

## Analysis of financial statistics : April-June 1972

*The analysis deals mainly with the flow of funds between the various sectors in the second quarter of 1972, the latest period for which a full set of statistics is available. Comment on the third quarter is largely confined to the banking sector, external currency flow, and central government financing. The analysis is based throughout on seasonally adjusted figures. Unadjusted flows for the second quarter are given in Table H, and a seasonally adjusted matrix in Table J. Brief notes on sources, definitions and adjustments appear on page 466.*

### **Summary**

Industrial and commercial companies had a sizable financial deficit in the second quarter after a big surplus in the first; they saved less, partly for temporary reasons, while they spent more on fixed investment. By contrast, personal saving rose sharply, partly because of larger personal allowances introduced in the Budget, and the sector's financial surplus was larger. The public sector's saving was also greater and was sufficient to cover the cost of rebuilding coal stocks after the miners' strike and to reduce the financial deficit.

There was a very large currency outflow in the second quarter resulting from the loss of confidence in sterling in June. The banks lost deposits and their reserve ratios came under acute pressure: to meet the situation they were allowed temporarily to sell £360 million of gilt-edged stocks to the authorities. Companies and persons again borrowed heavily from the banks, while companies placed very much more on deposit than in the first quarter, much of it in the form of sterling certificates. Persons invested heavily in national savings and unit trust units, and borrowed much more for house purchase.

In the third quarter the currency outflow was very much smaller, as sterling was floating throughout the period, and the public sector reduced its bank finance by much less than in the first two quarters. Both persons and companies borrowed on a smaller scale from the banks than in the previous quarter. Bank deposits grew less sharply, largely on account of other financial institutions. The building societies had their smallest net inflow for over a year and the inflow to national savings fell sharply too. People bought rather more unit trust units, but the quarterly total included a sharp fall in September.

### **Background**

Gross domestic product measured from expenditure statistics at current prices was  $3\frac{1}{2}\%$  more in the second quarter of 1972 than in the first. But the miners' strike and the power cuts had reduced gross domestic product in the first quarter and some of the rise between the two quarters was merely a reflection of this. Consumers' expenditure and exports of

goods and services each recovered strongly while imports grew less rapidly; and all these changes partly reflected the disruptions to output in the previous quarter. Even more marked was the recovery of capital formation. More was spent on fixed investment than in the March quarter, notably by companies (in fact the public sector spent rather less); and stocks as a whole were run down at a slower rate, mainly

**Table A**  
**Income and expenditure**  
£ millions  
*Seasonally adjusted*

	Income from employment and trading <sup>a,b</sup>	Transfer incomes etc. <sup>b</sup>	less Consumption <sup>c</sup>	less Current transfer payments	equals Saving	less Gross domestic capital formation <sup>d</sup>	less Capital transfers (net payments -)	equals Financial surplus/deficit <sup>e</sup>
<b>Personal sector</b>								
1970 1st qtr.	7,158	2,994	-7,499	-2,033	620	- 319	- 97	204
2nd qtr.	7,455	3,147	-7,717	-2,163	722	- 355	- 90	277
3rd qtr.	7,708	3,171	-7,924	-2,195	760	- 382	- 85	293
4th qtr.	7,914	3,233	-8,076	-2,256	815	- 391	- 88	336
1971 1st qtr.	8,044	3,195	-8,152	-2,217	870	- 369	- 65	436
2nd qtr.	8,269	3,349	-8,561	-2,344	713	- 463	- 90	160
3rd qtr.	8,508	3,431	-8,798	-2,355	786	- 461	- 89	236
4th qtr.	8,670	3,622	-8,993	-2,459	840	- 506	- 92	242
1972 1st qtr.	8,756	3,683	-9,142	-2,544	753	- 538	-103	112
2nd qtr.	9,170	3,817	-9,525	-2,373	1,089	- 559	- 97	433
<b>Company sector<sup>f</sup></b>								
1970 1st qtr.	1,277	1,054		-1,461	870	-1,154	95	-189
2nd qtr.	1,273	1,098		-1,636	735	-1,288	94	-459
3rd qtr.	1,272	1,093		-1,606	759	-1,228	104	-365
4th qtr.	1,339	1,150		-1,618	871	-1,291	126	-294
1971 1st qtr.	1,360	1,210		-1,495	1,075	-1,202	164	37
2nd qtr.	1,427	1,247		-1,819	855	-1,166	119	-192
3rd qtr.	1,520	1,256		-1,728	1,048	-1,028	114	134
4th qtr.	1,462	1,259		-1,782	939	-1,044	80	- 25
1972 1st qtr.	1,480	1,320		-1,748	1,052	- 969	92	175
2nd qtr.	1,553	1,349		-2,008	894	-1,086	71	-121
<b>Public sector</b>								
1970 1st qtr.	389	4,722	-2,093	-1,827	1,191	- 977	2	216
2nd qtr.	393	5,044	-2,240	-1,873	1,324	-1,018	- 4	302
3rd qtr.	374	5,123	-2,324	-1,871	1,302	-1,037	- 19	246
4th qtr.	368	5,135	-2,365	-1,907	1,231	-1,079	- 38	114
1971 1st qtr.	336	4,940	-2,434	-1,887	955	-1,203	- 99	-347
2nd qtr.	416	5,482	-2,531	-1,997	1,370	-1,146	- 29	195
3rd qtr.	444	5,243	-2,628	-2,052	1,007	-1,129	- 25	-147
4th qtr.	408	5,470	-2,685	-2,212	981	-1,172	12	-179
1972 1st qtr.	320	5,543	-2,753	-2,367	743	-1,174	11	-420
2nd qtr.	440	5,699	-2,807	-2,297	1,035	-1,249	26	-188
<b>Overseas sector<sup>g</sup></b>								
1970 1st qtr.								-244
2nd qtr.								-128
3rd qtr.								- 81
4th qtr.								-228
1971 1st qtr.								-124
2nd qtr.								-295
3rd qtr.								-364
4th qtr.								-257
1972 1st qtr.								- 58
2nd qtr.								- 77

<sup>a</sup> Before providing for depreciation and stock appreciation.

