

Financial review

The first part of this review describes developments in the various financial markets during May to July; the second part considers the flow of funds by sector for the first and second quarters of 1975, and includes the regular flow of funds tables.

Financial markets

The money market Conditions were generally steady until shortages developed in mid-July; following the rise in US rates, the Treasury bill tender rate and the Bank's minimum lending rate went up by 1% on 25th July.

Capital markets Yields on short-dated gilt-edged stocks were little changed on balance; long-dated stocks were in demand, but heavy sales by the authorities moderated the fall in yields; share prices rose strongly at the time of the EEC referendum, but subsequently weakened; the flow of new equity issues continued.

Foreign exchange and gold markets The US dollar strengthened, particularly in July; sterling had sharp bouts of weakness with intervening periods of steadiness, and its effective depreciation widened by 3½% during the period; the gold market was generally quiet.

Euro-currency markets The London market continued to expand, but more slowly, in the second quarter.

Oil money movements Oil exporters' revenues were little changed in the second quarter; their sterling investments in the United Kingdom fell slightly.

Sector financing

First quarter An increase in the public sector deficit and a reduction in the overseas surplus were largely matched by an improvement in the financial position of companies.

Second quarter The central government's borrowing requirement was again very large, with the banks providing much more finance than in the March quarter. Inflows into building societies remained buoyant.

Financial markets

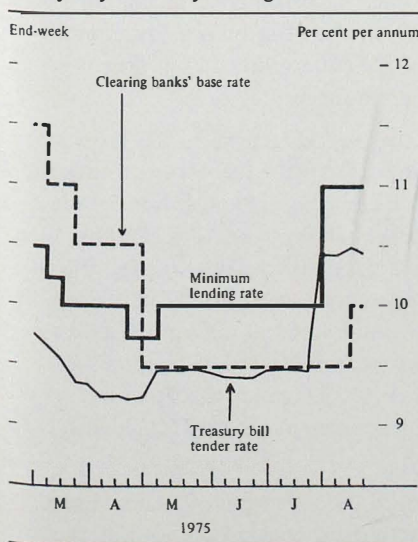
The money market

Conditions in the money market from May until mid-July were generally steady. When assistance was needed — often because of official sales of gilt-edged stocks — the Bank provided it by buying Treasury and local authority bills or, from time to time, by lending overnight at minimum lending rate. On a number of days heavy government disbursements led to a surplus of funds in the market, which the Bank absorbed by selling Treasury bills. Conditions became tight on 17th July because of very heavy subscriptions to a new long-dated government stock (see next section): the authorities provided a record amount of assistance by purchasing bills and by overnight lending. Thereafter, shortages persisted.

Heavy government disbursements during the three months led to very large issues of Treasury bills at the weekly tenders. On 2nd May the average discount rate rose by almost ¼% to around 9½% and the Bank's minimum lending rate rose from 9¾% to 10%, thus reversing the fall which occurred immediately after the Budget. The average discount rate was then fairly steady until the third week in July. It was by then becoming increasingly clear that a rise in US rates was leaving UK rates out of line, and the Bank acted to stimulate an adjustment in them: large-scale assistance was needed by the market, and on 22nd July was provided at

Short-term interest rates in London

Rates had been steady, but were raised sharply towards the end of July and early in August.



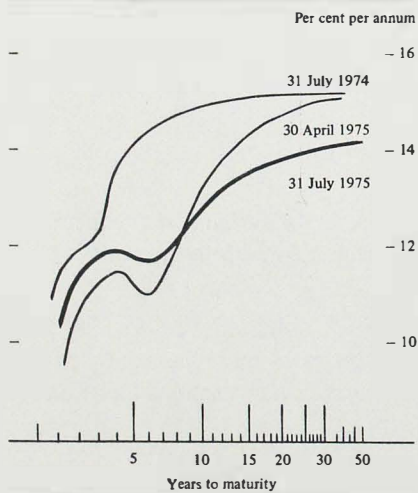
UK and US three-month interest rates

Sterling inter-bank rates fell in the latter half of May but rose with US rates from late June.



Time/yield curves of British government stocks

The yield curve flattened during May to July. [a]



[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.

the Bank's minimum lending rate, partly for seven days as well as overnight. At the tender on Friday, 25th July, the market responded to this signal by raising the average rate for Treasury bills to almost 10½% and the Bank's minimum lending rate accordingly went up to 11%. The clearing banks' base rates remained at 9½% until early August, when they were raised by ½% to 10%.

Rates in the parallel markets followed a broadly similar pattern during the three months. They were rising gently at the beginning of May and went on doing so until the middle of that month: they then fell back, before turning up sharply towards the end of July. The three-month inter-bank rate, for example, reached 10⁷/₈% in mid-May, then fell back to around 9½% in mid-June, before rising again to about 10½% at the end of July.

Capital markets

Turnover in the *gilt-edged market* was reduced in May and June, particularly in short-dated stocks, but increased in July. Yields on short-dated stocks were rising at the beginning of May but then fell back. During the succeeding weeks they were subject to conflicting pressures. The weakness of sterling and recurrent tightness in the money market helped to keep yields up: falling international interest rates at first worked the other way, but by July rising US rates were adding to the upward pressure. Yields on long-dated stocks tended to fall, thanks initially to declining overseas rates, and later to lessening fears over the course of inflation: as a result, there was a noticeable flattening of the yield curve (see chart). The fall in longer-dated yields was moderated by substantial sales of stock by the authorities, and at the end of July yields were steady at around 14%. In general, the authorities were content to see demand reflected in official sales of stock rather than in steeply falling yields.

Despite a slow start in April, the authorities sold £400 million net of stock in the June quarter. Net sales of long-dated stocks, at £510 million, exceeded those for the whole of the previous financial year, while net sales of stocks within one to five years of maturity amounted to £220 million. The authorities purchased £190 million of stocks within one year of maturity and £50 million in the five to fifteen-year category. 8% Treasury Stock 1975 was redeemed on 15th May with under £90 million in market hands.

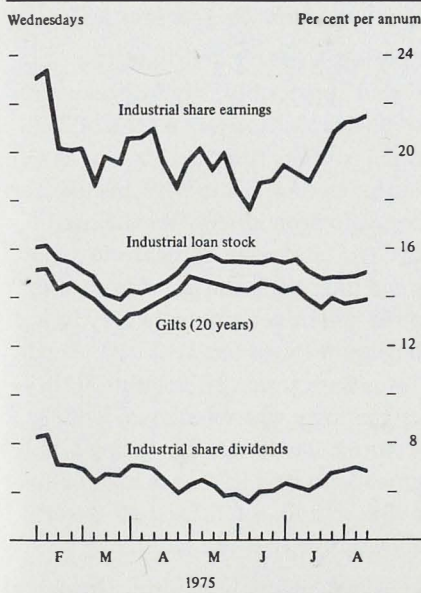
The long tap stock, 12½% Treasury Loan 1993, of which very little had been sold since it was issued in March, came into demand at the end of May, and was effectively exhausted by the end of June. A second tranche of £500 million 12¾% Treasury Loan 1995 at £88.50 per cent was announced on 27th June but was exhausted in July in less than four business days. A new long-dated stock, £750 million 13¾% Treasury Loan 1997 at £94.50 per cent, was then announced, but initial applications absorbed the bulk of the offer on the day of issue (17th July). On 1st August an issue of £600 million 12¾% Treasury Loan 1992 at £94.50 per cent was announced.

At the short end of the market, the second tranche of 9% Treasury Stock 1978, announced on 7th March, also came into demand towards the end of May and was exhausted in early June. On 6th June, three new issues were announced, including a wholly new stock, £600 million 9½% Treasury Stock 1980, with just under five years to run, at £95.00 per cent. The other two issues were second tranches of £250 million 3% Treasury Stock 1977 at £87.50 per cent and £250 million 3% Treasury Stock 1979 at £78.25 per cent; they were in effect low-coupon replacements for 3% Savings Bonds 1965/75, which the Treasury announced on 15th May would be redeemed at par on 15th August, with no conversion offer.

