# Financial review

*This review describes the course of interest rates and other developments in the various financial markets during the three months August to October. It includes a section (page 404) on UK banks' positions in the euro-currency market as shown in the end-August quarterly maturity survey; these surveys were previously half-yearly and discussed in separate articles; the figures are now included in the statistical annex (Table 24). There is also a note (page 405) on international oil money movements during the first nine months of the year. As usual, there is a review (page 409) of the flow of funds by sector – for the second and third quarters – together with the regular flow of funds tables.*

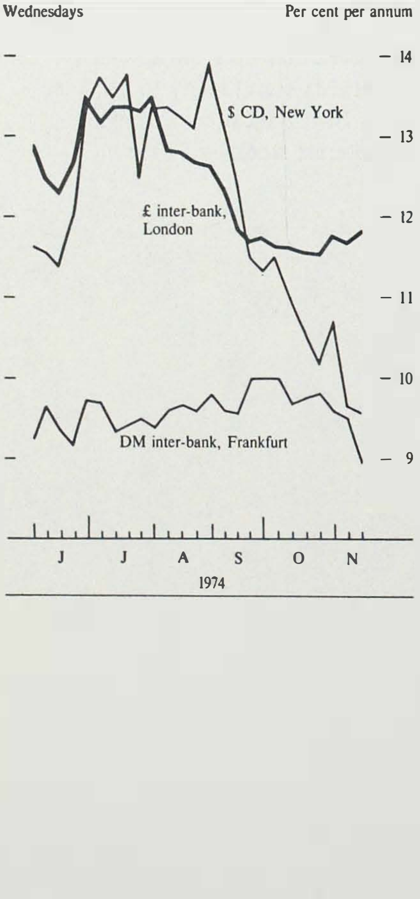
## Developments in financial markets

### Short-term interest rates

For most of the three months August to October short-term interest rates changed little in the main continental markets, where conditions were generally fairly tight; towards the end of October, however, bank rates in Western Germany and the Netherlands were reduced by ½% and 1% respectively. Rates in the United States remained high in August, but fell steadily thereafter, and UK rates, especially in the parallel markets, tended to ease, particularly in August and September.

**Comparative three-month interest rates**

*There was little change during August to October in continental rates, but US rates fell sharply, and UK rates were also easier on balance.*




In Western Germany outflows of foreign exchange and, with the failure of a further three small banking houses, continuing nervousness about the liquidity position of banks, put some upward pressure on rates; but this was contained by cuts in the banks' minimum reserve requirements, an extension of central bank lending facilities, and the formation of a consortium to assist banks with liquidity problems. Towards the end of October the official discount rate was reduced from 7% to 6½%; and the banks' rediscount quotas were increased from the beginning of November.

In the United States there was strong corporate demand in August for bank loans, notably to finance quarterly tax payments due in the following month; and with the Treasury borrowing heavily at the short end of the market, Treasury bill rates rose to new records around 10%. Even so, banks' prime rates were held at 12%. By September the expectation that an easing of money market conditions would soon permit the authorities to reduce rates, and a continuing increase in demand for Treasury bills because of their security, contributed to dramatic falls in bill rates at successive auctions, to around 6¾% for three-month bills at the end of the month; and, though stressing that no major relaxation was yet warranted, the Federal Reserve sought a slightly faster growth of money (narrowly defined), which had for some months been expanding comparatively slowly. Despite the general easing in short-term rates, the banks moved cautiously in reducing their prime rates to 11¾% towards the end of September. Rates continued to ease in October, and by the end of the month prime rates had generally been reduced to 11%.

UK interest rates tended to decline over the three months, although the discount rate on three-month Treasury bills increased a little in August, before following the general movement in September. By 20th September the discount rate had fallen enough to lower the Bank's minimum lending rate from 11¾%, maintained since May, to 11½%. Rates in the parallel markets eased considerably, with the three-month inter-bank rate falling to 11¾%, nearly 2% less than at the end of July.

The uncovered comparison between three-month euro-dollars and inter-bank sterling continued to favour the dollar until early October, when the fall in euro-dollar rates restored sterling's advantage. The covered differential in favour of the dollar was little changed on balance at around 2%. Discounts on forward sterling rose over the period, particularly in the second half, largely because euro-dollar rates fell faster than sterling rates. For three-month sterling they rose from 2% per annum at the end of July to 3⅞% at the end of October. The widening was checked in August because of a demand for forward sterling associated with oil royalty and tax payments, and later because of the firmer trend in euro-dollar rates. Margins narrowed for a time at the beginning of September, when some sterling oil receipts were placed in the euro-sterling market. For the remainder of the period they widened as euro-dollar rates eased more rapidly than their sterling counterparts; discounts were also increased from time to time when some dealers sought to borrow sterling temporarily by buying spot and selling forward.

**Foreign exchange and gold markets**

During August to October foreign exchange markets became less nervous than immediately after the Herstatt failure, but were none the less kept on edge by news of other banks experiencing foreign exchange difficulties. Turnover remained lower than a year earlier. The US dollar strengthened at first, then eased for the remainder of the period, while sterling held steady for much of the time but slipped towards the end. Both currencies were affected in October by sales arising from the diversification of oil funds.

*Sterling* was once again in recurring demand to meet oil payments, and rarely came under pressure in the first part of the period; no significant support was required, and it was possible to add most of the proceeds of official and other public sector borrowing in foreign currencies to the reserves.

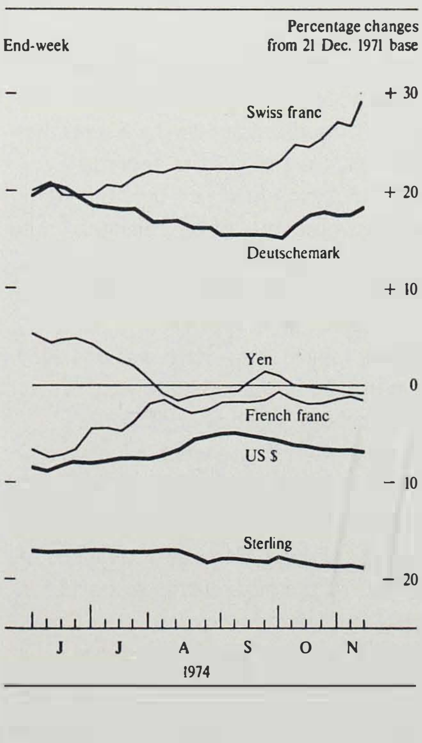
In the first half of August the effective depreciation of the pound since the Smithsonian settlement of December 1971 fluctuated narrowly around 17% with sterling in steady demand both spot and forward for oil payments due in the middle of the month. The disappointing July trade figures at first had little effect, and the pound strengthened rapidly as the oil payment date drew near. Some intervention was made to moderate the impact. But demand evaporated once the payments had been made, and the pound reacted adversely to various economic and political developments. With the US dollar still strengthening, the effective depreciation of sterling widened to some 18%. In early September sterling was little affected by either the news of foreign exchange irregularities at the Lugano branch of Lloyds Bank International or of Australia's withdrawal from the sterling guarantee arrangements, but was sustained by renewed oil demand until the middle of the month, when it weakened somewhat. The reduction in minimum lending rate on the 20th had little impact. However, the pound fared less well in October, when some oil producers were again in the course of modestly diversifying their current receipts of foreign currencies. Moreover, there was some uncertainty in advance of the general election held on the 10th, and on polling day itself the effective depreciation increased to almost 19% at one time. It ended the month at 18·6%.

The *US dollar* strengthened in August despite poor figures for trade in July and for the balance of payments in the second quarter. There was a period of weakness before the President resigned on 9th August, but the new President's stress on the importance of containing inflation quickly gave heart to the dollar, which continued to advance on the news of West German measures to increase banks' liquidity by reducing minimum reserve ratios. Even so, the dollar weakened for the remainder of the period as domestic interest rates fell. It suffered as well in September from the confirmation of the second quarter balance of payments outturn and a record trade deficit for August. Also, in October, anxiety developed about the President's economic programme; and there were sales of dollars by oil producers.

Among *other currencies*, the EEC 'snake' was under substantial tension for most of the period because the deutschemark weakened against the dollar in August and September. Sizable intervention was needed to maintain the band, in which the Belgian franc and Norwegian krone were mostly the strongest. The post-Smithsonian effective appreciation of the deutschemark had decreased by the end of September by 2% from some

**Effective changes in exchange rates**

*There were several changes in the trends of currencies in September and October, a big influence being the fall in US interest rates.*



17% at the end of July, but it rallied thereafter as oil producers sold sterling and dollars, and ended the period at nearly 17½%. Outside the EEC scheme, the lira's effective depreciation increased from 19% to 22%, with the Bank of Italy providing frequent support, especially in October after the Italian cabinet had resigned. The Swiss authorities removed the ban on the payment of interest on non-resident deposits in October; and the franc strengthened over the period by 5%, to an effective appreciation of nearly 26½%. The French franc was little changed over the period, ending with a depreciation of some 1%. The yen was heavily supported by the Bank of Japan for much of the time: it weakened in August, recovered in September, and slipped again in October – to an effective depreciation of ½%.

The London *gold market* was subdued for most of the three months. The price remained around US $155 per fine ounce in August. It received short-lived support early in September from the Italian pledge of gold at a market-related price in connection with the $2 billion credit provided by Western Germany, but thereafter tended to decline for a while. After falling to $144 in the middle of September the price rallied in the second half of the month. Early in October it touched $160 in a nervous market and then remained around $155 until a resurgence of buying lifted the price to over $170; it ended the period at $167. In August, the bill restoring the right of US residents to hold gold was passed, but the impact was delayed beyond the end of the period, when other considerations also encouraged demand.

