

Analysis of financial statistics: October-December 1969

This analysis deals mainly with flows of funds between sectors in the fourth quarter of 1969, the latest period for which complete statistics are available. Comment on the first quarter of 1970 is included where information permits. The analysis uses seasonally adjusted figures. Unadjusted figures are given in Table J for recent quarters, and annual figures in Table K. Notes on sources and definitions, including a brief note on the seasonal adjustments used, begin on page 156.

Background

The financial flows between the various sectors of the economy described in this analysis may be thought of as financing the residual surpluses and deficits of the sectors. For, although in the economy as a whole income equals expenditure (on current and capital account, at home and abroad), any one sector may have a surplus of income over expenditure and so be a lender of funds to another sector, which needs to borrow because its expenditure exceeds its income. Table A

Table A
Income and expenditure

£ millions
Seasonally adjusted

	Income from employment and trading ^{a,b}	Transfer incomes etc. ^b	less Consumption ^c	less Current transfer payments	<i>equals</i> Saving	less Gross domestic capital formation ^d	less Capital transfers (net payments-)	<i>equals</i> Financial surplus/deficit ^e
Personal sector								
1968 1st half	12,438	5,375	-13,343	-3,358	1,112	- 663	-102	347
2nd half	12,866	5,518	-13,727	-3,535	1,122	- 672	-128	322
1969 1st half	13,293	5,636	-14,032	-3,666	1,231	- 593	-228	410
2nd half	13,816	5,746	-14,558	-3,865	1,139	- 647	-156	336
Company sector								
1968 1st half	2,547	1,666	—	-2,587	1,626	-1,602	204	228
2nd half	2,518	1,715	—	-2,664	1,569	-1,907	216	-122
1969 1st half	2,514	1,917	—	-2,788	1,643	-2,005	206	-156
2nd half	2,543	1,930	—	-2,871	1,602	-2,129	326	-201
Public sector								
1968 1st half	708	7,689	- 3,816	-3,288	1,293	-1,952	-102	-761
2nd half	752	8,235	- 3,909	-3,367	1,711	-1,900	- 88	-277
1969 1st half	805	8,575	- 3,970	-3,422	1,988	-1,819	22	191
2nd half	760	9,173	- 4,163	-3,543	2,227	-1,924	-170	133
Overseas sector^f								
1968 1st half								222
2nd half								87
1969 1st half								- 91
2nd half								-275

^a Before providing for depreciation and stock appreciation.

^b Rent and income from self-employment are included with transfer incomes and not with income from trading.

^c Other than depreciation.

^d Including stocks.

^e The sum of the sector surpluses and deficits corresponds to the residual error in the national income accounts.

^f An overseas sector deficit corresponds to a balance of payments surplus on current account.

is designed to show how the sectors come to be in such positions of "financial surplus" or "financial deficit".

In real terms, the largest expansionary influence on the economy in the last two years was the balance of payments. Exports of goods and services at constant prices rose by 8% between 1968 and 1969 (at current prices the rise was 11%), although the rate of growth slackened during last year. Imports, on the other hand, grew slowly. Personal consumption increased only a little in real terms although, because of price increases, considerably more in money terms. The course of capital expenditure at home was erratic. In order to qualify for higher rates of investment grants then in force, companies brought forward into the second half of 1968 a good deal of expenditure on fixed assets which would otherwise have occurred in the first half of 1969. But for this, there would have been considerable growth between 1968 and 1969 – much of it again reflecting price increases. Public corporations and private individuals, on the other hand, spent less on fixed assets in 1969 than in 1968, even at current prices. The rate of stockbuilding, which had been recovering during 1968 and had then fallen in the first three quarters of 1969 revived sharply in the fourth quarter. The accumulation at that time included large amounts of finished goods and may have been a reflection of fluctuations in final demand.

As expenditure rose so did personal and corporate incomes. In the second half of 1969 personal incomes were some 3% higher than in the first half. But outgoings also increased; consumption rose in money terms and there were greater tax payments and social security contributions to be made, so that personal saving was actually a little smaller.

The pattern of companies' income in the current cycle of industrial production has been rather different from that in the previous two cycles.¹ At no stage in the recent upswing of the current cycle of production have company trading profits risen appreciably as a proportion of domestic income. Even in absolute terms profits have failed to grow; indeed between 1968 and 1969 they fell, after taking account of stock appreciation. Receipts of interest and income from abroad have been rising in recent years, but so too have payments of interest and of taxes. On balance, there was little increase in company saving between 1968 and 1969. Capital expenditure, on the other hand, has been rising, especially in money terms, and after the fall in 1967 rose strongly in both 1968 and 1969. Over this period therefore the company sector has moved into increasingly heavy financial deficit.

The public sector's income continued to rise rapidly in 1969. This was partly due to the trading surpluses of public corporations, but it mainly reflected larger tax receipts by the Government because of both increased incomes and

¹ See March 1967 *Bulletin*, page 33.

higher rates of indirect taxes. Public expenditure has been kept under restraint, but expenditure on goods and services rose last year because of pay and price increases, and payments of social security benefits were larger. Even so, the public sector's current surplus continued to rise, and in the second half of 1969 was twice as large as two years previously. Public sector capital spending has been little changed over the past two years even in money terms, and so the sector has gone from deficit into unprecedented and large surplus.

Overseas sector

The current account in the balance of payments moved into surplus at the beginning of 1969, and the surplus was very large in the second half of the year. In the flow of funds accounts the United Kingdom's surplus appears as the

Table B
Overseas sector^a

£ millions Seasonally adjusted	1968			1969				1970
	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.
Financial surplus +/deficit -	+109	+ 15	+ 72	- 23	-68	-135	-140	
Financial transactions by overseas sector								
Claims on U.K. increase +/decrease -								
Liabilities to U.K. increase -/decrease +								
Transactions with the U.K. private sector								
Long-term:								
Capital issues in United Kingdom	+ 8	+ 30	+ 1	- 4	-10	+ 22	—	- 4
Other transactions in company and overseas securities	- 68	+ 26	- 60	- 17	+59	+ 63	+ 32	
Miscellaneous private investment	- 1	+ 73	- 42	- 5	-53	- 14	- 23	
	<u>- 61</u>	<u>+129</u>	<u>-101</u>	<u>- 26</u>	<u>- 4</u>	<u>+ 71</u>	<u>+ 9</u>	
Monetary:								
Deposits with U.K. banks less claims of U.K. banks ^b	- 65	+ 94	- 80	-116	-45	- 84	+126	+192
Other	-146	- 41	- 52	+ 90	—	- 15	+ 75	
	<u>-211</u>	<u>+ 53</u>	<u>-132</u>	<u>- 26</u>	<u>-45</u>	<u>- 99</u>	<u>+201</u>	
Balancing item	+ 8	- 16	+ 33	+111	-30	-104	+205	
	<u>-264</u>	<u>+166</u>	<u>-200</u>	<u>+ 59</u>	<u>-79</u>	<u>-132</u>	<u>+415</u>	
Transactions with the U.K. public sector								
Lending etc. ^c	- 18	- 1	- 9	+ 1	+11	- 28	- 24	
External finance of: ^d								
Central government	+451	-155	+270	- 83	-32	- 38	-535	-730
Local authorities	- 60	+ 5	+ 11	- 7	+ 1	+ 35	- 1	+ 2
Public corporations	—	—	—	+ 7	+31	+ 28	+ 5	—
	<u>+373</u>	<u>-151</u>	<u>+272</u>	<u>- 82</u>	<u>+11</u>	<u>- 3</u>	<u>-555</u>	

^a It has not been possible to include in this table the balance of payments estimates for the first quarter of 1970 and revisions to previous quarters which were released in June and appear in the annex, Table 18.

