

Analysis of financial statistics: January–March 1971

The analysis deals mainly with the flow of funds between the various sectors in the first quarter of 1971, the latest period for which a full set of statistics is available. There is comment on the second quarter where statistics are available, in particular for the banking sector, money supply, domestic credit and central government financing. The analysis is based throughout on seasonally adjusted figures. These have been revised following the incorporation of data on more recent quarters in the calculation of the seasonal factors. Unadjusted quarterly flows are given in matrix form in Table J. In Table K a seasonally adjusted matrix of flows is published for the first time. Notes on sources and methods begin on page 329.

Summary

The sector pattern of financial surpluses and deficits shifted further in the first quarter of 1971 and by then was in marked contrast with that of the middle quarters of 1970. The public sector was in deficit after a period of surplus, and the company sector deficit was much smaller than it had been. As persons continued to save at a very high rate, the financial institutions were provided with considerable resources for investment.

At one time it had been expected that industrial and commercial companies – which had been running an exceptionally large deficit – would come under severe financial pressure during the revenue quarter. In the event, they overcame the pressures somewhat more easily than expected. They induced a large inflow of foreign funds; the rate of corporation tax had been cut; and they benefited from delays to tax payments during the postal strike. In the event, the greatest pressure seems to have fallen on them in the middle quarters of 1970.

The very large inflow of funds from overseas in the first quarter enabled further repayment to be made of official overseas short and medium-term debts – finally extinguishing those to overseas central banks and institutions other than the International Monetary Fund. Sterling finance for this was provided by heavy investment in gilt-edged by the private sector – £725 million in all – probably in expectation that the high yields then available were at a peak.

The inflow to national savings which had emerged at the end of 1970 carried through to the second quarter of 1971 as surtax payers and others took advantage of the higher ceilings on holdings of savings certificates and premium bonds announced in the Budget.

During the second quarter, domestic credit expanded by £165 million, after no change in the previous quarter. The growth of the money stock, at £400 million, was rather less than in the previous quarter as the total currency inflow eased and as taxes delayed by the postal strike were paid to the Exchequer.

Background

In the first quarter of 1971 the gross domestic product at constant prices fell, as a result of reductions in consumers' expenditure – the rate of growth of which had slowed markedly during 1970 – in capital formation and in exports of goods and services. The volume of both fixed capital formation and stockbuilding was distinctly smaller than in the preceding three quarters: after a heavy build up in the second half of 1970, retailers ran down stocks during the first quarter and wholesalers made no further additions to

Table A
Income and expenditure

£ millions

Seasonally adjusted

	Income from employment and trading ^{ab}	Transfer incomes etc. ^b	less Consumption ^c	less Current transfer payments	equals Saving	less Gross domestic capital formation ^{ad}	less Capital transfers (net payments—)	equals Financial surplus/deficit ^e
Personal sector								
1969 3rd qtr.	6,822	2,889	–7,238	–1,899	574	– 305	– 84	185
4th qtr.	7,018	2,957	–7,364	–1,979	632	– 316	– 84	232
1970 1st qtr.	7,204	2,935	–7,445	–2,047	647	– 284	– 98	265
2nd qtr.	7,486	3,102	–7,676	–2,172	740	– 323	– 88	329
3rd qtr.	7,763	3,083	–7,933	–2,208	705	– 347	– 85	273
4th qtr.	7,973	3,181	–8,070	–2,299	785	– 368	– 85	332
1971 1st qtr.	8,055	3,156	–8,079	–2,279	853	– 282	– 64	507
Company sector^f								
1969 3rd qtr.	1,278	981		–1,434	825	–1,050	120	–105
4th qtr.	1,265	991		–1,445	811	–1,138	182	–145
1970 1st qtr.	1,232	1,024		–1,489	767	–1,079	99	–213
2nd qtr.	1,216	1,051		–1,583	684	–1,249	94	–471
3rd qtr.	1,261	1,039		–1,532	768	–1,186	104	–314
4th qtr.	1,327	1,099		–1,580	846	–1,283	126	–311
1971 1st qtr.	1,278	1,159		–1,475	962	–1,185	166	– 57
Public sector								
1969 3rd qtr.	402	4,565	–2,062	–1,758	1,147	– 946	– 36	165
4th qtr.	384	4,621	–2,098	–1,808	1,099	– 967	– 98	34
1970 1st qtr.	390	4,747	–2,116	–1,820	1,201	– 951	– 1	249
2nd qtr.	401	4,991	–2,246	–1,864	1,282	–1,018	– 6	258
3rd qtr.	373	5,107	–2,344	–1,851	1,285	–1,037	– 19	229
4th qtr.	357	5,143	–2,350	–1,941	1,209	–1,095	– 41	73
1971 1st qtr.	352	4,945	–2,393	–1,894	1,010	–1,158	–102	–250
Overseas sector^g								
1969 3rd qtr.								–166
4th qtr.								–162
1970 1st qtr.								–218
2nd qtr.								–147
3rd qtr.								– 77
4th qtr.								–179
1971 1st qtr.								– 77

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.

theirs, no doubt because the expected expansion in consumer spending had failed to materialise. Exports, as recorded, were 3% below the average for the second half of 1970, but the apparent decline mainly reflected delayed documentation caused by the postal strike rather than a fall in shipments.

After sharp price rises (of about 1 $\frac{3}{4}$ %), personal consumption at current prices was as large as in the previous quarter; and exports, despite the recording delays, were almost as large as the average for the previous two quarters (which are considered together because of the dock strike). Even so, total final expenditure at current prices fell sharply in the first quarter, by nearly 1 $\frac{1}{2}$ % – an unusual occurrence.

In individual quarters, changes in expenditure estimates do not always move in line with those for domestic income; and this time the sharp fall in expenditure in the first quarter was not reflected in the recorded total of incomes, which increased – though not by much. Income from employment, which had been rising by more than £200 million a quarter during 1970 (a rate of around 13% a year), now rose by less than £100 million: wage settlements were no smaller but affected fewer people and there was less overtime and more unemployment. Company trading profits (before allowing for stock appreciation) fell from the peak reached in the fourth quarter; and the trading surpluses of public corporations continued to decline.

