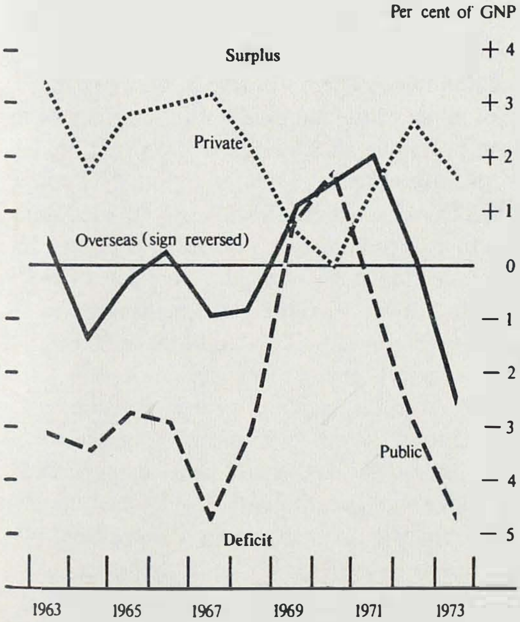
Financial review

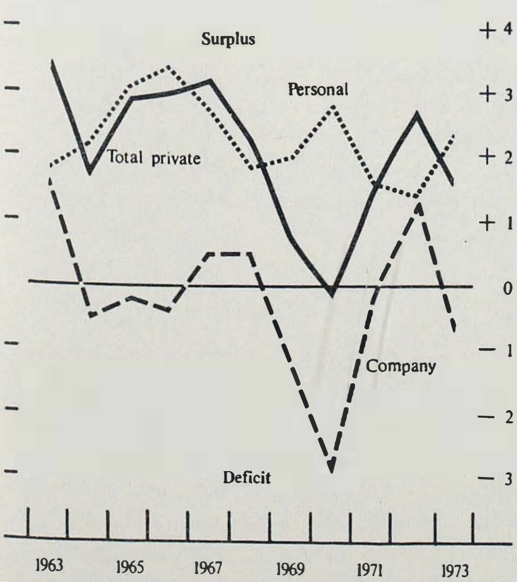
The first part of this review begins with a survey of the flow of funds in 1973 and then discusses developments so far in 1974, though only partial statistics are as yet available for the first quarter. The second part reviews the course of interest rates and other developments in the various financial markets during the three months February to April. At the end there are the usual flow of funds tables, expanded this time to include annual data from 1969; two extra tables provide figures by institutional group for financial institutions other than banks in 1973, and figures for new issues and other transactions in equities and debentures since 1969.

Surpluses and deficits of the public, private, and overseas sectors



Over the past ten years or so the association between the public sector deficit and the overseas sector surplus has not in general been close.

Surpluses and deficits of total private sector, and company and personal sectors



Since 1963 the financial surplus of the private sector as a whole has ranged between nil and 3½% of GNP. The personal and company sectors, which constitute it, have behaved very disparately.

Sector financing: developments in 1973

Financial positions

In 1973 the pattern of sector surpluses and deficits shifted considerably from that in 1972. The public sector deficit increased by some £1,400 million, to about £2,950 million. There was a marked swing from surplus to deficit in the position of the company sector, almost matched by an increase in the personal sector's surplus, leaving the surplus of the private sector as a whole rather smaller than in 1972. The overseas sector swung by about £1,600 million from small deficit into substantial surplus as the United Kingdom's balance of payments deteriorated.

The increase in the public sector's deficit continued a movement which began in 1971: after an unbroken series of deficits since at least the early 1950s, the public sector had achieved modest surpluses in 1969 and 1970, but thereafter it moved progressively back into deficit. The overseas sector's deficit (UK surplus on current account) was largest in 1971, but the sector subsequently swung back into surplus.

The first chart on this page shows the recorded surpluses and deficits of the public, private, and overseas sectors for the past eleven years, all expressed as a percentage of gross national product to allow as far as possible for secular increases in incomes and prices; the sign of the overseas sector position has been reversed to facilitate comparison with that of the public sector. It can be seen from the chart that there has been some association between the public sector deficit and the position of the overseas sector during most of the period, though it broke down for some years at the end of the 1960s, when a progressive strengthening in the position of the public sector was matched by a sharp deterioration in the surplus of the private sector. The second chart shows that the financial positions of the personal and company sectors, which together comprise the private sector, have behaved very differently from each other – in fact in all but one of the past ten years they have moved in opposite directions. The divergence was particularly marked in 1973, and the very large unidentified 'inflow' to the personal sector, and the smaller though still substantial unidentified 'outflow' from the company sector (which represent deficiencies in the national income accounts as well as some unidentified financial transactions), suggest that the true deficit of the company sector and true surplus of the personal sector – and therefore the gap between them – could well have been even larger than shown here. Because these components of the private sector have behaved disparately, it would seem difficult to read much meaning into the position of the two combined – even if that total did in fact exhibit the relative constancy that some commentators have recently claimed – or to place much faith in the likely continuation of past statistical trends. In so far as the spending of each sector is determined by its own disposable income, then for the aggregate private sector surplus to remain constant and unaffected by income changes, it would be necessary not only for the two sectors taken together to spend virtually the whole of any increase in disposable income, but also for this to be true of each separately. Otherwise any change in the ratio of companies' to persons' incomes, or in the relative incidence of taxation between the two, would affect the supposedly constant joint financial surplus.

Thus there seems as yet insufficient justification for believing that even such constancy as the private sector position has in fact exhibited – and there has clearly been one very marked exception within the last decade – has been the consequence of systematic and lasting influences rather than of fortuitous or transitory phenomena. The matter will soon be put to the test, at any rate as regards the short run, for a counter view would suggest that because of the combination of the effects of much dearer oil on the overseas sector surplus and the prospective reduction in the public sector's deficit, the financial position of the private sector in 1974 should decline substantially.

Public sector finance

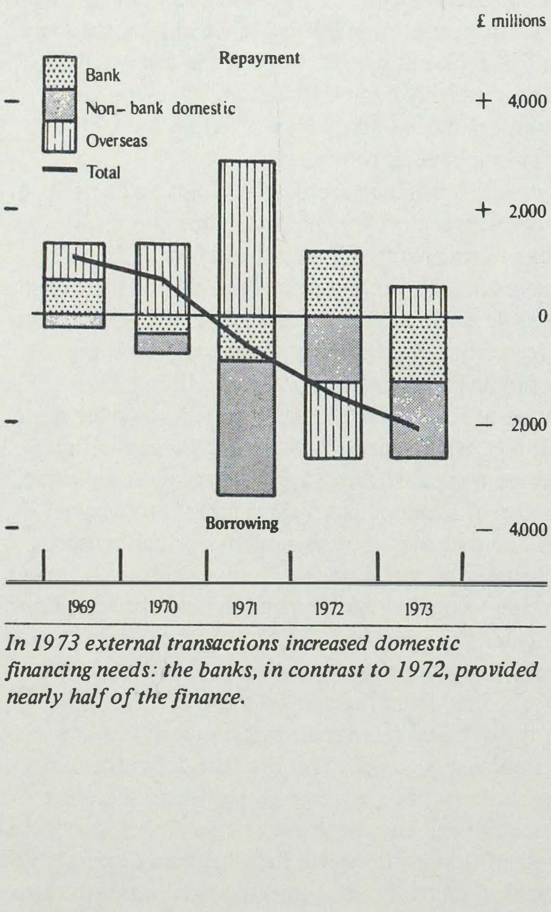
In 1973 the public sector borrowing requirement increased by some £2,140 million to about £4,200 million. There was also a change in the composition of its finance, for much of the increase was in the share of the local authorities and public corporations, which borrowed proportionately less than usual from the central government.

Borrowing requirements
£ millions

	1972	1973
Central government	1,430	2,030
Other public sector	630	2,170

The pattern of financing of the central government borrowing requirement differed markedly from that of the previous year (see the chart). In 1972 a sizable foreign currency outflow had provided a large part of the Government's sterling finance, but in 1973 external transactions increased the requirement for domestic finance by some £570 million, to £2,600 million. This was partly because the proceeds of foreign currency borrowing by the rest of the public sector were not entirely absorbed by operations to support the pound (and the net addition to the reserves required sterling finance in the usual way), and partly because there was a fall in other overseas holdings of central government debt. Rather more than half of the Government's domestic financing needs was provided by the general public, who in particular bought some £1,500 million of gilt-edged stocks – considerably more than in the previous year, and despite the unpropitious economic background. These and some lesser transactions left the banks to provide some £1,220 million, whereas in 1972 – when there was an abundance of finance from other sources, in particular from the currency outflow – the Government had repaid almost as large a sum.

Finance of the central government's borrowing requirement(–)



In 1973 external transactions increased domestic financing needs: the banks, in contrast to 1972, provided nearly half of the finance.

The combined financing needs of local authorities and public corporations amounted to £3,590 million in 1973, of which some £2,170 million, or more than half, was raised from outside the public sector, as against a quarter in 1972. As much as £1,100 million was borrowed in foreign currencies, mainly under the exchange cover scheme reintroduced in the 1973 Budget, the greater part (some £875 million) being obtained by public corporations. Local authorities raised a record £1,000 million from the general public. The largest share of this was taken up by financial institutions other than banks, but the personal sector bought temporary debt on a substantial scale, particularly in the second half of the year, when interest rates were higher than many other rates available to personal savers.

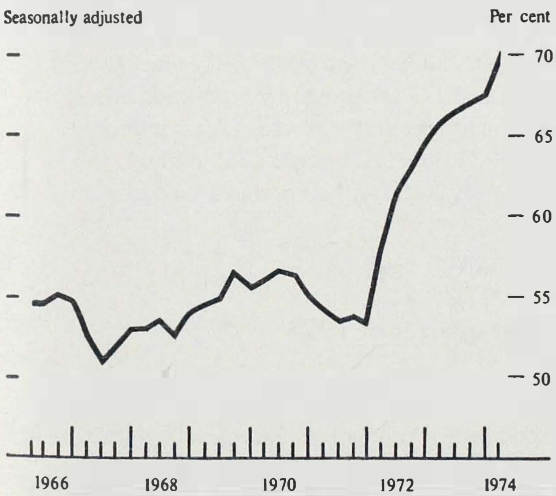
Financing of the external deficit

In 1973 the overseas sector had a surplus of some £1,530 million; about £1,470 million was the counterpart of the balance of payments deficit on current account, and the remainder was accounted for by payments under the sterling agreements (classified as capital transfers). As already described, some £1,100 million was borrowed in foreign currencies by local authorities and public corporations. They raised only about £270 million of this direct from abroad. The bulk was provided through UK banks, which also lent some £470 million in foreign currency to the private sector to finance investment abroad. Security transactions by the private sector produced a net inflow of £175 million as against an outflow of £525 million in 1972. The turn-round owed much to a growth of

Increase in bank lending to the private sector
£ millions

1969	1970	1971	1972	1973
600	1,320	1,860	6,430	6,830

Private sector share of bank lending in sterling



Since 1971, and the changed arrangements for credit control, the private sector has accounted for a strongly rising proportion of outstanding bank lending in sterling.

