Analysis of financial statistics: April-June 1968

The first part of this analysis describes the transactions of the various sectors in the second quarter of this year; it is followed by some preliminary comments on the third quarter. The discussion is, as usual, in seasonally adjusted terms but, for the first time, the tables accompanying the text include seasonally adjusted figures for the financial transactions of the sectors.

These seasonally adjusted figures must be regarded with some caution. The present seasonal adjustments are in most cases necessarily derived from runs of figures covering no more than five years, a period in which the financial system underwent considerable change, and in which a number of far-reaching measures, such as the introduction of corporation tax, led to a marked change in the pattern of tax payments by companies. Moreover, since the unadjusted financial flow figures are inter-related by row and by column, it has been necessary to ensure that the seasonal adjustments reflect this. Thus, notwithstanding the technique by which the seasonal adjustments have been established, there is still considerable doubt about them; more figures and further experience will be necessary before they can be applied with any great assurance.

Nevertheless, there seems value in using the seasonally adjusted figures, albeit cautiously, to attempt to describe the financial flows that have occurred during this year. As usual, however, the unadjusted quarterly figures are shown in detail in Table L at the end; the table is accompanied by notes on sources and definitions.

A discussion of changes in sterling bank deposits and in the banking sector's sterling lending in the third quarter of this year begins on page 368; this is based on unadjusted figures, which are set out in detail in Table M. It is followed by a section dealing with changes in the money supply.

Second quarter of 1968

Provisional national accounts statistics suggest that most categories of demand (at constant prices) fell in the second quarter. In particular, consumers' expenditure dropped sharply and exports were lower – although only because in the previous quarter they had been inflated by shipments delayed earlier by the strikes in the docks; while, to a lesser extent, private and public fixed investment also fell. The fall in demand was partly reflected in a rise in stocks of finished goods. As measured from expenditure data, gross domestic product fell sharply, by 1½%, but the other two measures[1] showed differing movements, and the combined evidence indicates a much smaller fall. A modest increase in the visible trade deficit was matched by larger U.K. receipts from abroad of interest, profits and dividends, so that the balance of payments deficit on current account was virtually unchanged.

The national income figures show that the public sector

1 The volume of output, and statistics of incomes.

Table A

Financial surplus + / deficit –

£ millions: seasonally adjusted

	1968 1st qtr.	1968 2nd qtr.
Public sector	–466	–346
Overseas sector	+168	+169
Private sector	+434	+499
of which:		
Persons	*+ 20*	*+301*
Companies[a]	*+414*	*+198*
Residual error	–136	–322

a Including banks and other financial institutions.

had a smaller financial deficit than in the first quarter, so, with the surplus of the overseas sector unchanged, some deterioration in the private sector's surplus might have been expected. The estimates show, however, an improvement for the private sector – a smaller surplus for companies, but a considerably bigger one for persons – with the discrepancy taken up in a much larger residual error.

The improvement in the position of the public sector is borne out by the total of its identified financial transactions (Table F). The balancing item in the balance of payments estimates suggests that the overseas sector's surplus in the second quarter may have been overstated, but it is highly probable that there was also an overall deterioration in the position of the private sector. This means that private expenditure has been pitched too low or incomes too high.

A general feature of the first quarter was the relatively small increase in liquid assets, particularly the private sector's bank deposits. By contrast, and despite the probable fall in the private sector's surplus, there was a sharp rise in liquid assets in the second quarter. For persons (who had a larger surplus) this reflected the fall in spending after the Budget and large sales of gilt-edged stocks. Industrial and commercial companies (whose surplus was smaller) invested less overseas and – as described later – apparently benefited from some repayment of trade credit extended to persons. Financial institutions (other than banks) increased their short-term assets – partly because building societies attracted more funds but lent less to persons.

The increased liquidity all round in the second quarter made it easier for local authorities to borrow temporary money. Interest rates on seven-day money – which forms the greater part of their temporary borrowing – fell; but rates on three months' money rose slightly, in line with Treasury bill rates, for there was still much uncertainty about the economy and the market saw little prospect of a further reduction in Bank rate at that time.