The pattern of sector savings was distorted by the effects of the postal strike, which led to delays in tax payments. The public sector is estimated to have been worse off by over £200 million and persons and companies correspondingly better off. The impact on the private sector was partly obscured by other movements, but it showed up in the public sector's current surplus (saving), which was over £200 million below the quarterly totals in 1970.

Overseas sector

The financial deficit of this sector, which corresponds to a surplus on the current account of the U.K. balance of payments, has, as measured, been subject to considerable fluctuations in recent quarters; first, as a result of the dock strike in July last year and, secondly, as a result of the postal strike delaying documentation of the trade figures. However, the underlying size of the current account surplus has probably changed little since the second quarter of 1970.

Among overseas transactions with the private sector in the first quarter, there was a net inflow of investment funds instead of the outflows of the previous two quarters. This was largely because of heavy overseas investment in U.K. company securities, including overseas subscriptions to euro-bond issues by U.K. companies as well as purchases of securities on the U.K. market. The net flow of funds to U.K. banks was much less than in the previous quarter because the restrictions imposed early in January on short-term lending to U.K. companies meant that the banks had to find more overseas outlets for their overseas funds taken on deposit. They may now have been less

Table B
Overseas sector^a

£ millions

Seasonally adjusted

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

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

	1969		1970				1971	
	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
Financial surplus +/deficit -	-166	-162	-218	-147	-77	-179	-77	
Transactions with the U.K. private sector								
Investment flows:								
Capital issues in the United Kingdom	+ 22	—	- 4	+ 2	+ 12	+ 2	+ 7	- 1
Other transactions in company and overseas securities	+ 58	+ 13	+ 2	+ 11	- 51	- 41	+ 63	
Miscellaneous private investment	- 52	- 34	+ 37	+ 32	- 48	+ 12	- 13	
Other transactions:								
Deposits with U.K. banks less claims of U.K. banks ^b	- 80	+ 129	+ 196	+ 146	+ 105 ^c	+ 352	+ 165	+ 254
Other identified	+ 8	+ 5	+ 69	- 42	+ 41	+ 30	+ 11	
Balancing item	- 94	+ 284	+ 164	- 87	- 55	+ 108	+ 261	
	-138	+397	+464	+ 62	+ 4	+463	+494	
Transactions with the U.K. public sector								
Lending etc. ^d	- 24	- 40	- 37	- 63	- 50	-111	- 83	
External finance: ^e								
Central government	- 59	-522	-664	-158	- 20 ^c	-504	-581	-505
Local authorities	+ 27	- 1	+ 12	- 13	- 12	- 25	+ 10	+ 52
Public corporations	+ 28	+ 4	+ 7	+ 25	+ 1	- 2	+ 83	+ 20
	- 28	-559	-682	-209	- 81	-642	-571	

a It has not been possible to include in this table the balance of payments estimates for the 2nd quarter of 1971, and revisions to previous quarters, which were released in September and appear in the annex, Table 19.

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

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

active bidders for deposits and their gross liabilities grew more slowly than before. Another very big change was the increase in the balancing item, mainly representing unidentified net inflows to the private sector. These were probably in response to the favourable uncovered differential during the quarter between U.K. and euro-dollar interest rates, partly to a shortage of liquid funds among some U.K. companies during the revenue gathering season, and partly also to the excess of liquidity in the exchange markets.

The net inflows from overseas financial transactions with the private sector and through the U.K. current account surplus gave the public sector £570 million of foreign currency to finance its overseas lending, to add to the reserves or to reduce its external indebtedness. After lending and other transactions of £85 million, £490 million was left for the net reduction of its debts or for the reserves. For the central government itself, this was enlarged to £580 million through borrowing abroad by public corporations and local authorities.

Public sector

The public sector had a financial deficit of £250 million in the first quarter, though it would have had a much smaller one but for the postal strike. Even so, during 1970 as a whole there had been a large surplus (over £800 million), and the position represented a sharp turn-round in the

accounts. The change will be accentuated in the current financial year, as the Chancellor's various fiscal reliefs take effect and the public sector's financial deficit again becomes sizable for the first time since 1968.

In the first quarter, besides meeting the financial deficit, funds had to be found for large repayments of import deposits (£170 million) and also for refinancing export credits, for overseas aid and for other transactions. In all, a public sector borrowing requirement of some £600 million was built up – in contrast to the earlier period of debt repayments during much of 1969 and 1970. Of this total, about £130 million was borrowed direct by public corporations which, as well as taking £45 million from banks and other domestic sources, took £85 million from overseas; the borrowing abroad included £30 million of import credit on Boeing 747 aircraft and £55 million raised in Europe, among others by the Gas Council. An increase in the local authorities' current surplus (through rate support grants from the central government) outweighed the higher cost of capital formation, but their need to borrow outside the sector was again substantial, at £180 million, because they had drawn an unusually large proportion of their quotas with the Public Works Loan Board in previous quarters. Their requirements were met in the main by borrowing from banks, for other domestic sectors appeared to find the longer-dated gilt-edged stocks more attractive than most local authority debt.

As a result of its activities on current and capital account, including its lending to local authorities and public corporations, the central government was left with £335 million to borrow. The domestic borrowing requirement was very much larger, because of the need to meet the sterling cost of the foreign exchange inflow, totalling £580 million. The inflow was partly due to relatively high interest rates; and high rates, and some expectation that these might prove to be at a peak, made the gilt-edged market sufficiently attractive for domestic investors to buy readily, especially at the long end. Many were doubtless keen to secure the prevailing yields for as long as possible, and in the event they supplied most of the sterling finance for the currency inflow and the borrowing requirement. National savings brought in a further £65 million and notes and coin with the general public £125 million – £30 million of which represented the increase in coin in circulation as a result of decimalisation, and part of the remainder an addition to the note issue caused by the postal strike. In all, so great were the private sector's purchases of government debt that a small net repayment of debt was made to the banking sector. Within the total of external transactions, overseas investment in gilt-edged stocks was over £100 million, allowing even larger repayments of direct borrowing to overseas monetary authorities and the International Monetary Fund than would otherwise have been possible.