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

<sup>c</sup> Other than depreciation.

<sup>d</sup> Including stocks.

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

<sup>f</sup> Including financial institutions.

<sup>g</sup> An overseas sector deficit corresponds to a balance of payments surplus on current account.

because the public sector began to replenish stocks of coal after their depletion during the industrial disputes.

Domestic incomes in the second quarter were 5% greater, but again the rise partly reflected the first quarter's disruptions. Income from employment increased sharply – the disputes had depressed wages and salaries – and company trading profits were also much greater. For the same reasons, the gross trading surpluses of public bodies rose substantially too.

There were considerable changes in the second quarter in the saving and the financial positions of all domestic sectors (see Table A). The personal sector had a much larger financial surplus and the public sector a smaller deficit, while the company sector (including financial institutions) moved from surplus into substantial deficit (for the first time since the second quarter of 1971). The overseas position was little changed.

The personal sector's income and expenditure figures are subject to revision, but as they stand they show that the increase in the second quarter in the financial surplus was due to an exceptional amount of saving: incomes rose even more than consumption, and less was paid in income taxes because of larger personal allowances introduced in the Budget in March. Despite the Budget reliefs, the public sector's saving increased too: trading surpluses were greater, even though the figure for the first quarter had been inflated by an emergency grant of £100 million to the National Coal Board, while the rise in personal consumption led to a rise in revenue from indirect taxation. The extra saving was more than sufficient to carry the cost of resumed stockbuilding, so that the sector's financial deficit was much reduced. The company sector's recorded saving was less than in the first quarter: the increase in personal allowances introduced in the Budget meant, under the relative administrative arrangements, that for some time companies were transferring to the central government P.A.Y.E. deductions already made at old, higher net rates while their current deductions from employees were at new reduced rates; and in spite of greater trading profits their saving was reduced. At the same time companies spent more on fixed investment and the result was a swing from financial surplus to deficit.

#### **Overseas sector**

The overseas sector had a slightly larger financial deficit with the United Kingdom in the second quarter (that is, there was a slightly larger surplus on the current account of the U.K. balance of payments), but it was still relatively small compared with the past three years. The U.K. surplus on invisibles was much the same as in the March quarter, but the deficit on trade was much less; exports recovered strongly from the miners' strike and the power cuts, and the increase more than covered a further rise in imports.

Confidence in sterling declined sharply in June and the subsequent outflow of funds further transformed the relationship which had held during 1970 and 1971 between the overseas sector and the domestic sectors (see Table B).



Table B

Overseas sector<sup>a</sup>

£ millions

Seasonally adjusted

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

	1970				1971				1972		
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.
<b>Financial deficit -</b>	<b>-244</b>	<b>-128</b>	<b>- 81</b>	<b>-228</b>	<b>-124</b>	<b>-295</b>	<b>-364</b>	<b>-257</b>	<b>- 58</b>	<b>- 77</b>	
<b>Transactions with the U.K. private sector</b>											
Investment flows:											
Transactions in company and overseas securities	+ 7	+ 3	- 39	- 47	- 71	-123	+210	+ 98	-187	-154	
Miscellaneous private investment	+ 50	+ 23	- 34	+ 30	+ 26	+ 41	+ 29	- 8	- 17	- 70	
Other transactions:											
Net external transactions by U.K. banks <sup>b</sup>	+197	+155	+132 <sup>c</sup>	+305	+180	+263	+156	+532	+208	-215	+ 6
Other identified	+ 93	- 68	+ 32	+ 1	+170	+ 15	+229	-131	- 26	-200	
Balancing item	+ 94	- 26	- 59	+ 50	+157	+ 33	- 81	+240	-105	-244	
	<b>+441</b>	<b>+ 87</b>	<b>+ 32</b>	<b>+339</b>	<b>+462</b>	<b>+229</b>	<b>+543</b>	<b>+731</b>	<b>-127</b>	<b>-883</b>	
<b>Transactions with the U.K. public sector</b>											
Lending etc. <sup>d</sup>	- 31	- 55	- 47	- 96	- 73	- 92	-100	- 71	- 59	-101	
External finance: <sup>e</sup>											
Central government	-673	-166	- 57 <sup>c</sup>	-446	-605	-510	-809	-951	+ 64	+922	+154
Local authorities	+ 12	- 18	- 10	- 23	+ 9	+ 49	- 4	+ 27	+ 42	- 15	
Public corporations	+ 7	+ 24	+ 1	- 2	+ 83	+ 29	+ 6	+ 7	+ 22	—	
	<b>-685</b>	<b>-215</b>	<b>-113</b>	<b>-567</b>	<b>-586</b>	<b>-524</b>	<b>-907</b>	<b>-988</b>	<b>+ 69</b>	<b>+806</b>	

— nil or less than £½ million.

<sup>a</sup> It has not been possible to include in this table the balance of payments estimates for the 3rd quarter of 1972 and revisions to previous quarters, which were released in December and appear in the annex, Table 20.<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> These overseas transactions of the public sector contribute to its borrowing requirement.<sup>e</sup> These overseas transactions of the public sector are among the items financing its borrowing requirement.

The counterpart of the currency outflow in the second quarter was generally in overseas transactions with the private sector. As in the first quarter, investment flows were dominated by portfolio investment overseas. But this time, net transactions by the banks also resulted in a strong outward flow as they lent heavily abroad. A considerable part of the outflow was unidentified (the balancing item in the balance of payments accounts); this is largely taken to represent unrecorded transactions with the company sector, some part of it (when sterling weakened in June) probably resulting from an acceleration of payments for U.K. imports and a delay in payments for exports.

After sterling was allowed to float from the last days of June onward, the currency outflow was very much reduced and was relatively modest in the third quarter as a whole.