Increase in personal sector bank deposits
£ millions: *seasonally adjusted*

1972				1973			
1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr
460	410	400	500	560	810	960	955

inward investment – partly, perhaps, associated with the country's entry into the European Economic Community, though investment to finance North Sea development also increased. The balancing item registered a net unidentified inflow of some £475 million, in the main probably reflecting unidentified flows to companies (see Table E on page 151).

Banking sector

One of the most striking features of 1973, as of 1972, was a massive increase in bank lending to the private sector. About 70% of the total went to industrial and commercial companies, compared with 50% in the previous year. There were a number of reasons for companies' extensive reliance on bank borrowing. To some extent it replaced capital issues, for which there was little enthusiasm. Secondly, and particularly in the second half of the year, companies were replenishing their stocks of raw materials, and at greatly inflated prices. But much more important was the pattern of interest rates, which made companies reluctant to draw down their bank deposits. Rather, firms found advantage in holding on to liquid assets and using borrowing facilities instead – partly because yields on the assets differed little from costs of the liabilities, and partly no doubt as a result of a fear that bank borrowing might soon be curtailed. A substantial amount of the growth in both their bank borrowing and their bank deposits must also be attributable to arbitrage, though the extent to which the same firms were both borrowing and depositing money cannot be established from available statistics.

By contrast with burgeoning company demand for advances, the reliance on the banks by the rest of the private sector was on a rather smaller scale than in 1972. In the fourth quarter, the personal sector actually repaid more bank debt than it incurred – for the first time since 1971 – under the influence of official guidance as well as successive measures to tighten credit. For the private sector as a whole, the increase in bank borrowing was little larger than in 1972, but the private sector's share of the total of sterling lending outstanding by the banks, which had already risen markedly since the end of 1971, continued to do so throughout the whole of 1973, and by the end of the year amounted to nearly 70% (see the chart). In 1972 this trend owed something to the heavy external finance of the central government, which enabled the public sector as a whole to repay some £1,030 million to the banking system; and in 1973, although bank finance of the public sector rebounded sharply, nearly half the increase was in foreign currency.

While industry took the lion's share of new lending, it was the personal sector which added most to bank deposits, despite the agreement by the banks in September to limit rates payable on deposits under £10,000 to 9½%. Indeed in the final quarter personal sector deposits grew scarcely less rapidly than in the third, and in the second half of the year as a whole they increased over a third as much again as in the first half. Most of the increase in the deposits of all sectors taken together was concentrated in deposit accounts and certificates of deposit rather than current accounts. Thus M_3 grew by 28% while M_1, which excludes most interest-bearing deposits, increased by a much more modest 5%.

Building societies

During 1973, the building societies had to meet several successive and sharp increases in interest rates. In consequence they were frequently faced with the problem of how to strike the balance between maintaining the flow of funds to finance new mortgage lending and meeting appeals against the growing burden of interest payments. Their main problem was less in attracting small savings, which may well have come in much as usual, than in retaining large deposits. Interest rates well above the societies' rates are more easily obtainable on sizable deposits, for example on those with local authorities; and low-coupon short-dated gilt-edged stocks offered very high grossed-up yields to some investors. Thus, despite raising deposit rates several times, for much of the year the societies were not fully competitive. Only in the second quarter did they do well, attracting a

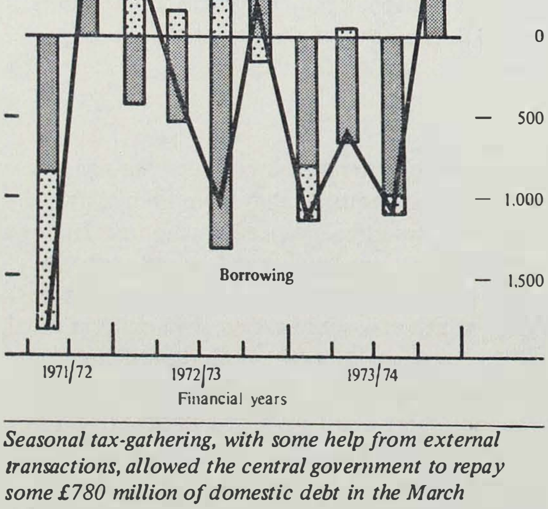
Building societies' receipts and withdrawals

£ millions: *seasonally adjusted*

	1972				1973			
	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr
Gross receipts[a]	1,290	1,340	1,290	1,370	1,440	1,590	1,570	1,420
With-drawals	780	840	920	960	1,100	960	1,240	1,250

[a] Excluding interest credited to accounts.

Central government's borrowing requirement (–)



Seasonal tax-gathering, with some help from external transactions, allowed the central government to repay some £780 million of domestic debt in the March quarter.

record inflow. In all over the year, withdrawals rose more strongly than new deposits, particularly in the third quarter, when other interest rates forged ahead and it was reported that many large deposits were switched from building societies into higher-yielding assets. With a slower growth of funds, the societies were forced to moderate their lending. Over the year as a whole the net inflow into shares and deposits (including interest credited to accounts) was £2,070 million, 6% less than in 1972, and gross advances totalled £3,450 million, again 6% down on the previous year.

Company securities by sector

Transactions in equities and debentures since 1969 are shown in Table J on page 155. Many fewer capital issues were made in 1973 than in 1972. The fall was largely in issues by industrial and commercial companies, which, in the face of high interest rates and falling prices on the stock market, relied mainly on bank lending for finance. The personal sector, as in recent years, continued to sell equities – nearly £1,300 million – though this figure being a residual is always open to some doubt. The other financial institutions bought only about a quarter as many securities as in 1972, but banks and industrial companies bought more, the latter largely more overseas securities. Among the other financial institutions (whose financial transactions in 1973 are shown by institutional group in Table H on page 154) investment and unit trusts sold £260 million of ordinary shares, whereas in 1972 they had bought £550 million, and insurance companies bought only just over half as much on the same comparison.

Developments in the first quarter of 1974

Central government

In the March quarter the central government repaid some £590 million of debt to other sectors. This was partly seasonal, but was a rather larger amount than might have been foreseen, and owed much to two developments: first, the Electricity Council repaid a bridging loan of £130 million to the central government with the proceeds of foreign currency borrowing; and, secondly, the effects of short-time working on government finances appear to have been less damaging than might have been expected. Extra expenditure on social security is likely to have been comparatively small, and may well have been matched by savings on delayed public works. Moreover, it appears that only some £60 or £70 million, perhaps less, of corporation tax payments was more than usually delayed over the end of the quarter, for companies were in many cases able to meet these payments from their large accumulation of liquid assets, in particular as certificates of deposit matured.

External transactions in the quarter provided a further £190 million of finance. Public bodies borrowed £340 million in foreign currencies, but this sum was more than offset by foreign exchange operations, and the reserves fell by £40 million. This provided the Government with sterling, and overseas holders bought £150 million of government debt as well. The central government was therefore in a position to repay some £780 million of domestic borrowing but, as the general public took up £160 million of debt, government borrowing from the banking system was reduced by some £940 million.

Allowing for seasonal movements, the domestic financing requirement becomes about £60 million. The authorities sold £210 million of gilt-edged stocks to the general public, and the public's holdings of notes and coin increased by £100 million. But some £60 million was withdrawn from national savings, and holdings of tax reserve certificates and tax deposit accounts fell by about £80 million. Moreover the Issue Department bought £70 million of local authoritv debt and £120 million of commercial bills in the course of daily operations in the market. These and some minor transactions left the banks to provide £60 million.

For the whole of the financial year 1973/74, the central government borrowing requirement amounted to £1,870 million, or hardly more than half the estimate made in the 1973 Budget. Tax receipts were more buoyant than expected, partly because of fiscal drag, but most of the shortfall simply reflected local authorities and public corporations borrowing much more than expected from other sectors instead of from the Government.

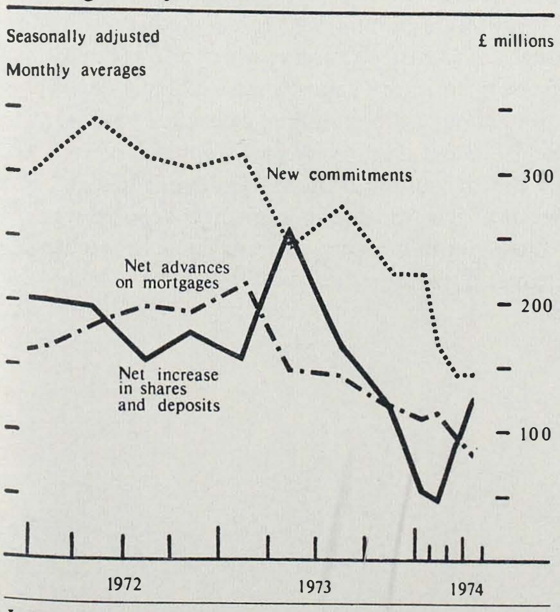
Banking sector

Bank deposits increased by only £900 million (seasonally adjusted) in the first quarter, or less than half as rapidly as in the two previous quarters, and the sectoral distribution of the increase was strikingly uneven. The deposits of industrial and commercial companies, which had grown strongly in the second half of 1973, now grew by very little. This was no doubt partly due to some unwinding of arbitrage as well as to the effects of short-time working. But companies also seem to have made considerable use of their deposits for payments of corporation tax. This represented a distinct change in behaviour since last October, when companies apparently financed five months' value added tax largely out of advances and not deposits – a change that may well partly stem from the reversion to a more normal configuration of bank lending and deposit rates.

In contrast to industrial and commercial companies, the personal sector increased its bank deposits by over £1,000 million (seasonally adjusted), much the same rate of increase as in the September and December quarters, but surprisingly rapidly in a period when many people were on short time.

Bank lending to the private sector grew rather less strongly than in the previous quarter, with most of the increase again going to industrial and commercial companies. Taken together with the fall in their bank deposits, this meant that the companies relied heavily on the banking sector for funds. Meanwhile lending to the personal sector increased only moderately, despite having been reduced in the December quarter, and so the personal sector provided finance for companies through the banking system, mainly no doubt by acquiring less of other financial assets.

Building society funds



In March and April there was some recovery in the inflow of funds, and in April new commitments to lend stopped falling.

Building societies

The inflow to building societies in the first quarter was minimal. In both January and February, allowing for seasonal movements, withdrawals of existing deposits exceeded fresh receipts. Since composite records began in 1955 this has happened only once before – in September 1973. Moreover, receipts were little more than withdrawals in March, and the net inflow in the three months was only £190 million, almost entirely accounted for by interest credited to accounts.

New commitments to lend fell sharply from some £220 million (seasonally adjusted) in January to under £150 million in March, and gross mortgage advances continued to decline, averaging about £230 million a month in the quarter compared with about £290 million a month during 1973. Repayments also came in more slowly during the quarter, reflecting the fall in advances through 1973; and, as advances continued to exceed receipts, the societies' combined liquidity ratio declined from 15·8% at end-December to 14·8% in March.

In April the societies' net receipts made an encouraging, but still modest, recovery to £125 million, thanks to a welcome reduction in the rate of withdrawals. The liquidity ratio, however, fell a little further, to 14·7%.