During the second quarter, the import deposit scheme was virtually unwound as repayments of £110 million were made. Of the two factors which had shaped the central government's domestic borrowing requirement in the first quarter (the inflow from overseas and the deficit on its

current and capital account), only the former was significant in the second. There was some repayment of borrowing but this reflected the receipt of delayed tax payments and there was a small underlying borrowing requirement. In all, the need for finance from domestic sectors was, at £340 million, some £575 million less than in the first quarter.

Taken together, the provision of finance through the banks and through the take-up of notes and coin by the public changed little. This was because of a big change in the gilt-edged market where the authorities sold about £530 million less to the private sector; official sales nevertheless still totalled £200 million, and yields continued at the lower levels to which they had fallen as a result of the very large demand for stock in the first quarter. National savings continued as a source of funds, with individuals taking advantage of the higher limits on holdings of savings certificates and premium bonds which were announced in the Budget.

Table C
Public sector

£ millions

Seasonally adjusted

	1969		1970				1971	
	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
Saving (current surplus)	+1,147	+1,099	+1,201	+1,282	+1,285	+1,209	+1,010	
Capital transfers (net)	- 36	- 98	- 1	- 6	- 19	- 41	- 102	
Capital expenditure	- 946	- 967	- 951	-1,018	-1,037	-1,095	-1,158	
Financial surplus + /deficit -	+ 165	+ 34	+ 249	+ 258	+ 229	+ 73	- 250	
Lending and other transactions (increase in assets +) ^a	+ 64	+ 147	+ 99	+ 71	+ 80	+ 186	+ 187	
Import deposits (increase -)	+ 11	+ 10	+ 13	+ 41	+ 80	+ 123	+ 170	+ 110
Borrowing requirement (borrowing -)	+ 97	- 102	+ 141	+ 47	+ 141	- 336	- 596	
Comprising:								
Central government: ^b								
External transactions	+ 59	+ 522	+ 664	+ 158	+ 20 ^c	+ 504	+ 581	+ 505
Notes and coin with the public	- 8	- 117	- 34	- 38	- 107	- 51	- 126	- 11
Bank borrowing	+ 257	- 155	+ 7	+ 41	- 30 ^c	- 413	+ 47	- 72
Other domestic borrowing	- 114	- 180	- 327	+ 141	+ 227	- 84	- 839	- 256
	+ 194	+ 70	+ 310	+ 302	+ 110	- 44	- 337	+ 166
Local authorities:								
External finance	- 27	+ 1	- 12	+ 13	+ 12	+ 25	- 10	- 52
Bank borrowing	+ 70	- 175	- 71	- 126	- 107	- 179	- 196	- 259
Other domestic borrowing	- 112	- 27	- 48	- 62	+ 68	- 49	+ 24	
	- 69	- 201	- 131	- 175	- 27	- 203	- 182	
Public corporations:								
External finance	- 28	- 4	- 7	- 25	- 1	+ 2	- 83	- 20
Domestic borrowing	- 2	+ 36	- 37	- 62	+ 82	- 84	- 44	
	- 30	+ 32	- 44	- 87	+ 81	- 82	- 127	
Other ^d	+ 2	- 3	+ 6	+ 7	- 23	- 7	+ 50	
Identified financial transactions	+ 172	+ 55	+ 253	+ 159	+ 301	- 27	- 239	
Unidentified	- 7	- 21	- 4	+ 99	- 72	+ 100	- 11	

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 now 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.

Personal sector

Personal savings in the first quarter of 1971 were £70 million more than in the previous quarter, and £130 million above the quarterly average for 1970. This was not altogether due to an acceleration in pre-tax income, but partly reflected the hold-up in transfers of taxes and national insurance contributions to the central government during the postal strike, leading to a temporary retention of around £50 million. (Some capital tax payments were held up too.) When these funds went to the Exchequer in the second quarter of 1971 the effect unwound.

Because of this increase in saving, and because of some reduction in capital expenditure (mainly housing), the sector's financial surplus rose to £510 million, an unparalleled figure. As is usual, however, the surplus was much less than identified net financial acquisitions for the period: unidentified net accruals to persons were around £330 million. This figure is also unusually large and may possibly have been swollen by delayed settlement of trade debts and other bills – perhaps because of the postal strike. On identified financial transactions, the personal sector made a net investment of £840 million, about £300 million more than in the previous quarter and very much more than in any other quarter.

Table D
Personal sector

£ millions

Seasonally adjusted

	1969		1970				1971	
	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
Saving	+574	+632	+647	+740	+705	+785	+853	
Capital transfers (net)	-84	-84	-98	-88	-85	-85	-64	
Capital expenditure	-305	-316	-284	-323	-347	-368	-282	
Financial surplus	+185	+232	+265	+329	+273	+332	+507	
Borrowing (—)								
For house purchase	-231	-193	-221	-289	-357	-354	-323	
Bank borrowings ^a	+75	-98	+23	-80	-10	+8	+44	-82
Hire purchase debt	+13	-2	-3	-14	-7	-25	+4	
Other	-9	-36	-5	-19	-19	-30	—	
	-152	-329	-206	-402	-393	-401	-363	
Acquisition of financial assets (+)								
Life assurance and pension funds	+377	+362	+396	+430	+426	+423	+421	
Government stocks	+95	+113	+170	-59	-284	-55	+234	
Company and overseas securities	-135	-158	-241	-211	-229	-204	-281	
Unit trust units	+33	+27	+24	+28	+23	+14	+2	+2
Bank deposits, notes and coin	+40	+172	+90	+300	+315	+232	+321	+157
Building society shares and deposits	+203	+227	+300	+342	+418	+424	+409	+450
National savings	-60	-69	-30	-43	-25	+47	+66	+84
Local authority debt	+106	+61	+38	-24	-74	-13	-31	
Other	+7	+37	+28	+35	+54	+60	+59	
	+666	+772	+775	+798	+624	+928	+1,200	
Identified financial transactions	+514	+443	+569	+396	+231	+527	+837	
<i>Unidentified</i>	-329	-211	-304	-67	+42	-195	-330	

^a Other than for house purchase.