In June the Government introduced the index-linked national savings certificate for people of national retirement pension age. During the

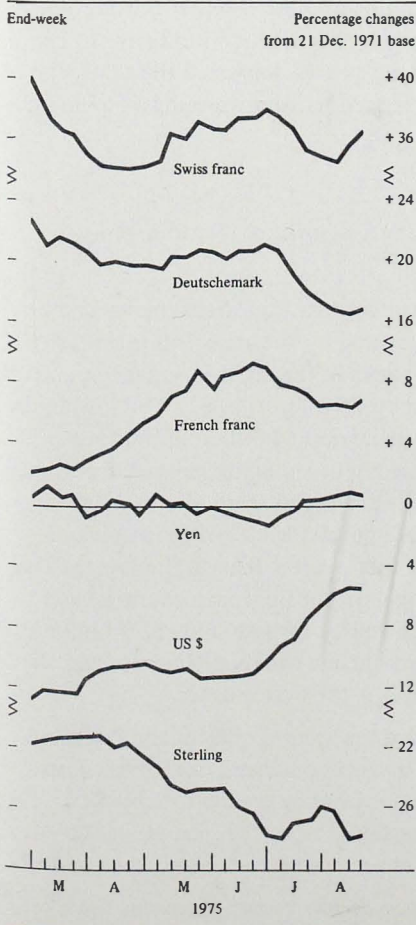
Security yields

Yields on long-dated gilt-edged and debentures were steady in May and June, but fell in July.



Effective changes in exchange rates

The US dollar strengthened appreciably; sterling's effective depreciation widened.



first two months on offer an estimated £120 million of certificates were sold, of which about half came from subscriptions for the maximum £500 holding. After building up quickly to over £20 million per week, sales then dropped to under £10 million per week during most of July. The Government introduced the new index-linked save as you earn scheme in July. By the middle of August about 160,000 persons had taken out contracts averaging over £14 per month, equivalent to a gross monthly inflow of nearly £2½ million. The first scheme in particular helped to bring a higher net inflow into national savings after the middle of June.

The improvement in the *equity market* earlier this year was not maintained during May to July as a whole. The market was generally inhibited by the weakness of sterling and uncertainties about the course of interest rates abroad; by anxiety about the state of the economy — and the measures that might be taken to correct it; by the continuing stream of rights issues; and at intervals by fears of industrial disputes. There were periods of optimism, notably around the time of the EEC referendum, when the FT-Actuaries industrial (500) share price index reached 156, its highest since December 1973. However, the market subsequently weakened and by the end of July the index had fallen to 127, compared with 139 at the end of April.

In spite of the uncertainties, the flow of new issues of equity capital by companies continued, raising £460 million during May to July, (virtually all by means of rights issues), compared with £120 million during the whole of 1974. Net sales of unit trust units fell slightly to £49 million, compared with £56 million in the previous three months.

Turnover in the *debenture market* was rather lower in June and July. Yields as measured by the Bank's index were rising at the beginning of May: they then fell back slightly, fluctuating within a fairly limited range until early in July when they began to fall more sharply, while remaining, like those on long-dated gilt-edged, above their low point in mid-March. Net new money raised by companies by way of loan capital and preference shares during the three months to July amounted to £34 million compared with £45 million in the preceding three months.

Foreign exchange and gold markets

During May to July the foreign exchange markets were generally active and sometimes quite volatile. After a hesitant start in May, the dollar strengthened steadily, with a gentle recovery in June gaining momentum in July as US interest rates became firmer and confidence that the US recession was ending grew. The dollar gained particularly against the EEC 'snake' and the Swiss franc. The French franc continued its rapid advance in May, but came under brief pressure shortly before it rejoined the EEC 'snake' on 10th July.

In May and June *sterling* experienced two sharp bouts of weakness separated by a short period of stability. Although a recovery was evident in July, sterling lost ground on balance over the three months. The pound first came under speculative pressure in early May, when its effective depreciation since the Smithsonian agreement of 1971 widened quickly from 22.7% at the end of April to 25% before stabilising at around this level, initially with some official support. The announcement of the April trade figures in the middle of the month was a helpful influence, and sterling held steady in the period leading up to the EEC referendum on 5th June. The referendum result had been discounted by the market and thus had little impact. Shortly after, however, growing concern at the pace of inflation, together with the possibility of a railway strike, provoked significant selling in an increasingly nervous market. The May trade figures were temporarily reassuring, but substantial pressure soon re-emerged, reaching a peak on 1st July when the effective depreciation widened to just over 29%. The Chancellor's statement of 1st July on the Government's anti-

inflationary policies, and the subsequent publication of the White Paper *The Attack on Inflation*, brought a calmer tone to the market: sterling recovered slowly during most of July, helped by substantial demand for oil payments and also by some unwinding of short positions. Although the growing strength of the dollar generally kept the spot rate below \$2.20 (it was \$2.35 at the end of April), the effective depreciation narrowed to 25½%, with sterling holding up better than the main continental currencies, particularly the Swiss franc and deutschemark, against the stronger dollar. In the last two days of July, however, when demand for oil payments had passed, the pound weakened again and at the end of the month the effective depreciation was just over 26%.

Although confidence was generally weak in May and June, the discounts on *forward sterling* narrowed appreciably, largely because of the continuing build-up of euro-sterling deposits. From a peak of 7½% per annum touched in mid-May, when confidence in sterling was at a low ebb, the discount on three months' sterling fell to 3½% in June and to under 2½% in July, before returning to around 4% after the rise in minimum lending rate on 25th July. The uncovered comparison between three-month euro-dollars and inter-bank sterling remained in favour of the pound but narrowed from 4½% per annum in May to just over 2% in mid-July before widening again to around 3½% by the end of the month. Inter-bank sterling rates were generally easier until they rose to 10½% for the three months' maturity when minimum lending rate went up, while corresponding euro-dollar rates, after falling briefly below 6% in May and June, strengthened to over 7% for much of July. The covered differential in favour of euro-dollars fell from 3% in early May to under ¼% in late July, the lowest for eighteen months.

The *London gold market* continued generally quiet during the period under review. The price remained between \$163½ and \$167 per fine ounce for most of May before rising to \$175 near the end of the month. This movement was quickly reversed, however, chiefly by the announcement that the US authorities were told to hold a second gold auction – for 500,000 ounces – on 30th June; and the London gold price fell back to \$162 at the beginning of June. Neither the auction nor suggestions that imports of grain by the USSR would have to be financed in part by sales of gold significantly depressed the price, and for the remainder of the period it moved narrowly around \$164 in light trading.

Euro-currency markets

Since the end of 1974 there has been a significant revival in euro-currency activity.

Figures published by the Bank for International Settlements show that the euro-currency market, measured by the gross external foreign currency liabilities of commercial banks in the eight European countries reporting to the BIS, [1] expanded by \$6 billion (to \$227 billion) in the first quarter of 1975, compared with some \$14 billion in the fourth quarter of 1974. However, after making broad adjustments for currency valuation changes and for the temporary building up of end-year positions, the BIS consider that the underlying rate of growth was probably significantly faster in the first quarter than in the fourth. The main sources of these funds to the reporting European countries were the Middle East (\$3.3 billion), followed by Switzerland (\$2.9 billion). Meanwhile, net lending to countries outside the reporting area and the United States rose by over \$5 billion in the first quarter.

Only limited data are available for the second quarter and later, but there are two indications that the market continued to recover. First, newly-announced medium-term euro-currency credits rose by \$0.7 billion to \$4.6 billion – the highest figure since the second quarter of 1974: loans to developing countries accounted for a significant part of

[1] Belgium-Luxembourg, France, Western Germany, Italy, Netherlands, Sweden, Switzerland, and the United Kingdom.

