Analysis of financial statistics: January-March 1968

The first part of this analysis describes the transactions of the various sectors in the first quarter of this year. It is followed by some preliminary comment on movements in the second quarter, and a discussion of changes in sterling bank deposits and in the banking sector's sterling lending in that quarter. From page 252 onwards, there is a more detailed account of the transactions of the personal sector during the year ended 31st March.

The discussion is in seasonally adjusted terms, except for the section dealing with the banks' sterling deposits and lending. The detailed quarterly statistics relating to the first part of the analysis are presented in Table E at the end, and those relating to the banking sector in Table F; these are not seasonally adjusted.

Table A

Financial surplus +/deficit −

£ millions: seasonally adjusted

	1967 4th qtr.	1968 1st qtr.
Public sector	−555	−435
Overseas sector	+370	+134
Persons	+192	− 7
Companies[a]	+109	+401
Residual error	−116	− 93

a Including banks and other financial institutions.

Table B

Increases in certain liquid assets

£ millions: seasonally adjusted

	Cash[a]	Shares and deposits in building societies
1967 1st qtr.	135	224
2nd ,,	330	296
3rd ,,	515	306
4th ,,	315	273
1968 1st qtr.	145	136

a Bank deposits (in sterling and foreign currency) and notes and coin held by the private sector.

First quarter of 1968

The main features were a surge in consumers' expenditure and a rapid rise in imports. Exports rose too, but partly because goods previously held up by the strikes in the docks were now shipped. So, although total demand rose by as much as 5½%, gross domestic product increased by only 2½%, for a considerable proportion of the extra demand was met by higher imports and a reduction in stocks. The balance of visible trade improved – but only because exports were inflated by the clearance of goods after the strikes – and invisible receipts were particularly encouraging. As a result the balance of payments deficit on current account was smaller, though still remaining very large.

Personal income was much higher, but because persons spent heavily they saved a lot less and, most unusually, did not have a financial surplus. This change, together with the fall in the overseas sector's surplus, was almost matched by a big increase in the financial surplus of companies and some reduction in the public sector's deficit.

As borrowing for consumption was restricted, the increase in personal spending was at the expense of investment in financial assets – notably bank deposits and building society shares and deposits – which grew relatively slowly. Despite their large surplus, industrial and commercial companies borrowed heavily from banks; nevertheless they increased their liquid assets only moderately. The liquidity of the private sector as a whole did not increase much by recent standards: this is illustrated by the figures in Table B. Cash holdings rose by less than 1%, compared with an average quarterly rate of 2½% in 1967; and investment in building societies by 2%, compared with 4¾% a quarter on average in 1967.

Major events affecting the money and capital markets were the cuts in prospective public expenditure announced on 16th January, the international gold crisis in mid-March and the severe Budget introduced on 19th March. There was strong competition for Treasury bills, and tender rates fell, for Bank rate was expected to come down before long. (It was reduced from 8% to $7\frac{1}{2}$% on 21st March.) Local authority temporary money rates, by contrast, rose, for authorities preferred to borrow short at a time of very high interest rates, and persons, companies and building societies had less to invest.

The gilt-edged market was generally steady until temporarily upset by the scramble for gold in March; and there were large official sales after the Budget. The discount houses, insurance companies and savings banks bought stocks, but building societies – whose finances were under pressure – and pension funds sold them. The financial institutions as a whole invested less in debentures than in the previous quarter.

The institutions preferred equities. The market was firm, with many investors buying as a hedge against inflation. Share prices rose steeply early in the quarter, when the announcement of cuts in the growth of public spending was not accompanied by the immediate steps to check personal consumption expected by the market; and again in March when the gold crisis reduced confidence in the value of money. In the last few days of the quarter, hopes of economic recovery followed the Budget, and provided a fresh reason for buying. Unit trust units were in particular demand throughout, and the trusts' purchases of equities strengthened the market – as did vigorous take-over activity and the continued low level of new issues. Life assurance and pension funds, little affected by the fall in personal liquidity, also invested heavily in equities.

The transactions of individual sectors are now described in more detail, but comment on the personal sector is reserved for the special analysis of that sector's transactions in the year ended 31st March 1968, which begins on page 252.

All companies

Gross trading profits continued to rise, and income from abroad in sterling terms was greatly increased by devaluation, so, although companies paid out more dividends and interest, their saving rose appreciably.