Within the net total of identified transactions, borrowing was slightly less than in the three previous quarters. Persons took some bank credit, which was more easily obtainable than for some time, but they borrowed somewhat less for house purchase – the housing market was rather slack – and repaid a little hire purchase debt. The latter was seriously affected by the postal strike which prevented mail order firms from obtaining business.

By contrast, persons made an unprecedentedly large addition – £1,200 million – to their total of financial assets. Up to £100 million may reflect the effects of the postal strike and will have accounted for some of the increase in bank deposits and note holdings. As may be seen from Table D, the only really big change in the sector's investment pattern was in its large purchases of gilt-edged stocks. The net increase in claims on life assurance and pension funds was of the same order as in previous quarters, and so was the inflow to building societies (in fact the latter may have been somewhat restrained by the postal strike to judge from the sharp rise to around £450 million in the second quarter). Among the smaller items, national savings maintained their recent attraction. Persons continued to show a marked disinclination to invest in equities and company stocks. Their rate of net disinvestment in direct holdings had increased in the past year or so, and this tendency was presumably reinforced in the first quarter by the effect on confidence of strikes and bankruptcies. This feeling extended to unit trusts, net sales of whose units to persons were negligible. So, for the time being, the gilt-edged market provided the favoured market outlet for personal investors – its attractions enhanced by expectations of a rise in prices following the lowering of overseas interest rates – and they bought £235 million of stock.

Industrial and commercial companies

Industrial and commercial companies seem to have been under the greatest financial pressure in the middle quarters of 1970. Since then, tax cuts and some increase in income have enabled companies to increase their saving by nearly £200 million, and a reduction in real fixed capital formation has started to reduce their capital spending. These outlays might have been trimmed further were it not for an element of forced stockbuilding by manufacturers and wholesalers in the first quarter as retailers in the personal sector reduced their stocks. The speeding up of investment grants helped companies' cash flow too. Finally, the temporary retention during the postal strike of about £100 million of taxes and national insurance contributions due in the first quarter all but enabled the companies to eliminate their financial deficit. At the same time, they received over £150 million repayment of import deposits and, though they spent over £200 million on investment abroad, their trade investments in the United Kingdom (a fairly small item) cost rather less than usual.

In all, companies needed to raise only £115 million of finance through borrowing or through realisations of financial assets. This was the smallest such quarterly total for

Table E
Industrial and commercial companies

£ millions

Seasonally adjusted

Assets: increase + /decrease -

Liabilities: increase - /decrease +

	1969		1970				1971	
	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
Domestic capital formation	+939	+1,027	+971	+1,122	+1,072	+1,137	+1,076	
less Saving	-778	-734	-701	-621	-676	-748	-866	
less Capital transfers (net)	-131	-197	-115	-112	-121	-144	-184	
equals Financial deficit	+ 30	+ 96	+155	+ 389	+ 275	+ 245	+ 26	
Trade investments, mergers etc.	+ 65	+ 39	+ 70	+ 45	+ 43	+ 49	+ 26	
Investment abroad	+181	+176	+111	+161	+217	+123	+217	
Import deposits	- 20	- 11	- 13	- 34	- 70	-108	-153	- 99
Total requiring financing	+256	+ 300	+323	+ 561	+ 465	+ 309	+ 116	
Capital issues at home and long-term borrowing abroad	- 72	- 84	- 30	- 43	- 43	-111	- 99	
Overseas investment in U.K. companies	- 87	-105	-178	-150	- 66	- 96	-186	
Net import credit extended by overseas suppliers	- 2	- 36	+ 12	- 22	- 7	+ 9	- 28	
Net export credit extended to overseas customers	- 1	+ 34	- 2	- 4	- 5	+ 23	+ 34	
Bank borrowing	-315	- 13	-157	-485	-201	-223	-148	- 95
Other borrowing	- 73	- 8	- 65	- 90	-107	-109	- 22	
Bank deposits, notes and coin	+ 12	+ 90	-161	+270	- 30	+247	+132	+312
Other liquid assets ^a	- 22	- 28	+ 7	- 21	- 41	- 16	+ 56	
Other items ^b	- 13	- 29	-	- 10	- 10	+ 31	- 38	
<i>Unidentified</i>	+317	-121	+251	- 6	+ 45	- 64	+183	
Total financing	-256	- 300	-323	- 561	- 465	- 309	- 116	

^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.

some time and was easily met. Long-term funds from domestic and overseas sources provided £285 million, two thirds of which came from overseas direct investment in U.K. companies and subscriptions to share and loan capital. The amount raised from capital issues on the U.K. market remained modest; the total was again much greater than in the first three quarters of 1970, but somewhat less than in the fourth quarter. The percentage of loan capital in the total increased from 80% during the last three quarters of 1970 to 85%, compared with 55% for 1968 and 1969 taken together. The increasing dependence on loan capital partly reflects the incidence of corporation tax, partly perhaps companies' expectations of continuing inflation, and partly the inability or unwillingness of the equity market to provide funds.

Companies borrowed less from banks - to some extent because their short-term foreign currency borrowing began to be restricted during the quarter - but they were still able to increase their bank deposits and, for the first time in two years, built up their holdings of other liquid assets. They borrowed much less than usual from other financial institutions.

Financial institutions other than banks

In the first quarter of 1971, the institutions obtained marginally less new funds than in the previous two quarters, though receipts were still well up on earlier periods; of the various sources of funds only capital issues brought in more. Some £23 million of these were for investment trusts, one of which put £10 million into unit trust units.