One reason for the sharp rise in bank deposits was a big increase in bank lending to the private sector; less essential lending was restrained further on 23rd May. Another was a substantial reduction in government debt held outside the banking sector, partly through net withdrawals from national savings, but mainly through sales of gilt-edged. The gilt-edged market was depressed by uncertainty, especially in June when the trade figures for May showed no improvement and industrial disputes were on the increase. Persons sold gilts heavily and financial institutions did not buy many. Yields generally rose by about ½%, to almost 8%.

The market in company debentures was fairly quiet; there was a slight fall in new issues, but the financial institutions bought more. The equity market continued strong at first, but was more hesitant after April because of doubts about company prospects and through profit-taking. There were also more new issues, for equities to some extent returned to favour at the expense of debentures.[1] Financial institutions bought more U.K. shares than in the first quarter and persons continued to buy Australian equities.

1 September *Bulletin*, page 243.

Personal sector

Consumption fell away because much of the spending earlier had been anticipatory, and because of the tax increases imposed in the Budget. Incomes were slightly higher, so saving was much greater. As already noted, according to national income statistics persons had a very large financial surplus.

However, their identified financial transactions do not show so large an improvement. Persons may have used part of the surplus to settle for goods bought in the rush before the Budget, thus in effect repaying trade credit extended by companies – which is not identified in the statistics. Furthermore, as already discussed, the national income statistics show too large a surplus for the private sector, and part of the error may be in the personal sector.

Persons borrowed less: their debt to banks increased, after having fallen in the first quarter, but they borrowed less from building societies and they repaid hire purchase debt. Their total holdings of short-term financial assets – such as bank deposits, building society shares and local authority debt – rose steeply, not only because they had a bigger surplus, but also because they invested less of it in life assurance (many people had taken out single premium policies before the Budget) and augmented it with large sales of gilt-edged stocks.

Table B

Personal sector

£ millions: seasonally adjusted[a]

	1967	1968	
	4th qtr.	1st qtr.	2nd qtr.
Saving	+469	+392	+674
Capital transfers	− 26	− 49	− 57
Capital expenditure	−276	−323	−316
Financial surplus	**+167**	**+ 20**	**+301**
Borrowing –			
For house purchase	−264	−278	−243
Bank borrowing[b]	− 83	+ 21	− 38
Hire purchase debt	− 44	− 33	+ 28
Other	− 28	− 17	+ 16
	−419	**−307**	**−237**
Acquisition of financial assets +			
Life assurance and pension funds	+349	+405	+350
Government stocks	− 49	− 2	−127
Company and overseas securities	−155	−238	−228
Unit trust units	+ 29	+ 51	+ 67
Bank deposits, notes and coin	+217	+118	+291
Building society shares and deposits	+273	+136	+211
National savings	− 25	− 8	− 59
Other assets	+174	+101	+152
	+813	**+563**	**+657**
Identified financial transactions	**+394**	**+256**	**+420**
Unidentified	−227	−236	−119

a Because they are given as seasonally adjusted, no importance should be attached to the apparent precision of the figures in this table.
b Other than for house purchase.

All companies

Gross trading profits fell after the busy first quarter, and dividend payments remained at about the quarterly average

Table C
All companies
£ millions: seasonally adjusted

	1968 1st qtr.	1968 2nd qtr.
Gross trading profits	1,384	1,319
Other current income	811	854
	2,195	**2,173**
Dividends and interest	762	773
U.K. taxes	264	273
Profits due, and taxes paid, abroad	217	237
	1,243	**1,283**
Saving	**952**	**890**

for 1967. As a result, and despite some increase in income from abroad, company saving fell.

Industrial and commercial companies

This group of companies saved somewhat less and added much more to their stocks – mainly finished goods held by manufacturers – so their financial surplus fell. As their identified financial transactions were more or less the same in total as in the first quarter, however, the unidentified element was much smaller. In part this may have been, as suggested above, because companies were receiving payment from persons for goods sold before the Budget. Moreover, the unidentified item in the first quarter may have included a large increase in (unrecorded) credit extended to overseas customers.[1]

Companies found it more difficult to borrow from the banks, and turned to new capital issues. They received more by way of long-term investment from abroad, and in total their liabilities rose rather more than in the first quarter.

They also increased their holdings of financial assets more. Within the total, they built up their liquid assets substantially. And, on balance, they bought twice as many company securities, partly because some companies took up their entitlements to rights issues by their subsidiaries.[2] But companies invested less abroad, both at long and short term.

