

## Analysis of financial statistics: July–September 1971

*The analysis deals mainly with the flow of funds between the various sectors in the third quarter of 1971, the latest period for which a full set of statistics is available. Comment on the fourth quarter is largely confined to the banking sector, money supply, and central government financing. The analysis is based throughout on seasonally adjusted figures. Unadjusted quarterly flows are given in matrix form in Table J. A seasonally adjusted matrix of flows is provided in Table K. Notes on sources and methods begin on page 40.*

### Summary

In the third quarter of 1971 industrial and commercial companies moved into financial surplus for the first time since 1968, and their gross trading profits showed evidence of real recovery. To some extent in association – through fiscal policy – the public sector went firmly into underlying financial deficit, also for the first time since 1968. The deficit in the first quarter and the surplus in the second were affected by the postal strike and the deficit in the half year was only small. Moreover, the personal sector surplus was modest compared with its development in 1969 and 1970. Although the existence of another large residual error in the national income accounts in this period makes it difficult to be categorical, it seems that some aspects of the financial scene were reverting to a pattern fairly typical of much of the sixties. By contrast, however, the overseas sector deficit (the U.K. current account surplus) was bigger than ever, whereas in 1968 it had been in surplus (the United Kingdom was then still running a large current account identified deficit).

Prominent among financial transactions in the third quarter were a large inflow from overseas, and substantial sales of government debt to the general public (which moderated the rise in the money stock). Bank lending at home increased markedly as credit conditions eased and as the new arrangements for the control of credit were introduced. Persons placed very large sums indeed with building societies – whose rates remained very competitive – and the societies lent a lot more than ever before for house purchase in a market where prices continued to rise quickly.

In the fourth quarter, the external inflow of foreign funds was even bigger, bank lending rose further, and the money stock rose by some 5½%, twice as fast as in the third quarter.

### Background

In the third quarter of 1971 gross domestic product at constant prices continued to rise from the depressed level of the first quarter. It was around 1½% larger than in the second quarter and about 4% larger than in the first. These comparisons are affected by the postal strike which ran

Table A

## Income and expenditure

£ millions

Seasonally adjusted

	Income from employ- ment and trading <sup>ab</sup>	Transfer incomes etc. <sup>b</sup>	less Con- sumption <sup>c</sup>	less Current transfer payments	equals Saving	less Gross domestic capital forma- tion <sup>ad</sup>	less Capital transfers (net pay- ments —)	equals Finan- cial surplus/ deficit <sup>e</sup>
<b>Personal sector</b>								
1968 quarterly average	6,327	2,745	—6,809	—1,710	553	— 310	— 58	185
1969 1st qtr.	6,597	2,879	—6,996	—1,814	666	— 293	—136	237
2nd qtr.	6,672	2,847	—7,161	—1,842	516	— 276	— 87	153
3rd qtr.	6,787	2,956	—7,249	—1,897	597	— 310	— 85	202
4th qtr.	6,976	2,966	—7,393	—1,979	570	— 289	— 85	196
1970 1st qtr.	7,182	2,929	—7,483	—2,046	582	— 271	— 97	214
2nd qtr.	7,463	3,109	—7,729	—2,180	663	— 316	— 90	257
3rd qtr.	7,695	3,140	—7,954	—2,218	663	— 347	— 84	232
4th qtr.	7,912	3,167	—8,072	—2,261	746	— 360	— 87	299
1971 1st qtr.	8,035	3,093	—8,156	—2,249	723	— 320	— 62	341
2nd qtr.	8,245	3,286	—8,579	—2,357	595	— 404	— 87	104
3rd qtr.	8,490	3,360	—8,840	—2,373	637	— 389	— 85	163
<b>Company sector<sup>f</sup></b>								
1968 quarterly average	1,254	853		—1,304	803	— 911	105	— 3
1969 1st qtr.	1,217	946		—1,346	817	—1,125	118	—190
2nd qtr.	1,246	963		—1,409	800	—1,094	112	—182
3rd qtr.	1,258	994		—1,456	796	—1,082	119	—167
4th qtr.	1,240	1,015		—1,458	797	—1,141	182	—162
1970 1st qtr.	1,247	1,039		—1,515	771	—1,112	96	—245
2nd qtr.	1,243	1,033		—1,523	753	—1,289	94	—442
3rd qtr.	1,240	1,062		—1,572	730	—1,225	105	—390
4th qtr.	1,298	1,135		—1,645	788	—1,293	127	—378
1971 1st qtr.	1,342	1,125		—1,476	991	—1,213	165	— 57
2nd qtr.	1,397	1,198		—1,763	832	—1,172	120	—220
3rd qtr.	1,539	1,269		—1,740	1,068	—1,082	114	100
<b>Public sector</b>								
1968 quarterly average	368	3,983	—1,935	—1,669	747	— 962	— 47	—262
1969 1st qtr.	404	4,202	—1,977	—1,724	905	— 917	18	6
2nd qtr.	380	4,371	—2,002	—1,699	1,050	— 904	— 25	121
3rd qtr.	400	4,569	—2,053	—1,782	1,134	— 937	— 34	163
4th qtr.	382	4,636	—2,098	—1,793	1,127	— 955	— 97	75
1970 1st qtr.	381	4,785	—2,099	—1,816	1,251	— 959	1	293
2nd qtr.	394	4,978	—2,256	—1,853	1,263	—1,019	— 4	240
3rd qtr.	366	5,118	—2,335	—1,883	1,266	—1,041	— 21	204
4th qtr.	350	5,152	—2,372	—1,912	1,218	—1,084	— 40	94
1971 1st qtr.	339	5,005	—2,398	—1,880	1,066	—1,187	—103	—224
2nd qtr.	412	5,461	—2,502	—2,010	1,361	—1,162	— 34	165
3rd qtr.	436	5,236	—2,579	—2,040	1,053	—1,126	— 29	—102
<b>Overseas sector<sup>g</sup></b>								
1968 quarterly average								+ 72
1969 1st qtr.								— 12
2nd qtr.								— 88
3rd qtr.								—173
4th qtr.								—167
1970 1st qtr.								—215
2nd qtr.								—113
3rd qtr.								— 76
4th qtr.								—208
1971 1st qtr.								— 78
2nd qtr.								—270
3rd qtr.								—342

a Before providing for depreciation and stock appreciation.

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

c Other than depreciation.

d Including stocks.

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

f Including financial institutions.

