Financial review

The first part of this review looks at the course of interest rates and other developments in the various financial markets during the three months May to July. The second part reviews the flow of funds sector by sector in the first quarter and, where figures are available, in the second quarter. At the end there are the usual flow of funds tables.

Developments in financial markets

Short-term interest rates

There was little sign during the period of any easing in the generally high rates prevailing in the main foreign markets. In particular, the Federal Reserve maintained a restrictive attitude to help combat inflation, and US rates reached new peaks. UK rates, however, fell back a little for a while, but remained higher than those in most other centres.

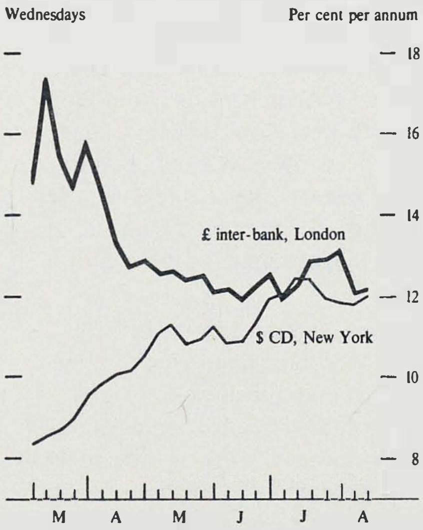
On the Continent, conditions generally remained fairly tight. In Western Germany rates rose strongly early in May as banks strove to build up their minimum reserve balances. Then in the middle of the month funds arising from substantial speculative inflows were plentiful, and action was taken to arrest the consequent fall in rates. During June rates were stable until normal seasonal demands at the end of the month were exacerbated by the official closure of Bankhaus I.D. Herstatt (a large private bank in Cologne), and very tight conditions ensued. Measures taken in July to ease the conditions led to some fall in rates. In France, bank rate was raised on 20th June by 2% to 13% – the highest in Europe. This followed the new Government's package of fiscal and monetary measures, which extended and tightened existing restrictions on bank lending.

In the United States, yields on three-month Treasury bills ran counter to a generally rising trend, falling over the period from 9% per annum to 8% as investors expressed a preference for the security of government paper. Other rates grew firmer through most of May, with demand for commercial credit remaining strong; short-term rates reached new records, and most banks' prime rates were raised to 11½%, and some even higher. But at the end of the month corporate demand for bank loans slackened as rates on commercial paper eased, and one big bank reduced its prime rate early in June to 11¼%. The upward trend was, however, soon resumed, with loan demand strengthened by the need to make tax payments and with the Federal Reserve maintaining their restrictive stance. Most banks had raised their prime rates to 12% by early July. They then held them steady for the rest of the month, though other short-term rates continued to rise.

UK interest rates began the period by falling somewhat, but were only slightly lower over the three months. On 24th May, after the main banks had lowered their base rates by ½% to 12%, the discount rate on three-month Treasury bills fell below 11¼%, so that minimum lending rate was reduced by ¼%, to 11¾%. Rates in the parallel markets continued to decline for a while but later hardened again. Thus the one-month inter-bank rate, which had risen to around 13⅛% at the end of April, declined to about 12½% by the end of May, was 12⅛% at the end of June, but ended the period again about 13⅛%.

Discounts on forward sterling fell over the period – for three-month sterling from 5% per annum at the end of April to 2% at the end of July. There was a temporary interruption in the second half of June when forward margins widened in reaction to the poor May trade figures. The fall largely reflected movements in relative interest rates, for, as domestic rates eased, euro-dollar rates were rising. These reached new heights in mid-July – around 14½% for three-month deposits. In the second half of the period the uncovered comparison between three-month euro-dollars and inter-bank sterling favoured the dollar on occasions for the first time since July of last year.

UK and US one-month interest rates



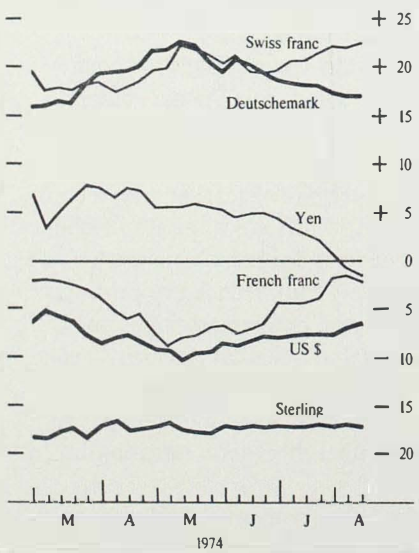
UK short-term rates fell further for a while but were little changed on balance over May to July, while US rates went higher.

Foreign exchange and gold markets[1]

During May to July foreign exchange markets were generally less active than earlier in the year, but the quieter times were punctuated by brief periods in which the dollar rates for some Continental currencies fluctuated wildly. Sterling, however, tended to be much less affected. The news in May that the Franklin National Bank of New York had incurred foreign exchange losses led dealers to be more cautious, and in June the Herstatt failure in Western Germany greatly increased their nervousness; markets became very much thinner, and there was a considerable and welcome reduction in speculative activity.

Demand for ***sterling*** to meet large oil payments to producing countries was regularly apparent during the period, and the pound rarely came under pressure; there was no significant intervention. The effective depreciation since the Smithsonian settlement mostly fluctuated narrowly around 17%. At the beginning of May sterling was strengthening, but was quickly depressed by oil producers selling part of their large April receipts and by the calling of a national engineering strike for the 8th. In the event, the strike lasted only one day, but the pound continued weaker for a time amid expectations of lower UK interest rates. Apprehension about the April trade figures increased the effective depreciation to 18¾% at one point on 14th May, compared with just under 17% at the end of April. The fears proved to be exaggerated, oil companies' demand re-emerged, and – aided by new forecasts of UK self-sufficiency in oil by the end of the decade – the pound strengthened for the remainder of the month, ending with an effective depreciation of 17%.

Effective changes in exchange rates



Sterling was little changed over the period. The US dollar and the French franc strengthened while the yen and the deutschemark weakened (figures from Table 29 of the statistical annex).

It remained around 17% for most of June, and sterling was in fairly steady demand for oil account. The poor May trade figures led to some widening of forward discounts without, however, much weakening of the spot rate. Towards the end of the month the effective depreciation briefly increased to 17½% as the market absorbed disturbing industrial news, gloomy reports on the outlook for prices and the balance of payments, and talk of an election arising from government defeats in the Commons. But in the last few days sterling was in steady demand, and benefited from disappointment with the US trade figures for May and from a reduction in existing short positions provoked by the Herstatt failure.

The pound was steadier still in July; markets were thin and nervous, but oil companies' demand for sterling continued and the June trade figures had little impact. The pound weakened briefly as some oil producers sold sterling after the measures of 22nd July and, the next day, a pessimistic OECD forecast for the UK economy, but at the end of the month the effective depreciation was again around 17%.

The ***US dollar*** continued to weaken until mid-May in spite of successive rises in interest rates, as gloomy reports of trends in GNP, inflation, and foreign trade were compounded by renewed talk of a deutschemark revaluation; and the Watergate investigations maintained an undercurrent of anxiety. It then strengthened under the influence of good April trade figures, a further round of prime rate increases, and reports of moves by central banks to intervene in its favour. Some weakness was again apparent at the beginning of June amid more talk of a deutschemark revaluation and signs that US interest rates were passing their peak. The weakness was, however, short-lived: interest rates resumed their rise, and it was revealed that the US basic balance of payments outturn in the first quarter had been a record surplus. Anxiety over the poor May trade figures interrupted the dollar's improvement around the end of June, but thereafter it slowly strengthened.