**Public sector**

In the income and expenditure accounts the public sector had a smaller financial deficit in the second quarter than in the first, but its identified financial transactions point to a

much bigger one. Thus the unidentified element in the accounts was again unusually big. However, as it was in the reverse direction to the first quarter difference, temporary shifts in the timing of cash transactions relative to economic activity may account for much of the swing. At all events, the sector's borrowing requirement grew by over £500 million (see Table C). This was more than covered, however, by the sterling acquired by the central government from the outflow of foreign exchange during June; moreover the general public bought substantial amounts of government debt, especially national savings, and altogether the central government was able to re-purchase very large amounts of debt from the banks. The sudden outflow of foreign currency during June left the

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

£ millions  
Seasonally adjusted

	1970				1971				1972		
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.
Capital expenditure	+ 977	+1,018	+1,037	+1,079	+1,203	+1,146	+1,129	+1,172	+1,174	+1,249	
less Saving	-1,191	-1,324	-1,302	-1,231	- 955	-1,370	-1,007	- 981	- 743	-1,035	
less Capital transfers (net)	- 2	+ 4	+ 19	+ 38	+ 99	+ 29	+ 25	- 12	- 11	- 26	
<i>equals</i> Financial surplus -/ deficit +	- 216	- 302	- 246	- 114	+ 347	- 195	+ 147	+ 179	+ 420	+ 188	
Lending and other transactions (increase in assets +) <sup>a</sup>	+ 63	+ 97	+ 110	+ 143	+ 104	+ 123	+ 85	+ 176	- 70	+ 163	
Import deposits (repayments +)	+ 13	+ 41	+ 80	+ 123	+ 170	+ 110	+ 1				
Unidentified	- 97	+ 201	- 16	+ 118	- 67	+ 144	+ 4	+ 47	- 278	+ 242	
<b>Borrowing requirement (increase -)</b>	<b>+ 237</b>	<b>- 37</b>	<b>+ 72</b>	<b>- 270</b>	<b>- 554</b>	<b>- 182</b>	<b>- 237</b>	<b>- 402</b>	<b>- 72</b>	<b>- 593</b>	
<i>Comprising:</i>											
<i>Central government:</i>											
External transactions	+ 673	+ 166	+ 57 <sup>b</sup>	+ 446	+ 605	+ 510	+ 809	+ 951	- 64	- 922	- 154
Notes and coin with the public	- 56	- 38	- 87	- 57	- 117	- 12	- 52	- 39	- 132	- 133	- 91
Bank borrowing	+ 48	- 63	- 93 <sup>b</sup>	- 279	- 13	- 157	- 264	- 484	+ 294	+ 856	+ 137
Other domestic borrowing	- 305	+ 159	+ 183	- 76	- 761	- 280	- 617	- 641	- 202	- 113	- 186
	+ 360	+ 224	+ 60	+ 34	- 286	+ 61	- 124	- 213	- 104	- 312	- 294
<i>Local authorities:</i>											
External finance	- 12	+ 18	+ 10	+ 23	- 9	- 49	+ 4	- 27	- 42	+ 15	
Bank borrowing	- 102	- 97	- 101	- 183	- 189	- 239	- 152	- 192	+ 102	- 61	- 49
Other domestic borrowing	+ 4	- 67	+ 27	- 47	+ 41	+ 49	+ 14	+ 90	- 115	- 84	
	- 110	- 146	- 64	- 207	- 157	- 239	- 134	- 129	- 55	- 130	
<i>Public corporations:</i>											
External finance	- 7	- 24	- 1	+ 2	- 83	- 29	- 6	- 7	- 22	-	
Domestic borrowing	- 6	- 91	+ 77	- 99	- 28	+ 25	+ 27	- 53	+ 109	- 151	
	- 13	- 115	+ 76	- 97	- 111	- 4	+ 21	- 60	+ 87	- 151	

- nil or less than £½ million.

<sup>a</sup> 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.

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



banks very short of reserve assets and they had already sold some £550 million of gilt-edged stock earlier in the quarter; to ameliorate their position, under a special temporary arrangement, the Bank of England purchased £360 million of stock from them, reselling it to them the following month. In all, then, the banking sector sold over £900 million of gilt-edged stocks during the quarter, though the amounts under the special arrangement were offset by corresponding sales of Treasury bills.

The pattern of financing of both local authorities and public corporations was considerably different from the March quarter. Local authorities now repaid debt to the personal and overseas sectors, increased their borrowing from the banks, and continued to borrow from other domestic sources (including indirectly the Issue Department of the Bank of England, which was buying local authority bills in the course of day-to-day market operations). The public corporations borrowed quite large sums at home and from the banks in particular, after having repaid bank debt in the first quarter.

In the third quarter the central government again had a large borrowing requirement. But as relatively little sterling finance flowed from external transactions the pattern of domestic borrowing was markedly different; notably much less debt was repaid to the banking sector.

#### **Personal sector**

Personal disposable incomes grew faster than consumption in the second quarter. Thus personal saving increased considerably and there was a sharp rise in the savings ratio. Persons undertook more capital expenditure, but even so they still had an exceptionally large surplus available for the purchase of financial assets.

As Table D shows, the sector incurred record amounts of financial liabilities as well as acquiring record amounts of assets. But the growth of asset accumulation slowed down. Among particular assets, the rapid expansion of building society deposits late in 1971 was not renewed, as withdrawals began to grow faster than new deposits. (Indeed, after three quarters when the net flow to the societies was about £580 million in each, the flow fell away to £440 million in the September quarter.) On the other hand persons bought gilt-edged stocks, after selling substantial amounts in the first quarter. The inflow of funds to national savings increased too, after faltering in the previous quarter. At the same time, people showed a renewed liking for unit trust units even though share prices did not rise overall during the quarter; repurchases of units by the trusts levelled out during the quarter after rising for several quarters in succession.