Liabilities and claims by customer [a]

The euro-currency market in London expanded slowly in the first half of this year.

\$ billions	1974		1975		
	31 Dec.	19 Feb.	27 Mar.	21 May	30 June
Foreign currency liabilities of UK banks to:					
Other UK banks [b]	39.8	39.6	41.5	39.5	41.6
Other UK residents	6.0	5.4	6.3	5.1	5.1
Overseas central monetary institutions	23.6	29.7	29.5	31.1	29.1
Other banks overseas	70.8	68.3	71.2	71.4	74.5
Other non-residents	19.8	18.7	18.2	18.5	17.8
Total liabilities	160.0	161.7	166.7	165.6	168.1
Foreign currency assets of UK banks with:					
Other UK banks [b]	40.4	39.6	42.2	40.3	42.1
Other UK residents	14.9	15.7	15.9	16.0	16.3
Banks overseas	72.4	73.3	74.5	76.7	76.4
Other non-residents	33.0	34.1	35.1	33.7	33.8
Total assets	160.7	162.7	167.7	166.7	168.6

[a] Figures differ from those shown in Table 8/1 because included here are not only banks but certain other institutions with permission to accept and on lend foreign currency deposits; see additional notes to Table 23.

[b] Liabilities to banks in the United Kingdom and claims on them should be the same. But the figures as reported differ, so there will be compensating differences in the other components of total liabilities and assets.

Liabilities and claims by country or area^[a]

In the first half of 1975, Japan was a large user of funds; the United States made heavy net repayments.

	1974					1975				
	1974		1975			1975		1975		
	31 Dec.	19 Feb.	27 Mar.	21 May	30 June	19 Feb.	27 Mar.	21 May	30 June	
United States	- 3.0	- 1.3	- 0.8	- 0.9	+ 0.5					
Canada	+ 2.2	+ 1.8	+ 1.9	+ 1.5	+ 1.5					
European Economic Community	- 0.2	- 0.6	- 0.6	- 0.2	+ 0.4					
Other Western Europe	+14.3	+14.0	+14.8	+14.7	+14.3					
Eastern Europe	- 2.5	- 3.1	- 3.5	- 3.5	- 3.7					
Japan	-10.6	-11.8	-12.3	-11.6	-12.4					
Oil-exporting countries ^[b]	+16.2	+19.0	+17.8	+19.6	+17.7					
Countries engaged in offshore banking	- 5.5	- 6.2	- 6.0	- 6.4	- 3.8					
Other countries	- 1.6	- 1.6	- 1.5	- 2.4	- 2.9					
	+ 9.3	+10.2	+ 9.8	+10.8	+11.6					

[a] The figures here exclude certain small unallocated items which are assumed to relate to overseas residents in the table on the previous page.

[b] Listed in footnote [a] to Table 21 of the statistical annex.

Maturity structure of net foreign currency position

Banks' net borrowing up to 1 year rose much less between February and May than in the previous three months.

	1975	
	Mid-Feb.	Mid-May
	Less than 8 days ^[a]	- 8.8
8 days to less than 3 months	- 5.6	- 7.5
3 months to less than 1 year	-12.9	-10.4
	- 3.9	- 5.4
Net borrowing up to 1 year	-25.6	-26.9
Net lending at 1 year and over	+26.6	+28.0
	+ 1.0	+ 1.1

[a] Figures in italics show the net position at less than 8 days after including all holdings of London dollar certificates of deposit of all maturities, these being immediately realisable assets for the holding bank.

Estimated oil revenues of exporting countries

In the second quarter oil exporters' revenues were little changed, but the proportion paid in sterling fell.

	1974			1975		
	1st half	2nd half	Year	1st qtr	2nd qtr	1st half
	US dollars	27.4	48.1	75.5	21.9	22.7
Sterling	8.7	10.3	19.0	3.9	2.9	6.8
	36.1	58.4	94.5	25.8	25.6	51.4

the rise. More large loans (\$100 million or over) were announced, and towards the end of the quarter there were signs of a slight lengthening of loans within the five to seven-year range. Secondly, UK banking figures for the second quarter [1] indicated a continuing if slower growth in the external foreign currency liabilities of the London market, which accounts for about 50% of the market as measured by the BIS.

In the first quarter the size of the London market, measured by the banks' gross foreign currency liabilities, rose by \$6.7 billion (see table on previous page); mainly because of larger deposits by overseas central monetary institutions. Inter-UK bank activity, which declined in the early part of the period after the upturn at the end of 1974, picked up again later. About \$4 billion of the banks' increased borrowing was on lent to banks and others abroad; the rise of \$1 billion in lending to UK residents other than banks reflected final drawings by the Government on the \$2½ billion euro-currency loan facility.

The market expanded more slowly in the second quarter, with the banks' foreign currency liabilities rising by \$1½ billion. Deposits from abroad increased by \$2½ billion, but domestic deposits (other than from UK banks), which had risen towards the end of the first quarter as oil companies prepared to pay oil royalties, fell after the payments were made early in the second quarter.

In the first quarter the banks' net foreign currency borrowing from oil-exporting countries rose by \$1.6 billion to \$17.8 billion (see table); the drop in net liabilities to this group between mid-February and end-March was strongly influenced by the timing of oil royalty payments. The United States borrowed \$2.2 billion less from the London market as US demand for credit slackened. Among the main users of funds in the quarter, Japan and Eastern Europe borrowed \$1.7 billion and \$1 billion respectively. In the second quarter, countries engaged in offshore banking repaid \$2.2 billion while the United States and other EEC countries became net suppliers of funds.

The latest maturity analysis of the banks' foreign currency positions was completed as at 21st May (see table). The banks' net borrowing up to 1 year rose by \$1.3 billion in the three months, a much slower rise than in the previous three months (\$4.3 billion). The latest rise was concentrated in the less than 8 days, and 3 months to 1 year categories, which increased by \$2.3 billion and \$1.5 billion respectively. On the other hand, net liabilities at 8 days to less than three months fell by \$2.5 billion. Most of the increase in net borrowing up to 1 year was on lent for periods of three years and over.

Oil money movements

With demand and prices each remaining lower than throughout most of last year, total estimated oil revenues of the exporting countries [2] in the second quarter, at \$25.6 billion, were much the same as in the first, and so remained about \$3 billion below the peak of around \$29 billion in each of the last two quarters of 1974 (see table). The percentage paid in sterling dropped from nearly 16% to just over 11%, but this was largely because payment of part of Iran's dollar revenue was deferred from March to April. Sterling's share is expected to be around 13% during the second half of 1975, compared with an average of 20% in 1974 when Saudi Arabia was taking a significant share of its revenue in sterling.

Largely because imports into these countries were rising fast, the cash surplus available for government loans, capital investment abroad, or addition to reserves, is estimated to have fallen to about \$17 billion during the first half of 1975, compared with \$34 billion in the second half of 1974 (see table on following page). The surplus accumulated in

[1] See the cautionary note under 'Banking sector' on page 230.

[2] As listed in footnote [a] to Table 21 of the statistical annex.

Estimated deployment of oil exporters' surpluses

The surplus in the second quarter was little changed, thus remaining well below the average for 1974, but the funds were deployed quite differently.

