

Analysis of financial statistics 1971

The analysis deals mainly with the flow of funds between the various sectors in 1971 as a whole. The fourth quarter of 1971 is the last for which a full set of statistics is available, and comment on the first quarter of 1972 is largely confined to the banking sector, money supply and central government financing. The analysis is based throughout on seasonally adjusted figures. Unadjusted quarterly flows are given in Table K. Notes on sources, definitions and adjustments begin on page 202.

Summary

The financial position of companies was a lot stronger in 1971 as a whole than in 1970. Tax reliefs accounted for part of both this change and the shift of the public sector back into financial deficit. The financial position of persons was also somewhat stronger judged from the financial accounts (though somewhat weaker judged from the national income accounts – see page 187). Naturally the financial institutions benefited from the growth of personal funds – building societies did outstandingly well. National savings also had a record year, a dramatic improvement.

The currency inflow, stimulated both by the strength of the U.K. trading position (the current account surplus was easily the biggest ever) and by the weakness of the U.S. dollar until the currency realignment in December, was the dominating financial feature. Not surprisingly, the money supply grew strongly, though massive purchases of public sector debt by the general public helped to stem its growth. In the second half of the year, following the ending of credit restrictions, there was a sharp rise in bank lending, especially to persons. In the last quarter, when the inflow of foreign funds was also particularly large, the growth in the money supply was as much as 5 $\frac{3}{4}$ %.

In the next quarter, after the realignment, there was only a small currency inflow. But the money supply grew almost as fast. This was because the amount of new bank lending to persons and companies more than doubled. The personal sector continued to invest in building societies and in national savings at much the same very high rates as in the previous quarter.

Background

Gross domestic product (expenditure) at constant prices grew by only a little over 1% between 1970 and 1971. There was some growth between the first and second quarters (the first had been depressed partly through strikes) and again between the second and third, but growth slackened in the final quarter. Over the whole year, personal consumption was 2 $\frac{1}{2}$ % more than in 1970; it recovered strongly after the first quarter and remained buoyant in the third, but grew slightly more slowly in the last quarter of the year. In addition, public consumption and exports of goods and services

Table A
Income and expenditure

£ millions

Seasonally adjusted

	Income from employment and trading ^{a,b}	Transfer incomes etc. ^b	less Consumption ^c	less Current transfer payments	equals Saving	less Gross domestic capital formation ^{a,d}	less Capital transfers (net payments—)	equals Financial surplus/deficit ^e
Personal sector								
1968 qtr. average	6,329	2,755	-6,799	-1,709	576	- 310	- 58	208
1969 " "	6,758	2,930	-7,192	-1,884	612	- 291	- 98	223
1970 " "	7,554	3,117	-7,800	-2,171	700	- 316	- 89	295
1971 " "	8,359	3,361	-8,620	-2,354	746	- 397	- 80	269
1970 1st qtr.	7,167	2,970	-7,464	-2,046	627	- 266	- 97	264
2nd qtr.	7,447	3,135	-7,724	-2,168	690	- 316	- 90	284
3rd qtr.	7,694	3,157	-7,935	-2,215	701	- 335	- 84	282
4th qtr.	7,906	3,205	-8,075	-2,253	783	- 348	- 87	348
1971 1st qtr.	8,041	3,145	-8,115	-2,244	827	- 333	- 61	433
2nd qtr.	8,245	3,332	-8,575	-2,344	658	- 410	- 86	162
3rd qtr.	8,486	3,391	-8,815	-2,358	704	- 391	- 84	229
4th qtr.	8,662	3,572	-8,973	-2,468	793	- 454	- 87	252
Company sector^f								
1968 qtr. average	1,256	853		-1,302	807	- 912	105	—
1969 " "	1,241	980		-1,418	803	-1,109	133	-173
1970 " "	1,289	1,062		-1,570	781	-1,214	105	-328
1971 " "	1,448	1,208		-1,690	966	-1,129	120	- 43
1970 1st qtr.	1,280	1,024		-1,548	756	-1,103	96	-251
2nd qtr.	1,275	1,023		-1,553	745	-1,271	94	-432
3rd qtr.	1,272	1,067		-1,578	761	-1,216	105	-350
4th qtr.	1,330	1,134		-1,603	861	-1,267	127	-279
1971 1st qtr.	1,352	1,134		-1,513	973	-1,184	166	- 45
2nd qtr.	1,421	1,200		-1,765	856	-1,181	120	-205
3rd qtr.	1,538	1,257		-1,737	1,058	-1,059	115	114
4th qtr.	1,481	1,242		-1,746	977	-1,093	81	- 35
Public sector								
1968 qtr. average	368	3,972	-1,927	-1,668	745	- 961	- 47	-263
1969 " "	393	4,440	-2,021	-1,751	1,061	- 938	- 35	88
1970 " "	374	5,003	-2,251	-1,867	1,259	-1,027	- 16	216
1971 " "	395	5,285	-2,556	-2,031	1,093	-1,159	- 41	-107
1970 1st qtr.	382	4,797	-2,087	-1,821	1,271	- 970	1	302
2nd qtr.	395	4,995	-2,250	-1,857	1,283	-1,016	- 4	263
3rd qtr.	368	5,121	-2,318	-1,869	1,302	-1,038	- 21	243
4th qtr.	352	5,099	-2,352	-1,920	1,179	-1,085	- 40	54
1971 1st qtr.	322	4,997	-2,428	-1,874	1,017	-1,179	-105	-267
2nd qtr.	409	5,434	-2,530	-2,003	1,310	-1,147	- 35	128
3rd qtr.	435	5,252	-2,615	-2,035	1,037	-1,133	- 30	-126
4th qtr.	414	5,458	-2,651	-2,212	1,009	-1,177	6	-162
Overseas sector^g								
1968 qtr. average								73
1969 " "								-111
1970 " "								-153
1971 " "								-238
1970 1st qtr.								-218
2nd qtr.								-114
3rd qtr.								- 75
4th qtr.								-204
1971 1st qtr.								- 88
2nd qtr.								-278
3rd qtr.								-346
4th qtr.								-240

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 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.

were each larger than in the previous year, but their effect on total demand was counterbalanced by more imports and a fall in the volume of capital formation. Fixed investment went down in the first quarter, stocks were run down in the second and third quarters, and although both components recovered strongly in the final quarter of the year, the volume of capital formation was still smaller than in 1970. Private fixed investment was a little less than in 1970, while public sector fixed investment was about 3% larger.

Because of price inflation, however, G.D.P. measured at current prices grew much faster – by about 12% at factor cost – between 1970 and 1971. Changes in the income and expenditure of the main sectors are shown in Table A. Income from employment continued to rise strongly as did income from rent and self-employment. Trading profits of companies were much larger than in 1970; companies increased their sales and they cut costs by continuing to lay off labour. Public bodies also made greater trading profits but the increase was not so marked as in the private sector.

Companies saved much more in 1971 than in 1970: their trading profits and other income rose by more than dividends, interest payments and profits due abroad, while their tax payments were down as a result of a cut in corporation tax. At the same time their capital formation accounted for less, because of reduced investment in stocks, and so they achieved a big improvement on the very large financial deficit of 1970; in fact companies went into surplus during the third quarter for the first time since early in 1968.

The increasingly favourable position of companies was mirrored by a reduction in the public sector's current surplus (saving): taxes were cut and outlays through public consumption and social security benefits went up, reducing the sector's saving by some £700 million. The sector also spent more on capital formation. In all, from a financial surplus of over £850 million in 1970 it swung to a deficit of £430 million in 1971. Personal incomes continued to rise more than spending during 1971 as a whole, and personal sector saving was somewhat higher than in 1970. But people spent much more on buying houses – partly because prices increased rapidly – and the sector's financial surplus was rather less than in 1970. The overseas sector had a bigger deficit as the U.K. balance of payments achieved a record current account surplus. Of all the sectors, only companies had a more favourable financial position than in 1970. However, the residual error between the income statistics and the expenditure statistics in the national accounts was larger than in any previous year and showed a swing of nearly £600 million on that for 1970, so that interpretation of sector positions in 1971 is unusually hazardous. In general, either incomes were underestimated or expenditure overestimated.

