

## Analysis of financial statistics: July-September 1970

The analysis deals mainly with flows of funds between the various sectors in the third quarter of 1970, the latest period for which complete statistics are available. There is comment on the fourth quarter where sufficient information permits, notably in the final sections covering the banks, money stock and domestic credit. The analysis is based on seasonally adjusted figures. Unadjusted figures are given in Table J and notes on sources and methods begin on page 34.

### Summary

In the third quarter the financial positions of the various sectors did not alter very much. The public and personal sectors each had another large surplus, and the company and overseas sectors were again in deficit. Although the balance of payments on current account was still in surplus there was a currency outflow, the first for some time. The personal sector surplus, in so far as transactions are identified, again permitted large additions to liquid assets – notably funds placed with building societies and in bank deposits – as well as to life assurance and pension funds. At the same time, there was a further shift in unidentified transactions, which suggests that companies again reduced the amount of credit extended to the personal sector. However, companies still found it necessary to draw on their liquid assets at a time when, given the continuing rapid rise in the value of their turnover, they probably hoped to build them up. The redemption on 1st September of 3% Savings Bonds 1960/70, a war-time issue widely held by individuals, gave rise to substantial disinvestment in gilt-edged stocks by personal holders.

In the fourth quarter domestic credit expanded at roughly the same rate as in the third. The money stock, however, increased twice as much in the third quarter, because there was a large inflow of foreign currency.

### Background

The volume of the gross domestic product was much the same in the third quarter of 1970 as in the second and little more than 1% larger than a year earlier. Among the components of demand, personal consumption rose by 1% between the second and third quarters, capital formation was little changed (a fall in fixed investment was offset by more stockbuilding), and exports of goods and services fell sharply (by 3½%).

Exports were affected by the July dock strike, which left an abnormally large volume of goods in transit at the end of the quarter. As imports picked up more quickly from the strike – their volume in the third quarter was slightly higher than the average for the first half year – the surplus on current account diminished between the second and third quarters.

Prices and incomes continued to rise, and output at current prices (as derived from expenditure data) was 2% larger than in the second quarter and 10% larger than a year earlier. Income from employment was almost 4% greater than in the second quarter, and income from rent and self-employment also rose strongly. In contrast, company profits continued to stagnate and were 2% less than a year earlier.

Over the first three quarters of 1970 total personal incomes were more than 10% higher than in the same period in 1969. The rise in real purchasing power was less than 4% however, because of increases in prices and deductions for direct taxes and social security contributions. Even so, this provided a sharp contrast to 1969, when there was a negligible increase in real personal disposable income compared with 1968. Personal spending grew more slowly than incomes for, in spite of inflationary expectations, people appeared to be saving much of their additional

**Table A**  
**Income and expenditure**

£ millions

Seasonally adjusted

	Income from employment and trading <sup>ab</sup>	Transfer incomes etc. <sup>b</sup>	less Consumption <sup>c</sup>	less Current transfer payments	equals Saving	less Gross domestic capital formation <sup>ad</sup>	less Capital transfers (net payments - )	equals Financial surplus/deficit <sup>e</sup>
<b>Personal sector</b>								
1969 1st qtr.	6,604	2,821	-6,938	-1,825	662	- 298	-134	230
2nd qtr.	6,693	2,814	-7,105	-1,844	558	- 285	- 85	188
3rd qtr.	6,824	2,840	-7,224	-1,903	537	- 319	- 84	134
4th qtr.	7,053	2,922	-7,351	-1,976	648	- 322	- 84	242
1970 1st qtr.	7,207	2,927	-7,433	-2,056	645	- 284	- 97	264
2nd qtr.	7,493	3,102	-7,680	-2,207	708	- 324	- 89	295
3rd qtr.	7,770	3,085	-7,880	-2,236	739	- 350	- 85	304
<b>Company sector</b>								
1969 1st qtr.	1,197	940		-1,352	785	-1,037	118	-134
2nd qtr.	1,208	933		-1,412	729	-1,081	112	-240
3rd qtr.	1,278	976		-1,421	833	-1,044	120	- 91
4th qtr.	1,265	984		-1,446	803	-1,124	182	-139
1970 1st qtr.	1,231	1,002		-1,458	775	-1,056	68	-213
2nd qtr.	1,233	1,026		-1,513	746	-1,221	45	-430
3rd qtr.	1,247	1,033		-1,501	779	-1,181	56	-346
<b>Public sector</b>								
1969 1st qtr.	406	4,196	-1,964	-1,720	918	- 906	16	28
2nd qtr.	383	4,377	-1,994	-1,702	1,064	- 893	- 27	144
3rd qtr.	402	4,553	-2,060	-1,740	1,155	- 932	- 36	187
4th qtr.	384	4,621	-2,100	-1,803	1,102	- 971	- 98	33
1970 1st qtr.	390	4,716	-2,114	-1,817	1,175	- 946	29	258
2nd qtr.	403	4,950	-2,228	-1,876	1,249	-1,027	44	266
3rd qtr.	376	5,074	-2,319	-1,862	1,269	-1,045	29	253
<b>Overseas sector<sup>f</sup></b>								
1969 1st qtr.								- 13
2nd qtr.								- 76
3rd qtr.								-153
4th qtr.								-174
1970 1st qtr.								-213
2nd qtr.								-119
3rd qtr.								- 73

a Before providing for depreciation and stock appreciation.

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

c Other than depreciation.

d Including stocks.

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

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

income, and the personal savings ratio increased to quite a high figure. The sector's financial surplus was again very large in the third quarter.

