Changes in banking statistics

Following the introduction last September of the new arrangements for the control of credit the Bank are conducting a comprehensive review of all statistical information provided by banking institutions. This review cannot be expected to lead to major changes in published banking statistics for some time. Meanwhile some interim changes have been made in the form of banking statistics published in the statistical annex to this *Bulletin* to bring them more into line with the new arrangements. There is also a new monthly series on the money stock.

Monthly banking figures (Table 8 in the annex)

Uniform figures of the main assets and liabilities of all banks subject to reserve ratios are now given in Table 8, which replaces Tables 9 and 10 in earlier issues of the *Bulletin*. Previously, statistics for the London and Scottish clearing banks and for the Northern Ireland banks were arranged differently from those for other banks. The reason for this was partly historical in that the clearing banks' figures were based on monthly balance sheet statements published by the banks themselves, while the other banks' figures were derived from purpose-built statistical returns. The distinction also recognised certain operational differences between the two types of banks: unlike the others, the clearing banks observed certain conventional cash and liquidity ratios and, because they concentrated on domestic branch banking, their assets and liabilities in currencies other than sterling and their lending in the inter-bank and other specialised financial markets were too small to warrant special identification. The introduction of a new minimum reserve ratio for all banks has made this distinction between the two sides of the banking system less relevant. Moreover, some of the clearing banks have, in their own name, begun to transact business of a type previously left to their non-clearing bank subsidiaries.

To achieve a uniform series of statistics for all banks the figures for the London and Scottish clearing banks (which exclude business done by their subsidiaries) and the Northern Ireland banks have been rearranged, with the help of some additional information provided by the clearing banks themselves since October 1971, and brought into line with the figures for the accepting houses, overseas and other banks [Tables 8(2), (3) and (4)]. The main changes from the previous presentation are that separate figures are now given both for assets and liabilities in currencies other than sterling and for inter-bank transactions; loans to local authorities (whether in the form of bank advances or of temporary deposits) are amalgamated under one heading, and a few miscellaneous items previously classified as call money have been transferred to advances. In some cases – particularly the foreign currency items – the figures have had to be partly estimated. Tables showing the London and Scottish clearing banks' and Northern Ireland banks' assets and liabilities in their old form up to December 1971 are included, in this issue, in the additional notes to the annex (page 149-51).

For the first time, separate figures are given in Table 8(5) for the other deposit banks which are subject to reserve ratios. Monthly figures for all other groups of banks are shown in Tables 8(6) to 8(11) in the same form as in previous issues.

Table 8(1) is an aggregation of the figures for all banks. No attempt has been made to net out inter-bank transactions or to eliminate any double counting caused by transit items.

Reserve ratios (Table 9)

Monthly figures of eligible liabilities, reserve assets and reserve ratios for the main groups of banks and for the finance houses are shown in a new Table 9. The composition of these figures is described in the additional notes to the table and set out fully in the December 1971 issue of the *Bulletin*.[1] Details of the public sector lending ratio observed by the discount houses, discount brokers and the money trading departments of certain banks (this ratio was also described in the last *Bulletin*) are shown in Table 7(2).

The money stock (Table 12)

Since 1970 the Bank have published a regular quarterly analysis giving figures for various categories of deposits with banks in the United Kingdom, together with the amount of notes and coin in circulation with the public, and providing totals for three alternative definitions of the money stock (M_1, M_2 and M_3).

The definition of M_2 drew a distinction between private sector deposit accounts with the deposit banks and discount houses and similar deposit accounts with other banks.[2] The former were included in M_2 on the grounds that they were largely held at seven days' notice or less while the latter were excluded because they were usually of longer maturity and less easily withdrawn at will. As the deposit banks are now offering deposit facilities like those of the other banks, this distinction is no longer valid and the M_2 definition of the money stock has been discontinued; furthermore no distinction between banks is now being made in the various categories of deposits shown in the table.