^b Other than purchases of securities.

^c Those overseas transactions of the public sector which are not included in D.C.E.

^d Those overseas transactions of the public sector which are included in D.C.E.

overseas sector's deficit. Table B shows how movements in the various assets and liabilities of the overseas sector financed this deficit.

The improvement in the balance of payments has gone some way to relieve pressures on the private sector of the domestic economy, on both current and capital account. Earnings from increased exports (or increased import substitution) will have occurred mainly in the private sector, which also received more capital funds from overseas (at short and long term) in 1969 than in 1968; the inflow in the fourth quarter was particularly marked. Within the total inflow in 1969 there were various offsetting movements. For example, in the second and third quarters financial institutions sold overseas securities – prices were falling at the time on American stock markets – and, pending re-investment, held the proceeds mainly as short-term foreign currency balances. Some of these funds were drawn on in the fourth quarter, when the institutions bought overseas securities on a modest scale. On balance, monetary flows were much more favourable to the reserves in 1969 than in the previous year. Confidence in sterling revived with the growing awareness of the improvement in the balance of payments; and the atmosphere in the exchange markets became calmer after the revaluation of the Deutschemark. As a result the closing months of the year saw a reversal of positions previously taken against the pound in the timing of commercial payments; at the same time, liquidity pressures encouraged inflows over intercompany accounts. Some of these movements are not recorded in official statistics and so contribute to the large favourable balancing item in 1969.

Because the private sector was obtaining foreign exchange on such a scale, the public sector was able to use it to repay a very large amount of debt to the overseas sector. The net external transactions of the central government (changes in overseas holdings of Treasury bills, gilt-edged stocks and other debt, less the change in the reserves) amounted to a repayment of as much as £535 million in the fourth quarter and to nearly £700 million in 1969 as a whole.

Public sector

The current surplus (saving) of the public sector was a little smaller in the fourth quarter than it had been in the third. At the same time payments of capital transfers rose – reflecting the lag of twelve months in the payment of investment grants on companies' capital expenditure bunched in the last quarter of 1968. The sector's capital expenditure also rose a little, and in sum the financial surplus in the first three quarters was followed by rough balance in the fourth.

The financial surplus of the central government followed a similar pattern – large and growing in the first three quarters of the year, but smaller in the fourth. The surplus appears to have grown again in the first quarter of 1970. The Government's ability to repay debt was affected by two other

substantial factors besides the financial surplus. First, import deposits caused large receipts by the Government in the first and second quarters of 1969 and small payments thereafter. Secondly, lending to local authorities and nationalised industries was rather larger in the third and fourth quarters than in surrounding periods. (Such lending within the public sector does not appear in Table C.) The Government were thus able to repay substantial amounts of debt in the first and second quarters of 1969, smaller amounts in the third and fourth quarters, and then another large sum in the first quarter of 1970.

In the fourth quarter, the enormous inflow from overseas, discussed above, enabled the Government to repay a large amount of overseas debt. Because of the financing of this inflow, their domestic borrowing requirement was larger than for many quarters past. Much of this borrowing took the form of sales of gilt-edged stocks to financial institutions and individual investors (a development which itself partly resulted from the strength of the external position). There was also an exceptionally large increase in the general public's holding of notes and coin. It is believed that the

Table C
Public sector

£ millions
Seasonally adjusted

	1968			1969				1970
	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.
Saving (current surplus)	+700	+781	+930	+897	+1,091	+1,145	+1,082	+1,116
Capital transfers (net)	- 51	- 49	- 39	+ 55	- 33	- 54	- 116	+ 187
Capital expenditure	-968	-942	-958	-903	- 916	- 947	- 977	- 912
Financial surplus +/deficit -	-319	-210	- 67	+ 49	+ 142	+ 144	- 11	+ 391
Lending and other transactions (increase +) ^a	- 28	+ 87	+114	+128	+ 36	+ 42	+ 104	..
Import deposits (increase -)			- 77	-268	- 217	+ 7	+ 10	+ 11
Central government's borrowing requirement (increase in liabilities -):								
External finance	-451	+155	-270	+ 83	+ 32	+ 38	+ 535	+ 730
Notes and coin with the public	- 19	- 11	- 43	- 22	- 2	- 15	- 102	- 44
Bank borrowing	- 12	-216	+235	+211	+ 305	+ 269	- 133	+ 34
Other domestic borrowing	+150	- 49	+144	+185	- 4	- 119	- 318	- 311
	-313	-110	+109	+479	+ 333	+ 187	+ 119	+ 359
Local authorities (increase -): ^b								
External finance	+ 60	- 5	- 11	+ 7	- 1	- 35	+ 1	- 2
Bank borrowing	- 29	- 83	- 50	-137	- 89	+ 100	- 197	- 115
Other domestic borrowing	-171	- 53	-106	- 54	- 33	- 122	- 40	..
	-140	-141	-167	-184	- 123	- 57	- 236	..
Public corporations (increase -):								
External finance	—	—	—	- 7	- 31	- 28	- 5	—
Domestic borrowing	+ 7	- 34	- 27	+ 13	+ 7	- 31	+ 37	..
	+ 7	- 34	- 27	+ 6	- 24	- 59	+ 32	..
Identified financial transactions	-474	-198	- 48	+161	+ 5	+ 120	+ 29	..
<i>Unidentified</i>	+155	- 12	- 19	-112	+ 137	+ 24	- 40	..

.. not available.

^a Consisting principally of lending by the public sector (including public corporations' identified trade credit) and changes in bank deposits.

^b Including the Northern Ireland Government.

public have taken up more of the 50p coins than were required to replace ten shilling notes, which would explain part of the rise. But the Government had also to borrow from their residual source of finance—the banks—for the first time for over a year.

In the first quarter of 1970 there was an even heavier inflow from overseas. However, the expansionary effect on the domestic borrowing requirement was offset by further sales of gilt-edged stocks to the private sector, and by a reduction in the rate of withdrawals from national savings. The Government were thus able to resume repayment of debt to the banks.

Local authority borrowing from outside the public sector, which had been falling, rose markedly in the last quarter of 1969. The local authorities did not attract funds directly from overseas, and domestic sources apart from the banks provided less than in the third quarter (lending more at longer term, but much less temporary money). However, the banks lent more than for a long time past, much of it at terms of just over twelve months. Local authorities continued to call on bank finance in the first quarter of 1970.