Industrial and commercial companies

These companies accounted for the whole of the rise in company saving and, as their investment (in fixed capital and stocks) was very small, they had a much greater financial surplus – their largest in any quarter for at least eight years.

Nevertheless, they borrowed more, raising less through capital issues, for long-term interest rates were very high and might fall soon; and borrowing from banks as heavily as in the third quarter of 1967, presumably because they realised that with the reimposition of credit restrictions bank finance would probably be more difficult to obtain later in the year. The rise in their liquid assets, however, though sizable, was nothing like as great as in the third quarter of 1967, nor was it large in the light of their big financial surplus.

Though long-term investment from abroad in industrial and commercial companies was smaller, and the companies themselves invested more overseas, these and other identified transactions by no means absorbed the increase in their financial surplus and the rise in their borrowing. They may involuntarily have extended more (unrecorded) credit to other sectors; export receipts, for instance, usually lag behind shipments, and the sharp rise in shipments as the strike backlog was cleared would automatically have increased the amount of credit enjoyed by overseas customers. It is also possible that the personal sector took more credit by delaying payment of its bills.

Financial institutions other than banks

The smaller inflow of funds meant that the building societies had to run down liquid assets to honour mortgage commitments: they sold gilt-edged stocks and reduced their bank deposits and local authority debt.

By contrast, Post Office investment accounts, which offered $\frac{1}{2}$% more by way of interest from January, attracted more funds than before; and trustee savings banks also drew in more, after many had increased the rates on deposits with their special investment departments. These institutions were thus able to invest more in gilts and local authority debt.

Life assurance and pension funds also had more to invest, partly because there was a rush to take out single premium policies before the Budget. They bought more equities and lent more to local authorities, but put less into debentures (there were fewer new issues) and much less into gilt-edged stocks – pension funds, in fact, sold gilts.

Public sector

The Government's borrowing requirement was greater than in the fourth quarter, because they, in turn, lent more to public corporations and local authorities. Public corporations took more, despite their somewhat smaller financial deficit, because the British Steel Corporation repaid bank borrowing incurred by the steel companies before re-nationalisation, and the Transport Holding Company bought British Electric Traction's bus interests.

The Government continued to receive a large amount from external transactions, and were able to repay domestic debt. The banks' holdings of government debt again fell, but other holders took up more than in the previous quarter: the consumer boom brought a bigger increase in the public's holdings of notes, while national savings and tax reserve certificates also did better, and investors continued to buy gilt-edged stocks.

Banking sector

The banks' lending to the private sector increased rather more than in the previous quarter. The whole of the increase went to companies; lending to other financial institutions stopped rising and that to persons fell. Lending to the public sector also fell, and by more than in the fourth quarter, for the reduction in the banks' holdings of government debt and repayments by public corporations of bank advances were greater than a rise in the banks' lending to local authorities.

Domestic bank deposits continued to rise, though much more slowly than in the previous quarter; the increase was limited to the personal sector.

Second quarter of 1968

Domestic activity apparently rose rather less in the second quarter than in the first, mainly because personal consumption fell back from the peak before the Budget. Demand for bank advances remained strong, and restrictions on bank lending were extended on 23rd May, in order to intensify the squeeze on non-priority borrowers.[1] Sterling was weak, the gilt-edged market was depressed and, after April, the equity market lost some of its buoyancy.

The fall in personal spending, probably accompanied by a rise in incomes, brought an increase in saving, and persons seem to have built up their liquid assets at a fairly rapid pace: their bank deposits rose by three times as much as in the first quarter; and their net investment in building societies – which raised their borrowing rates on 1st May – was also considerably greater. They may have borrowed slightly less, for although their bank advances rose – after falling in the first quarter – they took much less from building societies.

Figures for bank deposits, notes and tax reserve certificates, taken together, suggest that companies may have continued to build up their liquid assets moderately. They borrowed less from banks, because bank finance was more difficult to get, but they raised more through capital issues, much of it in the form of equities, which had become a relatively inexpensive form of finance.

The Government's borrowing requirement was much smaller than in the previous quarter, because revenue rose more than expenditure and they lent less to public corporations. As external transactions again resulted in a large receipt of sterling, domestic debt continued to be reduced – and by more than in the first quarter.