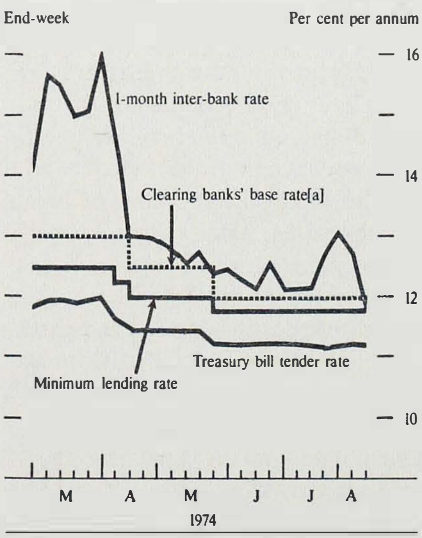
Among *other currencies*, there was periodic tension in the EEC 'snake' in May, with the deutschemark buoyed up by persistent rumours of revaluation and, in the middle of the month, by the *de facto* revaluation of the Austrian schilling. To maintain the band, sizable support was required, mainly directed at the Scandinavian currencies. The Belgian

[1] Developments in the London euro-currency market are discussed in the article on page 306.

franc led the 'snake' for virtually all the remainder of the period, when it was seldom distended and little further intervention was necessary. The deutschemark's effective appreciation since the Smithsonian settlement decreased over the three months from 22% to 17¼%. Outside the EEC scheme, the French franc strengthened, and its effective depreciation decreased from 8¼% to 1¼%. That of the lira was unchanged at 19%, but a deterioration was prevented only by heavy support by the Bank of Italy in May and June, especially in the latter month when Italy's economic difficulties precipitated a government crisis. Italy none the less recovered reserves in July. The Swiss franc strengthened over the period by ¾%, to an effective appreciation of 21½%. The yen weakened a little in May and June, and more rapidly in July, in all by some 5½%, and ending the period with an effective depreciation since the Smithsonian settlement of ¼%.

The London *gold market* was rarely very active during May to July; buyers hesitated as the cost of financing speculative positions rose; and the fixing price – nearly US $170 at the end of April – tended to drift down. Towards the end of June, selling pressure developed after the price went below $150, the slide stopping early in July at $129, the lowest since the beginning of February. For the remainder of the month the market, though quiet, tended to be firmer, and the price closed at $156. During the period it became likely that the forty-year ban on US residents holding gold would be lifted; it was agreed too that gold used as collateral for loans between central banks could be valued at a market-related price by arrangement between the borrower and lender; but these developments had only transitory effects on the price.

Short-term interest rates in London



From the middle of May rates in the parallel market fluctuated and those in the official market held steady.

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

The money market

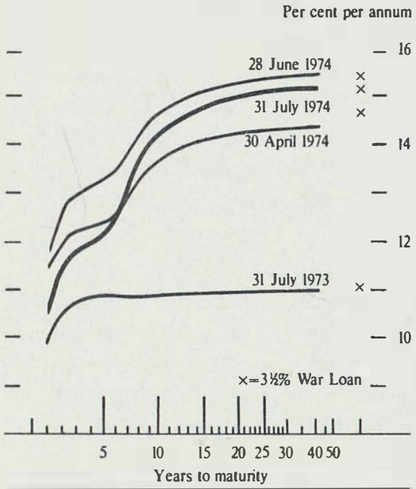
After the releases of special deposits in April, noted in the June *Bulletin*, conditions were generally comfortable in the money market until the middle of May. Little day-to-day assistance was required. The clearing banks reduced their base rates by ½% to 12%, and on 24th May the Bank's minimum lending rate fell from 12% to 11¾%. The Bank followed this move in their own dealing rates. Later, conditions tightened somewhat, and in the last week of May and early June the market was short on most days, partly through settlements for heavy official sales of gilt-edged, and also because of oil revenue payments and Exchequer receipts. The shortages were relieved by the Bank buying Treasury and local authority bills, and lending overnight at minimum lending rate; the Bank also bought eligible commercial bills for the first time since the middle of March. With short-term interest rates abroad rising and poor trade figures announced in the middle of June, interest rates tended to rise for a while and conditions tightened. But towards the end of the month heavy Exchequer disbursements helped the market, and rates declined again. Conditions remained fairly comfortable in the first half of July with little assistance needed; then in the second half of the month they tightened somewhat, partly because of heavy payments of value added tax.

Apart from a reduction in the average rate of discount at the tender on 24th May, when the Bank's minimum lending rate was reduced by ¼% to 11¾%, the Treasury bill rate remained very steady, fluctuating narrowly around 11·2%, despite some much larger offerings at the tender, particularly during June.

The gilt-edged market

In the first half of May the gilt-edged market was quite firm, helped by the announcement of the continuation at the same rate of the supplementary deposits scheme and by the cut in the base rate of one of the clearing banks. The April trade figures were received quite favourably and demand for stocks increased, particularly for long-dated high-coupon issues. To meet the demand, a new stock was announced on 16th May – £400 million nominal of 12¾% Treasury Loan 1995 at £94·5 per cent. For the remainder of the month prices of the longer-dated stocks eased slightly,

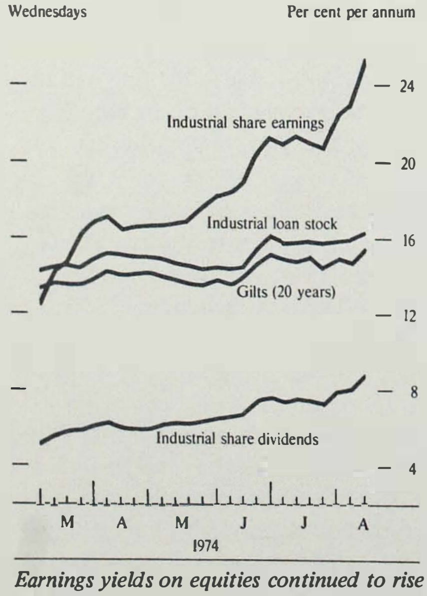
Time/yield curves of British government stocks[a]



Yields rose sharply to new records in the second half of June, but eased somewhat in July, particularly for short and medium-dated stocks.

[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



Earnings yields on equities continued to rise more sharply than yields on gilt-edged and debentures (figures from Table 31 of the statistical annex).

while short and medium-dated were little changed, the encouragement from cuts in more base rates and a fall in minimum lending rate being offset by fears of higher interest rates abroad. On the last day of May a substantial demand for stock built up, helped in early June by the news of one American bank cutting its prime rate. There were very large official sales of the short and medium-dated tap stocks, particularly 12% Treasury Loan 1983. With the announcement of the May trade figures in mid-June, the market weakened. Substantial selling developed, encouraged by higher interest rates in the United States and France, and in anticipation of both an early general election in this country and action to expand the economy. By the end of June yields on medium and long-dated stocks were up to 1¾% higher than at the beginning of the month. Undated issues had record yields of over 15½%.

In the June quarter the authorities made substantial sales of stock totalling, net, nearly £550 million, almost twice as much as in the previous quarter. Sales of stocks with between one and five years to maturity amounted to £375 million, those with between five and fifteen years to over £400 million, and longer-dated stocks to nearly £100 million. Against these, the authorities bought over £250 million net of next-maturing stocks, and one stock, 5¼% Conversion Stock 1974, was redeemed, with about £60 million still in market hands at the final date of 15th June. Most of the buying in the market seems to have been by the personal sector, insurance companies, and building societies.

In July, the market was steadier, despite a further increase in American banks' prime rates and the news of some inflationary wage settlements; and at the end of the period yields were somewhat lower than at the end of June. Towards the end of the month, official holdings of the medium-dated tap stock, 12% Treasury Loan 1983, issued in March, were exhausted; no replacement was announced.