The position of the societies thus continued to cause concern. Competition from banks was still restricted by the limit of 9½% introduced last September on the rate paid by banks for deposits under £10,000. This compared with 7½% free of tax paid by most building societies, which (after the Budget) was equivalent to just over 11% grossed up for the basic rate of income tax. But from other directions the societies met strong competition, particularly from guaranteed income bonds, which – until the Budget – could offer around 11% net of tax, and from local authority bonds, which offered up to 15% gross; and short-dated gilt-edged stocks offered up to 13% gross.

With the growing prospect of an increase in the building societies' recommended mortgage rates above 11%, the Government in early April offered the societies immediate loans of up to £100 million at 10½%, with the promise, on terms to be decided, of a further £400 million should it be required, at an average rate of £100 million a month. A condition of the first £100 million was that rates of interest in force on 9th April for ordinary investments in the societies and for mortgages for owner-occupiers should not be increased before 19th May. On 19th April the Building Societies Association passed on the offer of the first £100 million to members, the association recommending that no changes in interest rates should be made; and advances have since been made to individual societies. The second tranche of £100 million was made available in May, and the association agreed to make no changes in recommended rates for another month.

The drawings on the first £100 million have been advanced by the Bank, at minimum lending rate. The difference between this rate and that of 10½% to be paid by societies is being settled between the Government and the Bank. The rate of 10½% is very little more than it costs the societies to raise money from the public at 7½% after paying their composite rate of income tax. Repayment of the sums advanced may be made at any time, should a society so wish; but the terms of agreement provide that repayments will, in general, be related to the monthly net inflow of funds to societies from this September onwards.

Instalment credit

Instalment credit business contracted during the March quarter for the first time since February 1971. The reimposition of terms control in December, a depressed car market, a reduction in personal incomes as a result of short-time working, and uncertainty as to how long difficulties would persist, all combined to reduce instalment credit outstanding by nearly £35 million in January. Further, though less severe, falls occurred in February and March, bringing the total contraction over the quarter to some £70 million. The dependence of finance houses on car sales meant that they were hit much harder than retailers of other consumer durables.

Changes in instalment credit outstanding (increase +/decrease –)
£ millions: *seasonally adjusted*

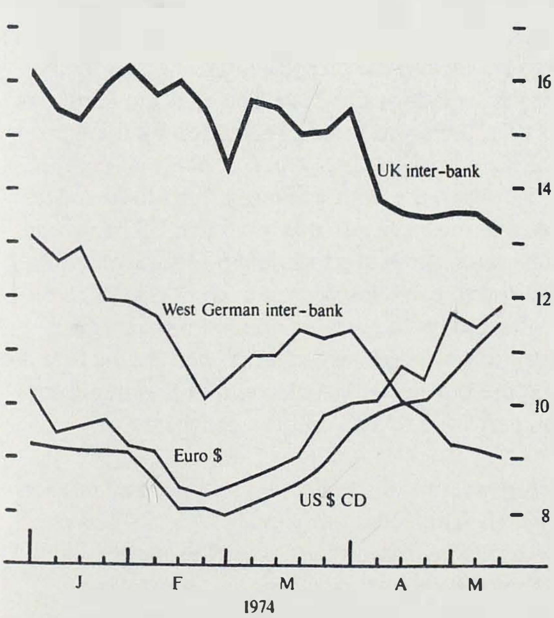
1973				1974
1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr
+180	+80	+110	+70	–70

Certain finance houses, like the banks, are covered by the supplementary deposit scheme. Their combined interest-bearing eligible liabilities fell progressively, and by mid-April were running well below the base. According to the Department of Industry's survey, which also includes finance houses outside the supplementary deposits scheme, total deposits with finance houses fell from about £475 million in December to £445 million at the end of March. The fall stemmed in part from lack of confidence engendered by the difficulties of the fringe deposit-taking institutions. Partly as a result of this, the cost of some new deposits was high, often over 16% on three-month deposits, and this tended to reduce the profitability of the finance houses' business.

Developments in financial markets

The following sections discuss developments in the markets during February to April. They are therefore generally a little more topical than the preceding sections on the flow of funds, for which full information takes longer to arrive.

Three-month interest rates at home and abroad



UK short-term rates fell in April, but remained well above foreign rates.

Short-term interest rates

In the main foreign markets, apart from the West German, there was little sign during the period of any fall in the high interest rates generally prevailing. By contrast, UK rates, though they became firmer in March, declined over the period, particularly in April; however, they still remained higher than in foreign centres. In the United States, the Federal Reserve moved to damp down inflationary pressures, and interest rates rose to new peaks.

On the Continent, conditions generally remained fairly tight, though central bank assistance when funds were short prevented further rises in interest rates in most centres. In Western Germany, however, once seasonal pressures in March had been contained, rates began to fall again, helped by fresh inflows of funds. In Italy bank rate, which had fallen behind market rates, was raised by 2½% in mid-March, to 9%, and in Norway and Sweden bank rate was increased by 1%, to 5½% and 6% respectively.

The fall in US domestic rates, which had begun towards the end of January, continued throughout February. Yields on three-month US Treasury bills fell to about 7% per annum in early February, the lowest for several months, and the main banks' prime lending rates were progressively reduced, so that by early March some of them stood at 8½%. However, an abrupt reversal occurred in March, when the Federal Reserve indicated that interest rates might have to go higher if the rate of inflation did not slow down. Yields on Treasury bills began to rise again, prompted by the prospect of increased Treasury borrowing, and, helped by a rise of ½% in Federal Reserve rediscount rates to a record 8% (the first change since August), were around 9% at the end of April. Faced with an unusually high and persistent demand for commercial credit, the banks increased their prime lending rates rapidly, and by the end of April most of them had been raised to 10½%, with several banks setting even higher rates.

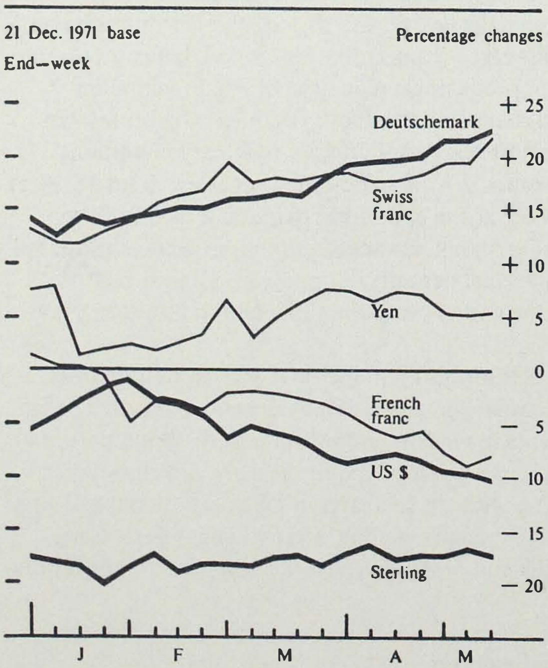
UK interest rates fell on balance over the period. The discount rate on three-month Treasury bills eased from 12% at the end of January to under 11½% at the end of April, producing a reduction of ¾% in minimum lending rate, to 12%. Rates in parallel markets declined in February but rose again in the early part of March as domestic monetary conditions tightened. Thus the three-month inter-bank rate went from about 16½% at the end of January to 14⅝% at the end of February, and then back to about 16½% at one point in March. However, conditions were ameliorated by the release of 1½% of special deposits during April, interest rates adjusted sharply, and at the end of April the three-month inter-bank rate was around 13¾%.

Discounts on forward sterling also fell, for three-month sterling from 10½% per annum at the end of January to 5% at the end of April. The fall largely reflected movements in relative interest rates in the latter part of the period, when sterling deposit rates fell quite sharply and euro-dollar rates increased again in line with the increases in US domestic rates; the covered interest differentials against sterling, after widening for a time, were again about 3% at the end of April, much the same as at the end of January.

Foreign exchange and gold markets

During February to April foreign exchange markets were at first rather quieter, and exchange rates somewhat less volatile, than for some time past, but there was some resurgence of activity from the middle of March. The influence of oil on the markets diminished a little as better supplies relieved the danger of disruption to industry in Europe and Japan.

Effective changes in exchange rates[a]



Once oil supplies began to improve in January, the dollar weakened and the deutschemark strengthened. Sterling changed comparatively little during the period.

[a] Defined in the additional notes to Table 29 of the statistical annex.

Consequently, the US dollar's rapid recovery over the turn of the year and in January was partly reversed, helped by some renewed speculation on a revaluation of the deutschemark.

Because the pound was in good demand at times to meet large oil revenue payments to producing countries (see page 125) and because uncovered interest rates were for most of the time in favour of London, *sterling* tended to be stronger than it had been since the middle of August. For two brief periods, largely reacting to electoral developments, the pound came under heavy pressure and the Bank gave support, but sterling was mostly fairly stable: the effective depreciation since the Smithsonian settlement of December 1971 mainly moved in the range 17%–19%, ending the period at 17%.

At the beginning of February, the effective depreciation had been 17¼%, but the pound quickly came under pressure on the 5th after the coal miners had decided to strike, and the pressure intensified on the 7th when the general election was called for the 28th. The effective depreciation increased sharply to 19%, there was some intervention by the Bank, and the dollar rate for the pound fell to \$2·21¼ at one point on the 7th, the lowest of the period. However, the bout was fairly short lived and, as the dollar started to weaken in most centres after the main US banks had further reduced their prime rates, some short sterling positions were soon closed. The pound also started to come into demand for payments to oil producers and, although affected by the varying opinion polls on the outcome of the general election, strengthened steadily, continuing firm in the period immediately before the election. At the end of the month the effective depreciation had narrowed to 18% and the dollar rate was \$2·30½.

The apparently inconclusive result of the election produced an intense burst of pressure on 1st March. The dollar rate slipped to \$2·26¾ at one point, the effective depreciation increased to around 19%, and the Bank provided sizable support. Some new short positions in sterling were established, but as operators sought to cover them by borrowing in the euro-sterling market a shortage of sterling developed, and many of the positions were accordingly cut out in the first few days of the new administration. Assisted by this, the effective depreciation narrowed to around 17½%, thereafter changing little until the end of the month. The pound was helped by steady demand on oil account and by the announcement in the Budget of the Government's \$2·5 billion euro-dollar loan, which was well received by the market, as was the increase in the swap facility with the Federal Reserve Bank of New York from \$2 billion to \$3 billion. As the dollar continued to ease in most centres, the dollar rate briefly touched \$2·42½ towards the end of the month, and the effective depreciation narrowed to 17%.

The pound continued in good demand in April, partly to meet very large oil revenue payments payable in sterling at the end of the month, and this, coupled, in the first half of the month, with the continuing high interest rates for euro-sterling, discouraged operators from going short of sterling. Early in the month, the effective depreciation decreased to 16½%, and the pound was at its strongest since August 1973. Then for a while it lost a little ground following the announcement on 4th April of a release of 1% of special deposits, and the subsequent reductions in domestic interest rates at a time when US rates were rising sharply. However, largely owing to the oil revenue payments, it soon regained most of the lost ground, despite a further release of special deposits. At the end of the period, the dollar rate was \$2·42 and the effective depreciation 17%.