The banks' holdings of government debt fell very little; but other domestic holdings, which had risen between December and March, fell considerably, mainly because investors sold gilt-edged stocks.

The banks' holdings of central government debt fell more slowly in the second quarter and their lending to public corporations much more slowly; so, despite a smaller increase in their lending to local authorities, their public sector debt in total fell less than in the first quarter – by only half as much. Bank lending to the private sector, however, continued to increase rapidly. The rise in domestic deposits was much greater than in the first quarter; taking this together with the rise in the public's holdings of notes and coin, the money supply went up by 2½% compared with less than 1% in the first quarter.

Banking sector: net sterling deposits and sterling lending

This section of the analysis deals with movements in the net sterling deposits and sterling assets of the banks in the second quarter. The relevant figures, which are shown

1 June *Bulletin*, page 120.

in detail in Table F, are not seasonally adjusted.

Total net sterling deposits with the banks rose by £385 million in the second quarter, somewhat less than a year earlier. Domestic deposits rose slightly more than in the

Table C

Changes in net sterling deposits with the banking sector

£ millions[a]

	1967 2nd qtr.	1968 2nd qtr.
U.K. residents:		
Persons	+240	+295
Industrial and commercial companies	+ 90	+120
Financial institutions	+ 95	+ 55
Total private sector	+425	+470
less foreign currency	+ 15	+ 25
Total private sector net sterling deposits	+410	+445
Total public sector net sterling deposits	− 5	− 5
Total net sterling deposits of U.K. residents	**+405**	**+440**
Overseas	+ 5	− 55
Total net sterling deposits with the banking sector	**+410**	**+385**

a Rounded to nearest £5 million.

second quarter of 1967 – persons and companies deposited more, financial institutions less – but overseas residents ran their deposits down by £55 million, whereas a year earlier there had been little or no net change (see Table C). The rise in company deposits, although larger than a year earlier, was smaller than in the third and fourth quarters of 1967 (see Table F).

Table D

Changes in sterling assets of the banking sector

£ millions[a]

	1967 2nd qtr.	1968 2nd qtr.
Sterling lending to the private sector:		
Persons:		
Advances	+ 90	+ 65
Call money	− 25	—
Other private	− 25	+215
Total private sector	**+ 40**	**+280**
Sterling lending to the overseas sector	+ 20	+120
Central government debt	+395	+ 65
Local government debt	− 35	+ 30
Lending to public corporations	—	− 5
Total sterling assets	**+420**	**+490**
Total net sterling deposits	+410	+385
Difference between total sterling assets and total net sterling deposits	− 10	−105
of which: switching out of sterling into foreign currency+	*+ 5*	*− 80*

a Rounded to nearest £5 million.

The rise in bank lending to the private sector was much larger than in the second quarter of 1967; indeed, it was larger than in any quarter since then, except for the first quarter of 1968, when the payment of taxes during the main revenue season partly accounted for a sharp increase. Most of the increase in the second quarter of this year was to corporate businesses – included in Table D with financial institutions under "other private" – and within it there was a substantial amount of lending to finance exports. But there was also a rise in advances to persons. Sterling lending to overseas was particularly heavy, and this may also have included some finance for U.K. exports. There was an increase too in local authority debt – the clearing banks and other deposit banks reduced their lending but the accepting houses, overseas banks and other banks, which switched some foreign currency deposits into sterling, increased theirs.

The banks' increased lending to the private sector, to overseas, and to local authorities more than made up for a smaller rise in their holdings of central government debt (as noted earlier the Government received a large amount of sterling from external transactions). The banks' total sterling assets rose a little more than a year earlier.

Personal sector: April 1967–March 1968

By far the most important event in the twelve-month period ended last March was the devaluation of sterling in November 1967. Earlier, there had been some relaxation of economic and monetary policy – Bank rate had come down by ½% to 5½% in May, hire purchase and credit restrictions had been eased and the six-month period of severe restraint on incomes had ended – and personal consumption had risen quite sharply. But policy had begun to change direction before devaluation; in October and November Bank rate was raised to 6½% in two steps.