All but £70 million of the inflow of £910 million went to purchase financial assets – a higher proportion than in nearly all recent quarters. Almost £500 million – easily a record amount – was put into gilt-edged stocks and there was some concomitant reduction in short-term assets. For the third quarter running about £300 million was lent for house purchase, and £150 million – rather less than for some time – was put into company securities (mostly equities).

Insurance companies and pension funds together bought £320 million of British government stocks, three times the size of their purchases of ordinary shares. This represented a reversal of their behaviour in 1970, when both groups had shown relatively little enthusiasm for gilt-edged, at one time going, against the tide, out of these stocks and into company securities even more determinedly than usual. Pension funds, which have been adjusting their portfolios in favour of equities for many years, bought £125 million of British government stocks compared with only small quarterly fluctuations and no net purchases in 1968, 1969 and 1970 taken together.

Table F
Financial institutions other than banks

£ millions

Seasonally adjusted

	1969		1970				1971	
	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
Sources of funds (increase—)								
Life assurance and pension funds	-377	-362	-396	-430	-426	-423	-421	
Building society shares and deposits	-203	-227	-299	-341	-418	-423	-409	-450
Other deposits	-23	-50	-35	-32	-72	-81	-34	
Capital issues	-15	-11	-21	-21	-9	-5	-32	-49
Unit trust units	-33	-27	-24	-28	-23	-14	-2	-2
Other (mainly bank) borrowing	-5	+6	-30	-7	-13	-30	-14	
	-656	-671	-805	-859	-961	-976	-912	
Increase in financial assets (+)								
Short-term assets ^a	+93	+14	+35	+248	+84	+58	-100	
Government stocks	+98	+138	+178	-40	+104	+81	+492	
Company and overseas securities:								
Ordinary	+32	+147	+174	+125	+148	+177	+128	
Debentures	+18	+36	+29	+49	+36	+52	+27	
Other	-12	-6	+1	+5	-6		-6	
Loans for house purchase	+233	+203	+212	+276	+319	+317	+295	
Long-term lending to local authorities	+4	+17	+7	+22	+22	+40	+21	
Hire purchase claims	-5	-2	-2	+18	+9	+22	+16	
Other lending	+33	-24	+8	+84	+41	+79	-32	
	+494	+523	+642	+787	+757	+826	+841	

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

This substantial incursion into the gilt-edged market was augmented by the building societies who, after lending nearly £300 million for house purchase, were left with more than £100 million to put into other assets; and this went largely into gilt-edged rather than into local authority debt. The huge inflow to the societies over the past two years has increased the availability of their advances on mortgage; but the supply of new housing has been only modest and, although house prices have risen very fast, requests to the societies have not quite kept pace with the inflow.

Investment trusts also bought gilt-edged stocks; they raised more by capital issues than for some time past and, with these extra funds and funds obtained from running down various short-dated and liquid assets, they bought £20 million of gilt-edged and still put £10 million into equities. Unit trusts ran down bank deposits to supplement funds received from the investment trusts and were able to acquire £30 million of equities.

Banking sector, money and D.C.E.

The domestic activities of the banks in the first quarter of 1971 were in great contrast with those of the last quarter of 1970; whereas then they had taken up Treasury bills as the Government financed the foreign currency inflow, in the first quarter they replaced these with short-dated gilt-edged stocks but did not take up nearly so much additional debt.

In the second quarter the banks bought £70 million of central government debt, against a net disposal of £50 million in the first quarter. The principal part of the banks' lending to the public sector was to local authorities, which have been making heavy calls on the banks in recent quarters while other domestic sectors have bought gilt-edged stocks in preference to local authority paper.

Lending to companies (including financial institutions) was larger than in the first quarter, when company finances had seemed to be under a little less pressure than earlier, but still rather smaller than in other recent quarters – suggesting that on the financial side at least companies remained better off. Persons borrowed nearly twice as much as in the first quarter; banks have been better able to accommodate their requests recently, though the demand for loans has been relatively slow to develop.

In total, the increase in domestic deposits was not much larger than in the first quarter, but the sector pattern changed sharply; a fall in public sector deposits was the largest for a long time, while deposits of companies increased by more than for a year. This movement probably included some rebuilding of deposits by financial institutions, which had run down their liquid assets in the first quarter as they made heavy purchases of gilt-edged stocks. Personal sector deposits were increased by £100 million less than in the first quarter, when they had been swollen by delayed tax payments, and the two quarters taken together were fairly typical of recent experience.

The stock of money rose by £460 million in the first quarter, an increase of $2\frac{1}{2}\%$, although there was no expansion of domestic credit. The difference reflected the overseas inflow. The growth of both the money stock and

Table G
Banking sector

£ millions

Seasonally adjusted

Lending: increase +/decrease -
Deposits: increase -/decrease +

	1969		1970				1971	
	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
Lending to:								
Public sector	- 324	+ 290	+ 99	+ 149	+ 78 ^a	+ 678	+ 192	+ 285
Company sector	+ 330	+ 6	+ 193	+ 495	+ 201	+ 268	+ 148	+ 173
Personal sector	- 70	+ 93	- 18	+ 85	+ 30	+ 2	+ 54	+ 97
Total domestic lending	- 64	+ 389	+ 274	+ 729	+ 309	+ 948	+ 394	+ 555
Deposits by:								
Public sector	- 24	- 23	- 36	+ 26	+ 31	- 65	- 24	+ 44
Company sector	- 64	- 52	+ 155	- 385	+ 26	- 227	- 53	- 280
Personal sector	- 36	- 114	- 73	- 281	- 262	- 206	- 258	- 152
Total domestic deposits	- 124	- 189	+ 46	- 640	- 205	- 498	- 335	- 388
Net lending to overseas sector ^b	+ 76	- 127	- 191	- 124	- 106 ^a	- 342	- 51	- 76
Non-deposit liabilities (net)	+ 112	- 73	- 129	+ 35	+ 2	- 108	- 8	- 91

^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.

domestic credit was restrained by heavy sales of gilt-edged stocks to the private sector. In the second quarter, although sales of gilt-edged were over £500 million smaller, the central government borrowing requirement swung by a similar amount, and the money stock actually grew by a little less than in the first quarter, in fact by £400 million or 2%. But domestic credit expanded by £170 million, the smaller difference between the two aggregates in the second quarter representing principally more bank lending to the private and overseas sectors. If the effects of the postal strike, the main cause of the shift in central government borrowing, are broadly discounted, the increases in the stock of money in the two quarters are respectively around £350 million and £500 million.