Overseas sector

The overseas sector was in deficit throughout 1971, corresponding to the surplus on the current account of the U.K. balance of payments. The accounts were least favourable to

Table B

Overseas sector^a

£ millions

Seasonally adjusted

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

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

	1970	1971	1970				1971				1972
	Year	Year	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.
Financial deficit—	- 611	- 952	-218	-114	- 75	-204	- 88	-278	-346	- 240	
Transactions with the U.K. private sector											
Investment flows:											
Transactions in company and overseas securities	- 108	+ 128	—	- 5	- 50	- 53	- 67	- 87	+185	+ 97	
Miscellaneous private investment	+ 103	+ 90	+ 50	+ 23	- 31	+ 61	+ 40	- 15	+ 28	+ 37	
Other transactions:											
Deposits with U.K. banks less claims of U.K. banks ^b	+ 789	+1,103	+185	+152	+104 ^c	+348	+163	+256	+135	+ 549	+109
Other identified	+ 108	+ 364	+ 95	- 60	+ 52	+ 21	+188	+ 22	+251	- 97	
Balancing item	+ 114	+ 429	+135	- 8	- 67	+ 54	+165	+ 80	- 65	+ 249	
	+1,006	+2,114	+465	+102	+ 8	+431	+489	+256	+534	+ 835	
Transactions with the U.K. public sector											
Lending etc. ^d	- 267	- 389	- 39	- 64	- 53	-111	- 89	-104	-118	- 78	
External finance: ^e											
Central government	-1,342	-2,875	-664	-163	-19 ^c	-496	-580	-511	-760	-1,024	+ 89
Local authorities	- 38	+ 81	+ 13	- 13	- 12	- 26	+ 9	+ 52	- 4	+ 24	+ 40
Public corporations	+ 30	+ 117	+ 7	+ 24	+ 1	- 2	+ 83	+ 29	+ 2	+ 3	—
	-1,617	-3,066	-683	-216	- 83	-635	-577	-534	-880	-1,075	

a It has not been possible to include in this table the balance of payments estimates for the first quarter of 1972, and revisions to previous quarters, which were released in June and appear in the annex, Table 20.

b Other than purchases of securities.

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

d These overseas transactions of the public sector contribute to its borrowing requirement.

e These overseas transactions of the public sector are included among the financing items of its borrowing requirement.

the United Kingdom in the first quarter, as can be seen in Table B, but the figures were affected by the postal strike, which delayed the documentation of U.K. exports. Over the year the U.K. current surplus was £350 million more than in 1970, largely reflecting an improvement on visible account from near balance to a surplus of £300 million, while there was a further strengthening of the invisible account.

The financing side was dominated by an unprecedented currency inflow of over £3,000 million. This enabled the U.K. authorities to repay most of the remaining short and medium-term liabilities to overseas monetary authorities, to make large additions to the official reserves, and to swap substantial amounts forward with overseas monetary authorities. The inflow was a reflection of the demand for sterling on two counts – the surplus on the U.K. current account and the desire of holders of dollars to move into other currencies. In the fourth quarter in particular there was a large increase from outside the sterling area in sterling deposits with U.K. banks, even though temporary regulations did not permit these to earn interest. The unidentified part of the inflow – the balancing item – was over £400 million during 1971. Over

£250 million of this occurred in the fourth quarter when the timing of trade payments was presumably being adjusted in the light of pressures on the U.S. dollar.

Public sector

As noted earlier, public expenditure increased by much more than revenue during 1971, and the sector moved into financial deficit after two years of surplus. It also had to refinance, through the Issue Department of the Bank of England, £60 million more of export and shipbuilding credit than in 1970. Although other lending fell by more than this, in all some £500 million of lending had to be financed and a final £280 million of import deposits had to be repaid. The outcome was a borrowing requirement of around £1,370 million, compared with a position of near balance in 1970 –

Table C
Public sector

£ millions

Seasonally adjusted

	1970		1971				1972				
	Year	Year	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.
Saving (current surplus)	+ 5,035	+ 4,373	+ 1,271	+ 1,283	+ 1,302	+ 1,179	+ 1,017	+ 1,310	+ 1,037	+ 1,009	+ 875
Capital transfers (net)	- 64	- 164	+ 1	- 4	- 21	- 40	- 105	- 35	- 30	+ 6	+ 20
Capital expenditure	- 4,109	- 4,636	- 970	- 1,016	- 1,038	- 1,085	- 1,179	- 1,147	- 1,133	- 1,177	- 1,350
Financial surplus + / deficit—	+ 862	- 427	+ 302	+ 263	+ 243	+ 54	- 267	+ 128	- 126	- 162	- 455
Lending and other transactions (increase in assets +) ^a	+ 411	+ 544	+ 96	+ 75	+ 80	+ 160	+ 200	+ 86	+ 77	+ 181	—
Import deposits (repayments +)	+ 257	+ 281	+ 13	+ 41	+ 80	+ 123	+ 170	+ 110	+ 1	—	—
Unidentified	+ 192	+ 120	+ 32	+ 104	- 53	+ 109	- 50	+ 57	- 16	+ 129	—
Borrowing requirement (Increase —)	+ 2	- 1,372	+ 161	+ 43	+ 136	- 338	- 587	- 125	- 188	- 472	—
Comprising:											
Central government:											
External transactions	+ 1,342	+ 2,875	+ 664	+ 163	+ 19 ^b	+ 496	+ 580	+ 511	+ 760	+ 1,024	- 89
Notes and coin with the public	- 230	- 227	- 34	- 38	- 107	- 51	- 123	- 14	- 32	- 58	- 146
Bank borrowing	- 395	- 913	+ 7	+ 37	- 30 ^b	- 409	+ 45	- 76	- 254	- 628	+ 373
Other domestic borrowing	- 39	- 2,303	- 326	+ 139	+ 229	- 81	- 849	- 252	- 597	- 605	- 250
	+ 678	- 568	+ 311	+ 301	+ 111	- 45	- 347	+ 169	- 123	- 267	- 112
Local authorities:											
External finance	+ 38	- 81	- 13	+ 13	+ 12	+ 26	- 9	- 52	+ 4	- 24	- 40
Bank borrowing	- 483	- 772	- 69	- 129	- 108	- 177	- 195	- 261	- 144	- 172	+ 96
Other domestic borrowing	- 82	+ 192	- 39	- 62	+ 67	- 48	+ 31	+ 40	+ 43	+ 78	—
	- 527	- 661	- 121	- 178	- 29	- 199	- 173	- 273	- 97	- 118	—
Public corporations:											
External finance	- 30	- 117	- 7	- 24	- 1	+ 2	- 83	- 29	- 2	- 3	—
Domestic borrowing	- 101	- 28	- 28	- 63	+ 79	- 89	- 33	+ 43	+ 12	- 50	—
	- 131	- 145	- 35	- 87	+ 78	- 87	- 116	+ 14	+ 10	- 53	—
Adjustment ^c	- 18	+ 2	+ 6	+ 7	- 24	- 7	+ 49	- 35	+ 22	- 34	—

a Consisting principally of lending to 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 method of accounting; see additional notes to Table 5 of the annex.

c Deductions for intra-sector debt transactions.

see Table C. Looking ahead, the forecast for 1972/73 published in the *Financial Statement*¹ shows a record borrowing requirement of £3,360 million. The increases in expenditure and cuts in taxation which this reflects should lead to big rises in personal and company savings.

Local authorities borrowed £660 million of outside funds in 1971. Some funds were drawn in from abroad and much more was borrowed from the banks than in 1970, while the authorities repaid some debt to other sectors, particularly persons. Public corporations borrowed more from abroad than in the previous year and less from the banks.