Table D
Industrial and commercial companies
£ millions: seasonally adjusted[a]

	1967 4th qtr.	1968 1st qtr.	1968 2nd qtr.
Saving	+753	+862	+799
Capital transfers	+111	+104	+107
Capital expenditure	−726	−571	−733
Financial surplus	**+138**	**+395**	**+173**
Increase in liabilities –			
Overseas investment in U.K. companies	−104	+ 46[b]	−103
Borrowing from banks	− 54	−231	−110
Other borrowing	− 16	− 32	− 60
Capital issues	−127	− 46	−128
	−301	**−355**	**−401**
Acquisition of financial assets +			
Bank deposits, notes and coin	− 34	+ 19	+216
Liquid assets[c]	+ 35	+ 26	− 23
Investment abroad[d]	+144	+236[b]	+133
Company securities	+ 85	+ 40[e]	+ 87
Other[f]	+ 23	+ 5	− 48
	+253	**+326**	**+365**
Identified financial transactions	**− 48**	**− 29**	**− 36**
Unidentified	+186	+424	+209

a Because they are given as seasonally adjusted, no importance should be attached to the apparent precision of the figures in this table.

b The U.K. share (35) of the Royal Dutch/Shell Group's take-up of a rights issue by Shell Oil Company of the United States is counted as investment abroad, while the Dutch share (53) is counted as disinvestment in the United Kingdom (a fall in company liabilities).

c Deposits with other financial institutions, tax reserve certificates, Treasury bills and local authority debt.

d Including net short-term claims.

e Net of British Electric Traction's sale of its bus interests (35).

f Hire purchase lending by shops, and trade credit extended to public corporations.

1 September *Bulletin*, page 249.

2 As capital issues are recorded gross, any that are taken up within the company sector are included in Table D within "company securities".

Financial institutions other than banks

Although life assurance funds increased less, and other institutions lost overseas funds, financial institutions collectively took in more funds than in the first quarter. This was mainly because they borrowed heavily from banks. In addition, building societies – which raised their rates on shares and deposits in May – and unit trusts drew in more from persons.

There were divergent patterns of investment too. In total, the institutions' short-term assets rose, after falling in the first quarter. The biggest increase was for building societies, which received more funds while lending less on mortgage; on the other hand, insurance companies, with less to invest, ran down their bank deposits.

The institutions bought even fewer gilts than in the previous quarter. Insurance companies preferred long-term local authority debt, as did both the Post Office for investment account monies and the trustee savings banks for funds in their special investment departments. But pension funds, which had sold gilts in the first quarter, made sizable purchases, and sales by building societies were smaller.

Pension funds also bought more debentures than in the first quarter, but fewer equities. Nevertheless, the institutions in aggregate bought more equities, for investment trusts and unit trusts were keen buyers.

Table E

Other financial institutions

£ millions: seasonally adjusted[a]

	1967 4th qtr.	1968 1st qtr.	1968 2nd qtr.
Sources of funds (increase —)			
Life assurance and pension funds	—349	—405	—350
Building society shares and deposits	—273	—136	—211
Other deposits	— 87	— 30	+ 18
Capital issues	— 23	— 26	— 13
Unit trust units	— 29	— 51	— 67
Other (mainly bank) borrowing	— 21	+ 1	—104
	—782	**—647**	**—727**
Increase in financial assets +			
Short-term assets[b]	— 50	— 30	+ 20
Government stocks	+172	+ 26	+ 17
Company and overseas securities:			
Ordinary shares	+178	+187	+210
Debentures etc.	+ 86	+ 45	+ 84
Loans for house purchase	+250	+281	+231
Local authority mortgages and securities	— 3	+ 11	+ 36
Lending on hire purchase	+ 27	+ 17	— 22
Other lending (net)	+ 36	+ 58	+ 54
	+696	**+595**	**+630**

a Because they are given as seasonally adjusted, no importance should be attached to the apparent precision of the figures in this table.

b Bank deposits, tax reserve certificates, Treasury bills and local authority temporary money.

Public sector

Higher saving – partly because of a rise in the central government's revenue – accounted for most of the reduction in the public sector's deficit.

