

Analysis of financial statistics: April-June 1971

The analysis deals mainly with the flow of funds between the various sectors in the second quarter of 1971, the latest period for which a full set of statistics is available. Comment on the third quarter is largely confined to the banking sector, money supply, and central government financing. The analysis is based throughout on seasonally adjusted figures. Unadjusted quarterly flows are given in matrix form in Table K. A seasonally adjusted matrix of flows is provided in Table L. Some important series, including the monetary aggregates shown in Table J, have been revised to take account of a new allocation of transit items between bank advances and bank deposits (see page 484). Notes on sources and methods begin on page 474.

Summary

In the second quarter of 1971 activity recovered from its setback in the first quarter. However, part of this must be attributed to the reversal of postal strike effects (which are briefly reviewed on page 457). These apart, the public sector financial deficit, which re-emerged in the first quarter, continued to develop (and has clearly gone further in the third quarter). Companies – whose trading profits had been through a particularly lean spell – benefited from this and also from big increases in their prices, while the rate of increase in their labour costs levelled off. The counterpart of this was a reduction in the rate of personal saving which had been exceptionally buoyant.

The foreign exchange inflow during the international currency crisis of the third quarter coincided with the growth of the central government's deficit and with a resurgence in bank lending at home. All this would have led to a big expansion of the money stock but for very large sales of gilt-edged stocks to the general public. The July measures, and the consequent spurt in personal spending on cars and some household durables, will have produced a further reduction in the personal sector surplus.

Background

After dipping sharply in the first quarter, the gross domestic product at constant prices recovered strongly in the second. However, comparison of the two quarters is subject to the effects of the postal strike and it seems more useful to compare the whole half year with earlier half years, particularly as this approach also avoids distortions due to the dock strike in the third quarter of last year. The comparison shows that gross domestic product was about 1½% lower in the first half of 1971 than in the second half of 1970, and not significantly higher than in the first half of 1970. Personal consumption was little changed, while rises in the volume of exports and public consumption were more than offset by an 8% fall in capital formation. This fall was mainly due to a near cessation of stockbuilding, though

Table A
Income and expenditure

£ millions

Seasonally adjusted

	Income from employ- ment and trad- ing ^{a,b}	Transfer incomes etc. ^b	less Con- sumption ^c	less Current transfer payments	<i>equals</i> Saving	less Gross domestic capital forma- tion ^d	less Capital transfers (net pay- ments -)	<i>equals</i> Financial surplus/ deficit ^e
Personal sector								
1969 1st qtr.	6,597	2,878	-6,996	-1,814	665	- 290	- 136	239
2nd qtr.	6,722	2,849	-7,161	-1,842	568	- 280	- 87	201
3rd qtr.	6,837	2,955	-7,249	-1,897	646	- 298	- 85	263
4th qtr.	7,026	2,966	-7,393	-1,979	620	- 300	- 85	235
1970 1st qtr.	7,222	2,929	-7,483	-2,046	622	- 280	- 97	245
2nd qtr.	7,498	3,110	-7,729	-2,180	699	- 316	- 90	293
3rd qtr.	7,780	3,140	-7,954	-2,218	748	- 349	- 84	315
4th qtr.	7,987	3,167	-8,072	-2,261	821	- 349	- 87	385
1971 1st qtr.	8,082	3,080	-8,151	-2,246	765	- 310	- 62	393
2nd qtr.	8,285	3,275	-8,556	-2,353	651	- 402	- 86	163
Company sector^f								
1969 1st qtr.	1,217	946		-1,346	817	-1,128	118	-193
2nd qtr.	1,246	963		-1,409	800	-1,090	112	-178
3rd qtr.	1,258	994		-1,456	796	-1,094	119	-179
4th qtr.	1,240	1,015		-1,458	797	-1,130	182	-151
1970 1st qtr.	1,247	1,038		-1,515	770	-1,103	96	-237
2nd qtr.	1,243	1,032		-1,523	752	-1,289	94	-443
3rd qtr.	1,240	1,061		-1,572	729	-1,223	105	-389
4th qtr.	1,298	1,134		-1,645	787	-1,304	127	-390
1971 1st qtr.	1,375	1,142		-1,490	1,027	-1,220	166	- 27
2nd qtr.	1,424	1,210		-1,739	895	-1,175	117	-163
Public sector								
1969 1st qtr.	404	4,202	-1,977	-1,724	905	- 917	18	6
2nd qtr.	380	4,371	-2,002	-1,699	1,050	- 904	- 25	121
3rd qtr.	400	4,569	-2,053	-1,782	1,134	- 937	- 34	163
4th qtr.	382	4,636	-2,098	-1,793	1,127	- 955	- 97	75
1970 1st qtr.	381	4,785	-2,099	-1,816	1,251	- 959	1	293
2nd qtr.	394	4,978	-2,248	-1,853	1,271	-1,019	- 4	248
3rd qtr.	366	5,118	-2,344	-1,865	1,275	-1,041	- 21	213
4th qtr.	350	5,152	-2,364	-1,912	1,226	-1,084	- 40	102
1971 1st qtr.	338	5,021	-2,401	-1,875	1,083	-1,187	-104	-208
2nd qtr.	410	5,408	-2,511	-2,008	1,299	-1,155	- 31	113
Overseas sector^g								
1969 1st qtr.								- 11
2nd qtr.								- 90
3rd qtr.								-172
4th qtr.								-167
1970 1st qtr.								-206
2nd qtr.								-113
3rd qtr.								- 69
4th qtr.								-191
1971 1st qtr.								- 79
2nd qtr.								-237

^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 Including financial institutions.

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

fixed capital formation dropped too, by 2%. The accumulation of stocks in the last three quarters of 1970 had been partly involuntary, and work in progress was thereafter cut back in view of continuing doubts (before the July measures) of any quick recovery in the growth of consumption expenditure. But not only was demand down a little: more of it was being met out of imports at the expense of home production. However, despite the rise in imports, the rate of increase of the volume and prices of U.K. exports was such as to preserve a favourable balance of payments on current account.

Prices in general rose so rapidly in this period that despite the contraction in real economic activity, gross domestic product at current prices rose by nearly $3\frac{1}{2}\%$ between the last two half years. Among factor incomes, the rate of growth of wages and salaries slowed and that of company gross trading profits quickened. The latter, however, was largely due to the effect of inflation on the value of stocks, and profits net of stock appreciation grew much more slowly.