On the liabilities side, persons borrowed very heavily from banks, no doubt partly because of the re-introduction of income tax relief on loan interest payments above £35 per year. People also borrowed a lot more for house purchase, mostly from building societies; this reflected both a previous rise in the number of commitments and the continued rise in house prices.

Table D

## Personal sector

£ millions

Seasonally adjusted

	1970				1971				1972		
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.
Saving	+ 620	+ 722	+ 760	+ 815	+ 870	+ 713	+ 786	+ 840	+ 753	+1,089	
Capital transfers (net)	- 97	- 90	- 85	- 88	- 65	- 90	- 89	- 92	- 103	- 97	
Capital expenditure	- 319	- 355	- 382	- 391	- 369	- 463	- 461	- 506	- 538	- 559	
<b>Financial surplus</b>	<b>+ 204</b>	<b>+ 277</b>	<b>+ 293</b>	<b>+ 336</b>	<b>+ 436</b>	<b>+ 160</b>	<b>+ 236</b>	<b>+ 242</b>	<b>+ 112</b>	<b>+ 433</b>	
<b>Borrowing ( - )</b>											
For house purchase	- 239	- 291	- 338	- 363	- 339	- 419	- 495	- 521	- 556	- 671	
Bank borrowings <sup>a</sup>	+ 13	- 68	- 5	+ 1	- 63	- 68	- 209	- 253	- 459	- 581	- 201
Hire purchase debt	- 4	- 19	- 8	- 15	- 2	- 31	- 84	- 78	- 71	- 75	
Other	+ 25	- 19	- 26	- 39	- 54	+ 94	+ 47	- 91	+ 93	+ 30	
	- 205	- 397	- 377	- 416	- 458	- 424	- 741	- 943	- 993	-1,297	
<b>Acquisition of financial assets ( + )</b>											
Life assurance and pension funds	+ 401	+ 437	+ 444	+ 476	+ 428	+ 501	+ 533	+ 504	+ 557	+ 595	
Government stocks	+ 172	- 58	- 283	- 58	+ 229	- 34	+ 170	+ 99	- 123	+ 37	
Company and overseas securities	- 221	- 205	- 222	- 192	- 110	- 461	- 291	- 344	- 193	- 270	
Unit trust units	+ 27	+ 26	+ 23	+ 13	+ 6	+ 10	+ 8	+ 22	+ 24	+ 57	+ 62
Bank deposits, notes and coin	+ 77	+ 329	+ 282	+ 254	+ 286	+ 188	+ 314	+ 347	+ 535	+ 467	+ 427
Building society shares and deposits	+ 299	+ 348	+ 415	+ 422	+ 401	+ 450	+ 527	+ 583	+ 581	+ 576	+ 443
National savings	- 39	- 41	- 10	+ 39	+ 65	+ 83	+ 73	+ 150	+ 127	+ 175	+ 91
Local authority debt	+ 39	- 24	- 57	- 32	- 28	- 34	- 67	- 104	- 12	- 62	
Other	+ 36	+ 30	+ 51	+ 59	+ 64	+ 38	+ 52	+ 117	+ 85	+ 85	
	+ 791	+ 842	+ 643	+ 981	+1,341	+ 741	+1,319	+1,374	+1,581	+1,660	
<b>Identified financial transactions</b>	<b>+ 586</b>	<b>+ 445</b>	<b>+ 266</b>	<b>+ 565</b>	<b>+ 883</b>	<b>+ 317</b>	<b>+ 578</b>	<b>+ 431</b>	<b>+ 588</b>	<b>+ 363</b>	
<i>Unidentified</i>	- 382	- 168	+ 27	- 229	- 447	- 157	- 342	- 189	- 476	+ 70	

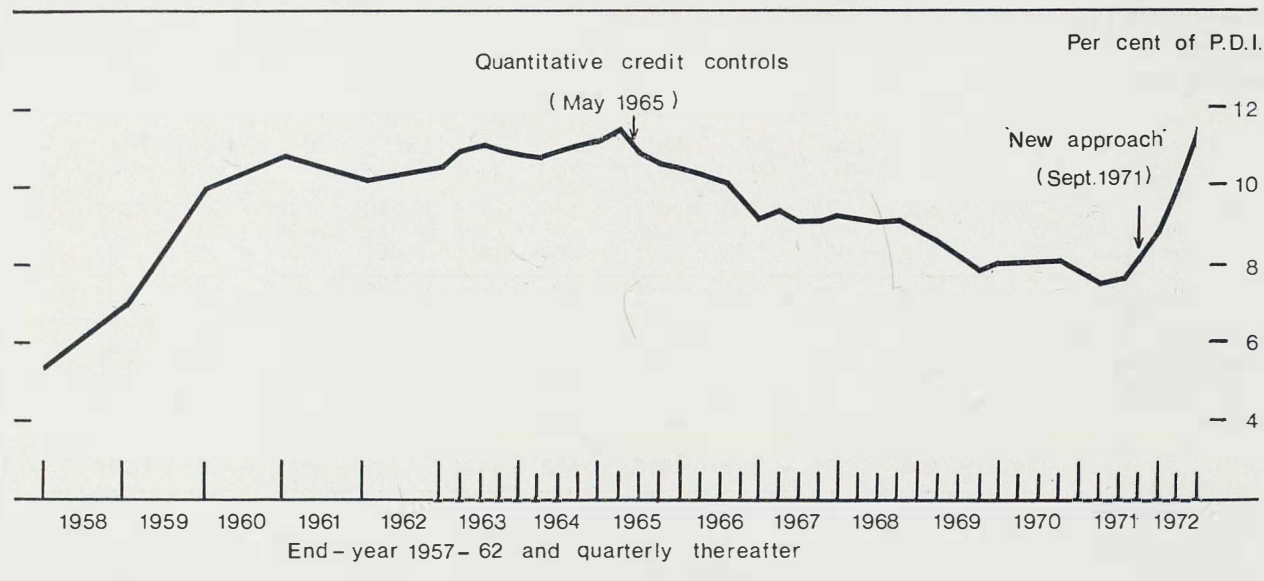
<sup>a</sup> Other than for house purchase.

