

Analysis of financial statistics: July-September 1968

The first part of this analysis describes the transactions of the various sectors in the third quarter of 1968; it is followed by some preliminary comments on the fourth quarter. The discussion is based on seasonally adjusted figures; but, as emphasised on page 361 of the December 1968 *Bulletin*, the figures must be regarded with caution until more is known about the reliability of the seasonal adjustments used. As usual, the unadjusted quarterly figures are shown in detail in Table M 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 fourth quarter begins on page 29; this is based on unadjusted figures, which are set out in detail in Table N. Finally, there is a section dealing with changes in the money supply.

Third quarter of 1968

According to all three measures – expenditure, output and income statistics – the volume of gross domestic product was at least 1½% higher in the third quarter of 1968 than in the second. Increased consumer spending led the rise in activity, but exports also rose strongly, as did investment in new tonnage by shipowners. Other private investment, public current and capital spending, and stockbuilding were all little changed.

Imports rose but much less than exports. Net invisible receipts were about the same as in the second quarter, so the balance of payments deficit on current account – the overseas sector's financial surplus – was smaller. The private sector too had a smaller surplus, mainly because personal spending rose much more than personal income; the financial surplus of companies changed very little. The public sector's deficit was sharply reduced, for the central government received more revenue, partly through the increases in incomes and consumption, and partly through the rise in selective employment tax.

The private sector (in this context excluding banks) increased its liquid assets much less than in the second quarter, and only in part because of its smaller financial surplus; for borrowing from banks, which had increased sharply in the second quarter, fell, and investors bought some £70 million of gilt-edged stocks, whereas they had sold over £100 million in the previous quarter. Private liquid assets might have risen even less but for an inflow of overseas funds, following a withdrawal in the second quarter.

Within the private sector, companies ran down their liquid assets by more than they had built them up in the second quarter, and financial institutions ceased to add to their short-term assets; but persons increased theirs, although not by as much as in the previous quarter.

To sketch in some of the background, it will no doubt be recalled that U.K. interest rates turned down early in

Table A
Financial surplus + /deficit –

Seasonally adjusted	1968	
	2nd qtr.	3rd qtr.
Public sector	–383	–247
Overseas sector	+152	+80
Private sector	+488	+381
<i>of which:</i>		
Persons	+353	+255
Companies ^a	+135	+126
Residual error	–257	–214

^a Including banks and other financial institutions.

July. The announcement on 8th July at Basle of a provisional facility to counter fluctuations in the sterling balances, and its confirmation in September, together with evidence of an improvement in the balance of visible trade, strengthened sterling and made it possible to reduce Bank rate from $7\frac{1}{2}\%$ to 7% on 19th September.

The gilt-edged market recovered in July, and the undertone was generally firm afterwards, when many investors were expecting Bank rate to be reduced. The biggest purchases were by the banking sector, which had sold heavily in the previous quarter, though persons also added to their gilts – for the first time since early in 1967. Other financial institutions continued to buy, but their net purchases were again very small.

Share prices rose, helped by take-over activity, and in spite of large new issues. Companies and overseas residents bought more U.K. shares, because of take-overs, but financial institutions bought less; net sales by persons were little changed. More U.K. debentures were issued than in the second quarter, but the personal sector sold fewer and the institutions took up no more than before. Persons bought fewer Australian securities.

Personal sector

At current prices, personal consumption rose and was almost as great as in the first quarter,¹ when people were buying in anticipation of tax increases in the Budget. But personal income was higher than in the first quarter and the proportion saved was 8.4% compared with 5.6% – a higher rate than on average in 1967. Nevertheless, the ratio was not as high as in the second quarter of 1968 (10.0%), when consumption declined after the Budget. Consequently, the personal sector's financial surplus, according to the provisional national accounts figures, was distinctly smaller than in the second quarter.

Identified financial transactions, on the other hand, suggest a somewhat larger surplus. However, an important financial liability, trade credit from companies, is not included in the statistics and, with consumption rising strongly, it may well have increased. Also, there are some doubts about the figures for bank deposits and bank borrowing.² The national income statistics too may be at fault, perhaps exaggerating the fall in personal saving between the two quarters.