Among the domestic sectors, only companies increased their savings in the first half of 1971. This was the first period in which the cut in corporation tax made in October 1970 was effective, and higher selling prices raised their gross profits. At the same time their non-trading income and income from abroad increased more than their interest payments and their profits due outside the United Kingdom. The increases in prices charged by companies led to a fall in personal savings as the cost of consumption rose faster than incomes. The cutting of corporation tax helped to reduce public sector saving, as did the increased cost of public consumption, though there was some offset from increased tax receipts from the personal sector.

Postal strike

The postal strike ran from 20th January to 8th March. It is difficult to quantify the effects it had on the national income and expenditure accounts and on the financial accounts of the various sectors. Nevertheless, broad estimates have been made by examining departures from trends in the first quarter and, in most cases, their reversal in the second. Corrections made to the national income figures – in particular for delay in lodging information on exports – are described in the October issue of *Economic Trends*.

The most easily identified effect was a delay in the central government's receipts of taxes and duties; this has been put at around £185 million and accounts for the extra public sector borrowing shown in Table B. It also accounts for most of the movements on the capital accounts though there are also allowances for involuntary stockbuilding by companies – clearly the mail order houses had to hold extra stocks in spite of makeshift arrangements to keep business going – and for personal saving in respect of delayed consumption.

Two further factors have been assessed. Building societies are estimated to have taken in fewer deposits and to have lent correspondingly less for house purchase; and

Table B
Postal strike

£ millions

Effects in the first quarter of 1971^a

	Public sector	Personal sector	Industrial and commercial companies	Banks	Other financial institutions	Un-allocated ^b
Capital account						
Saving	-135	+85	+60			+30
<i>less:</i>						
Stockbuilding			-40			
Capital transfers	-30	+30				
Financial surplus +/deficit -	-165	+115	+20			+30
Financial transactions						
Deposits with building societies		-25			+25	
Hire purchase debt		+20	-20			
Loans for house purchase		+25			-25	
Bank lending to private sector			+15	-15		
Domestic bank deposits		+70	+15	-85		
Public sector debt	-185	+30	+55	+100		
<i>of which:</i>						
Notes and coin	-60	+30	+30			
T.R.C.s	-15		+15			
Local authority debt	-10		+10			
Treasury bills etc. held by banks	-100			+100		
Total identified financial transactions	-185	+120	+65			
Unidentified	+20	-5	-45			+30

a It is assumed that these effects were largely reversed in the second quarter. No estimates are included for the effect on the inflow to life assurance and pension funds, for delays in the settlement of gas, electricity and postal bills, or for delayed payments of company bills by the personal sector (see text).

b The unallocated item comprises estimates for S.E.T., motor vehicle duties and national insurance contributions which affect the residual error in the national accounts as the counterpart to the timing changes in central government receipts.

the general public had a temporarily increased requirement for notes and coin. In addition, the inflow to life assurance and pension funds may have been affected and some electricity, gas and telephone bills were not paid, but neither of these effects has been satisfactorily quantified.

The unallocated items derive from the mechanism used for the collection and recording of taxes. It is assumed that temporary retention by companies of taxes, such as selective employment tax, paid before profits are calculated was not allowed to affect their reported profits, but that the funds were put in suspense accounts, as also were accumulations of purchase tax which companies collect as agents. Nor is it possible to say how much of the very large unidentified element in the personal sector account - a net inflow - represented delayed payments of company bills.

As far as the monetary aggregates of D.C.E. and M_3 are concerned, each are estimated to have expanded by about an extra £150 million, as shown below. The net sales of debt to the public represent an estimate of sums that companies left invested in tax reserve certificates and local authority deposits instead of using them to pay taxes.

£ millions

Temporary increase in money stock:	
Domestic bank deposits	+ 85
Notes and coin in circulation	+ 60
	M_3 +145
Temporary increase in domestic credit:	
Public sector borrowing requirement	+185
less Net sales of debt to the public	- 25
Bank lending to private sector	- 15
	D.C.E. +145

Overseas sector

The recorded current account surplus of the U.K. balance of payments fluctuated markedly during the year to June 1971 and so therefore did the corresponding overseas sector deficit. In the second half of 1970 these fluctuations were largely due to the dock strike, while in the first half of 1971 they largely represented difficulties in collecting statistics of exports during the postal strike. In all, the surplus on current account recovered to £315 million in the first half of 1971, much the same as in the first half of 1970.

Capital transactions between overseas and the U.K. private sector yielded a further inflow of £790 million. In the first quarter, company provisions to meet tax demands and favourable arbitrage margins will have accounted for some of the inflows. But speculative pressures against the dollar, partly from the large and growing stock of internationally mobile short-term funds, will have played a large part, which in the second quarter became dominant.

After U.K. official loans and aid of £190 million there remained £920 million for the reduction of the external debt of the public sector. The ability of the central government to repay overseas borrowing was further augmented by relatively heavy borrowing from overseas by local authorities and public corporations and by a further allocation of S.D.R.s.

Table C

Overseas sector^a

£ millions

Seasonally adjusted

Claims on U.K.: increase +/decrease -

Liabilities to U.K.: increase -/decrease +

	1969				1970				1971		
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.
Financial surplus +/deficit -	- 11	- 90	- 172	- 167	- 206	- 113	- 69	- 191	- 79	- 237	
Transactions with the U.K. private sector											
Investment flows:											
Transactions in company and overseas securities	- 27	+ 44	+ 81	+ 16	+ 4	+ 3	- 43	- 49	- 63	- 96	
Miscellaneous private investment	+ 30	- 51	- 53	- 34	+ 50	+ 24	- 32	+ 56	+ 32	- 50	
Other transactions:											
Deposits with U.K. banks less claims of U.K. banks ^b	- 112	- 58	- 91	+ 136	+ 185	+ 152	+ 104 ^c	+ 348	+ 163	+ 256	+ 129
Other identified	- 20	- 21	+ 20	- 18	+ 89	- 34	+ 73	+ 12	+ 148	+ 32	
Balancing item	+ 133	+ 57	- 102	+ 287	+ 147	- 43	- 90	+ 79	+ 217	+ 153	
	+ 4	- 29	- 145	+ 387	+ 475	+ 102	+ 12	+ 446	+ 497	+ 295	
Transactions with the U.K. public sector											
Lending etc. ^d	+ 1	-	- 23	- 40	- 37	- 63	- 51	- 109	- 88	- 102	
External finance: ^e											
Central government	- 15	- 98	- 59	- 517	- 664	- 163	- 19 ^c	- 500	- 580	- 511	- 766
Local authorities	- 7	+ 10	+ 27	- 1	+ 13	- 13	- 12	- 26	+ 9	+ 53	- 7
Public corporations	+ 6	+ 27	+ 28	+ 4	+ 7	+ 24	+ 1	- 2	+ 83	+ 28	-
	- 15	- 61	- 27	- 554	- 681	- 215	- 81	- 637	- 576	- 532	

^a It has not been possible to include in this table the balance of payments estimates for the 3rd quarter of 1971, and revisions to previous quarters, which were released in December and appear in the annex, Table 20.