However, external transactions provided much less sterling for the Government than in the first quarter. This was not because of any improvement in the balance of payments on current account, but because there were smaller outflows of long- and short-term capital from the private sector. At the same time, overseas funds were withdrawn from local authorities.

As a result, the public sector's domestic debt increased a little in total, whereas in the first quarter it had fallen quite sharply. Within the total, public corporations repaid less to the banks so, with their financial surplus little changed, they drew less from the central government and thus reduced the Government's own need for finance. Local authorities borrowed about as much as in the first quarter from the Government through the Public Works Loan Board, though they borrowed more – mainly temporary money – from outside the banks to replace overseas funds. The Government were able to repay about as much domestic debt as in the first quarter.

The whole of the reduction in the Government's domestic debt was in that held outside the banks. Notes[1] and coin held by the public continued to rise, though not as much as in the previous quarter when consumers' expenditure was exceptionally heavy; but other forms of debt, particularly national savings – reduced by defence bond maturities – and gilt-edged stocks were run down.

Table F

Public sector

£ millions: seasonally adjusted[a]

	1967 4th qtr.	1968 1st qtr.	1968 2nd qtr.
Saving	+538	+575	+678
Capital transfers	− 85	− 55	− 50
Capital expenditure	−959	−986	−974
Financial deficit	**−506**	**−466**	**−346**
External transactions			
(increase in liabilities −)			
Central government[b]	−420	−624	−386
Local authorities	+ 17	—	+ 55
	−403	**−624**	**−331**
Domestic borrowing —			
Central government:			
From banks	+215	+229	− 6
Other	−100	− 66	+140
Local government[c]	−196	−143	−217
Public corporations[d]	− 20	+101	+ 53
	−101	**+121**	**− 30**
Lending etc. +	**+ 36**	**+ 23**	**+ 13**
Identified financial transactions	**−468**	**−480**	**−348**
Unidentified	− 38	+ 14	+ 2

a Because they are given as seasonally adjusted, no importance should be attached to the apparent precision of the figures in this table.
b As in Table 1 of the statistical annex, roughly seasonally adjusted.
c Including the Northern Ireland central government.
d From companies (through trade credit) and banks.

1 Liabilities of the Issue Department of the Bank of England, which is here included in central government.

Banking sector

In total, the banks' holdings of public sector debt were unchanged, after having fallen sharply in the previous quarter. However, the banks lent more in total to the private sector – less to industrial and commercial companies but more to persons and much more to financial institutions. Some of this private lending, however, was at the end of the quarter, and seems to have been reversed early in July. It may be, therefore, that an exceptional amount was borrowed from the banks for 'window dressing' purposes.

The banks' domestic deposits rose by an exceptionally large amount; over half the rise was from the personal sector, but there was also a substantial increase in companies' deposits.

Table G

Banking sector

£ millions: seasonally adjusted[a]

	1967	1968	
	4th qtr.[b]	1st qtr.	2nd qtr.
Increase in assets +			
Government debt	−215	−229	+ 6
Other lending to public sector	+105	− 14	+ 50
Lending to private sector[c]	+168	+208	+285
Net claims on overseas[c]	+ 81	+110	+124
	+139	**+ 75**	**+465**
Increase in liabilities —			
Domestic deposits	−157	− 44	−448
Capital issues	—	− 1	− 6
	−157	**− 45**	**−454**

a Because they are given as seasonally adjusted, no importance should be attached to the apparent precision of the figures in this table.

b Excluding revaluation of foreign currency items at 18 November.

c Including securities.

Third quarter of 1968

Economic activity seems to have quickened again in the third quarter, because of a resurgence of consumer spending and higher exports. The announcement of the new Basle facility in July and its confirmation in September, together with the improvement in the visible trade balance, strengthened both sterling and the gilt-edged market. Bank rate was reduced from 7½% to 7% on 19th September.

Persons borrowed more from banks than in the second quarter[1] but less from building societies. Largely because of the rise in consumption, the increase in persons' liquid assets – taking in aggregate notes, bank deposits, national savings and investment in building societies – appears to have been somewhat smaller than in the second quarter.

Industrial and commercial companies raised more through capital issues, but they repaid bank debt. It seems that their liquid assets – notes, bank deposits and tax reserve certificates – fell.

