

## Analysis of financial statistics: First quarter 1973

*The analysis deals mainly with the flow of funds between the various sectors in the first quarter of 1973, the latest period for which a full set of statistics is available. Comment on the second quarter is largely confined to the banking sector, money stock, and central government financing. All quarterly information is based on seasonally adjusted figures, and these have been revised following the incorporation of data for 1972 in the calculation of the seasonal factors. Unadjusted flows for the first quarter are given in Table H. Notes on sources, definitions, and seasonal adjustments appear on page 305.*

### **Economic developments**

Another large disparity (the residual error) in the first quarter between the two measures of the gross domestic product at current prices complicates interpretation of the flow of funds by distorting the recorded financial positions of the various sectors (Table A). Estimates of expenditure suggest that G.D.P. was nearly 8% higher than in the December quarter whereas estimates of income put the increase at just over 4½%. The boom in personal spending and a resumption of stockbuilding were the main sources of expansion, augmented by increases in the value of stocks and in the prices of exports and of food.

Consumers' expenditure rose by 4¼% in the first quarter, some of which was a temporary surge as people bought in advance of the introduction of value added tax. But, with the wage freeze in operation, personal disposable income rose by only 1¾% over the same period, and clearly, even allowing for statistical errors, saving dropped markedly. (The ratio of personal saving to personal disposable income fell to 7.2%, the lowest for a long time.) Less saving was coupled with greater spending on new dwellings and stockbuilding, which put the personal sector into financial deficit for the first time for many years (though the massive swing in the sector's unidentified transactions casts doubt on the meaning of these figures).

Payments of dividends, previously delayed to take advantage of transitional arrangements for the new system of corporation tax, depressed saving by industrial and commercial companies. Because of this, and because of the marked increase in expenditure on stocks, the sector's financial surplus was less than £50 million — much smaller than in the December quarter. The financial surplus of financial companies (including banks) was little changed.

The public sector's saving (current surplus) was larger than in the December quarter, but it was outweighed by a larger rise in spending on capital formation, particularly by the nationalised industries. As a result the sector fell deeper into financial deficit.

The overseas sector's financial surplus rose sharply. This was the counterpart of the worsening of the U.K. current balance (and also of payments in implementation of the guarantees provided for under the sterling agreements, which are treated as capital transfers).

Table A

## Income and expenditure

£ millions

Seasonally adjusted

	Income from employment and trading(a)(b)	Transfer incomes etc.(b)	less Consumption(c)	less Current transfer payments	equals Saving	less Gross domestic capital formation(a)(d)	less Capital transfers (net payments -)	equals Financial surplus/deficit(e)
<b>Personal sector</b>								
1971 3rd qtr.	8,543	3,473	- 8,805	-2,341	870	- 502	- 89	279
4th qtr.	8,672	3,680	- 8,997	-2,447	908	- 565	- 92	251
1972 1st qtr.	8,873	3,757	- 9,247	-2,576	807	- 597	-104	106
2nd qtr.	9,223	3,977	- 9,537	-2,423	1,240	- 694	- 98	448
3rd qtr.	9,452	3,817	- 9,837	-2,452	980	- 583	- 84	313
4th qtr.	9,803	4,078	-10,213	-2,605	1,063	- 665	- 84	314
1973 1st qtr.	10,075	4,223	-10,644	-2,823	831	- 834	- 89	- 92
<b>Company sector(f)</b>								
1971 3rd qtr.	1,535	1,253		-1,761	1,027	-1,044	114	97
4th qtr.	1,477	1,261		-1,815	923	-1,036	81	- 32
1972 1st qtr.	1,485	1,305		-1,691	1,099	- 984	96	211
2nd qtr.	1,609	1,325		-1,929	1,005	- 999	77	83
3rd qtr.	1,673	1,456		-1,846	1,283	-1,190	60	153
4th qtr.	1,772	1,592		-1,879	1,485	-1,333	62	214
1973 1st qtr.	1,950	1,765		-2,043	1,672	-1,621	75	126
<b>Public sector</b>								
1971 3rd qtr.	444	5,246	- 2,667	-2,015	1,008	-1,114	- 25	-131
4th qtr.	408	5,474	- 2,720	-2,191	971	-1,183	11	-201
1972 1st qtr.	319	5,497	- 2,772	-2,350	694	-1,137	8	-435
2nd qtr.	454	5,628	- 2,807	-2,367	908	-1,212	21	-283
3rd qtr.	471	5,611	- 2,974	-2,351	757	-1,177	24	-396
4th qtr.	515	5,754	- 3,031	-2,528	710	-1,241	22	-509
1973 1st qtr.	462	6,001	- 3,111	-2,559	793	-1,425	- 24	-656
<b>Overseas sector(g)</b>								
1971 3rd qtr.					- 359			-359
4th qtr.					- 261			-261
1972 1st qtr.					- 61			- 61
2nd qtr.					- 116			-116
3rd qtr.					104			104
4th qtr.					36			36
1973 1st qtr.					189		38	227