^b Other than purchases of securities.

^c These items are affected by a change in the method of accounting: see additional notes to Table 5 of the annex.

^d These overseas transactions of the public sector are not included in D.C.E.

^e These overseas transactions of the public sector are included in D.C.E.

Public sector

As recorded, the public sector's current surplus (saving) in the second quarter of 1971 was £215 million higher than in the first. If allowances are made for the postal strike along the lines already suggested, then it appears that the measures of the previous autumn had by the second quarter reduced the rate of saving in the public sector below that of 1970. After taking capital expenditure into account, the sector had an underlying financial deficit of around £50 million.

Table D
Public sector

£ millions

Seasonally adjusted

	1969				1970				1971		
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.
Saving (current surplus)	+905	+1,050	+1,134	+1,127	+1,251	+1,271	+1,275	+1,226	+1,083	+1,299	
Capital transfers (net)	+ 18	- 25	- 34	- 97	+ 1	- 4	- 21	- 40	- 104	- 31	
Capital expenditure	-917	- 904	- 937	- 955	- 959	-1,019	-1,041	-1,084	-1,187	-1,155	
Financial surplus + /deficit -	+ 6	+ 121	+ 163	+ 75	+ 293	+ 248	+ 213	+ 102	- 208	+ 113	
Lending and other transactions (increase in assets +) ^a	+ 69	+ 83	+ 51	+ 135	+ 96	+ 59	+ 70	+ 129	+ 169	+ 83	
Import deposits (repayments +)	-266	- 217	+ 11	+ 10	+ 13	+ 41	+ 80	+ 123	+ 170	+ 110	+ 1
Borrowing requirement (borrowing -)	+274	+ 214	+ 95	- 107	+ 160	+ 44	+ 137	- 348	- 587	- 124	
Comprising:											
Central government: ^b											
External transactions	+ 15	+ 98	+ 59	+ 517	+ 664	+ 163	+ 19 ^c	+ 500	+ 580	+ 511	+766
Notes and coin with the public	- 10	- 6	- 8	- 117	- 34	- 38	- 107	- 51	- 123	- 14	- 32
Bank borrowing	+244	+ 302	+ 258	- 151	+ 7	+ 36	- 29 ^c	- 409	+ 45	- 76	-254
Other domestic borrowing	+222	- 16	- 115	- 180	- 326	+ 140	+ 228	- 85	- 848	- 251	-606
	<u>+471</u>	<u>+ 378</u>	<u>+ 194</u>	<u>+ 69</u>	<u>+ 311</u>	<u>+ 301</u>	<u>+ 111</u>	<u>- 45</u>	<u>- 346</u>	<u>+ 170</u>	<u>-126</u>
Local authorities:											
External finance	+ 7	- 10	- 27	+ 1	- 13	+ 13	+ 12	+ 26	- 9	- 53	+ 7
Bank borrowing	- 97	- 113	+ 70	- 172	- 70	- 129	- 108	- 176	- 194	- 261	-144
Other domestic borrowing	- 91	- 18	- 113	- 32	- 39	- 61	+ 67	- 58	+ 30	+ 40	
	<u>-181</u>	<u>- 141</u>	<u>- 70</u>	<u>- 203</u>	<u>- 122</u>	<u>- 177</u>	<u>- 29</u>	<u>- 208</u>	<u>- 173</u>	<u>- 274</u>	
Public corporations:											
External finance	- 6	- 27	- 28	- 4	- 7	- 24	- 1	+ 2	- 83	- 28	-
Domestic borrowing	- 13	+ 12	- 3	+ 34	- 28	- 63	+ 80	- 90	- 34	+ 43	
	<u>- 19</u>	<u>- 15</u>	<u>- 31</u>	<u>+ 30</u>	<u>- 35</u>	<u>- 87</u>	<u>+ 79</u>	<u>- 88</u>	<u>- 117</u>	<u>+ 15</u>	
Other ^d	+ 3	- 8	+ 2	- 3	+ 6	+ 7	- 24	- 7	+ 49	- 35	
Identified financial transactions	+ 77	+ 80	+ 157	+ 38	+ 269	+ 144	+ 287	- 96	- 248	+ 69	
Unidentified	- 71	+ 41	+ 6	+ 37	+ 24	+ 104	- 74	+ 198	+ 40	+ 44	

a Consisting principally of lending to the overseas and private sectors (including refinancing of export credits, and public corporations' identified trade credit) and changes in bank deposits.

b This includes Northern Ireland government borrowing.

c These items are affected by a change in the method of accounting: see additional notes to Table 5 of the annex.

d Intra-sector debt transactions.

A further £20 million was paid to the receiver of Rolls-Royce and nearly £70 million of export and shipbuilding credits were refinanced, but other lending by the sector and repayments of import deposits were much less than in the first quarter. In all, the sector needed to borrow some £125 million. This understates the true need for funds to the extent that revenue receipts were held over from the first quarter. The underlying requirement was of the order of £310 million.

Public corporations were in small surplus; their trading profits were higher than they had been for a year. It was local authorities who borrowed most from outside the public sector. They took advantage of the slightly easier interest rates obtainable in the market than from the Public Works Loans Board, while in addition their total borrowing requirement was being increased by the persistent inflation of incomes and prices. In all, they borrowed £275 million of outside funds, of which £55 million was met by deposits from overseas.