**Sterling guarantee arrangements**

In his Budget speech on 12th November the Chancellor announced that the guarantee of certain official overseas holdings of sterling, which had first been made available in September 1968, would be discontinued when the present arrangement expired at the end of the year.[1] In the situation created by the increase in oil prices it was considered that the guarantees, which in the past had made an important contribution to international financial stability, had lost much of their relevance given the global extent of the problem of the investment of surplus oil revenues. Moreover the present guarantee applied to only a small proportion of total sterling holdings, because no sterling reserves built up since September 1973 were covered.

**Euro-currency business**

The euro-currency market was uneasy for much of the period between May and August, the latest two dates for which the analysis of banks' positions is available;[2] the main causes were discussed in the September *Bulletin* (page 306). Since August, however, the market has become steadier and confidence has improved. One reason has been the start of direct borrowing arrangements between governments of oil-consuming and oil-exporting countries, which has reduced the amount of funds which would otherwise have been channelled through the international banking system. Another has been that some oil-exporting countries have been prepared to place their deposits at slightly longer term. Help was provided, too, by a number of countries taking action to improve banking supervision, and by the statement from Basle in September after the monthly meeting of central bank governors that, if and when necessary, temporary liquidity would be provided to commercial banks.

Previously, between end-May and end-August, partly because of a more selective attitude by banks to new business which led to the emergence of a tiered interest-rate structure,[3] the size of the euro-currency market in London measured by the total of banks' foreign currency liabilities (or claims) had fallen by about £300 million, to around £65,500 million.

[1] June *Bulletin*, page 143.
[2] The results of the quarterly surveys into the maturity position of banks in this country are now included in the statistical annex – see Table 24.
[3] September *Bulletin*, page 307.

**Liabilities and claims by customer**

£ millions

| 1974 | Amounts outstanding End-May | Amounts outstanding End-Aug. | Change |
|---|---|---|---|
| Foreign currency liabilities of UK banks to: | | | |
| Other UK banks[a] | 18,330 | 17,270 | −1,060 |
| Other UK residents | 2,030 | 2,430 | + 400 |
| Overseas central monetary institutions | 7,640 | 8,820 | +1,180 |
| Banks overseas | 29,900 | 28,570 | −1,330 |
| Other non-residents | 7,890 | 8,370 | + 480 |
| | 65,790 | 65,460 | − 330 |
| Foreign currency claims of UK banks on: | | | |
| Other UK banks[a] | 18,360 | 17,510 | − 850 |
| Other UK residents | 5,130 | 5,510 | + 380 |
| Banks overseas | 29,260 | 29,320 | + 60 |
| Other non-residents | 12,980 | 13,130 | + 150 |
| | 65,730 | 65,470 | − 260 |

[a] Liabilities to UK banks and claims on them should be the same. The figures, as reported, differ. There will be compensating differences in the other components of total liabilities and claims.

**Maturity structure of net foreign currency position**

£ millions

Net liabilities −/net assets +

| 1974 | End-May | End-Aug. |
|---|---|---|
| Less than 8 days[a] | −2,390<br>*−1,030* | −2,870<br>*−1,560* |
| 8 days to less than 3 months | −3,350 | −4,090 |
| 3 months to less than 1 year | − 950 | − 790 |
| Net borrowing up to 1 year | −6,690 | −7,750 |
| Net lending at 1 year and over | +6,630 | +7,760 |
| | − 60 | + 10 |

[a] Figures in italics show the net position at very short term after including holdings of London dollar certificates of deposit of all maturities, these being immediately realisable assets for the holding bank (see September *Bulletin*, page 309).

**Estimated revenues of oil-exporting countries**

$ billions

| | 1973 1st qtr | 1973 2nd qtr | 1973 3rd qtr | 1973 4th qtr | 1974 1st qtr | 1974 2nd qtr | 1974 3rd qtr |
|---|---|---|---|---|---|---|---|
| US dollars | 3·5 | 3·4 | 3·7 | 5·1 | 9·0 | 18·6 | 24·1 |
| Sterling | 2·2 | 2·0 | 1·6 | 1·9 | 3·1 | 5·6 | 5·1 |
| | 5·7 | 5·4 | 5·3 | 7·0 | 12·1 | 24·2 | 29·2 |

Allowing for estimated changes in the valuation of balances,[1] the contraction was probably around £1,700 million, compared with an expansion of over £3,500 million between March and May. Even so, with maturities in the three months totalling some £83,000 million, the contraction was modest.

The recorded fall of £300 million in the August returns was more than accounted for by a reduction of over £1,000 million in deposits with other UK banks (see the first table), compared with a rise of £1,400 million between March and May. There was also a fall in business with overseas commercial banks – liabilities to them were reduced by over £1,300 million and claims on them increased only slightly. However, there was another big increase, of nearly £1,200 million, in liabilities to central monetary authorities, probably more than accounted for by increased deposits by the oil-exporting countries. Meanwhile, the contraction of the market had little effect on the shares of the business accounted for by various groups of banks. British banks and 'other foreign banks' each increased their share by 1%, to 24% and 13% respectively, while the American banks' share fell from 40% to 39% and that of the consortium banks fell from 8% to 7%.

Turning to the maturity analysis, the banks' net borrowing up to one year rose by about £1,000 million, little different from that between March and May. Most of the extra funds were on lent for periods of three years and over. This and other changes in the net position are summarised in the second table. It can be seen that the increase in net borrowing was concentrated in up to three months' money. Within this range, the growth of net liabilities at less than eight days was more than accounted for by the American banks with an increase of £660 million, to £2,710 million, whereas there was a reduction of £180 million, to £160 million, in the net liability at this term of all the other banks (and, if holdings of London dollar certificates of deposit are included in this category, the other banks had net assets of £840 million in August compared with £630 million in May).

At longer term (one year and over), £600 million of the increase of some £1,000 million in net lending came from the British banks, which they financed by more net borrowing in the intermediate maturity periods. At very short term (less than eight days) and including holdings of dollar certificates of deposit, the British banks increased their net assets to £510 million, compared with £330 million in May; they also had £170 million net available through irrevocable stand-by credits arranged with banks abroad.

**Oil money movements**

This section discusses the movements of oil money in the first three quarters of this year. These comprise both the payments made by the oil companies to the oil-exporting countries, and the subsequent investment by the latter of their surplus revenues. Although such transactions have taken place on a large scale for many years, the higher prices charged by the oil-exporting countries since October 1973 have increased their magnitude immensely.

Oil revenues of exporting countries[2] are estimated to have risen from an average of $5½ billion a quarter in the first three quarters of 1973 (before the price increase of October 1973) to over $29 billion in the third quarter of this year. They are expected to total about $96 billion in the full year. The table shows quarterly estimates divided between dollar and sterling revenues.

Payments made in sterling have risen from a quarterly average of just under $2 billion in the first three quarters of last year to over $5 billion in the third quarter of this year. As a proportion of total payments, however, they have fallen from about 35% to under 20%, because a number of

[1] When reporting, the banks generally measure the sterling value of their foreign currency balances at the market rates on the reporting date. With reporting dates three months apart, fluctuations in exchange rates can produce significant changes in valuation.

[2] The oil-exporting countries covered here are those included in Table 25 of the statistical annex, i.e. Algeria, Bahrain, Brunei, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela.

Sterling revenues and growth in sterling holdings of oil-exporting countries

$ billions

| | 1974 | | |
|---|---|---|---|
| | 1st qtr | 2nd qtr | 3rd qtr |
| Oil revenues in sterling | 3·1 | 5·6 | 5·1 |
| Net rise in reported sterling holdings | 0·6 | 1·4 | 2·2 |

Employment of cash surpluses of oil-exporting countries

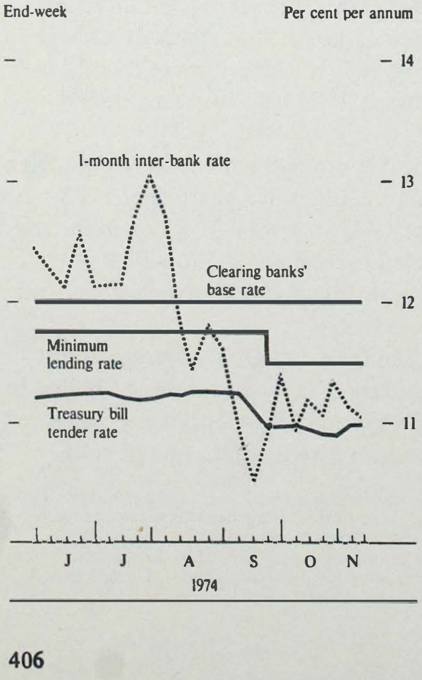
$ billions

| | Jan. to Sept. 1974 |
|---|---|
| In the United Kingdom: | |
| Sterling deposits | 1·6 |
| Treasury bills | 1·9 |
| British government stocks | 0·7 |
| Foreign currency deposits | 10·3 |
| In the United States: | |
| Government securities | 5·0 |
| Bank deposits | 3·0 |
| Other[a] | 10·5 |
| Total | 33·0 |

[a] Deposits, including euro-currency deposits, in other financial centres; official loans; and holdings of equities, other securities, and property.

**Short-term interest rates in London**

*Rates in the parallel markets fell quite sharply in August and September, but rates in the official market eased only a little.*




Middle Eastern states have taken a larger part of their oil revenues in dollars.

To provide for the larger payments to oil-exporting countries, the oil companies have to build up larger balances over each monthly or quarterly payment cycle in the currencies in which payment is to be made. Hence, the companies accumulate dollars from their world-wide earnings in order to meet their dollar payments. Likewise they accumulate the sterling they need both from the proceeds of their sales in the United Kingdom and, to a large extent, from their sales overseas, either by invoicing in sterling or by converting foreign currency earnings. Thus the companies' greater need for sterling for payments has increased the demand for sterling in the exchange market. The increased build-up of sterling balances in preparation for the larger payments results in a higher average holding of sterling; this adjustment seems to have been largely completed and for the present is unlikely to go much further.