In total then, according to identified transactions, persons borrowed about £300 million more than in the March quarter. But in the March quarter they may have borrowed more in the form of unidentified trade credit (unpaid bills), for the unidentified difference between the income and expenditure accounts and the financial accounts changed dramatically between the two quarters (see Table D). In the second quarter people may have been better placed to settle bills outstanding.

Persons have been borrowing at a particularly rapid rate since the middle of 1971 (even apart from borrowing for house purchase). Credit has been more readily available since the new system of credit control was introduced last autumn, but the trend had in fact begun earlier in 1971 as the existing controls were relaxed. The chart on the next page shows a rough and ready measure of personal borrowing which, to put it in perspective, is expressed as a percentage of disposable income. The chart certainly highlights the turning point in 1971 reasonably well.<sup>7</sup>

<sup>7</sup> Personal borrowing here comprises outstanding bank and finance house lending and retail credit extended to persons. The figures for finance house lending to persons have been partly estimated. The annual figures express the amount of borrowing outstanding at the end of the year in relation to personal disposable income during that year, and the quarterly figures relate borrowing outstanding at the end of a quarter to personal disposable income in the twelve months up to the end of that quarter.

## Personal borrowing outstanding as a percentage of annual personal disposable income.



Although some of the borrowing figures, especially for the earlier years in the chart, have been estimated, it appears that the recent rapid growth in borrowing has merely made up for much of the severe restraint which applied between 1965 and 1971.

### Industrial and commercial companies

Companies had a large financing requirement in the second quarter; they spent about the same as in the first quarter on long-term investment abroad and trade investments and mergers at home, but they were unable to finance this expenditure from internal sources, having moved from a substantial financial surplus to deficit. Their saving fell, partly as a result of a temporary increase in the burden of P.A.Y.E. transfers, see page 455, and they also had bigger outlays on capital investment.

It is difficult to be sure how companies financed themselves during the second quarter. Although the total of net unidentified transactions for the sector (as shown in Table J) was relatively small, the accounts as presented are unlikely to be as accurate as this modest discrepancy might imply. The overseas sector's balancing item was large and negative, implying an unidentified U.K. outflow, most probably from companies. If this was so, companies will have acquired correspondingly large unidentified liabilities or run down unidentified credit balances with other domestic sectors. The figures in Table E follow this presentation.

What is clear is that companies raised considerably more finance from capital issues at home, encouraged by the continuing strength of the equity market, and that they raised about the same as in the previous quarter from banks. Companies also added very greatly to their bank deposits over the quarter; much of this increase was in the form of sterling certificates of deposit which became particularly



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

£ millions

Seasonally adjusted

Assets: increase +/decrease -

Liabilities: increase -/decrease +

	1970				1971				1972		
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.
Domestic capital formation	+1,032	+1,158	+1,053	+1,154	+1,070	+1,037	+ 884	+ 916	+ 845	+ 933	
less Saving	- 788	- 631	- 644	- 748	- 947	- 728	- 901	- 872	- 941	- 773	
less Capital transfers (net)	- 110	- 111	- 120	- 142	- 182	- 138	- 133	- 100	- 112	- 91	
<i>equals</i> Financial surplus -/ deficit +	+ 134	+ 416	+ 289	+ 264	- 59	+ 171	- 150	- 56	- 208	+ 69	
Trade investments, mergers, etc. in the United Kingdom	+ 74	+ 45	+ 45	+ 53	+ 31	+ 53	+ 98	+ 56	+ 83	+ 101	
Long-term investment abroad	+ 160	+ 146	+ 207	+ 129	+ 209	+ 179	+ 127	+ 115	+ 181	+ 154	
Import deposits	- 13	- 34	- 70	- 108	- 153	- 99	- 1				
<b>Total requiring financing (+)</b>	<b>+ 355</b>	<b>+ 573</b>	<b>+ 471</b>	<b>+ 338</b>	<b>+ 28</b>	<b>+ 304</b>	<b>+ 74</b>	<b>+ 115</b>	<b>+ 56</b>	<b>+ 324</b>	
Capital issues at home	- 30	- 37	- 38	- 88	- 72	- 75	- 92	- 125	- 116	- 177	- 156
Overseas investment in U.K. companies (including long-term borrowing abroad)	- 225	- 171	- 97	- 144	- 232	- 166	- 177	- 140	- 146	- 94	
Import credit and advance payments on exports	- 19	- 67	- 37	- 12	- 50	- 35	- 42	- 31	- 76	- 51	
Export credit and advance payments on imports	+ 5	+ 47	+ 8	+ 33	+ 39	+ 32	+ 14	+ 11	+ 11	+ 46	
Bank borrowing	- 257	- 380	- 263	- 225	- 183	- 25	- 261	- 248	- 755	- 757	- 639
Other borrowing	- 72	- 91	- 116	- 95	- 114	- 55	- 27	- 13	- 22	- 37	
Bank deposits, notes and coin	- 34	+ 169	+ 30	+ 157	+ 248	+ 217	+ 149	+ 401	+ 229	+ 646	+ 630
Other liquid assets <sup>a</sup>	- 39	- 38	- 29	- 20	+ 38	- 15	+ 85	+ 32	+ 22	+ 11	
Other items <sup>b</sup>	+ 10	- 10	- 2	+ 41	+ 105	- 95	+ 26	+ 62	+ 78	- 24	
Other overseas transactions (including the balance of payments balancing item) <sup>c</sup>	- 129	+ 85	+ 88	- 25	- 306	+ 8	- 114	- 54	+ 122	+ 434	
<i>Unidentified domestic transactions<sup>c</sup></i>	+ 435	- 80	- 15	+ 40	+ 499	- 95	+ 365	- 10	+ 553	- 321	
<b>Total financing</b>	<b>- 355</b>	<b>- 573</b>	<b>- 471</b>	<b>- 338</b>	<b>- 28</b>	<b>- 304</b>	<b>- 74</b>	<b>- 115</b>	<b>- 56</b>	<b>- 324</b>	

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

<sup>b</sup> Trade credit to public corporations and hire purchase lending.