Equity and debenture markets

The *equity market* was generally depressed, prices and turnover falling for most of the period with only occasional rallies. The FT-Actuaries industrial (500) share price index was little changed in the first half of May at around 130. Thereafter, with fears that certain companies were facing liquidity problems, the index fell steadily to 119 at the beginning of June, equal to the previous low point two months earlier. After a slight recovery, prices continued to drift down, prompted by the release of poor trade and company figures, and the index was down to 105 on 8th July. The Government's measures on 22nd July, slightly boosting demand and partly easing dividend restraint, gave the market only a temporary lift. The index ended July at 102, compared with the high point of 228 in the middle of August 1972. And during August this year it went as low as 86. A fall in equity values of over 60% in two years is not only rather bigger than in 1929–31 or 1937–40, but in real terms is substantially worse.

The re-emergence of the traditional relationship between earnings yields on equities and yields on gilt-edged was noted in the June *Bulletin*. In the latest three months, as the chart shows, the former rose almost continuously, while gilt-edged yields, with several market rallies, rose much less: the gap in favour of equities therefore widened considerably, to over 7½% at end-July. Not surprisingly, in view of the weak market, new equity issues, at only £17 million, and net sales of unit trust units, £16 million (excluding special institutional transactions), were again very small.

Activity in the *debenture market* also remained low during the period. Yields, as measured by the Bank's index of 20–25 year loans, tended as usual to follow those of long-dated gilts. From nearly 15% at the beginning of May, they soon eased to around 14½%. Then, in common with both the equity and gilt-edged markets, the market fell sharply from mid-June, with yields rising to over 16% by the 26th. In early July there was some recovery, but yields were once more nearly 16% by the end of it. New money raised during the three months was again exceeded by redemptions – this time by £13 million.

Export credit

It was announced in July that agreement had been reached within the Organisation for Economic Co-operation and Development for tighter limits on the terms of government support for export credits for ships. Consequently, the fixed rate for ships under the scheme for clearing bank finance guaranteed by the Export Credits Guarantee Department[1] has been raised from 7% to 7½%, exclusive of bank and other charges. The new rate applies also to shipbuilding for the domestic market under the corresponding Department of Industry scheme.

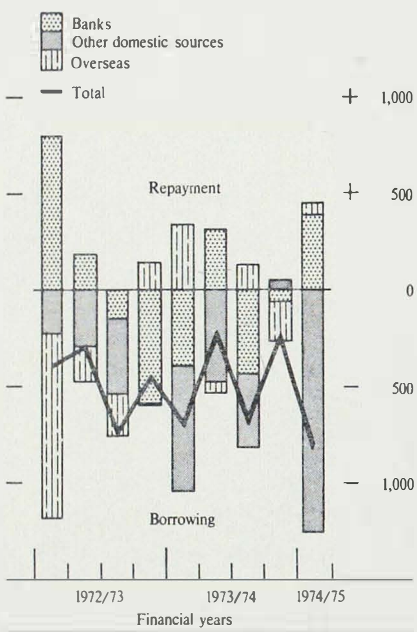
[1] June 1972 *Bulletin*, page 205, and March 1974 *Bulletin*, page 21.

Sector financing

The following sections review the flow of funds by sector. Seasonally-adjusted figures are used unless otherwise stated.

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

Seasonally adjusted £ millions



The Government's financing requirement was more than met by the general public, and some debt was repaid to the banking system.

Public sector

In the March quarter the public sector borrowing requirement amounted to £790 million after seasonal adjustment, bringing the total for the financial year 1973/74 to about £4,500 million. This was very near the estimate of £4,420 million in the Budget of March 1973, but its composition differed markedly, for the central government borrowed much less than originally envisaged while the rest of the public sector borrowed more. The most important reason for this was the extensive foreign currency borrowing by local authorities and public corporations – some £1,340 million over the financial year. It particularly served to reduce the reliance of public corporations on the central government, whose borrowing requirement was accordingly curtailed (though it still had to borrow in domestic markets to the extent of the increase – some £100 million – in the foreign exchange reserves).

In the June quarter the central government borrowing requirement was £800 million after seasonal adjustment. External transactions added £70 million to domestic financing needs: a net currency inflow of £110 million, after public sector foreign currency borrowing of some £500 million, was only partly offset by overseas purchases of government debt. The Government's financing requirement was in fact more than met by the general public, who, apart from a regular take-up of about £150 million of notes and coin, bought £740 million of gilt-edged stocks – particularly in early June, when there were hopes that US interest rates had passed their peak. A reduction in the Issue Department's holding of commercial bills provided a further £340 million. These and some smaller transactions enabled the Government to repay about £390 million to the banking system, in the main through releases of special deposits.

Industrial and commercial companies

Recorded gross trading profits of all companies (financial institutions as well as industrial and commercial companies) were nearly 20% higher in the first quarter than in the previous quarter, but an exceptional amount reflected stock appreciation stemming from the surge in commodity prices. If this is deducted, profits actually fell by about 30% – mainly, of course, under the influence of short-time working. This adjustment makes an even more dramatic difference to the profits of industrial and commercial companies (which hold almost all of the stocks of the company sector as a whole). Their financial deficit rose sharply to by far the highest quarterly figure yet recorded. However, their long-term investment abroad fell back from the unusually large fourth quarter total, so that their total financing needs were little changed (see Table E on page 276).

Financial deficit (–) of industrial and commercial companies

£ millions: *seasonally adjusted*

1973 1st qtr	1973 2nd qtr	1973 3rd qtr	1973 4th qtr	1974 1st qtr
–10	+130	–240	–300	–530

The main external source of funds was the banking system, on which companies relied as heavily as in the previous quarter: new bank borrowing was actually much less, but companies ran down their bank deposits by £70 million, whereas they had added £740 million in the quarter before. Largely because of this reduction, the ratio of their liquid assets to total final expenditure (the latter a proxy for their turnover) fell back slightly to about 10% from the peak of 10½% in the previous quarter, while their net liquidity (liquid assets net of bank advances), in fact already a net liability equal to over 6½% of total final expenditure, increased to one of over 7½%.

Use of bank finance by industrial and commercial companies

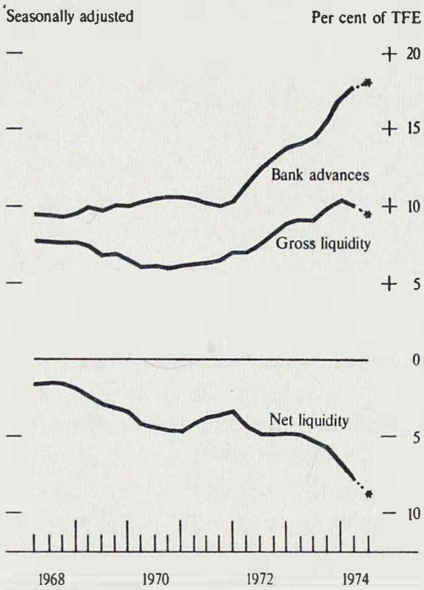
£ millions: *seasonally adjusted*

	1973 1st qtr	1973 2nd qtr	1973 3rd qtr	1973 4th qtr	1974 1st qtr	1974 2nd qtr
Borrowing (increase –)	–620	–590	–1,650	–1,840	–1,110	–1,260
Deposits (increase +)	+520	+100	+1,080	+ 740	– 70	– 40
Net use of bank finance	–100	–490	– 570	–1,100	–1,180	–1,300
Adjusted [a]	*–330*	*–400*	*– 530*	*–1,300*	*–1,300*	*– 960*

[a] Net use of finance adjusted for Issue Department transactions in commercial bills.

The other important source of finance was the overseas sector: foreign investment in UK companies rose sharply by about £480 million, and there was a large positive balancing item in the balance of payments accounts (some £310 million), which must to a large extent reflect unidentified inflows to companies. Taken together with the fall, noted

Company liquidity — gross and net



The chart shows ratios of companies' liquid assets and their bank advances to total final expenditure (a proxy for turnover). Their net liquidity (calculated from liquid assets net of advances – a net liability) again tightened.

*Bank estimates.

earlier, in companies' investment abroad, these developments indicate a heavy reliance on foreign funds. By contrast, there were net redemptions of fixed-interest stocks in the first quarter, and new equity issues were very small, so that net capital issues were negative for the first time at least since the Second World War.