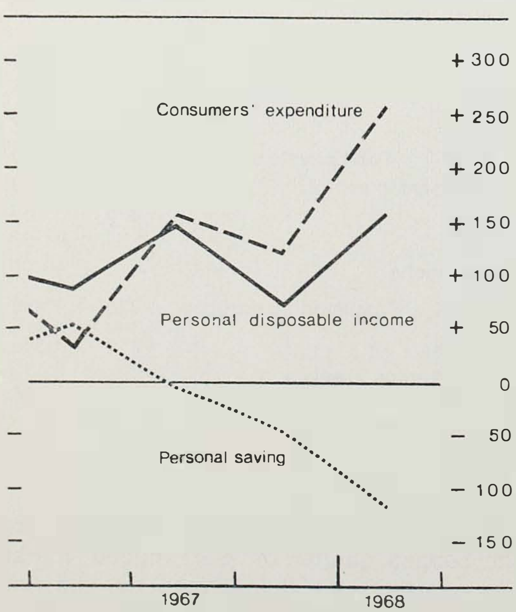
Devaluation was accompanied by 8% Bank rate, tighter hire purchase regulations and new ceilings on lending by the banks and finance houses. It was followed by an exceptionally big increase in consumers' expenditure, for people realised that prices were bound to rise as a result of devaluation, and would go up further if taxes were increased at the Budget – as indeed happened.

The effects of changes in income and consumption on the financial surplus of the personal sector, and on the allocation of the surplus between the various financial assets and liabilities, are now discussed in detail. The discussion is in seasonally adjusted terms throughout.

Income, consumption and saving

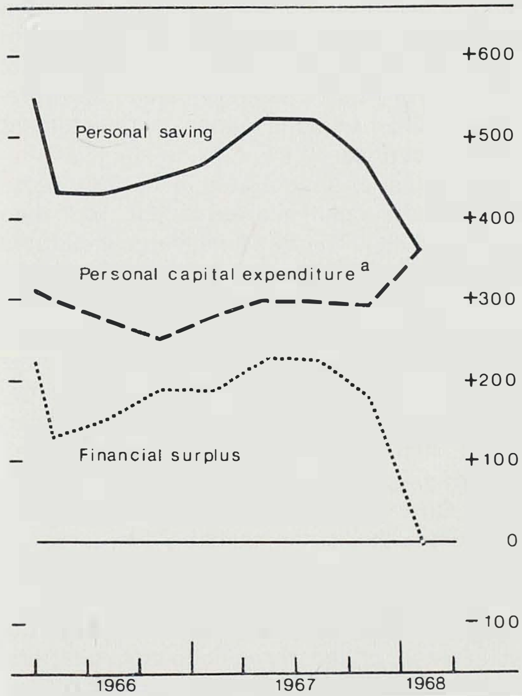
Income[1] rose throughout the period, particularly in the third quarter of 1967 after the end of severe restraint, and in the opening months of 1968 when economic activity quickened. Except in the second quarter of 1967, however, consumption rose faster than incomes; at first this was mainly because people were able to borrow more; later, people elected to buy goods before prices went up, rather than maintain their rate of saving – indeed, some probably ran down savings. The savings ratio fell from 7¾% in the second quarter of 1967 to 5% in the first quarter of 1968 – the lowest quarterly figure for eight years.

Quarterly changes: seasonally adjusted £ millions



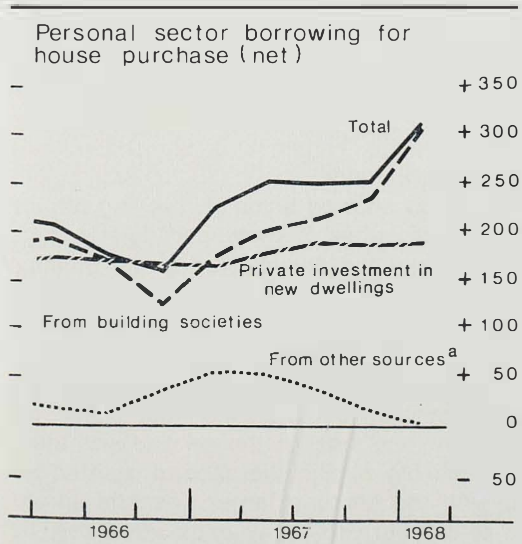
1 Disposable income; that is, after deducting taxes on income, national insurance and health contributions, and transfers abroad.