Persons borrowed slightly less for house purchase but rather more, through bank advances, for consumption; and appreciably more for unidentified purposes, by way of call money from banks. At the same time, they took more new hire purchase credit, while their repayments were little changed, so their total hire purchase debt fell less than in the second quarter.

¹ The volume of consumption was, however, 4% lower than in the first quarter.

² The rise shown for personal bank deposits may be too high; for want of better information, no transit items are deducted from them in the ordinary way (the whole change in such items is taken off company deposits, see page 35), and it may be that in this quarter, when there was a big increase in both personal consumption and transit items, some deduction should be made. On the other hand, the rise in personal bank borrowing may be overestimated, for most of it was in the form of call money, which cannot be accurately divided between unincorporated businesses in the personal sector – such as stockbrokers – and companies (see the June 1968 *Bulletin*, page 145).

Their short-term financial assets rose less than in the second quarter. This in part, no doubt, reflected the fall in saving, but it also owed much to the fact that they added to their gilt-edged stocks.

Table B
Personal sector
£ millions
Seasonally adjusted^a

	1968		
	1st qtr.	2nd qtr.	3rd qtr.
Saving	+399	+723	+618
Capital transfers	-49	-57	-57
Capital expenditure	-322	-313	-306
Financial surplus	+28	+353	+255
Borrowing—			
For house purchase	-280	-241	-235
Bank borrowing ^b	+21	-38	-80
Hire purchase debt	-33	+28	+4
Other	-25	+10	+1
	-317	-241	-310
Acquisition of financial assets +			
Life assurance and pension funds	+405	+350	+350
Government stocks	-2	-126	+50
Company and overseas securities	-239	-220	-229
Unit trust units	+51	+67	+68
Bank deposits, notes and coin	+118	+292	+272
Building society shares and deposits	+139	+212	+175
National savings	-8	-59	+2
Other assets	+101	+155	+92
	+565	+671	+780
Identified financial transactions	+248	+430	+470
Unidentified	-220	-77	-215

^a Because the figures in this table are given as seasonally adjusted, no significance should be attached to their apparent precision.

^b Other than for house purchase.

Table C
All companies

£ millions
Seasonally adjusted

	1968	
	2nd qtr.	3rd qtr.
Gross trading profits	1,308	1,292
Other current income	861	865
	2,169	2,157
Dividends and interest	789	795
U.K. taxes	263	260
Profits due, and taxes paid, abroad	240	241
	1,292	1,296
Saving	877	861

All companies

Gross trading profits, which had reached a peak in the first quarter of 1968, again fell, but only slightly. The figures were affected by the rise in selective employment tax in September¹ – particularly as higher refunds were not paid until later. Other U.K. tax payments, and dividend and interest payments, were little changed, so company saving fell slightly. Within the total, industrial and commercial companies saved as much as before, so the fall was due to the financial institutions.

Industrial and commercial companies

Saving by these companies would, in fact, probably show a rise if stock appreciation – which was smaller than in the second quarter – was deducted. Companies spent less of their saving on goods for stock and, although they spent more on fixed investment,² their financial surplus, as derived from the provisional national accounts statistics, was somewhat greater.

Identified financial transactions, however, show a contrary movement.³ There was a big reduction in liquid assets,

¹ In official statistics, company profits are reduced by payments of selective employment tax, and increased by refunds.

² As noted earlier, the rise was mainly in the shipping industry.

³ Just as persons appear to have acquired more financial assets despite a smaller recorded surplus, so companies, with a larger surplus, ran down their assets more. Some possible reasons for the discrepancy were suggested earlier during the discussion of the personal sector.

reversing the rise over the previous two quarters; most of the fall was in bank deposits,⁷ and notes and coin. And although the fall in liquid assets was partly associated with increased purchases of securities in connection with take-overs, companies' total holdings of financial assets fell slightly.

Another probable reason for the fall in liquid assets was a large repayment of bank credit, reversing the borrowing in the second quarter. The quarterly comparison probably highlights what was largely a temporary movement at the half year, for the mid-month figures of the London clearing banks suggest that a sizable amount was borrowed late in June and repaid early in July. Furthermore, companies borrowed less in the third quarter from finance houses. But they raised more through capital issues, and received more through overseas investment – particularly from associated companies.