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



from 20th January to 8th March, and it is convenient to average the first two quarters to remove the effect. On this reckoning, gross domestic product was  $2\frac{1}{2}\%$  up in the third quarter. The main source of growth was consumers' expenditure, as personal incomes went on rising and the July measures took effect. Exports of goods and services were some 5% above the half-year average but imports were little changed. The volume of capital formation was larger than in the second quarter but only because stocks were run down less quickly, and it was smaller than the average for the first half of the year. A significant amount of the increased demand in the first three quarters of the year appears to have been met by running down stocks – particularly in manufacturing industry – rather than by more output or more imports.

In current prices, total final expenditure was some  $5\frac{1}{2}\%$  larger than the average in the first half of the year. Personal consumption was around  $5\frac{1}{2}\%$  up, including a rise in prices of just under 3% (or  $7\frac{1}{2}\%$  a year), a relatively slower increase than in recent experience. Public consumption too was nearly  $5\frac{1}{2}\%$  greater. Exports were well up ( $6\frac{1}{2}\%$ ) and capital formation also rose (3%). As for factor incomes, wages and salaries again increased and were about 4% higher on the half-year reckoning. Company gross trading profits, as recorded and as shown in Table A, recovered strongly, the more so when considered without stock appreciation which was at a much smaller rate than in the first half year. Although there probably was an appreciable underlying improvement, the figures as such, which are calculated after net S.E.T. payments, were inflated because the reduction in the S.E.T. rate in July led to a fall in payments while refunds continued for some time at the higher rate.

Not surprisingly, companies increased their rate of saving compared with the first half of the year – their income from abroad and their non-trading income continued to rise as well as their recorded gross trading profits. This increase in saving, coming at a time when capital formation was lower owing to less stockbuilding, took the company sector into financial surplus for the first time since 1968 (see Table A). Personal saving, by contrast, did not rise, for the growth of personal consumption broadly matched that of disposable incomes. Public sector saving was heavily reduced because public spending on goods and services and on social security benefits increased. The sector moved firmly into financial deficit, reverting to the situation of 1968 and earlier years.

#### **Overseas sector**

The growth of the financial deficit of the overseas sector shown in Table A is the counterpart of the continuing growth of the U.K. balance of payments surplus on current account. A substantial rise in the visibles surplus occurred in the third quarter of 1971 when it benefited particularly from rises in both the value and volume of exports, and included some forestalling of the U.S. dock strike. The invisibles surplus remained high.

**Table B****Overseas sector<sup>a</sup>**

£ millions

Seasonally adjusted

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

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

	1969			1970				1971			
	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
<b>Financial surplus +/deficit -</b>	<b>- 88</b>	<b>- 173</b>	<b>- 167</b>	<b>- 215</b>	<b>- 113</b>	<b>- 76</b>	<b>- 208</b>	<b>- 78</b>	<b>- 270</b>	<b>- 342</b>	
<b>Transactions with the U.K. private sector</b>											
Investment flows:											
Transactions in company and overseas securities	+ 44	+ 81	+ 16	—	5	- 50	- 53	- 64	- 102	+ 184	
Miscellaneous private investment	- 51	- 53	- 34	+ 50	+ 24	- 32	+ 55	+ 30	- 10	+ 10	
Other transactions:											
Deposits with U.K. banks less claims of U.K. banks <sup>b</sup>	- 58	- 91	+ 136	+ 185	+ 152	+ 104 <sup>c</sup>	+ 348	+ 163	+ 256	+ 135	+ 544
Other identified	- 33	+ 8	- 27	+ 93	- 60	+ 51	+ 14	+ 174	+ 21	+ 202	
Balancing item	+ 62	- 92	+ 298	+ 138	- 9	- 68	+ 61	+ 195	+ 98	- 3	
	<b>- 36</b>	<b>- 147</b>	<b>+ 389</b>	<b>+ 466</b>	<b>+ 102</b>	<b>+ 5</b>	<b>+ 425</b>	<b>+ 498</b>	<b>+ 263</b>	<b>+ 528</b>	
<b>Transactions with the U.K. public sector</b>											
Lending etc. <sup>d</sup>	+ 9	- 24	- 40	- 37	- 63	- 51	- 109	- 88	- 103	- 115	
External finance: <sup>e</sup>											
Central government	- 98	- 57	- 519	- 664	- 163	- 19 <sup>c</sup>	- 496	- 580	- 511	- 760	- 1,024
Local authorities	+ 10	+ 27	- 1	+ 13	- 13	- 12	- 26	+ 9	+ 52	- 4	+ 24
Public corporations	+ 27	+ 28	+ 4	+ 7	+ 24	+ 1	- 2	+ 83	+ 29	+ 9	—
	<b>- 52</b>	<b>- 26</b>	<b>- 556</b>	<b>- 681</b>	<b>- 215</b>	<b>- 81</b>	<b>- 633</b>	<b>- 576</b>	<b>- 533</b>	<b>- 870</b>	

— nil or less than £½ million.

a It has not been possible to include in this table the balance of payments estimates for the 4th quarter of 1971, nor revisions to previous quarters, which were released in March and appear in the annex, Table 20.

b Other than purchases of securities.

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

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

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

Table B shows quarterly movements in the corresponding financing items. These movements were dominated in the third quarter by substantial currency flows to the United Kingdom induced by the increasing demand for sterling associated with the international currency crisis, with continued pressure on the dollar and with the strength of the current account. The resulting net inflow of capital to the U.K. private sector was over £500 million, more even than in the first quarter. Most of this reflected banking transactions, though this is not obvious from Table B. Thus, in addition to the entry for banking deposits net of claims, the swing shown for "transactions in company and overseas securities" reflects bank transactions. In the first and second quarters, some American banks in London had bought a large amount of U.S. Treasury certificates of deposit, of which perhaps £350 million were recorded as securities for these statistics. They were redeemed in the third quarter and the proceeds apparently put into forms of deposit classified as such. The item in Table B called "other identified" also includes for the third quarter some substantial inflows through banking institutions which, owing to discrepancies in statistical coverage, are not at present classified as transactions by the banking sector.

The majority of the currency inflow, some £580 million, went into the foreign exchange reserves. The Government

did however repay further overseas borrowing in the quarter, in particular £260 million of their medium-term borrowing from the International Monetary Fund.

In the fourth quarter, the inflow was even greater, with another very large contribution through the banks. Apart from the annual instalments of the long-term North American loans, the Government were not able to repay much overseas debt, because the I.M.F. were no longer accepting advance repayments.