Among *other currencies*, the US dollar, after its rapid recovery over the end of the year and in January, now weakened: its effective depreciation since the Smithsonian settlement increased from 3% in early February to 9½% at the end of April. Besides the continuing influence of the Watergate affair, the deterioration was due to a number of developments: notably, in the early part of the period, the easing of oil shortages in Europe and Japan, the removal of the US controls on capital outflows, and reductions, for a while, in US interest rates; and, latterly, some signs of a new set-back in the US balance of payments and persistent rumours about a deutschemark revaluation. The marked turn-round in the dollar's position meant that, while in the first half of the period several important currencies continued to be supported by sales of dollars, beginning in February the Federal Reserve also resumed intervention to moderate the dollar's decline.

The French franc having been withdrawn from the EEC narrower margins scheme towards the end of January, there were six currencies only in the 'snake' throughout the period. Several of the participating central banks intervened from time to time in US dollars, but there was little tension within the band until towards the end of March. Then, as rumours of a possible deutschemark revaluation revived, upward pressure on the mark developed, and support was required to maintain the band. The mark was at the top of the 'snake' for almost the whole of the period, with the other participating currencies at or near the bottom. The mark's effective appreciation since the Smithsonian settlement grew over the period from 15% to 22%. Outside the EEC scheme, the effective depreciation of the French franc increased from 2% at the end of January to nearly 5½% at the end of April, largely after the death of the French President early in April. The lira also weakened a little further against other currencies despite continued heavy support from the Bank of Italy and increased swap arrangements with other central banks, and by the end of the period it had an effective depreciation of almost 19%. The commercial and financial markets for both the French franc and the lira were merged in the latter part of March. On the other hand, in line with the deutschemark, the Swiss franc strengthened further, to an effective appreciation of nearly 21%; and the yen improved sharply, without any further assistance from the Bank of Japan, from an effective appreciation of 2% to nearly 5½%.

The London *gold market* was at times very active during the three months, particularly in February when turnover was very high and prices reached new records. Under strong investment and speculative demand, the price rose by US $36 per fine ounce over the period, from some $133 at the end of January to $169 at the end of April. A record fixing price of $179·50 was established on 3rd April, but the main rise occurred in February, when there were rumours of a possible central bank agreement to buy gold at free market prices, and of EEC countries intending to settle debts amongst themselves at a market related price. Once the psychological barrier of $150 was breached on 21st February, there was a hectic spurt of speculative buying, the effect of which was exacerbated by the tendency on the part of sellers to withdraw from the market as prices climb, and the price rose within a week to $178 on 27th February. Thereafter, throughout March and April, the market was mostly better balanced, and the price moved rather more narrowly, in a range $160–180.

Sterling guarantee arrangements

The continuation of the sterling guarantee arrangements from September 1973 to March 1974 was described in the December 1973 *Bulletin*, page 432. The average of the daily US dollar rate for sterling in the period 25th September 1973 to 31st March 1974 was $2·3335, and the guarantee is therefore being implemented, in sterling, to compensate for the difference between this rate and the guarantee rate of $2·4213. The cost is expected to be about £80 million.

With the prospect of a further period of exceptional uncertainty in international financial affairs, the Government decided early in March on a further continuation of the guarantee until the end of the year. The broad structure followed that of the previous six-month arrangement, but with certain modifications which took account of views expressed by a number of participating governments. In particular, the guarantee was expressed in terms of the effective depreciation of sterling since the Smithsonian agreement,[1] instead of in terms of the sterling/dollar rate. More precisely, the Government have undertaken to compensate in sterling for

[1] Effective changes in exchange rates are defined in the additional notes to Table 29 of the statistical annex.

any reduction in the value of eligible balances as measured by the extent, if any, to which the average effective depreciation of sterling in the period 1st April to 31st December 1974 is greater than the average effective depreciation – which was 18·35% – during the six months of the previous arrangement. The second main change was a reduction of one tenth in the proportion of sterling which participants were required to hold to be eligible for the guarantee.

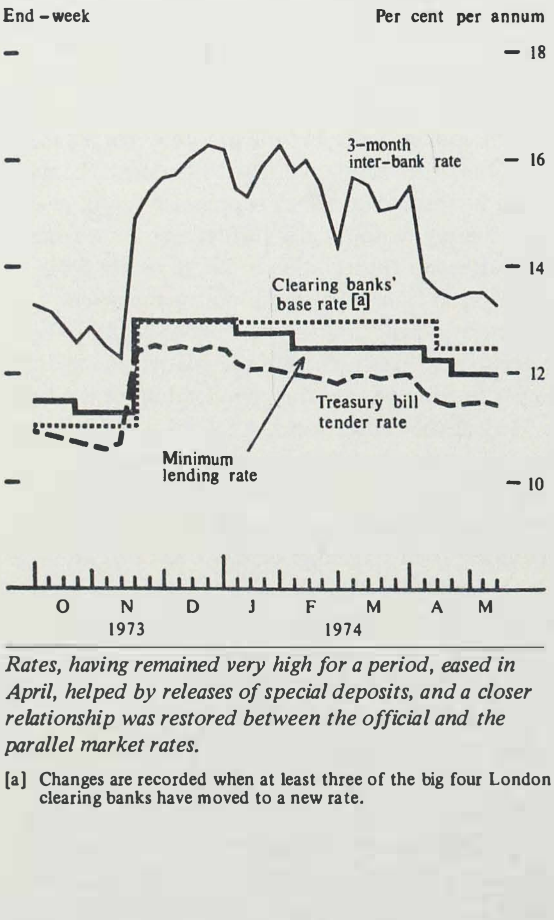
The money market

After the release of special deposits in early February, interest rates in the money market tended to decline, and conditions were generally fairly comfortable for some time. Then, in the last part of the month and early in March, rates again began to rise sharply in the discount and parallel markets as a result of shortages created by official sales of gilt-edged stocks, oil revenue payments, seasonal tax-gathering, and the need to support the pound while the result of the election was unclear. Substantial assistance was at times given to the discount market, mainly through the purchase of Treasury, local authority, and eligible bank bills; the Bank also placed some funds on temporary deposit in the local authority market. Tight conditions throughout March, with further large official sales of gilt-edged stocks, heavy maturities of official holdings of commercial bills, and substantial oil revenue payments. During the latter part of March, as well as buying Treasury and local authority bills, the Bank lent both overnight and for periods up to seven days at minimum lending rate. In the middle of the month, the Bank stopped buying eligible commercial bills, not wishing, by continual heavy purchases, to provide a means of financing private sector transactions which escaped the supplementary deposits scheme. In consequence, the discount houses sharply lowered their buying prices for these bills.

Reasonably comfortable conditions prevailed in the money market during much of April, helped by three releases of ½% of special deposits on the 8th, 16th, and 22nd.

Following the Treasury bill tender of 1st February, at which minimum lending rate was reduced by ¼% to 12½%, the average rate of discount on allotment remained fairly steady until early April. Tenders were mostly small, and at two of the three large tenders the amount allotted was less than that offered. At the tender on 5th April, after the authorities had made it known that the release of special deposits was to facilitate a reduction in domestic interest rates, the average rate of discount fell by over ¼%, and minimum lending rate was consequently reduced to 12¼%. In the next week, the main banks announced ½% reductions in their base rates, there was a further small fall in the average discount rate at the tender, and minimum lending rate was reduced by another ¼%, to 12%.

Short-term interest rates in London



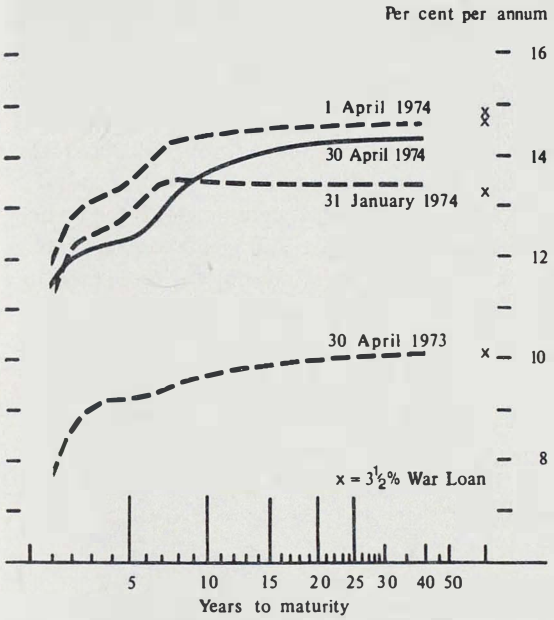
Rates, having remained very high for a period, eased in April, helped by releases of special deposits, and a closer relationship was restored between the official and the parallel market rates.

[a] Changes are recorded when at least three of the big four London clearing banks have moved to a new rate.

The gilt-edged market

In early February the gilt-edged market weakened further after the miners' decision to strike, but then steadied after the announcement on 7th February of a general election on the 28th, though buyers and sellers were unwilling to commit themselves. Demand, particularly for medium and longer-dated stocks, improved just before the election, but then, owing to the initial uncertainty of its outcome, prices fell sharply. After a short rally, prices fell again in reaction to the miners' settlement. Sentiment improved after the new Government's announcement of their programme and the news of a much smaller increase in bank lending, and substantial official sales of stocks were made. The market was also encouraged by the news that official supplies of the two stocks announced in the 1973 Budget were effectively exhausted – 9% Treasury Convertible Stock 1980 on 13th March and 3% Treasury Stock 1979 on the 15th, when a replacement issue of £600 million nominal of 12% Treasury Loan 1983 at £95·5 per cent was announced. However, the market reacted unfavourably to the Budget on 26th March, and yields generally reached a new high point around 1st April; on longer-dated stocks they rose in a few days by nearly 1%, to over 14½%.

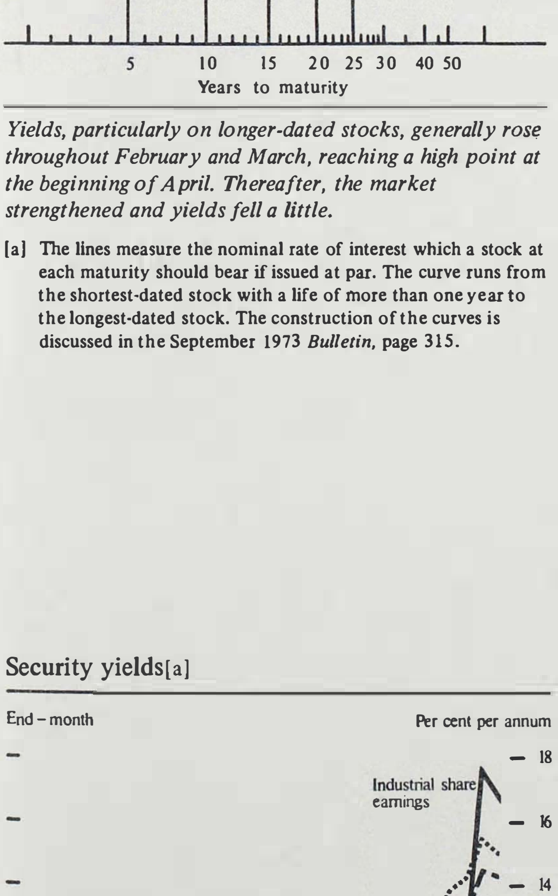
Time/yield curves of British government stocks[a]



Yields, particularly on longer-dated stocks, generally rose throughout February and March, reaching a high point at the beginning of April. Thereafter, the market strengthened and yields fell a little.