Table D
Industrial and commercial companies

£ millions

Seasonally adjusted^a

	1968		
	1st qtr.	2nd qtr.	3rd qtr.
Saving	+ 818	+ 783	+ 782
Capital transfers	+ 104	+ 107	+ 106
Capital expenditure	- 572	- 782	- 764
Financial surplus	+ 350	+ 108	+ 124
Increase in liabilities—			
Overseas investment in U.K. companies	- 42	- 110	- 164
Borrowing from banks	- 235	- 120	+ 122
Other borrowing	- 30	- 59	- 19
Capital issues	- 46	- 126	- 161
	- 353	- 415	- 222
Acquisition of financial assets +			
Bank deposits, notes and coin	+ 19	+ 213	- 213
Other liquid assets ^b	+ 24	- 28	- 36
Investment abroad ^c	+ 204	+ 101	+ 98
Company securities	+ 40	+ 87	+ 102
Other ^d	- 57	+ 9	+ 29
	+ 230	+ 382	- 20
Identified financial transactions	- 123	- 33	- 242
Unidentified	+ 473	+ 141	+ 366

^a Because the figures in this table are given as seasonally adjusted, no significance should be attached to their apparent precision.

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

^c Including net short-term claims.

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

Financial institutions other than banks

These financial institutions added less to their liabilities than in the second quarter. They repaid about half as much bank credit as they had taken in the second quarter, the biggest repayments being by finance houses. Investment trusts borrowed less in foreign currency from banks, but they raised more through capital issues. Building societies took in a smaller amount from shares and deposits.

The institutions invested less in most types of financial assets. They acquired as many debentures as in the second

⁷ The possibly faulty allocation of items in transit, noted earlier, is insufficient by itself to account for all the swing between the second and third quarters.

quarter, but insurance companies bought fewer ordinary shares. Short-term assets in total fell a little, after rising in the second quarter – bank deposits rose, but holdings of local authority temporary money were reduced. Building societies lent less for house purchase, and the difference was not made up by insurance companies.

Contrary to the general trend, the finance houses' lending on hire purchase, which had fallen in the second quarter, was little changed. The institutions as a group invested much the same modest amount in government stocks as before; insurance companies and pension funds increased their purchases, but building societies and some other institutions reduced theirs.

Table E
Other financial institutions

£ millions

Seasonally adjusted^a

	1968		
	1st qtr.	2nd qtr.	3rd qtr.
Increase in liabilities –			
Life assurance and pension funds	– 405	– 350	– 350
Building society shares and deposits	– 139	– 213	– 175
Other deposits	– 34	+ 18	– 3
Capital issues	– 26	– 13	– 61
Unit trust units	– 51	– 67	– 68
Other (mainly bank) borrowing	+ 1	– 104	+ 43
	– 654	– 729	– 614
Increase in financial assets +			
Short-term assets ^b	– 27	+ 20	– 12
Government stocks	+ 26	+ 16	+ 22
Company and overseas securities:			
Ordinary shares	+ 187	+ 210	+ 184
Debentures	+ 47	+ 82	+ 84
Other ^c	– 2	—	– 14
Loans for house purchase	+ 283	+ 229	+ 217
Local authority mortgages and securities	+ 11	+ 36	+ 32
Lending on hire purchase	+ 17	– 22	+ 3
Other lending	+ 58	+ 56	+ 36
	+ 600	+ 627	+ 552

^a Because the figures in this table are given as seasonally adjusted, no significance should be attached to their apparent precision.

^b Bank deposits, tax reserve certificates, Treasury bills and local authority debt.

^c Preference shares and overseas government, provincial and municipal securities.

Public sector

The public sector's financial deficit was again reduced, mainly because the central government had a larger current surplus. Selective employment tax brought in more, and government revenue benefited from higher incomes and greater personal consumption. Public corporations also had a larger financial surplus.