Seasonally adjusted £ millions



a Including capital transfers.

Seasonally adjusted £ millions



a Banks, insurance companies and local authorities.

Financial surplus

Over the first three quarters of the period the sector's fixed investment and stockbuilding (comprising capital expenditure by unincorporated businesses as well as investment in dwellings by persons) was roughly constant. Thus, the financial surplus moved almost exactly in line with saving. However, in the first quarter of 1968, both fixed investment and stockbuilding were greater – the latter, perhaps, because shopkeepers were stocking up in anticipation of price increases. This, combined with the sharp fall in saving, resulted in a small financial deficit – only the second time since the beginning of 1960 that the sector has been in deficit.

Borrowing for house purchase

Borrowing for house purchase increased in the spring of 1967, and then continued at much the same rate until early in 1968, when it rose sharply. As usual, the determining factor was what could be obtained from building societies, the main source of private housing finance. The societies' liquidity ratio had become relatively low by the beginning of 1967, and when the inflow of funds improved they at first increased their lending only slowly, partly no doubt in order to restore the position. But they were also extending their commitments to lend, and mortgages rose sharply in the first quarter of 1968.

Borrowing for house purchase from other sources fell away because of restrictions on lending by local authorities; most of the available local authority funds were used up early in the period.

Other borrowing

This consists mainly of borrowing by consumers through bank advances and hire purchase, and by unincorporated businesses from banks, including borrowing at call by stockbrokers.

Ceilings on lending by the London clearing banks and the Scottish banks were removed in April 1967 – though banks were reminded of the need for continued restraint in lending for non-priority purposes. Hire purchase terms were also eased in June and August. Borrowing by consumers ceased to fall and increased substantially until new restrictions were imposed in November. Even then, hire purchase debt continued to rise in the first quarter of 1968, though the rise in bank borrowing to finance consumption ceased.

Borrowing by unincorporated businesses followed a similar trend, rising until early in 1968, and then falling a little.

Marketable securities

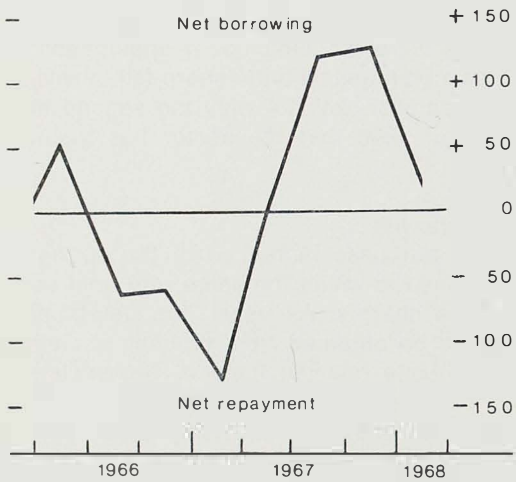
Marketable securities in this context comprise equities and debentures (both domestic and overseas issues), gilt-edged stocks, overseas government bonds and unit trust units.[1] Except for the last named, the figures are derived as residuals from transactions by other sectors.

In recent years the personal sector itself has generally been a net seller of U.K. equities and gilt-edged stocks.

1 The figures exclude marketable securities of local authorities, which cannot be distinguished from other personal holdings of local authority debt.

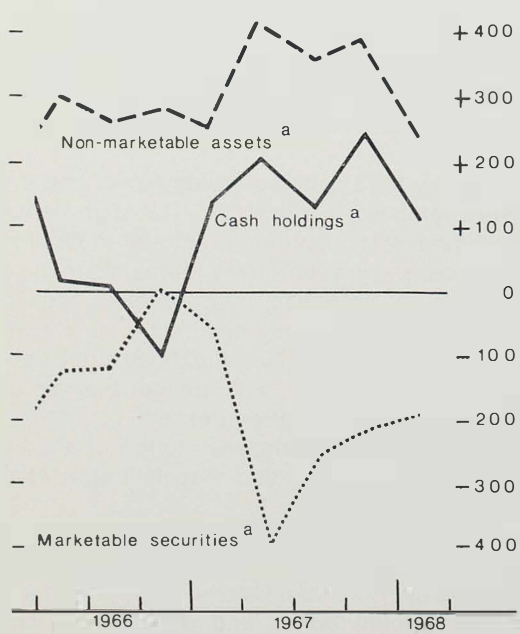
Seasonally adjusted £ millions

Other personal sector borrowing



Quarterly changes:
seasonally adjusted £ millions

Personal sector: financial assets



a Defined in the text.