<sup>c</sup> 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.

attractive short-term assets towards the end of the quarter, offering high yields with capital security. The withdrawal of funds from the United Kingdom late in June put pressure on the banks' reserve assets and, to attract fresh funds, the banks raised their interest rates on sterling certificates of deposit more rapidly than their lending rates. In buying certificates of deposit, companies will have made less use of other outlets. It may also have been profitable for some companies to borrow from the banks and relend in the form of sterling certificates at a higher rate of interest.

#### Financial institutions other than banks

The financial institutions as a group had some £300 million more in new funds at their disposal in the second quarter

**Table F**  
**Financial institutions other than banks**

£ millions

Seasonally adjusted

	1970				1971				1972		
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.
<b>Increase in financial liabilities ( - )</b>											
Life assurance and pension funds	- 401	- 437	- 444	- 476	- 428	- 501	- 533	- 504	- 557	- 595	
Building society shares and deposits	- 298	- 347	- 415	- 421	- 414	- 465	- 545	- 606	- 599	- 594	- 463
Other deposits	- 49	- 31	- 67	- 72	- 47	- 50	- 74	- 108	- 9	- 65	
Capital issues	- 21	- 20	- 9	- 5	- 32	- 49	- 55	- 33	- 99	- 230	- 66
Unit trust units	- 27	- 26	- 23	- 13	- 6	- 10	- 8	- 22	- 24	- 57	- 62
Other (mainly bank) borrowing	- 44	- 12	- 4	- 20	- 20	- 31	- 139	- 213	- 274	- 339	
	<b>- 840</b>	<b>- 873</b>	<b>- 962</b>	<b>-1,007</b>	<b>- 947</b>	<b>-1,106</b>	<b>-1,354</b>	<b>-1,486</b>	<b>-1,562</b>	<b>-1,880</b>	
<b>Increase in financial assets ( + )</b>											
Short-term assets <sup>a</sup>	- 12	+ 298	+ 102	+ 101	- 115	+ 22	- 23	+ 231	+ 164	+ 543	
Government stocks	+ 177	- 41	+ 104	+ 80	+ 498	+ 232	+ 343	+ 311	+ 238	+ 58	
Company and overseas securities:											
Ordinary shares	+ 172	+ 127	+ 150	+ 179	+ 122	+ 307	+ 266	+ 261	+ 386	+ 552	
Fixed interest	+ 29	+ 62	+ 36	+ 53	+ 24	+ 60	+ 84	+ 32	+ 85	+ 29	
Loans for house purchase	+ 226	+ 274	+ 298	+ 326	+ 310	+ 393	+ 450	+ 460	+ 482	+ 562	
Long-term lending to local authorities	+ 6	+ 16	+ 17	+ 39	+ 16	+ 15	+ 6	+ 39	+ 66	+ 16	
Hire purchase claims	- 2	+ 24	+ 9	+ 16	+ 15	+ 16	+ 67	+ 42	+ 47	+ 47	
Other lending	+ 16	+ 88	+ 40	+ 71	+ 13	- 22	+ 23	+ 60	- 34	- 22	
	<b>+ 612</b>	<b>+ 848</b>	<b>+ 756</b>	<b>+ 865</b>	<b>+ 883</b>	<b>+1,023</b>	<b>+1,216</b>	<b>+1,436</b>	<b>+1,434</b>	<b>+1,785</b>	
<b>Net identified financial transactions</b>	<b>- 228</b>	<b>- 25</b>	<b>- 206</b>	<b>- 142</b>	<b>- 64</b>	<b>- 83</b>	<b>- 138</b>	<b>- 50</b>	<b>- 128</b>	<b>- 95</b>	

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

than in the first (see Table F). Capital issues brought in an extra £130 million, thanks particularly to the investment trusts, which raised £190 million out of the total of £230 million. Unit trust net sales to persons doubled during the quarter. Life assurance and pension funds also attracted a distinctly greater inflow. But building societies obtained marginally less than in the preceding two quarters. There was a high rate of withdrawals associated with several influences, including the steep rise in borrowing from the societies, more personal consumption and, at the end of the quarter, less competitive interest rates.

Although the building societies were lending considerably more on mortgages while the inflow was slowing down, they none the less, in the second quarter, still had an increase in liquid funds, which they invested in sterling certificates of deposit for the most part. They also switched £90 million of gilt-edged stocks, again largely into bank paper. As the tightening continued, in an attempt to arrest a sharp decline in their liquidity position, they announced an increase in their interest rates in September.

Other institutions either bought gilt-edged stocks only on a small scale or sold some. By contrast, they bought exceptionally large amounts of equities: insurance companies invested £225 million, compared with £125 million in the first quarter, and investment trusts £135 million (of which £85 million was in overseas equities). However, an

unusually large proportion of the new funds obtained by the institutions was placed on deposit with the banks, which were offering very attractive rates on large sums, especially towards the end of the quarter. Some deposits were in the form of sterling certificates, which were particularly high-yielding liquid assets.

### Banking sector

In the second quarter the banks lent even larger amounts than in the first to persons and companies (including other financial institutions), while companies in particular placed massive sums on deposit with the banks (much of the growth taking the form of sterling certificates). But as there was a large currency outflow when confidence in sterling sagged in June, the public sector repaid even more bank finance than in the first quarter. The currency outflow brought acute pressure on the banks' reserve ratios, and by special arrangement they temporarily sold £360 million of gilt-edged stocks to the authorities in return for Treasury bills.