The central government borrowed heavily at home during 1971. Not only was the overall borrowing requirement greater, but the sterling cost of the exceptionally large inflows of foreign exchange had to be financed. Massive amounts of gilt-edged stocks were bought by the general public and, for the first time since 1964, a substantial amount was raised from national savings, but the banks were still left to provide big sums, especially in the fourth quarter. From the inflows of foreign exchange the authorities added an unprecedented £1,535 million to the official reserves, £630 million of this in the fourth quarter. They also repaid £955 million of assistance from overseas monetary authorities and swapped forward with them further substantial sums. (£415 million of debt to the International Monetary Fund remained, but technical difficulties prevented further repayments until the end of April 1972 – see page 166).

In the first quarter of 1972 the central government had less need to borrow than in the previous quarter and very much less need for domestic finance. The currency inflow largely ceased after the international currency realignment in December. In the first quarter, therefore, there was little sterling cost on that account, and as the general public continued to buy government debt the central government was able to repurchase large amounts of debt from the banks, partly reversing its heavy recourse to them in the fourth quarter. In Table C, the first quarter figures for the public sector deficit are provisional, based on estimates for 1971/72 used in the *Financial Statement*.

Personal sector

Persons saved even more in 1971 than in 1970. Saving (and the savings ratio) reached a peak in the first quarter when the postal strike delayed tax payments and militated against much of a rise in consumption expenditure; it fell sharply in the second quarter when the end of the strike encouraged spending to increase again and as taxes were now paid over. In the second half of the year incomes again grew faster than consumption, even though spending on cars and other durable goods was well up as a result of the July measures, and saving resumed the previous upward trend. Nevertheless, the savings ratio at the end of 1971 was lower than a year earlier. Capital expenditure increased by more than saving – a reflection of steep rises in land and building costs, greater private housebuilding and greater expenditure on improvements to existing houses; consequently the sector's financial surplus was reduced.

¹ *Financial Statement and Budget Report 1972-73* (HC 189).

Personal incomes and saving had increased rapidly in previous years while capital spending on housing had remained fairly steady; and the heavy demand for houses during 1971 may have been partly to make up for this, especially as more funds were available from financial institutions. Net borrowing from building societies in the last half of the year was about £450 million a quarter, compared with £200 million a quarter only two years before.

Identified borrowing by persons doubled in 1971; they borrowed particularly heavily in the second half of the year when direct controls over bank lending were eased and hire purchase terms controls were removed.

As can be seen from Table D, the pattern of personal acquisitions of financial assets in 1971 was similar to that which developed during 1970. People again put increasingly large sums into building societies; in fact, in the second half of the year, they placed more with them than went into life assurance and pension funds, previously the biggest outlet for personal funds. Their bank deposits too again grew very substantially. They bought an exceptionally large amount of national savings in the fourth quarter, probably because the yields on national savings certificates and British savings

Table D
Personal sector

£ millions

Seasonally adjusted

	1970	1971	1970				1971				1972
	Year	Year	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.
Saving	+2,801	+2,982	+627	+690	+701	+783	+827	+658	+704	+793	
Capital transfers (net)	-358	-318	-97	-90	-84	-87	-61	-86	-84	-87	
Capital expenditure	-1,265	-1,588	-266	-316	-335	-348	-333	-410	-391	-454	
Financial surplus	+1,178	+1,076	+264	+284	+282	+348	+433	+162	+229	+252	
Borrowing(-)											
For house purchase	-1,230	-1,750	-225	-292	-358	-355	-320	-418	-507	-505	
Bank borrowing ^a	-59	-585	+23	-79	-10	+7	-49	-81	-219	-236	-462
Hire purchase debt	-46	-195	-2	-15	-7	-22	-	-27	-83	-85	
Other	-59	1	+10	-4	-13	-52	-74	+102	+53	-82	
	-1,394	-2,531	-194	-390	-388	-422	-443	-424	-756	-908	
Acquisition of financial assets(+)											
Life assurance and pension funds	+1,755	+1,950	+395	+437	+445	+478	+415	+494	+527	+514	
Government stocks	-227	+454	+172	-58	-283	-58	+229	-34	+170	+89	
Company and overseas securities	-842	-1,213	-223	-205	-223	-191	-110	-461	-302	-340	
Unit trust units	+89	+46	+24	+28	+23	+14	+2	+12	+8	+24	+20
Bank deposits, notes and coin	+937	+1,160	+86	+304	+316	+231	+315	+163	+329	+353	+577
Building society shares and deposits	+1,484	+1,960	+300	+342	+418	+424	+400	+441	+535	+584	+602
National savings	-51	+372	-30	-42	-26	+47	+77	+81	+53	+161	+142
Local authority debt	-75	-217	+36	-18	-70	-23	-26	-25	-86	-80	
Other	+176	+272	+28	+35	+54	+59	+58	+45	+50	+119	
	+3,246	+4,784	+788	+823	+654	+981	+1,360	+716	+1,284	+1,424	
Identified financial transactions	+1,852	+2,253	+594	+433	+266	+559	+917	+292	+528	+516	
<i>Unidentified</i>	-674	-1,177	-330	-149	+16	-211	-484	-130	-299	-264	

^a Other than for house purchase.

bonds were unusually competitive; and the national savings movement had its best year for a very long time. Personal investment in gilt-edged stocks again fluctuated during the year, but all told the sector bought very large amounts, whereas in most years they tend to be sellers, as they were in 1970. By contrast, the sector again ran down its holdings of local authority debt, by more than in 1970 and most markedly in the third and fourth quarters, when the authorities had no need to bid for funds; in most recent years the sector has acquired local authority debt, and it seems likely that some investors in 1971 switched some of their holdings into gilt-edged stocks. From the second quarter onwards, as share prices rose, the sector sold even more company equities and debentures than usual; and even though people bought rather more unit trust units (especially in the fourth quarter) than in the first months of the year, this increase was broadly matched by heavier selling of units acquired in earlier periods.

Overall then, identified financial transactions show that while some people were borrowing to finance expenditure on housing and consumer durables, people generally had surplus funds for heavy investment through a wide range of financial outlets (though not choosing company securities or local authority debt). Judged from these financial figures, the personal sector would appear to have had a much greater financial surplus than in 1970. Yet the surplus measured from the national income accounts was smaller, as noted in the first paragraph of this section. Some part of the increase in the unidentified difference between the two sets of figures can be attributed to the greater extension of credit by companies, whose financial position was much easier than in 1970. However, it seems more likely that most of it resulted, as must usually be the case, from errors and omissions in the income and expenditure accounts. The cumulative unidentified transactions of the personal sector in the twenty years 1952-71 amounted to nearly £13,000 million, which must far exceed the growth of unpaid bills.

Industrial and commercial companies

During the course of 1971 the underlying position of industrial and commercial companies changed from one of financial deficit, which had lasted since the second half of 1968, to one of financial surplus. Over the year as a whole they had a small surplus – a very considerable turnaround from the deficit of around £1,000 million in 1970. The quarterly pattern was distorted by the postal strike, largely because tax payments were delayed from the first to the second quarter; and taking this into account, companies were probably in surplus from late in the second quarter.

Company saving was considerably higher in the second half of the year, but this was partly due to the cut in S.E.T. in July: those companies eligible for rebates continued for a time to receive them at the old rate while paying the tax at the new reduced rate. Nevertheless trading profits genuinely improved in the second half year. Capital formation fell, which also enlarged the surplus. One factor going the other way was that companies received less in capital grants, after a peak in the first quarter, as a result of the switch to invest-

ment allowances (the latter system will eventually boost recorded saving, with little net effect on the financial surplus in the longer run).

Almost entirely as a result of companies moving out of deficit, there was a large reduction in 1971 in their overall financing requirement – as set out in Table E. They needed less than £500 million compared with around £1,600 million in the previous year. Other items taken together contributed only a little to this reduction: the net impact of the import deposit scheme was a little more favourable in 1971; and though investment abroad was a little bigger in 1971 than the year before, trade investments and takeover activity at home were somewhat less.