The exchange market has felt the effect of this increased demand for sterling balances, and of the subsequent employment of the funds by the exporting countries to which they are paid. In the first three quarters of this year the oil exporters as a group added $4·2 billion to their sterling holdings, or almost one third of the total of sterling payments made to them in the same period. This brought their total sterling holdings reported by banks to $7·1 billion.

Total estimated oil revenues of the exporting countries in the first three quarters of the year were $65½ billion. Their estimated cash surpluses over the same period, after allowance for exports other than oil, for imports and for other current transactions, were nearly $35 billion. This would have been the sum available for disbursement as government loans, capital investment, or additions to reserves.

It is not possible from published information to build up a complete picture of how the funds have been deployed. Some of the countries concerned do not publish sufficient information. Combined sterling holdings in London and combined euro-currency holdings in London are each obtainable from the figures reported by banks and published in the statistical annex. The US Undersecretary of the Treasury for monetary affairs has also given a public estimate of an increase in the combined dollar holdings of the group in New York of some $8 billion up to the end of September. Figures for other financial centres are not known. The table therefore breaks down only about two thirds of the group's use of funds in the first nine months of this year.

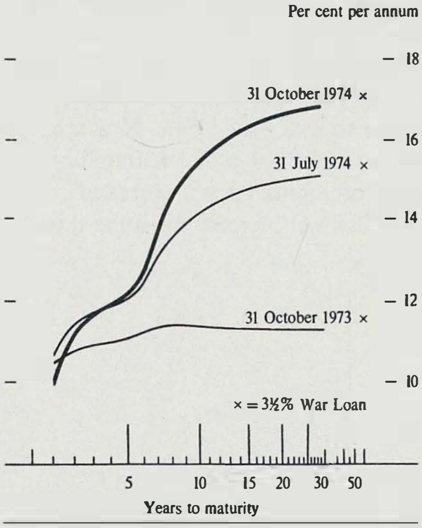
Although these figures do not show the disposition by country of oil surpluses other than those placed in the United Kingdom and in the United States, they do show the magnitude of the total increase which has already occurred. They also suggest that much of it has been placed on deposit with banks, so far, it is believed, mostly at short term. This underlines the problem for financial markets which the employment of surplus oil revenues will increasingly pose.

**The money market**

August to October were mainly quiet months in the money markets, and the authorities were content to see an easing of rates as a result of the generally comfortable conditions that prevailed. Help, when needed, was given almost entirely by purchases of Treasury bills and local authority bills. However, conditions were very easy on rather more occasions than usual, and on nine days the Bank mopped up the surpluses, generally created by heavy Exchequer disbursements, by selling Treasury bills. Because the government deficit was rising strongly in this period, offerings at the tender were comparatively large. Nevertheless, with the general decline in short-term rates and growing demand for Treasury bills from outside the banking sector, competition for the bills increased in September; and by the 20th the average discount rate had narrowed enough to lower the Bank's minimum lending rate from 11¾% to 11½%. During the period the average cost of the discount houses' borrowed funds fell from just under 11½% at the end of July to about 10½% in early

**Time/yield curves of British government stocks**[a]

*Yields, particularly for long and medium-dated stocks, rose sharply in October.*




[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.

October, before rising again slightly later in the month. Rates in the parallel markets also hardened a little in October because of increased Exchequer tax receipts.

**The gilt-edged market**

The gilt-edged market was fairly quiet and steady in early August until the poor July trade figures were announced, when prices fell. During this period the authorities bought some stock. Previously, official sales had been heavy for a while in July and there was some concern that this should not cause excessively tight monetary conditions. The market was further weakened by the news of the Court Line collapse, but steadied towards the end of August. In September, sharp falls in the US Treasury bill rate, better than expected August trade figures, and the reduction in minimum lending rate led to higher prices throughout the range, although gains were larger among the shorter-dated stocks. On 13th September official holdings of the short tap stock, 11½% Treasury Stock 1977, were effectively exhausted, and its replacement by £600 million nominal of 11½% Treasury Stock 1979 at £97·50 per cent was announced immediately (the medium-dated tap stock 12% Treasury Loan 1983, exhausted in July, had not been replaced). Towards the end of the month and throughout October the market weakened again, especially at the longer end, because of announcements implying worsening inflation, political uncertainties, and reports that the public sector borrowing requirement would be much higher than forecast. During this period the authorities sometimes bought medium and long-dated stocks as well as near maturities. By the end of October several long and undated stocks were yielding over 17%. Short-dated stocks, however, remained in fair demand, largely as a result of falling short-term interest rates overseas.

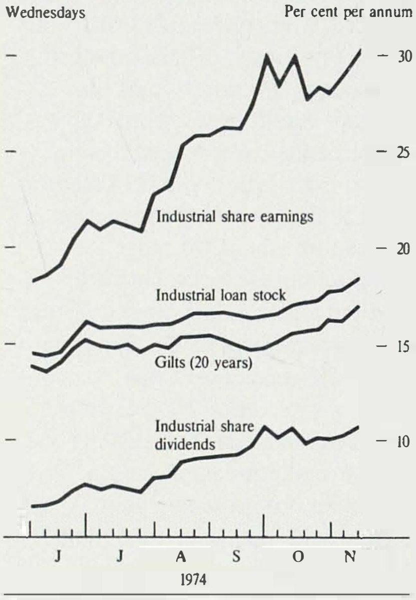
In the September quarter the authorities sold, net, some £220 million of stock, compared with nearly £550 million in the June quarter. Net sales of stocks with between one and five years to maturity were nearly £240 million (there was a good demand for the new short tap stock), and net sales of medium and long-dated stocks were around £90 million and £100 million respectively. Against these, the authorities bought nearly £150 million of near-maturing stocks, and one stock, 5½% Treasury Stock 1974, was redeemed, some £60 million still being in market hands at the final date of 10th September. Purchases by domestic holders other than banks – mainly by the personal sector and by building societies – totalled £320 million, and again exceeded official net sales.

**Equity and debenture markets**

The *equity market* remained weak for most of the period, with prices generally falling, as they had done since late 1972. The few rallies – for example on a Kuwaiti bid for a property company and on comparatively favourable August trade figures – were short lived. The FT-Actuaries industrial (500) share price index fell from 102 at the end of July to 77 in late September, one third of the high point of 228 in August 1972. The two-thirds fall in values in two years is the largest ever. Perhaps the main influence was the growing awareness of the problems of profitability and cash-flow which were facing companies, individually and collectively. Some of the many rumours were subsequently confirmed, for example the collapse of Court Line, and the request by Ferranti for government aid. Within the stock exchange, turnover continued to fall and in September was at its lowest for several years, although it recovered somewhat in October; another firm of brokers failed, and there were several mergers. Industrial disputes, particularly in the motor industry, and electoral uncertainties also sapped confidence. In mid-October, with a recovery on Wall Street, statements by the Government recognising industry's cash-flow problems, and the announcement of a November Budget, in which measures to help companies were widely expected, the market strengthened. But once again the rally was short lived, and the index ended the period at 82.

**Security yields**

*The weakness of equities in August and September brought a dramatic rise in earnings yields as conventionally calculated (figures from Table 30 of the statistical annex).*




The increasing weakness of the market in August and September contrasted with the relative steadiness of gilt-edged yields. The earnings yield on equities, as conventionally calculated from the latest published company accounts, was over 30% at the end of September. Dividend yields on equities rose quite strongly in the three months, but were still well below those on fixed-interest stocks (see the chart). Inevitably, new equity issues, at £15 million, remained low. However, to provide a larger capital base for its increased business, Commercial Union Assurance announced a rights issue to raise £62·5 million later in the year. Net sales of unit trust units, at £17 million, also continued low.

Activity in the *debenture market* remained depressed throughout the period. Yields, as measured by the Bank's index of 20-25 year loans, tended to follow those of long-dated gilt-edged. They rose from just under 16% at the end of July to about 16½% by mid-August, steadied for a while, and then rose throughout October to well over 17½%. New money raised during the three months (including £20 million of a £30 million convertible loan stock offer by United Dominions Trust), exceeded redemptions by nearly £16 million, the first net increase for some time.

## Sector financing

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

**Public sector borrowing requirement**

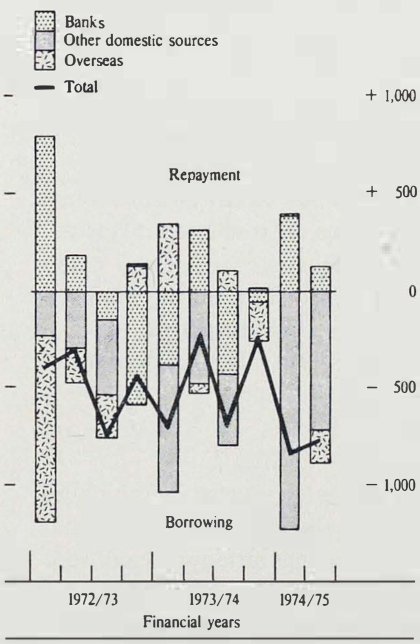
£ millions: *seasonally adjusted*

| | 1973 | | | 1974 | |
|---|---|---|---|---|---|
| | 2nd qtr | 3rd qtr | 4th qtr | 1st qtr | 2nd qtr |
| Financial deficit(+) | + 790 | + 700 | + 730 | +1,360 | + 680 |
| Lending and other transactions[a] | + 410 | + 440 | + 490 | − 70 | + 630 |
| *Unidentified* | − − | *10* | *+ 120* | *− 520* | *+ 290* |
| Borrowing requirement (increase +) | +1,200 | +1,130 | +1,340 | + 770 | +1,600 |

[a] Increase in assets +. Consisting principally of lending (including refinancing of export credits and public corporations' identified trade credit), changes in bank deposits, and accruals adjustments (see note on line 19 on page 419).