Notes on sources, definitions and seasonal adjustments

Sources

The main statistical series used in compiling Table J 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 K are not published elsewhere.

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 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 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 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.

[continued on page 336]

Table H

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 (=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 ^b
	1	2	3	4	5	6
Financial years						
1967/68	+1,961	+404	+106	+1,450	+ 1	+ 709
1968/69	+ 456	-173	+ 69	+ 422	+ 138	+ 507
1969/70	- 539	+788	+129	-1,240	- 216	+ 577
1970/71	+ 847	+573	+291	-1,192	+1,175	+1,070
Quarters (unadjusted)						
1969 July—Sept.	+ 226	+278	- 50	+ 102	- 104	+ 110
Oct.—Dec.	+ 580	+245	+144	- 430	+ 621	+ 5
1970 Jan.—Mar.	-1,260	+185	+ 39	- 853	- 631	+ 412
Apr.—June	+ 140	- 38	+ 42	- 132	+ 268	+ 653
July—Sept.	+ 273	-206	+ 72	+ 81 ^d	+ 326 ^d	- 106
Oct.—Dec.	+ 854	+185	+168	- 449	+ 950	+ 113
1971 Jan.—Mar.	- 420	+632	+ 9	- 692	- 369	+ 410
Apr.—June	+ 47	- 419	+ 353	+ 317
Quarters (seasonally adjusted)^e						
1969 July—Sept.	- 97	+223	+ 8	- 4	- 324	+ 251
Oct.—Dec.	+ 102	+214	+117	- 519	+ 290	+ 85
1970 Jan.—Mar.	- 141	+371	+ 34	- 645	+ 99	+ 163
Apr.—June	- 47	- 88	+ 38	- 146	+ 149	+ 548
July—Sept.	- 141	-295	+107	- 31 ^d	+ 78 ^d	+ 166
Oct.—Dec.	+ 336	+138	+ 51	- 531	+ 678	+ 195
1971 Jan.—Mar.	+ 596	+766	+126	- 488	+ 192	+ 162
Apr.—June	+ 11	- 433	+ 285	+ 200

Money stock (M₃)^a

Financial years	Total money stock (M ₃) ^a (=Cols. 13+14)	Currency in circulation with the public	Bank deposits of domestic sectors
	12	13	14
1967/68	+1,353	+106	+1,247
1968/69	+ 944	+ 69	+ 875
1969/70	+ 281	+129	+ 152
1970/71	+2,046	+291	+1,755
Quarters (unadjusted)			
1969 July—Sept.	+ 244	- 50	+ 294
Oct.—Dec.	+ 615	+144	+ 471
1970 Jan.—Mar.	- 560	+ 39	- 599
Apr.—June	+ 855	+ 42	+ 813
July—Sept.	+ 345	+ 72	+ 273
Oct.—Dec.	+ 887	+168	+ 719
1971 Jan.—Mar.	- 41	+ 9	- 50
Apr.—June	+ 566	+ 47	+ 519
Quarters (seasonally adjusted)^e			
1969 July—Sept.	+ 132	+ 8	+ 124
Oct.—Dec.	+ 306	+117	+ 189
1970 Jan.—Mar.	- 12	+ 34	- 46
Apr.—June	+ 678	+ 38	+ 640
July—Sept.	+ 312	+107	+ 205
Oct.—Dec.	+ 549	+ 51	+ 498
1971 Jan.—Mar.	+ 461	+126	+ 335
Apr.—June	+ 399	+ 11	+ 388

a See Table 12 of the annex.

b Other than in foreign currency for investment abroad.

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

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

e 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 337).

in D.C.E.		Other bank assets			Total bank assets = liabilities (= Cols. 5 to 7, 9 and 10)	Changes in period
Bank lending in sterling to overseas	Total D.C.E. ^c (= Cols. 3 to 7)	Bank lending in foreign currency to overseas	Bank lending in foreign currency to private sector for investment overseas	11		
7	8	9	10	11		
+ 61	+2,327	+1,492	+ 80	+2,343	Financial years	
+ 71	+1,207	+3,161	+159	+4,036	1967/68	
+117	- 633	+3,807	+ 50	+4,335	1968/69	
+ 72	+1,416	+2,670	+212	+5,199	1969/70	
					1970/71	
					Quarters	
					(unadjusted)	
+ 60	+ 118	+ 995	+ 9	+1,070	1969 July—Sept.	
+ 54	+ 394	+ 306	+ 14	+1,000	Oct.—Dec.	
- 40	-1,073	+ 176	+ 12	- 71	1970 Jan.—Mar.	
+ 2	+ 833	+1,299	+ 32	+2,254	Apr.—June	
+ 63	+ 436	+ 208	+ 65	+ 556 ^c	July—Sept.	
—	+ 782	+ 923	+ 75	+2,061	Oct.—Dec.	
+ 7	- 635	+ 240	+ 40	+ 328	1971 Jan.—Mar.	
+100	+ 398	+ 965	+ 70	+1,805	Apr.—June	
					Quarters	
					(seasonally adjusted) ^e	
+ 60	- 9	+ 966	+ 9	+ 962	1969 July—Sept.	
+ 54	+ 27	+ 290	+ 14	+ 733	Oct.—Dec.	
- 40	- 389	+ 242	+ 12	+ 476	1970 Jan.—Mar.	
+ 2	+ 591	+1,282	+ 32	+2,013	Apr.—June	
+ 63	+ 383	+ 176	+ 65	+ 548 ^d	July—Sept.	
—	+ 393	+ 906	+ 75	+1,854	Oct.—Dec.	
+ 7	- 1	+ 303	+ 40	+ 704	1971 Jan.—Mar.	
+100	+ 163	+ 949	+ 70	+1,604	Apr.—June	