Table E
Industrial and commercial companies

£ millions

Seasonally adjusted

Assets: Increase +/decrease –

Liabilities: Increase –/decrease +

	1970	1971	1970				1971				1972
	Year	Year	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.
Domestic capital formation	+ 4,261	+ 3,952	+ 956	+ 1,122	+ 1,074	+ 1,109	+ 1,055	+ 1,043	+ 914	+ 940	
less Saving	– 2,788	– 3,492	– 690	– 672	– 662	– 764	– 868	– 762	– 951	– 911	
less Capital transfers (net)	– 486	– 551	– 111	– 111	– 121	– 143	– 183	– 137	– 132	– 99	
<i>equals</i> Financial deficit											
+ /surplus –	+ 987	– 91	+ 155	+ 339	+ 291	+ 202	+ 4	+ 144	– 169	– 70	
Trade investments, mergers, etc.	+ 174	+ 117	+ 53	+ 43	+ 35	+ 43	– 11	+ 7	+ 80	+ 41	
Investment abroad	+ 648	+ 682	+ 167	+ 152	+ 218	+ 111	+ 221	+ 192	+ 167	+ 102	
Import deposits	– 225	– 253	– 13	– 34	– 70	– 108	– 153	– 99	– 1	–	
Total requiring financing	+ 1,584	+ 455	+ 362	+ 500	+ 474	+ 248	+ 61	+ 244	+ 77	+ 73	
Capital issues at home	– 193	– 364	– 30	– 37	– 38	– 88	– 72	– 75	– 92	– 125	– 114
Overseas investment in U.K. companies (including long-term borrowing abroad)	– 611	– 690	– 209	– 169	– 90	– 143	– 252	– 134	– 164	– 140	
Net import credit extended by overseas	– 25	– 72	+ 7	– 37	– 2	+ 7	– 25	+ 13	– 26	– 34	
Net export credit extended to overseas	– 56	+ 16	– 24	+ 6	– 44	+ 6	+ 19	– 20	+ 5	+ 12	
Bank borrowing	– 1,125	– 722	– 197	– 446	– 267	– 215	– 188	– 12	– 269	– 253	– 758
Other borrowing	– 327	– 74	– 77	– 77	– 99	– 74	– 61	– 15	– 7	+ 9	
Bank deposits, notes and coin	+ 333	+ 1,086	– 134	+ 219	+ 24	+ 224	+ 206	+ 205	+ 144	+ 531	+ 165
Other liquid assets ^a	– 126	+ 140	– 20	– 35	– 45	– 26	+ 61	– 17	+ 70	+ 26	
Other items ^b	+ 39	+ 99	+ 21	– 27	– 11	+ 56	+ 115	– 111	+ 18	+ 77	
Other overseas transactions (including the balance of payments balancing item) ^c	– 45	– 629	– 172	+ 65	+ 96	– 34	– 340	– 45	– 154	– 90	
Unidentified domestic transactions ^c	+ 552	+ 755	+ 473	+ 38	+ 2	+ 39	+ 476	– 33	+ 398	– 86	
Total financing	– 1,584	– 455	– 362	– 500	– 474	– 248	– 61	– 244	– 77	– 73	

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.

c Most of the balancing item in the balance of payments accounts, especially when large, reflects unidentified transactions between companies and overseas. The whole of it is here regarded in this light in order to distinguish, roughly, between companies' domestic transactions and their overseas ones. It is deducted from the total amount unidentified in the accounts to leave a rough estimate of unidentified domestic transactions.

Companies were able to meet more of their financing requirement from capital issues at home than in 1970 and, although for most of the year these were largely at fixed interest, in the fourth quarter equity issues accounted for nearly all the money raised: this included nearly £90 million raised by British Petroleum as part of a rights issue. In the first five months of 1972 a greater proportion of issues has again been in equity form.

During the year companies substantially rebuilt their holdings of liquid assets. For the first time they put considerable amounts (£70 million) with building societies, while they greatly increased their bank deposits, especially in the fourth quarter, when they added around £500 million. This exceptionally large increase in deposits was not unwound in the first quarter of this year, which might have been expected if it had been merely a question of the temporary build-up of idle funds while overseas money was flooding in. Altogether in 1971/72 companies' deposits rose by around £1,000 million, over twice as much as the rise in the previous year, itself unusually big. Even so, their holdings of liquid assets relative to turnover may still be a little below the trend which had been apparent before the squeeze of 1969 and 1970.

The interpretation of changes in companies' financial assets and liabilities during the course of the year is difficult. The pattern of their financial position indicated by the national income accounts was quite different from that suggested by the total of their identified financial transactions. Moreover, the unidentified difference between these sets of figures changed direction dramatically from quarter to quarter, and much more so than in other years. While in

£ millions	1971			
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Change in identified financial transactions (rise in assets+; rise in liabilities -)	-315	-31	-294	+406
Unidentified	+311	-113	+463	-336
Total financial surplus +/ deficit - from income and expenditure accounts	-4	-144	+169	+70

general the unidentified difference that occurs year after year must partly originate in the national income statistics (see the comments above on the personal sector), and partly reflect unidentified credit transactions with overseas, in 1971 the quarterly swings in the total of identified financial transactions, especially between the third and fourth quarters, suggest that something has gone awry with the statistics of domestic financial transactions.

Financial institutions other than banks

The financial institutions obtained some £4,900 million of new funds in 1971, over £1,200 million more than in 1970. In the second half of the year the inflow grew very quickly - see Table F. The institutions to gain the most, especially in the

Table F

Financial institutions other than banks

£ millions

Seasonally adjusted

	1970	1971	1970				1971				1972
	Year	Year	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.
Increase in financial liabilities (—)											
Life assurance and pension funds	-1,755	-1,950	-395	-437	-445	-478	-415	-494	-527	-514	
Building society shares and deposits	-1,481	-2,030	-299	-341	-418	-423	-413	-456	-553	-608	-602
Other deposits	-219	-282	-35	-32	-73	-79	-34	-56	-77	-115	
Capital issues	-55	-169	-21	-20	-9	-5	-32	-49	-55	-33	-99
Unit trust units	-89	-46	-24	-28	-23	-14	-2	-12	-8	-24	-20
Other (mainly bank) borrowing	-80	-418	-31	-8	-12	-29	-10	-31	-148	-229	
	-3,679	-4,895	-805	-866	-980	-1,028	-906	-1,098	-1,368	-1,523	
Increase in financial assets (+)											
Short-term assets ^a	+483	+28	+37	+259	+99	+88	-144	+7	+11	+154	
Government stocks	+320	+1,394	+177	-41	+104	+80	+498	+232	+343	+321	
Company and overseas securities:											
Ordinary shares	+627	+952	+171	+128	+150	+178	+121	+307	+267	+257	
Fixed interest	+180	+201	+30	+61	+36	+53	+25	+60	+83	+33	
Loans for house purchase	+1,124	+1,589	+212	+276	+319	+317	+292	+392	+462	+443	
Long-term lending to local authorities	+78	+76	+6	+16	+17	+39	+16	+15	+6	+39	
Hire purchase claims	+47	+140	-2	+18	+9	+22	+16	+9	+67	+48	
Other lending	+217	-12	+24	+88	+35	+70	-54	-6	+12	+36	
	+3,076	+4,368	+655	+805	+769	+847	+770	+1,016	+1,251	+1,331	
Net Identified financial transactions	-603	-527	-150	-61	-211	-181	-136	-82	-117	-192	

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

second half year, were the building societies. The only group of institutions to do less well than in 1970 were the unit trusts, even though investment trusts, which also invest chiefly in equities, were able to make many more issues. Presumably the small buyers, who are the chief customers for the unit trusts, had not yet recovered from the shock of the collapse in share prices in 1969 and 1970.¹ As a result, even gross sales grew only slowly while repurchases were large as investors were able to realise without loss investments they had made in the halcyon days. Building societies by contrast were confirmed as by far the most favoured outlet for disposable personal funds. It is likely that this was partly due to more saving by potential house purchasers, as well as to the convenience and the security of nominal capital value which this form of saving enjoys.