The central government had needed to borrow in the two previous quarters but though there was still an underlying borrowing requirement in the second, it was able to repay debt because of the delayed receipt of taxes. The sterling cost of the external inflow, running at over £500 million for the third quarter in succession, had largely to be met by borrowing from other domestic sectors. The principal source of funds was from sales of gilt-edged stocks to financial institutions which, though still sizable, were much smaller than in the first quarter.

Not all the external inflow was used to increase the reserves, some funds being transferred into later months by means of special swaps.

The central government's underlying borrowing requirement emerged in the third quarter when it sought £125 million of finance over and above the £765 million needed to finance its external transactions. In the main the £900 million needed was met largely by sales of gilt-edged stocks to the general public – the banking sector contributed only £255 million. However, the banks' total conceals a very large switch in components: on the eve of the introduction of the new arrangements for credit control, Special Deposits held by the London and Scottish clearing banks were repaid (and as a result Treasury bills held by the Bank of England fell). On the other hand, the London clearing banks' holdings of gilt-edged stocks rose sharply as they invested the proceeds of their Special Deposits and other surplus liquid assets. National savings continued as a source of outside funds for the fourth quarter in succession.

Local authorities borrowed less from the banks as they took up more of their quota from the P.W.L.B.

Personal sector

The financial surplus of persons was much reduced in the second quarter, even making the largest reasonable allowance for the effects of the postal strike. So far in 1971,

Table E
Personal sector

£ millions

Seasonally adjusted

	1969				1970				1971		
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.
Saving	+ 665	+ 568	+ 646	+ 620	+ 622	+ 699	+ 748	+ 821	+ 765	+ 651	
Capital transfers (net)	- 136	- 87	- 85	- 85	- 97	- 90	- 84	- 87	- 62	- 86	
Capital expenditure	- 290	- 280	- 298	- 300	- 280	- 316	- 349	- 349	- 310	- 402	
Financial surplus	+ 239	+ 201	+ 263	+ 235	+ 245	+ 293	+ 315	+ 385	+ 393	+ 163	
Borrowing (-)											
For house purchase	- 213	- 209	- 231	- 193	- 221	- 288	- 352	- 349	- 318	- 415	
Bank borrowings ^a	+ 68	+ 33	+ 75	- 99	+ 23	- 79	- 11	+ 8	- 44	- 81	- 218
Hire purchase debt	+ 10	+ 4	+ 13	- 2	- 3	- 14	- 7	- 25	-	- 27	
Other	- 58	- 23	- 9	- 38	- 5	+ 3	- 22	- 29	- 103	+ 125	
	- 193	- 195	- 152	- 332	- 206	- 378	- 392	- 395	- 465	- 398	
Acquisition of financial assets (+)											
Life assurance and pension funds	+ 372	+ 411	+ 378	+ 377	+ 394	+ 437	+ 445	+ 479	+ 414	+ 494	
Government stocks	- 160	+ 31	+ 95	+ 113	+ 171	- 59	- 282	- 55	+ 230	- 34	
Company and overseas securities	- 163	- 70	- 136	- 161	- 247	- 204	- 230	- 199	- 112	- 467	
Unit trust units	+ 84	+ 42	+ 33	+ 27	+ 24	+ 28	+ 23	+ 14	+ 2	+ 12	+ 9
Bank deposits, notes and coin	+ 139	+ 30	+ 40	+ 172	+ 87	+ 304	+ 315	+ 231	+ 315	+ 163	+ 346
Building society shares and deposits	+ 223	+ 237	+ 203	+ 227	+ 300	+ 342	+ 418	+ 424	+ 412	+ 454	+ 551
National savings	- 18	- 76	- 60	- 70	- 30	- 42	- 25	+ 46	+ 77	+ 81	+ 54
Local authority debt	+ 39	+ 24	+ 106	+ 59	+ 36	- 22	- 74	- 13	- 28	- 30	
Other	+ 44	+ 10	+ 8	+ 36	+ 27	+ 35	+ 54	+ 60	+ 57	+ 45	
	+ 560	+ 639	+ 667	+ 780	+ 762	+ 819	+ 644	+ 987	+ 1,367	+ 718	
Identified financial transactions	+ 367	+ 444	+ 515	+ 448	+ 556	+ 441	+ 252	+ 592	+ 902	+ 320	
<i>Unidentified</i>	- 128	- 243	- 252	- 213	- 311	- 148	+ 63	- 207	- 509	- 157	

^a Other than for house purchase.

the rapid increase in wages and salaries of 1970 has slackened slightly, with the result that steeply increasing prices to the consumer have tended to moderate the growth in personal savings. The underlying savings ratio was the lowest for over a year. At the same time people have increased their capital expenditure – principally on housing – and so the sector's financial surplus has been sharply reduced.

Identified borrowing by persons in the second quarter was rather less than in the first and at about the same rate as in the second half of 1970. These net figures, however, probably include some repayment of trade credit obtained from public corporations during the postal strike, so that the underlying amount of borrowing was higher than recorded. The increase in borrowing from banks reflected the easing of credit conditions and, presumably, a relative lack of competing demands from the banks' industrial customers. The massive increase in the third quarter was largely an anticipatory reaction to the end of controls on the amount and direction of bank lending.

Persons acquired £650 million fewer financial assets in the second quarter than in the first; of the reduction, less than £100 million will have reflected the postal strike. Their purchases of gilt-edged stocks were £200 million less, and sales of other stocks and shares some £350 million more,

than in the first quarter; the latter increase brought such sales to £470 million in the second quarter compared with around £200 million a quarter in 1970. The net flow from persons to life assurance and pension funds increased sharply – here too, it could be that the sharp, unusual, and otherwise unexplained, drop in the first quarter, which was more than reversed in the second, was related to difficulties in paying premiums and arranging new policies during the postal strike, though this has not been included in Table B because there is no supporting evidence. In the second quarter persons put £80 million into national savings, and the net flow into this form of saving was thus increased for the fourth quarter running, still mainly through the stimulus of increased limits on holdings. Besides offering capital security in nominal terms to small savers, savings certificates are attractive to surtax payers with a high marginal rate of tax. Similarly premium savings bonds, with a tax-free prize fund equal overall to a yield of $4\frac{3}{4}\%$, are particularly attractive to surtax payers able to invest up to their limit.