	1974			1975		
	1st half	2nd half	Year	1st qtr	2nd qtr	1st half (provisional)
United Kingdom						
British government stocks	0.5	0.4	0.9	0.2	0.1	0.3
Treasury bills	1.1	1.6	2.7	0.5	-0.3	0.2
Sterling deposits	0.6	1.1	1.7	0.1	-0.2	-0.1
Other sterling investments[a]	0.3	0.4	0.7	-	0.1	0.1
Foreign currency deposits	7.0	6.8	13.8	1.7	0.3	2.0
Other foreign currency borrowing	0.5	0.7	1.2	-	0.2	0.2
	10.0	11.0	21.0	2.5	0.2	2.7
United States						
Government and agency securities	1.9	4.1	6.0	0.9	0.4	1.3
Bank deposits	1.4	2.6	4.0	-0.5	0.4	-0.1
Other[a]	0.1	0.9	1.0	0.3	0.7	1.0
	3.4	7.6	11.0	0.7	1.5	2.2
Other countries						
Foreign currency deposits	5.0	4.0	9.0	2.5	2.5	5.0
Special bilateral facilities and other investments[a] [b]	3.6	8.0	11.6	1.8	3.5	5.3
	8.6	12.0	20.6	4.3	6.0	10.3
International organisations	0.5	3.1	3.6	1.2	0.3	1.5
Total	22.5	33.7	56.2	8.7	8.0	16.7

[a] Includes holdings of equities and property.

[b] Includes loans to developing countries.

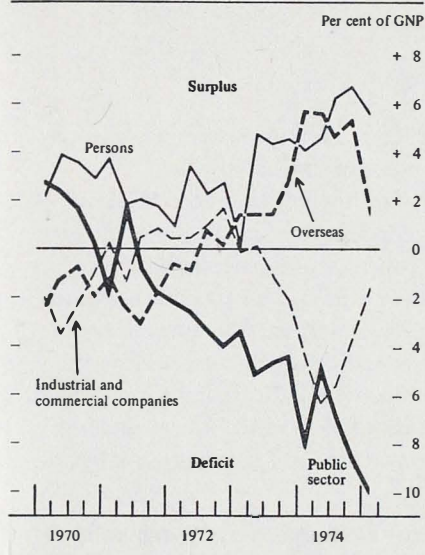
the second quarter was only slightly less than in the first, but the funds were deployed quite differently. In particular, the share taken by the United States, which had been unusually low in the first quarter (8%), recovered to about the average for 1974 (20%), while the trend towards longer-term forms of investment continued.

Sterling investments in the United Kingdom fell slightly during the second quarter; and foreign currency deposits placed direct with UK banks were lower, though a rise of \$2.5 billion in total foreign currency deposits held by overseas residents in the London market suggests that oil funds continued to be received indirectly through third countries.

The share taken by foreign currency deposits outside the UK and US markets was apparently unchanged at about 30%. Drawings on the IMF oil facility financed by oil exporters amounted to only \$0.3 billion in the second quarter. But special bilateral facilities, loans to developing countries, and other investments outside the United Kingdom and United States doubled to \$3.5 billion, representing over 40% of the total invested, compared with an average of about 20% in the first quarter and throughout 1974.

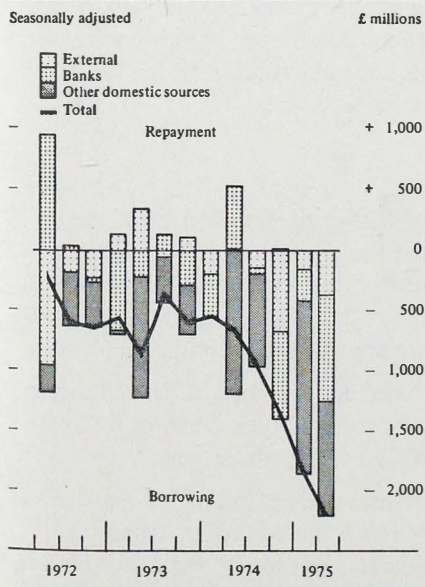
Sector surpluses and deficits

In the first quarter an increase in the public sector deficit and a reduction in the overseas surplus were largely matched by an improvement in companies' position.



Finance of the central government borrowing requirement (-)

In the second quarter the borrowing requirement was again very large; much more was borrowed from the banks.



Capital account of industrial and commercial companies

In the first quarter a fall in investment in fixed capital and stocks more than halved companies' financial deficit.

£ millions: seasonally adjusted

	1974				Year	1975
	1st qtr	2nd qtr	3rd qtr	4th qtr		1st qtr
Saving [a]	230	570	910	870	2,580	760
Capital transfers	90	80	80	80	330	100
less:						
Gross domestic capital formation [a]	-1,060	-1,750	-2,060	-1,690	-6,560	-1,210
Financial deficit (-)	-740	-1,100	-1,070	-740	-3,650	-350
[a] Excluding stock appreciation of:						
	1,770	1,330	860	960	4,920	1,260

Sector financing

The following sections discuss the main features of financial flows in the first and second quarters, details of which are set out in the tables at the end. Seasonally-adjusted figures are used unless otherwise stated.

Financial positions in the first quarter

The public sector's deficit was much larger than in the previous quarter whereas the overseas sector's surplus fell by two thirds. The financial position of the private sector as a whole therefore improved: the personal sector's surplus was little changed, but the industrial and commercial companies' deficit was halved (see chart).

The residual error in the national accounts, which is usually large in the first quarter, was provisionally some £300 million larger than ever before, at £790 million. This implies either understated surpluses, or overstated deficits, or a mixture of the two. It seems unlikely that such a large discrepancy could be wholly accounted for by errors in either the public or overseas sector accounts, or that the personal sector's surplus would be understated in a period when persons' savings ratio might be expected to fall. This suggests that the industrial and commercial companies' deficit might well be somewhat overstated.

Public sector

In the March quarter, the public sector borrowing requirement – the financing of which is set out in detail in Table B – was £2,390 million, and the outturn for the financial year was £7,960 million, or as much as £1,630 million greater than the official estimates made after taking account of the policy changes in the November 1974 Budget. The central government and local authorities each borrowed much more than expected over the financial year; public corporations, helped by increased loans from the central government, borrowed less from other sources.

In the June quarter, the central government borrowing requirement amounted to £2,190 million, or more than three times as large as in the same quarter in 1974. The net effect of external transactions was to provide the Government with £420 million, leaving nearly £1,800 million to be raised from domestic sources. The private sector (other than banks) bought £310 million of gilt-edged stocks (much less than in the March quarter), and the Issue Department's transactions in local authority and commercial bills provided a further £380 million. In all, however, the central government was obliged to borrow £870 million from the banking system: this was provided mainly by purchases of Treasury bills.

Industrial and commercial companies

The deficit of industrial and commercial companies in the first quarter was half that of the previous quarter, essentially because investment in fixed capital and stocks fell by £480 million as the recession deepened. Companies also invested less long term abroad [1] so that their total financing requirement was reduced by as much as £620 million, to £1,000 million (see Table E).

They in fact obtained some £600 million more than this and were thus able to rebuild their bank deposits and cash holdings. Overseas sources provided only £250 million of finance, so that over £1,300 million was raised domestically. £380 million was borrowed from the banking system (£220 million less than in the previous quarter) and only £15 million net was raised on the capital market (the large new

[1] The figures for long-term investment abroad in the fourth quarter were affected by large repayments by oil companies of trade credit.

issues announced in the first quarter were not completed until the second). The remainder was provided in a variety of ways, including a take-up of commercial bills by the Issue Department and easier trade credit extended by public corporations, with £360 million coming from unidentified sources.

Banking sector

Total domestic deposits rose by £550 million in the second quarter, which was more than in the first, although well below the quarterly average for recent years. The breakdown of the total by sectors is more than usually uncertain this time, as the banks have reclassified many accounts in the course of the general revision of banking statistics introduced in May. Although an attempt has been made to adjust the figures for the changes in classification, the information available is incomplete, and considerable doubt must attach to the resulting figures. As recorded, industrial and commercial companies and the financial institutions each added substantially to their deposits. But the personal sector showed a surprisingly large fall of £590 million.