Bank liabilities

Bank deposits of overseas	Non-deposit liabilities (net)	Total bank liabilities = assets (= Cols. 14 to 16)	Changes in period
15	16	17	
+1,121	- 25	+2,343	Financial years
+3,059	+102	+4,036	1967/68
+4,090	+ 93	+4,335	1968/69
+3,360	+ 84	+5,199	1969/70
			1970/71
			Quarters
			(unadjusted)
+ 912	-136	+1,070	1969 July—Sept.
+ 425	+104	+1,000	Oct.—Dec.
+ 428	+100	- 71	1970 Jan.—Mar.
+1,461	- 20	+2,254	Apr.—June
+ 303 ^d	- 20	+ 556 ^d	July—Sept.
+1,202	+140	+2,061	Oct.—Dec.
+ 394	- 16	+ 328	1971 Jan.—Mar.
+1,178	+108	+1,805	Apr.—June
			Quarters
			(seasonally adjusted) ^e
+ 950	-112	+ 962	1969 July—Sept.
+ 471	+ 73	+ 733	Oct.—Dec.
+ 393	+129	+ 476	1970 Jan.—Mar.
+1,408	- 35	+2,013	Apr.—June
+ 345 ^d	- 2	+ 548	July—Sept.
+1,248	+108	+1,854	Oct.—Dec.
+ 361	+ 8	+ 704	1971 Jan.—Mar.
+1,125	+ 91	+1,604	Apr.—June

Table J

Flow of funds: quarterly figures

£ millions

Not seasonally adjusted

	Line	Public sector			Overseas sector ^a		
		1970	1971		1970	1971	
		4th qtr.	1st qtr.	2nd qtr.	4th qtr.	1st qtr.	2nd qtr.
Financial surplus + /deficit —							
Saving	1	+ 854	+ 1,912				
Taxes on capital and capital transfers	2	— 63	— 44				
less:							
Gross fixed capital formation at home	3	— 1,070	— 1,196				
Increase in value of stocks and work in progress	4	— 28	— 17				
Financial surplus + /deficit —	5	— 307	+ 655	— 200	— 37		
Changes in financial assets and liabilities							
Assets: increase + /decrease —							
Liabilities: increase — /decrease +							
Net indebtedness of Government to Bank of England, Banking Department	6	— 220	+ 169	— 51			
Life assurance and pension funds	7						
Loans by the U.K. Government	8	+ 9	+ 56		— 10	— 42	
Total external currency flow	9-1	+ 347	+ 973	+ 634	— 347	— 973	— 634
Other central government external transactions	9-2	+ 67	— 175	— 148	— 67	+ 175	+ 148
Banks' net external transactions	10				+ 289	+ 261	+ 291
Miscellaneous investment overseas (net)	11	+ 85	— 44		— 117	+ 62	
Notes and coin	12	— 184	— 31	— 27			
Bank deposits of domestic sectors	13	+ 61	+ 37	— 40			
Deposits with other financial institutions	14				+ 30	+ 21	
National savings	15-1	— 21	— 114	— 62			
Tax reserve certificates	15-2	— 45	+ 82	— 12			
Import deposits	15-3	+ 123	+ 170	+ 110	— 15	— 17	— 11
Bank lending to domestic sectors	16	— 89	— 12	+ 43			
Hire purchase debt	17	—	— 1				
Loans for house purchase	18	+ 27	+ 18				
Other loans and accruals	19	+ 96	— 4				
Marketable government debt:							
Treasury bills } held by	20	— 599	+ 949	— 91			
Stocks } domestic sectors	21	+ 5	— 1,130	— 245			
Local authority debt	22	— 114	— 217		— 33	+ 23	+ 47
U.K. company and overseas securities:							
Capital issues	23				+ 2	+ 7	— 1
Other transactions	24	— 1	+ 32		— 41	+ 63	
Unit trust units	25						
Identified financial transactions	26	— 453	+ 758		— 309	— 420	
<i>Unidentified</i>	27	+ 146	— 103		+ 109	+ 383	
Total = Financial surplus + /deficit —	28	— 307	+ 655		— 200	— 37	

— 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 September.

Personal sector			Industrial and commercial companies			Banking sector			Other financial institutions			Line
1970		1971	1970		1971	1970		1971	1970		1971	
4th qtr.	1st qtr.	2nd qtr.	4th qtr.	1st qtr.	2nd qtr.	4th qtr.	1st qtr.	2nd qtr.	4th qtr.	1st qtr.	2nd qtr.	
+604	+1,133		+1,085	+ 197		+206	-161					1
- 80	- 66		+ 147	+ 174		- 4	- 64					2
-274	- 260		- 904	- 759		-150	-113					3
- 72	- 40		- 267	- 277		—	—					4
+178	+ 767		+ 61	- 665		+ 52	-338					5
						1970	1971		1970	1971		
						4th qtr.	1st qtr.	2nd qtr.	4th qtr.	1st qtr.	2nd qtr.	
+445	+ 425		—	—	13	+220	-169	+ 51	-445	-425		6
—	—		—	—					+ 1	- 1		7
												8
												9-1
												9-2
												10
			+ 57	- 10		-289	-261	-291	- 25	- 8		11
+ 39	+ 50	+ 23	+ 129	- 41	+ 24	+ 16	+ 22	- 20				12
+340	+ 123	+185	+ 265	- 114	+348	-719	+ 50	-519	+ 53	- 96	+26	13
+508	+ 448		- 3	- 37					-535	-432		14
+ 21	+ 114	+ 62										15-1
+ 21	- 23	+ 4	+ 22	- 30		—	- 29	- 5	+ 2	—		15-2
			- 108	- 153	- 99							15-3
+ 23	- 26	-126	- 183	- 385	-162	+253	+465	+281	- 4	- 42	-36	16
- 64	+ 38		+ 61	- 53					+ 3	+ 16		17
-354	- 323		- 30	- 147		+ 10	+ 10	+ 15	+317	+295		18
- 75	- 35					-121	+121	-125	+130	+ 65		19
			+ 6	- 5		+589	-935	+100	+ 4	- 9		20
- 55	+ 234		- 28	- 8		- 31	+404	+ 46	+ 81	+492		21
+ 13	- 53					+ 67	+331	+223	+ 95	- 76		22
			- 88	- 72	- 75	—	- 1	- 2	- 5	- 32	-49	23
-204	- 281		+ 74	+ 30		+ 34	+105	+239	+229	+149		24
+ 11	+ 10	+ 2							- 11	- 10	- 2	25
+669	+ 701		+ 174	-1,038		+ 29	+113	- 7	-110	-114		26
-497	+ 66		- 113	+ 373		+133		-337				27
+178	+ 767		+ 61	- 665		+ 52	-338					28