Personal sector

Over the past two years the personal sector has increased its share of domestic income; but it has had to pay more tax

Table D
Personal sector

£ millions

Seasonally adjusted

	1968			1969			
	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Saving	+642	+545	+577	+715	+516	+525	+614
Capital transfers (net)	- 54	- 55	- 73	-142	- 86	- 78	- 78
Capital expenditure	-328	-316	-356	-309	-284	-314	-333
Financial surplus +/-deficit -	+260	+174	+148	+264	+146	+133	+203
Borrowing -							
Loans for house purchase	-249	-244	-190	-219	-201	-214	-184
Bank borrowing ^a	- 30	- 70	+ 80	+ 93	+ 19	+ 56	- 95
Hire purchase debt	+ 17	+ 4	- 14	+ 9	+ 12	+ 17	- 13
Other borrowing	- 13	- 9	- 14	- 27	- 41	- 13	+ 19
	-275	-319	-138	-144	-211	-154	-273
Acquisition of financial assets +							
Life assurance and pension funds	+380	+384	+406	+395	+425	+375	+400
Government stocks	-127	+ 51	-180	-161	+ 30	+102	+112
Company and overseas securities	-216	-196	- 98	-184	- 73	-151	-193
Unit trust units	+ 67	+ 68	+ 72	+ 91	+ 42	+ 29	+ 24
Bank deposits, notes and coin	+292	+257	+ 36	+133	+ 28	+ 48	+263
Building society shares and deposits	+207	+166	+240	+205	+256	+205	+253
National savings	- 51	- 19	- 18	+ 4	-103	- 50	- 75
Local authority debt	+113	+103	- 7	+ 20	+ 27	+133	+ 30
Other	+ 50	+ 40	+ 66	+ 56	+ 14	- 2	+ 30
	+715	+854	+517	+559	+646	+689	+844
Identified financial transactions	+440	+535	+379	+415	+435	+535	+571
<i>Unidentified</i>	-180	-361	-231	-151	-289	-402	-368

^a Other than for house purchase.

and, though barely increasing real consumption, has been spending more because of price increases. On balance, the sector's saving has neither risen nor fallen over the period (too much attention should not be given to quarter-by-quarter fluctuations, given the difficulties of measurement). As capital expenditure, including expenditure on stocks, has also remained reasonably stable, so has the financial surplus – despite variations from one quarter to another. The sector's financial surplus measures the funds available for investment in financial assets, but it is itself in part determined by financial conditions. For example, the restricted availability of loans for house purchase has been one constraint on personal sector investment in housing, which is a large part of its capital expenditure.

Among persons' other financial transactions the largest is their net contribution to life assurance funds and occupational pension schemes; the steady inflow into these funds continued in the fourth quarter of 1969. Persons spent less on marketable assets in the fourth quarter than in the third – they bought rather more gilt-edged stock but sold more equities and debentures, and put less into unit trusts. They increased their deposits with banks and building societies, but reduced their holdings of non-marketable longer-term debt (making large withdrawals from national savings and lending less to local authorities). They succeeded in borrowing a large amount from the banks, after four quarters in which advances had been substantially reduced. In the first quarter of 1970 repayments of advances were resumed and bank deposits grew hardly at all.

Industrial and commercial companies

Of all domestic sectors, companies have been in the most need of finance over the last year or so. Their capital expenditure has been rising, but there has been no increase in their income with which to finance it. Although companies' need for outside finance was greater towards the end of 1969 than in the first part of the year, so too was their success in obtaining it. They were thus in an easier financial position towards the end of the year, at least to the extent that they were more easily able to meet the pressures on liquidity. The change occurred partly because, early in the year, companies had to place large sums with the central government as import deposits, before the scheme came into rough balance. Again, companies benefited from the large inflow of funds from abroad once the parity realignments had been completed. As already mentioned, some of the inflow was not recorded, and so contributed to the large favourable balancing item in the balance of payments estimates for the fourth quarter. These unrecorded flows have a counterpart in the unidentified transactions of companies. (Their unidentified net acquisitions were unusually small in the fourth quarter.) Cumulatively the pressures on companies appear to have built up to a peak

Table E
Industrial and commercial companies

£ millions

Seasonally adjusted

	1968			1969			
	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Saving	+758	+761	+702	+713	+766	+719	+ 723
Capital transfers (net)	+106	+105	+112	+128	+123	+134	+ 200
Capital expenditure	-781	-770	-953	-884	-872	-865	-1,047
Financial surplus +/deficit -	+ 83	+ 96	-139	- 43	+ 17	- 12	- 124
Increase in liabilities -							
Overseas investment in U.K. companies	- 84	-143	- 96	-129	- 70	- 97	- 119
Bank borrowing	-134	+ 99	-362	-255	- 2	-400	+ 15
Capital issues and borrowing abroad	-122	-164	-194	-190	-172	- 77	- 79
Other borrowing	- 33	- 25	- 66	-126	-114	-121	- 71
	<u>-373</u>	<u>-233</u>	<u>-718</u>	<u>-700</u>	<u>-358</u>	<u>-695</u>	<u>- 254</u>
Acquisition of financial assets +							
Import deposits			+ 76	+242	+193	- 16	- 11
Bank deposits, notes and coin	+154	-177	+246	-101	-204	+ 92	- 22
Other liquid assets ^a	- 5	- 38	- 34	+ 41	- 19	- 56	- 37
Investment abroad	+183	+ 90	+190	+173	+162	+194	+ 147
Company securities	+ 81	+ 96	+100	+ 91	+ 68	+ 75	+ 56
Other	- 14	- 59	- 5	- 46	- 33	+ 18	- 17
	<u>+399</u>	<u>- 88</u>	<u>+573</u>	<u>+400</u>	<u>+167</u>	<u>+307</u>	<u>+ 116</u>
Identified financial transactions	+ 26	-321	-145	-300	-191	-388	- 138
<i>Unidentified</i>	+ 57	+417	+ 6	+257	+208	+376	+ 14

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

by the third quarter of 1969; and there is some evidence from the statistics of bad debts and business failures to support this view.

Because of the exchange inflow in the fourth quarter companies reduced their demands on the banks—the fall in their borrowing represented a far larger change than the fall in their deposits. The inflow also enabled companies to hold back from the capital market in the hope of lower interest rates and higher equity prices, and the volume of capital issues remained depressed. Borrowing from other sources also fell.

In the first quarter of 1970 there were further inflows of foreign funds. Companies had even less recourse to capital markets for finance but increased their borrowing from the banks very substantially.