Bank lending to the private sector increased by £610 million in the second quarter, rather more than in the first. The whole of this increase can be attributed to a rise in foreign currency borrowing: the private sector repaid £40 million net of sterling bank borrowing. The same qualifications apply to the sectoral allocation of lending as to deposits. The financial institutions and personal sector each apparently continued to repay bank borrowing, but industrial and commercial companies' borrowing rose substantially, by over £700 million. A large part of this, however, probably reflects revaluation of existing foreign currency borrowing. Net lending to the public sector, which had fallen in the first quarter, rose sharply in the second.

Personal sector

The personal sector's surplus in the first quarter, although still very large, fell for the first time since the first quarter of 1974, when the figures were affected by short-time working. Saving as a percentage of disposable income fell from 13.3% to 12.6%, reflecting the fall in real incomes as economic activity declined while prices continued to rise.

Persons' borrowing rose by £510 million, or some £270 million less than in the previous quarter. They borrowed much the same for house purchase and repaid a net £160 million of bank borrowing.

The sector's net acquisition of financial assets in the first quarter amounted to some £2,200 million, much the same as in the previous quarter, but the distribution was markedly different. Persons deposited a larger proportion of newly-available funds with building societies and also invested heavily in gilt-edged stocks and local authority debt (after being net sellers in the previous quarter). On the other hand, they increased their bank deposits much less and sold as much as £720 million net of equities and debentures — presumably a catching-up process after sales had been discouraged by low market prices in the preceding six months.

Other financial institutions

Inflows into these institutions amounted to some £2,100 million in the first quarter, or £370 million more than in the previous quarter, mainly because of the increase in building society deposits referred to earlier. The institutions ran down their bank deposits and other short-term assets by £810 million, and thus had some £2,900 million to invest.

Encouraged by the prospect of lower yields, the institutions invested £1,175 million in gilt-edged stocks, and over £300 million in longer-term local authority debt. Moreover, with the improvement in the stock

market, they also bought some £350 million of equities and debentures – their biggest net acquisition in a quarter for over two years.

Building societies repaid £210 million of the government official loan, and the financial institutions as a whole repaid a further £70 million to the banks.

In the second quarter inflows into building societies were again very large, at £1,090 million; and a further £120 million of the official loan was repaid, leaving only £3 million outstanding.

Capital issues by the institutions as a whole amounted to £170 million during the quarter, the highest for three years.

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]
Public sector								
1972 2nd qtr	464	5,652	- 2,876	-2,390	850	-1,212	11	- 351
3rd "	496	5,564	- 2,975	-2,385	700	-1,181	21	- 460
4th "	507	5,781	- 3,107	-2,547	634	-1,224	11	- 579
1973 1st qtr	516	6,124	- 3,162	-2,582	896	-1,405	-27	- 536
2nd "	534	5,997	- 3,241	-2,686	604	-1,382	-17	- 795
3rd "	549	6,370	- 3,374	-2,848	697	-1,456	- 1	- 760
4th "	595	6,719	- 3,493	-3,058	763	-1,510	10	- 737
1974 1st qtr	582	6,854	- 3,659	-3,390	387	-1,770	13	-1,370
2nd "	643	7,518	- 3,872	-3,360	929	-1,736	-29	- 836
3rd "	645	8,144	- 4,270	-3,946	573	-1,776	-28	-1,231
4th "	652	8,572	- 4,672	-4,201	351	-2,062	- 7	-1,718
1975 1st qtr	673	9,003	- 5,204	-4,261	211	-2,376	6	-2,159
Overseas sector [f]								
1972 2nd qtr					- 123			- 123
3rd "					109			109
4th "					17			17
1973 1st qtr					184		38	222
2nd "					209		19	228
3rd "					230		1	231
4th "					490		1	491
1974 1st qtr					935		-	935
2nd "					955		29	984
3rd "					830		40	870
4th "					1,051		6	1,057
1975 1st qtr					342		-	342
Personal sector								
1972 2nd qtr	9,224	4,153	- 9,681	-2,429	1,267	- 710	-96	461
3rd "	9,477	4,088	-10,011	-2,480	1,074	- 669	-88	317
4th "	9,867	4,381	-10,395	-2,597	1,256	- 774	-84	398
1973 1st qtr	10,194	4,560	-10,979	-2,819	956	- 852	-93	11
2nd "	10,594	4,808	-10,906	-2,935	1,561	- 758	-69	734
3rd "	10,893	4,987	-11,309	-2,977	1,594	- 816	-84	694
4th "	11,263	5,071	-11,591	-3,126	1,617	- 798	-74	745
1974 1st qtr	11,468	5,285	-11,950	-3,292	1,511	- 749	-91	671
2nd "	12,295	5,417	-12,443	-3,616	1,653	- 786	-68	799
3rd "	13,364	5,868	-13,109	-4,141	1,982	- 715	-70	1,197
4th "	14,439	6,039	-13,780	-4,586	2,112	- 722	-62	1,328
1975 1st qtr	15,510	5,920	-14,410	-4,935	2,085	- 777	-92	1,216
Company sector [g]								
1972 2nd qtr	1,710	1,397		-1,953	1,154	-1,197	85	42
3rd "	1,781	1,510		-1,844	1,447	-1,428	67	86
4th "	1,918	1,619		-1,888	1,649	-1,522	73	200
1973 1st qtr	2,163	1,865		-2,227	1,801	-1,922	82	- 39
2nd "	2,125	1,958		-2,293	1,790	-1,919	67	- 62
3rd "	2,215	2,194		-2,390	2,019	-2,371	84	- 268
4th "	2,246	2,659		-2,711	2,194	-2,605	63	- 348
1974 1st qtr	2,558	2,894		-3,085	2,367	-3,112	78	- 667
2nd "	2,466	2,986		-3,200	2,252	-3,362	68	-1,042
3rd "	2,508	2,908		-3,253	2,163	-3,212	58	- 991
4th "	2,333	3,025		-3,124	2,234	-2,977	63	- 680
1975 1st qtr	2,600	2,937		-3,081	2,456	-2,735	86	- 193

- nil or less than £½ million.

[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] See the note on line 5 of Tables H and J.

[g] Including financial institutions.

Table B

Public sector

£ millions

Seasonally adjusted

	1972			1973				1974				1975	
	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	+1,212	+1,181	+1,224	+1,405	+1,382	+1,456	+1,510	+1,770	+1,736	+1,776	+2,062	+2,376	
less Saving	- 850	- 700	- 634	- 896	- 604	- 697	- 763	- 387	- 929	- 573	- 351	- 211	
less Capital transfers (net)	- 11	- 21	- 11	+ 27	+ 17	+ 1	- 10	- 13	+ 29	+ 28	+ 7	- 6	
<i>equals</i> Financial surplus -/deficit +	+ 351	+ 460	+ 579	+ 536	+ 795	+ 760	+ 737	+1,370	+ 836	+1,231	+1,718	+2,159	
Lending and other transactions (increase in assets +)[a]	+ 83	+ 160	+ 283	+ 215	+ 311	+ 408	+ 415	+ 119	+ 554	+ 487	+ 105	+ 359	
Unidentified	+ 44	+ 9	- 81	- 75	- 55	+ 56	+ 116	- 418	+ 32	- 28	+ 364	- 126	
Borrowing requirement (increase +)	+ 478	+ 629	+ 781	+ 676	+1,051	+1,224	+1,268	+1,071	+1,422	+1,690	+2,187	+2,392	
<i>Financed by (borrowing -):</i> †													
Central government:													
External transactions	- 955	- 184	- 221	+ 136	+ 341	- 55	+ 106	- 191	+ 9	- 151	- 672	- 162	- 425
Notes and coin with the public	- 126	- 93	- 123	- 152	- 117	+ 7	- 209	- 76	- 125	- 255	- 253	- 200	- 80
Bank borrowing	+ 953	+ 31	- 42	- 667	- 220	+ 128	- 294	- 352	+ 521	- 42	- 726	- 263	- 872
Other domestic borrowing [b] [c]	- 98	- 362	- 252	+ 123	- 879	- 438	- 193	+ 75	-1,056	- 508	+ 259	-1,224	- 815
Local authorities:													
External finance	+ 5	- 61	- 50	- 68	- 28	- 97	- 125	+ 10	+ 23	- 38	+ 81	+ 33	- 60
Bank borrowing	- 1	+ 40	+ 4	+ 69	+ 63	- 51	- 102	+ 231	+ 23	+ 108	- 187	- 293	- 334
Other domestic borrowing [d]	- 103	- 46	- 102	- 209	- 401	- 161	- 235	- 667	- 725	- 504	- 430	- 263	
Public corporations:													
External finance	- 9	+ 10	+ 1	- 27	- 11	+ 22	- 88	- 9	- 226	- 160	- 204	- 88	- 181
Domestic borrowing [c]	- 144	+ 116	+ 4	+ 119	+ 201	- 579	- 128	- 92	+ 134	- 140	- 55	+ 68	
Total net borrowing	- 478	- 629	- 781	- 676	-1,051	-1,224	-1,268	-1,071	-1,422	-1,690	-2,187	-2,392	

