New money stock tables

All banks' balance sheet

(inter-bank items are netted out)

1 **Deposits** from United Kingdom	4 **Lending** to U.K. private sector
2 **Deposits** from overseas	5 **Lending** to overseas
3 "**Net non-deposit liabilities**"	6 **Lending** to public sector*

**equals* 6a Public sector borrowing requirement

less Financed by:

6b purchases of debt by U.K. private sector

6c private holdings of notes and coin

6d overseas

Two new tables relating to changes in the money stock have been included in the annex, Tables 12 (2) and 12 (3).

Table 12 (2) shows changes in the broader and narrower versions of the money stock (M_3 and M_1) during recent calendar quarters and in banking months. It also provides a breakdown between notes and coin in circulation with the public and bank deposits (both before and after seasonal adjustment) like that formerly included in Table 11 (4). For reasons explained in the additional notes to these tables, the published changes in the money stock may not always equal the differences between amounts outstanding in Table 12 (1).

Table 12 (3) looks at the quarterly changes in the broad version of money stock (M_3) in a different way. Because the banks' total liabilities must equal their total assets, changes in the deposit liabilities included in the money stock (*i.e.* U.K. residents' deposits) can be presented in the context of changes in the banks' other liabilities and in their assets. Thus, any increase in U.K. residents' deposits must equal the net increase in bank lending to the public and private sectors, less the difference between deposits received from and lending to overseas residents, and less any increase in banks' net non-deposit liabilities.[1] This is illustrated in the schematic balance sheet of the banking sector shown opposite.

The total of bank lending to the public sector can, however, be arrived at in another way, as shown in the footnote to the schematic balance sheet. Given that the banks provide the residual finance needed to meet the public sector's borrowing requirement, their total lending to the public sector is, in fact, equal to that part of the public sector's borrowing requirement which is not financed by purchases of public sector debt (including notes and coin) by the U.K. private sector (other than banks) or from external sources – whether through the Exchange Equalisation Account or through purchases of public sector debt by overseas residents in the markets, *e.g.* Treasury bills of gilt-edged stock.[2]

Table 12 (3), which is also illustrated in schematic form on the next page, identifies separately these three factors affecting bank lending to the public sector; and it links them with the other items in the banking sector balance sheet: namely, lending to the private sector, the banks' net position in relation to overseas residents, and net non-deposit liabilities. The only item in the balance sheet table which does not figure in Table 12 (3) is the change in private holdings of notes and coin, item 6c. These holdings have to be deducted in an explanation of the change in bank

1 Such as capital and reserves—see additional notes to Table 11 (4).

2 A small part of the public sector borrowing requirement may in practice be financed on occasions by transactions in commercial bills by the Bank of England, on behalf of the Issue Department, in the course of their market operations. Net purchases of such bills, which represent an increase in central government lending to the private sector, are included in this analysis as an offset to the private sector's purchases of central government debt.

Table 12 (3)

	6a	Public sector borrowing requirement
less	6b	Purchases of public sector debt by U.K. private sector
plus	4	Bank lending to U.K. private sector
less	6d	External finance of: public sector
	2–5	banking sector
less	3	"Net non-deposit liabilities"
equals		Money stock (M_3) *i.e.* 1 + 6c

deposits; but they are not deducted from Table 12 (3) as they are one of the components of the money stock. The object of this re-arrangement is to identify more clearly certain areas of interest or influence within which the authorities may operate, and which are liable to affect the total of the money stock.

A table of this kind should not be used too mechanistically. It does not reach back to show the reasons for the changes in the particular items; reasons such as changes in interest rates, or in business confidence, which may lead the private sector to borrow more or less from the banks, or to wish to hold more or less of their financial resources in – for example – government debt as compared with bank deposits. Nor should the items shown be regarded as necessarily and individually 'following through' to affect the money stock pound for pound. The possibility and likelihood of offsetting movements within the table also needs to be borne in mind. Thus an increase in bank lending to the private sector (item 4) may well be reflected in an increase in domestic bank deposits (item 1). If, however, the funds are used to make payments abroad, they may have an offset – in the terms of the table – in item 2 (in contributing to a rise in overseas deposits) or in item 6d (if the funds have been used to buy foreign currencies from the E.E.A.). Equally, the effect of bank lending which financed investment in public sector debt would be offset in item 6b.

Table 12 (3) also includes figures for domestic credit expansion. This aggregate (which can be defined very broadly as the change in the money stock, excluding the direct effect of flows of funds to or from overseas) is equal to the public sector borrowing requirement less purchases of public sector debt by the U.K. private sector (other than banks) plus bank lending to the private sector. It also includes bank lending in sterling overseas; in practice this lending is likely to finance U.K. exports and thus affects domestic liquidity. Bank lending in foreign currencies to U.K. residents for investment overseas has, on the other hand, no appreciable effect on domestic liquidity and is therefore excluded. The concept of domestic credit expansion was described more fully in an article in the September 1969 *Bulletin*, page 363.

The seasonal adjustments in Table 12 (3) are as used in the flow of funds accounts, and are based on calendar years. Because the seasonal pattern may change from year to year, the total of the adjusted changes in the four quarters of a financial year cannot be expected to agree precisely with the unadjusted change for the financial year as a whole.