It has been explained in earlier issues of the *Bulletin* that the figures for M_1 are less precise than those for M_3, as the full breakdown of deposits needed for the calculation of M_1 is not available from the banks. New information received from the London clearing banks since October 1971 remedies some of the deficiencies but it has also shown that the earlier estimates of M_1 may have been too low, perhaps by £200-250 million at the end of September 1971 (see the additional notes to Table 12). A break in the series is therefore shown after September 1971. The table now includes for the first time seasonally adjusted quarterly totals for M_1 consistent with those already published for M_3.

1 See the article, on "Reserve ratios: further definitions", page 482.

2 The M_2 definition comprised M_1 (*i.e.* notes and coin with the public, and sterling current accounts of the U.K. private sector) plus private sector sterling deposit accounts with the deposit banks and discount houses.

The table has been extended to include new monthly figures as from mid-June 1971. They have been compiled generally in the same way as the quarterly series.[1] In a few respects the monthly information available from banks is less comprehensive than at end-quarters and a small amount of additional estimation has been necessary (see the additional notes to Table 12), but any errors arising from this are unlikely to be significant.

Like other monthly banking statistics the new money stock figures are compiled as at the third Wednesday in each month (usually the second Wednesday in December). They should, therefore, in principle provide a smoother series than end-month figures because they all relate to the same day of the week, at about the same time in the month, and they are not subject to the distortions which result from the large movements in banking transactions which can take place over the end of the calendar month and which vary according to the day of the week. It may be, however, that the mid-month figures for the total money stock will prove to be slightly lower on average than those for end-quarters, when deposits are often inflated by window-dressing and the generally higher level of activity.

Although the consistent reporting day removes one source of variation in the monthly figures, the identification of seasonal movements still plays at least as important a part in the interpretation of the monthly figures as of the quarterly ones. The actual date of the make-up day affects the level of bank advances (and hence deposits), and the flow of government taxes and expenditure depends on the number of weeks in the month as well as on the time of the year. Moreover, the changes in the flow of company taxation as a result of structural changes in recent years must have produced associated changes in deposits.

An attempt has been made to isolate the regular make-up date and seasonal fluctuations that affect money flows, and seasonally adjusted figures are given for M_3 (work is still continuing on the compilation of monthly seasonally adjusted figures for M_1). This series should, however, be treated with great caution. For one thing, the accepting houses, overseas and other banks have only been providing mid-month figures since July 1969. For another, it is important when identifying the seasonal pattern of the money stock, to be able to relate it to the pattern of government financing, bank lending and external currency flows; but in many cases the information available monthly is not so detailed or consistent as the quarterly figures. The end-quarter distortions and the deficiencies in monthly information make it difficult to relate the quarterly and monthly series; and it is impossible, for example, to draw any conclusions about the underlying change in the money stock in the last three weeks of December by comparing seasonally adjusted levels at the mid-month make-up date and at the end of the quarter.

The full monthly analysis of the money stock cannot be provided before June 1971. For the sake of comparison, however, some approximate estimates of the broadest definition of money stock (M_3) back to April 1970, giving a

1 See the article on "The stock of money", in the September 1970 *Bulletin*, page 320.

breakdown between currency in circulation and bank deposits, are provided in the additional notes.

Assets and liabilities of the banking sector (Table 11)
The quarterly analysis of banking sector assets and liabilities formerly provided in Table 8 has been renumbered Table 11 and is now accompanied by a new monthly analysis [Table 11(4)]. The purpose of this table is to link the changes in the two versions of money stock (M_1 and M_3) between the normal mid-monthly reporting dates with the changes in the U.K. banking sector's liabilities and assets. This table differs in concept in various ways from the new monthly summary table for all banks described earlier [Table 8(1)]. First, its coverage is wider, because it also includes the Banking Department of the Bank of England, the National Giro, and the discount houses. Secondly, it is designed to show transactions between the banking sector as a whole and other sectors; for this reason assets and liabilities have been classified by sector rather than by type, all transactions between constituent members of the sector have been excluded, and adjustments have been made to deposits and advances to offset any double (or under) counting arising from transit items. Seasonally adjusted figures are given for some of the main components of the table.