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

*As in the previous quarter, the Government's borrowing requirement was financed largely by the general public.*




**Company accounts**

£ millions: *seasonally adjusted*

| | 1973 | | | 1974 | |
|---|---|---|---|---|---|
| | 2nd qtr | 3rd qtr | 4th qtr | 1st qtr | 2nd qtr |
| Appropriation account of all companies | | | | | |
| Gross trading profits[a] | 1,560 | 1,390 | 1,360 | 800 | 960 |
| Transfer incomes etc. | 1,930 | 2,170 | 2,630 | 2,890 | 2,910 |
| *less:* Current transfer payments | −2,280 | −2,370 | −2,710 | −3,100 | −3,150 |
| Saving[a] | 1,210 | 1,190 | 1,280 | 590 | 720 |
| Financial deficit (−) of industrial and commercial companies | | | | | |
| Saving[a] | 1,040 | 980 | 1,020 | 190 | 350 |
| Capital transfers (net receipts) | 80 | 90 | 70 | 90 | 80 |
| *less:* Gross domestic capital formation[a] | −1,160 | −1,330 | −1,510 | −1,020 | −1,720 |
| Financial deficit | − 40 | − 260 | − 420 | − 740 | −1,290 |
| [a] Excluding stock appreciation of: | 550 | 760 | 820 | 1,760 | 1,440 |

**Public sector**

In the second quarter the public sector's financial deficit dropped back sharply to £680 million, but its borrowing requirement rose to £1,600 million as a result of substantial lending to other sectors. It is not yet possible to give a full explanation for this increase in public sector lending, but three things clearly played an important part. The first, which contributed to the central government borrowing requirement, was the payment of the second £100 million of the £500 million loan offered to the building societies in May. (The societies had already received £100 million earlier in the quarter from the Banking Department of the Bank; but this did not contribute to the central government borrowing requirement as the Banking Department is treated in the statistics as a part of the banking sector.) Secondly, there was a rise in trade credit extended to the private sector by public corporations following a contraction in the first quarter. Thirdly, there are indications that payments of rates to local authorities were more than usually delayed, partly no doubt because of the sharp increase in rate demands. (Any lengthening in the normal delay before rate demands are actually paid appears in the flow of funds accounts as an increase in notional 'lending'.) As well as these, the figures suggest a big increase in unidentified lending, no doubt stemming in part from the general dislocation caused by the three-day week and from the recent reorganisation of local government.

Turning to the finance of the public sector borrowing requirement, direct external flows during the second quarter provided some £160 million. The domestic financing requirement of about £1,440 million was more than covered by the general public who, besides a fairly normal take-up of about £160 million of notes and coin, bought some £680 million of gilt-edged stocks and £690 million of local authority debt. Allowing for these and some other flows – mainly a fall of some £340 million in the Issue Department's holdings of commercial bills – the public sector as a whole was able to repay about £390 million to the banking system.

For the third quarter, insufficient information is yet available for a review of the transactions of the public sector as a whole. For the central government, the borrowing requirement amounted to £780 million, of which some £280 million reflected further loans to the building societies. External flows provided some £170 million: about £210 million of borrowing in foreign currency by public bodies contributed to a net currency inflow of £180 million, but this was more than financed by very large sales of government debt to overseas holders. Thus domestic financing needs amounted to £610 million, some £230 million less than in the second quarter. Once again, this domestic requirement was more than covered by the general public. There was a slightly larger increase in their holdings of notes and coin (£190 million) but they bought only £320 million of gilt-edged stocks, or less than half as much as in the previous quarter. On the other hand, national savings increased by £70 million – no doubt under the influence of improvements in terms introduced during the summer – and the public's holdings of Treasury bills increased by £120 million. These and some smaller transactions, in particular a fall of £50 million in the Issue Department's holdings of commercial bills, enabled the Government to repay £130 million to the banking system.

**Industrial and commercial companies**

Recorded gross trading profits of all companies (here including financial companies) were slightly lower than in the first quarter, but after

**Use of bank finance by industrial and commercial companies**

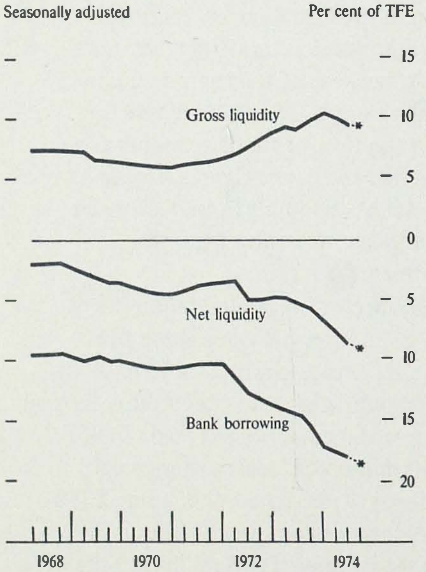
£ millions: *seasonally adjusted*

| | 1973 | | | 1974 | | |
|---|---|---|---|---|---|---|
| | 2nd qtr | 3rd qtr | 4th qtr | 1st qtr | 2nd qtr | 3rd qtr |
| Borrowing (increase −) | −590 | −1,650 | −1,840 | −1,110 | −1,310 | −1,370 |
| Deposits (increase +) | +100 | +1,080 | + 740 | − 70 | − 20 | + 230 |
| Net use of bank finance | −490 | − 570 | −1,100 | −1,180 | −1,330 | −1,140 |
| *Adjusted*[a] | *−400* | *− 530* | *−1,300* | *−1,300* | *− 990* | *−1,090* |

[a] Net use of bank finance adjusted to include Issue Department transactions in commercial bills.

**Company liquidity—gross and net**

*The chart shows companies' liquid assets and their borrowing from banks as percentages of total final expenditure (a proxy for turnover). Their net liquidity (calculated from liquid assets net of borrowing) continued to worsen in the third quarter.*




* Estimate.

**Personal indebtedness**

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


* Estimate.

subtracting stock appreciation – which, because of a slower increase in commodity prices, was not quite as massive as in the previous quarter – the total in fact increased slightly, though from a very low figure. But expenditure on fixed investment rose, and stocks were rebuilt after the run-down during short-time working, and so the company sector's deficit virtually doubled.

The pattern was similar for industrial and commercial companies, whose financial deficit increased from £740 million in the first quarter to £1,290 million in the second, and whose total financing needs rose for the fourth quarter running even though they acquired fewer trade investments at home and invested less long-term abroad (see Table E). The overseas sector was a much less important source of company finance than in the first quarter: foreign investment in UK companies, though still substantial, at £260 million, was only half as large, and the balancing item in the balance of payments, which must largely reflect unidentified transactions with companies, was also much less favourable.

With no revival in equity issues, companies continued to rely on the banks for the bulk of their financing needs: even allowing for a £340 million reduction in the Issue Department's holdings of commercial bills, their net recourse to the banks amounted to nearly £1,000 million, and their net liquidity position deteriorated to much the same extent as in the previous quarter.[1] A further notable feature was the sharp decline in unidentified net domestic payments.

In the third quarter companies' reliance on bank finance, adjusted for a further, but much smaller, reduction in the Issue Department's holdings of commercial bills, was on a slightly larger scale. Domestic capital markets continued at a low ebb, with new equity and preference issues only slightly exceeding net redemptions of fixed-interest stocks.

There are indications that the decline in domestic finance may have been offset to some extent by inflows to companies from abroad. The balancing item in the balance of payments accounts suggests a substantial inflow, and there was also a significant inflow on account of private investment.

**Personal sector**

In the second quarter real personal disposable income fell by just under 1% – the third quarterly fall in a row – but real consumption dropped by rather more (1¼%) and so the recorded savings ratio recovered from 9·3% to 9·5%, and the sector's financial surplus improved by £90 million. But the flow of funds accounts continue to suggest a much greater net acquisition of financial assets than do the national income accounts (see Table D). The unidentified inflows which are a regular feature of the personal sector's flow of funds can in some part be ascribed to take-over activity and increasing trade credit from the company sector, as well as to errors and omissions in the national income accounts.[2] But the sector's total unidentified inflow has increased very markedly since the beginning of 1973 and was nearly £2,500 million in the first half of 1974 alone. This seems too big to be explained in terms of unrecorded financial flows.

Total personal borrowing increased by some £580 million, considerably more than in the first quarter, but still well down on recent experience: borrowing from the banks rose a little, but hire-purchase credit outstanding continued to fall and net borrowing for house purchase was the lowest for over three years. On the other hand, the late payment of rates by persons to local authorities, mentioned above, effectively represented an increase in borrowing. On the assets side, persons increased their bank deposits by £700 million – considerably less than in recent quarters – but invested rather more than in the first quarter with building societies, and bought a record £315 million of

[1] See also the review presenting the results of a quarterly survey of company liquidity since the beginning of 1970 in the November issue of *Economic Trends*.

[2] See *An introduction to flow of funds accounting: 1952–70* (Bank of England, 1972) page 18.

**Net supply of funds by persons to banks**

£ millions: *seasonally adjusted*

| 1973 | | | 1974 | | |
|---|---|---|---|---|---|
| 2nd qtr | 3rd qtr | 4th qtr | 1st qtr | 2nd qtr | 3rd qtr |
| 430 | 480 | 960 | 1,010 | 590 | 410 |

gilt-edged stocks and a large amount of local authority debt. However, less went into life assurance companies and pension funds. Meanwhile sales of equities and debentures slackened somewhat.