(a) Before providing for depreciation and stock appreciation.

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

(c) Other than depreciation.

(d) Including stocks.

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

(f) Including financial institutions.

(g) See notes on sources and definitions to line 5, page 305.

### Public sector finance and banking transactions

Despite having a larger financial deficit, the public sector's borrowing requirement of £540 million was £400 million smaller than in the fourth quarter (see Table B). However, the Government needed £140 million to finance external transactions. This included £46 million of foreign currency borrowed, at home and abroad, by public corporations and local authorities under the exchange cover scheme reintroduced in the 1973 Budget; such borrowing is surrendered to the reserves for sterling. Sales of government debt, notably of gilt-edged stock, to the general public were partly offset by a net increase of £270 million in the Issue Department's holding of commercial bills and local authority debt, and the banks were left to provide the Government with £600 million of finance. Local authorities and public corporations, on the other hand, were each able to repay substantial amounts to the banks.

**Table B**  
**Public sector**

£ millions

Seasonally adjusted

	1971		1972				1973	
	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
Capital expenditure	+1,114	+1,183	+1,137	+1,212	+1,177	+1,241	+1,425	
less Saving	-1,008	- 971	- 694	- 908	- 757	- 710	- 793	
less Capital transfers (net)	+ 25	- 11	- 8	- 21	- 24	- 22	+ 24	
<i>equals</i> Financial surplus -/ deficit +	+ 131	+ 201	+ 435	+ 283	+ 396	+ 509	+ 656	
Lending and other transactions (increase in assets +)(a)	+ 85	+ 177	- 74	+ 173	+ 137	+ 308	+ 108	
Import deposits (repayments +)	+ 1							
Unidentified	+ 82	+ 45	- 320	+ 145	- 47	+ 115	- 224	
<b>Borrowing requirement</b> (increase +)	<b>+ 299</b>	<b>+ 423</b>	<b>+ 41</b>	<b>+ 601</b>	<b>+ 486</b>	<b>+ 932</b>	<b>+ 540</b>	
<i>Financed by (borrowing -):</i>								
<i>Central government:</i>								
<i>External transactions</i>	+ 779	+ 976	- 35	- 960	- 185	- 252	+ 140	+ 342
<i>Notes and coin with the public</i>	- 54	- 41	- 138	- 125	- 95	- 137	- 138	- 129
<i>Bank borrowing</i>	- 248	- 546	+ 306	+ 865	+ 201	- 169	- 610	- 375
<i>Other domestic borrowing</i>	- 632	- 631	- 203	- 106	- 197	- 196	+ 135	- 555
	- 155	- 242	- 70	- 326	- 276	- 754	- 473	- 717
<i>Local authorities:</i>								
<i>External finance</i>	+ 2	- 28	- 41	+ 17	- 60	- 65	- 70	
<i>Bank borrowing</i>	- 174	- 163	+ 57	- 28	- 73	+ 13	+ 134	
<i>Other domestic borrowing</i>	+ 35	+ 65	- 81	- 114	- 30	- 116	- 217	
	- 137	- 126	- 65	- 125	- 163	- 168	- 153	
<i>Public corporations:</i>								
<i>External finance</i>	- 6	- 7	- 22	- 9	+ 10	+ 1	- 44	
<i>Domestic borrowing</i>	- 1	- 48	+ 116	- 141	- 57	- 11	+ 130	
	- 7	- 55	+ 94	- 150	- 47	- 10	+ 86	
<b>Total net borrowing</b>	<b>- 299</b>	<b>- 423</b>	<b>- 41</b>	<b>- 601</b>	<b>- 486</b>	<b>- 932</b>	<b>- 540</b>	