Naturally the institutions placed most of their new funds in financial assets, though they were still investing a lot in property. Interest rates generally fell over the year and the institutions invested much more in gilt-edged stocks, particularly in the first quarter. However, unit and investment trusts sold some stock in the second quarter. The institutions also found equities more attractive than in 1970, presumably

¹ See March *Bulletin*, page 29.

Table G

Financial institutions other than banks 1971

£ millions

	Total	Building societies	Savings banks investment accounts	Investment and unit trusts	Finance houses	Insurance companies	Pension funds and property unit trusts	Others and unallocated
Increase in financial liabilities (—)								
Inflow to life assurance and pension funds	— 1,950					— 1,950		
Deposits	— 2,274	— 2,034	— 243		— 37			+ 40
Sales of units	— 82			— 77			— 5	
Capital issues	— 169			— 116	— 20			— 33
Bank borrowing	— 417			— 9	— 153		— 7	— 248
Other borrowing	— 1	+ 18				— 15		— 4
	— 4,893	— 2,016	— 243	— 202	— 210	— 1,977		— 245
Increase in financial assets (+)								
Bank deposits, notes and coin	+ 107	+ 28	+ 7	+ 1	+ 8	— 17	+ 8	+ 72
Local authority debt:								
Temporary	— 80	+ 4	+ 5	— 20		— 43	— 18	— 8
Other	+ 76	+ 71	+ 84	+ 1		— 13	— 61	— 6
Treasury bills and tax reserve certificates	+ 1	+ 4	—	—	+ 2	—	— 4	— 1
Government stocks	+ 1,394	+ 372	+ 164	+ 40	+ 23	+ 504	+ 268	+ 23
Hire purchase claims	+ 140				+ 140			
Loans for house purchase	+ 1,589	+ 1,576				+ 15	— 2	
Company and overseas securities:								
Ordinary shares	+ 952			+ 205	+ 9	+ 365	+ 418	— 45
Fixed interest	+ 201	— 1	+ 11	+ 22		+ 113	+ 52	+ 4
Other lending	— 7	+ 6		— 65	+ 20	+ 46	+ 82	— 96
Purchases of units	+ 31			+ 20		+ 11		
Deposits with other financial institutions	— 38			— 13		+ 10	— 35	
	+ 4,366	+ 2,060	+ 271	+ 191	+ 202	+ 991	+ 708	— 57
Net identified financial transactions	— 527	+ 44	+ 28	— 11	— 8	— 278		— 302

Note: Differences from Table F arise through the identification here of intra-sector transactions (involving deposits and property and other unit trust units) netted out when the sector is considered as a whole.

because they anticipated an economic expansion and a recovery in company profits. Taking the year as a whole, and by contrast with the year before, they took little interest in short-term assets, but preferred higher-yielding outlets. However, property unit trusts put only half of their new money into property, compared with nearly three quarters in 1970, the other half going into short-term assets. For the second year running, building societies built up their liquid assets by the best part of £500 million, chiefly favouring government stocks, and their liquid assets ratio by the end of the year had risen to as much as 18.5%. One reason for their holding liquid funds was that their commitments were rising fast.

The shares of the various groups of institutions in the principal financial transactions of the sector are shown in more detail for 1971 as a whole in Table G.

Banking sector, money and D.C.E.

During 1971 the banks lent £1,250 million more to domestic sectors than in the previous year and received £800 million more from them on deposit. As a result of the easing and

subsequent abolition of credit control ceilings they lent heavily in the second half year. Persons borrowed much more in 1971, mostly in the second half year. The public sector met some of its financial deficit through banking sources, especially in the last quarter of the year, when the sterling cost of the currency inflow was so large.

Somewhat surprisingly, the banks did not apparently obtain deposits on a much greater scale than in 1970 until the fourth quarter, when there was a big increase from companies; however, the growth of non-deposit liabilities in the second and third quarters points to considerable discrepancies in the statistics and makes their interpretation difficult. Altogether during 1971, net non-deposit liabilities grew by some £370 million, several times the usual amount. It is most unlikely that the banks' financial surpluses will have grown on this scale, though the clearing banks did report higher profits. This suggests that either lending must have been over-recorded or deposits under-recorded. The reported statistics for bank deposits and lending should never be interpreted too rigidly, and this warning needs particular emphasis with respect to 1971. The totals may be out by several hundred million pounds over the year as a whole.

The money stock rose by £2,390 million, or 13%, during 1971, but domestic credit expanded by much less, £1,160 million; the remainder of the increase in the money stock was mainly due to the very large inflows from abroad. There were large purchases of government debt by the general public and these moderated the growth of money and domestic credit.

Table H
Banking sector

£ millions

Seasonally adjusted

Lending: increase +/decrease -

Deposits: increase -/decrease +

	1970	1971	1970				1971				1972
	Year	Year	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.
Lending to:											
Public sector	+ 1,004	+ 1,711	+ 89	+ 157	+ 81 ^a	+ 677	+ 184	+ 292	+ 386	+ 849	- 551
Company sector ^b	+ 1,216	+ 1,180	+ 234	+ 457	+ 266	+ 259	+ 184	+ 90	+ 421	+ 485	+ 1,083
Personal sector	+ 99	+ 675	- 18	+ 84	+ 30	+ 3	+ 59	+ 96	+ 244	+ 276	+ 507
Total domestic lending	+ 2,319	+ 3,566	+ 305	+ 698	+ 377	+ 939	+ 427	+ 478	+ 1,051	+ 1,610	+ 1,039
Deposits by:											
Public sector	- 44	- 38	- 45	+ 28	+ 33	- 60	- 32	+ 45	+ 12	- 63	-
Company sector ^b	- 490	- 1,079	+ 121	- 346	- 41	- 224	- 90	- 192	- 136	- 661	- 325
Personal sector	- 822	- 1,047	- 69	- 285	- 263	- 205	- 254	- 156	- 313	- 324	- 504
Total domestic deposits	- 1,356	- 2,164	+ 7	- 603	- 271	- 489	- 376	- 303	- 437	- 1,048	- 829
Net lending to overseas sector^c	- 753	- 1,033	- 180	- 130	- 105^a	- 338	- 49	- 78	- 339	- 567	- 128
Non-deposit liabilities (net)	- 210	- 369	- 132	+ 35	- 1	- 112	- 2	- 97	- 275	+ 5	- 82

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

^b Including other financial institutions.

^c Claims on overseas sector net of overseas deposits.

In the first quarter of 1972 the banks lent even more to persons and to companies than in the last quarter of 1971. Manufacturing companies still did not appear to be borrowing very much more, and most of the extra lending went to financial, property and construction companies. By contrast the central government, with little currency inflow to finance, had no recourse to the banks, and indeed repaid debt. Overall, the banks sold a wide range of public sector debt, and reduced their holdings of notes and coin, which do not figure in their eligible reserve assets. As can be seen from Table H, domestic deposits more nearly matched domestic borrowing than in the last half of 1971, for following the currency realignment, the banks made much less use of overseas funds for on-lending at home.

The money stock in the first quarter again rose very strongly – by £975 million, or 4 $\frac{3}{4}$ %, though this time without the benefit of much overseas inflow. Domestic credit expanded by £1,050 million, some £280 million more than in the final quarter of 1971. This increase was mainly because bank lending to the private sector doubled in the first quarter – see Table J.