[a] The lines measure the nominal rate of interest which a stock at each maturity should bear if issued at par. The curve runs from the shortest-dated stock with a life of more than one year to the longest-dated stock. The construction of the curves is discussed in the September 1973 *Bulletin*, page 315.

Security yields[a]



Yields rose very sharply in March and early April as asset values dropped heavily.

[a] From Table 31 of the statistical annex.

In the March quarter, as in the previous quarter, the authorities sold, net, over £300 million of gilt-edged. Sales of stocks with between five to fifteen years to maturity totalled over £360 million, but the authorities purchased £70 million of long-dated stocks. There were no redemptions in the period, and net purchases of next-maturing stocks were negligible. Earlier selling by the banks and discount houses was reversed during the quarter so that their holdings were little changed on balance; most of the buying was by the general public.

In the whole of the financial year 1973/74 net official sales were as heavy as £1,650 million, compared with net official purchases of £410 million in the previous year. After some gradual easing of yields in the early part of the period, there was a series of sharp upward adjustments followed by good demand for stock. In all, sales of short-dated stocks totalled £850 million, those of stocks with between five to fifteen years to maturity about £1,060 million, and longer-dated stocks some £350 million. With the banking sector's holdings little changed over the year, and a rise of under £150 million in overseas holdings, most of the buying was by the general public, in particular by the personal sector and, among financial institutions, by insurance companies. Four stocks matured during the year, of which nearly £270 million was still in market hands on maturity. Official purchases of next-maturing stocks amounted to nearly £350 million.

In April, after releases of special deposits and some easing of short-term interest rates, the market strengthened, yields fell a little, and there were substantial official sales of short and medium-dated stocks. On 10th April, the short tap stock, 10½% Treasury Stock 1976, was exhausted and its replacement, £600 million nominal of 11½% Treasury Stock 1977 at £98·25 per cent, was announced. For the remainder of the month the market was hesitant, partly owing to the rise in US interest rates.

Local authority bonds

Since their first issue in 1964, local authority 'yearling' bonds had existed in two forms: quoted bonds, issued by stockbrokers, and unquoted bonds, issued by a number of banks, local authority money brokers, and discount houses. The Bank had been concerned, in the exercise of their responsibilities under the Control of Borrowing Orders, in agreeing the terms and timing of these issues, and had assisted in preserving identity of terms for bonds issued in each of the two forms.

Around the turn of the year a strong demand arose from the general public for quoted bonds, with the result that the terms of issue suggested to the Bank began to diverge significantly from those proposed for unquoted bonds. The Bank indicated to the market that, if these conditions persisted, they would be prepared to endorse different terms of issue for the two types of bond. Following discussions among issuers, the Bank agreed to proposals that, from 13th March, all local authority bonds should be issued in the same form and be quoted on the stock exchange.

Equity and debenture markets

The *equity market* generally strengthened throughout February, though turnover remained light, and the FT-Actuaries industrial (500) share price index rose from 143 to 150 over the month. The uncertain outcome of the general election produced a very sharp fall in prices at the beginning of March; and, although there were some rallies, prices mostly continued to fall throughout the month, and in a fairly active market: average turnover was greater than for some months. The implications of the Budget, and the news that two stockbroking firms were unable to meet their commitments, produced a further sharp fall in prices at the end of March; and on 1st April the index reached 119, its lowest for six years. By then, as the chart shows, earnings yields on equities were greater than yields on gilt-edged, thus reverting to the traditional relationship last seen in 1967; dividend yields, however, restricted by the counter-inflation policy rose less, and remained as they always have since 1959 well below those on fixed-interest stocks. Thereafter sentiment improved, though turnover fell back, and prices generally recovered during the month. At the end of April the index was 131, still down, however, over the three months. New equity issues in the period were once again small, only £16 million of new money being raised; and unit trusts' net sales of units were again only some £20 million.

Activity in the *debenture market* remained mostly subdued, though it also increased temporarily during March. Yields, as measured by the Bank's index of 20–25 year loans, continued to rise throughout February and March, and by the end of March had risen from 14·0% at the end of January to nearly 15·5%. In April the market, in common with the equity and gilt-edged markets, strengthened somewhat, and yields were around 15% at the end of the month. New money raised during the three months was again negligible and exceeded by redemptions.

Flow of funds accounts

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]
Personal sector								
1969	27,052	11,878	–28,968	– 7,463	2,499	–1,317	–397	785
1970	30,204	12,736	–31,404	– 8,565	2,971	–1,412	–358	1,201
1971	33,364	13,975	–34,900	– 9,293	3,146	–2,030	–324	792
1972	37,251	16,100	–39,442	–10,058	3,851	–2,731	–372	748
1973	42,559	19,024	–44,734	–11,873	4,976	–3,195	–312	1,469
1972 3rd qtr	9,421	3,952	– 9,998	– 2,479	896	– 640	– 86	170
4th „	9,824	4,284	–10,411	– 2,610	1,087	– 763	– 85	239
1973 1st qtr	10,141	4,499	–10,932	– 2,816	892	– 860	– 91	– 59
2nd „	10,501	4,788	–10,942	– 2,922	1,425	– 720	– 69	636
3rd „	10,772	4,794	–11,296	– 2,995	1,275	– 812	– 79	384
4th „	11,145	4,943	–11,564	– 3,140	1,384	– 803	– 73	508
Company sector[f]								
1969	5,159	3,968		– 5,639	3,488	–4,538	531	– 519
1970	5,200	4,363		– 6,204	3,359	–5,004	419	–1,226
1971	5,761	5,017		– 6,827	3,951	–4,560	506	– 103
1972	6,666	5,794		– 7,303	5,157	–4,790	327	694
1973	8,632	8,098		– 9,317	7,413	–8,151	301	– 437
1972 3rd qtr	1,695	1,481		– 1,834	1,342	–1,317	68	93
4th „	1,870	1,611		– 1,835	1,646	–1,357	69	358
1973 1st qtr	2,045	1,801		– 2,151	1,695	–1,757	84	22
2nd „	2,171	1,857		– 2,236	1,792	–1,756	68	104
3rd „	2,190	2,053		– 2,345	1,898	–2,250	89	– 263
4th „	2,226	2,387		– 2,585	2,028	–2,388	60	– 300
Public sector								
1969	1,597	17,724	– 8,088	– 7,030	4,203	–3,752	–134	317
1970	1,587	20,070	– 9,095	– 7,556	5,006	–4,201	– 61	744
1971	1,694	21,319	–10,353	– 8,139	4,521	–4,588	–182	– 249
1972	1,823	22,629	–11,757	– 9,647	3,048	–4,674	45	–1,581
1973	2,217	25,028	–13,254	–11,168	2,823	–5,732	– 48	–2,957
1972 3rd qtr	484	5,600	– 2,969	– 2,350	765	–1,170	18	– 387
4th „	524	5,786	– 3,092	– 2,544	674	–1,177	16	– 487
1973 1st qtr	494	6,095	– 3,174	– 2,575	840	–1,399	– 31	– 590
2nd „	554	5,870	– 3,212	– 2,720	492	–1,371	– 18	– 897
3rd „	566	6,389	– 3,362	– 2,808	785	–1,460	– 11	– 686
4th „	603	6,674	– 3,506	– 3,065	706	–1,502	12	– 784
Overseas sector[g]								
1969					– 451			– 451
1970					– 697			– 697
1971					–1,067			–1,067
1972					– 69			– 69
1973					1,468		59	1,527
1972 3rd qtr					116			116
4th „					– 2			– 2
1973 1st qtr					186		38	224
2nd „					196		19	215
3rd „					357		1	358
4th „					729		1	730

[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 the note on line 5 at the end.

Table B
Public sector

£ millions

Seasonally adjusted

	1969	1970	1971	1972	1973	1972		1973				1974
	Year	Year	Year	Year	Year	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr
Capital expenditure	+3,752	+4,201	+4,588	+4,674	+5,732	+1,170	+1,177	+1,399	+1,371	+1,460	+1,502	
less Saving	−4,203	−5,006	−4,521	−3,048	−2,823	− 765	− 674	− 840	− 492	− 785	− 706	
less Capital transfers (net)	+ 134	+ 61	+ 182	− 45	+ 48	− 18	− 16	+ 31	+ 18	+ 11	− 12	
equals Financial surplus −/ deficit +	− 317	− 744	+ 249	+1,581	+2,957	+ 387	+ 487	+ 590	+ 897	+ 686	+ 784	
Lending and other transactions (increase in assets +)[a]	+ 310	+ 442	+ 689	+ 542	+1,114	+ 140	+ 314	+ 25	+ 276	+ 383	+ 430	
Import deposits (repayments +)	− 462	+ 257	+ 281									
Unidentified	− 5	+ 41	+ 159	− 65	+ 127	− 41	+ 130	− 91	+ 72	− 15	+ 161	
Borrowing requirement (increase +)	− 474	− 4	+1,378	+2,058	+4,198	+ 486	+ 931	+ 524	+1,245	+1,054	+1,375	
Financed by (borrowing −):												
Central government:												
External transactions	*+ 689*	*+1,342*	*+2,876*	*−1,395*	*+ 566*	*− 184*	*− 221*	*+ 144*	*+ 342*	*− 51*	*+ 131*	*− 196*
Notes and coin with the public	*− 146*	*− 321*	*− 273*	*− 495*	*− 305*	*− 95*	*− 137*	*− 138*	*− 129*	*− 4*	*− 168*	*− 100*
Bank borrowing	*+ 658*	*− 304*	*− 865*	*+1,203*	*−1,219*	*+ 201*	*− 169*	*− 613*	*− 343*	*+ 338*	*− 467*	*− 59*
Other domestic borrowing[b]	*− 89*	*− 39*	*−2,300*	*− 742*	*−1,070*	*− 198*	*− 230*	*+ 134*	*− 547*	*− 469*	*− 188*	*+ 102*
	+1,112	*+ 678*	*− 562*	*−1,429*	*−2,028*	*− 276*	*− 757*	*− 473*	*− 677*	*− 186*	*− 692*	*− 253*
Local authorities:†												
External finance	*− 30*	*+ 39*	*− 83*	*− 149*	*− 308*	*− 60*	*− 65*	*− 70*	*− 16*	*− 96*	*− 126*	*+ 8*
Bank borrowing	*− 312*	*− 483*	*− 772*	*− 31*	*− 21*	*− 73*	*+ 13*	*+ 127*	*+ 32*	*− 98*	*− 82*	*+ 297*
Other domestic borrowing[c]	*− 253*	*− 83*	*+ 195*	*− 341*	*−1,002*	*− 30*	*− 116*	*− 210*	*− 412*	*− 129*	*− 251*	
	− 595	*− 527*	*− 660*	*− 521*	*−1,331*	*− 163*	*− 168*	*− 153*	*− 396*	*− 323*	*− 459*	
Public corporations:†												
External finance	*− 66*	*− 30*	*− 125*	*− 20*	*− 104*	*+ 10*	*+ 1*	*− 27*	*− 11*	*+ 22*	*− 88*	*− 31*
Domestic borrowing	*+ 23*	*− 117*	*− 31*	*− 88*	*− 735*	*− 57*	*− 7*	*+ 129*	*− 161*	*− 567*	*− 136*	
	− 43	*− 147*	*− 156*	*− 108*	*− 839*	*− 47*	*− 6*	*+ 102*	*− 172*	*− 545*	*− 224*	
Total net borrowing	+ 474	+ 4	−1,378	−2,058	−4,198	− 486	− 931	− 524	−1,245	−1,054	−1,375	