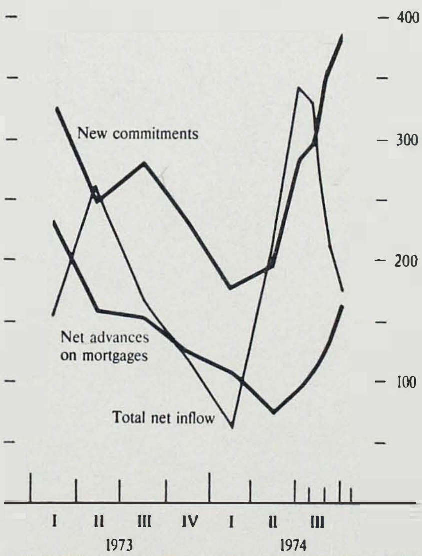
Preliminary indications for the third quarter suggest a sharp rise in real personal disposable income and, despite increased consumption stimulated to an extent by the July measures, a further increase in the savings ratio and also perhaps in the sector's financial surplus. None the less, persons' bank deposits increased by the smallest amount for two years, and, with the amount of new borrowing virtually unchanged, the sector's net supply of funds to the banks continued to decline. This fall was more than matched by such increases in other assets as can be identified at this stage. There was a further sharp rise in building society shares and deposits: after a fairly steady build-up from the March Budget until August, net receipts faltered somewhat in September, but recovered in October to around the third quarter average of £200 million a month. There was also a net inflow into national savings for the first time in a year, and persons may again have increased their holdings of gilt-edged stocks, but probably by considerably less than for some time.

**Building society funds**

*From May onwards the net inflow on shares and deposits has been augmented by official loans (see figures below). With more total funds available, the societies have increased their commitments.*

Seasonally adjusted
Monthly averages

£ millions




Official loans:

| May | June | July | Aug. | Sept. | Oct. |
|---|---|---|---|---|---|
| 125 | 75 | 146 | 109 | 28 | −23 |

### Financial institutions other than banks

The recovery experienced by the *building societies* in the second quarter continued into the third. With short-term interest rates generally declining, withdrawals of shares and deposits held steady at around £400 million a month, while gross receipts increased from a monthly average of £480 million in the second quarter to £540 million in the third. Including interest credited to accounts, but excluding official loans, net receipts averaged £200 million a month in the third quarter.

Net advances by the societies were rising during the quarter, but in September the total was still some way below their net inflow on shares and deposits. As the societies had also drawn some £480 million of the official loans offered them in May, their liquidity ratio increased substantially, to a record 18·9% at the end of the quarter.

The terms of repayment of the official loans were broadly that, from October onwards, societies should each month repay one half of their net monthly inflow above £50 million (excluding interest credited, and without seasonal adjustment). Such repayments will reduce the funds available for lending, but the reserve of liquidity should enable societies to finance any shortfall which may result from the expected increase in net advances in the fourth quarter.

Instalment credit outstanding continued to decline in the third quarter, although not as fast as in the previous two quarters. *Finance houses* again granted rather more new credit than a quarter before, but this was still less than repayments, so that debt outstanding continued to fall, by £30 million. New contracts for cars appear to have picked up a little, but remain well down on the previous year; as noted in the economic commentary, this was probably due not so much to the effects of the terms controls reimposed in December, for their effect normally wears off over time, as to price resistance and the effect of higher interest rates. By contrast, retailers' credit outstanding recovered by a further £10 million.

**Change in instalment credit outstanding**

£ millions: *seasonally adjusted*

Increase +/decrease −

| 1973 | | | 1974 | | |
|---|---|---|---|---|---|
| 2nd qtr | 3rd qtr | 4th qtr | 1st qtr | 2nd qtr | 3rd qtr |
| +90 | +100 | +80 | −70 | −50 | −20 |

### Banking sector

Bank lending to the private sector increased by £1,450 million in the third quarter, slightly less than in the second, but well down on the second half of 1973. As the authorities had requested, the bulk of the increase went to industrial and commercial companies. Net new lending to the public sector, which had dropped back sharply in the second quarter, fell by much less in the third.

Total domestic deposits rose by £910 million in the third quarter, and $M_3$ grew by 3¼% – compared with 2% in the second quarter and 3% in the first. In marked contrast to the pattern in the first half of the year, the personal sector's bank deposits accounted for less than half of the total increase – for the first time in nearly two years, persons added more to their building society funds than to their bank deposits. Meanwhile industrial and commercial companies and the financial institutions, after drawing down their bank deposits for two quarters in succession, made modest additions to them.

# 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 3rd qtr | 8,510 | 3,578 | – 8,906 | –2,328 | 854 | – 509 | – 88 | 257 |
| 4th „ | 8,662 | 3,753 | – 9,098 | –2,429 | 888 | – 581 | – 86 | 221 |
| 1972 1st qtr | 8,882 | 3,810 | – 9,357 | –2,550 | 785 | – 611 | –103 | 71 |
| 2nd „ | 9,245 | 4,088 | – 9,692 | –2,431 | 1,210 | – 667 | – 96 | 447 |
| 3rd „ | 9,483 | 4,014 | –10,022 | –2,480 | 995 | – 628 | – 88 | 279 |
| 4th „ | 9,876 | 4,319 | –10,401 | –2,597 | 1,197 | – 740 | – 84 | 373 |
| 1973 1st qtr | 10,193 | 4,505 | –10,993 | –2,826 | 879 | – 792 | – 93 | – 6 |
| 2nd „ | 10,577 | 4,743 | –10,939 | –2,924 | 1,457 | – 693 | – 69 | 695 |
| 3rd „ | 10,866 | 4,897 | –11,319 | –2,978 | 1,466 | – 768 | – 84 | 614 |
| 4th „ | 11,254 | 4,935 | –11,604 | –3,118 | 1,467 | – 729 | – 74 | 664 |
| 1974 1st qtr | 11,435 | 5,183 | –12,039 | –3,347 | 1,232 | – 687 | – 93 | 452 |
| 2nd „ | 12,142 | 5,314 | –12,509 | –3,630 | 1,317 | – 685 | – 88 | 544 |
| **Company sector[f]** | | | | | | | | |
| 1971 3rd qtr | 1,447 | 1,286 | | –1,702 | 1,031 | –1,187 | 120 | – 36 |
| 4th „ | 1,475 | 1,296 | | –1,786 | 985 | –1,071 | 91 | 5 |
| 1972 1st qtr | 1,513 | 1,369 | | –1,811 | 1,071 | –1,190 | 104 | – 15 |
| 2nd „ | 1,619 | 1,398 | | –1,949 | 1,068 | –1,204 | 85 | – 51 |
| 3rd „ | 1,722 | 1,507 | | –1,841 | 1,388 | –1,429 | 67 | 26 |
| 4th „ | 1,809 | 1,622 | | –1,884 | 1,547 | –1,528 | 73 | 92 |
| 1973 1st qtr | 2,047 | 1,839 | | –2,229 | 1,657 | –1,923 | 82 | – 184 |
| 2nd „ | 2,106 | 1,928 | | –2,275 | 1,759 | –1,936 | 67 | – 110 |
| 3rd „ | 2,147 | 2,163 | | –2,367 | 1,943 | –2,370 | 84 | – 343 |
| 4th „ | 2,176 | 2,627 | | –2,705 | 2,098 | –2,592 | 63 | – 431 |
| 1974 1st qtr | 2,566 | 2,884 | | –3,101 | 2,349 | –3,057 | 80 | – 628 |
| 2nd „ | 2,410 | 2,908 | | –3,151 | 2,167 | –3,446 | 69 | –1,210 |
| **Public sector** | | | | | | | | |
| 1971 3rd qtr | 461 | 5,276 | – 2,638 | –2,049 | 1,050 | –1,112 | – 32 | – 94 |
| 4th „ | 419 | 5,473 | – 2,726 | –2,204 | 962 | –1,188 | – 5 | – 231 |
| 1972 1st qtr | 355 | 5,622 | – 2,818 | –2,317 | 842 | –1,145 | – 1 | – 304 |
| 2nd „ | 470 | 5,652 | – 2,876 | –2,390 | 856 | –1,212 | 11 | – 345 |
| 3rd „ | 502 | 5,564 | – 2,975 | –2,385 | 706 | –1,181 | 21 | – 454 |
| 4th „ | 507 | 5,781 | – 3,107 | –2,547 | 634 | –1,224 | 11 | – 579 |
| 1973 1st qtr | 498 | 6,124 | – 3,162 | –2,573 | 887 | –1,405 | – 27 | – 545 |
| 2nd „ | 543 | 5,996 | – 3,241 | –2,684 | 614 | –1,382 | – 17 | – 785 |
| 3rd „ | 558 | 6,417 | – 3,374 | –2,846 | 755 | –1,456 | – 1 | – 702 |
| 4th „ | 595 | 6,730 | – 3,493 | –3,057 | 775 | –1,510 | 10 | – 725 |
| 1974 1st qtr | 560 | 6,935 | – 3,676 | –3,404 | 415 | –1,791 | 13 | –1,363 |
| 2nd „ | 638 | 7,473 | – 3,716 | –3,307 | 1,088 | –1,757 | – 10 | – 679 |
| **Overseas sector[g]** | | | | | | | | |
| 1971 3rd qtr | | | | | – 396 | | | – 396 |
| 4th „ | | | | | – 257 | | | – 257 |
| 1972 1st qtr | | | | | – 92 | | | – 92 |
| 2nd „ | | | | | – 131 | | | – 131 |
| 3rd „ | | | | | 101 | | | 101 |
| 4th „ | | | | | 8 | | | 8 |
| 1973 1st qtr | | | | | 184 | | 38 | 222 |
| 2nd „ | | | | | 195 | | 19 | 214 |
| 3rd „ | | | | | 274 | | 1 | 275 |
| 4th „ | | | | | 557 | | 1 | 558 |
| 1974 1st qtr | | | | | 985 | | – | 985 |
| 2nd „ | | | | | 1,051 | | 29 | 1,080 |