(a) Consisting principally of lending to the overseas and private sectors (including refinancing of export credits and public corporations' identified trade credit) and changes in bank deposits.

**Table C****Overseas sector<sup>(a)</sup>**

£ millions

*Seasonally adjusted*

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

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

	1971		1972				1973	
	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
<b>Financial surplus +/deficit -</b>	-359	- 261	- 61	-116	+104	+ 36	+227	
<b>Transactions with the U.K. private sector</b>								
Investment flows:								
Transactions in company and overseas securities	+214	+ 30	-169	-156	-125	-100	- 3	
Miscellaneous private investment	+ 9	+ 18	+ 26	- 67	- 46	- 62	- 43	
Other transactions:								
Net external transactions by								
U.K. banks <sup>(b)</sup>	+153	+ 541	+178	-219	- 11	+ 64	+287	+417
Other identified	+230	- 140	- 41	-169	-135	+300	+ 8	
Balancing item	- 91	+ 301	- 90	-356	+247	-413	+113	
	+515	+ 750	- 96	-967	- 70	-211	+362	
<b>Transactions with the U.K. public sector</b>								
Lending etc. <sup>(c)</sup>	- 99	- 70	- 63	-101	- 61	- 69	-109	
External finance: <sup>(d)</sup>								
Central government	-779	- 976	+ 35	+960	+185	+252	-140	-342
Local authorities	- 2	+ 28	+ 41	- 17	+ 60	+ 65	+ 70	
Public corporations	+ 6	+ 7	+ 22	+ 9	- 10	- 1	+ 44	
	-874	-1,011	+ 35	+851	+174	+247	-135	

(a) It has not been possible to include in this table the balance of payments estimates for the 2nd quarter of 1973 and revisions to previous quarters, which were released in September and appear in the statistical annex, Table 20.

(b) Other than purchases of securities.

(c) These overseas transactions of the public sector contribute to its borrowing requirement.

(d) These overseas transactions of the public sector are among the items financing its borrowing requirement.

Bank lending to the private sector (see Table D) increased rather more slowly than in the last quarter of 1972, both the personal sector and industrial and commercial companies taking less than before. The rate of increase in the private sector's bank deposits also fell away significantly; the change was more than accounted for by the company sector (including financial institutions) - in particular, it sold some £95 million of sterling certificates of deposit, partly in anticipation of Budget measures to tax capital gains on them. At times during the early part of the quarter it was profitable for companies to borrow from banks and to invest in term deposits and sterling certificates of deposit, inflating both sides of the banks' balance sheets (the 'merry-go-round'). In March, associated with the closing of the tax loophole and the narrowing of interest differentials, this process began to unwind, but had not done so fully by the end of the quarter. The growth of the money stock moderated. The broadly defined version ( $M_3$ ) increased by about 5¾%, as against some 7¼% in the December quarter. With the narrowly defined version ( $M_1$ ) the contrast was more striking - virtually no change in the first quarter as against a rise of 4% in the previous period - but this series is the more erratic.