However, the improvement in the balance of payments on current account, together with an inflow of overseas capital to the private sector,¹ meant that external transactions required sterling finance. Consequently, the Government had to borrow a large amount from the private sector, all of it from banks; the purchases of gilts by persons and other

¹ Particularly through the purchase of ordinary shares in connection with some large take-overs, notably those of Gallaher Limited by the American Tobacco Company and of Godfrey Phillips Limited by Philip Morris.

financial institutions were offset by a fall in the public's holdings of notes.¹

Local authorities, which suffered fewer withdrawals of overseas funds than in the second quarter, borrowed less in the domestic market: they obtained more finance from banks, but less from persons, and repaid a little to other financial institutions. Public corporations, on the other hand, borrowed more; they obtained a moderate amount from banks, after repaying bank borrowing in the second quarter, and they took more trade credit from companies.

Table F
Public sector

£ millions

Seasonally adjusted^a

	1968		
	1st qtr.	2nd qtr.	3rd qtr.
Saving	+ 550	+ 629	+ 748
Capital transfers	- 55	- 50	- 49
Capital expenditure	- 986	- 962	- 946
Financial deficit	- 491	- 383	- 247
External transactions			
(increase in liabilities -)			
Central government ^b	- 621	- 432	+ 141
Local authorities	+ 3	+ 56	+ 8
	- 618	- 376	+ 149
Domestic borrowing -			
Central government:			
From banks	+ 245	- 5	- 274
Other	- 60	+ 150	+ 13
Local government ^c	- 144	- 220	- 153
Public corporations	+ 163	- 4	- 63
	+ 204	- 79	- 477
Lending etc. +	+ 21	+ 11	+ 6
Identified financial transactions	- 393	- 444	- 322
Unidentified	- 98	+ 61	+ 75

^a Because the figures in this table are given as seasonally adjusted, no significance should be attached to their apparent precision.

^b As in Table 1 of the annex, roughly seasonally adjusted.

^c Including the Northern Ireland central government.

Banking sector

The banks and discount houses together bought about £300 million of gilts, and their holdings of notes rose,² so, although their Treasury bills fell, their total holdings of government debt increased considerably. They also lent a large amount to local authorities, and, in total, their public sector debt increased by some £430 million, compared with less than £60 million in the previous quarter.

The deposit banks' loans to local authorities again fell,³ but the accepting houses, overseas banks and other banks, taken together, lent substantially more. They were able to do this, even though they received less from domestic deposits

¹ The fall in notes may seem surprising at a time when consumer spending was rising, but it owed something to chance in that the quarter ended on a Monday, when notes generally return to the banks after the week-end's shopping. (The last working day of the previous quarter was a Saturday, a day when the public is holding a large amount of notes.)

² This was partly because, as already discussed, the quarter ended on a Monday. Another reason for the increase in the banks' holdings was that the Bank had asked the commercial banks to refrain from issuing new £1 and 10s. notes for a short time at the beginning of October, so the banks were building up their holdings of used notes in readiness.

³ The clearing banks had been asked in May to reduce their lending to local authorities.

and switched no foreign currency deposits into sterling – as they had in the previous quarter – because they received sterling deposits from overseas and lent less in sterling both to overseas residents and to the private sector.

In aggregate, the banking sector's lending to the private sector fell. As already noted, much of the heavy borrowing in the previous quarter seems to have occurred at the end of June, and to have been reversed in July. Part of the explanation may be that some institutions borrowed an exceptional amount from banks for 'window dressing' purposes.

Nevertheless, domestic deposits again rose, although by much less than in the second quarter. The rise would have been smaller still had not the third quarter ended on a Monday – when deposits were high because of the notes which had been paid into the banks.

Table G

Banking sector

£ millions

Seasonally adjusted^a

	1968		
	1st qtr.	2nd qtr.	3rd qtr.
Increase in assets +			
Government debt	-245	+ 5	+274
Other public sector debt	- 13	+ 51	+155
Private sector debt ^b	+216	+296	- 51
Net claims on overseas ^b	+109	+115	- 97
	+ 67	+467	+281
Increase in liabilities -			
Domestic deposits	- 47	-445	-180
Capital issues	- 1	- 6	- 16
	- 48	-451	-196

^a Because the figures in this table are given as seasonally adjusted, no significance should be attached to their apparent precision.

^b Including securities.