In all, the net identified inflow to industrial and commercial companies exceeded their other identified domestic transactions by about £920 million, an exceptionally big amount (see Table E). It could well be that part of this unidentified 'surplus' was absorbed by a rise in trade credit, some direct to private individuals hard pressed by reductions in earnings during short-time working, and some to unincorporated businesses which would have attempted to offset delays in payments from individuals by taking more trade credit from their suppliers.

Thus, the more detailed information now available shows that the companies were able to ride out the disruption in the first quarter with much less trouble than had at first been feared. Output was less severely affected than had been expected, sales were also maintained by drawing down stocks, and fairly ample overseas finance reduced the demands on the banking system that might otherwise have been made.

In the second quarter there was another big call from companies on net bank finance: their new borrowing was once more very heavy and they again ran down their deposits slightly. Not surprisingly, preliminary estimates suggest that their liquidity position – whether measured from total liquid assets or net liquid assets – again tightened, and by much the same degree as in the first quarter. But after adjustment for Issue Department transactions in commercial bills – a reduction in holdings of £340 million – the companies' net reliance on the banking system in the second quarter, though still very heavy, was even so appreciably less than in the previous two quarters. The equity market continued to be depressed by the poor prospects for company profits, and net redemptions of sterling fixed-interest stocks again outweighed new equity issues.

Financial position of the personal sector

£ millions: *seasonally adjusted*

	1973				1974
	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr
Financial surplus (+)/ deficit (–)	– 60	+ 640	+ 390	+ 510	+ 300
Identified financial transactions:					
Borrowing (–)	–1,220	–1,010	–1,020	– 660	– 300
Acquisition of assets (+)	+1,830	+2,380	+2,000	+2,080	+1,960
Unidentified	*– 670*	*– 730*	*– 590*	*+ 910*	*–1,360*

Personal sector

The personal sector, like industry, was less hard hit in the first quarter than initially expected: personal disposable income fell in real terms by no more than 2%–2½%. Consumption dropped by rather less. The recorded savings ratio fell from 10·7% to 9·3% – still fairly high historically – and the sector's financial surplus (in money terms) was only some £200 million smaller than in the fourth quarter. At the same time, the flow of funds accounts, as for several quarters past, suggest a much greater net acquisition of financial assets than do the national income accounts (see Table D on page 276). As already suggested, a part of this large discrepancy may reflect delays in payment of bills by persons and unincorporated businesses during the period of short-time working.

Total identified borrowing was much less than in recent quarters: the banks' willingness to lend to personal customers, already restrained by official guidance, was further checked from December by the request to the banks not to offer more favourable repayment terms than permitted by the new hire-purchase regulations; the reimposition of terms control on hire-purchase contracts itself brought about a reduction in total credit outstanding; and there was a shortage of mortgage funds for house purchase.

Nevertheless, on the assets side, persons increased their bank deposits by a record £1,090 million. As their borrowing rose only a little, they were very substantial net lenders to the banking system for the second quarter running. They also bought as much as £430 million of local authority debt and £200 million of gilt-edged stock. But, for the second quarter running, they withdrew national savings and bought very few unit trust units. Moreover, they added only £200 million to their funds with building societies – the smallest increase for many years. Meanwhile, personal sales of company and overseas securities continued unabated, at over £500 million.

Net supply of funds by persons to banks

£ millions: *seasonally adjusted*

1973				1974	
1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr
90	430	480	970	1,010	590

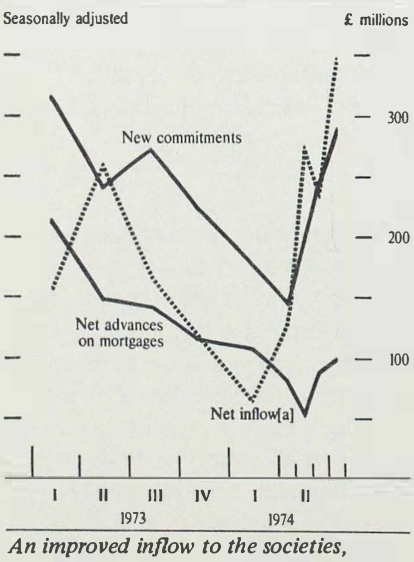
In the second quarter, persons provided a considerably smaller supply of funds to the banks than in the two preceding quarters: their borrowing again increased only modestly, but the increase in their deposits, though

Personal indebtedness

The chart shows the ratio of personal indebtedness (other than borrowing on mortgage) to disposable income. It has fallen with credit restraint.

*Bank estimate.

Building society funds



An improved inflow to the societies, together with the official loans, allowed them to increase their new commitments quite sharply.

[a] From May onwards includes drawings on official loans as well as shares and deposits.

Change in instalment credit outstanding

£ millions: *seasonally adjusted*

Increase +/decrease –

1973				1974	
1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr
+180	+80	+110	+70	–70	–50

still substantial, was much reduced. Nevertheless, the sector's identified acquisition of financial assets seems likely to have remained high in relation to its financial surplus, which was no doubt reduced by increases in taxes and prices. Persons must have accounted for a significant proportion of the £740 million of gilt-edged stock bought by the general public, and the building societies attracted £430 million.

Financial institutions other than banks

During the second quarter, the *building societies* experienced a modest recovery. It began with a slackening in the rate of withdrawals in April to £390 million – nearly £70 million less than in March. It owed something no doubt to the introduction of term-share facilities offering a more attractive rate of return and to Budget action against guaranteed income bonds, as well as to declining interest rates on other competing assets. Withdrawals held steady for the rest of the quarter, while gross receipts from the public picked up from £455 million in April to £505 million in June. In all, the societies' net receipts amounted to £430 million, more than in either of the preceding two quarters though still below the average of £530 million a quarter in 1973 (see Table G on page 277). The recovery of net receipts continued into July, when they were £200 million, the highest for a year.

The societies have also accepted all five tranches, each of £100 million, of the official loan offered them in May. The first tranche was made available by the Bank and the others by the Department of the Environment. At the end of July, the societies had drawn a total of nearly £350 million. These funds and the recovery in other inflows enabled the societies to hold their interest rates steady, and to increase their new commitments from under £150 million in April to over £280 million in July; their net advances also began to rise in June, but remained comparatively small, reflecting the reduced supply of funds and pruned scale of commitments in the first quarter. The societies' combined liquidity ratio accordingly rose from 14·8% at the end of March to 17·8% at the end of July.

Instalment credit outstanding again contracted in the June quarter, no doubt because real disposable incomes were reduced and perhaps also under the continuing influence of the terms controls reimposed last December. The fall during the first half-year was largely borne by the *finance houses*, whose new business was particularly affected by a depressed car market, while repayments to them on existing contracts continued at roughly the same rate as before. Retailers' new business did not fall off quite so much, and indeed showed signs of an improvement in June, perhaps boosted by earlier than usual summer 'sales' and by threshold payments.

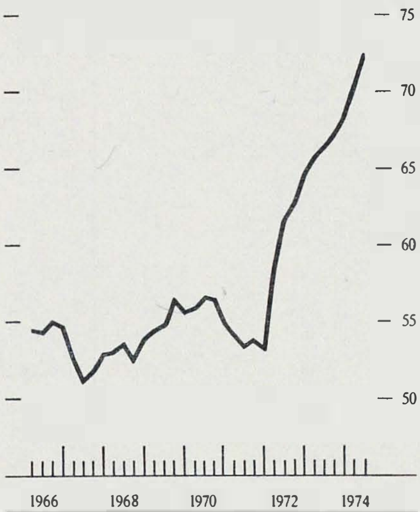
Deposits with finance houses rose by £20 million, to about £470 million, having fallen by £30 million in the first quarter. At mid-July, aggregate interest-bearing eligible liabilities of those finance houses covered by the supplementary deposits scheme were still well below the base.