Table K

Flow of funds: quarterly figures

£ millions

Seasonally adjusted

	Line	Public sector			Overseas sector ^a		
		1970		1971	1970		1971
		4th qtr.	1st qtr.	2nd qtr.	4th qtr.	1st qtr.	2nd qtr.
Financial surplus + /deficit —							
Saving	1	+ 1,209	+ 1,010				
Taxes on capital and capital transfers	2	— 41	— 102				
<i>less:</i>							
Gross fixed capital formation at home	3	— 1,095	— 1,158				
Increase in value of stocks and work in progress	4						
Financial surplus + /deficit —	5	+ 73	— 250				
				— 179	— 77		
Changes in financial assets and liabilities							
Assets: increase + /decrease —							
Liabilities: increase — /decrease +							
Net indebtedness of Government to Bank of England, Banking Department	6	— 156	+ 109	+ 29			
Life assurance and pension funds	7						
Loans by the U.K. Government	8	+ 12	+ 41		— 13	— 27	
Total central government external transactions	9	+ 504	+ 581		— 504	— 581	
Banks' net external transactions	10				+ 352	+ 165	+ 254
Miscellaneous investment overseas (net)	11	+ 85	— 44		— 71	+ 46	
Notes and coin	12	— 17	— 209	+ 27			
Bank deposits of domestic sectors	13	+ 65	+ 24	— 44			
Deposits with other financial institutions	14				+ 28	— 4	
National savings	15.1	— 47	— 66	— 84			
Tax reserve certificates	15.2	+ 5	— 34	+ 26			
Import deposits	15.3	+ 123	+ 170	+ 110	— 15	— 17	— 11
Bank lending to domestic sectors	16	— 86	— 43	+ 46			
Hire purchase debt	17	—	— 1				
Loans for house purchase	18	+ 27	+ 18				
Other loans and accruals	19	—	+ 36				
Marketable government debt:							
Treasury bills } held by	20	— 341	+ 409	— 99			
Stocks } domestic sectors	21	+ 5	— 1,130	— 245			
Local authority debt	22	— 205	— 132		— 25	+ 10	+ 52
U.K. company and overseas securities:							
Capital issues	23				+ 2	+ 7	— 1
Other transactions	24	— 1	+ 32		— 41	+ 63	
Unit trust units	25						
Identified financial transactions	26	— 27	— 239		— 287	— 338	
<i>Unidentified</i>	27	+ 100	— 11		+ 108	+ 261	
Total = Financial surplus + /deficit —	28	+ 73	— 250		— 179	— 77	

— 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 September.

Personal sector			Industrial and commercial companies			Banking sector			Other financial institutions			Line
1970		1971	1970		1971	1970		1971	1970		1971	
4th qtr.	1st qtr.	2nd qtr.	4th qtr.	1st qtr.	2nd qtr.	4th qtr.	1st qtr.	2nd qtr.	4th qtr.	1st qtr.	2nd qtr.	
+785	+853		+ 748	+ 866					+ 98	+ 96		1
- 85	- 64		+ 144	+ 184					- 18	- 18		2
-368	-282		-1,137	-1,076					-146	-109		3
+332	+507		- 245	- 26					- 66	- 31		4
												5
+423	+421				13				+156	-109	- 29	6
—	—											7
									-423	-421		8
									+ 1	- 1		9
												10
			+ 11	+ 6					-352	-165	-254	11
+ 26	+ 63	+ 5	+ 25	+ 63	+ 6				- 34	+ 83	- 38	12
+206	+258	+152	+ 222	+ 69	+306				-498	-335	-388	13
+481	+458		- 5	- 11								14
+ 47	+ 66	+ 84							-504	-443	-26	15-1
+ 3	+ 10	- 6	- 10	+ 53					+ 2	—		15-2
			- 108	- 153	- 99							15-3
+ 8	- 44	- 82	- 223	- 148	- 95				+332	+248	+161	16
- 25	+ 4		+ 3	- 19					+ 10	+ 10	+ 15	17
-354	-323		- 71	- 23					- 3	+ 11	- 11	18
- 30	—								+104	- 24		19
			+ 12	- 2								
- 55	+234								+325	-398	+100	20
- 13	- 31		- 23	+ 11					- 31	+404	+ 46	21
									+179	+196	+259	22
									+ 4	- 9		
									+ 81	+492		
									+ 87	- 54		
-204	-281		- 88	- 72	- 75							
+ 14	+ 2	+ 2	+ 74	+ 30					- 5	- 32	-49	23
									+34	+105	+239	24
+527	+837		- 181	- 209					- 5	- 32	-49	25
									+229	+149		26
									- 14	- 2	- 2	
									+118	+ 20	+ 93	27
									-150	- 71		28
-195	-330		- 64	+ 183					- 43	+ 1		
+332	+507		- 245	- 26					- 66	- 31		

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 the total change in transit items. Changes in holdings of sterling certificates of deposit not in line 10 are attributed to residents.

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). 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 (in-

cluding 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.