In the third quarter, the banks' lending to both persons and companies slowed down, though it remained substantial, while the repayment of finance by the public sector fell to a small total as the currency flow abroad, and its sterling proceeds, abated. On the deposits side, persons continued to build up their holdings at a fast rate, though slightly more slowly than before, while the increase in company holdings was very markedly less, though still very large; in fact the financial institutions probably withdrew deposits on balance, while industrial and commercial companies continued to increase theirs rapidly.

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

£ millions

Seasonally adjusted

Lending: increase +/decrease -

Deposits: increase -/decrease +

	1970				1971				1972		
	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.
Lending to:											
Public sector	+ 64	+ 242	+ 134 <sup>a</sup>	+ 556	+ 226	+ 362	+ 400	+ 731	- 491	- 640	- 31
Company sector <sup>b</sup>	+ 307	+ 395	+ 254	+ 260	+ 189	+ 103	+ 404	+ 481	+1,088	+1,170	+ 775
Personal sector	- 8	+ 73	+ 25	+ 9	+ 73	+ 83	+ 234	+ 293	+ 514	+ 671	+ 301
Total domestic lending	+ 363	+ 710	+ 413	+ 825	+ 488	+ 548	+1,038	+1,505	+1,111	+1,201	+1,045
Deposits by:											
Public sector	- 26	+ 7	+ 15	- 40	- 11	+ 19	- 7	- 40	+ 19	+ 12	+ 2
Company sector <sup>b</sup>	+ 46	- 326	- 40	- 162	- 162	- 225	- 93	- 607	- 333	-1,095	- 495
Personal sector	- 49	- 310	- 238	- 225	- 227	- 182	- 287	- 328	- 469	- 401	- 382
Total domestic deposits	- 29	- 629	- 263	- 427	- 400	- 388	- 387	- 975	- 783	-1,484	- 875
Net lending to overseas sector <sup>c</sup>	- 192	- 133	- 133 <sup>a</sup>	- 295	- 66	- 85	- 360	- 550	- 227	+ 291	+ 17
Non-deposit liabilities (net)	- 142	+ 52	- 17	- 103	- 22	- 75	- 291	+ 20	- 101	- 8	- 187

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

<sup>b</sup> Including other financial institutions.

<sup>c</sup> Claims on overseas sector net of overseas deposits.



**Table H**  
**Flow of funds: second quarter 1972**

£ millions

Not seasonally adjusted

	Line	Public sector	Overseas sector <sup>a</sup>	Personal sector	Industrial and commercial companies	Banking sector	Other financial institutions
<b>Capital account</b>							
Saving	1	+ 769		+1,020	+1,040	+215	
Taxes on capital and capital transfers	2	+ 13		- 102	+ 95	- 6	
<i>less:</i>							
Gross fixed capital formation at home	3	-1,061		- 514	- 900	-129	
Increase in value of stocks and work in progress	4	- 100		- 55	- 40	- 23	
Financial surplus +/deficit -	5	- 379	- 173	+ 349	+ 195	+ 57	
<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	+ 81				- 81	
Life assurance and pension funds	7			+ 597			-597
Loans by the U.K. Government	8	+ 5	- 10	—	+ 4		+ 1
Total external currency flow	9.1	-1,045	+1,045				
Other central government external transactions	9.2	+ 96	- 96				
Banks' net external transactions	10		- 194			+ 194	
Miscellaneous investment overseas (net)	11	+ 79	- 361		+ 277		+ 5
Notes and coin	12	- 139		+ 54	+ 55	+ 30	
Bank deposits of domestic sectors	13	- 33		+ 438	+ 642	-1,589	+542
Deposits with other financial institutions	14		- 31	+ 652	+ 30		-651
National savings	15.1	- 151		+ 151			
Tax reserve certificates	15.2	- 7		+ 12	- 5	—	—
Bank lending to domestic sectors	16	- 145		- 643	- 789	+1,921	-344
Hire purchase debt	17	+ 3		- 69	+ 10		+ 56
Loans for house purchase	18	+ 19		- 674		+ 90	+565
Other loans and accruals	19	- 97		+ 108	+ 91	- 126	+ 24
Marketable government debt held by domestic sectors:							
Treasury bills	20	- 189			- 11	+ 201	- 1
Stocks	21	+ 816		+ 37		- 911	+ 58
Local authority debt	22	- 79	- 15	- 57	+ 43	+ 41	+ 67
U.K. company and overseas securities:							
Capital issues	23		+ 1		- 177	- 9	-230
Other transactions	24	+ 32	- 155	- 270	+ 90	+ 137	+581
Unit trust units	25			+ 59			- 59
Identified financial transactions	26	- 754	+ 184	+ 395	+ 260	- 102	+ 17
Unidentified	27	+ 375	- 357	- 46	- 65	+142	
Total= Financial surplus +/deficit -	28	- 379	- 173	+ 349	+ 195	+ 57	

— nil or less than £½ million.

<sup>a</sup> It has not been possible to incorporate in the table the revised balance of payments estimates released in December.