Table J

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

£ millions

Changes in period	Public sector borrowing				Bank assets included	
	Total public sector borrowing (= Cols. 2 to 5)	Purchases (+) of debt by private sector (other than banks)	Currency in circulation with the public	External finance of public sector	Bank lending to public sector	Bank lending to private sector ^{b,c}
	1	2	3	4	5	6
Financial years						
1968/69	+ 456	- 170	+ 69	+ 419	+ 138	+ 640
1969/70	- 540	+ 787	+ 129	-1,240	- 216	+ 670
1970/71	+ 849	+ 573	+ 288	-1,190	+1,178	+1,055
1971/72	..	..	+433	-1,908	+ 762	+2,767
Quarters (unadjusted)						
1970 Apr.—June	+ 139	- 38	+ 42	- 133	+ 268	+ 531
July—Sept.	+ 275	- 204	+ 72	+ 81 ^e	+ 326 ^e	- 64
Oct.—Dec.	+ 845	+ 172	+168	- 445	+ 950	+ 117
1971 Jan.—Mar.	- 410	+ 643	+ 6	- 693	- 366	+ 471
Apr.—June	+ 272	+ 280	+ 50	- 410	+ 352	+ 167
July—Sept.	+ 560	+ 608	+ 83	- 658	+ 527	+ 314
Oct.—Dec.	+ 950	+ 580	+134	- 916	+1,152	+ 649
1972 Jan.—Mar.	..	..	+166	+ 76	-1,269	+1,637
Quarters (seasonally adjusted)^f						
1970 Apr.—June	- 43	- 86	+ 38	- 152	+ 157	+ 509
July—Sept.	- 136	- 294	+107	- 30 ^e	+ 81 ^e	+ 231
Oct.—Dec.	+ 338	+ 134	+ 51	- 524	+ 677	+ 182
1971 Jan.—Mar.	+ 587	+ 768	+123	- 488	+ 184	+ 208
Apr.—June	+ 125	+ 249	+ 14	- 430	+ 292	+ 66
July—Sept.	+ 188	+ 532	+ 32	- 762	+ 386	+ 615
Oct.—Dec.	+ 472	+ 562	+ 58	- 997	+ 849	+ 711
1972 Jan.—Mar.	..	..	+146	+ 129	- 551	+1,415

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 ^c
	12	13	14
1968/69	+1,077	+ 69	+1,008
1969/70	+ 374	+129	+ 245
1970/71	+2,031	+288	+1,743
1971/72	+2,913	+433	+2,480
Quarters (unadjusted)			
1970 Apr.—June	+ 733	+ 42	+ 691
July—Sept.	+ 387	+ 72	+ 315
Oct.—Dec.	+ 896	+168	+ 728
1971 Jan.—Mar.	+ 15	+ 6	+ 9
Apr.—June	+ 468	+ 50	+ 418
July—Sept.	+ 454	+ 83	+ 371
Oct.—Dec.	+1,455	+134	+1,321
1972 Jan.—Mar.	+ 536	+166	+ 370
Quarters (seasonally adjusted)^f			
1970 Apr.—June	+ 641	+ 38	+ 603
July—Sept.	+ 378	+107	+ 271
Oct.—Dec.	+ 540	+ 51	+ 489
1971 Jan.—Mar.	+ 499	+123	+ 376
Apr.—June	+ 317	+ 14	+ 303
July—Sept.	+ 469	+ 32	+ 437
Oct.—Dec.	+1,106	+ 58	+1,048
1972 Jan.—Mar.	+ 975	+146	+ 829

.. not available.

a See Table 12 of the annex.

b Other than in foreign currency for investment abroad.

c Bank lending to the private sector includes an adjustment equal to 40% of transit items and bank deposits of domestic sectors include one equal to 60% (see additional notes to Table 11).

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

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

f 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-week effects (see note on page 204).

In D.C.E.

Bank lending in sterling to overseas

Total D.C.E.^d (= Col/s. 3 to 7)

Other bank assets

Bank lending in foreign currency to overseas

Bank lending in foreign currency to private sector for investment overseas

Total bank assets = liabilities (= Col/s. 5 to 7, 9 and 10)

Changes in period

Financial years

1968/69
1969/70
1970/71
1971/72

Quarters

(unadjusted)

1970 Apr.—June
July—Sept.
Oct.—Dec.
1971 Jan.—Mar.
Apr.—June
July—Sept.
Oct.—Dec.
1972 Jan.—Mar.

Quarters

(seasonally adjusted)^f

1970 Apr.—June
July—Sept.
Oct.—Dec.
1971 Jan.—Mar.
Apr.—June
July—Sept.
Oct.—Dec.
1972 Jan.—Mar.

7	8	9	10	11
+ 71	+1,337	+3,161	+159	+4,169
+117	- 540	+3,807	+ 50	+4,428
+ 72	+1,403	+2,670	+212	+5,187
+201	+2,255	+2,476	+395	+6,601
+ 2	+ 710	+1,299	+ 32	+2,132
+ 63	+ 478	+ 208	+ 65	+ 598 ^e
—	+ 790	+ 923	+ 80	+2,070
+ 7	- 575	+ 240	+ 35	+ 387
+100	+ 259	+ 965	+120	+1,704
+ 38	+ 304	+ 696	+ 50	+1,625
+151	+1,170	+ 101	+ 50	+2,103
- 88	+ 522	+ 714	+175	+1,169
+ 2	+ 554	+1,279	+ 32	+1,979
+ 63	+ 452	+ 176	+ 65	+ 616 ^e
—	+ 386	+ 908	+ 80	+1,847
+ 7	+ 34	+ 304	+ 35	+ 738
+100	+ 42	+ 946	+120	+1,524
+ 38	+ 309	+ 664	+ 50	+1,753
+151	+ 772	+ 87	+ 50	+1,848
- 88	+1,051	..	+175	..

Bank liabilities

Bank deposits of overseas

Non-deposit liabilities (net)

Total bank liabilities = assets (= Col/s. 14 to 16)

15

16

17

Financial years

1968/69
1969/70
1970/71
1971/72

Quarters

(unadjusted)

1970 Apr.—June
July—Sept.
Oct.—Dec.
1971 Jan.—Mar.
Apr.—June
July—Sept.
Oct.—Dec.
1972 Jan.—Mar.

Quarters

(seasonally adjusted)^f

1970 Apr.—June
July—Sept.
Oct.—Dec.
1971 Jan.—Mar.
Apr.—June
July—Sept.
Oct.—Dec.
1972 Jan.—Mar.

+3,068	+ 93	+4,169
+4,086	+ 97	+4,428
+3,360	+ 84	+5,187
+3,646	+475	+6,601
+1,461	- 20	+2,132
+ 303 ^e	- 20	+ 598 ^e
+1,202	+140	+2,070
+ 394	- 16	+ 387
+1,174	+112	+1,704
+1,001	+253	+1,625
+ 762	+ 20	+2,103
+ 709	+ 90	+1,169
+1,411	- 35	+1,979
+ 344 ^e	+ 1	+ 616 ^e
+1,246	+112	+1,847
+ 360	+ 2	+ 738
+1,124	+ 97	+1,524
+1,041	+275	+1,753
+ 805	- 5	+1,848
..	+ 82	..

Table K
Flow of funds: quarterly figures 1971-72

£ millions

Not seasonally adjusted

Line	Public sector			Overseas sector ^a		
	1971		1972	1971		1972
	3rd qtr.	4th qtr.	1st qtr.	3rd qtr.	4th qtr.	1st qtr.
Financial surplus + /deficit —						
Saving	+ 682	+ 676				
Taxes on capital and capital transfers	— 55	— 21				
<i>less:</i>						
Gross fixed capital formation at home	— 1,078	— 1,169				
Increase in value of stocks and work in progress	— 62	— 18				
Financial surplus + /deficit —	— 513	— 532		— 322	— 249	
Change in financial assets and liabilities						
Assets: increase + /decrease —						
Liabilities: increase — /decrease +						
Net indebtedness of Government to Bank of England, Banking Department	6	+ 471 — 118	— 18			
Life assurance and pension funds	7					
Loans by the U.K. Government	8	+ 35	—	— 27	— 17	
Total external currency flow	9.1	+ 668 + 953	+ 57	— 668	— 953	— 57
Other central government external transactions	9.2	— 13 — 17	— 84	+ 13	+ 17	+ 84
Banks' net external transactions	10			+ 63	+ 492	+ 64
Miscellaneous investment overseas (net)	11	+ 89 + 55		+ 222	— 199	
Notes and coin	12	+ 55 — 240	+ 42			
Bank deposits of domestic sectors	13	— 22 + 63	+ 8			
Deposits with other financial institutions	14			+ 2	+ 36	
National savings	15.1	— 55 — 133	— 190			
Tax reserve certificates	15.2	— 67 — 84	+ 118			
Import deposits	15.3	+ 1	—	—	—	—
Bank lending to domestic sectors	16	— 10 — 47	+ 107			
Hire purchase debt	17	+ 5 + 11				
Loans for house purchase	18	+ 20 + 22				
Other loans and accruals	19	— 37 + 46				
Marketable government debt:						
Treasury bills } held by domestic sectors	20	— 54 — 805	+ 829			
Stocks }	21	— 1,447 — 402	+ 48			
Local authority debt	22	— 100 — 52		— 5	+ 17	+ 49
U.K. company and overseas securities:						
Capital issues	23			— 2	+ 7	— 1
Other transactions	24	+ 4 + 29		+ 187	+ 90	
Unit trust units	25					
Identified financial transactions	26	— 457 — 719		— 215	— 510	
<i>Unidentified</i>	<i>27</i>	<i>— 56 + 187</i>		<i>— 107</i>	<i>+ 261</i>	
Total = Financial surplus + /deficit —	28	— 513 — 532		— 322	— 249	

— nil or less than £½ million.