[a] Without deduction of depreciation or 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 changes in the value of 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 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 3rd qtr | 4th qtr | 1st qtr | 2nd qtr | 3rd qtr | 4th qtr | 1st qtr | 2nd qtr | 3rd qtr | 4th qtr | 1st qtr | 2nd qtr | 3rd qtr |
| Capital expenditure | +1,112 | +1,188 | +1,145 | +1,212 | +1,181 | +1,224 | +1,405 | +1,382 | +1,456 | +1,510 | +1,791 | +1,757 | |
| *less* Saving | –1,050 | – 962 | – 842 | – 856 | – 706 | – 634 | – 887 | – 614 | – 755 | – 775 | – 415 | –1,088 | |
| *less* Capital transfers (net) | + 32 | + 5 | + 1 | – 11 | – 21 | – 11 | + 27 | + 17 | + 1 | – 10 | – 13 | + 10 | |
| *equals* Financial surplus –/deficit + | + 94 | + 231 | + 304 | + 345 | + 454 | + 579 | + 545 | + 785 | + 702 | + 725 | +1,363 | + 679 | |
| Lending and other transactions (increase in assets +)[a] | + 198 | + 214 | – 18 | + 150 | + 157 | + 341 | + 67 | + 415 | + 439 | + 491 | – 72 | + 635 | |
| Import deposits (repayments +) | + 1 | | | | | | | | | | | | |
| Unidentified | + 32 | – 62 | – 264 | + 116 | – 69 | – 37 | – 62 | + 1 | – 8 | + 122 | – 521 | + 290 | |
| Borrowing requirement (increase +) | + 325 | + 383 | + 22 | + 611 | + 542 | + 883 | + 550 | +1,201 | +1,133 | +1,338 | + 770 | +1,604 | |
| *Financed by (borrowing –):* | | | | | | | | | | | | | |
| *Central government:* | | | | | | | | | | | | | |
| *External transactions* | *+ 781* | *+ 973* | *– 35* | *– 955* | *– 184* | *– 221* | *+ 136* | *+ 341* | *– 55* | *+ 106* | *– 192* | *+ 8* | *–172* |
| *Notes and coin with the public* | *– 48* | *– 45* | *– 134* | *– 125* | *– 95* | *– 141* | *– 138* | *– 125* | *– 6* | *– 170* | *– 86* | *– 157* | *–189* |
| *Bank borrowing* | *– 266* | *– 527* | *+ 367* | *+ 799* | *+ 184* | *– 147* | *– 580* | *– 384* | *+ 311* | *– 432* | *– 59* | *+ 387* | *+130* |
| *Other domestic borrowing*[b] | *– 630* | *– 640* | *– 198* | *– 102* | *– 198* | *– 244* | *+ 145* | *– 532* | *– 467* | *– 184* | *+ 102* | *–1,066* | *–546* |
| | *– 163* | *– 239* | *–* | *– 383* | *– 293* | *– 753* | *– 437* | *– 700* | *– 217* | *– 680* | *– 235* | *– 828* | *–777* |
| *Local authorities:*† | | | | | | | | | | | | | |
| *External finance* | *+ 3* | *– 26* | *– 29* | *+ 3* | *– 68* | *– 55* | *– 57* | *– 28* | *– 105* | *– 128* | *+ 20* | *+ 33* | *– 49* |
| *Bank borrowing* | *– 169* | *– 158* | *+ 57* | *– 28* | *– 67* | *+ 7* | *+ 131* | *+ 37* | *– 90* | *– 99* | *+ 304* | *– 9* | *+ 59* |
| *Other domestic borrowing*[c] | *+ 22* | *+ 66* | *– 119* | *– 63* | *– 47* | *– 112* | *– 258* | *– 358* | *– 151* | *– 243* | *– 716* | *– 690* | |
| | *– 144* | *– 118* | *– 91* | *– 88* | *– 182* | *– 160* | *– 184* | *– 349* | *– 346* | *– 470* | *– 392* | *– 666* | |
| *Public corporations:*† | | | | | | | | | | | | | |
| *External finance* | *– 6* | *– 7* | *– 22* | *– 9* | *+ 10* | *+ 1* | *– 27* | *– 11* | *+ 22* | *– 88* | *– 9* | *– 205* | *–163* |
| *Domestic borrowing* | *– 12* | *– 19* | *+ 91* | *– 131* | *– 77* | *+ 29* | *+ 98* | *– 141* | *– 592* | *– 100* | *– 134* | *+ 95* | |
| | *– 18* | *– 26* | *+ 69* | *– 140* | *– 67* | *+ 30* | *+ 71* | *– 152* | *– 570* | *– 188* | *– 143* | *– 110* | |
| Total net borrowing | – 325 | – 383 | – 22 | – 611 | – 542 | – 883 | – 550 | –1,201 | –1,133 | –1,338 | – 770 | –1,604 | |

†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 | 1974 3rd qtr |
|---|---|---|---|---|---|---|---|
| Local authorities: | | | | | | | |
| From UK banks | + 20 | + 57 | + 5 | + 6 | + 97 | + 170 | – |
| Direct from overseas | + 10 | + 38 | + 25 | + 62 | + 34 | + 19 | – |
| Public corporations: | | | | | | | |
| From UK banks | + 19 | + 177 | + 342 | + 201 | + 180 | + 93 | + 52 |
| Direct from overseas | + 50 | + 10 | – 9 | + 86 | + 28 | + 219 | +163 |

[a] Consisting principally of lending to overseas and private sectors (including refinancing of export credits and public corporations' identified trade credit), changes in bank deposits, and accruals adjustments (see the note on line 19 at the end).

[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 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 3rd qtr | 4th qtr | 1st qtr | 2nd qtr | 3rd qtr | 4th qtr | 1st qtr | 2nd qtr | 3rd qtr | 4th qtr | 1st qtr | 2nd qtr | 3rd qtr |
| **Financial surplus +/deficit –** | –396 | – 257 | – 92 | –131 | +101 | + 8 | +222 | +214 | +275 | +558 | +985 | +1,080 | |
| **Transactions with the UK private sector** | | | | | | | | | | | | | |
| Investment flows: | | | | | | | | | | | | | |
| Transactions in company and overseas securities | +239 | + 3 | –182 | –139 | – 70 | – 94 | +117 | +134 | + 47 | +137 | +135 | + 93 | |
| Miscellaneous private investment | + 13 | + 40 | + 5 | – 43 | – 1 | –113 | –109 | + 51 | – 70 | –230 | +213 | + 218 | |
| Other transactions: | | | | | | | | | | | | | |
| Net external transactions by UK banks[b] | +153 | + 548 | +131 | –239 | + 22 | + 59 | +210 | +409 | +230 | +673 | + 61 | + 487 | + 62 |
| Other identified | +206 | – 109 | – 72 | –183 | – 69 | +300 | – 64 | + 95 | –257 | – 56 | +121 | + 183 | |
| Balancing item | –127 | + 282 | + 10 | –385 | + 38 | –335 | +232 | – 97 | +257 | + 16 | +388 | + 74 | |
| | +484 | + 764 | –108 | –989 | – 80 | –183 | +386 | +592 | +207 | +540 | +918 | +1,055 | |
| **Transactions with the UK public sector** | | | | | | | | | | | | | |
| Lending etc.[c] | –102 | – 81 | – 70 | –103 | – 61 | – 84 | –112 | – 76 | – 70 | – 92 | –114 | – 139 | |
| External finance:[d] | | | | | | | | | | | | | |
| Central government | –781 | – 973 | + 35 | +955 | +184 | +221 | –136 | –341 | + 55 | –106 | +192 | – 8 | +172 |
| Local authorities | – 3 | + 26 | + 29 | – 3 | + 68 | + 55 | + 57 | + 28 | +105 | +128 | – 20 | – 33 | + 49 |
| Public corporations | + 6 | + 7 | + 22 | + 9 | – 10 | – 1 | + 27 | + 11 | – 22 | + 88 | + 9 | + 205 | +163 |
| | –880 | –1,021 | + 16 | +858 | +181 | +191 | –164 | –378 | + 68 | + 18 | + 67 | + 25 | |

[a] It has not been possible to include in this table the balance of payments estimates for the 3rd quarter of 1974, and revisions to previous quarters, which were released in December.