The Government's borrowing requirement was much smaller than in the second quarter. Over half the improvement was due to a greater net contribution from selective employment tax and rises in revenue brought about by

1 The increase was, however, all in call money (to stockbrokers, jobbers, money brokers, bullion dealers and the like) the sector allocation of which is open to some doubt; personal advances rose by about as much as in the second quarter.

Table H

Central government/banks

£ millions: seasonally adjusted[a]

Increase in liabilities –	1968 2nd qtr.	1968 3rd qtr.
Central government		
External transactions	−386	+146
Domestic borrowing:		
From banks	− 6	−253
Other	+140	+ 7
Borrowing requirement	**−252**	**−100**
Banking sector		
Government debt	+ 6	+253
Lending to:		
Other public sector	+ 50	+156
Private sector[b]	+285	− 74
Net claims on overseas[b]	+124	− 92
	+465	**+243**
Domestic deposits	−448	−180
Capital issues	− 6	− 16

a Because they are given as seasonally adjusted, no importance should be attached to the apparent precision of the figures in this table.
b Including securities.

higher rates of taxation, higher consumption and perhaps some increase in incomes. With the improvement in the balance of payments, however, external transactions required sterling financing, so the Government had to borrow a sizable amount at home.

The whole of the domestic borrowing requirement was met by the banks; other investors bought gilts, but the public's holdings of notes and coin fell.

The banks' holdings of public sector debt rose substantially in total, for their lending to local authorities, as well as to the central government, rose much more than in the second quarter. On the other hand, their lending to the private sector fell (as mentioned above, some borrowing at the end of June, perhaps for 'window dressing', was repaid early in July) and so did their net claims on overseas residents. Domestic deposits rose much less than in the second quarter.

Banking sector: net sterling deposits and sterling assets

This part of the analysis discusses movements in the third quarter in net sterling deposits with the banks and in the banks' sterling assets. The relevant figures, which are shown in detail in Table M, are not seasonally adjusted.

Table J

Changes in net sterling deposits with the banking sector

£ millions[a]

	1967 3rd qtr.	1968 3rd qtr.
U.K. residents:		
Persons	+130	+220
Industrial and commercial companies	+400	− 30
Financial institutions	+ 55	+ 10
Total private sector	+585	+200
less foreign currency	+ 10	+ 30
Total private sector net sterling deposits	+575	+170
Total public sector net sterling deposits	− 20	—
Total net sterling deposits of U.K. residents	**+555**	**+170**
Overseas residents	−155	+ 60
Total net sterling deposits with the banking sector	**+400**	**+230**

a Rounded to nearest £5 million.

Total net sterling deposits with the banks rose by £230 million in the third quarter, little more than half the rise a year earlier. Within the total, deposits of overseas residents, which had been drawn down by £155 million in the third quarter of 1967 when confidence in sterling was weak, rose by £60 million; and deposits of U.K. residents rose by no more than £170 million – almost £400 million less than a year earlier.

The increase in U.K. deposits was wholly in the private sector, and there were some markedly divergent movements. Deposits of industrial and commercial companies fell slightly, though a seasonal rise might have been expected – a year earlier they had risen by no less than £400 million. Taking the second and third quarters of 1968 together, the increase in company deposits was only £85 million – the smallest for at least four years, and surprising at a time when companies are expected to start adding to their fixed assets very soon; in the past they have generally built up their liquid assets in preparation for higher investment expenditure.[1]

By contrast, the personal sector's deposits rose much more in the third quarter than a year earlier, and little less than in the second quarter of this year. If the deposits of unincorporated businesses – which are included in the personal sector – have fallen like those of companies, the increase in individuals' deposits must have been very large – particularly in comparison with the third quarter of last year, when company deposits rose sharply. As consumers' expenditure at current prices possibly rose as much in the third quarter of this year as last, the sharp contrast in the behaviour of personal deposits in the two quarters looks all the more remarkable.

The recent pattern in bank deposits is surprising, given what is expected in terms of demand – a rise in fixed investment expenditure, and a relatively stable level of personal consumption.