Companies' finances remained unusually tight. Their profits showed virtually no recovery; their tax, dividend and interest payments were almost as high as in the second quarter; and their saving barely increased. However, they reduced the amount of fixed investment, and their financial deficit was below the peak in the second quarter, although still nearly four times what it had been a year earlier.

The public sector's position also remained largely unaltered in the third quarter. The inflow from taxes and contributions continued to increase but, owing to changes in income tax allowances introduced in the 1970 Budget, more slowly than in the first half of the year. However, public consumption also rose and the sector spent more on fixed investment, so that the financial surplus was not quite as large as in the two previous quarters.

#### Overseas sector

A financial deficit for the overseas sector corresponds to a surplus on the current account of the balance of payments. This continued to fall in the third quarter (as it had in

**Table B**

#### Overseas sector<sup>a</sup>

£ millions

Seasonally adjusted

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

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

	1969				1970			
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
<b>Financial surplus + /deficit—</b>	- 13	- 76	- 153	- 174	- 213	- 119	- 73	
<b>Transactions with the U.K. private sector</b>								
Capital issues in the United Kingdom	- 4	- 10	+ 22	—	- 4	+ 2	+ 12	+ 2
Other transactions in company and overseas securities	- 16	+ 61	+ 65	+ 19	+ 6	+ 12	- 48	
Miscellaneous private investment	+ 23	- 57	- 40	- 59	+ 33	+ 41	- 36	
Deposits with U.K. banks less claims of U.K. banks <sup>b</sup>	- 114	- 47	- 95	+ 120	+ 195	+ 162	+ 83 <sup>c</sup>	+ 371
Other identified	+ 33	- 42	+ 22	- 20	+ 95	- 21	+ 40	
Balancing item	+ 149	+ 12	- 125	+ 326	+ 245	- 166	- 63	
	+ 71	- 83	- 151	+ 386	+ 570	+ 30	- 12	
<b>Transactions with the U.K. public sector</b>								
Lending etc. <sup>d</sup>	—	+ 11	- 29	- 28	- 47	- 63	- 53	
<b>External finance:<sup>e</sup></b>								
Central government	- 83	- 32	- 37	- 535	- 755	- 86	- 4 <sup>c</sup>	- 525
Local authorities	- 7	+ 1	+ 35	—	+ 10	- 24	- 4	- 20
Public corporations	+ 6	+ 27	+ 29	+ 3	+ 9	+ 24	—	—
	- 84	+ 7	- 2	- 560	- 783	- 149	- 61	

<sup>a</sup> It has not been possible to include in this table the balance of payments estimates for the fourth quarter of 1970, and revisions to previous quarters, which were released in March and appear in the annex, Table 19.

<sup>b</sup> Other than purchases of securities.

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

<sup>d</sup> Those overseas transactions of the public sector which are not included in D.C.E.

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

the second), even after allowance had been made for the under-recording of exports. The fall of about £45 million was caused partly by an increase of £20 million in the U.K. visible trade deficit (with exports adversely affected by the July dock strike) and partly by a reduction of £25 million in the invisible surplus.

In financial transactions with the private sector, there was a small outflow of some £10 million, compared with a small inflow in the previous quarter and with very large inflows in the previous half year. The investment inflows of the previous quarters fell away considerably and the net flow of funds to the banks was again substantially reduced. There was also a large expansion in U.K. investment overseas.

In previous quarters the public sector had been able to repay substantial amounts of its overseas debt as a result of the large inflows of foreign funds. The scale of repayment had become smaller in the second quarter and in the third quarter, when there was a currency outflow, the public sector was unable to reduce its debts further. But in the fourth quarter there were again large foreign currency inflows and repayments of external indebtedness by the public sector.

#### **Public sector**

In the third quarter there was little change in the public sector surplus; it remained, at over £250 million, substantially as it had been in the first and second quarters. The financial strength of the public sector thus persisted throughout the first nine months of the year, intensifying the pressures on industrial and commercial companies.

Although the surplus remained the same size in total, there were considerable changes among the various financial flows. The borrowing requirement continued to fluctuate; in the second quarter the public sector had had a small borrowing requirement, but in the third it was able to repay £110 million of debt. However, this was only about half the amount repaid in the first quarter.

In contrast with recent quarters, both the local authorities and the public corporations reduced their borrowing considerably. Indeed, the public corporations, after borrowing nearly £100 million from outside the public sector in the second quarter, repaid £60 million in the third. Most of this change came in bank borrowing; external transactions were negligible.

Local authorities borrowed less from their banks than in other recent quarters, but there was a much larger change in their borrowing from the financial institutions. In the second quarter the institutions had invested substantially in temporary money; in the third quarter they reduced the amount they invested by about £100 million and switched to gilt-edged stocks.

On the other hand, the central government were left to make smaller debt repayments than in the second quarter – a fall of about half (to £105 million) from the high figure of the second quarter and less than a third of the repayments in the first quarter. There were considerable fluctua-

tions among the components of government borrowing. The largest single change between the second and third quarters was in the financing of the total currency flow; as sterling weakened and investment flows turned unfavourable, there was renewed borrowing on facilities with overseas central banks, in contrast to repayments in the previous quarter. The redemption of 3% Savings Bonds 1960/70