Financial institutions other than banks

Receipts of funds by the institutions revived in the fourth quarter. Large increases in deposits were the main reason for the change; the building societies and finance houses took more, but the inflow into savings banks' special investment departments continued to decline, despite increased rates of interest on deposits. Issues of new capital by investment trusts and sales of units by unit trusts fell yet again. The latter reached the lowest quarterly figure for just over two years; the upturn in the equity market, which was mainly attributable to renewed buying by the institutions, was not

Table F
Financial institutions other than banks

£ millions

Seasonally adjusted

	1968			1969			
	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Sources of funds (increase -)							
Life assurance and pension funds	-380	-384	-406	-395	-425	-375	-400
Building society shares and deposits	-208	-167	-241	-205	-256	-206	-253
Other deposits	+ 21	- 19	- 49	-113	+ 2	- 7	- 62
Capital issues	- 13	- 61	- 32	- 47	- 22	- 15	- 11
Unit trust units	- 67	- 68	- 72	- 91	- 42	- 29	- 24
Other borrowing (mainly from banks)	- 94	+ 51	+ 6	+ 24	- 4	- 6	+ 7
	-741	-648	-794	-827	-747	-638	-743
Acquisition of financial assets +							
Short-term assets	+ 21	- 29	+150	+ 58	+ 55	+ 83	+ 32
Government stocks	+ 17	+ 21	- 17	- 29	+ 76	+ 93	+138
Company and overseas securities:							
Ordinary shares	+217	+188	+150	+171	+ 18	+ 41	+146
Loan stocks	+ 68	+ 84	+ 81	+134	+103	+ 21	+ 35
Other	—	- 15	- 14	+ 3	- 5	- 12	- 5
Loans for house purchase	+238	+225	+185	+224	+207	+218	+197
Long-term local authority debt	+ 32	+ 28	+ 29	+ 25	+ 11	+ 6	+ 18
Hire purchase claims	- 17	+ 3	+ 6	- 5	- 15	- 3	+ 2
Other lending	+ 22	+ 34	+ 34	+ 80	+ 83	+ 45	- 6
	+598	+539	+604	+661	+533	+492	+557

immediately reflected in sales of units. There were, however, fairly large issues by special finance agencies.

On the assets side of the institutions' accounts, the principal increases were in purchases of gilt-edged stocks and equities. The return to the equity market came after two quarters when the institutions bought very little; the largest change was in transactions by investment trusts, which had previously been reducing their portfolios and which now ran down some of the short-term assets acquired instead earlier in the year. Some of these operations took place in overseas capital markets (as described above) but the trusts also started buying equities again in London. The unit trusts also moved back into the equity market, but their purchases were smaller than those of the investment trusts, reflecting their earlier unwillingness to go liquid when the market was falling. Institutional purchases of debentures were very slightly larger than in the third quarter - when they had been extremely small - even though issues of debentures fell; companies were unwilling to borrow at long term when interest rates were high and declining. There were large net purchases of gilt-edged stocks by the institutions: the life assurance and pension funds bought long-dated issues whose prices were rising; the investment trusts also bought gilt-edged in (for them) large amounts, and at the longer end of the market; and the building societies bought a lot of shorter-dated stock out of their increased inflow of funds. The societies lent less for house purchase despite the greater inflow, probably because they wanted to be sure the inflow was a continuing one before they committed themselves to a higher rate of lending.

The total of funds passing directly from institutions to companies (through subscriptions to capital issues and through non-marketable loans) was still depressed in the fourth quarter. Finance provided through purchase and lease-back of property also seems not to have changed much. The institutions seem to have provided some indirect help to companies, potentially at least, to the extent that their renewed purchases of equities helped prices, and even raised them, thus making it easier for companies to make new issues; in fact, however, companies took relatively little advantage of the opportunity.

Banking sector

The changes in the accounting practices of the banks' have not made any breaks in the quarterly series of deposits and advances. Only in the case of banks' take-up of securities has a certain amount of estimation been required.

In the financial year 1969/70, the growth of the banking sector was subject to a number of offsetting influences. Some of these—for example, the growing public sector surplus, the build-up of the import deposit scheme and sales of gilt-edged stocks by the authorities—tended to hold down the growth of the banks' liabilities and assets. The private

Table G
Banks

£ millions

Seasonally adjusted

Lending: increase +/decrease -

Deposits: increase -/decrease +

	1968			1969				1970
	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.
Private sector:								
Persons:								
Lending	+ 40	+ 80	- 75	- 98	- 19	- 51	+ 90	- 60
Deposits	-282	-252	- 15	-122	- 27	- 40	-209	- 8
Net lending	-242	-172	- 90	-220	- 46	- 91	-119	- 68
Companies:								
Lending	+251	-128	+368	+251	+ 14	+416	- 17	+262
Deposits	-153	+149	-246	+ 47	+165	-155	+ 71	+ 86
Net lending	+ 98	+ 21	+122	+298	+179	+261	+ 54	+348
Public sector:								
Lending	+ 33	+332	-159	- 88	-223	-341	+293	+ 83
Deposits	+ 42	- 13	- 10	- 73	+ 49	- 17	- 24	- 76
Net lending	+ 75	+319	-169	-161	-174	-358	+269	+ 7
Total domestic lending	+324	+284	+134	+ 65	-228	+ 24	+366	+285
Total domestic deposits	-393	-116	-271	-148	+187	-212	-162	+ 2
Net lending to overseas^a	+ 64	- 95	+ 86	+119	+ 61	+ 80	-122	-160
Non-deposit liabilities (net)	+ 5	- 73	+ 51	- 36	- 20	+108	- 82	-127

^a Claims on overseas net of overseas deposits.

¹ See the additional notes to Tables 8 and 9 of the statistical annex which appear on pages 244 and 245.

sector was obliged to finance these transfers to the public sector in part from bank deposits, given the official restraints on bank lending; and the public sector was able to repay debt to the banks. At the same time, the inflow of funds from abroad made for faster growth to the extent that it either provided the private sector with an alternative source of funds or took the form of deposits with the banks themselves. On the other side of the balance sheet, the public sector was tending to borrow more from the banks in so far as it had to finance the increase in the reserves (or to replace overseas finance).

Quarter by quarter some of these trends were obscured by random fluctuations. (Special factors tend to affect banking figures at the ends of quarters.) But on balance the money supply grew more slowly in 1969/70 than in the previous financial year, and more slowly in the first half of 1969/70 than in the second half – by which time the influence of the favourable balance of payments position was making itself felt.

Personal sector deposits form an important part of the total money supply, and in most years they have grown by large amounts. In 1969/70, however, although persons remained in financial surplus, their deposits grew only slowly. Personal sector borrowing, on the other hand, is a comparatively small part of total borrowing from the banks. Much (but not all) of it is by private individuals, and the banks have been able to accord it only low priority in recent years; persons have indeed repaid debt in most quarters recently.

Companies are net debtors to the banks (their deposits are smaller than their advances) and in all recent periods they have increased their net indebtedness. Gross borrowing has fluctuated from quarter to quarter, partly influenced by factors which also influence public sector borrowing from banks – the public sector's surplus, its sales of debt to those outside the banking system, and its external finance. Company borrowing has thus tended to rise when public sector borrowing falls; although fluctuations in public sector borrowing are also partly reflected in companies' bank deposits.

Domestic credit

Alongside the small rise in the money supply, domestic credit contracted during 1969/70. Those influences tending to make for a small growth in the money supply also serve to restrain domestic credit; but the overseas inflow, which added to the money supply, is largely offset in the calculation of domestic credit, and did not directly affect it. Table H shows how domestic credit is made up, and its relationship with the money supply.