Industrial and commercial companies

Industrial and commercial companies had a financial deficit of less than £100 million in the second quarter of 1971. This was much smaller than in any quarter of 1970. Three factors other than the postal strike shaped it: the cut in corporation tax which affected the saving figures from the beginning of 1971; steep increases in prices to customers at home and abroad; and a reduction in real capital formation sufficient to keep down capital expenditure even in a climate of increasing prices.

However, although their trade investments in the United Kingdom cost little, companies spent much more on investment abroad than in previous quarters and received less in repayment of import deposits. In all, they had a financing requirement of well over £250 million, though this was comfortably below their quarterly requirements in 1969 and 1970. About one half of this was met by unidentified transactions, which it is assumed were mainly net reductions in credit granted to personal and overseas customers and net increases taken from unincorporated businesses and overseas suppliers. If it had been possible to make full allowance for the effects of the postal strike, it may be that on balance companies would prove to have been acquiring rather than realising financial assets in this quarter.

Capital issues in the second quarter were much the same as in the previous quarter and still mainly of loan capital. Expectations of a more buoyant economy and an actual revival in profits may take some time to work through to a revival in equity issues, since such issues still usually carry tax disadvantages. The large rights issue by British Petroleum will doubtless lift the figures, if not the underlying trend.

Despite both the increased availability of bank funds and the impact of their delayed tax payments to the Exchequer, companies did not borrow from banks in the second quarter.

Table F
Industrial and commercial companies

£ millions

Seasonally adjusted

Assets: increase +/decrease -

Liabilities: increase -/decrease +

	1969				1970				1971		
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.
Domestic capital formation	+995	+935	+961	+997	+956	+1,140	+1,081	+1,146	+1,092	+1,036	
less Saving	-759	-750	-734	-710	-704	-679	-630	-690	-911	-805	
less Capital transfers (net)	-123	-120	-130	-197	-111	-111	-121	-143	-184	-134	
equals Financial deficit (+)	+113	+65	+97	+90	+141	+350	+330	+313	-3	+97	
Trade investments, mergers, etc.	+76	+74	+65	+39	+77	+45	+43	+49	-4	+24	
Investment abroad	+157	+142	+178	+199	+132	+177	+221	+136	+100	+241	
Import deposits	+241	+193	-20	-11	-13	-34	-70	-108	-153	-99	-1
Total requiring financing	+587	+474	+320	+317	+337	+538	+524	+390	-60	+263	
Capital issues at home	-194	-162	-72	-84	-30	-37	-38	-88	-72	-75	-92
Overseas investment in U.K. companies (incl. long-term borrowing abroad)	-164	-74	-86	-105	-211	-164	-84	-137	-263	-129	
Net import credit extended by overseas	-15	-49	-2	-36	+7	-37	-2	+9	-23	+24	
Net export credit extended to overseas	+39	+52	-10	+33	-24	+6	-44	+6	+15	-22	
Bank borrowing	-306	+24	-340	-42	-198	-446	-266	-215	-188	-14	-254
Other borrowing	-15	-119	-72	-5	-64	-90	-111	-86	-46	+4	
Bank deposits, notes and coin	-48	-226	+37	+118	-126	+231	+38	+242	+167	+227	+145
Other liquid assets ^a	+6	-20	-20	-28	+4	-22	-41	-13	+53	-27	
Other items ^b	+22	-19	-13	-29	-	-33	-11	+42	+115	-116	
<i>Unidentified</i>	+88	+119	+258	-139	+305	+54	+35	-150	+302	-135	
Total financing	-587	-474	-320	-317	-337	-538	-524	-390	+60	-263	

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

^b Long-term local authority debt, trade credit to public corporations and hire purchase lending.

In fact in this period they built up bank deposits. Their other liquid assets fell, but this probably reflected principally the later call for tax payments - they had built these assets up sharply in the first quarter.

Financial institutions other than banks

These institutions received nearly £200 million more in the second quarter than in the first; all groups benefited, some thanks to the postal strike. Taking the two quarters together, the institutions had no more available for investment than in the second half of 1970, a consequence of the small fall of personal savings. In both quarters capital issues included £10 million by investment trusts for the purpose of buying unit trust units.

The patterns of institutional investment changed sharply. Purchases of gilt-edged stocks in the second quarter were less than half as much as in the first (though still much higher than in earlier quarters), while very much more went to equities than ever before. This change probably reflected hopes of greater profits through an expansion of output as a result of the budget measures.

Table G

Financial institutions other than banks

£ millions

Seasonally adjusted

	1969				1970				1971		
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.
Sources of funds (increase —)											
Life assurance and pension funds	-372	-411	-378	-377	-394	-437	-445	-479	-414	-494	
Building society shares and deposits	-224	-238	-203	-227	-299	-343	-418	-423	-412	-454	-551
Other deposits	-81	-8	-25	-47	-35	-29	-73	-80	-33	-56	
Capital issues	-47	-22	-15	-11	-21	-21	-9	-5	-32	-49	-55
Unit trust units	-84	-42	-33	-27	-24	-28	-23	-14	-2	-12	-9
Other (mainly bank) borrowing	+22	-2	-5	+8	-31	-8	-12	-29	-15	-30	
	-786	-723	-659	-681	-804	-866	-980	-1,030	-908	-1,095	
Increase in financial assets (+)											
Short-term assets ^a	+71	+40	+96	+20	+28	+245	+85	+67	-104	-17	
Government stocks	-30	+76	+98	+138	+178	-40	+103	+81	+497	+232	
Company and overseas securities:											
Ordinary	+179	+6	+32	+147	+174	+125	+148	+177	+121	+307	
Debentures	+134	+103	+18	+36	+29	+49	+36	+52	+28	+55	
Other	+2	-5	-12	-6	+1	+5	-6	-	-6	+1	
Loans for house purchase	+216	+213	+233	+203	+212	+276	+319	+317	+295	+395	
Long-term lending to local authorities	+25	+13	+4	+17	+7	+22	+22	+40	+18	+20	
Hire purchase claims	-8	-6	-5	-2	-2	+18	+9	+22	+16	+9	
Other lending	+81	+91	+42	-14	+18	+95	+53	+89	-20	-53	
	+670	+531	+506	+539	+645	+795	+769	+845	+845	+949	

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

Among individual groups of institutions only investment and unit trusts switched out of gilts (they have traditionally been short-term holders only). They invested £55 million and £40 million respectively in equities.