### Public sector

The current surplus (saving) of the public sector in the third quarter was some £300 million less than in the previous quarter and was even below that of the first quarter when the postal strike delayed tax revenue. Taking

**Table C**

### Public sector

£ millions

Seasonally adjusted

	1969			1970				1971			
	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Saving (current surplus)	+1,050	+1,134	+1,127	+1,251	+1,263	+1,266	+1,218	+1,066	+1,361	+1,053	
Capital transfers (net)	— 25	— 34	— 97	+ 1	— 4	— 21	— 40	— 103	— 34	— 29	
Capital expenditure	— 904	— 937	— 955	— 959	—1,019	—1,041	—1,084	—1,187	—1,162	—1,126	
<b>Financial surplus +/-deficit—</b>	<b>+ 121</b>	<b>+ 163</b>	<b>+ 75</b>	<b>+ 293</b>	<b>+ 240</b>	<b>+ 204</b>	<b>+ 94</b>	<b>— 224</b>	<b>+ 165</b>	<b>— 102</b>	
Lending and other transactions (increase in assets +)	+ 75	+ 52	+ 143	+ 94	+ 65	+ 138	+ 235	+ 176	+ 93	+ 82	
Import deposits (repayments +)	— 217	+ 11	+ 10	+ 13	+ 41	+ 80	+ 123	+ 170	+ 110	+ 1	—
Borrowing requirement (borrowing—)	+ 213	+ 93	— 106	+ 160	+ 43	+ 137	— 338	— 588	— 124	— 194	
Comprising:											
Central government:											
External											
transactions	+ 98	+ 57	+ 519	+ 664	+ 163	+ 19	+ 496	+ 580	+ 511	+ 760	+1,024
Notes and coin with the public	— 6	— 8	— 117	— 34	— 38	— 107	— 51	— 123	— 14	— 32	— 58
Bank borrowing	+ 302	+ 258	— 151	+ 7	+ 37	— 30	— 409	+ 45	— 76	— 254	— 628
Other domestic borrowing	— 17	— 115	— 179	— 326	+ 139	+ 229	— 81	— 849	— 251	— 597	— 601
	+ 377	+ 192	+ 72	+ 311	+ 301	+ 111	— 45	— 347	+ 170	— 123	— 263
Local authorities:											
External finance	— 10	— 27	+ 1	— 13	+ 13	+ 12	+ 26	— 9	— 52	+ 4	— 24
Bank borrowing	— 113	+ 70	— 172	— 69	— 129	— 108	— 177	— 195	— 261	— 144	— 173
Other domestic borrowing	— 18	— 113	— 33	— 39	— 62	+ 67	— 48	+ 31	+ 40	+ 44	
	— 141	— 70	— 204	— 121	— 178	— 29	— 199	— 173	— 273	— 96	
Public corporations:											
External finance	— 27	— 28	— 4	— 7	— 24	— 1	+ 2	— 83	— 29	— 9	—
Domestic borrowing	+ 12	— 3	+ 33	— 29	— 63	+ 80	— 89	— 34	+ 43	+ 12	
	— 15	— 31	+ 29	— 36	— 87	+ 79	— 87	— 117	+ 14	+ 3	
Other	— 8	+ 2	— 3	+ 6	+ 7	— 24	— 7	+ 49	— 35	+ 22	
<b>Identified financial transactions</b>	<b>+ 71</b>	<b>+ 156</b>	<b>+ 47</b>	<b>+ 267</b>	<b>+ 149</b>	<b>+ 355</b>	<b>+ 20</b>	<b>— 242</b>	<b>+ 79</b>	<b>— 111</b>	
Unidentified	+ 50	+ 7	+ 28	+ 26	+ 91	— 151	+ 74	+ 18	+ 86	+ 9	

— nil or less than £½ million.



capital transfers and capital expenditure into account, there was a financial deficit of around £100 million compared with an average of £30 million a quarter in the first half year and before that a long succession of surpluses. At present, the sector seems likely to continue in deficit for some time because of the planned increases in both current and capital spending and the large tax reliefs which have been given.

As well as meeting the financial deficit, the sector re-financed a further £70 million of export and shipbuilding credits through the Issue Department of the Bank of England, and altogether had to borrow nearly £200 million during the quarter.

Public corporations were in financial deficit but repaid a small amount of their borrowing from the private sector. Local authorities increased their borrowing from the Public Works Loan Board and needed to borrow less than in the previous three quarters from outside the public sector. Most of their needs were met by the banks, which had ready funds available, while the personal sector in fact withdrew money from local authorities and may have invested some of this in the gilt-edged market.

The central government needed to borrow £125 million in all, while a further £760 million had to come from domestic sources to finance the sterling cost of the foreign exchange inflow. Most of these funds were provided from very large sales of gilt-edged stocks to the general public, but some came from national savings and the remainder largely from the banking sector. Associated with the new arrangements for the control of credit, the Banking Department of the Bank of England reduced its holdings of Treasury bills as it repaid the banks' Special Deposits, but this fall was more than offset by the banks' simultaneous subscription for gilt-edged stock. The foreign exchange inflow enabled the authorities to add some £580 million, a record amount, to the official reserves.

In the fourth quarter the Government had a borrowing requirement of over £250 million, while the foreign exchange inflow was so heavy that they had to borrow nearly £1,300 million in all from domestic sources. They raised the funds in more or less equal proportions from the banks and the general public.

### **Personal sector**

Personal saving in the third quarter of 1971 was somewhat greater than in the previous quarter which had, however, been adversely affected by late payments of bills and taxes after the postal strike. Consumption expenditure increased, mainly on cars and other durable goods, following the cuts in purchase tax and the removal of hire purchase terms control in July, but personal income after tax rose by more. At the same time the sector spent a little less on capital formation. Thus its financial surplus was larger than in the second quarter, but it was less than the average for the first and second quarters and fairly small compared with the previous year or so.