Banking sector

Bank lending to the private sector increased by £1,520 million in the second quarter, or at rather more than the moderate rate (compared with the second half of 1973) in the first (see Table F on page 277). However, as noted earlier, if adjusted for Issue Department transactions in commercial bills, the increase in the second quarter was slightly smaller than in the first. Most of the increase again went to industrial and commercial companies. Lending to persons and financial institutions, circumscribed by official guidance, continued to increase by very little; personal borrowing will also have been discouraged by the disallowance, announced in the Budget, of tax relief on interest on such borrowing. With bank lending in sterling to the public sector falling by some £600 million – mainly because the central government's borrowing requirement was more than met by the general public's take-up of government debt – and bank lending in sterling to overseas customers increasing only moderately,

Private sector share of bank finance in sterling

Seasonally adjusted Per cent



The private sector, mainly industrial and commercial companies, continued to take an increasing share of the sterling finance provided by the banking sector.

Net reliance by the banks on funds from overseas

£ millions: *not seasonally adjusted*

	1973 1st qtr	1973 2nd qtr	1973 3rd qtr	1973 4th qtr	1974 1st qtr	1974 2nd qtr
Sterling deposits (–) net of lending (+)	–275	–140	+390	– 50	+165	–395
Currency deposits (–) net of lending (+)[a]	+110	–320	–580	–530	–245	–105
	–165	–460	–190	–580	– 80	–500

[a] Reported figures adjusted for any difference between reported inter-bank currency borrowing and lending.

Changes in discount houses' sterling assets

£ millions: *not seasonally adjusted*

	1973 1st qtr	1973 2nd qtr	1973 3rd qtr	1973 4th qtr	1974 1st qtr	1974 2nd qtr
Claims on:						
Central government	+ 10	+120	–420	+ 80	– 80	+140
Local authorities	+ 20	– 60	–120	–100	– 20	–
UK banks	+160	+ 10	– 20	+330	–140	–200
Other private sector	–110	+ 10	+ 60	+100	+160	+130

the private sector's share of outstanding bank lending in sterling rose further, to 72% at the end of June compared with 70% at the end of March.

Bank lending to domestic sectors has been supported to a considerable extent in recent quarters by deposits from overseas. These have consisted in the main of deposits in foreign currencies, which have been on-lent to public sector bodies under the exchange cover scheme reintroduced in the 1973 Budget. But in the second quarter the main overseas contribution came in sterling, reflecting in part the increased sterling resources accruing to oil producers.

Meanwhile domestic deposits increased by only £460 million in the second quarter – the smallest rise since the third quarter of 1971 – and M_3 grew by only 2%, compared with 7% in the December quarter and 3% in the March quarter. For the second quarter in succession, the public sector, companies, and other financial institutions all reduced their deposits slightly, and persons again accounted for more than the total increase.

The portfolios of the *discount houses* have undergone two important readjustments in recent quarters. The first followed the introduction in July 1973 of modified arrangements for credit control through the 'undefined assets multiple'.[1] The houses reduced their holdings of public sector debt, particularly local authority securities, Treasury bills and gilt-edged, in which they had previously been obliged to invest 50% of their borrowed funds, and built up their holdings of higher-yielding private sector debt, which it had become possible for them to hold in greater quantities. This switch was mainly instrumental in increasing the combined undefined assets multiple of the discount market from 13·8 times capital and reserves in mid-August to 18·8 in mid-January. An additional incentive to invest in certificates of deposit occurred in November, when yields on them rose particularly sharply, as pressure on reserve ratios encouraged the banks to bid for deposits, notably by issuing certificates of deposit.

The other big change in the composition of the discount houses' assets followed the introduction of the supplementary deposits scheme in December.[2] The new scheme encouraged banks to restrain the growth of their interest-bearing eligible liabilities, and indirectly that of their advances, because they might have needed to bid for funds to finance them. So banks increasingly arranged to accommodate their company customers by accepting bills on their behalf, which do not require to be financed by deposits. The demand for bill finance exerted upward pressure on bill rates, while pressure on certificate of deposit rates was eased as the banks' need for funds to finance their customers was reduced. Accordingly the discount houses found it more profitable (within the overall limitations on their holdings of private sector debt) to invest in bank acceptances than in certificates of deposit. An additional factor in the second quarter was that most of the commercial bills purchased by the Issue Department from the banking system in the previous two quarters were allowed to mature without replacement.

[1] September 1973 *Bulletin*, page 306.
[2] March *Bulletin*, page 37.

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								
1971 2nd qtr	8,239	3,451	− 8,630	−2,318	742	− 498	− 89	155
3rd „	8,477	3,517	− 8,920	−2,327	747	− 527	− 87	133
4th „	8,636	3,717	− 9,102	−2,436	815	− 597	− 87	131
1972 1st qtr	8,826	3,821	− 9,360	−2,571	716	− 643	−102	− 29
2nd „	9,180	4,045	− 9,673	−2,398	1,154	− 685	− 99	370
3rd „	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	4,497	−10,932	−2,816	890	− 861	− 91	− 62
2nd „	10,501	4,787	−10,942	−2,922	1,424	− 718	− 69	637
3rd „	10,772	4,797	−11,296	−2,995	1,278	− 812	− 79	387
4th „	11,145	4,949	−11,564	−3,140	1,390	− 802	− 73	515
1974 1st qtr	11,277	5,259	−11,947	−3,363	1,226	− 837	− 91	298
Company sector[f]								
1971 2nd qtr	1,406	1,260		−1,859	807	−1,195	126	− 262
3rd „	1,473	1,285		−1,710	1,048	−1,102	122	68
4th „	1,464	1,297		−1,767	994	−1,001	90	83
1972 1st qtr	1,506	1,384		−1,766	1,124	−1,036	104	192
2nd „	1,595	1,405		−1,915	1,085	−1,080	86	91
3rd „	1,695	1,514		−1,863	1,346	−1,317	68	97
4th „	1,870	1,641		−1,852	1,659	−1,357	69	371
1973 1st qtr	2,045	1,862		−2,163	1,744	−1,774	84	54
2nd „	2,171	1,923		−2,252	1,842	−1,761	68	149
3rd „	2,190	2,147		−2,368	1,969	−2,275	89	− 217
4th „	2,226	2,534		−2,660	2,100	−2,394	60	− 234
1974 1st qtr	2,655	2,873		−3,014	2,514	−2,881	69	− 298
Public sector								
1971 2nd qtr	431	5,528	− 2,568	−2,006	1,385	−1,113	− 37	235
3rd „	465	5,312	− 2,637	−2,037	1,103	−1,124	− 35	− 56
4th „	426	5,483	− 2,723	−2,204	982	−1,169	− 3	− 190
1972 1st qtr	356	5,610	− 2,836	−2,362	768	−1,134	− 2	− 368
2nd „	459	5,633	− 2,860	−2,391	841	−1,193	13	− 339
3rd „	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	6,104	− 3,174	−2,576	848	−1,395	− 31	− 578
2nd „	554	6,011	− 3,212	−2,747	606	−1,376	− 18	− 788
3rd „	566	6,454	− 3,362	−2,802	856	−1,461	− 11	− 616
4th „	603	6,721	− 3,506	−3,053	765	−1,509	12	− 732
1974 1st qtr	540	6,886	− 3,671	−3,447	308	−1,686	22	−1,356
Overseas sector[g]								
1971 2nd qtr					− 293			− 293
3rd „					− 382			− 382
4th „					− 248			− 248
1972 1st qtr					− 84			− 84
2nd „					− 134			− 134
3rd „					114			114
4th „					− 10			− 10
1973 1st qtr					146		38	184
2nd „					188		19	207
3rd „					291		1	292
4th „					661		1	662
1974 1st qtr					979		−	979