**Table C**  
**Public sector**

£ millions

Seasonally adjusted

	1969				1970			
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Saving (current surplus)	+918	+1,064	+1,155	+1,102	+1,175	+1,249	+1,269	
Capital transfers (net)	+ 16	- 27	- 36	- 98	+ 29	+ 44	+ 29	
Capital expenditure	-906	- 893	- 932	- 971	- 946	-1,027	-1,045	
<b>Financial surplus + /deficit —</b>	<b>+ 28</b>	<b>+ 144</b>	<b>+ 187</b>	<b>+ 33</b>	<b>+ 258</b>	<b>+ 266</b>	<b>+ 253</b>	
Lending and other transactions (increase in assets + ) <sup>a</sup>	+107	+ 51	+ 64	+ 284	+ 118	+ 35	+ 109	
Import deposits (increase —)	-268	- 217	+ 7	+ 10	+ 13	+ 41	+ 82	+124
Borrowing requirement (increase —)	+275	+ 201	+ 79	- 79	+ 247	- 16	+ 109	
Comprising:								
Central government:								
External finance	+ 83	+ 32	+ 37	+ 535	+ 755	+ 86	+ 4 <sup>b</sup>	+525
Notes and coin with the public	- 22	- 2	- 10	- 107	- 44	- 34	- 107	- 73
Bank borrowing	+183	+ 315	+ 275	- 121	- 12	+ 39	- 15 <sup>b</sup>	-382
Other domestic borrowing	+207	- 2	- 104	- 181	- 345	+ 141	+ 224	- 94
	+451	+ 343	+ 198	+ 126	+ 354	+ 232	+ 106	- 24
Local authorities:								
External finance	+ 7	- 1	- 35	—	- 10	+ 24	+ 4	+ 20
Bank borrowing	-137	- 89	+ 99	- 193	- 161	- 88	- 61	-173
Other domestic borrowing	- 68	- 24	- 122	- 32	+ 52	- 94	+ 28	
	-198	- 114	- 58	- 225	- 119	- 158	- 29	
Public corporations:								
External finance	- 6	- 27	- 29	- 3	- 9	- 24	—	—
Domestic borrowing	+ 14	+ 8	- 30	+ 36	- 1	- 69	+ 60	
	+ 8	- 19	- 59	+ 33	- 10	- 93	+ 60	
Other <sup>c</sup>	+ 14	- 9	- 2	- 13	+ 22	+ 3	- 28	
<b>Identified financial transactions</b>	<b>+114</b>	<b>+ 35</b>	<b>+ 150</b>	<b>+ 215</b>	<b>+ 378</b>	<b>+ 60</b>	<b>+ 300</b>	
Unidentified	- 86	+ 109	+ 37	- 182	- 120	+ 206	- 77	

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

c Comprises Northern Ireland government borrowing and deductions for intra-sector debt transactions.

substantially reduced personal holdings of government debt. Industrial and commercial companies – responding to liquidity pressures – sold some Treasury bills and, according to a new liquidity survey of large companies, some gilt-edged stocks.<sup>1</sup> In all, the authorities repurchased almost

<sup>1</sup> Company transactions in gilt-edged stocks are not, as yet, fully identifiable and are therefore attributed – by residual – to the personal sector in the published statistics.

twice as much debt (excluding notes and coin) from domestic sectors other than banks as they had in the previous quarter.

In the fourth quarter the central government had a small borrowing requirement, which was more than matched by sales of debt to the public, though the sterling cost of the large inflow of foreign funds had to be met by increased finance from the banking system.

### Personal sector

Personal incomes continued to grow strongly during the third quarter and in total they were 2½% bigger than in the second. The value of personal consumption increased at much the same rate, mainly because of price rises; but tax payments rose less rapidly, as the Budget reliefs took effect, and personal savings were rather larger. Investment in housing continued to rise, but the financial surplus remained around £300 million for the second quarter running, an exceptionally large figure.

**Table D**  
**Personal sector**

£ millions

Seasonally adjusted

	1969				1970			
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Saving	+662	+558	+537	+648	+645	+708	+739	
Capital transfers (net)	-134	-85	-84	-84	-97	-89	-85	
Capital expenditure	-298	-285	-319	-322	-284	-324	-350	
<b>Financial surplus</b>	<b>+230</b>	<b>+188</b>	<b>+134</b>	<b>+242</b>	<b>+264</b>	<b>+295</b>	<b>+304</b>	
<b>Borrowing (-)</b>								
For house purchase	-223	-205	-220	-190	-221	-272	-333	
Bank borrowing <sup>a</sup>	+93	+20	+55	-91	+42	-96	-27	+22
Hire purchase debt	+9	+12	+17	-13	-3	-7	-3	
Other	-20	-48	-17	-17	+2	-48	-15	
	-141	-221	-165	-311	-180	-423	-378	
<b>Acquisition of financial assets (+)</b>								
Life assurance and pension funds	+380	+411	+361	+383	+400	+420	+410	
Government stocks	-161	+30	+95	+112	+167	-46	-272	
Company and overseas securities	-182	-74	-149	-190	-267	-229	-239	
Unit trust units	+91	+42	+29	+24	+31	+27	+19	+12
Bank deposits, notes and coin	+137	+24	+42	+178	+84	+308	+317	+228
Building society shares and deposits	+223	+238	+208	+226	+291	+335	+418	+418
National savings	+4	-103	-50	-75	-2	-76	-10	+44
Local authority debt	+20	+26	+138	+36	+11	-16	-29	
Other	+31	+25	-10	+47	+15	+56	+33	
	+543	+619	+664	+741	+730	+779	+647	
<b>Identified financial transactions</b>	<b>+402</b>	<b>+398</b>	<b>+499</b>	<b>+430</b>	<b>+550</b>	<b>+356</b>	<b>+269</b>	
<i>Unidentified</i>	-172	-210	-365	-188	-286	-61	+35	

<sup>a</sup> Other than for house purchase.