Fourth quarter of 1968

Hire purchase controls were tightened early in November when there was evidence of an upturn in consumer demand. Meanwhile, imports were continuing high, and soon rumours of possible changes in certain currency parities disturbed foreign exchange markets and accentuated doubts about sterling. Further measures to improve the balance of payments were announced on 22nd November; indirect taxation was increased, private lending by banks and finance houses came under greater restraint, and the import deposit scheme was introduced.¹ Currency markets became more settled, but confidence in sterling was still weak, and was not helped by a rise in interest rates abroad. Economic activity may have increased more slowly towards the end of the quarter when the growth of exports was less vigorous and consumer demand seems to have eased.

Against this background, the gilt-edged market was generally weak, and yields rose to new heights. Equity prices showed no firm trend until December, when they rose strongly, with some investors continuing to buy as a hedge against a fall in the value of money; though there was a large volume of new issues, the supply of shares was depleted through take-overs.

¹ December 1968 *Bulletin*, page 342.

Table H
Central government/banks

	1968	
	3rd qtr.	4th qtr.
Central government borrowing requirement	- 120	+ 94
External transactions	+ 141	- 242
Domestic borrowing:		
From banks	- 274	+ 174
Other	+ 13	+ 162
Banking sector		
Government debt	+ 274	- 174
Other public sector debt	+ 155	+ 4
Private sector debt ^b	- 51	+ 289
Net claims on overseas ^b	- 97	+ 119
	+ 281	+ 238
Domestic deposits	- 180	- 262
Capital issues	- 16	- 1

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

b Including securities.

Persons repaid bank borrowing, including some call money, and they borrowed less than in the third quarter from building societies. Their liquid assets rose more slowly for, though they placed more with building societies, their bank deposits hardly increased at all.

By contrast, industrial and commercial companies built up their bank deposits after running them down in the third quarter; and borrowed more heavily – they took a large amount from banks and raised more through capital issues.

The central government's receipts rose substantially, £77 million of the increase coming from import deposits. Furthermore, with a large outflow of long-term capital replacing the exceptional inflow in the third quarter, external transactions produced a large amount of sterling. Thus, there was a substantial reduction in domestic holdings of government debt.

This reduction was more than accounted for by substantial sales of gilts by investors. Over half the gilts were sold by the banking sector, which also reduced its holdings of local authority debt. The fall in the banks' holdings of public sector debt was stimulated by higher demand for bank finance by the company sector. Domestic bank deposits rose, and by more than in the third quarter.

Banking sector: net sterling deposits and sterling assets

This part of the analysis discusses changes in the fourth quarter of 1968 in net sterling deposits with the banks and in the banks' net sterling assets. The relevant figures, which are given in detail in Table N, are not seasonally adjusted.

Table J
Changes in net sterling deposits with the banking sector

	£ millions ^a	
	1967 4th qtr.	1968 4th qtr.
U.K. residents:		
Persons	+ 310	+ 135
Industrial and commercial companies	+ 155	+ 425
Financial institutions	+ 35	+ 55
Total private sector	+ 500	+ 615
less foreign currency	+ 60	+ 40
Private sector net sterling deposits	+ 440	+ 575
Public sector net sterling deposits	—	+ 10
Total domestic net sterling deposits	+ 440	+ 585
Overseas sterling deposits	- 95	- 100
Total net sterling deposits	+ 345	+ 485

a Rounded to nearest £5 million.

Total net sterling deposits with the banks rose by not far short of £500 million, about £150 million more than a year earlier. Overseas residents reduced their deposits by £100 million, but U.K. residents increased theirs by about £600 million.

The rise in domestic deposits was almost wholly in the private sector and was mainly attributable to companies. Personal deposits actually rose less than in the fourth quarter of 1967 – indeed, the rise was the smallest in a fourth

quarter for at least six years, apart from 1966 when persons bought a large amount of gilts.

The increase in deposits by industrial and commercial companies, however, was very marked – more than in any quarter since at least the beginning of 1963 – and was accompanied by a big increase in borrowing from banks and a large volume of capital issues. Companies may have been building up their liquid assets because they foresaw special difficulties in the first quarter of 1969, when they would be paying corporation tax at a higher rate and also making import deposits; or perhaps because they intended to spend more soon on fixed investment. On the other hand, some may have deferred investment projects because of uncertainties about the economic outlook, and for this reason have been left with liquid funds.

These movements in deposits – a relatively small rise for persons and a particularly large one for companies – contrast sharply with those in the previous six months, when personal deposits rose by over £500 million and companies' deposits by less than £100 million.