[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

	1971			1972				1973				1974	
	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr
Capital expenditure	+1,113	+1,124	+1,169	+1,134	+1,193	+1,170	+1,177	+1,395	+1,376	+1,461	+1,509	+1,686	
less Saving	−1,385	−1,103	− 982	− 768	− 841	− 765	− 674	− 848	− 606	− 856	− 765	− 308	
less Capital transfers (net)	+ 37	+ 35	+ 3	+ 2	− 13	− 18	− 16	+ 31	+ 18	+ 11	− 12	− 22	
equals Financial surplus −/deficit +	− 235	+ 56	+ 190	+ 368	+ 339	+ 387	+ 487	+ 578	+ 788	+ 616	+ 732	+1,356	
Lending and other transactions (increase in assets +)[a]	+ 132	+ 196	+ 190	− 22	+ 123	+ 136	+ 307	+ 39	+ 397	+ 422	+ 374	− 123	
Import deposits (repayments +)	+ 110	+ 1											
Unidentified	+ 121	+ 72	+ 3	− 324	+ 149	+ 19	+ 89	− 67	+ 16	+ 95	+ 232	− 443	
Borrowing requirement (increase +)	+ 128	+ 325	+ 383	+ 22	+ 611	+ 542	+ 883	+ 550	+1,201	+1,133	+1,338	+ 790	
Financed by (borrowing −):													
Central government:													
External transactions	*+ 480*	*+ 781*	*+ 973*	*− 35*	*− 955*	*− 184*	*− 221*	*+ 144*	*+ 341*	*− 55*	*+ 134*	*− 192*	*+ 68*
Notes and coin with the public	*− 20*	*− 48*	*− 45*	*− 134*	*− 125*	*− 95*	*− 141*	*− 138*	*− 125*	*− 6*	*− 170*	*− 88*	*− 155*
Bank borrowing	*− 132*	*− 266*	*− 527*	*+ 367*	*+ 799*	*+ 184*	*− 147*	*− 580*	*− 384*	*+ 311*	*− 432*	*− 57*	*+ 385*
Other domestic borrowing[b]	*− 272*	*− 630*	*− 640*	*− 198*	*− 102*	*− 198*	*− 244*	*+ 137*	*− 532*	*− 467*	*− 212*	*+ 102*	*−1,095*
	+ 56	*− 163*	*− 239*	*−*	*− 383*	*− 293*	*− 753*	*− 437*	*− 700*	*− 217*	*− 680*	*− 235*	*− 797*
Local authorities:†													
External finance	*− 55*	*+ 3*	*− 26*	*− 29*	*+ 3*	*− 68*	*− 55*	*− 57*	*− 28*	*− 105*	*− 128*	*+ 22*	*+ 33*
Bank borrowing	*− 227*	*− 169*	*− 158*	*+ 57*	*− 28*	*− 67*	*+ 7*	*+ 131*	*+ 37*	*− 90*	*− 99*	*+ 304*	*− 26*
Other domestic borrowing[c]	*+ 74*	*+ 22*	*+ 66*	*− 119*	*− 63*	*− 47*	*− 112*	*− 258*	*− 358*	*− 151*	*− 243*	*− 718*	
	− 208	*− 144*	*− 118*	*− 91*	*− 88*	*− 182*	*− 160*	*− 184*	*− 349*	*− 346*	*− 470*	*− 392*	
Public corporations:†													
External finance	*− 29*	*− 6*	*− 7*	*− 22*	*− 9*	*+ 10*	*+ 1*	*− 27*	*− 11*	*+ 22*	*− 88*	*− 29*	*− 203*
Domestic borrowing	*+ 53*	*− 12*	*− 19*	*+ 91*	*− 131*	*− 77*	*+ 29*	*+ 98*	*− 141*	*− 592*	*− 100*	*− 134*	
	+ 24	*− 18*	*− 26*	*+ 69*	*− 140*	*− 67*	*+ 30*	*+ 71*	*− 152*	*− 570*	*− 188*	*− 163*	
Total net borrowing	− 128	− 325	− 383	− 22	− 611	− 542	− 883	− 550	−1,201	−1,133	−1,338	− 790	

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

	1973 1st qtr	1973 2nd qtr	1973 3rd qtr	1973 4th qtr	1974 1st qtr	1974 2nd qtr
Local authorities:						
From UK banks	+ 20	+ 57	+ 5	+ 6	+ 97	+ 178
Direct from overseas	+ 10	+ 38	+ 25	+ 62	+ 34	+ 10
Public corporations:						
From UK banks	+ 19	+ 177	+ 342	+ 201	+ 180	+ 114
Direct from overseas	+ 50	+ 10	− 9	+ 86	+ 28	+ 206

[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 +

	1971			1972				1973				1974	
	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr
Financial surplus +/deficit −	−293	−382	− 248	− 84	−134	+114	− 10	+184	+207	+292	+662	+979	
Transactions with the UK private sector													
Investment flows:													
Transactions in company and overseas securities	−123	+214	+ 9	−192	−151	−124	− 99	+ 45	+100	− 1	+ 72	+139	
Miscellaneous private investment	+ 20	+ 12	+ 40	+ 4	− 44	− 2	−117	−111	+ 31	− 65	−161	+215	
Other transactions:													
Net external transactions by UK banks[b]	+247	+153	+ 548	+131	−239	+ 22	+ 59	+210	+409	+222	+643	+ 70	+513
Other identified	+ 45	+209	− 98	− 68	−185	− 67	+307	− 32	+113	−223	+ 5	+155	
Balancing item	+ 6	− 91	+ 274	+ 23	−375	+106	−358	+245	− 69	+290	+111	+314	
	+195	+497	+ 773	−102	−994	− 65	−208	+357	+584	+223	+670	+893	
Transactions with the UK public sector													
Lending etc.[c]	− 92	−101	− 81	− 68	−101	− 63	− 77	−113	− 75	− 69	− 90	−113	
External finance:[d]													
Central government	−480	−781	− 973	+ 35	+955	+184	+221	−144	−341	+ 55	−134	+192	− 68
Local authorities	+ 55	− 3	+ 26	+ 29	− 3	+ 68	+ 55	+ 57	+ 28	+105	+128	− 22	− 33
Public corporations	+ 29	+ 6	+ 7	+ 22	+ 9	− 10	− 1	+ 27	+ 11	− 22	+ 88	+ 29	+203
	−488	−879	−1,021	+ 18	+860	+179	+198	−173	−377	+ 69	− 8	+ 86	

[a] It has not been possible to include in this table the balance of payments estimates for the 2nd quarter of 1974, and revisions to previous quarters, which were released in September.