The ratio of saving to disposable income rose a little further. Because saving is the difference between two large aggregates (personal disposable income and consumption) the figures are not very reliable, but a calculated savings ratio of around 8½% for the second and third quarters com-

pared with an average in 1968 and 1969 of little over 7½% is an indication that people were tending to save more. At first sight, this is surprising in a period when prices were rising – and likely to continue to rise – unusually quickly. People may simply have been adjusting fairly slowly to the rise in incomes; alternatively they could have been saving, at some cost, either against the uncertainties of the economic outlook, including rising unemployment, or for down-payments on houses, which remain attractive investments.

Identified personal borrowing was around £400 million in the third quarter, the same as in the second, but much more than in earlier quarters. Bank borrowing was reduced from around £100 million in the second quarter to £30 million, but net borrowing for house purchase reached a record £330 million, mostly from building societies.

On the figures as at present recorded, persons spent little more than £640 million net on financial assets – £130 million less than in the second quarter and the smallest total since the second quarter of 1969. The sector's unidentified transactions, however, were in the direction of net payments, or repayments, of some £35 million, compared with receipts of £60 million in the second quarter and very much larger receipts in nearly all previous quarters. This suggests that the personal sector may have continued to take less trade credit from companies, and to settle their accounts more quickly.

The sector's unusually heavy disinvestment in government stocks, amounting to £270 million, was largely the result of the maturity of 3% Savings Bonds 1960/70 on 1st September. This stock was a war-time issue and was widely held. Many holders will have sought to employ the redemption proceeds outside the gilt-edged market, for example with building societies. Persons also sold rather more equities than in the second quarter, bought even fewer unit trust units (only £19 million, the lowest in recent years), and continued to disinvest in local authority debt. National savings picked up slightly, and net redemptions by persons were only £10 million over the quarter. But the sector deposited a record amount of well over £400 million with the building societies, put slightly more into bank deposits and maintained their steady payments, also over £400 million, to the life assurance and pension funds.

#### **Industrial and commercial companies**

As profits and payments of taxes and dividends remained largely unchanged in the third quarter, a fall of £20 million in capital expenditure produced a similarly modest reduction in the deficit of industrial and commercial companies, but it still totalled £700 million over the first nine months.

In the third quarter, companies expanded their investment overseas by over £125 million, to £225 million. The increase was evenly divided between a short-term outflow and longer-term direct investment, which included some bunching of take-over activity. However, companies received a welcome increase of £40 million in repayments of import deposits as the scheme was run down. Their expenditure on trade

**Table E**  
**Industrial and commercial companies**

£ millions

Seasonally adjusted

Assets: increase +/decrease -

Liabilities: increase -/decrease +

	1969				1970		
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.
Domestic capital formation	+929	+947	+931	+1,013	+951	+1,088	+1,068
less Saving	-741	-697	-786	-726	-708	-682	-684
less Capital transfers (net)	-123	-120	-131	-197	-115	-111	-105
<b>equals Financial deficit</b>	<b>+ 65</b>	<b>+130</b>	<b>+ 14</b>	<b>+ 90</b>	<b>+128</b>	<b>+ 295</b>	<b>+ 279</b>
Trade investments, mergers etc.	+ 91	+ 68	+ 75	+ 56	+ 89	+ 59	+ 59
Investment abroad	+149	+136	+160	+ 186	+127	+ 99	+ 223
Import deposits	+243	+193	- 16	- 11	- 12	- 33	- 75
<b>Total requiring financing</b>	<b>+548</b>	<b>+527</b>	<b>+233</b>	<b>+ 320</b>	<b>+332</b>	<b>+ 420</b>	<b>+ 486</b>
Capital issues at home and long-term borrowing abroad	-190	-172	- 77	- 79	- 22	- 54	- 54
Overseas investment in U.K. companies	- 55	- 67	- 82	- 92	-179	- 152	- 64
Net import credit extended by overseas	- 31	- 44	- 4	- 40	+ 12	- 21	- 7
Net export credit extended to overseas	+ 28	+ 56	- 19	+ 68	- 19	+ 8	- 12
Bank borrowing	-255	- 4	-388	+ 20	-174	- 500	- 146
Other borrowing	- 47	- 72	- 91	- 25	-106	- 16	- 139
Bank deposits, notes and coin	-106	-199	+ 93	+ 57	-150	+ 279	- 81
Other liquid assets <sup>a</sup>	+ 10	- 10	- 37	- 22	+ 5	- 6	- 57
Other items <sup>b</sup>	+ 15	- 41	- 4	- 16	- 10	- 17	- 37
<i>Unidentified</i>	+183	+ 26	+376	- 191	+311	+ 59	+ 111
<b>Total financing</b>	<b>-548</b>	<b>-527</b>	<b>-233</b>	<b>- 320</b>	<b>-332</b>	<b>- 420</b>	<b>- 486</b>

<sup>a</sup> Treasury bills, local authority temporary debt, tax reserve certificates and deposits with other financial institutions.

<sup>b</sup> Long-term local authority debt, trade credit to public corporations and hire purchase lending.

investments and mergers was the same size as before. In all their financing requirement was about £65 million bigger than in the second quarter.

On the financing side, companies received less from several sources. The flow of overseas investment in U.K. companies was nearly £100 million lower – the total of £65 million was the lowest for over a year. Their net import credit was also reduced. Most strikingly, there was a steep fall in the amount of new bank borrowing; after £500 million in the second quarter, they now obtained only some £150 million in the third, despite a further increase in their borrowing of euro-dollars.<sup>1</sup> As the cost of borrowing on the capital market was still judged too high, companies ran down their liquid assets as their residual source of finance: they relinquished Treasury bills and local authority debt, and whereas they had added £280 million to their bank deposits in the second quarter, they withdrew £80 million in the third.<sup>1</sup> Companies were also able to reduce their net provision of export credit by £20 million, and to

<sup>1</sup> These figures are affected by the treatment of transit items – see the note on bank deposits on page 35.



curtail trade credit given to public corporations by more than in the second quarter.