Table K

Changes in sterling assets of the banking sector

£ millions[a]

	1967 3rd qtr.	1968 3rd qtr.
Sterling lending to the private sector:		
Persons:		
Advances	+ 70	− 5
Call money	− 85	+ 60
Other private	+ 85	−395
Total private sector	**+155**	**−340**
Sterling lending to the overseas sector	− 10	+ 25
Central government debt	+ 35	+440
Local government debt	+175	+125
Lending to public corporations	+ 15	+ 25
Total sterling assets	**+370**	**+275**
Total net sterling deposits	+400	+230
Difference between total sterling assets and total net sterling deposits	+ 30	− 45
Of which: switching out of sterling into foreign currency +	*+ 30*	*− 5*

a Rounded to nearest £5 million.

The banks' total sterling assets also rose less in the third quarter than a year earlier – though the difference was not as great as in deposits – mainly because the banks switched a small amount of foreign currency deposits into sterling, whereas they had switched £30 million out of sterling last year; but also because they raised more through capital issues.

Bank lending to the private sector fell sharply in the third quarter; the fall was in lending to companies – mainly to industrial and commercial companies. The reasons for this are not yet known; the full account for these companies is

1 March 1967 *Bulletin*, page 40.

not available, but one likely explanation is that the balance of their financial transactions (current and capital) with overseas improved. It should be noted, however, that if companies' deposits and advances are considered in aggregate, they paid the same net amount into the banks in the third quarter of this year as last – though for different reasons.

Advances to the personal sector were little changed, but within the total there was still an underlying rise in lending for consumption. In addition, the banks lent a substantial amount of call money to stockbrokers, jobbers, money brokers, bullion dealers and the like – most, it is thought, went to persons and unincorporated businesses, rather than to companies, though the division by sector is somewhat arbitrary.

The biggest increase in the banks' sterling assets was in their holdings of central government debt – a rise of £440 million, compared with one of only £35 million a year earlier. The large turn-round was not because of any rise in the Government's borrowing requirement (which was, in fact, distinctly smaller than in the same quarter of 1967), nor because domestic holdings of government debt outside the banks behaved differently; but rather because external transactions in the third quarter of this year needed financing to the tune of nearly £70 million, whereas a year earlier they had provided over £500 million for the Government – mainly because of a large outflow of short-term overseas funds from the private sector, including the reduction in bank deposits noted above. To a lesser extent the change in the Government's external transactions was due to an improvement in the balance of payments on current and long-term capital account.

Money supply:[1] April-September 1968

In the third quarter, the money supply increased by no more than £100 million (before seasonal adjustment), the smallest rise so far recorded for this time of year. This followed a sharper rise in the second quarter, but if the six months of the current financial year are taken together, the aggregate increase of $4\frac{1}{4}$% in the money supply[2] was considerably less than in the first half of 1967/68, when it rose by $7\frac{1}{2}$%.

Although a full explanation of the factors underlying the slower growth this year is not possible, the main reasons are fairly clear. First, because of the ceiling on bank lending last November, which was strengthened in May this year, bank lending to the private sector has changed very little, whereas there had been a sharp increase in the first half of 1967/68 following the removal in April 1967 of the earlier ceiling on the lending of the London clearing banks and the Scottish banks. Second, the central government's net balance between April and September this year was some £200 million less than a year ago. The March 1968 Budget was, of course, important, but the fall was largely because revenue was unexpectedly high – a reflection of the much heavier

1 "Money supply" is as defined in *Financial Statistics*, that is net deposits, both in sterling and foreign currency, by the U.K. private and public sectors with the banking sector, plus notes and coin in circulation outside the banks. Quarterly figures are available from 1963 only.

2 On a seasonally adjusted basis the rise in the money supply from April to September was just under 3%.

consumer spending and larger imports than were forecast at the time of the Budget. Public spending appears to have been at a rate consistent with the programmes established in January 1968.

These two factors making for contraction were partly offset by the fact that U.K. residents (other than banks) reduced their holdings of government debt by some £90 million, compared with an increase of about £30 million in the first half of 1967/68: they sold about £100 million fewer gilt-edged stocks, but ran down their other government debt, particularly national savings.