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

Personal sector			Industrial and commercial companies			Banking sector			Other financial institutions			Line
1971		1972	1971		1972	1971		1972	1971		1972	
3rd qtr.	4th qtr.	1st qtr.	3rd qtr.	4th qtr.	1st qtr.	3rd qtr.	4th qtr.	1st qtr.	3rd qtr.	4th qtr.	1st qtr.	
+615	+616		+1,140	+1,165		+169	+191					1
-80	-82		+136	+105		-1	-2					2
-365	-389		-846	-908		-137	-159					3
-36	-56		-37	-100								4
+134	+89		+393	+262		+31	+30					5
						1971		1972	1971		1972	
3rd qtr.		4th qtr.	3rd qtr.		4th qtr.	3rd qtr.	4th qtr.	1st qtr.	3rd qtr.	4th qtr.	1st qtr.	
+510	+520		-8	+1		-471	+118	+18	-510	-520		6
-	-								-	+16		7
												8
												9-1
												9-2
			-312	+133		-63	-492	-64	+1	+11		10
												11
-4	+128	+79	+87	+6	+87	-138	+106	-208	+1	+193	+160	12
+281	+365	+371	+111	+700	-169	-371	-1,321	-370	-611	-756		13
+560	+723		+49	-3								14
+55	+133	+190	+46	+40					+4	-		15-1
+17	+26		-1	-	-	-	+18	-17				15-2
												15-3
-205	-214	-437	+11	-239	-977	+345	+702	+1,602	-141	-202	-295	16
-80	-124		+5	+84					+70	+29		17
-507	-505		-91	+96		+25	+40	+45	+462	+443		18
+53	-119					+129	-124	+102	-54	+101		19
												20
+170	+89		-1	+14		+50	+790	-815	+5	+1		21
-83	-57		+33	-4		+934	-8	-155	+343	+321		22
						+142	+76	+21	+13	+20		
-302	-340		-92	-125	-114	-1	-1	-15	-55	-33	-99	23
+4	+20	+28	+111	+57		-200	+43	+38	+350	+273	-28	24
									-4	-20		25
+469	+645		-52	+760		+381	-53	+182	-126	-123		26
						-224		+206				27
-335	-556		+445	-498								
+134	+89		+393	+262		+31	+30					28

Table L

Flow of funds: quarterly figures, 1971-72

£ millions

Seasonally adjusted

	Line	Public sector			Overseas sector ^a		
		1971		1972	1971		1972
		3rd qtr.	4th qtr.	1st qtr.	3rd qtr.	4th qtr.	1st qtr.
Financial surplus + /deficit -							
Saving	1	+1,037	+1,009				
Taxes on capital and capital transfers	2	- 30	+ 6				
less: Gross fixed capital formation at home	3						
Increase in value of stocks and work in progress	4	-1,133	-1,177				
Financial surplus + /deficit -	5	- 126	- 162				
				- 346	- 240		
Changes in financial assets and liabilities							
Assets: increase + /decrease -							
Liabilities: increase - /decrease +							
Net indebtedness of Government to Bank of England, Banking Department	6	+ 392	- 59	- 79			
Life assurance and pension funds	7						
Loans by the U.K. Government	8	+ 35	+ 3		- 27	- 20	
Total central government external transactions	9	+ 760	+1,024	- 89	-760	-1,024	
Banks' net external transactions	10				+135	+ 549	
Miscellaneous investment overseas (net)	11	+ 89	+ 55		+178	- 149	
Notes and coin	12	- 7	- 56	-102			
Bank deposits of domestic sectors	13	- 12	+ 63	-			
Deposits with other financial institutions	14				+ 12	+ 34	
National savings	15-1	- 53	- 161	-142			
Tax reserve certificates	15-2	- 38	- 35	+ 3			
Import deposits	15-3	+ 1	-		-	-	
Bank lending to domestic sectors	16	+ 12	- 49	+ 82			
Hire purchase debt	17	+ 5	+ 11				
Loans for house purchase	18	+ 20	+ 22				
Other loans and accruals	19	- 71	- 4				
Marketable government debt:							
Treasury bills } held by domestic sectors	20	+ 275	- 580	+250			
Stocks }	21	-1,447	- 402	+ 48			
Local authority debt	22	- 75	- 152		- 4	+ 24	
					+ 40		
U.K. company and overseas securities:							
Capital issues	23				- 2	+ 7	
Other transactions	24	+ 4	+ 29		+187	+ 90	
Unit trust units	25					- 1	
Identified financial transactions	26	- 110	- 291		- 281	- 489	
<i>Unidentified</i>	27	- 16	+ 129		- 65	+ 249	
Total = Financial surplus + /deficit -	28	- 126	- 162		- 346	- 240	

— nil or less than £½ million.

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

Table M

Flow of funds: annual figures

£ millions

Line	Public sector			Overseas sector ^a		
	1969	1970	1971	1969	1970	1971
Financial surplus +/deficit —						
Saving	1	+4,245	+5,035	+4,373		
Taxes on capital and capital transfers	2	— 138	— 64	— 164		
<i>less:</i>						
Gross fixed capital formation at home	3	—3,735	—4,010	—4,461		
Increase in value of stocks and work in progress	4	— 19	— 99	— 175		
Financial surplus +/deficit —	5	+ 353	+ 862	— 427	— 443	— 611
Changes in financial assets and liabilities						
Assets: increase +/decrease —						
Liabilities: increase —/decrease +						
Net indebtedness of Government to Bank of England, Banking Department	6	+ 128	— 276 ^b	+ 471		
Life assurance and pension funds	7					
Loans by the U.K. Government	8	+ 70	+ 109	+ 98	— 52	— 83
					— 93	
Total external currency flow	9.1	+ 743	+1,287	+3,228	—743	—1,287
Other central government external transactions	9.2	— 54	+ 55 ^b	— 353	+ 54	— 55 ^b
Banks' net external transactions	10				—125	+ 789 ^b
Miscellaneous investment overseas (net)	11	— 3	+ 122	+ 151	—174	+ 38
					+ 246	
Notes and coin	12	— 197	— 231	— 243		
Bank deposits of domestic sectors	13	+ 67	+ 44	+ 38		
Deposits with other financial institutions	14				— 2	+ 51
National savings	15.1	+ 224	+ 51	— 372		+ 57
Tax reserve certificates	15.2	+ 27	+ 18	— 81		
Import deposits	15.3	— 462	+ 257	+ 281	+ 59	— 32
					— 28	
Bank lending to domestic sectors	16	+ 27	— 126	— 26		
Hire purchase debt	17	+ 3	— 1	+ 16		
Loans for house purchase	18	— 3	+ 66	+ 71		
Other loans and accruals	19	+ 128	+ 63	— 27		
Marketable government debt:						
Treasury bills } held by domestic sectors	20	+ 265	— 553	— 1		
Stocks }	21	— 20	+ 317	—3,226		
Local authority debt	22	— 601	— 538	— 657	+ 29	— 38
					+ 81	
U.K. company and overseas securities:						
Capital issues	23				+ 8	+ 12
Other transactions	24	+ 13	+ 6	+ 85	+106	— 120
Unit trust units	25					+ 117
Identified financial transactions	26	+ 355	+ 670	— 547	— 840	— 725
<i>Unidentified</i>	27	— 2	+ 192	+ 120	+397	+ 114
					+ 429	
Total = Financial surplus +/deficit —	28	+ 353	+ 862	— 427	— 443	— 611
					— 952	

— nil or less than £½ million.