†Borrowing in foreign currencies in recent years has been as follows:

Central government:														
From UK banks														
Direct from overseas													+ 506	+ 314
Local authorities:													+ 138	+ 109
From UK banks				+ 20	+ 57	+ 5	+ 6	+ 97	+ 170	+ 1	+ 2	- 7	- 9	
Direct from overseas				+ 10	+ 38	+ 25	+ 62	+ 34	+ 18	- 1	+ 2	+ 7	+ 8	
Public corporations:														
From UK banks				+ 19	+ 183	+ 342	+ 201	+ 180	+ 93	+ 52	-	-	-	1
Direct from overseas				+ 50	+ 10	- 9	+ 86	+ 28	+ 219	+ 163	+ 185	+ 69	+ 165	

- nil or less than £½ million.

[a] Consisting principally of lending to overseas and private sectors (including loans to building societies and to persons for house purchase, refinancing of export credits, and public corporations' identified trade credit); also changes in bank deposits, and accruals adjustments (see the note on line 19 of Tables H and J).

[b] Net purchases of commercial bills and local authority debt by the Issue Department of the Bank of England have been deducted.

[c] Including payments by public corporations to the central government for the redemption of government guaranteed stocks.

[d] Including borrowing from the Issue Department.

Table C

Overseas sector [a]

£ millions

Seasonally adjusted

Claims on UK: increase +/decrease -

Liabilities to UK: increase -/decrease +

	1972			1973				1974				1975	
	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 -	-123	+109	+ 17	+222	+228	+231	+491	+935	+984	+870	+1,057	+342	
Transactions with the UK private sector													
Investment flows:													
Transactions in company and overseas securities	-135	- 68	- 88	+ 81	+ 90	+ 24	+121	+200	+120	+261	+ 472	+ 41	
Miscellaneous private investment	- 55	+ 4	- 85	- 91	+ 84	- 93	-207	+293	+ 92	+ 4	- 739	-286	
Other transactions:													
Net external transactions by													
UK banks [b]	-460	- 2	+ 48	+423	+319	+153	+665	+196	+311	- 39	+ 542	+423	-635
Other identified	-154	- 57	+301	-123	+ 44	-133	+ 90	+ 58	+244	- 59	+ 67	-237	
Balancing item	-174	+ 61	-347	+ 84	+ 70	+222	-195	+110	+160	+503	+ 71	+335	
	-978	- 62	-171	+374	+607	+173	+474	+857	+927	+670	+ 413	+276	
Transactions with the UK public sector													
Lending etc. [c]	-104	- 64	- 82	-111	- 77	- 72	- 90	-112	-137	-149	- 151	-151	
External finance: [d]													
Central government	+955	+184	+221	-136	-341	+ 55	-106	+191	- 9	+151	+ 672	+162	+425
Local authorities	- 5	+ 61	+ 50	+ 68	+ 28	+ 97	+125	- 10	- 23	+ 38	- 81	- 33	+ 60
Public corporations	+ 9	- 10	- 1	+ 27	+ 11	- 22	+ 88	+ 9	+226	+160	+ 204	+ 88	+181
	+855	+171	+188	-152	-379	+ 58	+ 17	+ 78	+ 57	+200	+ 644	+ 66	

[a] It has not been possible to include in this table the balance of payments estimates for the 2nd quarter of 1975, and revisions to previous quarters, which were released in September.

[b] Other than net purchases of securities. Includes the adjustments mentioned in the notes to line 11 of Tables H and J.

[c] These overseas transactions of the public sector increase 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

	1972			1973				1974				1975	
	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	+1,267	+1,074	+1,256	+ 956	+1,561	+1,594	+1,617	+1,511	+1,653	+1,982	+2,112	+2,085	
Capital transfers (net)	- 96	- 88	- 84	- 93	- 69	- 84	- 74	- 91	- 68	- 70	- 62	- 92	
Capital expenditure	- 710	- 669	- 774	- 852	- 758	- 816	- 798	- 749	- 786	- 715	- 722	- 777	
Financial surplus +/-deficit -	+ 461	+ 317	+ 398	+ 11	+ 734	+ 694	+ 745	+ 671	+ 799	+1,197	+1,328	+1,216	
Borrowing (-)													
For house purchase	- 704	- 775	- 718	- 804	- 709	- 745	- 538	- 480	- 431	- 634	- 747	- 765	
Bank borrowing[a]	- 554	- 222	- 675	- 490	- 252	- 316	+ 31	- 76	- 40	+ 123	- 31	+ 156	+ 132
Hire-purchase debt	- 58	- 61	- 50	- 88	- 38	- 25	- 32	+ 38	+ 12	+ 13	+ 3	- 15	
Other[b]	+ 25	- 57	- 26	- 80	- 90	- 25	- 60	+ 30	+ 142	- 61	- 7	+ 117	
	-1,291	-1,115	-1,469	-1,462	-1,089	-1,111	- 599	- 488	- 601	- 559	- 782	- 507	
Acquisition of financial assets (+)													
Life assurance and pension funds	+ 638	+ 596	+ 654	+ 814	+ 681	+ 611	+ 711	+ 790	+ 680	+ 660	+ 800	+ 920	
Government stocks	+ 33	+ 56	+ 46	+ 126	+ 220	+ 194	+ 244	+ 214	+ 303	+ 207	- 162	+ 485	
Company and overseas securities	- 382	- 391	- 352	- 501	- 332	- 649	- 659	- 566	- 369	- 262	- 59	- 718	
Unit trust units	+ 54	+ 60	+ 64	+ 58	+ 49	+ 33	+ 16	+ 12	+ 8	+ 21	+ 19	+ 30	+ 31
Bank deposits, notes and coin	+ 460	+ 476	+ 542	+ 605	+ 904	+ 992	+1,115	+ 995	+ 781	+ 717	+ 834	+ 280	- 547
Building society shares and deposits	+ 576	+ 465	+ 524	+ 480	+ 787	+ 536	+ 385	+ 228	+ 455	+ 633	+ 684	+1,060	+1,090
National savings	+ 158	+ 88	+ 88	+ 75	+ 63	+ 45	- 39	- 38	- 26	+ 12	+ 61	+ 91	+ 56
Local authority debt	- 66	- 45	+ 48	+ 62	+ 5	+ 137	+ 145	+ 418	+ 349	+ 47	- 17	+ 102	
Other	+ 66	+ 79	+ 66	+ 67	- 18	+ 21	+ 13	- 52	- 15	- 21	+ 72	- 1	
	+1,537	+1,384	+1,680	+1,786	+2,359	+1,920	+1,931	+2,001	+2,166	+2,014	+2,232	+2,249	
Identified financial transactions	+ 246	+ 269	+ 211	+ 324	+1,270	+ 809	+1,332	+1,513	+1,565	+1,455	+1,450	+1,742	
Unidentified	+ 215	+ 48	+ 187	- 313	- 536	- 115	- 587	- 842	- 766	- 258	- 122	- 526	

[a] Other than for house purchase.