When, as in the six months to March 1970, funds are flowing in across the exchanges, the Government have to buy foreign exchange and replace overseas finance with domestic finance, mostly from the banks; in such a situation

bank lending rises faster than domestic credit. In the first quarter of 1970, bank lending rose by more than £200 million while domestic credit contracted by some £450 million. However, the banking sector element of domestic credit is not precisely matched by the banking sector element of the money supply (domestic deposits). Banks lend, for instance, against non-deposit liabilities. More important, they both lend and borrow overseas and, when the balance of payments is favourable, they may increase their net deposit liabilities to overseas – as has happened in the latest two quarters. When this happens, the rise in domestic deposits will be smaller than the rise in bank lending within domestic credit; and in the first quarter the money supply rose by £42 million, some £190 million less than bank lending.

Table H
Domestic credit expansion and increase in the money supply

£ millions

	Public sector borrowing				Bank assets in	
	Total public sector borrowing (= Cols. 2 to 5)	Sales + of debt to private sector (other than banks)	Currency in circulation with the public	External finance of public sector	Bank lending to public sector	Bank lending to private sector ^a
	1	2	3	4	5	6
Changes in period						
Financial years						
1967/68	+1,957	+431	+106	+1,446	- 26	+688
1968/69	+ 453	-141	+ 69	+ 417	+108	+507
1969/70	- 587	+758	+129	-1,245	-229	+619
Quarters (unadjusted)						
1968 July-Sept.	+ 579	+146	-104	- 69	+606	-349
Oct.-Dec.	+ 524	- 77	+ 56	+ 348	+197	+207
1969 Jan.-Mar.	-1,202	-261	+ 56	- 207	-790	+309
Apr.-June	- 79	+ 80	- 4	- 54	-101	+ 51
July-Sept.	+ 230	+283	- 45	+ 101	-109	+118
Oct.-Dec.	+ 578	+230	+139	+ 429	+638	+ 26
1970 Jan.-Mar.	-1,316	+165	+ 39	- 863	-657	+424
Quarters (seasonally adjusted) ^c						
1968 July-Sept.	+ 27	-166	+ 11	- 150	+332	- 83
Oct.-Dec.	- 142	-307	+ 43	+ 287	-159	+225
1969 Jan.-Mar.	- 304	-155	+ 22	- 83	- 88	+118
Apr.-June	- 186	+ 35	+ 2	-	-223	- 20
July-Sept.	- 71	+230	+ 15	+ 25	-341	+355
Oct.-Dec.	+ 86	+222	+102	- 531	+293	+ 63
1970 Jan.-Mar.	- 307	+294	+ 44	- 728	+ 83	+187

Money supply

	Total money supply (= Cols. 13 + 14)	Currency in circulation with the public	Bank deposits of domestic sectors
	12	13	14
Financial years			
1967/68	+1,239	+106	+1,139
1968/69	+ 914	+ 69	+ 845
1969/70	+ 301	+129	+ 172
Quarters (unadjusted)			
1968 July-Sept.	+ 100	-104	+ 204
Oct.-Dec.	+ 682	+ 56	+ 626
1969 Jan.-Mar.	- 387	+ 56	- 443
Apr.-June	- 18	- 4	- 14
July-Sept.	+ 244	- 45	+ 289
Oct.-Dec.	+ 624	+139	+ 485
1970 Jan.-Mar.	- 549	+ 39	- 588
Quarters (seasonally adjusted) ^c			
1968 July-Sept.	+ 127	+ 11	+ 116
Oct.-Dec.	+ 314	+ 43	+ 271
1969 Jan.-Mar.	+ 170	+ 22	+ 148
Apr.-June	- 185	+ 2	- 187
July-Sept.	+ 227	+ 15	+ 212
Oct.-Dec.	+ 264	+102	+ 162
1970 Jan.-Mar.	+ 42	+ 44	- 2

— nil or less than half the final digit shown.

^a Other than in foreign currency for investment abroad.

^b D.C.E. also equals columns 1 - 2 + 6 + 7.

^c The adjustments are those used for the flow of funds matrix and are therefore based on calendar years. Because the seasonal pattern may change from year to year, the adjusted figures cannot be expected to add to the unadjusted totals over financial years, even apart from minor differences due to day-of-the-week effects; (see note on page 158).

D.C.E.		Other bank assets		
Bank lending in sterling to overseas	Total D.C.E. ^b (= Cols. 3 to 7)	Bank lending in foreign currency to overseas	Bank lending in foreign currency to private sector for investment overseas	Total bank assets = liabilities (= Cols. 5 to 7, 9 and 10)
7	8	9	10	11
+ 66	+2,280	+1,503	+ 75	+2,306
+ 74	+1,175	+3,152	+160	+4,001
+ 101	- 625	+3,807	+ 50	+4,348
- 13	+ 71	+ 365	+ 35	+ 644
+ 16	+ 824	+ 664	+ 68	+1,152
- 6	- 638	+1,096	+ 35	+ 644
+ 40	- 68	+2,331	+ 15	+2,336
+ 50	+ 115	+ 995	+ 10	+1,064
+ 50	+ 424	+ 306	+ 10	+1,030
- 39	-1,096	+ 175	+ 15	- 82
- 13	+ 97	+ 344	+ 35	+ 615
+ 16	+ 406	+ 654	+ 68	+ 804
- 6	- 37	+1,156	+ 35	+1,215
+ 40	- 201	+2,304	+ 15	+2,116
+ 50	+ 104	+ 974	+ 10	+1,048
+ 50	- 23	+ 294	+ 10	+ 710
- 39	- 453	+ 251	+ 15	+ 497

Financial years

1967/68
1968/69
1969/70

Quarters

(unadjusted)
1968 July-Sept.
Oct.-Dec.
1969 Jan.-Mar.
Apr.-June
July-Sept.
Oct.-Dec.
1970 Jan.-Mar.

Quarters

(seasonally adjusted)^c
1968 July-Sept.
Oct.-Dec.
1969 Jan.-Mar.
Apr.-June
July-Sept.
Oct.-Dec.
1970 Jan.-Mar.

Bank liabilities

Bank deposits of overseas	Non-deposit liabilities (net)	Total bank liabilities = assets (= Cols. 14 to 16)
15	16	17
+1,118	+ 49	+2,306
+3,059	+ 97	+4,001
+4,075	+101	+4,348
+ 397	+ 43	+ 644
+ 544	- 18	+1,152
+1,061	+ 26	+ 644
+2,325	+ 25	+2,336
+ 913	-138	+1,064
+ 425	+120	+1,030
+ 412	+ 94	- 82
+ 426	+ 73	+ 615
+ 584	- 51	+ 804
+1,031	+ 36	+1,215
+2,283	+ 20	+2,116
+ 944	-108	+1,048
+ 466	+ 82	+ 710
+ 372	+127	+ 497

Financial years

1967/68
1968/69
1969/70

Quarters

(unadjusted)
1968 July-Sept.
Oct.-Dec.
1969 Jan.-Mar.
Apr.-June
July-Sept.
Oct.-Dec.
1970 Jan.-Mar.