[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 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 3rd qtr | 4th qtr | 1st qtr | 2nd qtr | 3rd qtr | 4th qtr | 1st qtr | 2nd qtr | 3rd qtr | 4th qtr | 1st qtr | 2nd qtr | 3rd qtr |
| Saving | + 854 | + 888 | + 785 | +1,210 | + 995 | +1,197 | + 879 | +1,457 | +1,466 | +1,467 | +1,232 | +1,317 | |
| Capital transfers (net) | − 88 | − 86 | − 103 | − 96 | − 88 | − 84 | − 93 | − 69 | − 84 | − 74 | − 93 | − 88 | |
| Capital expenditure | − 509 | − 581 | − 611 | − 667 | − 628 | − 740 | − 792 | − 693 | − 768 | − 729 | − 687 | − 685 | |
| Financial surplus +/deficit − | + 257 | + 221 | + 71 | + 447 | + 279 | + 373 | − 6 | + 695 | + 614 | + 664 | + 452 | + 544 | |
| **Borrowing (−)** | | | | | | | | | | | | | |
| For house purchase | − 505 | − 550 | − 576 | − 700 | − 746 | − 735 | − 815 | − 707 | − 718 | − 556 | − 463 | − 410 | |
| Bank borrowing[a] | − 242 | − 234 | − 437 | − 575 | − 280 | − 635 | − 440 | − 278 | − 385 | + 84 | − 44 | − 73 | + 28 |
| Hire-purchase debt | − 84 | − 71 | − 68 | − 58 | − 60 | − 55 | − 46 | − 8 | − 22 | − 47 | + 54 | + 20 | |
| Other[b] | + 37 | − 82 | + 85 | + 15 | − 5 | − 128 | − 4 | − 51 | + 32 | − 159 | + 106 | − 115 | |
| | − 794 | − 937 | − 996 | −1,318 | −1,091 | −1,553 | −1,305 | −1,044 | −1,093 | − 678 | − 347 | − 578 | |
| **Acquisition of financial assets (+)** | | | | | | | | | | | | | |
| Life assurance and pension funds | + 536 | + 513 | + 567 | + 638 | + 596 | + 654 | + 814 | + 681 | + 611 | + 711 | + 820 | + 680 | |
| Government stocks | + 174 | + 101 | − 130 | + 33 | + 56 | + 46 | + 126 | + 220 | + 193 | + 243 | + 204 | + 315 | |
| Company and overseas securities | − 341 | − 344 | − 252 | − 346 | − 349 | − 296 | − 436 | − 251 | − 579 | − 550 | − 509 | − 342 | |
| Unit trust units | + 10 | + 21 | + 26 | + 54 | + 60 | + 63 | + 59 | + 49 | + 33 | + 15 | + 12 | + 9 | + 22 |
| Bank deposits, notes and coin | + 317 | + 378 | + 552 | + 460 | + 440 | + 561 | + 665 | + 863 | + 961 | +1,013 | +1,130 | + 776 | +511 |
| Building society shares and deposits | + 525 | + 571 | + 574 | + 576 | + 465 | + 524 | + 468 | + 766 | + 523 | + 371 | + 204 | + 428 | +603 |
| National savings | + 85 | + 150 | + 126 | + 160 | + 107 | + 82 | + 53 | + 65 | + 74 | − 48 | − 65 | − 17 | + 72 |
| Local authority debt | − 84 | − 73 | − 23 | − 64 | − 44 | + 49 | + 64 | + 9 | + 136 | + 149 | + 429 | + 369 | |
| Other | + 89 | + 104 | + 82 | + 58 | + 94 | + 93 | + 38 | − 15 | + 23 | + 37 | − 68 | + 22 | |
| | +1,311 | +1,421 | +1,522 | +1,569 | +1,425 | +1,776 | +1,851 | +2,387 | +1,975 | +1,941 | +2,157 | +2,240 | |
| Identified financial transactions | + 517 | + 484 | + 526 | + 251 | + 334 | + 223 | + 546 | +1,343 | + 882 | +1,263 | +1,810 | +1,662 | |
| *Unidentified* | *− 260* | *− 263* | *− 455* | *+ 196* | *− 55* | *+ 150* | *− 552* | *− 648* | *− 268* | *− 599* | *−1,358* | *−1,118* | |

[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 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 3rd qtr | 4th qtr | 1st qtr | 2nd qtr | 3rd qtr | 4th qtr | 1st qtr | 2nd qtr | 3rd qtr | 4th qtr | 1st qtr | 2nd qtr | 3rd qtr |
| Domestic capital formation | +1,043 | +946 | +1,057 | +1,081 | +1,231 | +1,359 | +1,727 | +1,706 | +2,090 | +2,327 | +2,784 | +3,166 | |
| *less* Saving | − 896 | −890 | − 976 | − 953 | −1,225 | −1,409 | −1,479 | −1,585 | −1,736 | −1,833 | −1,949 | −1,795 | |
| *less* Capital transfers (net) | − 132 | −102 | − 116 | − 97 | − 80 | − 87 | − 94 | − 80 | − 97 | − 76 | − 93 | − 82 | |
| *equals* Financial surplus −/deficit + | + 15 | − 46 | − 35 | + 31 | − 74 | − 137 | + 154 | + 41 | + 257 | + 418 | + 742 | +1,289 | |
| Trade investments, mergers, etc. in the United Kingdom | + 123 | + 81 | + 141 | + 152 | + 146 | + 203 | + 162 | + 131 | + 245 | + 185 | + 231 | + 121 | |
| Long-term investment abroad | + 154 | +193 | + 190 | + 173 | + 175 | + 264 | + 359 | + 269 | + 359 | + 627 | + 345 | + 100 | |
| Import deposits | − 1 | | | | | | | | | | | | |
| **Total requiring financing (+)** | + 291 | +228 | + 296 | + 356 | + 247 | + 330 | + 675 | + 441 | + 861 | +1,230 | +1,318 | +1,510 | |
| Capital issues (including euro-currency issues) | − 119 | −141 | − 136 | − 203 | − 212 | − 176 | − 109 | − 99 | − 27 | − 26 | + 10 | − 2 | − 12 |
| Overseas investment in UK companies | − 160 | −145 | − 146 | − 116 | − 153 | − 117 | − 187 | − 332 | − 192 | − 373 | − 503 | − 259 | |
| Import credit and advance payments on exports | − 61 | − 47 | − 69 | − 15 | − 94 | − 103 | − 50 | − 52 | − 56 | − 123 | − 62 | − 45 | |
| Export credit and advance payments on imports | + 3 | + 18 | + 34 | + 55 | + 47 | + 10 | + 77 | + 3 | + 45 | + 13 | + 118 | + 94 | |
| Bank borrowing | − 203 | −337 | − 715 | − 736 | − 642 | − 895 | − 610 | − 585 | −1,613 | −1,747 | −1,039 | −1,333 | −1,357 |
| Other borrowing[a] | − 117 | − 69 | + 7 | − 53 | + 56 | − 78 | − 318 | − 154 | − 441 | − 338 | − 114 | + 114 | |
| Bank deposits, notes and coin | + 142 | +401 | + 277 | + 610 | + 623 | + 778 | + 585 | + 162 | +1,081 | + 828 | − 30 | + 53 | + 326 |
| Other liquid assets[b] | + 86 | + 60 | + 19 | + 23 | + 1 | + 37 | + 11 | + 79 | + 10 | − 11 | + 2 | + 49 | |
| Other items[c] | + 41 | + 60 | + 61 | − 30 | − 23 | + 1 | + 152 | − 11 | + 54 | − 31 | + 85 | − 91 | |
| Other overseas transactions (including the balance of payments balancing item)[d] | − 25 | −110 | + 6 | + 499 | + 100 | + 100 | − 232 | + 50 | + 30 | + 136 | − 554 | − 261 | |
| *Unidentified domestic transactions*[d] | *+ 122* | *+ 82* | *+ 366* | *− 390* | *+ 50* | *+ 113* | *+ 6* | *+ 498* | *+ 248* | *+ 442* | *+ 769* | *+ 171* | |
| Total financing (−) | − 291 | −228 | − 296 | − 356 | − 247 | − 330 | − 675 | − 441 | − 861 | −1,230 | −1,318 | −1,510 | |

[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 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 3rd qtr | 4th qtr | 1st qtr | 2nd qtr | 3rd qtr | 4th qtr | 1st qtr | 2nd qtr | 3rd qtr | 4th qtr | 1st qtr | 2nd qtr | 3rd qtr |
| **Lending** | | | | | | | | | | | | | |
| Public sector | + 457 | + 705 | – 501 | – 641 | – 14 | + 130 | + 363 | + 477 | + 385 | + 636 | – 129 | – 389 | – 43 |
| Industrial and commercial companies | + 207 | + 341 | + 765 | + 809 | + 650 | + 906 | + 624 | + 587 | +1,651 | +1,843 | +1,105 | +1,306 | +1,371 |
| Other financial institutions | + 137 | + 222 | + 270 | + 353 | + 153 | + 256 | + 283 | + 78 | + 147 | + 329 | + 196 | + 113 | + 74 |
| Personal sector | + 267 | + 274 | + 492 | + 665 | + 380 | + 735 | + 510 | + 373 | + 475 | – 29 | + 74 | + 108 | + 2 |
| Total domestic lending | +1,068 | +1,542 | +1,026 | +1,186 | +1,169 | +2,027 | +1,780 | +1,515 | +2,658 | +2,779 | +1,246 | +1,138 | +1,404 |
| **Deposits** | | | | | | | | | | | | | |
| Public sector | – 15 | – 25 | + 10 | + 9 | – 5 | – 94 | + 12 | – 56 | + 24 | – 80 | + 15 | + 86 | – 41 |
| Industrial and commercial companies | – 118 | – 378 | – 210 | – 547 | – 575 | – 707 | – 516 | – 99 | –1,078 | – 743 | + 73 | + 26 | – 232 |
| Other financial institutions | – 30 | – 208 | – 141 | – 478 | + 7 | – 306 | – 247 | – 213 | – 315 | – 223 | + 44 | + 106 | – 221 |
| Personal sector | – 293 | – 356 | – 485 | – 398 | – 393 | – 491 | – 596 | – 801 | – 958 | – 928 | –1,087 | – 698 | – 416 |
| Total domestic deposits | – 456 | – 967 | – 826 | –1,414 | – 966 | –1,598 | –1,347 | –1,169 | –2,327 | –1,974 | – 955 | – 480 | – 910 |
| Net lending to overseas sector[a] | – 357 | – 566 | – 150 | + 315 | + 1 | – 118 | – 127 | – 414 | – 238 | – 651 | – 31 | – 438 | – 95 |
| Non-deposit liabilities (net) | – 255 | – 9 | – 50 | – 87 | – 204 | – 311 | – 306 | + 68 | – 93 | – 154 | – 260 | – 220 | – 399 |