**Table D**  
**Banking sector**

£ millions

*Seasonally adjusted*

Lending: increase +/decrease -  
Deposits: increase -/decrease +

	1971		1972				1973	
	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
<b>Lending to:</b>								
Public sector	+ 432	+ 758	- 466	- 697	- 45	+ 182	+ 357	+ 494
Company sector (a)	+ 387	+ 487	+1,091	+1,138	+ 830	+1,103	+ 970	+ 616
Personal sector	+ 261	+ 273	+ 499	+ 670	+ 359	+ 744	+ 539	+ 368
<b>Total domestic lending</b>	<b>+1,080</b>	<b>+1,518</b>	<b>+1,124</b>	<b>+1,111</b>	<b>+1,144</b>	<b>+2,029</b>	<b>+1,866</b>	<b>+1,478</b>
<b>Deposits by:</b>								
Public sector	- 7	- 30	+ 13	+ 5	+ 4	- 102	+ 14	- 56
Company sector (a)	- 120	- 600	- 376	-1,003	- 542	-1,036	- 795	- 193
Personal sector	- 292	- 362	- 463	- 409	- 398	- 497	- 584	- 801
<b>Total domestic deposits</b>	<b>- 419</b>	<b>- 992</b>	<b>- 826</b>	<b>-1,407</b>	<b>- 936</b>	<b>-1,635</b>	<b>-1,365</b>	<b>-1,050</b>
Net lending to overseas sector (b)	- 357	- 559	- 197	+ 295	+ 34	- 123	- 204	- 422
Non-deposit liabilities (net)	- 304	+ 33	- 101	+ 1	- 242	- 271	- 297	- 6

(a) Including other financial institutions.

(b) Claims on overseas sector net of overseas deposits.

**Table E**  
**Personal sector**

£ millions

*Seasonally adjusted*

	1971		1972				1973	
	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
<b>Saving</b>	+ 870	+ 908	+ 807	+1,240	+ 980	+1,063	+ 831	
Capital transfers (net)	- 89	- 92	- 104	- 98	- 84	- 84	- 89	
Capital expenditure	- 502	- 565	- 597	- 694	- 583	- 665	- 834	
<b>Financial surplus (+)</b>	<b>+ 279</b>	<b>+ 251</b>	<b>+ 106</b>	<b>+ 448</b>	<b>+ 313</b>	<b>+ 314</b>	<b>- 92</b>	
<b>Borrowing (-)</b>								
For house purchase	- 495	- 534	- 577	- 679	- 719	- 703	- 757	
Bank borrowing (a)	- 236	- 233	- 444	- 580	- 259	- 644	- 469	- 298
Hire purchase debt	- 88	- 77	- 65	- 46	- 65	- 65	- 43	
Other	+ 54	- 100	+ 91	+ 54	- 22	- 155	- 10	
<b>Borrowing (-)</b>	<b>- 765</b>	<b>- 944</b>	<b>- 995</b>	<b>-1,251</b>	<b>-1,065</b>	<b>-1,567</b>	<b>-1,279</b>	
<b>Acquisition of financial assets (+)</b>								
Life assurance and pension funds	+ 519	+ 512	+ 558	+ 623	+ 581	+ 612	+ 615	
Government stocks	+ 174	+ 101	- 130	+ 28	+ 55	+ 15	+ 129	
Company and overseas securities	- 316	- 351	- 219	- 327	- 255	- 246	- 275	
Unit trust units	+ 9	+ 22	+ 23	+ 57	+ 58	+ 65	+ 56	+ 52
Bank deposits, notes and coin	+ 319	+ 382	+ 532	+ 471	+ 445	+ 565	+ 653	+ 865
Building society shares and deposits	+ 527	+ 583	+ 588	+ 584	+ 453	+ 514	+ 454	
National savings	+ 88	+ 140	+ 130	+ 170	+ 108	+ 64	+ 59	+ 95
Local authority debt	- 66	- 89	- 28	- 55	- 20	+ 26	+ 81	
Other	+ 59	+ 114	+ 67	+ 92	+ 69	+ 91	- 36	
<b>Acquisition of financial assets (+)</b>	<b>+1,313</b>	<b>+1,414</b>	<b>+1,521</b>	<b>+1,643</b>	<b>+1,494</b>	<b>+1,706</b>	<b>+1,736</b>	
<b>Identified financial transactions</b>	<b>+ 548</b>	<b>+ 470</b>	<b>+ 526</b>	<b>+ 392</b>	<b>+ 429</b>	<b>+ 139</b>	<b>+ 457</b>	
<b>Unidentified</b>	<b>- 269</b>	<b>- 219</b>	<b>- 420</b>	<b>+ 56</b>	<b>- 116</b>	<b>+ 175</b>	<b>- 549</b>	