Quarters

(seasonally adjusted)^c
1968 July-Sept.
Oct.-Dec.
1969 Jan.-Mar.
Apr.-June
July-Sept.
Oct.-Dec.
1970 Jan.-Mar.

Table J
Flow of funds: quarterly figures

£ millions

Not seasonally adjusted

Line	Public sector			Overseas sector ^a		
	1969		1970	1969		1970
	3rd qtr.	4th qtr.	1st qtr.	3rd qtr.	4th qtr.	1st qtr.
Financial surplus +/-deficit -						
Saving	1	+789	+835			
Taxes on capital and capital transfers	2	- 54	-116			
<i>less:</i>						
Gross fixed capital formation at home	3	-915	-972			
Increase in value of stocks and work in progress	4	- 32	+ 3			
Financial surplus +/-deficit -	5	-212	-250	-106	-129	
Changes in financial assets and liabilities						
Assets: increase +/decrease -						
Liabilities: increase -/decrease +						
Net indebtedness of Government to Bank of England, Banking Department	6	+ 38	- 39	+ 142		
Life assurance and pension funds	7					
Government loans	8	- 26	+ 63		- 27	- 60
Official reserves	9	- 4	+ 39	- 95	+ 4	- 39
Government transactions with I.M.F.	10	+ 11	+ 11	+ 104	- 11	- 11
Miscellaneous investment overseas (net)	11	- 51	+153		+ 30	-125
Notes and coin	12	+ 7	-263	+ 78		
Bank deposits	13	+ 6	+ 23	+ 50	+ 913	+425
Deposits with other financial institutions	14				- 11	+ 21
National savings	15.1	+ 66	+ 93			
Tax reserve certificates	15.2	- 18	- 36	+ 135		
Import deposits	15.3	+ 7	+ 10	- 11	+ 9	+ 1
Bank lending	16	- 32	+ 40	+ 1	-1,049	-352
Hire purchase debt	17	—	+ 2			-127
Loans for house purchase	18	- 9	- 8			
Other loans	19	+ 61	+119			
Marketable government debt:						
Treasury bills	20	+ 61	- 47	+1,267	- 61	-264
Stocks	21	-166	-428	- 309	+ 34	+ 73
Local authority debt	22	- 79	-111		+ 26	- 9
U.K. company and overseas securities:						
Capital issues	23				+ 22	—
Other transactions	24	+ 5	+ 1		+ 63	+ 32
Unit trust units	25					- 4
Identified financial transactions	26	-123	-378		- 4	-308
<i>Unidentified</i>	27	- 89	+128		- 102	+179
Total = Financial surplus +/-deficit -	28	-212	-250		- 106	-129

— nil or less than half the final digit shown.

^a It has not been possible to incorporate in this table the revised balance of payments estimates released in June.

Private sector

Persons			Industrial and commercial companies			Banks			Other financial institutions			Line
1969		1970	1969		1970	1969		1970	1969		1970	
3rd qtr.	4th qtr.	1st qtr.	3rd qtr.	4th qtr.	1st qtr.	3rd qtr.	4th qtr.	1st qtr.	3rd qtr.	4th qtr.	1st qtr.	
+529	+452		+811	+979		+141	+206					1
- 78	- 78		+134	+200		- 2	- 6					2
-281	-268		-696	-779		-110	-115					3
- 36	- 42		-200	-243		-	-					4
+134	+ 64		+ 49	+157		+ 29	+ 85					5
						1969		1970	1969		1970	
						3rd qtr.	4th qtr.	1st qtr.	3rd qtr.	4th qtr.	1st qtr.	
						- 38	+ 39	-142				6
+375	+400		- 3	- 5					-375	-400		7
+ 1	+ 1								+ 1	+ 1		8
												9
			+ 48	- 32					- 27	+ 4		10
												11
- 12	+ 70	+ 22	- 33	+ 69	+ 17	+ 38	+124	-117				12
+ 11	+336	-146	+226	+ 77	-391	-1,202	-910	+176	+ 46	+ 49	-100	13
+207	+302		+ 20	+ 9					-216	-332		14
- 66	- 93	+ 16									+ 3	15.1
+ 2	+ 15	- 36	+ 10	+ 20	- 65	+ 6	+ 1	- 37	-	-		15.2
			- 16	- 11								15.3
+ 86	- 86	+ 41	-205	+ 22	-403	+1,195	+349	+545	+ 5	+ 27	- 56	16
+ 16	- 42		- 14	+ 60					- 2	- 20		17
-223	-185					+ 5	- 5	+ 5	+227	+198		18
- 18	+ 31		-113	- 86		+ 97	- 94	+ 95	- 27	+ 30		19
			+ 2	- 1		- 14	+314	-510	+ 12	- 2		20
+102	+112					- 63	+105	- 65	+ 93	+138		21
+ 93	+ 74		- 12	- 48		- 68	+ 90	+219	+ 40	+ 4		22
			- 72	- 84	- 30	- 1	- 3	- 11	- 15	- 11	- 21	23
-151	-193		+ 91	+ 68		+ 13	+ 9	+ 40	+ 45	+181		24
+ 29	+ 24	+ 33							- 29	- 24	- 33	25
+452	+766		- 71	+ 58		- 32	+ 19	+198	-222	-157		26
-318	-702		+120	+ 99								27
									+283	+223		
+134	+ 64		+ 49	+157					+ 29	+ 85		28

Table K
Flow of funds: annual figures

£ millions

	Line	Public sector			Overseas sector ^a		
		1967	1968	1969	1967	1968	1969
Financial surplus +/deficit -							
Saving	1	+2,123	+3,004	+4,215			
Taxes on capital and capital transfers	2	- 62	- 190	- 148			
<i>less:</i>							
Gross fixed capital formation at home	3	-3,623	-3,796	-3,713			
Increase in value of stocks and work in progress	4	- 109	- 56	- 30			
Financial surplus +/deficit -	5	-1,671	-1,038	+ 324	+ 322	+ 309	- 366
Changes in financial assets and liabilities							
Assets: increase +/decrease -							
Liabilities: increase -/decrease +							
Net indebtedness of Government to Bank of England, Banking Department	6	+ 19	- 128	+ 128			
Life assurance and pension funds	7						
Government loans	8	+ 46	+ 41	+ 58	- 39	- 6	- 48
Official reserves ^b	9	- 319	- 114	+ 44	+ 319	+ 114	- 44
Government transactions with I.M.F.	10	+ 321	- 526	+ 15	- 321	+ 526	- 15
Miscellaneous investment overseas (net)	11	- 32 ^c	+ 199 ^c	+ 45	- 100 ^c	- 365 ^c	- 9
Notes and coin	12	- 152	- 186	- 197			
Bank deposits ^d	13	+ 12	- 34	+ 65	+ 742	+2,626	+4,724
Deposits with other financial institutions	14				- 76	- 104	+ 19
National savings	15.1	+ 43	+ 93	+ 224			
Tax reserve certificates	15.2	- 36	- 21	+ 27			
Import deposits	15.3		- 77	- 468		+ 1	+ 60
Bank lending ^d	16	+ 7 ^e	+ 48	+ 25	- 788	-2,856	-4,843
Hire purchase debt	17	- 10	+ 7	+ 3			
Loans for house purchase	18	+ 83	+ 11	- 23			
Other loans	19	- 14	+ 187	+ 139			
Marketable government debt:							
Treasury bills	20	- 393	- 548	+ 994	+ 398	+ 706	- 729
Stocks ^f	21	- 520	+ 504	- 184	+ 10	- 11	+ 164
Local authority debt	22	- 672	- 582	- 595	+ 6	- 57	+ 28
U.K. company and overseas securities:							
Capital issues	23				- 6	+ 44	+ 8
Other transactions	24	+ 5 ^f	+ 56	+ 13	- 50	- 164	+ 137
Unit trust units	25						
Identified financial transactions	26	-1,612	-1,070	+ 313	+ 95	+ 454	- 548
<i>Unidentified</i>	27	- 59	+ 32	+ 11	+ 227	- 145	+ 182
Total = Financial surplus +/deficit -	28	-1,671	-1,038	+ 324	+ 322	+ 309	- 366