**Table J**  
**Flow of funds: second quarter 1972**

£ millions

Seasonally adjusted

	Line	Public sector	Overseas sector <sup>a</sup>	Personal sector	Industrial and commercial companies	Banking sector	Other financial institutions
<b>Capital account</b>							
Saving	1	+1,035		+1,089	+773	+121	
Taxes on capital and capital transfers	2	+ 26		- 97	+ 91	- 20	
<i>less:</i>							
Gross fixed capital formation at home	3			- 559	-933		-153
Increase in value of stocks and work in progress	4						
<b>Financial surplus +/-deficit -</b>	<b>5</b>	<b>- 188</b>	<b>- 77</b>	<b>+ 433</b>	<b>- 69</b>		<b>- 52</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	+ 189				- 189	
Life assurance and pension funds	7			+ 595			-595
Loans by the U.K. Government	8	+ 17	- 22	—	+ 4		+ 1
Total central government external transactions	9	- 922	+922				
Banks' net external transactions	10		-215			+ 215	
Miscellaneous investment overseas (net)	11	+ 79	-338		+254		+ 5
Notes and coin	12	- 130		+ 66	+ 67	- 3	
Bank deposits of domestic sectors	13	- 12		+ 401	+579	-1,484	+516
Deposits with other financial institutions	14		- 11	+ 657	+ 13		-659
National savings	15.1	- 175		+ 175			
Tax reserve certificates	15.2	+ 22		+ 4	- 26		
Bank lending to domestic sectors	16	- 155		- 581	-757	+1,833	-340
Hire purchase debt	17	+ 3		- 75	+ 25		+ 47
Loans for house purchase	18	+ 19		- 671		+ 90	+562
Other loans and accruals	19	+ 88		+ 30	- 88	- 3	- 27
Marketable government debt held by domestic sectors:							
Treasury bills	20	- 238			- 11	+ 250	- 1
Stocks	21	+ 816		+ 37		- 911	+ 58
Local authority debt	22	- 63	- 15	- 62	+ 35	+ 61	+ 44
U.K. company and overseas securities:							
Capital issues	23		+ 1		-177	- 9	-230
Other transactions	24	+ 32	-155	- 270	+ 90	+ 137	+581
Unit trust units	25			+ 57			- 57
<b>Identified financial transactions</b>	<b>26</b>	<b>- 430</b>	<b>+167</b>	<b>+ 363</b>	<b>+ 8</b>	<b>- 13</b>	<b>- 95</b>
<i>Unidentified</i>	27	+ 242	-244	+ 70	- 77	+ 56	
<b>Total= Financial surplus +/-deficit -</b>	<b>28</b>	<b>- 188</b>	<b>- 77</b>	<b>+ 433</b>	<b>- 69</b>		<b>- 52</b>

— nil or less than £½ million.

<sup>a</sup> It has not been possible to incorporate in the table the revised balance of payments estimates released in December.



## Notes on sources, definitions and seasonal adjustments<sup>1</sup>

### Sources

The main statistical series used in compiling Table H appear in the statistical annex to this *Bulletin* or in the Central Statistical Office's *Financial Statistics* or *Economic Trends*. The seasonally adjusted figures are not published elsewhere.

### Definitions (line numbers refer to Tables H and J)

**Public sector** The central government, local authorities, nationalised industries and other public corporations.

**Overseas sector** Non-residents as defined for the balance of payments estimates.

**Persons** Individuals, unincorporated businesses and private non-profit-making bodies.

**Industrial and commercial companies** All corporate bodies other than public corporations, banks and other financial institutions.

**Banks** As in Table 11 of the annex.

**Other financial institutions** Insurance companies, pension funds, building societies, investment trusts, finance houses, savings banks investment accounts, authorised unit trusts, property unit trusts, special finance agencies and Crown Agents for Oversea Governments and Administrations.

**Lines 1-4** As defined in the national income and expenditure accounts.

**Line 5** The sum of the financial surpluses/deficits for all sectors equals the residual error in the national income accounts. For the overseas sector, the entry is the counterpart of the U.K. balance of payments on current account.

**Line 6** See footnote (d) to Table 1 of the annex.

**Line 7** The increase in persons' net claims on these funds.

**Lines 9.1 and 9.2** See additional notes to Table 1 of the annex.

**Line 10** Broadly, changes in overseas deposits with the banking sector less lending to overseas by the banking sector.

**Line 11** Those parts of the balance of payments items classified as investment and other capital flows which are not elsewhere included. That part of export credit extended by U.K. banks which is refinanced by the central government is included here.

**Line 12** Changes in Bank of England notes (treated as liabilities of the public sector), in banks' liabilities on account of issues of Scottish and Northern Irish notes, and in coin.

**Line 13** Changes in gross current and deposit accounts of U.K. residents, after the entries for the banking sector and industrial and commercial companies have been adjusted for 60% of transit items (see additional notes to Table 11 of the annex). Changes in domestic holdings of sterling certificates of deposit are included here.

**Line 14** Includes building society shares. Deposits by banks with finance houses are in line 16.

**Lines 15.1 and 15.2** As in Table 3 (2) of the annex.

**Line 16** Advances and overdrafts, money at call and short notice, and transactions in commercial bills; excluding loans for house purchase (included in line 18); lending to local authorities (line 22); and lending to the Northern Ireland Government (line 19). Recorded advances to industrial and commercial companies are adjusted for 40% of the change in transit items (see also line 13).

**Line 18** New loans less repayments, including estimates for banks, and lending by the public sector to housing associations.

**Line 19** Loans between domestic sectors not entered elsewhere, including trade credit given or received by public corporations; and differences between accruals of local authority rates, purchase tax and interest charges (the basis of entries in the national accounts) and the corresponding cash payments.

**Lines 20 and 21** As defined in additional notes to Table 3 (1) of the annex. For Treasury bills (stocks), the entries for persons (industrial and commercial companies) are residuals and include unidentified transactions by industrial and commercial companies (persons) and overseas.

**Line 22** Total identified borrowing by local authorities from outside the public sector.

**Line 23** Net issues on the U.K. market as in Tables 15 (2) and (3) of the annex.

**Line 24** All other transactions. The entries for persons are residuals from the estimates in lines 23 and 24 for all other sectors.

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

**Line 27** The net total for all sectors corresponds to the residual error in the national income accounts.

### Seasonal adjustments

After preliminary adjustments have been obtained for each item which displays seasonality, consistent adjustments have been estimated by a system of balancing under which the sum of the adjustments for each item over the four quarters in each calendar year is zero and the sum of the adjustments of all sectors for a particular line entry in a quarter is zero. Also, for certain series (such as notes and coin) an adjustment is made to allow for the days of the week on which a quarter begins and ends; but these will not usually cancel out over the year. The adjustments have been recalculated to take account of the data for 1971.

<sup>1</sup> Fuller notes were given in the June *Bulletin*, pages 202-4. A detailed description is given in *An introduction to flow of funds accounting: 1952-70* (Bank of England, August 1972).