Table D

## Personal sector

£ millions

Seasonally adjusted

	1969			1970				1971			
	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Saving	+516	+597	+570	+582	+663	+663	+746	+723	+595	+637	
Capital transfers (net)	-87	-85	-85	-97	-90	-84	-87	-62	-87	-85	
Capital expenditure	-276	-310	-289	-271	-316	-347	-360	-320	-404	-389	
<b>Financial surplus</b>	<b>+153</b>	<b>+202</b>	<b>+196</b>	<b>+214</b>	<b>+257</b>	<b>+232</b>	<b>+299</b>	<b>+341</b>	<b>+104</b>	<b>+163</b>	
<b>Borrowing (-)</b>											
For house purchase	-209	-231	-193	-221	-288	-352	-349	-318	-415	-504	
Bank borrowing <sup>a</sup>	+33	+76	-99	+23	-79	-10	+7	-39	-81	-219	-241
Hire purchase debt	+4	+13	-2	-3	-14	-7	-25	-	-27	-83	
Other	-23	-8	-38	-5	+3	-22	-29	-94	+111	+30	
	-195	-150	-332	-206	-378	-391	-396	-451	-412	-776	
<b>Acquisition of financial assets (+)</b>											
Life assurance and pension funds	+411	+378	+377	+395	+437	+445	+478	+415	+494	+527	
Government stocks	+31	+94	+111	+172	-58	-282	-54	+230	-34	+170	
Company and overseas securities	-76	-140	-166	-243	-208	-233	-201	-113	-471	-252	
Unit trust units	+42	+33	+27	+24	+28	+23	+14	+2	+12	+9	+7
Bank deposits, notes and coin	+29	+40	+173	+86	+304	+316	+231	+315	+163	+329	+368
Building society shares and deposits	+237	+203	+227	+300	+342	+418	+424	+411	+454	+551	+609
National savings	-76	-59	-70	-30	-42	-26	+47	+77	+80	+53	+157
Local authority debt	+24	+106	+60	+36	-22	-74	+2	-28	-30	-95	
Other	+10	+8	+36	+28	+35	+54	+59	+58	+45	+50	
	+632	+663	+775	+768	+816	+641	+1,000	+1,367	+713	+1,342	
<b>Identified financial transactions</b>	<b>+437</b>	<b>+513</b>	<b>+443</b>	<b>+562</b>	<b>+438</b>	<b>+250</b>	<b>+604</b>	<b>+916</b>	<b>+301</b>	<b>+566</b>	
Unidentified	-284	-311	-247	-348	-181	-18	-305	-575	-197	-403	

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

There was a very large increase in the sector's identified borrowing. People borrowed more from the building societies than in the previous quarter; they borrowed much more from the banks, reflecting an easing in the banks' position associated with the end of direct controls over bank lending; and they increased their instalment debt sharply, following the removal of terms control.

The sector put a massive amount into financial assets, £630 million more in identified forms than in the second quarter and about as much in the first. Persons put particularly large sums with building societies, for the first time more than with life assurance and pension funds, though these too grew. Persons also bought heavily in the gilt-edged market mainly in anticipation of higher prices: it was thought that the authorities would wish to see interest rates fall to discourage excessive net inflows from abroad during the international monetary uncertainties. As has been suggested already, some of the sector's purchases of gilt-edged stocks may have been the converse of less opportunity to invest in local authority debt. Investment in national savings was down a little, possibly because purchases of premium bonds fell back after the second quarter when maximum permissible holdings and prizes were both increased. Persons again reduced their holdings of equities and company loan stocks but by £220 million less than in the second quarter.



Despite the rising stock market, persons once again put little into unit trust units. In part perhaps small savers have not recovered from the shock of the sharp fall in prices during 1969 and 1970 and so prefer fixed sum outlets such as building societies: in part also they may have turned to property and property bonds, which may seem a more reliable hedge against inflation.

#### Industrial and commercial companies

Companies had been improving their financial position in the first half of the year, and in the third quarter in fact achieved a considerable financial surplus. Their saving was much greater than before, mainly because they received more in S.E.T. refunds, at the old, higher rate, than they paid out at the new rate but also because their gross trading profits genuinely improved; at the same time their capital formation cost less for, although fixed investment recovered somewhat, they continued to run down stocks (and stock appreciation was less). Companies also spent much less on investment abroad. Thus, although repayment of import

**Table E**

#### Industrial and commercial companies

£ millions

Seasonally adjusted

Assets: increase +/decrease -

Liabilities: increase -/decrease +

	1969			1970				1971			
	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Domestic capital formation	+939	+949	+1,008	+965	+1,140	+1,083	+1,135	+1,085	+1,033	+937	
less Saving	-750	-734	-710	-705	-680	-631	-691	-885	-731	-959	
less Capital transfers (net)	-120	-130	-197	-111	-111	-121	-143	-183	-137	-131	
<b>equals Financial surplus -/ deficit +</b>	<b>+ 69</b>	<b>+ 85</b>	<b>+ 101</b>	<b>+ 149</b>	<b>+ 349</b>	<b>+ 331</b>	<b>+ 301</b>	<b>+ 17</b>	<b>+ 165</b>	<b>-153</b>	
Trade investment, mergers, etc.	+ 74	+ 65	+ 39	+ 70	+ 45	+ 43	+ 49	- 4	+ 24	+ 48	
Investment abroad	+155	+190	+ 207	+127	+ 203	+ 243	+ 132	+ 75	+ 238	+ 26	
Import deposits	+193	- 20	- 11	- 13	- 34	- 70	- 108	- 153	- 99	- 1	-
<b>Total requiring financing (+)</b>	<b>+491</b>	<b>+320</b>	<b>+ 336</b>	<b>+333</b>	<b>+ 563</b>	<b>+ 547</b>	<b>+ 374</b>	<b>- 65</b>	<b>+ 328</b>	<b>- 80</b>	
Capital issues at home	-162	- 72	- 84	- 30	- 37	- 38	- 88	- 72	- 75	- 92	- 97
Overseas investment in U.K. companies (incl. long-term borrowing abroad)	- 74	- 86	- 105	-204	- 164	- 84	- 137	- 262	- 136	-174	
Net import credit extended by overseas	- 49	- 2	- 36	+ 7	- 37	- 2	+ 9	- 25	+ 14	- 36	
Net export credit extended to overseas	+ 51	- 10	+ 34	- 24	+ 6	- 44	+ 6	+ 19	- 20	+ 6	
Bank borrowing	+ 24	-341	- 40	-197	- 446	- 267	- 215	- 188	- 12	-269	-275
Other borrowing	-119	- 73	- 5	- 61	- 87	- 107	- 96	- 49	- 46	- 37	
Bank deposits, notes and coin	-225	+ 19	+ 120	-134	+ 219	+ 24	+ 224	+ 206	+ 205	+144	+523
Other liquid assets <sup>a</sup>	- 27	- 38	- 40	- 20	- 35	- 45	- 26	+ 48	- 31	+ 52	
Other items <sup>b</sup>	- 11	+ 5	- 26	+ 24	- 27	- 7	+ 52	+ 120	- 112	+ 16	
<b>Unidentified</b>	<b>+101</b>	<b>+278</b>	<b>- 154</b>	<b>+306</b>	<b>+ 45</b>	<b>+ 23</b>	<b>- 103</b>	<b>+ 268</b>	<b>- 115</b>	<b>+470</b>	
<b>Total financing</b>	<b>-491</b>	<b>-320</b>	<b>- 336</b>	<b>-333</b>	<b>- 563</b>	<b>- 547</b>	<b>- 374</b>	<b>+ 65</b>	<b>- 328</b>	<b>+ 80</b>	

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

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



deposits by the Government had almost ceased, for once companies had no financing requirement, but had £80 million left with which to acquire financial assets.