Insurance companies and pension funds took a very different view of the equity market in the second quarter than in the first – and correspondingly they invested only a third as much, £105 million, in gilt-edged stocks as in the first quarter. Their investment of £215 million in equities was supplemented by a further £50 million in loan capital and other securities.

The building societies were the heaviest institutional purchasers in the gilt-edged market, although they bought a little less than in the previous quarter. By their heavy investments in gilt-edged (which count as liquid assets) the building societies have used the very great inflow of funds over the last year to raise their liquidity ratios to heights not reached since 1967. This move may well have reflected uncertainty about the permanence of this inflow in the light of pressures at the time to reduce interest rates on advances and deposits. However, and discounting the effect of the postal strike, the growth of advances accelerated in the second quarter, while the growth of deposits was little changed. Advances for house purchase jumped by £100 million as activity quickened in the housing market and prices continued to increase very swiftly; and commitments also went up very sharply.

Banking sector, money and D.C.E.

During the second quarter banks continued to displace other domestic sectors as lenders to the local authorities, while bank purchases of central government debt totalled £70 million. Despite easier credit conditions and the rapid pace of inflation, company demands for loans were sluggish and more funds went to persons. Total domestic deposits increased relatively moderately: public sector deposits fell sharply, while companies' deposits rose appreciably, and financial institutions and persons also increased theirs. The postal strike, by shifting the quarterly incidence of central government borrowing, affected the money stock during this quarter; it increased by £320 million, but would otherwise have risen by some £465 million. Domestic credit over the same period expanded by £50 million, or by £195 million after allowing for the postal strike (see the table on page 458).

In the third quarter, the banks' domestic business increased sharply and their lending to domestic sectors (public and private) outstripped the growth of their domestic deposits by over £600 million. A considerable proportion of this difference represents the receipt of overseas money as the dollar came under speculative pressure. The banks' lending to the public sector partly met the Government's need for sterling to purchase the currency inflow. Lending to the private sector amounted to £665 million: expectations of a more buoyant economy led companies – though apparently not yet manufacturers – to borrow on a scale much higher than for a year and the ending of credit ceilings led to a big upsurge in lending to persons. Within lending to the public sector, less went to local authorities; and, following the introduction of the new system of controls, there was a big switch in portfolios of

Table H
Banking sector

£ millions

Seasonally adjusted

Lending: increase +/decrease --

Deposits: increase -/decrease +

	1969				1970				1971		
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.
Lending to:											
Public sector	-129	-200	-324	+285	+ 89	+158	+ 80 ^a	+677	+183	+292	+ 386
Company sector	+304	- 14	+355	+ 33	+235	+457	+265	+259	+189	+ 91	+ 422
Personal sector	- 73	- 33	- 70	+ 94	- 18	+ 84	+ 31	+ 2	+ 54	+ 96	+ 243
Total domestic lending	+102	-247	- 39	+412	+306	+699	+376	+938	+426	+479	+1,051
Deposits by:											
Public sector	- 42	+ 19	- 22	- 22	- 44	+ 27	+ 33	- 60	- 32	+ 45	+ 12
Company sector	- 7	+193	- 91	- 82	+121	-346	- 42	-223	- 90	-192	- 120
Personal sector	-134	- 27	- 36	-111	- 70	-285	-262	-205	-254	-156	- 330
Total domestic deposits	-183	+185	-149	-215	+ 7	-604	-271	-488	-376	-303	- 438
Net lending to overseas sector^b	+114	+ 74	+ 87	-134	-180	-130	-105^a	-338	- 49	- 78	- 335
Non-deposit liabilities (net)	- 33	- 12	+101	- 63	-133	+ 35	-	-112	- 1	- 98	- 278

^a These items are affected by a change in accounting: see additional notes to Table 5 of the annex.

^b Claims on overseas sector net of overseas deposits.

government debt as Special Deposits were repaid and holdings of gilt-edged stocks rose. Deposits rose by £440 million, of which £330 million was to the account of persons.

The money stock rose by £470 million, or $2\frac{1}{2}\%$, while domestic credit expanded by only £310 million. Although bank lending to the private sector (excluding foreign currency lending for investment abroad) was £630 million, the expansion of domestic credit was kept down by equally large sales of central government debt to the general public. At the same time these sales prevented an excessive increase in the money stock from the large external inflow.

Table J

Domestic credit expansion and increase in the money stock (M₃)^a

£ millions

Changes in period	Public sector borrowing				Bank assets included	
	Total public sector borrowing (= Col.s. 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 ^{b,c}
	1	2	3	4	5	6
Financial years						
1967/68	+ 1,960	+ 406	+ 106	+ 1,447	+ 1	+ 614
1968/69	+ 458	- 170	+ 69	+ 421	+ 138	+ 640
1969/70	- 539	+ 788	+ 129	- 1,240	- 216	+ 670
1970/71	+ 858	+ 586	+ 288	- 1,194	+ 1,178	+ 1,060
Quarters (unadjusted)						
1969 Oct.—Dec.	+ 580	+ 245	+ 144	- 430	+ 621	+ 47
1970 Jan.—Mar.	- 1,260	+ 185	+ 39	- 853	- 631	+ 542
Apr.—June	+ 139	- 38	+ 42	- 133	+ 268	+ 531
July—Sept.	+ 274	- 205	+ 72	+ 81 ^e	+ 326 ^e	- 64
Oct.—Dec.	+ 854	+ 185	+ 168	- 449	+ 950	+ 122
1971 Jan.—Mar.	- 409	+ 644	+ 6	- 693	+ 366	+ 471
Apr.—June	+ 270	+ 279	+ 50	- 411	+ 352	+ 172
July—Sept.	..	..	+ 83	- 670	+ 527	+ 329
Quarters (seasonally adjusted)^f						
1969 Oct.—Dec.	+ 107	+ 219	+ 117	- 514	+ 285	+ 113
1970 Jan.—Mar.	- 160	+ 361	+ 34	- 644	+ 89	+ 205
Apr.—June	- 44	- 88	+ 38	- 152	+ 158	+ 509
July—Sept.	- 137	- 294	+ 107	- 30 ^e	+ 80 ^e	+ 231
Oct.—Dec.	+ 348	+ 148	+ 51	- 528	+ 677	+ 186
1971 Jan.—Mar.	+ 587	+ 769	+ 123	- 488	+ 183	+ 208
Apr.—June	+ 124	+ 248	+ 14	- 430	+ 292	+ 72
July—Sept.	..	..	+ 32	- 775	+ 386	+ 630