### Financial institutions other than banks

In the third quarter, funds continued to flow strongly to the institutions, and the total inflow was the highest recorded for any quarter. The increase between the second and third quarters was more than accounted for by the very sharp rise of about 25% in the inflow to building societies, which provided the most favoured outlet for the surplus funds of the personal sector. Other institutions fared less well; in particular unit trusts' sales of units declined even further, and investment trusts raised no new money at all.

**Table F**

### Financial institutions other than banks

£ millions

Seasonally adjusted

	1969				1970			
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
<b>Sources of funds</b> (increase —)								
Life assurance and pension funds	— 380	— 411	— 361	— 383	— 400	— 420	— 410	
Building society shares and deposits	— 223	— 238	— 208	— 226	— 291	— 335	— 418	— 418
Other deposits	— 89	— 7	— 1	— 64	— 45	— 49	— 47	
Capital issues	— 47	— 22	— 15	— 11	— 21	— 20	— 9	— 5
Unit trust units	— 91	— 42	— 29	— 24	— 31	— 27	— 19	— 12
Other (mainly bank) borrowing	+ 24	— 2	— 8	+ 9	— 36	— 9	— 16	
	<b>— 806</b>	<b>— 722</b>	<b>— 622</b>	<b>— 699</b>	<b>— 824</b>	<b>— 860</b>	<b>— 919</b>	
<b>Increase in financial assets (+)</b>								
Short-term assets <sup>a</sup>	+ 87	+ 44	+ 72	+ 24	+ 20	+ 258	+ 66	
Government stocks	— 29	+ 76	+ 98	+ 138	+ 178	— 40	+ 104	
Company and overseas securities:								
Ordinary shares	+ 171	+ 18	+ 38	+ 145	+ 168	+ 138	+ 158	
Debentures	+ 134	+ 103	+ 18	+ 36	+ 29	+ 49	+ 36	
Other	+ 2	— 5	— 12	— 6	+ 2	+ 5	— 6	
Loans for house purchase	+ 228	+ 211	+ 224	+ 202	+ 214	+ 260	+ 295	
Long-term lending to local authorities	+ 25	+ 13	+ 4	+ 17	+ 7	+ 24	+ 23	
Hire purchase claims	— 5	— 15	— 3	+ 2	+ 1	+ 11	+ 11	
Other lending	+ 74	+ 75	+ 42	— 33	+ 37	+ 98	+ 14	
	<b>+ 687</b>	<b>+ 520</b>	<b>+ 481</b>	<b>+ 525</b>	<b>+ 656</b>	<b>+ 803</b>	<b>+ 701</b>	

<sup>a</sup> Bank deposits, tax reserve certificates, Treasury bills and local authority temporary debt.

In spite of the large net inflows, the institutions added only about £650 million to their identified financial assets, well down on the high figure of the previous quarter. Where the rest of the funds went is unclear, and it is possible that timing discrepancies have distorted the statistics. The institutions did not put more into land and buildings than in other recent quarters and they added considerably less to their short-term assets, particularly local authority debt, than in the second quarter, when they had replenished their holdings. Instead, led by the building societies, they invested heavily in gilt-edged stocks whereas they had disinvested in the previous quarter.

Building societies still had plenty of funds left to finance house purchase. Indeed, they provided nearly £300 million

net, more than ever before; but a lot of this extra finance appears to be going on second-hand houses, as expenditure on new houses remained unchanged in the third quarter.

The institutions' investment in the debenture and equity market as a whole was much the same as in the previous quarter, but their investment in ordinary shares picked up modestly. In contrast to the second quarter, unit and investment trusts acquired rather than sold ordinary shares, whereas insurance companies and pension funds bought rather fewer equities than in the previous quarter and rather more gilt-edged stocks.

Little information is available for most institutions in the fourth quarter. The inflow to building societies was the same as in the third quarter, but lending for house purchase rose even further to well over £300 million; this still left them a further £100 million to invest in liquid assets. Unit trusts continued to fare badly and sales of units fell even further.

### Banking sector

As described in the December *Bulletin*, page 410, the banks' domestic business expanded more moderately in

**Table G**  
**Banking sector**

£ millions

Seasonally adjusted

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

	1969				1970			
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Lending to:								
Public sector	- 58	- 234	- 347	+ 277	+ 174	+ 121	+ 41 <sup>a</sup>	+ 642
Company sector	+ 251	+ 14	+ 406	- 24	+ 224	+ 512	+ 141	+ 285
Personal sector	- 98	- 20	- 50	+ 86	- 37	+ 101	+ 47	- 12
Total domestic lending	+ 95	- 240	+ 9	+ 339	+ 361	+ 734	+ 229	+ 915
Deposits by:								
Public sector	- 73	+ 50	- 22	- 22	- 72	+ 58	+ 32	- 62
Company sector	+ 23	+ 170	- 147	+ 3	+ 79	- 379	+ 87	- 176
Personal sector	- 126	- 23	- 37	- 122	- 62	- 291	- 264	- 205
Total domestic deposits	- 176	+ 197	- 206	- 141	- 55	- 612	- 145	- 443
Net lending to overseas <sup>b</sup>	+ 116	+ 63	+ 91	- 116	- 190	- 140	- 84 <sup>a</sup>	- 361
Non-deposit liabilities (net)	- 35	- 20	+ 106	- 82	- 116	+ 18	-	- 111

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

<sup>b</sup> Claims on overseas net of overseas deposits.

the third quarter than in the second when the expansion had been exceptionally large. They lent less to all sectors but particularly to companies, and there was a much smaller increase in domestic deposits. The net inflow of overseas funds was also reduced.