[b] Including accruals adjustments and trade credit received from public corporations.

Table E

Industrial and commercial companies

£ millions

Seasonally adjusted

Assets: increase +/decrease -

Liabilities: increase -/decrease +

	1972			1973				1974				1975	
	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	+1,074	+1,230	+1,353	+1,726	+1,689	+2,091	+2,340	+2,839	+3,083	+2,919	+2,645	+2,476	
less Saving	-1,039	-1,284	-1,511	-1,613	-1,624	-1,804	-1,919	-2,001	-1,898	-1,775	-1,830	-2,024	
less Capital transfers (net)	- 97	- 80	- 87	- 94	- 80	- 97	- 76	- 94	- 84	- 75	- 80	- 103	
equals Financial surplus -/deficit +	- 62	- 134	- 245	+ 19	- 15	+ 190	+ 345	+ 744	+1,101	+1,069	+ 735	+ 349	
Trade investments, mergers, etc. in the United Kingdom	+ 192	+ 186	+ 243	+ 215	+ 183	+ 298	+ 237	+ 231	+ 121	+ 97	+ 85	+ 92	
Long-term investment abroad	+ 180	+ 196	+ 245	+ 416	+ 334	+ 456	+ 719	+ 413	+ 269	+ 494	+ 793	+ 554	
Total requiring financing (+)	+ 310	+ 248	+ 243	+ 650	+ 502	+ 944	+1,301	+1,388	+1,491	+1,660	+1,613	+ 995	
Capital issues (including euro-currency issues)	- 206	- 214	- 179	- 111	- 101	- 29	- 30	+ 7	- 3	- 13	+ 10	- 14	- 330
Overseas investment in UK companies	- 122	- 159	- 123	- 200	- 347	- 217	- 417	- 670	- 291	- 432	- 164	- 267	
Import credit and advance payments on exports	- 15	- 94	-103	- 57	- 73	- 68	- 186	- 47	- 72	- 47	- 161	- 10	
Export credit and advance payments on imports	+ 48	+ 44	+ 31	+ 117	+ 10	+ 43	+ 87	+ 89	+ 133	+ 27	+ 76	+ 17	
Bank borrowing	- 778	- 592	- 816	- 675	- 617	-1,611	-1,767	- 983	-1,295	-1,536	- 597	- 379	- 735
Other borrowing[a]	- 53	+ 56	- 68	- 332	- 101	- 394	- 346	- 149	+ 67	+ 45	- 136	- 359	
Bank deposits, notes and coin	+ 751	+ 554	+ 744	+ 587	+ 277	+ 969	+ 833	- 49	+ 262	+ 3	- 124	+ 571	+ 747
Other liquid assets[b]	+ 16	+ 14	+ 31	+ 9	+ 81	+ 20	- 9	+ 3	+ 31	+ 104	- 93	- 82	
Other items[c]	+ 2	- 24	+ 2	+ 97	+ 39	+ 48	- 20	+ 5	- 23	+ 57	+ 226	- 122	
Other overseas transactions (including the balance of payments balancing item)[d]	+ 263	+ 52	+ 94	- 50	- 57	- 47	+ 183	- 187	- 422	- 359	+ 19	+ 15	
Unidentified domestic transactions[d]	- 216	+ 115	+ 144	- 35	+ 387	+ 342	+ 371	+ 593	+ 122	+ 491	- 669	- 365	
Total financing (-)	- 310	- 248	- 243	- 650	- 502	- 944	-1,301	-1,388	-1,491	-1,660	-1,613	- 995	

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

[b] Treasury bills, local authority debt, tax reserve certificates, tax deposit accounts, and deposits with other financial institutions.

[c] Net trade credit with public corporations, and hire-purchase lending.

[d] Most of the balancing item in the balance of payments accounts, especially when large, probably reflects unidentified transactions between companies and overseas. It is deducted from the total amount unidentified in the company accounts to leave a rough estimate of unidentified domestic transactions.

Table F

Banking sector

£ millions

Seasonally adjusted

Lending: increase +/decrease -

Deposits: increase -/decrease +

	1972			1973				1974				1975	
	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	- 809	+ 98	+ 57	+ 491	+ 294	+ 516	+ 528	+ 213	- 548	+ 66	+ 970	+526	+1,216
Industrial and commercial companies	+ 851	+ 600	+ 827	+ 689	+ 619	+1,649	+1,863	+1,049	+1,268	+1,550	+ 571	+390	+ 736
Other financial institutions	+ 380	+ 186	+ 226	+ 242	+ 117	+ 190	+ 288	+ 139	+ 169	+ 63	- 252	- 66	- 31
Personal sector	+ 644	+ 322	+ 775	+ 560	+ 347	+ 406	+ 24	+ 106	+ 75	- 98	+ 31	-166	- 92
Total domestic lending	+1,066	+1,206	+1,885	+1,982	+1,377	+2,761	+2,703	+1,507	+ 964	+1,581	+1,320	+684	+1,829
Deposits													
Public sector	+ 33	+ 35	- 135	- 10	- 30	+ 62	- 122	- 8	+ 112	- 2	- 33	- 30	- 186
Industrial and commercial companies	- 688	- 507	- 682	- 511	- 218	- 973	- 728	+ 87	- 199	+ 124	+ 251	-471	- 707
Other financial institutions	- 480	+ 4	- 275	- 275	- 222	- 325	- 194	+ 38	+ 98	- 464	- 543	+554	- 245
Personal sector	- 397	- 430	- 481	- 529	- 846	- 995	-1,011	- 957	- 719	- 589	- 708	-180	+ 587
Total domestic deposits	-1,532	- 898	-1,573	-1,325	-1,316	-2,231	-2,055	- 840	- 708	- 931	-1,033	-127	- 551
Net lending to overseas sector [a] [b]	+ 536	+ 25	- 107	- 340	- 324	- 161	- 643	- 166	- 262	+ 8	- 580	-327	- 881
Non-deposit liabilities (net)[b]	- 70	- 333	- 205	- 317	+ 263	- 369	- 5	- 501	+ 6	- 658	+ 293	-230	- 397

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

[b] The adjustments mentioned in the notes to line 11 of Tables H and J are included with net lending to the overseas sector, rather than with non-deposit liabilities. The latter figures therefore differ from those in Table 12 / 3 of the annex.