Table K
Changes in sterling assets of the banking sector

£ millions ^a	1967 4th qtr.	1968 4th qtr.
Sterling lending to the private sector:		
Persons:		
Advances	+ 10	– 60
Call money	+ 40	– 25
Other private	+ 40	+ 245
Total private sector	+ 90	+ 160
Sterling lending to the overseas sector		
Central government debt	+ 165	+ 210
Local government debt	+ 50	– 35
Lending to public corporations	+ 30	+ 20
Total sterling assets	+ 345	+ 395
Total net sterling deposits	+ 345	+ 485
Difference between total sterling assets and total net sterling deposits	—	+ 90
<i>Of which: switching out of sterling into foreign currency +</i>	+ 25	+ 80

^a Rounded to nearest £5 million.

The banks' total sterling assets also rose more in the fourth quarter than a year earlier, but not much more; and the increase in assets was not as large as that in deposits because the banks switched some funds out of sterling assets and into foreign currency.

Bank lending to the private sector rose more than a year earlier. There was a big increase in lending to industrial and commercial companies; this included a sharp rise in lending at a fixed rate for exports and shipbuilding, but it may also, as already mentioned, have been connected in part with the increase in companies' liquid assets. However, lending to persons fell; there were reductions both in call money¹ (partly reversing the rise in the previous quarter) and in advances. This was the first noticeable fall in lending to the

¹ The allocation of call money by sector is by no means exact, see footnote 2 on page 23.

personal sector since the fourth quarter of 1966.

The banks' holdings of central government debt rose, and by more than a year earlier, for although the Government's borrowing requirement was smaller, external transactions did not provide as much sterling finance and other domestic investors now reduced their holdings of government debt. On the other hand, the banks' holdings of local government debt fell – for the first time since the second quarter of 1967.

Money supply¹

In the fourth quarter of 1968 the money supply rose by £681 million, about £120 million more than a year earlier; whereas the six months ended in September 1968 had seen a much smaller increase than the corresponding period in 1967.

There were essentially two main reasons for this larger increase. First, bank lending to the private sector, which had hardly changed between end-March and end-September, rose more than in the fourth quarter of 1967. Second, investors other than banks sold nearly £200 million of gilts, compared with sales of less than £40 million in April-September, and purchases of about £125 million in the fourth quarter of 1967.

The rise in money supply occurred despite two contractionary factors. First, the central government's borrowing requirement continued to be less than in 1967/68, and was not much more than half the figure in the fourth quarter of 1967.² Second, because of the absence of the special large inward transactions which benefited the capital account in the third quarter of 1968, the balance of payments was in deficit.

Despite the large increase in the fourth quarter, money supply rose by only 6½% in 1968 as a whole compared with an increase of 10% in 1967.

Table L
Change in money supply

£ millions

	1968 4th qtr.
Private sector sterling deposits	+575
Private sector foreign currency deposits	+ 40
Public sector sterling deposits	+ 10
Notes and coin held outside the banks	+ 56
	<u>+681</u>

¹ As defined in *Financial Statistics*, that is net deposits, both in sterling and foreign currency, held by the U.K. private and public sectors with the banking sector, plus notes and coin in circulation outside the banks.

² See page 8.