Meanwhile they raised over £90 million through capital issues, slightly more in total than in any quarter since the first half of 1969. Rather more than for some time came from the equity market, where prices continued to be fairly strong because of the improved outlook for profits. Companies also now took advantage of the greater availability of bank finance, but they did not build up their bank deposits by as much as they had done for the past several quarters. On the other hand, they seem to have restored some of their other liquid assets which they had run down in the second quarter probably to meet delayed tax payments.

In all, although they had a financial surplus according to the national income accounts, their identified financial transactions showed an increase of some £315 million in net liabilities, and the unidentified difference was as much as £470 million. The difference will partly have reflected errors in the national income accounts and some in the financial accounts (perhaps associated with the banking sector's "unidentified"), but it suggests also some further net extension of trade credit during the quarter to customers in other sectors and perhaps some reduction in outstanding credit obtained from overseas businesses. The inflow through the balance of payments "balancing item", which had been large in previous quarters and had been thought mainly to relate to credit transactions with companies, was not repeated in the third quarter.

#### **Financial institutions other than banks**

In the third quarter of 1971, the institutions obtained some £270 million more new funds than in the previous quarter, which had itself seen a very large inflow probably helped by the ending of the postal strike. But of this increase of £270 million about £120 million was actually bank borrowing initiated by the institutions, some of it by finance houses to cope with the demand for hire purchase finance.

The institutions continued to invest in property but most of their new funds inevitably went into financial assets. Renewed expectations of falling domestic interest rates encouraged the institutions to purchase about £340 million of gilt-edged stocks; at the same time hopes of a recovery in company profits and the stimulus given to the economy in the July measures led them to invest heavily in equities and other company securities.

The insurance companies and pension funds taken together were the biggest buyers of gilt-edged stocks, with purchases of £200 million, but they also invested more than this in company securities – £230 million in equities and £60 million in loan capital and other stock. Investment trusts were less attracted to company securities than in the second quarter while unit trusts had less to invest; between them they bought nearly £20 million of gilt-edged stocks as well as £40 million of equities and £20 million of company loan stocks.

Table F

## Financial institutions other than banks

£ millions

Seasonally adjusted

	1969			1970				1971			
	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
<b>Sources of funds (increase —)</b>											
Life assurance and pension funds	— 411	— 378	— 377	— 395	— 437	— 445	— 478	— 415	— 494	— 527	
Building society shares and deposits	— 238	— 203	— 227	— 299	— 341	— 418	— 423	— 411	— 454	— 551	— 609
Other deposits	— 8	— 25	— 48	— 35	— 32	— 73	— 79	— 33	— 56	— 76	
Capital issues	— 22	— 15	— 11	— 21	— 21	— 9	— 5	— 32	— 49	— 55	— 33
Unit trust units	— 42	— 33	— 27	— 24	— 28	— 23	— 14	— 2	— 12	— 9	— 7
Other (mainly bank) borrowing	— 2	— 5	+ 8	— 31	— 8	— 12	— 29	— 20	— 31	— 147	
	<b>— 723</b>	<b>— 659</b>	<b>— 682</b>	<b>— 805</b>	<b>— 867</b>	<b>— 980</b>	<b>— 1,028</b>	<b>— 913</b>	<b>— 1,096</b>	<b>— 1,365</b>	
<b>Increase in financial assets (+)</b>											
Short-term assets <sup>a</sup>	+ 40	+ 114	+ 17	+ 36	+ 257	+ 98	+ 88	— 144	+ 6	+ 11	
Government stocks	+ 76	+ 99	+ 140	+ 177	— 41	+ 103	+ 80	+ 497	+ 232	+ 343	
Company and overseas securities:											
Ordinary	+ 9	+ 34	+ 151	+ 171	+ 128	+ 150	+ 178	+ 121	+ 306	+ 267	
Debentures	+ 106	+ 20	+ 37	+ 28	+ 50	+ 37	+ 53	+ 28	+ 55	+ 70	
Other	— 5	— 12	— 6	+ 1	+ 5	— 6	—	— 6	+ 1	+ 4	
Loans for house purchase	+ 213	+ 233	+ 203	+ 212	+ 276	+ 319	+ 317	+ 295	+ 395	+ 465	
Long-term lending to local authorities	+ 13	+ 4	+ 17	+ 7	+ 22	+ 22	+ 40	+ 18	+ 20	+ 14	
Hire purchase claims	— 6	— 5	— 2	— 2	+ 18	+ 9	+ 22	+ 16	+ 9	+ 67	
Other lending	+ 91	+ 42	— 14	+ 18	+ 95	+ 53	+ 89	— 33	+ 2	+ 51	
	<b>+ 537</b>	<b>+ 529</b>	<b>+ 543</b>	<b>+ 648</b>	<b>+ 810</b>	<b>+ 785</b>	<b>+ 867</b>	<b>+ 792</b>	<b>+ 1,026</b>	<b>+ 1,292</b>	

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

As may be seen from Table F, building societies had a much greater inflow than in the second quarter, though the inflow then had been exceptionally large; and, even after lending a lot more for house purchase, they had as much as £155 million left to invest in other assets. The societies' liquidity ratio, therefore, continued to rise and ended the period at 18.2%. They bought nearly £80 million of gilt-edged stocks and some local authority long-term debt. They also added some £60 million to their bank deposits and other short-term assets, whereas most of the other institutions preferred to run them down. As the table shows, the inflow to the societies increased yet again in the fourth quarter and had trebled in just over two years. The fall in rates offered by the societies for deposits has lagged behind the drop in market rates, and the societies remained exceptionally attractive to savers who, since the stock market fall of 1969 and 1970 and the growth of unemployment, seem to have become relatively chary of assets with fluctuating capital values. The societies' greater lending on mortgage reflects not only a big increase in the volume of business but also a rapid growth in house prices.

**Banking sector, money and D.C.E.**

During the third quarter the banks deployed funds from overseas sterling deposits into domestic assets and switched some foreign currency assets into sterling as the dollar came under pressure. At the same time there was an exceptionally big increase in their net non-deposit liabilities,



which must largely reflect errors and omissions elsewhere in the banking sector balance sheets. This makes the figures difficult to interpret, but in all, as recorded, the provision of bank finance to domestic sectors exceeded the growth of their recorded domestic deposits by some £600 million. On the introduction of the new arrangements for the control of credit, the banks put more into government stock than they were repaid from Special Deposits, but most of the increase in their domestic lending went to the private sector. The recorded money stock rose by £470 million (2½%) and domestic credit expanded by £330 million, kept down by large sales of central government debt to the general public.