However, in the fourth quarter the banks' domestic business grew very rapidly again, and on the lending side even more strongly than in the second quarter. Most of the total expansion of over £900 million in lending went to the public sector, whose borrowing increased by as much as £640 million. Lending to the company sector rose by £285 million, most of it in foreign currency; there was twice as much

foreign currency borrowing by companies as in the previous quarter and much more still than in earlier quarters. The personal sector managed to repay some of its borrowing.

All sectors added to their bank deposits in the fourth quarter and the increase in total domestic deposits was £440 million, an unusually large amount, though less than in the second quarter. The personal sector again allowed its deposits to build up strongly, if somewhat less than in the two previous quarters. Companies also built up their deposits, and altogether in the first three quarters of the financial year managed to add nearly £450 million; in 1969/70 they had run deposits down by about £100 million. There was also a large inflow of funds from abroad, increasing the net indebtedness of the banks to the overseas sector.

#### **Domestic credit and money stock**

Table H shows the relationship between domestic credit and the money stock. In the fourth quarter domestic credit expanded by about the same amount as in the third. The money stock grew much faster than domestic credit, and about twice as fast as in the third quarter, as a result of the inflow from abroad.

Although the rate of expansion in domestic credit remained much the same as in the third quarter, there was a small central government borrowing requirement in contrast to the surpluses of the previous quarters. Borrowing by the rest of the public sector also grew at a faster rate than in the third quarter. Bank lending to the private sector in sterling was much lower than in the previous quarter but was more than offset by the rise in foreign currency lending. However, these expansionary effects were countered by the sales of central government debt in the fourth quarter after the repurchases of earlier quarters.

Table H

## Domestic credit expansion and changes in the money stock

£ 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 <sup>a</sup>
	1	2	3	4	5	6
<b>Financial years</b>						
1967/68	+ 1,961	+ 431	+ 106	+ 1,450	- 26	+ 685
1968/69	+ 458	- 142	+ 69	+ 422	+ 109	+ 507
1969/70	- 536	+ 776	+ 129	- 1,235	- 206	+ 585
<b>Unadjusted</b>						
1969 Apr.—June	- 84	+ 80	- 4	- 58	- 102	+ 50
July—Sept.	+ 233	+ 284	- 50	+ 103	- 104	+ 110
Oct.—Dec.	+ 578	+ 235	+ 144	+ 430	+ 629	+ 11
1970 Jan.—Mar.	- 1,263	+ 177	+ 39	- 850	- 629	+ 414
Apr.—June	+ 143	- 21	+ 42	- 146	+ 268	+ 653
July—Sept.	+ 270	- 196	+ 72	+ 68 <sup>c</sup>	+ 326 <sup>c</sup>	- 105
Oct.—Dec.	..	..	+ 168	- 447	+ 950	+ 147
<b>Seasonally adjusted<sup>d</sup></b>						
1969 Apr.—June	- 201	+ 35	+ 2	- 4	- 234	- 21
July—Sept.	- 79	+ 231	+ 10	+ 27	- 347	+ 347
Oct.—Dec.	+ 79	+ 227	+ 107	+ 532	+ 277	+ 48
1970 Jan.—Mar.	- 247	+ 271	+ 44	- 736	+ 174	+ 169
Apr.—June	+ 16	- 53	+ 34	- 86	+ 121	+ 581
July—Sept.	- 109	- 249	+ 107	- 8 <sup>c</sup>	+ 41 <sup>c</sup>	+ 132
Oct.—Dec.	..	..	+ 73	- 545	+ 642	+ 213

## Money stock

Changes in period	Total money stock (= Cols. 13+ 14)	Currency in circulation with the public	Bank deposits of domestic sectors
	12	13	14
<b>Financial years</b>			
1967/68	+ 1,326	+ 106	+ 1,220
1968/69	+ 915	+ 69	+ 846
1969/70	+ 281	+ 129	+ 152
<b>Unadjusted</b>			
1969 Apr.—June	- 18	- 4	- 14
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
<b>Seasonally adjusted<sup>d</sup></b>			
1969 Apr.—June	- 195	+ 2	- 197
July—Sept.	+ 216	+ 10	+ 206
Oct.—Dec.	+ 248	+ 107	+ 141
1970 Jan.—Mar.	+ 99	+ 44	+ 55
Apr.—June	+ 646	+ 34	+ 612
July—Sept.	+ 252	+ 107	+ 145
Oct.—Dec.	+ 516	+ 73	+ 443

.. not available.

a Other than in foreign currency for investment abroad.

