (but also see footnote c below).

c 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).

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

e The figures are for cash transactions only, so those for 1967 exclude the exchange of securities of the re-nationalised steel companies for government stock (see Table L).

| Private sector | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Persons | | | Industrial and commercial companies | | | Banks | | | Other financial institutions | | | |
| 1965 | 1966 | 1967 | 1965 | 1966 | 1967 | 1965 | 1966 | 1967 | 1965 | 1966 | 1967 | Line |
| +2,018 | +2,030 | +1,924 | +3,186 | +2,796 | +2,759 | +246 | +253 | +202 | | | | 1 |
| −138 | −166 | −156 | +16 | +25 | +204 | | | | | | | 2 |
| −967 | −922 | −947 | −2,388 | −2,427 | −2,344 | −174 | −211 | −210 | | | | 3 |
| −130 | −89 | −72 | −613 | −394 | −161 | | | | | | | 4 |
| **+783** | **+853** | **+749** | **+201** | **—** | **+458** | **+72** | **+42** | **−8** | | | | 5 |
| | | | | | | +152 | +44 | −19 | | | | 6 |
| +1,166 | +1,198 | +1,250 | | | | | | | −1,166 | −1,198 | −1,250 | 7 |
| −2 | −2 | −2 | −43 | −16 | −5 | | | | +2 | +3 | +2 | 8 |
| | | | | | | | | | | | | 9 |
| | | | | | | | | | | | | 10 |
| | | | +228 | +121 | −20 | | | | +3 | −8 | +11 | 11 |
| +77 | +37 | +62 | +118 | +29 | +63 | −2 | +82 | +27 | | | | 12 |
| +512 | +253 | +716 | +114 | +138 | +303 | −1,132 | −1,212 | −1,915 | +55 | +66 | +153 | 13 |
| +793 | +914 | +1,266 | +46 | +4 | −15 | | | | −921 | −949 | −1,173 | 14 |
| −15 | −185 | −34 | −119 | −16 | +30 | . . | +85 | −10 | — | −7 | +7 | 15 |
| +33 | +60 | −137 | −475 | −223 | −246[d] | +845 | +1,157 | +1,287 | −43 | +49 | −74 | 16 |
| −63 | +102 | +13 | −22 | −13 | +27 | | | | +83 | −72 | −30 | 17 |
| −710 | −758 | −963 | | | | −15 | −25 | +40 | +550 | +728 | +842 | 18 |
| −27 | −43 | +22 | −171 | −111 | −8 | −2 | +2 | +2 | +251 | +293 | +83 | 19 |
| | | | −25 | −16 | −1 | +85 | −209 | — | −12 | −6 | −4 | 20 |
| −90 | −3 | −225 | | | | +73 | +119 | +233 | +241 | +122 | +518 | 21 |
| +268 | +223 | +118 | −80 | −81 | +41 | +117 | +81 | +346 | +268 | +204 | +157 | 22 |
| | | | −413 | −579 | −411 | −2 | −20 | −1 | −36 | −106 | −67 | 23 |
| −740 | −581 | −789 | +443 | +345 | +428 | +26 | +26 | +45 | +654 | +798 | +767 | 24 |
| +59 | +105 | +84 | | | | | | | −59 | −105 | −84 | 25 |
| **+1,261** | **+1,320** | **+1,381** | **−399** | **−418** | **+186** | **+145** | **+130** | **+35** | **−130** | **−188** | **−142** | 26 |
| **−478** | **−467** | **−632** | **+600** | **+418** | **+272** | **+57** | **+100** | **+99** | | | | 27 |
| **+783** | **+853** | **+749** | **+201** | **—** | **+458** | **+72** | **+42** | **−8** | | | | 28 |