Table L

Sector financing: quarterly figures, 1968

£ millions: not seasonally adjusted

	Line	Public sector 1st qtr.	Public sector 2nd qtr.	Public sector 3rd qtr.	Overseas sector 1st qtr.	Overseas sector 2nd qtr.	Overseas sector 3rd qtr.
Financial surplus +/deficit −							
Saving	1	+1,441	+462				
Taxes on capital and capital transfers	2	− 55	− 50				
less:							
Gross fixed capital formation at home	3	−1,000	−931				
Increase in value of stocks and work in progress	4	− 2	− 28				
Financial surplus +/deficit −	5	**+ 384**	**−547**		**+178**	**+ 123**	
Changes in financial assets and liabilities							
assets increase +/decrease − liabilities increase −/decrease +							
Net indebtedness of Government to Bank of England, Banking Department	6	+ 135	−183	− 13			
Life assurance and pension funds	7						
Government loans	8	+ 21	− 16		− 12	+ 20	
Gold and foreign exchange reserves	9	+ 11	− 16	+ 14	− 11	+ 16	− 14
Government transactions with I.M.F.	10	− 4	−589		+ 4	+ 589	
Miscellaneous investment overseas (net)	11	− 19	− 71		−129	+ 33	
Notes and coin	12	+ 108	− 80	− 4			
Bank deposits[a]	13	− 40	− 5	+ 2	+627	+1,074	+409
Deposits with other financial institutions	14				− 21	− 62	
Non-marketable government debt	15	+ 110	+ 1	− 7			
Bank lending	16	+ 95	+ 15	− 26	−640	−1,164	−363
Hire purchase debt	17	+ 3	—				
Loans for house purchase	18	+ 2	+ 2				
Other loans	19	+ 65	− 69				
Marketable government debt:							
Treasury bills	20	+ 79	+ 77	−168	+458	− 220	+138
Stocks	21	+ 14	+500	−413	+ 9	− 89	+ 42
Local authority debt	22	− 184	−152		—	− 55	
U.K. company and overseas securities:							
Capital issues	23				− 59	− 78	− 52
Other transactions	24	+ 45	+ 6		− 1	+ 33	
Unit trust units	25						
Identified financial transactions	26	**+ 441**	**−580**		**+225**	**+ 97**	
Unidentified	27	**− 57**	**+ 33**		**− 47**	**+ 26**	
Total = Financial surplus +/deficit −	28	**+ 384**	**−547**		**+ 178**	**+ 123**	

a The changes shown in this table in overseas deposits with the banks will not necessarily agree with those derived from Table 8 (2) of the annex; this is because the figures in Table 8 (2) exclude unallocated items – rough estimates for which are included here – thought to relate mainly to overseas funds placed through other U.K. banks as agents.

Private sector												
Persons			Industrial and commercial companies			Banks			Other financial institutions			
1st qtr.	2nd qtr.	3rd qtr.	1st qtr.	2nd qtr.	3rd qtr.	1st qtr.	2nd qtr.	3rd qtr.	1st qtr.	2nd qtr.	3rd qtr.	Line
+644	+585		+183	+1,050		−121	+155					1
− 49	− 57		+104	+ 107		—	—					2
−265	−275		−545	− 552		− 70	− 62					3
− 66	− 51		− 38	− 181		—	—					4
+264	**+202**		**−296**	**+ 424**		**−191**	**+ 93**					5
						− 135	+ 183	+ 13				6
+405	+350								−405	−350		7
− 1	− 1		− 9	− 4					+ 1	+ 1		8
												9
												10
			+147	+ 18					+ 1	+ 20		11
+ 19	+ 31	− 17	+ 20	+ 30	− 87	− 147	+ 19	+108				12
+ 3	+295	+221	−251	+ 115	− 30	− 274	−1,532	−613	− 65	+ 53	+11	13
+212	+223		− 21	+ 27					−170	−188		14
− 5	− 15	− 16	− 90	+ 14	+ 20	− 13	—	+ 3	− 2	—	—	15
− 36	− 55	− 42	−401	− 114	+292	+1,009	+1,419	+ 67	− 27	−101	+72	16
+ 4	+ 13		− 22	− 19					+ 15	+ 6	+ 3	17
−261	−248					− 5	+ 10	+ 10	+264	+236		18
− 57	+ 34		− 49	− 6		− 10	+ 5	− 1	+ 51	+ 36		19
			− 4	− 19		− 520	+ 171	+ 18	− 13	− 9		20
− 2	−127					− 47	− 301	+299	+ 26	+ 17		21
+ 39	+103		− 11	+ 15		+ 143	+ 28	+128	+ 13	+ 61		22
			− 55	− 107	−149	− 1	− 6	− 16	− 26	− 13	−61	23
−238	−228		+ 77	+ 94		+ 11	+ 21	+ 8	+247	+278		24
+ 51	+ 67	+ 68							− 51	− 67	−68	25
+133	**+442**		**−669**	**+ 44**		**+ 11**	**+ 17**	**+ 24**	**−141**	**− 20**		26
+131	**−240**		**+373**	**+ 380**		**− 61**	**+ 96**					27
+264	**+202**		**−296**	**+ 424**		**−191**	**+ 93**					28