[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

	1971			1972				1973				1974	
	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr
Saving	+ 742	+ 747	+ 815	+ 716	+1,154	+ 896	+1,087	+ 890	+1,424	+1,278	+1,390	+1,226	
Capital transfers (net)	– 89	– 87	– 87	– 102	– 99	– 86	– 85	– 91	– 69	– 79	– 73	– 91	
Capital expenditure	– 498	– 527	– 597	– 643	– 685	– 640	– 763	– 861	– 718	– 812	– 802	– 837	
Financial surplus +/deficit –	+ 155	+ 133	+ 131	– 29	+ 370	+ 170	+ 239	– 62	+ 637	+ 387	+ 515	+ 298	
Borrowing (–)													
For house purchase	– 434	– 505	– 550	– 576	– 674	– 720	– 709	– 735	– 654	– 665	– 521	– 453	
Bank borrowing[a]	– 68	– 242	– 234	– 437	– 575	– 280	– 635	– 440	– 278	– 385	+ 84	– 44	– 80
Hire-purchase debt	– 36	– 84	– 71	– 68	– 58	– 60	– 55	– 46	– 8	– 22	– 47	+ 54	
Other[b]	+ 74	+ 43	– 81	+ 90	+ 36	– 27	– 130	– 1	– 71	+ 56	– 176	+ 139	
	– 464	– 788	– 936	– 991	–1,271	–1,087	–1,529	–1,222	–1,011	–1,016	– 660	– 304	
Acquisition of financial assets (+)													
Life assurance and pension funds	+ 514	+ 519	+ 512	+ 558	+ 623	+ 581	+ 612	+ 740	+ 640	+ 580	+ 780	+ 650	
Government stocks	– 34	+ 174	+ 101	– 130	+ 33	+ 56	+ 46	+ 134	+ 220	+ 193	+ 271	+ 205	
Company and overseas securities	– 481	– 316	– 349	– 240	– 333	– 293	– 290	– 364	– 217	– 531	– 499	– 532	
Unit trust units	+ 8	+ 10	+ 21	+ 26	+ 54	+ 60	+ 63	+ 59	+ 49	+ 33	+ 15	+ 12	+ 9
Bank deposits, notes and coin	+ 165	+ 317	+ 378	+ 552	+ 460	+ 440	+ 561	+ 665	+ 863	+ 961	+1,022	+1,132	+ 775
Building society shares and deposits	+ 450	+ 527	+ 583	+ 588	+ 584	+ 453	+ 514	+ 461	+ 755	+ 517	+ 365	+ 204	+ 428
National savings	+ 75	+ 85	+ 150	+ 126	+ 160	+ 107	+ 82	+ 53	+ 65	+ 74	– 48	– 65	– 48
Local authority debt	– 30	– 84	– 73	– 23	– 64	– 44	+ 49	+ 52	+ 9	+ 140	+ 136	+ 428	
Other	+ 17	+ 89	+ 104	+ 87	+ 56	+ 96	+ 78	+ 33	– 7	+ 31	+ 40	– 70	
	+ 684	+1,321	+1,427	+1,544	+1,573	+1,456	+1,715	+1,833	+2,377	+1,998	+2,082	+1,964	
Identified financial transactions	+ 220	+ 533	+ 491	+ 553	+ 302	+ 369	+ 186	+ 611	+1,366	+ 982	+1,422	+1,660	
Unidentified	*– 65*	*– 400*	*– 360*	*– 582*	*+ 68*	*– 199*	*+ 53*	*– 673*	*– 729*	*– 595*	*– 907*	*–1,362*	

[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 +

	1971			1972				1973				1974	
	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr
Domestic capital formation	+1,064	+ 961	+ 882	+ 907	+ 968	+1,129	+1,194	+1,583	+1,538	+1,995	+2,133	+2,604	
less Saving	– 679	– 902	– 895	–1,010	– 958	–1,171	–1,489	–1,481	–1,582	–1,652	–1,756	–1,995	
less Capital transfers (net)	– 139	– 134	– 101	– 116	– 98	– 81	– 83	– 96	– 81	– 101	– 73	– 82	
equals Financial surplus –/deficit +	+ 246	– 75	– 114	– 219	– 88	– 123	– 378	+ 6	– 125	+ 242	+ 304	+ 527	
Trade investments, mergers, etc. in the United Kingdom	+ 78	+ 123	+ 81	+ 141	+ 152	+ 146	+ 203	+ 162	+ 131	+ 245	+ 185	+ 231	
Long-term investment abroad	+ 232	+ 156	+ 192	+ 188	+ 174	+ 177	+ 268	+ 343	+ 272	+ 359	+ 520	+ 334	
Import deposits	– 99	– 1											
Total requiring financing (+)	+ 457	+ 203	+ 159	+ 110	+ 238	+ 200	+ 93	+ 511	+ 278	+ 846	+1,009	+1,092	
Capital issues (including euro-currency issues)	– 83	– 119	– 141	– 136	– 203	– 212	– 176	– 109	– 99	– 27	– 26	+ 10	– 2
Overseas investment in UK companies	– 177	– 160	– 145	– 146	– 116	– 155	– 115	– 168	– 314	– 192	– 335	– 483	
Import credit and advance payments on exports	– 45	– 47	– 33	– 54	– 4	– 88	– 124	– 77	– 70	– 75	– 126	– 70	
Export credit and advance payments on imports	+ 6	– 14	– 8	+ 20	+ 45	+ 43	+ 25	+ 81	+ 4	+ 38	+ 27	+ 98	
Bank borrowing	– 13	– 203	– 337	– 715	– 736	– 642	– 895	– 610	– 585	–1,613	–1,747	–1,039	–1,287
Other borrowing[a]	– 50	– 110	– 67	+ 5	– 12	+ 8	– 29	– 334	– 143	– 472	– 354	– 112	
Bank deposits, notes and coin	+ 173	+ 142	+ 401	+ 277	+ 610	+ 623	+ 778	+ 585	+ 162	+1,081	+ 828	– 29	+ 35
Other liquid assets[b]	– 18	+ 84	+ 48	+ 10	+ 1	+ 18	+ 45	+ 26	+ 68	– 5	+ 6	+ 16	
Other items[c]	– 69	+ 41	+ 60	+ 61	– 30	– 23	+ 1	+ 152	– 11	+ 54	+ 69	+ 87	
Other overseas transactions (including the balance of payments balancing item)[d]	+ 21	– 61	– 99	– 11	+ 490	+ 30	+ 119	– 254	+ 20	– 10	– 33	– 489	
Unidentified domestic transactions[d]	*– 202*	*+ 244*	*+ 162*	*+ 579*	*– 283*	*+ 198*	*+ 278*	*+ 197*	*+ 690*	*+ 375*	*+ 682*	*+ 919*	
Total financing (–)	– 457	– 203	– 159	– 110	– 238	– 200	– 93	– 511	– 278	– 846	–1,009	–1,092	

[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 +

	1971			1972				1973				1974	
	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr
Lending													
Public sector	+ 297	+ 457	+ 705	– 501	– 641	– 14	+ 130	+ 363	+ 477	+ 385	+ 636	– 131	– 363
Industrial and commercial companies	+ 59	+ 207	+ 341	+ 765	+ 809	+ 650	+ 906	+ 624	+ 587	+1,651	+1,843	+1,105	+1,260
Other financial institutions	+ 45	+ 137	+ 222	+ 270	+ 353	+ 153	+ 256	+ 283	+ 78	+ 147	+ 329	+ 196	+ 138
Personal sector	+ 83	+ 267	+ 274	+ 492	+ 665	+ 380	+ 735	+ 510	+ 373	+ 475	– 29	+ 74	+ 105
Total domestic lending	+ 484	+1,068	+1,542	+1,026	+1,186	+1,169	+2,027	+1,780	+1,515	+2,658	+2,779	+1,244	+1,140
Deposits													
Public sector	+ 17	– 15	– 25	+ 10	+ 9	– 5	– 94	+ 12	– 56	+ 24	– 80	+ 17	+ 84
Industrial and commercial companies	– 163	– 118	– 378	– 210	– 547	– 575	– 707	– 516	– 99	–1,078	– 743	+ 73	+ 43
Other financial institutions	+ 21	– 30	– 208	– 141	– 478	+ 7	– 306	– 247	– 213	– 323	– 244	+ 54	+ 115
Personal sector	– 155	– 293	– 356	– 485	– 398	– 393	– 491	– 596	– 801	– 958	– 937	–1,088	– 698
Total domestic deposits	– 280	– 456	– 967	– 826	–1,414	– 966	–1,598	–1,347	–1,169	–2,335	–2,004	– 944	– 456
Net lending to overseas sector[a]	– 69	– 357	– 566	– 150	+ 315	+ 1	– 118	– 127	– 414	– 230	– 621	– 40	– 464
Non-deposit liabilities (net)	– 135	– 255	– 9	– 50	– 87	– 204	– 311	– 306	+ 68	– 93	– 154	– 260	– 220