†Public bodies have borrowed in foreign currencies (mostly euro-dollars and mostly under the Treasury exchange guarantee) as follows:

	1973 Year	1973 1st qtr	1973 2nd qtr	1973 3rd qtr	1973 4th qtr	1974 1st qtr
Local authorities:						
From UK banks	+ 88	+ 20	+ 57	+ 5	+ 6	+ 97
Direct from overseas	+ 135	+ 10	+ 38	+ 25	+ 62	+ 32
Public corporations:						
From UK banks	+ 739	+ 19	+ 177	+ 342	+ 201	+ 179
Direct from overseas	+ 137	+ 50	+ 10	− 9	+ 86	+ 31

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

[b] Issue Department's transactions in commercial bills and local authority debt are included here.

[c] Including Issue Department's transactions in local authority debt.

Table C

Overseas sector [a]

£ millions

Seasonally adjusted

Claims on UK: increase +/decrease –
Liabilities to UK: increase –/decrease +

	1969	1970	1971	1972	1973	1972		1973				1974
	Year	Year	Year	Year	Year	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr
Financial surplus +/deficit –	–451	– 697	–1,067	– 69	+1,527	+116	– 2	+224	+215	+358	+730	
Transactions with the UK private sector												
Investment flows:												
Transactions in company and overseas securities	+117	– 93	+ 74	– 525	+ 175	–113	– 86	+ 54	+ 98	+ 1	+ 22	
Miscellaneous private investment	–109	+ 61	+ 83	– 182	– 49	– 13	–129	– 90	– 27	+ 90	– 22	
Other transactions:												
Net external transactions by UK banks [b]	–125	+ 789	+1,131	– 27	+1,484	– 40	+ 88	+271	+426	+141	+646	+ 134
Other identified	– 85	+ 24	+ 367	– 14	– 36	– 75	+309	+ 7	+151	–271	+ 77	
Balancing item	+401	+ 111	+ 298	– 577	+ 473	+187	–392	+143	– 43	+340	+ 33	
	+199	+ 892	+1,953	–1,325	+2,047	– 54	–210	+385	+605	+301	+756	
Transactions with the UK public sector												
Lending etc. [c]	– 57	– 238	– 352	– 308	– 366	– 64	– 77	–114	– 75	– 68	–109	
External finance: [d]												
Central government	–689	–1,342	–2,876	+1,395	– 566	+184	+221	–144	–342	+ 51	–131	+ 196
Local authorities	+ 30	– 39	+ 83	+ 149	+ 308	+ 60	+ 65	+ 70	+ 16	+ 96	+126	– 8
Public corporations	+ 66	+ 30	+ 125	+ 20	+ 104	– 10	– 1	+ 27	+ 11	– 22	+ 88	+ 31
	–650	–1,589	–3,020	+1,256	– 520	+170	+208	–161	–390	+ 57	– 26	

[a] It has not been possible to include in this table the balance of payments estimates for the 1st quarter of 1974, and revisions to previous quarters, which were released in June.

[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.

Table D
Personal sector

£ millions

Seasonally adjusted

	1969	1970	1971	1972	1973	1972		1973				1974
	Year	Year	Year	Year	Year	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr
Saving	+2,499	+2,971	+3,146	+3,851	+4,976	+ 896	+1,087	+ 892	+1,425	+1,275	+1,384	
Capital transfers (net)	− 397	− 358	− 324	− 372	− 312	− 86	− 85	− 91	− 69	− 79	− 73	
Capital expenditure	−1,317	−1,412	−2,030	−2,731	−3,195	− 640	− 763	− 860	− 720	− 812	− 803	
Financial surplus +/deficit −	+ 785	+1,201	+ 792	+ 748	+1,469	+ 170	+ 239	− 59	+ 636	+ 384	+ 508	
Borrowing (−)												
For house purchase	− 858	−1,246	−1,836	−2,679	−2,577	− 718	− 701	− 751	− 650	− 663	− 513	
Bank borrowing[a]	+ 77	− 59	− 576	−1,927	−1,027	− 259	− 644	− 484	− 276	− 364	+ 105	− 79
Hire-purchase debt	+ 30	− 43	− 191	− 241	− 123	− 65	− 65	− 43	+ 6	− 29	− 57	
Other[b]	− 125	− 67	− 12	− 21	− 154	− 20	− 158	− 1	− 32	+ 72	− 193	
	− 876	−1,415	−2,615	−4,868	−3,881	−1,062	−1,568	−1,279	− 952	− 984	− 658	
Acquisition of financial assets (+)												
Life assurance and pension funds	+1,505	+1,763	+1,981	+2,374	+2,740	+ 581	+ 612	+ 740	+ 640	+ 580	+ 780	
Government stocks	+ 79	− 221	+ 470	+ 5	+ 820	+ 56	+ 46	+ 134	+ 220	+ 196	+ 270	
Company and overseas securities	− 519	− 842	−1,250	−1,168	−1,553	− 296	− 294	− 363	− 216	− 520	− 454	
Unit trust units	+ 186	+ 89	+ 46	+ 203	+ 156	+ 58	+ 65	+ 56	+ 52	+ 31	+ 17	+ 7
Bank deposits, notes and coin	+ 379	+ 942	+1,153	+2,013	+3,519	+ 445	+ 565	+ 632	+ 875	+ 965	+1,039	+1,091
Building society shares and deposits	+ 890	+1,484	+1,961	+2,139	+2,098	+ 453	+ 514	+ 461	+ 755	+ 517	+ 365	+ 204
National savings	− 224	− 51	+ 371	+ 475	+ 138	+ 108	+ 67	+ 56	+ 80	+ 73	− 71	− 60
Local authority debt	+ 226	− 79	− 232	− 82	+ 329	− 25	+ 36	+ 40	+ 13	+ 158	+ 118	
Other	+ 98	+ 176	+ 271	+ 319	+ 97	+ 69	+ 91	+ 2	+ 30	+ 3	+ 62	
	+2,620	+3,261	+4,771	+6,278	+8,344	+1,449	+1,702	+1,758	+2,449	+2,003	+2,126	
Identified financial transactions	+1,744	+1,846	+2,156	+1,410	+4,463	+ 387	+ 134	+ 479	+1,497	+1,019	+1,468	
Unidentified	*− 959*	*− 645*	*−1,364*	*− 662*	*−2,994*	*− 217*	*+ 105*	*− 538*	*− 861*	*− 635*	*− 960*	

[a] Other than for house purchase.
[b] Including accruals adjustments and trade credit extended by public corporations.

Table E

Industrial and commercial companies

£ millions

Seasonally adjusted

Assets: increase +/decrease –
Liabilities: increase –/decrease +

	1969	1970	1971	1972	1973	1972		1973				1974
	Year	Year	Year	Year	Year	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr
Domestic capital formation	+3,902	+4,446	+4,036	+4,198	+7,208	+1,129	+1,194	+1,566	+1,533	+1,970	+2,139	
less Saving	–3,223	–3,002	–3,452	–4,571	–6,229	–1,167	–1,476	–1,432	–1,532	–1,581	–1,684	
less Capital transfers (net)	– 570	– 483	– 556	– 378	– 351	– 81	– 83	– 96	– 81	– 101	– 73	
equals Financial surplus –/deficit +	+ 109	+ 961	+ 28	– 751	+ 628	– 119	– 365	+ 38	– 80	+ 288	+ 382	
Trade investments, mergers, etc. in the United Kingdom	+ 259	+ 251	+ 338	+ 642	+ 723	+ 146	+ 203	+ 162	+ 131	+ 245	+ 185	
Long-term investment abroad	+ 403	– 225	– 253	+ 768	+1,260	+ 176	+ 257	+ 281	+ 307	+ 286	+ 386	
Import deposits	+ 666	+ 668	+ 776									
Total requiring financing (+)	+1,437	+1,655	+ 889	+ 659	+2,611	+ 203	+ 95	+ 481	+ 358	+ 819	+ 953	
Capital issues (including euro-currency issues)	– 523	– 233	– 443	– 727	– 261	– 212	– 176	– 109	– 99	– 27	– 26	+ 8
Overseas investment in UK companies	– 437	– 591	– 708	– 499	–1,028	– 151	– 101	– 137	– 288	– 272	– 331	
Import credit and advance payments on exports	– 175	– 121	– 182	– 270	– 359	– 88	– 124	– 82	– 89	– 35	– 153	
Export credit and advance payments on imports	+ 181	+ 114	+ 10	+ 133	+ 102	+ 56	+ 21	+ 53	– 12	+ 53	+ 8	
Bank borrowing	– 664	–1,125	– 730	–2,988	–4,504	– 648	– 843	– 670	– 501	–1,668	–1,716	–1,087
Other borrowing[a]	– 157	– 376	– 331	– 33	–1,095	– 6	– 5	– 347	– 37	– 477	– 234	
Bank deposits, notes and coin	– 139	+ 322	+ 992	+2,288	+2,607	+ 626	+ 777	+ 665	+ 70	+1,093	+ 830	+ 60
Other liquid assets[b]	– 68	– 126	+ 141	+ 74	+ 93	+ 6	+ 37	+ 51	+ 61	– 15	– 4	
Other items[c]	– 47	+ 36	+ 94	+ 9	+ 164	– 25	+ 5	+ 181	– 42	+ 53	– 28	
Other overseas transactions (including the balance of payments balancing item)[d]	– 351	– 62	– 405	+ 602	– 215	– 51	+ 153	– 152	– 6	– 61	+ 4	
Unidentified domestic transactions[d]	*+ 943*	*+ 507*	*+ 673*	*+ 752*	*+1,885*	*+ 290*	*+ 161*	*+ 66*	*+ 585*	*+ 537*	*+ 697*	
Total financing (–)	–1,437	–1,655	– 889	– 659	–2,611	– 203	– 95	– 481	– 358	– 819	– 953	

[a] Including transactions in commercial bills by the Issue Department, and also accruals adjustments for local authority rates, bank advances and deposits, purchase tax, SET, and VAT.