(a) Other than for house purchase.

### Other financial flows

The national income accounts suggest that the *personal sector* was in deficit in the first quarter, but the sector's identified financial transactions show a conflicting picture — its recorded financial liabilities grew at a slower rate than in the previous quarter, and its financial assets apparently grew slightly faster (Table E). Persons placed much less with building societies and ran down holdings of tax reserve certificates, but they invested considerably more in government stocks and local authority debt.

*Industrial and commercial companies* (see Table F) continued to spend heavily to acquire trade investments at home and assets abroad. Their financing requirement was considerably larger than in the previous quarter, in line with the sharp reduction in their financial surplus, and they again relied heavily on the banking system. (Indeed, had not the Issue Department purchased £226

**Table F**  
**Industrial and commercial companies**

£ millions

*Seasonally adjusted*

Assets: increase +/decrease -  
Liabilities: increase -/decrease +

	1971		1972				1973	
	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
Domestic capital formation	+900	+908	+859	+891	+1,002	+1,161	+1,461	
less Saving	-880	-856	-958	-859	-1,024	-1,235	-1,412	
less Capital transfers (net)	-133	-101	-116	- 97	- 80	- 80	- 93	
<i>equals</i> Financial surplus -/deficit +	-113	- 49	-215	- 65	- 102	- 154	- 44	
Trade investments, mergers, etc. in the United Kingdom	+128	+ 85	+114	+124	+ 119	+ 175	+ 155	
Long-term investment abroad	+152	+188	+142	+149	+ 173	+ 213	+ 250	
Import deposits	- 1							
<b>Total requiring financing (+)</b>	<b>+166</b>	<b>+224</b>	<b>+ 41</b>	<b>+208</b>	<b>+ 190</b>	<b>+ 234</b>	<b>+ 361</b>	
Capital issues (including euro-currency issues)	-119	-141	-136	-203	- 212	- 176	- 109	- 78
Overseas investment in U.K. companies	-158	-142	-139	- 63	- 116	- 129	- 157	
Import credit and advance payments on exports	- 42	- 31	- 81	- 30	- 45	- 101	- 85	
Export credit and advance payments on imports	+ 15	+ 12	+ 15	+ 27	+ 33	+ 17	+ 77	
Bank borrowing	-228	-266	-770	-727	- 648	- 843	- 671	-573
Other borrowing(a)	- 16	- 20	+ 12	- 29	- 2	- 8	- 439	
Bank deposits, notes and coin	+145	+394	+317	+568	+ 626	+ 775	+ 637	+126
Other liquid assets(b)	+ 73	+ 41	+ 35	- 4	+ 6	+ 36	+ 94	
Other items(c)	+ 32	+ 63	+ 90	- 61	- 25	+ 5	+ 100	
Other overseas transactions (including the balance of payments balancing item)(d)	- 98	-116	+107	+496	- 71	+ 164	- 146	
<i>Unidentified domestic transactions(d)</i>	<i>+230</i>	<i>- 18</i>	<i>+509</i>	<i>-182</i>	<i>+ 264</i>	<i>+ 26</i>	<i>+ 338</i>	
<b>Total financing</b>	<b>-166</b>	<b>-224</b>	<b>- 41</b>	<b>-208</b>	<b>- 190</b>	<b>- 234</b>	<b>- 361</b>	

(a) Including transactions in commercial bills by the Issue Department of the Bank of England.