—nil or less than half the final digit shown.

^a It has not been possible to incorporate in this table the revised balance of payments estimates released in June.

^b For coverage, see footnote *d* to Table 1 of the annex.

^c Includes adjustment for maturing forwards; see footnote *g* to Table 18 of the annex.

^d 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.

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

^f The figures are for cash transactions only; those for 1967 therefore exclude the exchange of securities of the re-nationalised steel companies for government stock.

Private sector

Persons			Industrial and commercial companies			Banks			Other financial institutions			Line
1967	1968	1969	1967	1968	1969	1967	1968	1969	1967	1968	1969	
+2,234	+2,234	+2,370	+2,594	+2,952	+2,921	+253	+243	+324				1
- 165	- 230	- 384	+ 231	+ 431	+ 585	- 4	- 11	- 53				2
-1,063	-1,155	-1,052	-2,281	-2,547	-2,722	-277	-359	-466				3
- 69	- 180	- 188	- 211	- 603	- 946	—	—	—				4
+ 937	+ 669	+ 746	+ 333	+ 233	- 162	- 28	-127	-195				5
						1967	1968	1969	1967	1968	1969	
+1,474	+1,603	+1,595				- 19	+ 128	- 128	-1,474	-1,603	-1,595	6
- 3	- 2	+ 3	- 5	- 37	- 16				+ 1	+ 4	+ 3	7
												8
			+ 121	+ 137	- 35				+ 11	+ 29	- 1	9
												10
+ 61	+ 72	+ 74	+ 64	- 20	+ 72	+ 27	+ 134	+ 51				11
+ 716	+ 657	+ 398	+ 303	+ 242	- 320	-1,926	-3,561	-5,041	+ 153	+ 70	+ 174	12
+1,248	+ 930	+1,028	+ 2	+ 25	+ 53				-1,174	- 851	-1,100	13
- 43	- 93	- 224										14
+ 9	+ 54	- 11	+ 29	- 20	- 28	- 10	- 8	+ 14	+ 8	- 5	- 2	15.1
				+ 76	+ 408							15.2
												15.3
- 138	- 43	+ 73	- 297 ^e	- 524	- 630	+1,297	+3,417	+5,357	- 81	- 42	+ 18	16
+ 13	- 22	+ 25	+ 22	+ 5	- 7				- 25	+ 10	- 21	17
- 980	- 962	- 818				+ 40	+ 20	- 5	+ 857	+ 931	+ 846	18
- 9	- 23	- 65	- 36	- 268	- 272	+ 1	—	- 5	+ 58	+ 104	+ 203	19
				- 38	- 12	—	- 111	- 251	- 5	- 9	- 2	20
- 237	- 259	+ 83				+ 233	- 283	- 341	+ 514	+ 49	+ 278	21
+ 115	+ 245	+ 210	+ 41	- 32	- 84	+ 346	+ 261	+ 323	+ 164	+ 165	+ 118	22
			- 415	- 482	- 512	- 1	- 24	- 12	- 67	- 132	- 95	23
- 680	- 750	- 601	+ 407	+ 363	+ 365	+ 59	+ 95	+ 47	+ 748	+ 994	+ 650	24
+ 84	+ 258	+ 186							- 84	- 258	- 186	25
+1,630	+1,665	+1,956	+ 236	- 573	-1,018	+ 47	+ 68	+ 9	- 396	- 544	- 712	26
- 693	- 996	-1,210	+ 97	+ 806	+ 856							27
							+321	+349	+508			
+ 937	+ 669	+ 746	+ 333	+ 233	- 162	- 28	-127	-195				28

Notes on sources, definitions and seasonal adjustments

Sources

The main statistical series used in compiling Tables J and K appear in the statistical annex to this *Bulletin* or in the following publications prepared by the Central Statistical Office: *Financial Statistics*, *Economic Trends* and *Preliminary Estimates of National Income and Balance of Payments 1964 to 1969* (Cmnd. 4328).

Definitions (line numbers refer to Tables J and K)

Public sector

- (i) Central government, including the National Insurance Funds, the Exchange Equalisation Account, the National Savings Bank Fund and the Issue Department (but not the Banking Department) of the Bank of England.
- (ii) Local authorities including such local bodies as water boards, harbour boards and passenger transport authorities.
- (iii) Nationalised industries and other public corporations.

Overseas sector Non-residents as defined for the balance of payments estimates (see *United Kingdom Balance of Payments 1969*, H.M.S.O., August 1969).

Persons (or personal sector) Individuals, unincorporated businesses, charities and private trusts, private non-profit-making bodies serving persons, and private trusts.

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, finance houses, National Savings Bank (investment account only), special investment departments of trustee savings banks, authorised unit trusts, property unit trusts, special finance agencies (e.g. the Agricultural Mortgage Corporation) and certain other institutions which accept deposits but which are not included in the banking sector.

Line 1 Saving The surplus of current income over current expenditure before providing for depreciation and stock appreciation. It includes additions to tax, dividend and interest reserves.

Line 5 Financial surplus/deficit The financial surplus (deficit) of a domestic sector measures the excess (shortfall) of its saving and net receipts of capital transfers over its capital expenditure at home on fixed assets and on stocks and work in progress. For the overseas sector a financial surplus is the counterpart of a deficit on current account in the U.K. balance of payments, and equals net overseas investment in the United Kingdom. An overseas sector deficit represents a U.K. current account surplus and hence net U.K. investment abroad. For all sectors combined, financial surpluses/deficits should add to nil, but in practice they do not, because of the discrepancy between estimates of total saving and total investment (the residual error in the national income accounts).

Line 6 Net indebtedness of Government to Bank of England, Banking Department The Banking Department's holdings of government debt and of notes and coin—regarded here as government liabilities—less the deposits of the National Loans Fund and the Paymaster General with the Bank.