[b] Treasury bills, local authority debt, tax reserve certificates, tax deposit accounts, 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 F
Banking sector

£ millions

Seasonally adjusted

Lending: increase +/decrease –
Deposits: increase –/decrease +

	1969	1970	1971	1972	1973	1972		1973				1974
	Year	Year	Year	Year	Year	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr
Lending												
Public sector	–373	+ 913	+1,666	–1,026	+1,995	– 45	+ 182	+ 369	+ 461	+ 341	+ 690	– 154
Industrial and commercial companies	+699	+1,135	+ 771	+3,130	+4,654	+ 656	+ 854	+ 684	+ 503	+1,706	+1,812	+1,153
Other financial institutions	– 20	+ 81	+ 419	+1,032	+ 837	+ 174	+ 249	+ 287	+ 64	+ 171	+ 315	+ 170
Personal sector	– 82	+ 99	+ 666	+2,272	+1,337	+ 359	+ 744	+ 554	+ 371	+ 454	– 50	+ 109
Total domestic lending	+224	+2,228	+3,522	+5,408	+8,823	+1,144	+2,029	+1,894	+1,399	+2,672	+2,767	+1,278
Deposits												
Public sector	– 67	– 44	– 39	– 80	– 100	+ 4	– 102	+ 15	– 56	+ 30	– 89	+ 20
Industrial and commercial companies	+214	– 121	– 919	–2,039	–2,431	– 578	– 708	– 596	– 5	–1,091	– 746	– 10
Other financial institutions	–196	– 278	– 182	– 918	–1,025	+ 36	– 328	– 219	– 242	– 296	– 268	+ 131
Personal sector	–308	– 822	– 953	–1,767	–3,390	– 398	– 497	– 563	– 811	– 963	– 955	–1,041
Total domestic deposits	–357	–1,265	–2,093	–4,804	–6,946	– 936	–1,635	–1,363	–1,114	–2,320	–2,058	– 900
Net lending to overseas sector [a]	+141	– 753	–1,061	+ 48	–1,392	+ 63	– 147	– 188	– 431	– 149	– 624	– 104
Non-deposit liabilities (net)	– 8	– 210	– 368	– 652	– 485	– 271	– 247	– 343	+ 146	– 203	– 85	– 274

[a] Claims on overseas sector net of overseas deposits. Including foreign currency borrowing to finance loans to UK public sector.

Table G

Financial institutions other than banks

£ millions

Seasonally adjusted

	1969	1970	1971	1972	1973	1972		1973				1974
	Year	Year	Year	Year	Year	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr
Increase in financial liabilities (–)												
Life assurance and pension funds	–1,505	–1,763	–1,981	–2,374	–2,740	– 581	– 612	– 740	– 640	– 580	– 780	
Building society shares and deposits	– 892	–1,481	–2,030	–2,187	–2,068	– 465	– 524	– 456	– 772	– 491	– 349	– 189
Other deposits	– 161	– 219	– 279	– 213	– 273	– 74	– 71	– 132	– 19	– 47	– 75	
Capital issues	– 95	– 55	– 186	– 439	– 61	– 78	– 32	– 46	– 5	– 4	– 6	– 6
Unit trust units	– 186	– 89	– 46	– 203	– 156	– 58	– 65	– 56	– 52	– 31	– 17	– 7
Other (mainly bank) borrowing	+ 23	– 80	– 403	–1,029	– 834	– 173	– 249	– 286	– 63	– 170	– 315	
	–2,816	–3,687	–4,925	–6,445	–6,132	–1,429	–1,553	–1,716	–1,551	–1,323	–1,542	
Increase in financial assets (+)												
Short-term assets[a]	+ 251	+ 489	+ 113	+ 969	+1,276	– 94	+ 403	+ 230	+ 454	+ 230	+ 362	
Government stocks	+ 283	+ 320	+1,382	+ 418	+ 688	+ 13	+ 99	+ 77	+ 282	+ 124	+ 205	
Company and overseas securities:												
Ordinary shares	+ 393	+ 637	+ 937	+1,792	+ 438	+ 468	+ 356	+ 132	+ 89	+ 85	+ 132	
Fixed interest	+ 280	+ 180	+ 204	+ 235	+ 113	+ 46	+ 71	+ 36	+ 23	+ 20	+ 34	
Loans for house purchase	+ 865	+1,124	+1,613	+2,217	+1,966	+ 598	+ 566	+ 634	+ 487	+ 474	+ 371	
Long-term lending to local authorities	+ 58	+ 83	+ 76	+ 143	+ 128	+ 54	+ 8	+ 33	+ 27	+ 61	+ 7	
Hire-purchase claims	– 21	+ 47	+ 140	+ 163	+ 116	+ 20	+ 52	+ 29	+ 24	+ 30	+ 33	
Other lending	+ 189	+ 214	+ 68	+ 80	+ 476	+ 83	+ 48	+ 110	+ 70	+ 116	+ 180	
	+2,298	+3,094	+4,533	+6,017	+5,201	+1,188	+1,603	+1,281	+1,456	+1,140	+1,324	
Net identified financial transactions	– 518	– 593	– 392	– 428	– 931	– 241	+ 50	– 435	– 95	– 183	– 218	

[a] Bank deposits, tax reserve certificates, tax deposit accounts, Treasury bills, and local authority temporary debt.

Table H

Financial institutions other than banks 1973: detail by institutional group

£ millions

	Total	Building societies	Savings banks investment accounts	Investment and unit trusts	Finance houses	Insurance companies	Pension funds and property unit trusts	Others and unallocated
Increase in financial liabilities (–)								
Inflow to life assurance and pension funds	–2,740					–2,740		
Deposits	–2,458	–2,072	–167		– 56			–163
Sales of units	– 218			–186			– 32[a]	
Capital issues	– 61			– 24	– 3	– 12		– 22
Bank borrowing	– 837			– 26	–161		+ 31	–681
Other borrowing	– 43	+ 3		– 9		– 27	– 10	
	–6,357	–2,069	–167	–245	–220	–2,790		–866
Increase in financial assets (+)								
Bank deposits, notes and coin	+1,025	+ 209	– 7	+195	+ 24	+ 63	+ 64	+477
Local authority debt:								
Temporary	+ 264	+ 48	– 41	+ 58		+ 117	+ 80	+ 2
Other	+ 128	– 17	+104	+ 22		+ 17	+ 2	
Treasury bills and tax reserve certificates	– 13	– 8	– 1		+ 1		– 1	– 4
Government stocks	+ 688	+ 62	+113	+ 22	– 7	+ 318	+ 181	– 1
Hire-purchase claims	+ 116				+116			
Loans for house purchase	+1,966	+1,842				+ 123	+ 1	
Company and overseas securities:								
Ordinary shares	+ 438			–256	+ 35	+ 357	+ 374	– 72
Fixed interest	+ 113		+ 12	– 11		+ 76	+ 37	– 1
Other lending	+ 523	+ 1		+117	+ 68	+ 154	+ 185	– 2
Purchases of units	+ 61					+ 30	+ 31[a]	
Deposits with other financial institutions	+ 117			+ 26		+ 22	+ 69	
	+5,426	+2,137	+180	+173	+237	+1,277	+1,023	+399
Net identified financial transactions	– 931	+ 68	+ 13	– 72	+ 17	– 490		–467

Note: Differences from Table G arise through the identification here of intra-sector transactions (involving deposits, and property and other unit trust units) netted out when the sector is considered as a whole.

[a] Pension funds bought £31 million of property unit trust units.

Table J
UK company and overseas securities
£ millions

	Capital issues (line 23)				Other transactions (line 24)					
	Overseas	Industrial and commercial companies	Banks	Other financial institutions	Public sector	Overseas	Persons	Industrial and commercial companies	Banks	Other financial institutions
UK equities		−177	−33	− 20	+12	+216	− 613	+175	+ 17	+ 423
UK fixed interest		−346	− 8	− 75		+ 39	+ 40	+ 58	+ 6	+ 286
Overseas	+ 8					−146	+ 54	+104	+ 16	− 36
1969 Total	+ 8	−523	−41	− 95	+12	+109	− 519	+337	+ 39	+ 673
UK equities		− 39	−47	− 10	+ 6	+137	− 799	+123	+ 44	+ 585
UK fixed interest		−194	− 2	− 45		+ 69	− 67	+ 45	+ 14	+ 180
Overseas	+12					−311	+ 24	+187	+ 36	+ 52
1970 Total	+12	−233	−49	− 55	+ 6	−105	− 842	+355	+ 94	+ 817
UK equities		−152	−36	−101	+79	+258	−1,178	+144	+107	+ 879
UK fixed interest		−291	−22	− 85		+112	− 13	+ 67	+ 36	+ 196
Overseas	+10					−306	− 59	+219	+ 70	+ 66
1971 Total	+10	−443	−58	−186	+79	+ 64	−1,250	+430	+213	+1,141
UK equities		−317	− 6	−349	+12	+172	−1,356	+400	+103	+1,341
UK fixed interest		−410	−37	− 90		+157	− 25	+137	+ 34	+ 234
Overseas	+28					−882	+ 213	+168	+ 21	+ 452
1972 Total	+28	−727	−43	−439	+12	−553	−1,168	+705	+158	+2,027
UK equities		− 98	−20	− 19	+ 8	+317	−1,290	+413	+199	+ 490
UK fixed interest		−163	−42	− 42		+170	− 240	+150	+ 66	+ 101
Overseas	+30					−342	− 23	+283	+ 92	− 40
1973 Total	+30	−261	−62	− 61	+ 8	+145	−1,553	+846	+357	+ 551

Table K
Flow of funds: annual figures

£ millions

	Line	Public sector 1971	Public sector 1972	Public sector 1973	Overseas sector[a] 1971	Overseas sector[a] 1972	Overseas sector[a] 1973
Capital account							
Saving	1	+4,521	+3,048	+2,823	−1,067	− 69	+1,468
Taxes on capital and capital transfers	2	− 182	+ 45	− 48			+ 59
less:							
Gross fixed capital formation at home	3	−4,414	−4,579	−5,513			
Increase in value of stocks and work in progress	4	− 174	− 95	− 219			
Financial surplus +/deficit −[b]	5	− 249	−1,581	−2,957	−1,067	− 69	+1,527
Changes in financial assets and liabilities							
Assets: increase +/decrease −							
Liabilities: increase −/decrease +							
Government debt to Banking Department	6	+ 471	− 443	−1,027			
Life assurance and pension funds	7						
Loans by the UK Government	8	+ 98	+ 24	+ 103	− 93	− 76	− 62
Total external currency flow	9.1	+3,228	−1,265	+ 210	−3,228	+1,265	− 210
Other central government external transactions	9.2	− 352	− 130	+ 356	+ 352	+ 130	− 356
Banks' net external transactions	10				+1,131	− 27	+1,484
Miscellaneous investment overseas (net)	11	+ 106	+ 212	+ 200	+ 290	− 297	− 336
Notes and coin	12	− 243	− 578	− 544			
Bank deposits of domestic sectors	13	+ 39	+ 80	+ 100			
Deposits with other financial institutions	14				+ 54	− 111	+ 51
National savings	15.1	− 371	− 475	− 138			
Tax reserve certificates/tax deposit accounts	15.2	− 81	+ 113	+ 206			
Import deposits	15.3	+ 281			− 28		
Bank lending to domestic sectors	16	− 29	− 146	− 755			
Hire-purchase and other instalment debt	17	+ 16	+ 42	+ 13			
Loans for house purchase	18	+ 133	+ 117	+ 301			
Other loans and accruals	19	+ 103	+ 36	+ 598			
Marketable government debt held by domestic sectors:							
Treasury bills	20	− 2	+ 617	− 28			
Stocks	21	−3,230	+ 691	−1,473			
Local authority debt	22	− 654	− 423	−1,214	+ 83	+ 149	+ 308
UK company and overseas securities:							
Capital issues	23				+ 10	+ 28	+ 30
Other transactions	24	+ 79	+ 12	+ 8	+ 64	− 553	+ 145
Unit trust units	25						
Identified financial transactions	26	− 408	−1,516	−3,084	−1,365	+ 508	+1,054
Unidentified [b]	27	*+ 159*	*− 65*	*+ 127*	*+ 298*	*− 577*	*+ 473*
Total=Financial surplus +/deficit −[b]	28	− 249	−1,581	−2,957	−1,067	− 69	+1,527

− nil or less than £½ million.