Table M

Sector financing: quarterly figures, 1968

£ millions

Not seasonally adjusted

Line	Public sector			Overseas sector		
	2nd qtr.	3rd qtr.	4th qtr.	2nd qtr.	3rd qtr.	4th qtr.
Financial surplus + /deficit —						
Saving	1	+ 438	+ 395			
Taxes on capital and capital transfers	2	— 50	— 49			
<i>less:</i>						
Gross fixed capital formation at home	3	— 920	— 929			
Increase in value of stocks and work in progress	4	— 29	— 25			
Financial surplus + /deficit —	5	— 561	— 608	+ 110	+ 114	
Changes in financial assets and liabilities						
assets increase + /decrease —						
liabilities increase — /decrease +						
Net indebtedness of Government to Bank of England, Banking Department	6	— 183	— 13	— 67		
Life assurance and pension funds	7					
Government loans	8	— 18	+ 12		+ 21	— 6
Gold and foreign exchange reserves	9	— 16	+ 14	— 123	+ 16	— 14
Government transactions with I.M.F.	10	— 589	+ 32	+ 35	+ 589	— 32
Miscellaneous investment overseas (net)	11	— 71	+ 188		+ 76	— 142
Notes and coin	12	— 80	— 4	— 210		
Bank deposits	13	— 5	+ 2	+ 10	+ 1,056	+ 397
Deposits with other financial institutions	14				— 62	— 13
Non-marketable government debt	15	+ 1	— 7	— 32		
Bank lending	16	+ 15	— 26	— 20	— 1,164	— 350
Hire purchase debt	17	—	+ 1			— 707
Loans for house purchase	18	+ 2	+ 8			
Other loans	19	— 118	+ 59			
Marketable government debt:						
Treasury bills	20	+ 77	— 168	— 536	— 220	+ 138
Stocks	21	+ 500	— 413	+ 405	— 89	+ 42
Local authority debt	22	— 152	— 180		— 56	— 8
U.K. company and overseas securities:						
Capital issues	23				— 79	— 51
Other transactions	24	+ 4	+ 7		+ 22	+ 145
Unit trust units	25					— 44
Identified financial transactions	26	— 633	— 488		+ 110	+ 106
Unidentified	27	+ 72	— 120		—	+ 8
Total = Financial surplus + /deficit —	28	— 561	— 608		+ 110	+ 114

Private sector

Persons			Industrial and commercial companies			Banks			Other financial institutions			Line
2nd qtr.	3rd qtr.	4th qtr.	2nd qtr.	3rd qtr.	4th qtr.	2nd qtr.	3rd qtr.	4th qtr.	2nd qtr.	3rd qtr.	4th qtr.	
+ 606	+ 617		+ 1,037	+ 930		+ 158	+ 139					1
- 57	- 57		+ 107	+ 106								2
- 272	- 277		- 563	- 600		- 63	- 72					3
- 51	- 30		- 217	- 171								4
+ 226	+ 253		+ 364	+ 265		+ 95	+ 67					5
						2nd qtr.	3rd qtr.	4th qtr.	2nd qtr.	3rd qtr.	4th qtr.	
+ 350	+ 350		- 3	- 6		+ 183	+ 13	+ 67	- 350	- 350		6
- 1	-								+ 1	-		7
												8
			- 26	- 54					+ 21	+ 8		9
												10
+ 31	- 17	+ 38	+ 30	- 87	+ 18	+ 19	+ 108	+ 154				11
+ 295	+ 221	+ 137	+ 115	- 30	+ 425	- 1,514	- 601	- 1,169	+ 53	+ 11	+ 53	12
+ 223	+ 196		+ 27	+ 8					- 188	- 191		13
- 15	- 16	- 3	+ 14	+ 20	+ 33	-	+ 3	+ 2	-	-	-	14
												15
- 55	- 42	+ 89	- 114	+ 298	- 344	+ 1,419	+ 59	+ 956	- 101	+ 61	+ 26	16
+ 13	+ 4		- 19	- 8					+ 6	+ 3	- 18	17
- 248	- 248					+ 10	+ 10	+ 5	+ 236	+ 230		18
+ 26	- 29		+ 51	- 44		+ 5	- 1	+ 6	+ 36	+ 15		19
			- 19	+ 9		+ 171	+ 18	+ 220	- 9	+ 3		20
- 126	+ 50		+ 15	+ 4		- 301	+ 299	- 234	+ 16	+ 22		21
+ 104	+ 57					+ 28	+ 131	- 41	+ 61	- 4		22
			- 107	- 154	- 166	- 6	- 16	- 1	- 13	- 61	- 31	23
- 220	- 229		+ 99	+ 83		+ 22	+ 22	+ 37	+ 278	+ 254		24
+ 67	+ 68	+ 72							- 67	- 68	- 72	25
+ 444	+ 365		+ 63	+ 39		+ 36	+ 45	+ 2	- 20	- 67		26
- 218	- 112		+ 301	+ 226			+ 79	+ 89				27
+ 226	+ 253		+ 364	+ 265			+ 95	+ 67				28