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

£ millions

Seasonally adjusted

Lending: increase + / decrease -

Deposits: increase - / decrease +

	1969			1970				1971			
	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.
Lending to:											
Public sector	-200	-324	+286	+ 89	+157	+ 81 <sup>a</sup>	+677	+184	+292	+ 386	+ 849
Company sector	- 14	+356	+ 31	+234	+457	+266	+259	+189	+ 90	+ 421	+ 532
Personal sector	- 33	- 71	+ 94	- 18	+ 84	+ 30	+ 3	+ 54	+ 96	+ 244	+ 276
Total domestic lending	-247	- 39	+411	+305	+698	+377	+939	+427	+478	+1,051	+1,657
Deposits by:											
Public sector	+ 18	- 22	- 21	- 45	+ 28	+ 33	- 60	- 32	+ 45	+ 12	- 48
Company sector	+192	- 91	- 81	+121	-346	- 41	-224	- 90	-192	- 136	- 659
Personal sector	- 26	- 36	-112	- 69	-285	-263	-205	-254	-156	- 313	- 339
Total domestic deposits	+184	-149	-214	+ 7	-603	-271	-489	-376	-303	- 437	-1,046
Net lending to overseas sector <sup>b</sup>	+ 74	+ 87	-134	-180	-130	-105 <sup>a</sup>	-338	- 49	- 78	- 339	- 562
Non-deposit liabilities (net)	- 11	+101	- 63	-132	+ 35	- 1	-112	- 2	- 97	- 275	- 49

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

b Claims on overseas sector net of overseas deposits.

During the fourth quarter, the banks again lent at home on the basis of overseas sterling deposits and switched some more funds out of foreign currency assets into sterling. Their domestic lending again exceeded their domestic deposits by as much as £600 million. There was little further growth in their net non-deposit liabilities, which could mean that the fourth quarter figures are more reliable than those of the third.

The banks invested very heavily in public sector debt, notably in the form of Treasury bills and, despite the increase in their deposits, their reserve ratios rose. They lent rather more to companies as a whole than in the third quarter, with most of the increase going to financial companies such as hire purchase finance houses. They also lent rather more to persons, who continued to spend heavily on houses, cars and other durable goods, and who took advantage of growing bank competition for their custom. As industrial demand for finance builds up during 1972 it is possible that the growth of lending to persons will fall away, especially as much of the recent demand was doubtless due to the back-log created in the period of ceiling controls.

The money stock rose by about  $5\frac{3}{4}\%$  in the fourth quarter, more than twice as fast as in the third; there was another large inflow from abroad, but the growth of domestic credit and money was again moderated by large sales of government debt to the general public. The deposits of industrial and commercial companies rose very sharply.



Table H

Domestic credit expansion and increase in the money stock (M<sub>3</sub>)<sup>a</sup>

£ millions

Changes in period	Public sector borrowing				Bank assets included	
	Total public sector borrowing (= Cols. 2 to 5)	Sales (+) of debt to private sector (other than banks)	Currency in circulation with the public	External finance of public sector	Bank lending to public sector	Bank lending to private sector <sup>b,c</sup>
	1	2	3	4	5	6
<b>Financial years</b>						
1967/68	+ 1,961	+ 406	+ 106	+ 1,448	+ 1	+ 614
1968/69	+ 456	- 170	+ 69	+ 419	+ 138	+ 640
1969/70	- 539	+ 788	+ 129	- 1,240	- 216	+ 670
1970/71	+ 849	+ 573	+ 288	- 1,190	+ 1,178	+ 1,055
<b>Quarters</b> (unadjusted)						
1970 Jan.—Mar.	- 1,260	+ 185	+ 39	- 853	- 631	+ 542
Apr.—June	+ 139	- 38	+ 42	- 133	+ 268	+ 531
July—Sept.	+ 274	- 205	+ 72	+ 81 <sup>e</sup>	+ 326 <sup>e</sup>	- 64
Oct.—Dec.	+ 845	+ 172	+ 168	- 445	+ 950	+ 117
1971 Jan.—Mar.	- 409	+ 644	+ 6	- 693	- 366	+ 471
Apr.—June	+ 271	+ 279	+ 50	- 410	+ 352	+ 172
July—Sept.	+ 566	+ 607	+ 83	- 651	+ 527	+ 324
Oct.—Dec.	..	..	+ 134	- 919	+ 1,152	+ 696
<b>Quarters</b> (seasonally adjusted) <sup>f</sup>						
1970 Jan.—Mar.	- 160	+ 361	+ 34	- 644	+ 89	+ 204
Apr.—June	- 43	- 86	+ 38	- 152	+ 157	+ 509
July—Sept.	- 137	- 295	+ 107	- 30 <sup>e</sup>	+ 81 <sup>e</sup>	+ 231
Oct.—Dec.	+ 338	+ 134	+ 51	- 524	+ 677	+ 182
1971 Jan.—Mar.	+ 588	+ 769	+ 123	- 488	+ 184	+ 208
Apr.—June	+ 124	+ 248	+ 14	- 430	+ 292	+ 71
July—Sept.	+ 194	+ 531	+ 32	- 755	+ 386	+ 625
Oct.—Dec.	..	..	+ 58	- 1,000	+ 849	+ 758

Money stock (M<sub>3</sub>)<sup>a</sup>

Financial years	Total money stock (M <sub>3</sub> ) <sup>a</sup> (= Cols. 13 + 14)	Currency in circulation with the public	Bank deposits of domestic sectors <sup>c</sup>
	12	13	14
1967/68	+ 1,258	+ 106	+ 1,152
1968/69	+ 1,077	+ 69	+ 1,008
1969/70	+ 374	+ 129	+ 245
1970/71	+ 2,031	+ 288	+ 1,743
<b>Quarters</b> (unadjusted)			
1970 Jan.—Mar.	- 430	+ 39	- 469
Apr.—June	+ 733	+ 42	+ 691
July—Sept.	+ 387	+ 72	+ 315
Oct.—Dec.	+ 896	+ 168	+ 728
1971 Jan.—Mar.	+ 15	+ 6	+ 9
Apr.—June	+ 468	+ 50	+ 418
July—Sept.	+ 454	+ 83	+ 371
Oct.—Dec.	+ 1,453	+ 134	+ 1,319
<b>Quarters</b> (seasonally adjusted) <sup>f</sup>			
1970 Jan.—Mar.	+ 27	+ 34	- 7
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.	+ 1,104	+ 58	+ 1,046

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-the-week effects (see note on page 42).