Money stock (M₃)^a

Changes in period	Total money stock (M ₃) ^a (= Col.s. 13+14)	Currency in circulation with the public	Bank deposits of domestic sectors ^c
	12	13	14
Financial years			
1967/68	+ 1,258	+ 106	+ 1,152
1968/69	+ 1,077	+ 69	+ 1,008
1969/70	+ 374	+ 129	+ 245
1970/71	+ 2,031	+ 288	+ 1,743
Quarters (unadjusted)			
1969 Oct.—Dec.	+ 657	+ 144	+ 513
1970 Jan.—Mar.	- 430	+ 39	- 469
Apr.—June	+ 733	+ 42	+ 691
July—Sept.	+ 387	+ 72	+ 315
Oct.—Dec.	+ 896	+ 168	+ 728
1971 Jan.—Mar.	+ 15	+ 6	+ 9
Apr.—June	+ 468	+ 50	+ 418
July—Sept.	+ 455	+ 83	+ 372
Quarters (seasonally adjusted)^f			
1969 Oct.—Dec.	+ 332	+ 117	+ 215
1970 Jan.—Mar.	+ 27	+ 34	- 7
Apr.—June	+ 642	+ 38	+ 604
July—Sept.	+ 378	+ 107	+ 271
Oct.—Dec.	+ 539	+ 51	+ 488
1971 Jan.—Mar.	+ 499	+ 123	+ 376
Apr.—June	+ 317	+ 14	+ 303
July—Sept.	+ 470	+ 32	+ 438

a See Table 12 of the annex.

b Other than in foreign currency for investment abroad.

c Bank lending to the private sector includes an adjustment equal to 40% of transit items and bank deposits of domestic sectors include one equal to 60% (see additional notes to Table 8).

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

e These items are affected by a change in the method of accounting; see additional notes to Table 5 of the annex.

Table K

Flow of funds: quarterly figures, 1971

£ millions

Not seasonally adjusted

	Line	Public sector			Overseas sector ^a		
		1st qtr.	2nd qtr.	3rd qtr.	1st qtr.	2nd qtr.	3rd qtr.
Financial surplus +/deficit —							
Saving	1	+1,916	+1,133				
Taxes on capital and capital transfers	2	— 44	— 57				
<i>less:</i>							
Gross fixed capital formation at home	3	—1,213	—1,014				
Increase in value of stocks and work in progress	4	— 31	— 59				
Financial surplus +/deficit —	5	+ 628	+ 3		— 34	—330	
Changes in financial assets and liabilities							
Assets: increase +/decrease —							
Liabilities: increase —/decrease +							
Net indebtedness of Government to Bank of England, Banking Department	6	+ 169	— 51	+ 471			
Life assurance and pension funds	7						
Loans by the U.K. Government	8	+ 57	+ 5		— 43	— 6	
Total external currency flow	9.1	+ 973	+ 634	+ 668	—973	—634	—668
Other central government external transactions	9.2	— 175	— 148	— 8	+175	+148	+ 8
Banks' net external transactions	10				+261	+287	+ 55
Miscellaneous investment overseas (net)	11	— 40	+ 45		+239	— 85	
Notes and coin	12	— 31	— 27	+ 55			
Bank deposits of domestic sectors	13	+ 37	— 40	— 22			
Deposits with other financial institutions	14				+ 21	— 3	
National savings	15.1	— 125	— 58	— 56			
Tax reserve certificates	15.2	+ 82	— 12	— 67			
Import deposits	15.3	+ 170	+ 110	+ 1	— 17	— 11	
Bank lending to domestic sectors	16	— 12	+ 43	— 10			
Hire purchase debt	17	— 1	+ 1				
Loans for house purchase	18	+ 13	+ 5				
Other loans and accruals	19	+ 105	— 161				
Market government debt:							
Treasury bills	20	+ 949	— 91	— 54			
Stocks } held by domestic sector	21	—1,131	— 246	—1,454			
Local authority debt	22	— 217	— 288		+ 22	+ 47	
U.K. company and overseas securities:							
Capital issues	23				+ 7	— 1	— 2
Other transactions	24	+ 32	+ 20		— 70	— 95	
Unit trust units	25						
Identified financial transactions	26	+ 855	— 259		— 378	—353	
<i>Unidentified</i>	27	— 227	+ 262		+344	+ 23	
Total = Financial surplus +/deficit —	28	+ 628	+ 3		— 34	—330	

— nil or less than £½ million.

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

Personal sector			Industrial and commercial companies			Banking sector			Other financial institutions			Line
1st qtr.	2nd qtr.	3rd qtr.	1st qtr.	2nd qtr.	3rd qtr.	1st qtr.	2nd qtr.	3rd qtr.	1st qtr.	2nd qtr.	3rd qtr.	
+1,093	+624		+ 262	+947		-155	+176					1
- 67	- 75		+ 172	+138		- 61	- 6					2
- 267	-338		- 751	-820		-133	-136					3
- 47	- 69		- 290	-236								4
+ 712	+142		- 607	+ 29		-349	+ 34					5
						1st qtr.	2nd qtr.	3rd qtr.	1st qtr.	2nd qtr.	3rd qtr.	
+ 425	+495		- 13	-		-169	+ 51	-471	-425	-495		6
									- 1	+ 1		7
												8
												9-1
												9-2
						-261	-287	- 55				10
			- 191	+ 78					- 8	- 38		11
+ 48	+ 25	- 4	- 42	+ 25	+ 87	+ 25	- 23	-138				12
+ 124	+184	+298	- 57	+249	+112	- 9	-418	-372	- 95	+ 25	- 16	13
+ 449	+500		- 37	+ 10					-433	-507		14
+ 125	+ 58	+ 56										15-1
- 23	+ 4	+ 17	- 30	+ 13	- 1	- 29	- 5	-				15-2
			- 153	- 99								15-3
- 26	-126	-204	- 441	- 64	+ 26	+521	+183	+345	- 42	- 36	-157	16
+ 34	- 25		- 49	- 1					+ 16	+ 25		17
- 318	-415					+ 10	+ 15	+ 25	+295	+395		18
- 127	+192		- 28	+ 67		+122	-126	+121	- 72	+ 28		19
			- 5	- 8		-935	+100	+ 50	- 9	- 1		20
+ 230	- 34		- 8	+ 4		+404	+ 48	+934	+497	+232		21
- 49	- 35					+331	+223	+142	- 79	+ 49		22
			- 72	- 75	- 92	- 1	- 2	- 1	- 32	- 49	- 55	23
- 112	-467		-	+ 69		+105	+237	-204	+143	+363		24
+ 10	+ 12	+ 5							- 10	- 12	- 5	25
+ 790	+368		-1,126	+268		+114	- 4	+376	-255	- 20		26
- 78	-226		+ 519	-239					-208	+ 58		27
+ 712	+142		- 607	+ 29		-349	+ 34					28