[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

	1971			1972				1973				1974	
	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr
Increase in financial liabilities (–)													
Life assurance and pension funds	– 514	– 519	– 512	– 558	– 623	– 581	– 612	– 740	– 640	– 580	– 780	– 650	
Building society shares and deposits	– 465	– 545	– 606	– 602	– 596	– 465	– 524	– 456	– 772	– 492	– 350	– 189	– 428
Other deposits	– 22	– 97	– 110	– 6	– 37	– 102	– 66	– 135	+ 10	– 74	– 73	+ 19	
Capital issues	– 49	– 55	– 50	– 99	– 230	– 78	– 32	– 46	– 4	– 4	– 7	– 6	– 8
Unit trust units	– 8	– 10	– 21	– 26	– 54	– 60	– 63	– 59	– 49	– 33	– 15	– 12	– 9
Other (mainly bank) borrowing	– 44	– 137	– 206	– 269	– 352	– 152	– 256	– 282	– 77	– 146	– 329	– 195	
	–1,102	–1,363	–1,505	–1,560	–1,892	–1,438	–1,553	–1,718	–1,532	–1,329	–1,554	–1,033	
Increase in financial assets (+)													
Short-term assets[a]	– 38	+ 48	+ 198	+ 151	+ 491	– 34	+ 361	+ 298	+ 379	+ 292	+ 309	+ 107	
Government stocks	+ 232	+ 342	+ 310	+ 240	+ 66	+ 13	+ 99	+ 77	+ 282	+ 124	+ 205	+ 9	
Company and overseas securities:													
Ordinary shares	+ 298	+ 260	+ 254	+ 379	+ 589	+ 468	+ 356	+ 132	+ 89	+ 85	+ 132	+ 1	
Fixed-interest	+ 61	+ 85	+ 33	+ 87	+ 31	+ 46	+ 71	+ 36	+ 23	+ 20	+ 34	– 2	
Loans for house purchase	+ 391	+ 441	+ 466	+ 482	+ 561	+ 600	+ 574	+ 618	+ 491	+ 476	+ 379	+ 330	
Long-term lending to local authorities	+ 15	+ 6	+ 39	+ 66	+ 15	+ 54	+ 8	+ 33	+ 27	+ 61	+ 7	+ 5	
Hire-purchase claims	+ 12	+ 69	+ 42	+ 49	+ 45	+ 24	+ 45	+ 28	+ 28	+ 34	+ 26	– 30	
Other lending	– 17	+ 3	+ 66	– 5	– 32	+ 77	+ 44	+ 117	+ 74	+ 132	+ 182	+ 76	
	+ 954	+1,254	+1,408	+1,449	+1,766	+1,248	+1,558	+1,339	+1,393	+1,224	+1,274	+ 496	
Net identified financial transactions	– 148	– 109	– 97	– 111	– 126	– 190	+ 5	– 379	– 139	– 105	– 280	– 537	

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

Table H
Flow of funds: first quarter 1974

£ 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	+1,183	+1,089	+1,802	+1,553	–224		
Taxes on capital and capital transfers	2	+ 45		– 93	+ 88	– 40		
less:								
Gross fixed capital formation at home	3	–1,807		– 605	–1,160	–277		
Increase in value of stocks and work in progress	4	+ 28		– 161	–1,321	+ 5		
Financial surplus +/deficit –	5	– 551	+1,089	+ 943	– 840	–536		–105
Changes in financial assets and liabilities								
Assets: increase +/decrease –								
Liabilities: increase –/decrease +								
Government debt to Banking Department	6	+ 78				– 78		
Life assurance and pension funds	7			+ 650			–650	
Loans by the UK Government	8	+ 72	– 58		– 15		+ 1	
Total external currency flow	9·1	– 39	+ 39					
Other central government external transactions	9·2	– 143	+ 143					
Banks' net external transactions	10		+ 112			– 112		
Miscellaneous investment overseas (net)	11	+ 40	+ 321		– 375		+ 14	
Notes and coin	12	+ 262		+ 123	+ 77	– 462		
Bank deposits of domestic sectors	13	+ 6		+ 821	– 415	– 254	–158	
Deposits with other financial institutions	14		+ 33	+ 151	– 51		–133	
National savings	15·1	+ 6		– 6				
Tax reserve certificates/tax deposit accounts	15·2	+ 92		– 50	– 28	– 9	– 5	
Bank lending to domestic sectors	16	– 76		+ 44	–1,249	+1,484	–203	
Hire-purchase and other instalment debt	17	– 7		+ 92	– 55		– 30	
Loans for house purchase	18	+ 93		– 446		+ 30	+323	
Other loans and accruals	19	– 58		+ 51	– 228	+ 208	+ 27	
Marketable government debt held by domestic sectors:								
Treasury bills	20	+ 408			+ 2	– 415	+ 5	
Stocks	21	– 243		+ 205		+ 29	+ 9	
Local authority debt	22	– 402	– 1	+ 428	+ 72	– 227	+130	
UK company and overseas securities:								
Capital issues	23		+ 20		+ 10	– 21	– 6	
Other transactions	24	+ 2	+ 119	– 532	+ 295	+ 114	– 1	
Unit trust units	25			+ 14			– 14	
Identified financial transactions	26	+ 91	+ 728	+1,545	–1,960	+ 287	–691	
Unidentified	27	*– 642*	*+ 361*	*– 602*	*+1,120*	*–132*		*–105*
Total=Financial surplus +/deficit –	28	– 551	+1,089	+ 943	– 840	–536		–105

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

Table J

Flow of funds: first quarter 1974

£ 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	+ 308	+979	+1,226	+1,995	+519		
Taxes on capital and capital transfers	2	+ 22		− 91	+ 82	− 13		
less:								
Gross fixed capital formation at home	3	−1,686		− 837	−2,604	−277		
Increase in value of stocks and work in progress	4							
Financial surplus +/deficit −	5	−1,356	+979	+ 298	− 527	+229		+377
Changes in financial assets and liabilities								
Assets: increase +/decrease −								
Liabilities: increase −/decrease +								
Government debt to Banking Department	6	− 73				+ 73		
Life assurance and pension funds	7			+ 650			−650	
Loans by the UK Government	8	+ 58	− 44		− 15		+ 1	
Total central government external transactions	9	− 192	+192					
Banks' net external transactions	10		+ 70			− 70		
Miscellaneous investment overseas (net)	11	+ 40	+309		− 363		+ 14	
Notes and coin	12	+ 53		+ 44	+ 44	− 141		
Bank deposits of domestic sectors	13	− 17		+1,088	− 73	− 944	− 54	
Deposits with other financial institutions	14		+ 21	+ 184	− 35		−170	
National savings	15·1	+ 65		− 65				
Tax reserve certificates/tax deposit accounts	15·2	+ 92		− 50	− 28	− 9	− 5	
Bank lending to domestic sectors	16	− 114		− 44	−1,039	+1,393	−196	
Hire-purchase and other instalment debt	17	− 7		+ 54	− 17		− 30	
Loans for house purchase	18	+ 93		− 453		+ 30	+330	
Other loans and accruals	19	− 219		+ 139	+ 10	+ 8	+ 62	
Marketable government debt held by domestic sectors:								
Treasury bills	20	− 106			+ 2	+ 99	+ 5	
Stocks	21	− 243		+ 205		+ 29	+ 9	
Local authority debt	22	− 345	− 22	+ 428	+ 77	− 304	+166	
UK company and overseas securities:								
Capital issues	23		+ 20		+ 10	− 21	− 6	
Other transactions	24	+ 2	+119	− 532	+ 295	+ 114	− 1	
Unit trust units	25			+ 12			− 12	
Identified financial transactions	26	− 913	+665	+1,660	−1,132	+ 257	−537	
Unidentified	27	*− 443*	*+314*	*−1,362*	*+ 605*	*+509*		*+377*
Total=Financial surplus +/deficit −	28	−1,356	+979	+ 298	− 527	+229		+377

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

Notes on sources, definitions and seasonal adjustments[1]

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 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 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, central government refinance of fixed-rate credits for domestic shipbuilding extended by UK banks, and the Issue Department's transactions in commercial bills (treated as lending by the central government to industrial and commercial companies); 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.

[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).