(b) Treasury bills, local authority debt, tax reserve certificates and deposits with other financial institutions.

(c) Trade credit to public corporations and hire purchase lending.

(d) 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.

**Table G**  
**Financial institutions other than banks**

£ millions

Seasonally adjusted

	1971		1972				1973	
	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
<b>Increase in financial liabilities (-)</b>								
Life assurance and pension funds	- 519	- 512	- 558	- 623	- 581	- 612	- 615	
Building society shares and deposits	- 545	- 606	- 602	- 596	- 465	- 524	- 464	- 778
Other deposits	- 78	- 105	- 7	- 61	- 74	- 71	- 125	
Capital issues	- 55	- 50	- 99	- 230	- 78	- 32	- 46	- 5
Unit trust units	- 9	- 22	- 23	- 57	- 58	- 65	- 56	- 52
Other (mainly bank) borrowing	- 155	- 201	- 270	- 337	- 173	- 249	- 284	
	<b>-1,361</b>	<b>-1,496</b>	<b>-1,559</b>	<b>-1,904</b>	<b>-1,429</b>	<b>-1,553</b>	<b>-1,590</b>	
<b>Increase in financial assets (+)</b>								
Short-term assets <sup>(a)</sup>	- 8	+ 237	+ 103	+ 549	- 98	+ 417	+ 245	
Government stocks	+ 342	+ 310	+ 240	+ 66	+ 13	+ 99	+ 77	
Company and overseas securities:								
Ordinary shares	+ 260	+ 254	+ 379	+ 589	+ 468	+ 356	+ 112	
Fixed interest	+ 85	+ 33	+ 87	+ 30	+ 45	+ 70	+ 36	
Loans for house purchase	+ 440	+ 461	+ 493	+ 560	+ 598	+ 566	+ 634	
Long-term lending to local authorities	+ 6	+ 39	+ 65	+ 14	+ 53	+ 7	- 3	
Hire purchase claims	+ 65	+ 47	+ 49	+ 42	+ 20	+ 52	+ 79	
Other lending	+ 9	+ 61	- 10	- 28	+ 82	+ 52	+ 163	
	<b>+1,199</b>	<b>+1,442</b>	<b>+1,406</b>	<b>+1,822</b>	<b>+1,181</b>	<b>+1,619</b>	<b>+1,343</b>	
<b>Net identified financial   transactions</b>	<b>- 162</b>	<b>- 54</b>	<b>- 153</b>	<b>- 82</b>	<b>- 248</b>	<b>+ 66</b>	<b>- 247</b>	

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

million of commercial bills from the banking system, companies' indebtedness to banks would have been still greater.)

*Financial institutions* outside the banking sector attracted much the same amount of money as in the fourth quarter, although the identified increase in their holdings of financial assets was nearly £300 million smaller (Table G). A less rapid growth in their holdings of short-term assets partly reflected a smaller increase in their bank deposits, and in particular a reduction in their holdings of sterling certificates of deposit. They bought fewer equities and debentures as a result of investment trusts lightening their portfolios. The trusts had already reduced their U.K. equity holdings in the fourth quarter, and they sold a further £75 million in the March quarter as the market weakened. For the first time since the first quarter of 1971, investment trusts also sold more overseas securities than they bought (to the extent of some £35 million) — a result of waning confidence in most of the main markets. The funds realised were mainly placed on deposit with banks and in short-term overseas assets.

#### Developments in the second quarter of 1973

The central government borrowing requirement in the second quarter amounted to some £715 million, or nearly £250 million more than in the March quarter; and a large currency inflow (stemming in the main from public sector borrowing in euro-dollars) meant that the Government's total domestic financing needs amounted to some £1,050 million. Unusually large sales of gilt-edged stock to the general public provided almost £500

million of this finance, and the banking sector provided the lion's share of the remainder.