Table G

Financial institutions other than banks

£ millions

Seasonally adjusted

	1972			1973				1974				1975	
	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	- 638	- 596	- 654	- 814	- 681	- 611	- 711	- 790	- 680	- 660	- 800	- 920	
Building society shares and deposits	- 596	- 465	- 524	- 475	- 804	- 511	- 370	- 217	- 455	- 633	- 684	-1,060	-1,090
Other deposits	- 49	- 102	- 63	- 167	+ 4	- 103	- 16	- 7	- 28	- 12	- 182	- 54	
Capital issues	- 230	- 78	- 32	- 46	- 4	- 4	- 7	- 6	- 8	- 18	- 61	- 55	- 175
Sales of unit trust units	- 54	- 60	- 64	- 58	- 49	- 33	- 16	- 12	- 8	- 21	- 19	- 30	- 31
Other borrowing[a]	- 379	- 185	- 226	- 241	- 116	- 189	- 288	- 138	- 268	- 381	+ 306	+ 276	
	-1,946	-1,486	-1,563	-1,801	-1,650	-1,451	-1,408	-1,170	-1,447	-1,725	-1,440	-1,843	
Increase in financial assets (+)													
Short-term assets[b]	+ 537	- 37	+ 319	+ 293	+ 432	+ 307	+ 243	+ 108	+ 190	+ 783	+ 997	- 850	
Government stocks	+ 66	+ 13	+ 99	+ 77	+ 283	+ 124	+ 206	+ 13	+ 376	+ 134	- 243	+1,174	
Company and overseas securities:													
Ordinary shares	+ 582	+ 466	+ 354	+ 127	+ 87	+ 80	+ 120	- 5	+ 48	- 140	- 227	+ 316	
Fixed-interest	+ 32	+ 49	+ 83	+ 34	+ 12	+ 20	+ 32	- 4	+ 29	+ 5	- 28	+ 38	
Loans for house purchase	+ 565	+ 629	+ 557	+ 661	+ 532	+ 542	+ 385	+ 347	+ 274	+ 446	+ 541	+ 554	
Long-term lending to local authorities	+ 15	+ 54	+ 8	+ 17	+ 29	+ 54	- 3	- 4	+ 48	+ 119	+ 170	+ 307	
Hire-purchase claims	+ 48	+ 26	+ 44	+ 75	+ 32	+ 36	+ 23	- 34	- 7	- 14	- 5	- 1	
Other lending	+ 37	+ 41	+ 82	+ 113	+ 118	+ 165	+ 154	+ 88	+ 63	+ 143	+ 199	+ 7	
	+1,882	+1,241	+1,546	+1,397	+1,525	+1,328	+1,160	+ 509	+1,021	+1,476	+1,404	+1,545	
Net identified financial transactions	- 64	- 245	- 17	- 404	- 125	- 123	- 248	- 661	- 426	- 249	- 36	- 298	

[a] Includes bank borrowing and official lending to building societies.

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

Table H

Flow of funds: first quarter 1975

£ 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	+ 717	+627	+2,969	+1,745		-426	
Taxes on capital and capital transfers	+ 60		- 90	+ 100		- 70	
<i>less:</i>							
Gross fixed-capital formation at home	-2,260		- 594	-1,567		-267	
Increase in value of stocks and work in progress	- 227		- 122	- 807		+ 7	
Financial surplus +/-deficit -	-1,710	+627	+2,163	- 529		-756	+205
Changes in financial assets and liabilities							
<i>Assets: increase +/decrease -</i>							
<i>Liabilities: increase -/decrease +</i>							
Government debt to Banking Department	+ 381				-381		
Life assurance and pension funds			+ 920			- 920	
Loans by the UK Government	- 74	- 49		- 87		+ 210	
Central government external transactions:							
Direct financing of currency flow	9.1 + 27	- 27					
Other	9.2 - 180	+180					
Banks' net external transactions	10	+254			-254		
Miscellaneous investment overseas (net)	11 + 30	-515		+ 644	- 67	- 92	
Notes and coin	12 + 129		+ 180	+ 183	-492		
Bank deposits of domestic sectors	13 + 30		- 62	+ 55	+639	- 662	
Deposits with other financial institutions	14	+ 22	+ 988	- 11		- 999	
National savings	15.1 - 121		+ 121				
Tax reserve certificates/tax deposit accounts	15.2 + 21		- 8	- 13			
Bank lending to domestic sectors:							
In foreign currency to central government	16.1 - 314				+314		
Other	16.2 + 45		+ 285	- 374	+ 37	+ 7	
Hire-purchase and other instalment debt	17 - 6		+ 48	- 45		+ 3	
Loans for house purchase	18 + 221		- 765		- 10	+ 554	
Other loans and accruals	19 + 144		+ 125	- 497	+201	+ 27	
Marketable government debt held by domestic sectors:							
Treasury bills	20 + 424			- 30	-338	- 56	
Stocks	21 -1,782		+ 485		+123	+1,174	
Local authority debt	22 - 378	- 24	+ 102	- 48	+281	+ 67	
UK company and overseas securities:							
Capital issues	23	+ 5		- 14		- 55	
Other transactions	24 + 185	+ 36	- 718	+ 99	+108	+ 354	
Unit trust units	25		+ 32			- 32	
Identified financial transactions	26	-1,218	-118	+1,733	- 138	+161	- 420
Unidentified	27	- 492	+745	+ 430	- 391	-497	+205
Total=Financial surplus +/-deficit -	28	-1,710	+627	+2,163	- 529	-756	+205

[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 1975

£ 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	+ 211	+342	+2,085	+2,024		+432	
Taxes on capital and capital transfers	2	+ 6		- 92	+ 103		- 17	
<i>less:</i>								
Gross fixed-capital formation at home	3			- 777	-2,476		-259	
Increase in value of stocks and work in progress	4							
Financial surplus +/-deficit -	5	-2,159	+342	+1,216	- 349		+156	+794
Changes in financial assets and liabilities								
<i>Assets: increase +/decrease -</i>								
<i>Liabilities: increase -/decrease +</i>								
Government debt to Banking Department	6	+ 297				-297		
Life assurance and pension funds	7			+ 920			- 920	
Loans by the UK Government	8	- 90	- 33		- 87		+ 210	
Central government external transactions	9	- 162	+162					
Banks' net external transactions	10		+356			-356		
Miscellaneous investment overseas (net)	11	+ 30	-508		+ 637	- 67	- 92	
Notes and coin	12	- 86		+ 100	+ 100	-114		
Bank deposits of domestic sectors	13	+ 30		+ 180	+ 471	-127	- 554	
Deposits with other financial institutions	14		+ 22	+1,067	+ 25		-1,114	
National savings	15.1	- 91		+ 91				
Tax reserve certificates/tax deposit accounts	15.2	+ 21		- 8	- 13			
Bank lending to domestic sectors	16	- 284		+ 156	- 379	+441	+ 66	
Hire-purchase and other instalment debt	17	- 6		- 15	+ 22		- 1	
Loans for house purchase	18	+ 221		- 765		- 10	+ 554	
Other loans and accruals	19	+ 209		+ 117	- 416	- 9	+ 99	
Marketable government debt held by domestic sectors:								
Treasury bills	20	- 160			- 30	+246	- 56	
Stocks	21	-1,782		+ 485		+123	+1,174	
Local authority debt	22	- 365	- 33	+ 102	- 64	+293	+ 67	
UK company and overseas securities:								
Capital issues	23		+ 5		- 14		- 55	
Other transactions	24	+ 185	+ 36	- 718	+ 99	+108	+ 354	
Unit trust units	25			+ 30			- 30	
Identified financial transactions	26	-2,033	+ 7	+1,742	+ 351	+231	- 298	
<i>Unidentified</i>	27	- 126	+335	- 526	- 700		+223	+794
Total=Financial surplus +/-deficit -	28	-2,159	+342	+1,216	- 349		+156	+794

[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*. 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, finance houses, savings banks' investment accounts, investment trust companies, authorised unit trusts, property unit trusts, special finance agencies, and Crown Agents for Overseas 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 [c] to Table 2 of the annex.

Line 7

The increase in persons' net claims on these funds.

Line 9.1

From the fourth quarter of 1974, the net financing of the 'total currency flow' in the balance of payments accounts differs from the entry here by the amount of central government foreign currency borrowing from UK banks, the latter being included in line 16.1.

Line 9.2

All the other central government 'external transactions' included in 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. Includes adjustments correcting the banks' external transactions for changes in foreign currency assets and liabilities arising from movements in exchange rates. The adjustments are entered here, rather than in line 10, so that the latter remains consistent with the relevant figures in Tables 11/3 and 12/3 of the annex.

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 16.1

See note to line 9.1.

Line 16.2

Other 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, car 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) adjustments are 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 1974.

[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).