^a It has not been possible to incorporate in the table the revised balance of payments estimates released in June.^b These items are affected by a change in the method of accounting; see the additional notes to Table 5 of the annex.

Personal sector			Industrial and commercial companies			Banking sector			Other financial institutions			Line
1969	1970	1971	1969	1970	1971	1969	1970	1971	1969	1970	1971	
+2,451	+2,801	+2,982	+2,956	+2,788	+3,492				+257	+335	+372	1
-393	-358	-318	+570	+486	+551				-39	-64	-69	2
-1,034	-1,084	-1,375	-2,831	-3,193	-3,318				-554	-596	-565	3
-131	-181	-213	-1,052	-1,068	-634							4
+893	+1,178	+1,076	-357	-987	+91				-336	-325	-262	5
						1969	1970	1971	1969	1970	1971	
+1,535	+1,755	+1,950				-128	+276 ^b	-471	-1,535	-1,755	-1,950	6
-3	-2	-	-18	-25	-21				+3	+1	+16	7
												8
						+125	-789 ^b	-1,103				9-1
			+195	-119	-365				-18	-41	-32	9-2
												10
+73	+115	+197	+73	+206	+76	+51	-90	-30				11
+308	+822	+954	-203	+127	+1,020	-357	-1,265	-2,119	+185	+272	+107	12
+999	+1,659	+2,208	+56	-10	+47				-1,053	-1,700	-2,312	13
-224	-51	+372										14
-11	+1	+24	-28	-6	+69	+14	-21	-16	-2	+8	+4	15-1
			+403	-225	-253							15-2
												15-3
+77	-59	-576	-664	-1,125	-732	+540	+1,391	+1,751	+20	-81	-417	16
+30	-46	-195	-12	-	+39				-21	+47	+140	17
-857	-1,230	-1,750	-192	-263	+7	-5	+40	+90	+865	+1,124	+1,589	18
-123	-57	-1				-3	-1	+1	+190	+258	+20	19
+78	-227	+454	-12	+9	-1	-251	+550	+5	-2	-6	-3	20
+230	-75	-217	-84	-119	+25	-341	-410	+1,378	+283	+320	+1,394	21
						+312	+483	+772	+114	+287	-4	22
-538	-842	-1,213	-512	-193	-364	-12	-27	-5	-95	-55	-169	23
+186	+89	+46	+337	+318	+217	+38	+94	+185	+655	+807	+1,136	24
									-186	-89	-46	25
+1,760	+1,852	+2,253	-661	-1,425	-236	-17	+231	+438	-597	-603	-527	26
-867	-674	-1,177	+304	+438	+327				+278	+47	-173	27
+893	+1,178	+1,076	-357	-987	+91				-336	-325	-262	28

Notes on sources, definitions and seasonal adjustments

Sources

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

Definitions (line numbers refer to Tables K, L and M)

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 11 of the annex.

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

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

Line 5 Financial surplus/deficit The financial surplus (deficit) of a domestic sector measures the excess (shortfall) of its saving and net receipts of capital transfers over its capital expenditure at home on fixed assets and on stocks and work in progress. For the overseas sector a financial surplus is the counterpart of a deficit on current account in the U.K. balance of payments, and equals net overseas investment in the United Kingdom. An overseas sector deficit represents a U.K. current account surplus and hence net U.K. investment abroad. For all sectors com-

bined, financial surpluses/deficits should add to nil, but in practice they do not, because of the discrepancy between estimates of total saving and total investment (the residual error in the national income accounts).

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

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

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

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

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

Line 10 Banks' net external transactions Changes in overseas deposits with the banking sector less lending to overseas by the banking sector. Changes in negotiable dollar certificates of deposit held outside the banking sector and changes in negotiable sterling certificates, as reported in the external banking and money market liabilities in the sterling series, are attributed to non-residents. Changes in overseas deposits also include unallocated items, thought to relate mainly to overseas funds placed through U.K. banks as agents; because of this, the figures in this table differ from changes implied by Table 11 (2) of the annex. Lending comprises advances to non-residents, commercial bill transactions with non-residents and money at call with non-residents as recorded on returns made by the banks.

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

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

Line 13 Bank deposits of domestic sectors Changes in gross current and deposit accounts of U.K. residents, except for the banking sector and industrial and commercial companies, for which two sectors the figures are adjusted. The entries for the banking sector are changes in net deposits less changes in non-residents' deposits *i.e.* current and deposit accounts after allowing for transit items (see the additional notes to Table 11 of the annex). The proper allocation of transit items is not known, but it is assumed that most of the changes in the figures arise from transactions between companies. The entries for industrial and commercial companies are the changes in their gross current and deposit accounts less 60% of the change in transit items. Changes in holdings of sterling certificates of deposit not in line 10 are included here.

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

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

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

Line 16 Bank lending to domestic sectors The banks' advances and overdrafts, money at call and short notice other than to U.K. banks and non-residents (excluding tax reserve certificates), and transactions in commercial bills other than with non-residents, excluding estimates of loans for house purchase (included in line 18) and all lending to local authorities (included in line 22) and the Northern Ireland Government. The distribution of advances between debtor sectors is taken from comprehensive statistics for the banking sector (see Table 11 of the annex): this includes a deduction of 40% of the change in transit items from recorded advances to industrial and commercial companies. The figures for commercial bills for other financial institutions are taken from returns made by the institutions. The residual commercial bill figures are attributed to industrial and commercial companies; the division of the residual call money figures between persons and industrial and commercial companies has been roughly estimated.

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

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

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

Lines 20 and 21 Marketable government debt held by domestic sectors As defined in the additional notes to Table 3(1) of the annex. The entries for Treasury bills under industrial and commercial companies are residuals and include any changes in personal and unidentified overseas holdings. The entries for stocks under public sector consist of net sales by the central government to domestic sectors less purchases by public corporations and local authorities. The entries for stocks under persons are residuals and include any transactions by industrial and commercial companies and unidentified overseas transactions.

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

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

Capital issues Excludes international issues (see Table 15 of the annex) and issues abroad.

Other transactions For the overseas sector the entries comprise transactions by overseas residents in U.K. company securities and by U.K. residents in overseas securities; they are taken from the balance of payments estimates for private investment. The entries for the banking sector are the change in the banks' securities other than government stocks and local authority securities. The figures for other financial institutions are taken from their statistical returns; beginning with 1968, commissions and other

costs paid by the institutions have been deducted from their transactions. The estimates for industrial and commercial companies relate to their cash payments for the acquisition of subsidiaries and of unincorporated businesses; to their purchases of trade investments; to their acquisition of share and loan capital in overseas companies (part of direct investment abroad); and to their capital issues in overseas centres. The entries for persons are obtained as residuals from the estimates in lines 23 and 24 for all other sectors.

Line 25 Unit trust units Net sales of units to persons by authorised unit trusts.

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

Seasonal adjustments

Financial series are peculiarly difficult to adjust satisfactorily, for two main reasons; firstly, there tend to be large erratic movements between a sector's holdings of one asset and of another, which obscure the trends; and secondly, the 'seasonal' patterns can so easily be changed by administrative action (for example tax changes). This contrasts with other economic series, whose seasonal variation is more a function of weather

and social custom. Moreover, for most items in the United Kingdom flow of funds accounts figures are available from 1963 onwards, though estimates of the net financial surpluses of certain sectors are available for a much longer run of years.

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

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

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

Both seasonal and other adjustments are recalculated regularly as data for another year become available.