Bank lending to the private sector increased by about £980 million – some £525 million less than the increase in the previous quarter. The associated increase in the broad version of the money supply ( $M_3$ ) was about 4¼%, but  $M_1$  rose by 6½%. The growth in  $M_3$  showed up in an exceptionally large increase in deposits held by the personal sector (which includes unincorporated businesses and non-profit-making bodies, as well as individuals). In contrast, the rise in industrial and commercial companies' deposits was much smaller than in any quarter since early 1971, partly because of the reversal of earlier 'merry-go-round' transactions.



**Table H**  
**Flow of funds: first quarter 1973**

£ millions

Not seasonally adjusted

	Line	Public sector	Overseas sector (a)	Personal sector	Industrial and commercial companies	Banking sector	Other financial institutions	Residual error
<b>Capital account</b>								
Saving	1	+1,699	+343	+1,334	+ 600		+ 21	
Taxes on capital and capital transfers	2	+ 35	+ 38	- 94	+ 91		- 70	
<i>less:</i>								
Gross fixed capital formation at home	3	-1,462		- 688	- 940		-197	
Increase in value of stocks and work in progress	4	- 20		- 103	- 480		+ 33	
<b>Financial surplus +/-deficit -</b>	<b>5</b>	<b>+ 252</b>	<b>+381</b>	<b>+ 449</b>	<b>- 729</b>		<b>-213</b>	<b>-140</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	- 245				+ 245		
Life assurance and pension funds	7			+ 615			-615	
Loans by the U.K. Government	8	+ 41	- 43	-	+ 1		+ 1	
<b>Total external currency flow</b>	<b>9.1</b>	<b>+ 69</b>	<b>- 69</b>					
Other central government external transactions	9.2	+ 80	- 80					
Banks' net external transactions	10		+262			- 262		
Miscellaneous investment overseas (net)	11	+ 36	- 80		+ 15		+ 29	
Notes and coin								
Bank deposits of domestic sectors	12	+ 172		+ 46	+ 46	- 264		
Bank deposits of domestic sectors	13	+ 10		+ 451	+ 182	- 804	+161	
Deposits with other financial institutions	14		+ 14	+ 502	+ 38		-554	
National savings	15.1	- 115		+ 115				
Tax reserve certificates	15.2	+ 159		- 88	- 34	- 33	- 4	
Bank lending to domestic sectors								
Bank lending to domestic sectors	16	+ 117		- 402	- 860	+1,445	-300	
Hire purchase debt	17	+ 7		- 8	- 77		+ 78	
Loans for house purchase	18	+ 53		- 731		+ 70	+608	
Other loans and accruals	19	+ 323		- 136	- 516	+ 281	+ 48	
Marketable government debt held by domestic sectors:								
Treasury bills	20	+ 216			- 7	- 215	+ 6	
Stocks	21	- 189		+ 129		- 17	+ 77	
Local authority debt	22	- 172	+ 77	+ 89	+ 49	- 55	+ 12	
U.K. company and overseas securities:								
Capital issues	23		+ 6		- 109	- 10	- 46	
Other transactions	24	+ 1	- 9	- 275	+ 195	+ 99	+148	
Unit trust units	25			+ 61			- 61	
<b>Identified financial transactions:</b>	<b>26</b>	<b>+ 563</b>	<b>+ 78</b>	<b>+ 368</b>	<b>-1,077</b>	<b>+ 480</b>	<b>-412</b>	
<i>Unidentified</i>	<i>27</i>	<i>- 311</i>	<i>+303</i>	<i>+ 81</i>	<i>+ 348</i>	<i>-281</i>	<i>-140</i>	
<b>Total = Financial surplus + /deficit -</b>	<b>28</b>	<b>+ 252</b>	<b>+381</b>	<b>+ 449</b>	<b>- 729</b>		<b>-213</b>	<b>-140</b>

- nil or less than £½ million.