Table L

Flow of funds: quarterly figures, 1971

£ millions

Seasonally adjusted

	Line	Public sector			Overseas sector ^a		
		1st qtr.	2nd qtr.	3rd qtr.	1st qtr.	2nd qtr.	3rd qtr.
Financial surplus + /deficit -							
Saving	1	+1,083	+1,299				
Taxes on capital and capital transfers	2	- 104	- 31				
<i>less:</i>							
Gross fixed capital formation at home	3	-1,187	-1,155				
Increase in value of stocks and work in progress	4						
Financial surplus + /deficit -	5	- 208	+ 113		- 79	- 237	
Changes in financial assets and liabilities							
Assets: increase + /decrease -							
Liabilities: increase - /decrease +							
Net indebtedness of Government to Bank of England, Banking Department	6	+ 109	+ 29	+ 392			
Life assurance and pension funds	7						
Loans by the U.K. government	8	+ 42	+ 17		- 28	- 18	
Total central government external transactions	9	+ 580	+ 511	+ 766	- 580	- 511	- 766
Banks' net external transactions	10				+ 163	+ 256	+ 127
Miscellaneous investment overseas (net)	11	- 40	+ 45		+ 223	- 76	
Notes and coin	12	- 209	+ 27	- 7			
Bank deposits of domestic sectors	13	+ 32	- 45	- 12			
Deposits with other financial institutions	14				- 3	+ 13	
National savings	15-1	- 77	- 81	- 54			
Tax reserve certificates	15-2	- 33	+ 26	- 39			
Import deposits	15-3	+ 170	+ 110	+ 1	- 17	- 11	
Bank lending to domestic sectors	16	- 34	+ 45	+ 12			
Hire purchase debt	17	- 1	+ 1				
Loans for house purchase	18	+ 13	+ 5				
Other loans and accruals	19	+ 11	+ 17				
Marketable government debt:							
Treasury bills	20	+ 411	- 104	+ 275			
Stocks	21	-1,131	- 246	-1,454			
Local authority debt	22	- 123	- 308		+ 9	+ 53	
U.K. company and overseas securities:							
Capital issues	23				+ 7	- 1	- 2
Other transactions	24	+ 32	+ 20		- 70	- 95	
Unit trust units	25						
Identified financial transactions	26	- 248	+ 69		- 296	- 390	
<i>Unidentified</i>	27	+ 40	+ 44		+ 217	+ 153	
Total = Financial surplus + /deficit -	28	- 208	+ 113		- 79	- 237	

— nil or less than £½ million.

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

Notes on sources, definitions and seasonal adjustments

Sources

The main statistical series used in compiling Table K appear in the statistical annex to this *Bulletin* or in the following publications prepared by the Central Statistical Office: *Financial Statistics* and *Economic Trends*. The seasonally adjusted figures in Table L are not published elsewhere.

Definitions (line numbers refer to Tables K and L)

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 1971*, H.M.S.O., September 1971).

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.

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 com-

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

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

Line 9.1 Total external currency flow The sterling finance for the total currency flow; the item is defined in the additional notes to Table 1 of the annex.

Line 9.2 Other central government external transactions Those external financing transactions of the central government not included in total external currency flow. These are defined in the additional notes to Table 1 of the annex.

Line 10 Banks' net external transactions Changes in overseas deposits with the banking sector less lending to overseas by the banking sector. Changes in negotiable dollar certificates of deposit held outside the banking sector and changes in negotiable sterling certificates, as reported in the external banking and money market liabilities in the sterling series, are attributed to non-residents. Changes in overseas deposits also include unallocated items, thought to relate mainly to overseas funds placed through U.K. banks as agents; because of this, the figures in this table differ from changes implied by Table 8 (2) of the annex. Lending comprises advances to non-residents, commercial bill transactions with non-residents and money at call with non-residents as recorded on returns made by the banks.

Line 11 Miscellaneous investment overseas (net) Those parts of the balance of payments items classified as *investment and other capital flows* which are not elsewhere included: U.K. official long-term capital other than intergovernment loans; public corporations' borrowing abroad by market issues and from banks; private investment (inward and outward) other than portfolio investment and the share and loan element of direct and oil investment (which are entered in lines 23 and 24); identified import credit, suppliers' credit on exports and that part of export credit extended by U.K. banks which is refinanced by the Issue Department of the Bank of England; the overseas transactions of some institutions which contribute to the statistics of external sterling liabilities and claims but which are not included in the financial sectors; and part of other short-term flows.

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 of domestic sectors Changes in gross current and deposit accounts of U.K. residents, except for the banking sector and industrial and commercial companies, for which two sectors the figures are adjusted. The entries for the banking sector are changes in net deposits less changes in non-residents' 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 60% of the change in transit items. Changes in holdings of sterling certificates of deposit not in line 10 are included here.

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 to domestic sectors The banks' advances and overdrafts, money at call and short notice other than to U.K. banks and non-residents (excluding tax reserve certificates), and transactions in commercial bills other than with non-residents, excluding estimates of loans for house purchase (included in line 18) and all lending to local authorities (included in line 22) and the Northern Ireland Government. The distribution of advances between debtor sectors is taken from comprehensive statistics for the banking sector (see Table 8 of the annex): this includes a deduction of 40% of the change in transit items from recorded advances to industrial and commercial companies. The figures for commercial bills for other financial institutions are taken 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 and accruals 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.

Lines 20 and 21 Marketable government debt held by domestic sectors 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 entries for stocks under public sector consist of net sales by the central government to domestic sectors 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 15 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 Net sales of units to persons by authorised unit trusts.

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.