Purchases of U.K. equities and debentures by financial institutions, taken together, generally far exceed new issues, while companies themselves also buy shares, especially through take-overs – so that persons' own holdings have declined. However, the growth of contractual saving through life assurance and pension funds, the success of investment and unit trusts, and the steady flow of funds into special investment departments of trustee savings banks, all represent indirect investment by persons either in government stocks or in company securities.

In total, personal sales of marketable securities were exceptionally large in the second quarter of 1967, but then became progressively smaller. The trend was largely dictated by transactions in gilt-edged stocks. In the second quarter of 1967 when there was a reversal of market sentiment personal sales were very heavy as many who had bought gilts in the preceding quarter disposed of them. In the next two quarters personal sales of gilts were also rather large, though it should be borne in mind that the figures discussed here do not include well over £200 million of gilt-edged stock acquired by persons through the conversion of steel securities into gilts.[1] On the other hand, in the first quarter of 1968 persons bought gilts – some probably just after the Budget, when investors thought that yields were unlikely to rise further.

Persons sold U.K. debentures in the second quarter of 1967, but bought in each of the three following quarters, especially between October and December, when new issues were heavy. They were sellers also of overseas securities until the fourth quarter of 1967, when Australian securities became particularly popular. Sales of U.K. equities continued to be large throughout the period, particularly in the first quarter of 1968, when some people may have chosen to realise capital gains to finance spending, and others appear to have turned to gilts or (as noted earlier) to have taken out single premium insurance policies. There was also keener competition from the institutions for equities at a time when new issues remained small. During the year people increased their investment in unit trusts, especially in the first quarter of 1968.

Life assurance and pension funds

Investment in these funds showed signs of levelling off until the first quarter of 1968, when it grew particularly large, partly it seems because of the demand for single premium policies.

Cash holdings

The sector's cash holdings (notes and coin, bank deposits, and deposits in ordinary accounts at the Post Office and trustee savings banks) rose most in the second and fourth quarters of 1967. The big rise in the second quarter was partly associated with the sector's larger financial surplus and the absence of pressure to repay bank advances, but in the main was probably due to a desire to be liquid; as noted earlier, personal sales of marketable securities

1 June *Bulletin*, page 133 (Table L).

were particularly heavy. The increase in the fourth quarter is difficult to explain, as fewer marketable securities were sold than in earlier quarters, and the sector's financial surplus declined. It is possible that people and unincorporated businesses, wishing to become more liquid, delayed paying bills – thus obtaining unrecorded trade credit – or it may simply be that the figure for personal savings in the national income accounts has been underestimated.

In the first quarter of 1968 cash holdings rose relatively little. Banks were again restricting advances, and personal sales of marketable securities as a whole were not particularly large; but it is also plain that people preferred to hold goods rather than cash, at a time when prices were expected to rise.

Other financial assets

These are non-marketable assets comprising national savings securities, deposits in Post Office investment accounts and with special investment departments of trustee savings banks, tax reserve certificates, building society shares and deposits, deposits with hire purchase finance companies, and local authority debt. They are mainly short term and generally fairly liquid in character. During the year under discussion, such assets moved in the same direction, and to much the same extent, as cash holdings – probably for the same reasons. This is in contrast to past experience, when these assets have generally fluctuated much less than cash holdings;[1] it may be that with growing sophistication, following a long period of high interest rates, people now tend to hold proportionately less in cash and more in such assets.

Fluctuations during the year under review were mainly in building society shares and deposits and in lending to local authorities. It is noteworthy that in the first quarter of 1968, when investment in building societies was relatively small and less money was placed with local authorities, deposits in Post Office investment accounts and in special investment departments of trustee savings banks rose more than in the previous quarter, while national savings improved a little. This was partly because rates on savings bank deposits were raised, but a more general explanation may be that the building societies and local authorities normally attract short-term savings to a greater extent than do national savings or savings bank investment accounts – withdrawals from which generally require longer notice or incur greater penalties by way of forgoing interest or bonus.