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

**Table J**  
**Flow of funds: first quarter 1973**

£ millions

Seasonally adjusted

	Line	Public sector	Overseas sector (a)	Personal sector	Industrial and commercial companies	Banking sector	Other financial institutions	Residual error
<b>Capital account</b>								
Saving	1	+ 793	+189	+831	+1,412		+260	
Taxes on capital and capital transfers	2	- 24	+ 38	- 89	+ 93		- 18	
less:								
Gross fixed capital formation at home	3							
Increase in value of stocks and work in progress	4	-1,425		-834	-1,461		-160	
<b>Financial surplus +/-deficit -</b>	<b>5</b>	<b>- 656</b>	<b>+227</b>	<b>- 92</b>	<b>+ 44</b>		<b>+ 82</b>	<b>+395</b>
<b>Changes in financial assets and liabilities</b>								
Assets: increase +/decrease -								
Liabilities: increase -/decrease +								
<b>Net indebtedness of Government to</b>								
Bank of England, Banking Department	6	- 357				+ 357		
Life assurance and pension funds	7			+615			-615	
Loans by the U.K. Government	8	+ 27	- 29	-	+ 1		+ 1	
<b>Total central government external transactions</b>	<b>9</b>	<b>+ 140</b>	<b>-140</b>					
Banks' net external transactions	10		+287			- 287		
Miscellaneous investment overseas (net)	11	+ 36	- 77		+ 12		+ 29	
<b>Notes and coin</b>	<b>12</b>	<b>- 41</b>		<b>+ 69</b>	<b>+ 69</b>	<b>- 97</b>		
Bank deposits of domestic sectors	13	- 14		+584	+ 568	-1,365	+227	
Deposits with other financial institutions	14		+ 6	+506	+ 77		-589	
National savings	15-1	- 59		+ 59				
Tax reserve certificates	15-2	+ 159		- 88	- 34	- 33	- 4	
Bank lending to domestic sectors	16	+ 119		-469	- 671	+1,306	-285	
Hire purchase debt	17	+ 7		- 43	- 43		+ 79	
Loans for house purchase	18	+ 53		-757		+ 70	+634	
Other loans and accruals	19	+ 179		- 10	- 297	- 6	+134	
<b>Marketable government debt held by domestic sectors:</b>								
Treasury bills	20	- 405			- 7	+ 406	+ 6	
Stocks	21	- 189		+129		- 17	+ 77	
Local authority debt	22	- 88	+ 70	+ 81	+ 58	- 134	+ 13	
<b>U.K. company and overseas securities:</b>								
Capital issues	23		+ 6		- 109	- 10	- 46	
Other transactions	24	+ 1	- 9	-275	+ 195	+ 99	+148	
Unit trust units	25			+ 56			- 56	
<b>Identified financial transactions</b>	<b>26</b>	<b>- 432</b>	<b>+114</b>	<b>+457</b>	<b>- 181</b>	<b>+ 289</b>	<b>-247</b>	
<b>Unidentified</b>	<b>27</b>	<b>- 224</b>	<b>+113</b>	<b>-549</b>	<b>+ 225</b>	<b>+ 40</b>		<b>+395</b>
<b>Total = Financial surplus + /deficit -</b>	<b>28</b>	<b>- 656</b>	<b>+227</b>	<b>- 92</b>	<b>+ 44</b>	<b>+ 82</b>		<b>+395</b>

- nil or less than £½ million.

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

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

### Sources

The main statistical series used in compiling Tables H and J 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, and 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 statistical 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 plus, from the first quarter of 1973, capital transfer payments.

**Line 6** See footnote (c) 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, and euro-currency issues by U.K. companies.

**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 any 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 completely cancel out over the year. The adjustments take account of the data up to the end of 1972.

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