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

Line 9 Official reserves Changes in the sterling equivalent of gold, convertible and non-convertible currencies and Special Drawing Rights held by the Exchange Equalisation Account. The initial allocation of Special Drawing Rights is excluded.

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

Line 11 Miscellaneous investment overseas (net) Balance of payments items not elsewhere included.

- (i) From the long-term capital account: U.K. official long-term capital (other than intergovernment loans); private investment (inward/outward) other than portfolio investment (but including all overseas borrowing by nationalised industries) and excluding the share and loan element of direct and oil investment (entered in lines 23 and 24).
- (ii) From monetary movements, part of miscellaneous capital and some changes in U.K. external liabilities and claims, the most important being transactions in commercial bills between non-residents and companies; the overseas transactions of some institutions which contribute to the statistics of external liabilities and claims but which are not included in the financial sectors; changes in official liabilities in foreign currencies arising from drawings on central bank facilities, together with changes in government bonds denominated in Hong Kong dollars; and export credit refinanced by the Issue Department of the Bank of England.

Line 12 Notes and coin Changes in Bank of England notes—treated here as liabilities of the public sector—in banks' liabilities on account of issues of Scottish and Northern Irish notes, and in coin. Changes in holdings outside the banking sector have been arbitrarily divided between persons and industrial and commercial companies, but some allowance has been made for movements brought about by the different days of the week on which the periods end.

Line 13 Bank deposits Changes in gross current and deposit accounts, except for the banking sector and industrial and commercial companies. The entries for the banking sector are changes in net deposits, i.e. current and deposit accounts after allowing for transit items (see the additional notes to Table 8 of the annex). The proper allocation of transit items is not known, but it is assumed that most of the changes in the figures arise from transactions between companies. The entries for industrial and commercial companies are the changes in their gross current and deposit accounts less the total change in transit items. Changes in negotiable

dollar certificates of deposit held outside the banking sector are attributed to non-residents, and changes in negotiable sterling certificates to residents. 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 Shares and deposits with building societies, deposits in National Savings Bank investment account, deposits with special investment departments of trustee savings banks, with hire purchase finance houses (other than those by banks, which are included in line 16) and with some other institutions.

Line 15.1 National savings All forms of national savings (including accrued interest) other than deposits in National Savings Bank investment account and with special investment departments of trustee savings banks (included in line 14).

Line 15.3 Import deposits Entries for the overseas sector relate to deposits made directly to H.M. Customs by overseas residents on behalf of U.K. companies.

Line 16 Bank lending The banks' advances and overdrafts, money at call and short notice other than to U.K. banks (excluding tax reserve certificates), and transactions in commercial bills, excluding estimates of loans for house purchase (included in line 18) and all lending to local authorities (included in line 22). The distribution of advances between debtor sectors is taken from comprehensive statistics for the banking sector (see Table 8 of the annex). The overseas sector figures for call money and commercial bills are taken from returns made by the banks; the figures for commercial bills for other financial institutions from returns made by the institutions. The residual commercial bill figures are attributed to industrial and commercial companies; the division of the residual call money figures between persons and industrial and commercial companies has been roughly estimated.

Line 17 Hire purchase debt Changes in hire purchase and other instalment credit extended by finance houses, household goods shops (including nationalised gas and electricity undertakings in the public sector as well as companies) and other retailers. Entries relate to capital sums only; unearned finance charges are excluded.

Line 18 Loans for house purchase New loans, less repayments, by building societies, insurance companies, pension funds and local authorities; estimated changes in bank lending; and loans to housing associations by the Government and by public corporations.

Line 19 Other loans Loans between domestic sectors not elsewhere included. The most important of these are by other financial institutions to persons and industrial and commercial companies. The entries also include net trade credit given or received by public corporations, borrowing by the Northern Ireland government and the difference between accruals of local authority rates, purchase tax and interest charges (the basis on which these items are entered in the national income accounts) and

the corresponding cash payments. The adjustment items for interest on bank advances and bank deposits have not previously been entered in the tables.

Lines 20 and 21 Marketable government debt As defined in the additional notes to Table 3 (1) of the annex. The entries for Treasury bills under industrial and commercial companies are residuals and include any changes in personal and unidentified overseas holdings. The changes in overseas holdings of Treasury bills include the sterling counterpart of inter-central bank swap transactions. The entries for stocks under public sector consist of net sales by the central government less purchases by public corporations and local authorities. The entries for stocks under persons are residuals and 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 and excluding lending by public corporations. Figures for changes in the banks' and other financial institutions' holdings are taken from their statistical returns; changes in overseas holdings are as in the balance of payments statistics; and changes in company holdings are taken from local authority returns. The entries for persons are residuals.

Lines 23 and 24 U.K. company and overseas securities: capital issues Excludes international issues (see Table 14 of the annex) and issues abroad.

Other transactions For the overseas sector the entries comprise transactions by overseas residents in U.K. company securities and by U.K. residents in overseas securities; they are taken from the balance of payments estimates for private investment. The entries for the banking sector are the change in the banks' securities other than government stocks and local authority securities. The figures for other financial institutions are taken from their statistical returns; beginning with 1968, commissions and other costs paid by the institutions have been deducted from their transactions. The estimates for industrial and commercial companies relate to their cash payments for the acquisition of subsidiaries and of unincorporated businesses; to their purchases of trade investments; to their acquisition of share and loan capital in overseas companies (part of direct investment abroad); and to their capital issues in overseas centres. The entries for persons are obtained as residuals from the estimates in lines 23 and 24 for all other sectors.

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

Line 27, Unidentified The net total for all sectors together corresponds to the residual error in the national income accounts referred to in the note on line 5. The entry for the overseas sector is the counterpart of the balancing item in the balance of payments accounts. Figures for individual sectors reflect deficiencies in the sector division both of the national income accounts and of the estimates of financial transactions.

Seasonal adjustments

Financial series are peculiarly difficult to adjust satisfactorily, for two main reasons: firstly, there tend to be large erratic movements between a sector's holdings of one asset and of another, which obscure the trends; and secondly, the 'seasonal' patterns can so easily be changed by administrative action (for example tax changes). This contrasts with other economic series, whose seasonal variation is more a function of weather and social custom. Moreover, for most items in the United Kingdom flow of funds accounts figures are available from 1963 onwards, though estimates of the net financial surpluses of certain sectors are available for a much longer run of years.

Preliminary adjustments have been obtained independently for each item which displays seasonality. Consistent seasonal adjustments have then been estimated simultaneously for all the entries in the accounts by a system of balancing which provides that:

- (i) the sum of the adjustments for each item over the four quarters of each calendar year is zero;
- (ii) in any quarter, the sum of the adjustments of all sectors for a particular asset/liability is zero; and
- (iii) in any quarter, the sum of the adjustments for the identified assets/liabilities of a particular sector is related, where possible, to the adjustment for the sector's financial surplus.

In addition, certain series (for example notes and coin) are markedly affected by the days of the week on which a quarter begins and ends, and – at end-March – by the closeness of Easter. Adjustments have been made to allow for these distortions also; but, of course, they will not usually cancel out over the year, because this must end on a different day of the week from the preceding year.