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Table E
Sector financing: quarterly figures

£ millions: not seasonally adjusted

	Line	Public sector 1967 4th qtr.	Public sector 1968 1st qtr.	Public sector 1968 2nd qtr.	Overseas sector 1967 4th qtr.	Overseas sector 1968 1st qtr.	Overseas sector 1968 2nd qtr.
Financial surplus +/deficit —							
Saving	1	+150	+1,452				
Taxes on capital and capital transfers	2	— 84	— 54				
less:							
Gross fixed capital formation at home	3	—942	— 998				
Increase in value of stocks and work in progress	4	— 6	+ 6				
Financial surplus +/deficit —	5	**—882**	**+ 406**		**+305**	**+147**	
Changes in financial assets and liabilities							
assets increase +/decrease — liabilities increase —/decrease +							
Net indebtedness of Government to Bank of England, Banking Department	6	— 36	+ 135	—183			
Life assurance and pension funds	7						
Government loans	8	+ 27	+ 21		— 29	— 12	
Gold and foreign exchange reserves	9	— 57[a]	+ 11	— 16	+ 57[a]	— 11	+ 16
Government transactions with I.M.F.	10	+126	— 4		—126	+ 4	
Miscellaneous investment overseas (net)[b]	11	— 99	— 24		+112	—114	
Notes and coin	12	—194	+ 108	— 80			
Bank deposits[c]	13	— 2	— 40	— 5	+104	+627	+1,079
Deposits with other financial institutions	14				+ 6	— 22	
Non-marketable government debt	15	— 2	+ 110	+ 1			
Bank lending[c]	16	— 27	+ 95	+ 15	—262	—640	—1,165
Hire purchase debt	17	+ 1	+ 3				
Loans for house purchase	18	+ 9	— 2				
Other loans	19	— 69	+ 93				
Marketable government debt:							
Treasury bills	20	—253	+ 79	+ 77	+467	+458	— 220
Stocks	21	—297	+ 14	+500	— 8	+ 9	— 89
Local authority debt	22	—115	— 184		— 17	— 1	
U.K. company and overseas securities:							
Capital issues	23				— 47	— 59	— 76
Other transactions	24	+ 5	+ 45		— 10	— 4	
Unit trust units	25						
Identified financial transactions	26	**—983**	**+ 460**		**+247**	**+235**	
Unidentified	27	**+101**	**— 54**		**+ 58**	**— 88**	
Total = Financial surplus +/deficit —	28	**—882**	**+ 406**		**+305**	**+147**	

a Including not only the change in the reserves (an increase of 147), but also the transfer of the remainder of the Government's portfolio of dollar securities (204).
b See footnote e 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).

Private sector

Persons			Industrial and commercial companies			Banks			Other financial institutions			
1967	1968		1967	1968		1967	1968		1967	1968		
4th qtr.	1st qtr.	2nd qtr.	4th qtr.	1st qtr.	2nd qtr.	4th qtr.	1st qtr.	2nd qtr.	4th qtr.	1st qtr.	2nd qtr.	Line
+357	+600		+997	+217		+155	−135					1
− 25	− 50		+109	+104								2
−231	−255		−614	−560		− 56	− 61					3
− 8	− 65		−110	− 33								4
+ 93	**+230**		**+382**	**−272**		**+ 99**	**−196**					5
						+ 36	− 135	+ 183				6
+330	+390								−330	−390		7
− 1	—		+ 2	− 9					+ 1	—		8
												9
												10
			− 19	+138					+ 6	—		11
+ 28	+ 19	+ 31	+ 28	+ 20	+ 30	+138	− 147	+ 19				12
+310	+ 3	+295	+155	−251	+123	−604	− 274	−1,545	+ 37	− 65	+ 53	13
+331	+212		+ 22	− 21					−359	−169		14
− 16	− 5	− 15	+ 17	− 90	+ 14	+ 1	− 13	—	—	− 2	—	15
− 47	− 36	− 55	− 60	−401	−123	+413	+1,009	+1,429	− 17	− 27	−101	16
− 66	+ 4		+ 64	− 22					+ 1	+ 15	+ 5	17
−265	−257					+ 5	− 5	+ 10	+251	+264		18
+ 33	− 57		− 12	− 77		+ 2	− 10	+ 5	+ 46	+ 51		19
			− 12	− 4		−194	− 520	+ 171	− 8	− 13		20
− 49	− 1					+182	− 47	− 301	+172	+ 25		21
+117	+ 40		+ 32	− 11		+ 51	+ 143	+ 28	− 68	+ 13		22
			−113	− 55	−107	—	− 1	− 6	− 23	− 26	− 13	23
−156	−266		+ 78	+ 81		+ 3	+ 11	+ 21	+263	+274		24
+ 29	+ 51	+ 67							− 29	− 51	− 67	25
+578	**+ 97**		**+182**	**−702**		**+ 33**	**+ 11**	**+ 14**	**− 57**	**−101**		26
−485	**+133**		**+200**	**+430**		**+123**	**−106**					27
+ 93	+230		+382	−272		+ 99	−196					28