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

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

d 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 36).

in D.C.E.		Other bank assets			Changes in period
Bank lending in sterling to overseas	Total D.C.E. <sup>b</sup> (= Co/s. 3 to 7)	Bank lending in foreign currency to overseas	Bank lending in foreign currency to private sector for investment overseas	Total bank assets = liabilities (= Co/s. 5 to 7, 9 and 10)	
7	8	9	10	11	
+ 61	+2,276	+1,492	+ 80	+2,292	<b>Financial years</b>
+ 71	+1,178	+3,161	+159	+4,007	1967/68
+119	- 608	+3,807	+ 56	+4,361	1968/69
					1969/70
					<b>Unadjusted</b>
+ 43	- 71	+2,330	+ 15	+2,336	1969 Apr.—June
+ 60	+ 119	+ 995	+ 9	+1,070	July—Sept.
+ 56	+ 410	+ 306	+ 14	+1,016	Oct.—Dec.
- 40	-1,066	+ 176	+ 18	- 61	1970 Jan.—Mar.
+ 2	+ 819	+1,299	+ 32	+2,254	Apr.—June
+ 63	+ 424	+ 208	+ 56	+ 548 <sup>c</sup>	July—Sept.
—	+ 818	+ 911	+ 60	+2,068	Oct.—Dec.
					<b>Seasonally adjusted<sup>d</sup></b>
+ 43	- 214	+2,303	+ 15	+2,106	1969 Apr.—June
+ 60	+ 97	+ 974	+ 9	+1,043	July—Sept.
+ 56	- 44	+ 294	+ 14	+ 689	Oct.—Dec.
- 40	- 389	+ 248	+ 18	+ 569	1970 Jan.—Mar.
+ 2	+ 652	+1,268	+ 32	+2,004	Apr.—June
+ 63	+ 335	+ 187	+ 56	+ 479 <sup>c</sup>	July—Sept.
—	+ 383	+ 891	+ 60	+1,806	Oct.—Dec.

#### Bank liabilities

Bank deposits of overseas	Non-deposit liabilities (net)	Total bank liabilities = assets (= Co/s. 14 to 16)	Changes in period
15	16	17	
+1,121	- 49	+2,292	<b>Financial years</b>
+3,059	+102	+4,007	1967/68
+4,090	+119	+4,361	1968/69
			1969/70
			<b>Unadjusted</b>
+2,325	+ 25	+2,336	1969 Apr.—June
+ 912	-136	+1,070	July—Sept.
+ 425	+120	+1,016	Oct.—Dec.
+ 428	+110	- 61	1970 Jan.—Mar.
+1,461	- 20	+2,254	Apr.—June
+ 303 <sup>c</sup>	- 28	+ 548 <sup>c</sup>	July—Sept.
+1,202	+147	+2,068	Oct.—Dec.
			<b>Seasonally adjusted<sup>d</sup></b>
+2,283	+ 20	+2,106	1969 Apr.—June
+ 943	-106	+1,043	July—Sept.
+ 466	+ 82	+ 689	Oct.—Dec.
+ 398	+116	+ 569	1970 Jan.—Mar.
+1,410	- 18	+2,004	Apr.—June
+ 334 <sup>c</sup>	—	+ 479 <sup>c</sup>	July—Sept.
+1,252	+111	+1,806	Oct.—Dec.

Table J

## Flow of funds: quarterly figures

£ millions

Not seasonally adjusted

	Line	Public sector			Overseas sector <sup>a</sup>		
		1970			1970		
		2nd qtr.	3rd qtr.	4th qtr.	2nd qtr.	3rd qtr.	4th qtr.
<b>Financial surplus + /deficit —</b>							
Saving	1	+ 1,041	+ 906				
Taxes on capital and capital transfers	2	—	— 30				
<i>less:</i>							
Gross fixed capital formation at home	3	— 935	— 992				
Increase in value of stocks and work in progress	4	— 26	— 58				
<b>Financial surplus + /deficit —</b>	<b>5</b>	<b>+ 80</b>	<b>— 174</b>	<b>— 139</b>	<b>— 38</b>		
<b>Changes in financial assets and liabilities</b>							
Assets: increase + /decrease —							
Liabilities: increase — /decrease +							
Net indebtedness of Government to Bank of England, Banking Department	6	— 70	— 128 <sup>b</sup>	— 220			
Life assurance and pension funds	7						
Government loans	8	+ 40	+ 26		— 37	— 22	
Official financing of total currency flow	9 & 10	+ 227	— 202	+ 347	— 227	+ 202	
Miscellaneous investment overseas (net)	11	+ 8	+ 29		+ 38	— 37	
Notes and coin	12	— 76	— 49	— 184			
Bank deposits	13	— 22	— 43	+ 61	+ 1,461	+ 303 <sup>b</sup>	
Deposits with other financial institutions	14				— 21	+ 9	
National savings	15.1	+ 63	+ 26	— 26			
Tax reserve certificates	15.2	— 34	— 38	— 45			
Import deposits	15.3	+ 41	+ 82	+ 124	— 8	— 7	
Bank lending	16	— 71	+ 36	— 90	— 1,279	— 272	
Hire purchase debt	17	— 1	—			— 901	
Loans for house purchase	18	+ 7	+ 18				
Other loans and accruals	19	— 119	+ 165				
Marketable government debt:							
Treasury bills	20	— 308	— 139 <sup>b</sup>	— 609	+ 78	— 100 <sup>b</sup>	
Stocks	21	+ 283	+ 272	+ 23	+ 21	— 10	
Local authority debt	22	— 152	— 76		— 18	— 13	
U.K. company and overseas securities:							
Capital issues	23				+ 2	+ 12	
Other transactions	24	+ 9	—		+ 12	— 48	
Unit trust units	25					+ 2	
<b>Identified financial transactions</b>	<b>26</b>	<b>— 175</b>	<b>— 21</b>		<b>+ 22</b>	<b>+ 17</b>	
<i>Unidentified</i>	27	+ 255	— 153		— 161	— 55	
<b>Total = financial surplus + /deficit —</b>	<b>28</b>	<b>+ 80</b>	<b>— 174</b>		<b>— 139</b>	<b>— 38</b>	

— nil or less than £½ million.