## Table Q
## Sector financing: quarterly figures

Not seasonally adjusted: £ millions

| | Line | Public sector 1967 3rd qtr. | Public sector 1967 4th qtr. | Public sector 1968 1st qtr. | Overseas sector 1967 3rd qtr. | Overseas sector 1967 4th qtr. | Overseas sector 1968 1st qtr. |
|---|---|---|---|---|---|---|---|
| **Financial surplus +/deficit −** | | | | | | | |
| Saving | 1 | +239 | + 168 | | | | |
| Taxes on capital and capital transfers | 2 | − 23 | − 72 | | | | |
| less: | | | | | | | |
| Gross fixed capital formation at home | 3 | −903 | − 942 | | | | |
| Increase in value of stocks and work in progress | 4 | − 37 | − 6 | | | | |
| **Financial surplus +/deficit −** | 5 | **−724** | **− 852** | | **+106** | **+305** | |
| **Changes in financial assets and liabilities** | | | | | | | |
| assets increase +/decrease − liabilities increase −/decrease + | | | | | | | |
| Net indebtedness of Government to Bank of England, Banking Department | 6 | +108 | − 36 | +135 | | | |
| Life assurance and pension funds | 7 | | | | | | |
| Government loans | 8 | + 16 | + 27 | | − 15 | − 29 | |
| Gold and foreign exchange reserves[a] | 9 | − 36 | − 57 | + 11 | + 36 | + 57 | − 11 |
| Government transactions with I.M.F. | 10 | + 5 | + 126 | | − 5 | −126 | |
| Miscellaneous investment overseas (net) | 11 | + 8 | − 99[b] | | − 47 | +121[b] | |
| Notes and coin | 12 | − 10 | − 194 | +108 | | | |
| Bank deposits[c] | 13 | − 20 | − 2 | − 40 | +185 | +104 | +618 |
| Deposits with other financial institutions | 14 | | | | − 89 | + 6 | |
| Non-marketable government debt | 15 | − 25 | − 2 | +110 | | | |
| Bank lending[c] | 16 | − 19[d] | − 27 | + 95 | −355 | −262 | −671 |
| Hire purchase debt | 17 | − 3 | + 1 | | | | |
| Loans for house purchase | 18 | + 19 | + 9 | | | | |
| Other loans | 19 | +196 | − 127 | | | | |
| Marketable government debt: | | | | | | | |
| Treasury bills | 20 | −636 | − 253 | + 79 | +474 | +467 | +458 |
| Stocks[e] | 21 | + 44 | − 297 | + 14 | + 15 | − 15 | + 9 |
| Local authority debt | 22 | −187 | − 115 | | − 25 | − 11 | |
| U.K. company and overseas securities: | | | | | | | |
| Capital issues | 23 | | | | − 9 | − 47 | − 59 |
| Other transactions[e] | 24 | + 1 | + 5 | | + 18 | − 18 | |
| Unit trust units | 25 | | | | | | |
| **Identified financial transactions** | 26 | **−539** | **−1,041** | | **+183** | **+247** | |
| **Unidentified** | 27 | **−185** | **+ 189** | | **− 77** | **+ 58** | |
| **Total=Financial surplus +/deficit −** | 28 | **−724** | **− 852** | | **+106** | **+305** | |

*a* See footnote a to Table P.
*b* See footnote *d* to Table 18 of the annex; (but see also footnote *c* below).
*c* 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).
*d* Excluding the transfer to the public sector of the steel industry's outstanding borrowing at the time of re-nationalisation.
*e* See footnote *e* to Table P.