In D.C.E.		Other bank assets			Changes in period
Bank lending in sterling to overseas 7	Total D.C.E. <sup>d</sup> (= Col.s. 3 to 7) 8	Bank lending in foreign currency to overseas 9	Bank lending in foreign currency to private sector for investment overseas 10	Total bank assets = liabilities (= Col.s. 5 to 7, 9 and 10) 11	
+ 61	+ 2,230	+ 1,492	+ 80	+ 2,248	<b>Financial years</b>
+ 71	+ 1,337	+ 3,161	+ 159	+ 4,169	1967/68
+ 117	- 540	+ 3,807	+ 50	+ 4,428	1968/69
+ 72	+ 1,403	+ 2,670	+ 212	+ 5,187	1969/70
					1970/71
					<b>Quarters</b>
					(unadjusted)
- 40	- 943	+ 176	+ 12	+ 59	1970 Jan.—Mar.
+ 2	+ 710	+ 1,299	+ 32	+ 2,132	Apr.—June
+ 63	+ 478	+ 208	+ 65	+ 598 <sup>e</sup>	July—Sept.
—	+ 790	+ 923	+ 80	+ 2,070	Oct.—Dec.
+ 7	- 575	+ 240	+ 35	+ 387	1971 Jan.—Mar.
+ 100	+ 264	+ 965	+ 115	+ 1,704	Apr.—June
+ 38	+ 321	+ 696	+ 40	+ 1,625	July—Sept.
+ 151	+ 1,214	+ 101	+ 50	+ 2,150	Oct.—Dec.
					<b>Quarters</b>
					(seasonally adjusted) <sup>f</sup>
- 40	- 357	+ 243	+ 12	+ 508	1970 Jan.—Mar.
+ 2	+ 554	+ 1,279	+ 32	+ 1,979	Apr.—June
+ 63	+ 452	+ 176	+ 65	+ 616 <sup>e</sup>	July—Sept.
—	+ 386	+ 908	+ 80	+ 1,847	Oct.—Dec.
+ 7	+ 34	+ 304	+ 35	+ 738	1971 Jan.—Mar.
+ 100	+ 47	+ 946	+ 115	+ 1,524	Apr.—June
+ 38	+ 326	+ 664	+ 40	+ 1,753	July—Sept.
+ 151	+ 816	+ 87	+ 50	+ 1,895	Oct.—Dec.

#### Bank liabilities

Bank deposits of overseas 15	Non-deposit liabilities (net) 16	Total bank liabilities = assets (= Col.s. 14 to 16) 17	Changes in period
+ 1,121	- 25	+ 2,248	<b>Financial years</b>
+ 3,068	+ 93	+ 4,169	1967/68
+ 4,086	+ 97	+ 4,428	1968/69
+ 3,360	+ 84	+ 5,187	1969/70
			1970/71
			<b>Quarters</b>
			(unadjusted)
+ 418	+ 110	+ 59	1970 Jan.—Mar.
+ 1,461	- 20	+ 2,132	Apr.—June
+ 303 <sup>e</sup>	- 20	+ 598 <sup>e</sup>	July—Sept.
+ 1,202	+ 140	+ 2,070	Oct.—Dec.
+ 394	- 16	+ 387	1971 Jan.—Mar.
+ 1,174	+ 112	+ 1,704	Apr.—June
+ 1,001	+ 253	+ 1,625	July—Sept.
+ 757	+ 74	+ 2,150	Oct.—Dec.
			<b>Quarters</b>
			(seasonally adjusted) <sup>f</sup>
+ 383	+ 132	+ 508	1970 Jan.—Mar.
+ 1,411	- 35	+ 1,979	Apr.—June
+ 344 <sup>e</sup>	+ 1	+ 616 <sup>e</sup>	July—Sept.
+ 1,246	+ 112	+ 1,847	Oct.—Dec.
+ 360	+ 2	+ 738	1971 Jan.—Mar.
+ 1,124	+ 97	+ 1,524	Apr.—June
+ 1,041	+ 275	+ 1,753	July—Sept.
+ 800	+ 49	+ 1,895	Oct.—Dec.



Table J

## Flow of funds: quarterly figures, 1971

£ millions

Not seasonally adjusted

	Line	Public sector			Overseas sector <sup>a</sup>		
		2nd qtr.	3rd qtr.	4th qtr.	2nd qtr.	3rd qtr.	4th qtr.
<b>Financial surplus + /deficit —</b>							
Saving	1	+ 1,185	+ 689				
Taxes on capital and capital transfers	2	— 43	— 55				
less:							
Gross fixed capital formation at home	3	— 1,013	— 1,065				
Increase in value of stocks and work in progress	4	— 61	— 62				
<b>Financial surplus + /deficit —</b>	<b>5</b>	<b>+ 68</b>	<b>— 493</b>		<b>— 339</b>	<b>— 311</b>	
<b>Change In financial assets and liabilities</b>							
Assets: increase + /decrease —							
Liabilities: increase — /decrease +							
Net indebtedness of Government to Bank of England, Banking Department	6	— 51	+ 471	— 118			
Life assurance and pension funds	7						
Loans by the U.K. Government	8	+ 4	+ 38		— 5	— 26	
Total external currency flow	9.1	+ 634	+ 668	+ 953	— 634	— 668	— 953
Other central government external transactions	9.2	— 148	— 13	— 17	+ 148	+ 13	+ 17
Banks' net external transactions	10				+ 287	+ 63	+ 487
Miscellaneous investment overseas (net)	11	+ 46	+ 80		— 58	+ 165	
Notes and coin	12	— 27	+ 55	— 240			
Bank deposits of domestic sectors	13	— 40	— 22	+ 48			
Deposits with other financial institutions	14				— 3	+ 1	
National savings	15.1	— 58	— 55	— 129			
Tax reserve certificates	15.2	— 12	67	— 84			
Import deposits	15.3	+ 110	+ 1	—	— 11	—	
Bank lending to domestic sectors	16	+ 43	— 10	— 47			
Hire purchase debt	17	+ 1	+ 5				
Loans for house purchase	18	+ 5	+ 14				
Other loans and accruals	19	— 148	— 27				
Marketable government debt:							
Treasury bills	20	— 91	— 54	— 805			
Stocks } held by domestic sector	21	— 246	— 1,447	— 402			
Local authority debt	22	— 288	— 99		+ 47	— 5	— 17
U.K. company and overseas securities:							
Capital issues	23				— 1	— 2	+ 7
Other transactions	24	+ 20	+ 4		— 101	+ 186	
Unit trust units	25						
<b>Identified financial transactions</b>	<b>26</b>	<b>— 246</b>	<b>— 458</b>		<b>— 331</b>	<b>— 273</b>	
<i>Unidentified</i>	<i>27</i>	<i>+ 314</i>	<i>— 35</i>		<i>— 8</i>	<i>— 38</i>	
<b>Total = Financial surplus + /deficit —</b>	<b>28</b>	<b>+ 68</b>	<b>— 493</b>		<b>— 339</b>	<b>— 311</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 March.