Table M

Banking sector[a]

£ millions:[b] not seasonally adjusted

	1965	1966	1967				1968		
	3rd qtr.	3rd qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.
Changes in net sterling deposits with the banking sector									
U.K. residents	+115	+115	−310	+405	+555	+440	−335	+435	+170
Overseas	+ 50	−230	+170	+ 5	−155	− 95	− 25	− 55	+ 60
Total	**+165**	**−115**	**−140**	**+410**	**+400**	**+345**	**−360**	**+380**	**+230**
Changes in net sterling deposits of U.K. residents									
Persons	+ 40	+ 45	+ 40	+240	+130	+310	+ 5	+295	+220
Industrial and commercial companies	+ 75	+120	−345	+ 90	+400	+155	−250	+115	− 30
Financial institutions	+ 5	− 30	− 35	+ 95	+ 55	+ 35	− 65	+ 55	+ 10
Total private sector	+120	+135	−340	+425	+585	+500	−310	+465	+200
less foreign currency	+ 5	+ 10	+ 5	+ 20	+ 10	+ 60	− 15	+ 25	+ 30
Total private sector net sterling deposits	+115	+125	−345	+405	+575	+440	−295	+440	+170
Total public sector net sterling deposits	—	− 10	+ 35	—	− 20	—	− 40	− 5	—
Total net sterling deposits of U.K. residents	**+115**	**+115**	**−310**	**+405**	**+555**	**+440**	**−335**	**+435**	**+170**
Changes in sterling assets of the banking sector									
Central government debt[c]	+175	+140	−360	+395	+ 35	+165	−865	+ 70	+440
Local government debt[d]	+ 40	− 15	+155	− 35	+175	+ 50	+135	+ 35	+125
Nationalised industries	—	+ 30	− 10	—	− 5[e]	+ 35	− 90	− 5	+ 20
Other public corporations	—	—	− 15	—	+ 20	− 5	− 5	− 10	+ 5
Sterling lending to the private sector[f]	−160	−220	+150	+ 40	+155[e]	+ 90	+420	+270	−340
Sterling lending to the overseas sector[g]	− 15	− 60	+ 45	+ 20	− 10	+ 10	− 30	+130	+ 25
Total of identified sterling assets	+ 40	−125	− 35	+420	+370	+345	−435	+490	+275
Difference between identified assets and deposits	+125	+ 10	−105	− 10	+ 30	—	+ 75	−110	− 45
of which: switching out of sterling into foreign currency[h]	*+ 75*	*+ 10*	*−120*	*+ 5*	*+ 30*	*+ 30*	*+ 85*	*− 90*	*− 5*
Total	**+165**	**−115**	**−140**	**+410**	**+400**	**+345**	**−360**	**+380**	**+230**
Changes in sterling lending to the private sector									
Persons and unincorporated businesses:									
Advances	− 60	−120	+ 30	+ 90	+ 70	+ 10	+ 25	+ 65	− 5
Call money	+ 25	+ 20	− 40	− 25	—	+ 40	+ 10	—	+ 60
Other private	−125	−120	+160	− 25	+ 85	+ 40	+385	+205	−395
Total private sector	**−160**	**−220**	**+150**	**+ 40**	**+155**	**+ 90**	**+420**	**+270**	**−340**

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.

Notes on sources and definitions[1]

Sources

The main statistical series used in compiling Table L 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 L)

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: 1st qtr. —339; 2nd qtr. —295).

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. Includes exchange adjustments – see footnote *d* to Table 18 of the annex.

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 takeover deals (see Table 15 of the annex); capital issues by U.K. companies in overseas centres are also included here. Beginning with 1968, commission and other costs paid by other financial institutions have been deducted from their transactions. 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.