| Private sector | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Persons | | | Industrial and commercial companies | | | Banks and Other financial institutions | | Banks | | | Other financial institutions | | | |
| 1967 | | 1968 | 1967 | | 1968 | 1967 | | 1967 | | 1968 | 1967 | | 1968 | |
| 3rd qtr. | 4th qtr. | 1st qtr. | 3rd qtr. | 4th qtr. | 1st qtr. | 3rd qtr. | 4th qtr. | 3rd qtr. | 4th qtr. | 1st qtr. | 3rd qtr. | 4th qtr. | 1st qtr. | Line |
| +469 | +339 | | +807 | +997 | | +110 | +155 | | | | | | | 1 |
| − 34 | − 37 | | + 57 | +109 | | | | | | | | | | 2 |
| −263 | −231 | | −556 | −609 | | − 46 | − 56 | | | | | | | 3 |
| − 3 | − 10 | | − 17 | −107 | | | | | | | | | | 4 |
| **+169** | **+ 61** | | **+291** | **+390** | | **+ 64** | **+ 99** | | | | | | | 5 |
| | | | | | | | | −108 | + 36 | − 135 | | | | 6 |
| +315 | +330 | | | | | | | | | | −315 | −330 | | 7 |
| — | − 1 | | − 2 | + 2 | | | | | | | + 1 | + 1 | — | 8 |
| | | | | | | | | | | | | | | 9 |
| | | | | | | | | | | | | | | 10 |
| | | | + 39 | − 28 | | | | | | | — | + 6 | | 11 |
| − 11 | + 28 | +19 | − 21 | + 28 | + 20 | | | + 42 | +138 | − 147 | | | | 12 |
| +128 | +310 | + 3 | +401 | +155 | −247 | | | −749 | −604 | − 269 | + 55 | + 37 | −65 | 13 |
| +337 | +329 | | + 8 | + 21 | | | | | | | −256 | −356 | | 14 |
| − 3 | − 16 | − 5 | + 33 | + 17 | − 90 | | | − 5 | + 1 | − 13 | — | — | − 2 | 15 |
| − 57 | − 47 | −36 | − 62[d] | − 60 | −383 | | | +535 | +413 | +1,022 | − 42 | − 17 | −27 | 16 |
| − 16 | − 66 | | + 7 | + 64 | | | | | | | + 12 | + 1 | +15 | 17 |
| −271 | −260 | | | | | | | + 15 | + 5 | − 5 | +237 | +246 | | 18 |
| − 18 | + 36 | | −186 | + 22 | | | | + 6 | + 2 | − 10 | + 2 | + 67 | | 19 |
| | | | + 16 | − 12 | | | | +155 | −194 | − 520 | − 9 | − 8 | | 20 |
| − 63 | − 43 | | | | | | | − 50 | +182 | − 47 | + 54 | +173 | | 21 |
| − 51 | +111 | | + 25 | + 32 | | | | +166 | + 51 | + 143 | + 72 | − 68 | | 22 |
| | | | − 87 | −113 | − 55 | | | − 1 | — | − 1 | − 22 | − 23 | −26 | 23 |
| −215 | −153 | | +125 | + 90 | | | | − 7 | + 3 | + 11 | +197 | +256 | | 24 |
| + 20 | + 29 | +51 | | | | | | | | | − 20 | − 29 | −51 | 25 |
| **+ 95** | **+587** | | **+296** | **+218** | | | | **− 1** | **+ 33** | **+ 29** | **− 34** | **− 44** | | 26 |
| **+ 74** | **−526** | | **− 5** | **+172** | | **+ 99** | **+110** | | | | | | | 27 |
| **+169** | **+ 61** | | **+291** | **+390** | | **+ 64** | **+ 99** | | | | | | | 28 |

## Notes on sources and definitions

### Sources

The main statistical series used in compiling Tables P and Q 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 1962 to 1967* (Cmnd. 3571).

### 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 1967*, H.M.S.O., August 1967).

*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* Special investment departments of the trustee savings banks, Post Office Savings Bank (investment accounts only), building societies, hire purchase finance companies, unit trusts, investment trusts, insurance companies, pension funds, 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 and stock appreciation. It includes tax, dividend and interest reserves.

*Line 5 Financial surplus/deficit* For domestic sectors, the excess/shortfall of current saving plus net receipts (less net payments) of capital transfers, compared with investment at home in fixed assets, in stocks of goods and in 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: 1965, −318; 1966, −128; 1967, −69; 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 - regarded here as government liabilities - less the deposits of the Exchequer and the Paymaster General with the Bank.

*Line 7 Life assurance and pension funds* The increase in persons' net claims in respect of these funds. Figures are included for public sector pension schemes where separate pension funds are not maintained.

*Line 8 Government loans* Lending (net of repayments) to building societies, companies, etc.; and intergovernment loans (net). Loans to housing associations are in line 18.

*Line 9 Gold and foreign exchange reserves* Changes in the sterling equivalent of gold and convertible and non-convertible currencies held by the E.E.A.

*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/outward) other than portfolio investment and the share and loan element of direct investment (included in lines 23 and 24); and part of "miscellaneous capital (net)" in the balance of payments estimates. Some changes in U.K. external liabilities and claims, both in sterling and in foreign currencies, are also included, the most important being transactions in commercial bills between overseas residents and 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 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. 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 brought about by the different days 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 changes in the figures arise from transactions between companies. 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, and deposits in P.O.S.B. investment accounts, with special investment departments of trustee savings banks, with hire purchase finance houses (other than those by banks, which are included in line 16) and with 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 estimates of 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 in the public sector as well as companies). 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 and local authorities; estimated changes in bank lending; and loans to housing associations by the Government and by public corporations.

*Line 19 Other loans* Loans between domestic sectors not elsewhere included. The most important of these are by other financial institutions to persons and industrial and commercial companies. The entries also include net trade credit given or received by public corporations and borrowing by the Northern Ireland central government.

*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 some inter-central bank transactions. 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. 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.

*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 (see Table 14 of the annex).

*Other transactions* For the overseas sector the entries 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 in government stocks and in 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 are obtained as residuals from the estimates in lines 23 and 24 for all other sectors.

*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.