Table N

Banking sector^a£ millions^b

Not seasonally adjusted

	1965	1966	1967			1968			
	4th qtr.	4th qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Changes in net sterling deposits with the banking sector									
U.K. residents	+ 405	+ 290	+ 405	+ 555	+ 440	- 335	+ 435	+ 170	+ 585
Overseas	+ 60	+ 50	+ 5	- 155	- 95	- 25	- 55	+ 85	- 100
Total	+ 465	+ 340	+ 410	+ 400	+ 345	- 360	+ 380	+ 255	+ 485
Changes in net sterling deposits of U.K. residents									
Persons	+ 255	+ 35	+ 240	+ 130	+ 310	+ 5	+ 295	+ 220	+ 135
Industrial and commercial companies	+ 75	+ 230	+ 90	+ 400	+ 155	- 250	+ 115	- 30	+ 425
Financial institutions	+ 30	+ 85	+ 95	+ 55	+ 35	- 65	+ 55	+ 10	+ 55
Total private sector	+ 360	+ 350	+ 425	+ 585	+ 500	- 310	+ 465	+ 200	+ 615
less foreign currency	- 10	+ 15	+ 20	+ 10	+ 60	- 15	+ 25	+ 30	+ 40
Total private sector net sterling deposits	+ 370	+ 335	+ 405	+ 575	+ 440	- 295	+ 440	+ 170	+ 575
Total public sector net sterling deposits	+ 35	- 45	—	- 20	—	- 40	- 5	—	+ 10
Total net sterling deposits of U.K. residents	+ 405	+ 290	+ 405	+ 555	+ 440	- 335	+ 435	+ 170	+ 585
Changes in sterling assets of the banking sector									
Central government debt ^c	+ 440	+ 390	+ 395	+ 35	+ 165	- 865	+ 70	+ 440	+ 210
Local government debt ^d	+ 75	—	- 35	+ 175	+ 50	+ 135	+ 35	+ 130	- 35
Nationalised industries	- 5	+ 5	—	- 5 ^e	+ 35	- 90	- 5	+ 20	+ 25
Other public corporations	—	—	—	+ 20	- 5	- 5	- 10	+ 5	- 5
Sterling lending to the private sector ^f	- 25	- 85	+ 40	+ 155 ^e	+ 90	+ 420	+ 265	- 320	+ 160
Sterling lending to the overseas sector ^g	—	+ 30	+ 20	- 10	+ 10	- 30	+ 135	- 5	+ 40
Total of identified sterling assets	+ 485	+ 340	+ 420	+ 370	+ 345	- 435	+ 490	+ 270	+ 395
Difference between identified assets and deposits	- 20	—	- 10	+ 30	—	+ 75	- 110	- 15	+ 90
of which: switching out of sterling into foreign currency ^h	+ 10	+ 25	- 5	+ 90	+ 25	+ 85	- 70	+ 40	+ 80
Total	+ 465	+ 340	+ 410	+ 400	+ 345	- 360	+ 380	+ 255	+ 485
Changes in sterling lending to the private sector									
Persons and unincorporated businesses:									
Advances	- 25	- 80	+ 90	+ 70	+ 10	+ 25	+ 65	- 5	- 60
Call money	+ 20	+ 30	- 25	—	+ 40	+ 10	—	+ 60	- 25
Other private	- 20	- 35	- 25	+ 85 ^e	+ 40	+ 385	+ 200	- 375	+ 245
Total private sector	- 25	- 85	+ 40	+ 155	+ 90	+ 420	+ 265	- 320	+ 160

^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 of 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 definitions¹

Sources

The main statistical series used in compiling Table M 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 M)

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 (including the National Giro).

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: 2nd qtr. -234; 3rd qtr. -91).

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. Changes in negotiable dollar certificates of deposit held outside the banking sector are attributed to overseas residents, and changes in negotiable sterling certificates - in the absence of other information, and assuming that holdings by other financial institutions are small - to industrial and commercial companies. Changes in overseas deposits also include unallocated items, thought to relate mainly to overseas funds placed through other U.K. banks as agents; because of this, the figures in this table will differ from changes derived from Table 8 (2) of the annex.

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.

¹ More detailed notes were given in the June 1968 *Bulletin*, page 144.

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.

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. Commission and other costs paid by other financial institutions are 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.