<sup>a</sup> It has not been possible to incorporate in this table the revised balance of payments estimates released in March.<sup>b</sup> These items are affected by a change in the method of accounting: see additional notes to Table 5 of the annex.

Personal sector			Industrial and commercial companies			Banking sector			Other financial institutions			Line
1970			1970			1970						
2nd qtr.	3rd qtr.	4th qtr.	2nd qtr.	3rd qtr.	4th qtr.	2nd qtr.	3rd qtr.	4th qtr.	2nd qtr.	3rd qtr.	4th qtr.	
+611	+706		+921	+829		+155	+159					1
-92	-80		+114	+124		-22	-14					2
-279	-311		-786	-795		-128	-110					3
-51	-37		-330	-241		-	-					4
<b>+189</b>	<b>+278</b>		<b>-81</b>	<b>-83</b>		<b>+5</b>	<b>+35</b>					5
						1970			1970			
						2nd qtr.	3rd qtr.	4th qtr.	2nd qtr.	3rd qtr.	4th qtr.	
+420	+410		-4	-5		+70	+128 <sup>b</sup>	+220	-420	-410		6
-	-								+1	+1		7
			-76	+42					+30	-34		8
												9 & 10
+21	+33	+39	+21	+39	+129	+34	-23	+16				11
+327	+235	+340	+307	+17	+265	-2,274	-576 <sup>b</sup>	-1,921	+201	+64	+53	12
+369	+449		+35	+10					-383	-468		13
-63	-26	+26										14
+8	+8	+21	+18	+18		+5	+11	-	+3	+1		15-1
			-33	-75								15-2
												15-3
-121	+3	+23	-543	+49	-196	+2,028	+189	+1,167	-14	-5	-3	16
-11	-4		-21	-8					+33	+12		17
-275	-342					+5	+20	+10	+263	+304		18
-6	-19		+171	-219		-113	+124	-122	+67	-51		19
												20
-46	-272		-3	+9		+226	+244	+589	+7	-14		21
-24	-69		-34	-22		-218	-94	-31	-40	+104		22
						+76	+93	+67	+152	+87		
												23
-229	-239		-38	-38	-88	-16	-	-	-20	-9	-5	24
+27	+19	+12	+63	+146		+35	-7	+41	+182	+183	-12	25
									-27	-19		
<b>+397</b>	<b>+186</b>		<b>-137</b>	<b>-37</b>		<b>-142</b>	<b>+109</b>	<b>+36</b>	<b>+35</b>	<b>-254</b>		26
												27
-208	+92		+56	-46					+112	+180		
												28
<b>+189</b>	<b>+278</b>		<b>-81</b>	<b>-83</b>		<b>+5</b>	<b>+35</b>					

## 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*.

### Definitions (line numbers refer to Table J)

#### 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 1970*, H.M.S.O., September 1970).

*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, etc.; and intergovernment loans (net). Loans to housing associations are in line 18.

*Lines 9 and 10 Official financing of total currency flow* Changes in the sterling equivalent of gold, foreign currencies and Special Drawing Rights held by the Exchange Equalisation Account other than those which arise from a gold subscription by the United Kingdom to the I.M.F. or from allocations of Special Drawing Rights; in official liabilities in foreign currencies arising from drawings on central bank facilities; in overseas holdings of Treasury bills which are the sterling counterpart of inter-central bank swap transactions; and in the net repurchase liability of the United Kingdom to the I.M.F., other than those arising from changes in the sterling equivalent of the United Kingdom's subscription to the I.M.F.

*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* Changes in gross current and deposit accounts, except for the banking sector and industrial and commercial companies.



The entries for the banking sector are changes in net deposits *i.e.* current and deposit accounts after allowing for transit items (see the additional notes to Table 8 of the annex). The proper allocation of transit items is not known, but it is assumed that most of the changes in the figures arise from transactions between companies. The entries for industrial and commercial companies are the changes in their gross current and deposit accounts less the total change in transit items. Changes in negotiable dollar certificates of deposit held outside the banking sector and changes in negotiable sterling certificates, as reported in the external banking and money market liabilities in sterling series, are attributed to non-residents; changes in other holdings of sterling certificates are attributed to residents. Changes in overseas deposits also include unallocated items, thought to relate mainly to overseas funds placed through other U.K. banks as agents; because of this, the figures in this table will differ from changes derived from Table 8 (2) of the annex.

*Line 14 Deposits with other financial institutions* Shares and deposits with building societies, deposits in National Savings Bank investment account, deposits with special investment departments of trustee savings banks, with hire purchase finance houses (other than those by banks, which are included in line 16) and with some other institutions.

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

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

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

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

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

*Line 19 Other loans 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* As defined in the additional notes to Table 3(1) of the annex. The entries for Treasury bills under industrial and commercial companies are residuals and include any changes in personal and unidentified overseas holdings. The changes in overseas holdings of Treasury bills exclude the sterling counterpart of inter-central bank swap transactions. The entries for stocks under public sector consist of net sales by the central government less purchases by public corporations and local authorities. The entries for stocks under persons are residuals and include any transactions by industrial and commercial companies and unidentified overseas transactions.

*Line 22 Local authority debt* Total identified borrowing by local authorities from outside the public sector, including bank advances and overdrafts and excluding lending by public corporations. Figures for changes in the banks' and other financial institutions' holdings are taken from their statistical returns; changes in overseas holdings are as in the balance of payments statistics; and changes in company holdings are taken from local authority returns. The entries for persons are residuals.

*Lines 23 and 24 U.K. company and overseas securities:*

*Capital issues* Excludes international issues (see Table 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.