Table F
Banking sector[a]

£ millions[b]: not seasonally adjusted

	1965	1966	1967		
	2nd qtr.	2nd qtr.	2nd qtr.	3rd qtr.	4th qtr.
Changes in net sterling deposits with the banking sector					
U.K. residents	+375	+140	+405	+555	+440
Overseas	+ 50	− 40	+ 5	−155	− 95
Total	**+425**	**+100**	**+410**	**+400**	**+345**
Changes in net sterling deposits of U.K. residents					
Persons	+165	+ 45	+240	+130	+310
Industrial and commercial companies	+140	− 20	+ 90	+400	+155
Financial institutions	+ 50	+ 30	+ 95	+ 55	+ 35
Total private sector	+355	+ 55	+425	+585	+500
less foreign currency	+ 15	—	+ 15	+ 10	+ 60
Total private sector net sterling deposits	+340	+ 55	+410	+575	+440
Total public sector net sterling deposits	+ 35	+ 85	− 5	− 20	—
Total net sterling deposits of U.K. residents	**+375**	**+140**	**+405**	**+555**	**+440**
Changes in sterling assets of the banking sector					
Central government debt[c]	+360	+ 30	+395	+ 35	+165
Local government debt[d]	−130	+ 50	− 35	+175	+ 50
Nationalised industries	+ 30	− 30	—	− 5[e]	+ 35
Other public corporations	− 5	+ 5	—	+ 20	− 5
Sterling lending to the private sector[f]	+200	+ 35	+ 40	+155[e]	+ 90
Sterling lending to the overseas sector[g]	− 10	+ 15	+ 20	− 10	+ 10
Total of identified sterling assets	+445	+105	+420	+370	+345
Difference between identified assets and deposits	− 20	− 5	− 10	+ 30	—
of which: switching out of sterling into foreign currency[h]	*+ 85*	*+ 90*	*+ 5*	*+ 30*	*+ 65*
Total	**+425**	**+100**	**+410**	**+400**	**+345**
Changes in sterling lending to the private sector					
Persons and unincorporated businesses:					
Advances	−130	+ 40	+ 90	+ 70	+ 10
Call money	− 5	—	− 25	—	+ 40
Other private	+335	− 5	− 25	+ 85	+ 40
Total private sector	**+200**	**+ 35**	**+ 40**	**+155**	**+ 90**

a As in Table 8 of the annex.
b Rounded to the nearest £5 million.
c Cash transactions only – the figures 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 Including overseas securities.
h 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.

1968 1st qtr.	1968 2nd qtr.
−335	+440
− 25	− 55
−360	**+385**
+ 5	+295
−250	+120
− 65	+ 55
−310	+470
− 15	+ 25
−295	+445
− 40	− 5
−335	**+440**
−865	+ 65
+135	+ 30
− 95	− 5
—	—
+420	+280
− 30	+120
−435	+490
+ 75	−105
+ 85	*− 80*
−360	**+385**
+ 25	+ 65
+ 10	—
+385	+215
+420	**+280**

Notes on sources and definitions[1]

Sources

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

Definitions (line numbers refer to Table E)

Public sector The central government, local authorities and public corporations.

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, authorised unit trusts, property 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, 4th qtr. 3; 1968, 1st qtr. —315).

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 inter-government 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.

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 June 1968 *Bulletin*, page 144.

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

Capital issues 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); capital issues by U.K. companies in overseas centres are also included here. The entries for persons are residuals.

Line 25 Unit trust units Purchases less sales of units of authorised unit trusts. 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.