[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 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 3rd qtr | 4th qtr | 1st qtr | 2nd qtr | 3rd qtr | 4th qtr | 1st qtr | 2nd qtr | 3rd qtr | 4th qtr | 1st qtr | 2nd qtr | 3rd qtr |
| **Increase in financial liabilities (–)** | | | | | | | | | | | | | |
| Life assurance and pension funds | – 536 | – 513 | – 567 | – 638 | – 596 | – 654 | – 814 | – 681 | – 611 | – 711 | – 820 | – 680 | |
| Building society shares and deposits | – 545 | – 606 | – 602 | – 596 | – 465 | – 524 | – 463 | – 783 | – 498 | – 356 | – 189 | – 428 | –603 |
| Other deposits | – 97 | – 109 | + 2 | – 58 | – 111 | – 91 | – 117 | – 5 | – 101 | – 51 | + 34 | – 84 | |
| Capital issues | – 55 | – 50 | – 99 | – 230 | – 78 | – 32 | – 46 | – 4 | – 4 | – 7 | – 6 | – 8 | – 18 |
| Unit trust units | – 10 | – 21 | – 26 | – 54 | – 60 | – 63 | – 59 | – 49 | – 33 | – 15 | – 12 | – 9 | – 22 |
| Other (mainly bank) borrowing | – 137 | – 206 | – 269 | – 352 | – 152 | – 256 | – 282 | – 77 | – 146 | – 329 | – 195 | – 212 | |
| | –1,380 | –1,505 | –1,561 | –1,928 | –1,462 | –1,620 | –1,781 | –1,599 | –1,393 | –1,469 | –1,188 | –1,421 | |
| **Increase in financial assets (+)** | | | | | | | | | | | | | |
| Short-term assets[a] | + 48 | + 198 | + 151 | + 491 | – 34 | + 361 | + 298 | + 379 | + 286 | + 280 | + 114 | + 120 | |
| Government stocks | + 342 | + 310 | + 240 | + 66 | + 13 | + 99 | + 77 | + 282 | + 124 | + 205 | + 10 | + 364 | |
| Company and overseas securities: | | | | | | | | | | | | | |
| Ordinary shares | + 260 | + 254 | + 379 | + 589 | + 468 | + 356 | + 132 | + 89 | + 85 | + 122 | – 9 | + 55 | |
| Fixed-interest | + 85 | + 34 | + 87 | + 32 | + 46 | + 71 | + 36 | + 23 | + 20 | + 32 | – 2 | + 32 | |
| Loans for house purchase | + 441 | + 466 | + 482 | + 561 | + 600 | + 574 | + 672 | + 530 | + 515 | + 403 | + 330 | + 252 | |
| Long-term lending to local authorities | + 6 | + 39 | + 66 | + 15 | + 54 | + 8 | + 21 | + 27 | + 63 | + 2 | + 5 | + 54 | |
| Hire-purchase claims | + 69 | + 42 | + 49 | + 45 | + 24 | + 45 | + 28 | + 28 | + 34 | + 26 | – 30 | – 14 | |
| Other lending | + 17 | + 74 | – 2 | + 36 | + 29 | + 98 | + 94 | + 74 | + 149 | + 139 | + 71 | + 56 | |
| | +1,268 | +1,417 | +1,452 | +1,835 | +1,200 | +1,612 | +1,358 | +1,432 | +1,276 | +1,209 | + 489 | + 919 | |
| Net identified financial transactions | – 112 | – 88 | – 109 | – 93 | – 262 | – 8 | – 423 | – 167 | – 117 | – 260 | – 699 | – 502 | |

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

## Table H

## Flow of funds: second 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 | + 894 | +1,024 | +1,237 | +1,975 | +588 | | |
| Taxes on capital and capital transfers | 2 | − 6 | + 29 | − 94 | + 80 | − 9 | | |
| *less:* | | | | | | | | |
| Gross fixed capital formation at home | 3 | −1,452 | | − 503 | −1,386 | −289 | | |
| Increase in value of stocks and work in progress | 4 | − 198 | | − 229 | −1,809 | + 22 | | |
| Financial surplus +/deficit − | 5 | − 762 | +1,053 | + 411 | −1,140 | +312 | | −126 |
| **Changes in financial assets and liabilities** | | | | | | | | |
| *Assets: increase +/decrease −* | | | | | | | | |
| *Liabilities: increase −/decrease +* | | | | | | | | |
| Government debt to Banking Department | 6 | + 520 | | | | − 520 | | |
| Life assurance and pension funds | 7 | | | + 680 | | | −680 | |
| Loans by the UK Government | 8 | + 112 | − 6 | | − 7 | | − 99 | |
| Total external currency flow | 9·1 | + 111 | − 111 | | | | | |
| Other central government external transactions | 9·2 | − 93 | + 93 | | | | | |
| Banks' net external transactions | 10 | | + 529 | | | − 529 | | |
| Miscellaneous investment overseas (net) | 11 | − 81 | + 425 | | − 343 | | − 1 | |
| Notes and coin | 12 | − 233 | | + 96 | + 97 | + 40 | | |
| Bank deposits of domestic sectors | 13 | − 112 | | + 767 | + 123 | − 753 | − 25 | |
| Deposits with other financial institutions | 14 | | + 38 | + 487 | + 17 | | −542 | |
| National savings | 15·1 | + 16 | | − 16 | | | | |
| Tax reserve certificates/tax deposit accounts | 15·2 | + 15 | | − 14 | − 1 | | | |
| Bank lending to domestic sectors | 16 | − 11 | | − 223 | −1,458 | +1,813 | −121 | |
| Hire-purchase and other instalment debt | 17 | − 10 | | + 46 | − 33 | | − 3 | |
| Loans for house purchase | 18 | + 123 | | − 413 | | + 35 | +255 | |
| Other loans and accruals | 19 | − 71 | | + 34 | + 164 | − 225 | + 98 | |
| Marketable government debt held by domestic sectors: | | | | | | | | |
| Treasury bills | 20 | − 209 | | | + 2 | + 206 | + 1 | |
| Stocks | 21 | − 696 | | + 315 | | + 17 | +364 | |
| Local authority debt | 22 | − 740 | − 42 | + 369 | + 57 | + 29 | +327 | |
| UK company and overseas securities: | | | | | | | | |
| Capital issues | 23 | | + 25 | | − 2 | − 15 | − 8 | |
| Other transactions | 24 | + 2 | + 68 | − 342 | + 179 | + 6 | + 87 | |
| Unit trust units | 25 | | | + 14 | | | − 14 | |
| Identified financial transactions | 26 | −1,357 | +1,019 | +1,800 | −1,205 | + 104 | −361 | |
| *Unidentified* | 27 | *+ 595* | *+ 34* | *−1,389* | *+ 65* | *+569* | | *−126* |
| Total=Financial surplus +/deficit − | 28 | − 762 | +1,053 | + 411 | −1,140 | +312 | | −126 |

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

## Table J

## Flow of funds: second 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 | +1,088 | +1,051 | +1,317 | +1,795 | +372 | | |
| Taxes on capital and capital transfers | 2 | − 10 | + 29 | − 88 | + 82 | − 13 | | |
| *less:* | | | | | | | | |
| Gross fixed capital formation at home | 3 | −1,757 | | − 685 | −3,166 | −280 | | |
| Increase in value of stocks and work in progress | 4 | | | | | | | |
| Financial surplus +/deficit − | 5 | − 679 | +1,080 | + 544 | −1,289 | + 79 | | −265 |
| **Changes in financial assets and liabilities** | | | | | | | | |
| *Assets: increase +/decrease −* | | | | | | | | |
| *Liabilities: increase −/decrease +* | | | | | | | | |
| Government debt to Banking Department | 6 | + 590 | | | | − 590 | | |
| Life assurance and pension funds | 7 | | | + 680 | | | −680 | |
| Loans by the UK Government | 8 | + 121 | − 15 | | − 7 | | − 99 | |
| Total central government external transactions | 9 | + 8 | − 8 | | | | | |
| Banks' net external transactions | 10 | | + 487 | | | − 487 | | |
| Miscellaneous investment overseas (net) | 11 | − 81 | + 437 | | − 355 | | − 1 | |
| Notes and coin | 12 | − 185 | | + 78 | + 79 | + 28 | | |
| Bank deposits of domestic sectors | 13 | − 86 | | + 698 | − 26 | − 480 | −106 | |
| Deposits with other financial institutions | 14 | | + 45 | + 464 | + 3 | | −512 | |
| National savings | 15·1 | + 17 | | − 17 | | | | |
| Tax reserve certificates/tax deposit accounts | 15·2 | + 15 | | − 14 | − 1 | | | |
| Bank lending to domestic sectors | 16 | + 10 | | − 73 | −1,333 | +1,509 | −113 | |
| Hire-purchase and other instalment debt | 17 | − 10 | | + 20 | + 4 | | − 14 | |
| Loans for house purchase | 18 | + 123 | | − 410 | | + 35 | +252 | |
| Other loans and accruals | 19 | + 28 | | − 115 | + 26 | + 4 | + 57 | |
| Marketable government debt held by domestic sectors: | | | | | | | | |
| Treasury bills | 20 | − 156 | | | + 2 | + 153 | + 1 | |
| Stocks | 21 | − 696 | | + 315 | | + 17 | +364 | |
| Local authority debt | 22 | − 669 | − 33 | + 369 | + 45 | + 9 | +279 | |
| UK company and overseas securities: | | | | | | | | |
| Capital issues | 23 | | + 25 | | − 2 | − 15 | − 8 | |
| Other transactions | 24 | + 2 | + 68 | − 342 | + 179 | + 6 | + 87 | |
| Unit trust units | 25 | | | + 9 | | | − 9 | |
| Identified financial transactions | 26 | − 969 | +1,006 | +1,662 | −1,386 | + 189 | −502 | |
| *Unidentified* | 27 | *+ 290* | *+ 74* | *−1,118* | *+ 97* | *+392* | | *−265* |
| Total=Financial surplus +/deficit − | 28 | − 679 | +1,080 | + 544 | −1,289 | + 79 | | −265 |

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

## 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.* Most of 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 2 of the annex.

*Line 16*
Advances and overdrafts, money at call and short notice, and transactions in commercial bills; excluding loans for house purchase (included in line 18); lending to local authorities (line 22); and lending to the Northern Ireland Government (line 19). Recorded advances to industrial and commercial companies are adjusted for 40% of the change in transit items (see also line 13).

*Line 18*
New loans less repayments, including estimates for bank lending, 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. The entries for Treasury bills under industrial and commercial companies are residuals and include any changes in personal and unidentified overseas holdings. Likewise, the entries for stocks under persons are residuals and include any changes in industrial and commercial company and unidentified overseas holdings.

*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, 1972).