Personal sector			Industrial and commercial companies			Banking sector			Other financial institutions			Line
2nd qtr.	3rd qtr.	4th qtr.	2nd qtr.	3rd qtr.	4th qtr.		2nd qtr.	3rd qtr.	4th qtr.			
+546	+540		+914	+1,139			+187	+172			1	
- 91	- 80		+139	+ 136			- 5	- 1			2	
-341	-364		-824	- 852			-136	-137			3	
- 69	- 37		-237	- 61							4	
+ 45	+ 59		- 8	+ 362			+ 46	+ 34			5	
						2nd qtr.	3rd qtr.	4th qtr.	2nd qtr.	3rd qtr.	4th qtr.	
+495	+510					+ 51	-471	+ 118	-495	-510		6
-	-		-	-	13				+ 1	+ 1		7
												8
												9-1
												9-2
			+ 50	- 245		-287	- 63	- 487	- 38	-		10
												11
+ 25	- 4	+128	+ 25	+ 87	+ 6	- 23	-138	+ 106				12
+184	+281	+380	+227	+ 111	+692	-418	-371	-1,319	+ 47	+ 1	+199	13
+500	+576		+ 10	+ 31					-507	-608		14
+ 58	+ 55	+129										15-1
+ 4	+ 17	+ 26	+ 13	+ 46	+ 40	- 5	-	+ 18	-	+ 4	-	15-2
			- 99	- 1								15-3
-126	-205	-219	- 63	+ 11	-261	+183	+345	+ 754	- 37	-141	-227	16
- 25	- 80		- 1	+ 5					+ 25	+ 70		17
-415	-504					+ 15	+ 25	+ 35	+395	+465		18
+181	+ 30		+ 17	- 118		-126	+129	- 124	+ 76	- 14		19
- 34	+170		- 8	- 1		+100	+ 50	+ 790	- 1	+ 5		20
- 35	- 92		+ 4	+ 33		+ 48	+934	- 8	+232	+343		21
						+223	+142	+ 76	+ 49	+ 21		22
-471	-252		- 75	- 92	- 96	- 2	- 1	- 1	- 49	- 55	- 33	23
+ 12	+ 5	+ 3	+ 80	+ 71		+237	-200	+ 51	+362	+341	- 3	24
									- 12	- 5		25
+353	+507		+180	- 75		- 4	+381	+ 9	+ 48	- 82		26
-308	-448		-188	+ 437								27
+ 45	+ 59		- 8	+ 362								28



Table K

## Flow of funds: quarterly figures, 1971

£ millions

Seasonally adjusted

	Line	Public sector			Overseas sector <sup>a</sup>		
		2nd qtr.	3rd qtr.	4th qtr.	2nd qtr.	3rd qtr.	4th qtr.
<b>Financial surplus + /deficit —</b>							
Saving	1	+1,361	+1,053				
Taxes on capital and capital transfers	2	— 34	— 29				
less:							
Gross fixed capital formation at home	3	—1,162	—1,126				
Increase in value of stocks and work in progress	4						
<b>Financial surplus + /deficit —</b>	5	<b>+ 165</b>	<b>— 102</b>		<b>—270</b>	<b>—342</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	+ 29	+ 392	— 59			
Life assurance and pension funds	7						
Loans by the U.K. Government	8	+ 16	+ 38		— 17	— 26	
Total central government external transactions	9	+ 511	+ 760	+1,024	—511	—760	—1,024
Banks' net external transactions	10				+256	+135	+ 544
Miscellaneous investment overseas (net)	11	+ 46	+ 80		— 48	+121	
Notes and coin	12	+ 27	— 7	— 56			
Bank deposits of domestic sectors	13	— 45	— 12	+ 48			
Deposits with other financial institutions	14				+ 13	+ 11	
National savings	15.1	— 80	— 53	— 157			
Tax reserve certificates	15.2	+ 25	— 38	— 35			
Import deposits	15.3	+ 110	+ 1	—	— 11	—	
Bank lending to domestic sectors	16	+ 45	+ 12	— 49			
Hire purchase debt	17	+ 1	+ 5				
Loans for house purchase	18	+ 5	+ 14				
Other loans and accruals	19	+ 26	— 61				
Marketable government debt:							
Treasury bills } held by domestic sector	20	— 104	+ 275	— 580			
Stocks }	21	— 246	—1,447	— 402			
Local authority debt	22	— 307	— 74		+ 52	— 4	+ 24
U.K. company and overseas securities:							
Capital issues	23				— 1	— 2	+ 7
Other transactions	24	+ 20	+ 4		—101	+186	
Unit trust units	25						
<b>Identified financial transactions</b>	26	<b>+ 79</b>	<b>— 111</b>		<b>—368</b>	<b>—339</b>	
<i>Unidentified</i>	27	<b>+ 86</b>	<b>+ 9</b>		<b>+ 98</b>	<b>— 3</b>	
<b>Total = Financial surplus + /deficit —</b>	28	<b>+ 165</b>	<b>— 102</b>		<b>—270</b>	<b>—342</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 March.





## Notes on sources, definitions and seasonal adjustments

### Sources

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

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

#### Public sector

- (i) Central government, including the National Insurance Funds, the Exchange Equalisation Account, the National Savings Bank Fund and the Issue Department (but not the Banking Department) of the Bank of England.
- (ii) Local authorities including such local bodies as water boards, harbour boards and passenger transport authorities.
- (iii) Nationalised industries and other public corporations.

**Overseas sector** Non-residents as defined for the balance of payments estimates (see *United Kingdom Balance of Payments 1971*, H.M.S.O., September 1971).

**Persons (or personal sector)** Individuals, unincorporated businesses, charities and private trusts, private non-profit-making bodies serving persons and private trusts.

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

**Banking sector** As in Table 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.