[a] It has not been possible to incorporate in this table the revised balance of payments estimates released in June.

[b] Financial surpluses/deficits for all sectors combined do not in practice sum to zero, although in principle they should do so. The discrepancy arises because the respective estimates of gross domestic product derived from income sources and from expenditure sources do not match. The net total of the 'unidentified' entries for all sectors is the counterpart of this discrepancy (the residual error), which in the years shown in this table was as follows:

1971	1972	1973
+627	+208	+398

Personal sector 1971	Personal sector 1972	Personal sector 1973	Industrial and commercial companies 1971	Industrial and commercial companies 1972	Industrial and commercial companies 1973	Banking sector 1971	Banking sector 1972	Banking sector 1973	Other financial institutions 1971	Other financial institutions 1972	Other financial institutions 1973	Line
+3,146	+3,851	+4,976	+3,452	+4,571	+6,229	+499	+586	+1,184				1
– 324	– 372	– 312	+ 556	+ 378	+ 351	– 50	– 51	– 50				2
–1,771	–2,452	–2,634	–3,357	–3,691	–4,469	–559	–575	–1,001				3
– 259	– 279	– 561	– 679	– 507	–2,739	+ 35	– 17	+ 58				4
+ 792	+ 748	+1,469	– 28	+ 751	– 628	– 75	– 57	+ 191				5
						– 471	+ 443	+1,027				6
+1,981	+2,374	+2,740							–1,981	–2,374	–2,740	7
–	+ 1	–	– 21	+ 48	– 44				+ 16	+ 3	+ 3	8
												9.1
												9.2
						–1,131	+ 27	–1,484				10
			– 360	+ 88	+ 100				– 36	– 3	+ 36	11
+ 200	+ 246	+ 129	+ 73	+ 249	+ 176	– 30	+ 83	+ 239				12
+ 953	+1,767	+3,390	+ 919	+2,039	+2,431	–2,093	–4,804	–6,946	+ 182	+ 918	+1,025	13
+2,208	+2,466	+2,285	+ 47	+ 45	+ 5				–2,309	–2,400	–2,341	14
+ 371	+ 475	+ 138										15.1
+ 24	– 8	– 90	+ 69	– 76	– 67	– 16	– 21	– 41	+ 4	– 8	– 8	15.2
			– 253									15.3
– 576	–1,927	–1,027	– 730	–2,988	–4,504	+1,754	+6,093	+7,123	– 419	–1,032	– 837	16
– 191	– 241	– 123	+ 35	+ 36	– 6				+ 140	+ 163	+ 116	17
–1,836	–2,679	–2,577				+ 90	+ 345	+ 310	+1,613	+2,217	+1,966	18
– 12	– 22	– 154	– 194	– 102	– 871	– 1	+ 5	– 13	+ 104	+ 83	+ 440	19
			–	– 20	– 9	+ 5	– 599	+ 42	– 3	+ 2	– 5	20
+ 470	+ 5	+ 820				+1,378	–1,114	– 35	+1,382	+ 418	+ 688	21
– 232	– 82	+ 329	+ 25	+ 125	+ 164	+ 772	+ 31	+ 21	+ 6	+ 200	+ 392	22
			– 443	– 727	– 261	– 58	– 43	– 62	– 186	– 439	– 61	23
–1,250	–1,168	–1,553	+ 430	+ 705	+ 846	+ 213	+ 158	+ 357	+1,141	+2,027	+ 551	24
+ 46	+ 203	+ 156							– 46	– 203	– 156	25
+2,156	+1,410	+4,463	– 403	– 578	–2,040	+ 412	+ 604	+ 538	– 392	– 428	– 931	26
–1,364	*– 662*	*–2,994*	*+ 375*	*+1,329*	*+1,412*	*– 95*	*–233*	*+584*				27
+ 792	+ 748	+1,469	– 28	+ 751	– 628	– 75	– 57	+191				28

Table L

Flow of funds: fourth 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
Capital account								
Saving	1	+ 366	+594	+1,069	+2,025	+508		
Taxes on capital and capital transfers	2	+ 3	+ 1	– 69	+ 79	– 14		
less:								
Gross fixed capital formation at home	3	–1,508		– 615	–1,364	–301		
Increase in value of stocks and work in progress	4	– 18		– 174	– 912	+ 19		
Financial surplus +/deficit –	5	–1,157	+595	+ 211	– 172	+212		+311
Changes in financial assets and liabilities								
Assets: increase +/decrease –								
Liabilities: increase –/decrease +								
Government debt to Banking Department	6	– 358				+ 358		
Life assurance and pension funds	7			+ 780			–780	
Loans by the UK Government	8	– 14	– 8		+ 22			
Total external currency flow	9.1	+ 22	– 22					
Other central government external transactions	9.2	+ 82	– 82					
Banks' net external transactions	10		+603			– 603		
Miscellaneous investment overseas (net)	11	+ 9	– 3		– 31		+ 25	
Notes and coin	12	– 511		+ 16	+ 62	+ 433		
Bank deposits of domestic sectors	13	+ 122		+1,195	+ 796	–2,414	+301	
Deposits with other financial institutions	14		+ 28	+ 475	– 33		–470	
National savings	15.1	+ 75		– 75				
Tax reserve certificates/tax deposit accounts	15.2	+ 21		– 10	– 3	– 8	–	
Bank lending to domestic sectors	16	– 145		+ 4	–1,808	+2,268	–319	
Hire-purchase and other instalment debt	17	+ 5		– 102	+ 82		+ 15	
Loans for house purchase	18	+ 87		– 503		+ 55	+361	
Other loans and accruals	19	+ 119		– 202	+ 30	– 135	+188	
Marketable government debt held by domestic sectors:								
Treasury bills	20	– 207			– 2	+ 210	– 1	
Stocks	21	– 315		+ 270		– 160	+205	
Local authority debt	22	– 339	+110	+ 128	+ 17	+ 19	+ 65	
UK company and overseas securities:								
Capital issues	23		– 3		– 26	– 10	– 6	
Other transactions	24	+ 2	+ 25	– 454	+ 186	+ 120	+166	
Unit trust units	25			+ 15			– 15	
Identified financial transactions	26	–1,345	+648	+1,537	– 708	+ 133	–265	
Unidentified	27	*+ 188*	*– 53*	*–1,326*	*+ 536*	*+344*		*+311*
Total=Financial surplus +/deficit –	28	–1,157	+595	+ 211	– 172	+212		+311

– nil or less than £½ million.

[a] It has not been possible to incorporate in this table the revised balance of payments estimates released in June.

Table M

Flow of funds: fourth quarter 1973

£ millions

Seasonally adjusted

	Line	Public sector	Overseas sector[a]	Personal sector	Industrial and commercial companies	Banking sector	Other financial institutions	Residual error
Capital account								
Saving	1	+ 706	+729	+1,384	+1,684	+344		
Taxes on capital and capital transfers	2	+ 12	+ 1	– 73	+ 73	– 13		
less:								
Gross fixed capital formation at home	3							
Increase in value of stocks and work in progress	4	–1,502		– 803	–2,139	–249		
Financial surplus +/deficit –	5	– 784	+730	+ 508	– 382	+ 82		–154
Changes in financial assets and liabilities								
Assets: increase +/decrease –								
Liabilities: increase –/decrease +								
Government debt to Banking Department	6	– 259				+ 259		
Life assurance and pension funds	7			+ 780			–780	
Loans by the UK Government	8	– 10	– 12		+ 22			
Total central government external transactions	9	+ 131	–131					
Banks' net external transactions	10		+646			– 646		
Miscellaneous investment overseas (net)	11	+ 9	+ 28		– 62		+ 25	
Notes and coin	12	– 293		+ 84	+ 84	+ 125		
Bank deposits of domestic sectors	13	+ 89		+ 955	+ 746	–2,058	+268	
Deposits with other financial institutions	14		+ 18	+ 437	– 31		–424	
National savings	15.1	+ 71		– 71				
Tax reserve certificates/tax deposit accounts	15.2	+ 21		– 10	– 3	– 8	–	
Bank lending to domestic sectors	16	– 141		+ 105	–1,716	+2,067	–315	
Hire-purchase and other instalment debt	17	+ 5		– 57	+ 19		+ 33	
Loans for house purchase	18	+ 87		– 513		+ 55	+371	
Other loans and accruals	19	+ 366		– 193	– 295	– 33	+155	
Marketable government debt held by domestic sectors:								
Treasury bills	20	– 248			– 2	+ 251	– 1	
Stocks	21	– 315		+ 270		– 160	+205	
Local authority debt	22	– 460	+126	+ 118	+ 32	+ 82	+102	
UK company and overseas securities:								
Capital issues	23		– 3		– 26	– 10	– 6	
Other transactions	24	+ 2	+ 25	– 454	+ 186	+ 120	+166	
Unit trust units	25			+ 17			– 17	
Identified financial transactions	26	– 945	+697	+1,468	–1,046	+ 44	–218	
Unidentified	27	*+ 161*	*+ 33*	*– 960*	*+ 664*	*+256*		*–154*
Total=Financial surplus +/deficit –	28	– 784	+730	+ 508	– 382	+ 82		–154

– nil or less than £½ million.

[a] It has not been possible to incorporate in this table the revised balance of payments estimates released in June.

Notes on sources, definitions and seasonal adjustments [1]

Sources

The main statistical series used in compiling Tables K, L and M 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 K, L and M)

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 accounts. For the overseas sector, the entry is the counterpart of the UK balance of payments on current account plus, from the first quarter of 1973, capital transfer payments.

Line 6
See footnote [b] to Table 2 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 2 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 UK 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 UK 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 3/3 of the annex but including tax deposit accounts.

Line 15.3
Import deposits. The figures for the overseas sector are for direct payments only.

[1] 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).

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 17
Includes other instalment debt.

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, value added 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 Tables 3/1 and 3/2 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 UK market, and euro-currency issues by UK 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 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 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 full account of the data up to the end of 1973.