# Financial review

*The first part of this review describes developments in various financial markets during August to October; the second part considers the flow of funds between sectors in the second and third quarters of 1975, and includes the regular flow of funds tables.*

**Financial markets**

The money market *Conditions were generally comfortable in August and September, but tighter in October; at most of the Treasury bill tenders, amounts on offer were very large; the tender rate and the Bank's minimum lending rate went up by 1% on 3rd October.*

Capital markets *In the gilt-edged market, yields were fairly steady at first but rose towards the end of September; sales of stock by the authorities were very heavy early in the third quarter; equity prices recovered, but the flow of new equity issues in the three months to end-October would have been much smaller than in the previous three months but for one large issue, mostly taken up by the Government.*

Foreign exchange and gold markets *Sterling's effective depreciation widened over the period while the dollar moved erratically; gold fell sharply in August and September but then recovered somewhat.*

Euro-currency markets *The London market continued to expand in the third quarter.*

Oil money movements *The oil-exporting countries had a smaller surplus in the third quarter; their sterling investments in the United Kingdom fell slightly.*

**Sector financing**

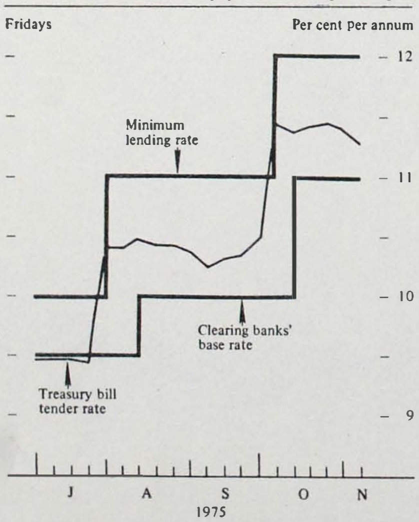
June quarter *Another large public sector deficit was broadly matched by a large personal sector surplus; the overseas surplus was relatively small.*

September quarter *Over half of the large central government borrowing requirement was financed by the banking system. Net receipts by building societies were again heavy.*

## Financial markets

**Short-term interest rates in London**

*Rates were raised sharply at the beginning of October.*




**The money market**

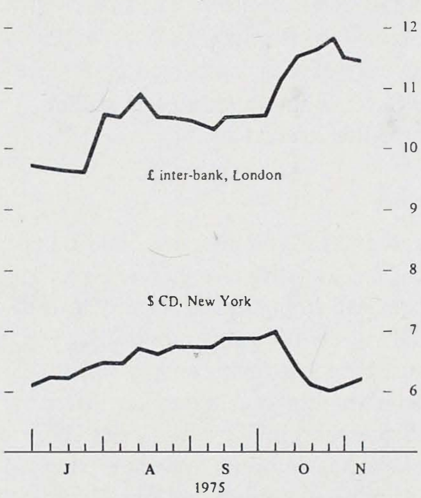
Conditions in the money market in August and September were generally comfortable, particularly in mid-August when 3% Savings Bonds 1965/75 was redeemed. But money was tighter in October because of larger tax payments and heavier official sales of gilt-edged stocks

Heavy government disbursements led to a series of very large issues at the weekly Treasury bill tenders throughout most of the period August to October. The average discount rate at the tender, which had risen to nearly 10½% on 25th July, began to fall towards the end of August; but on 8th September the Bank acted to reverse this trend by lending a small amount at minimum lending rate for seven days, and the average rate for Treasury bills began to rise again. On 3rd October it jumped to almost 11½%, and the Bank's minimum lending rate accordingly went up from 11% to 12%. The clearing banks raised their base rates from 10% to 11% early in the following week.

Throughout the period there was unusually strong demand for Treasury bills from outside the banking system: with the banks not

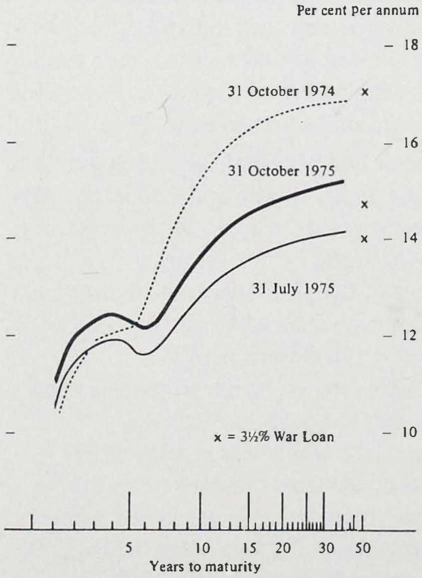
UK and US three-month interest rates

*There was a marked divergence between UK and US rates in October.*




Time/yield curves of British government stocks

*The yield curve was a little steeper at the end of October 1975 than at the end of 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.

competing vigorously for funds, and with the authorities exerting pressure to keep rates up, yields on Treasury bills were mostly above those on sterling certificates of deposit (see page 334).

## Capital markets

Turnover in the *gilt-edged market* was sharply reduced in August and September, when US short-term interest rates were edging upwards and there was concern over the weakness of sterling and the size of the public sector borrowing requirement. In October, however, turnover recovered strongly, particularly in short-dated stocks. Yields were fairly steady in the earlier part of the period, but began to rise towards the end of September.

Minimum lending rate had been raised by 1% to 11% on 25th July in response to a narrowing in the margin of UK over US short-term rates. But this development did not indicate any need for rates to rise at the longer end of the market, which remained firm; and a new long-dated stock was announced on 1st August – £600 million 12¾% Treasury Loan 1992, at £94·50 per cent. The market subsequently became unsettled, partly because of the further weakness of sterling. Nevertheless, when 3% Savings Bonds 1965/75 matured on 15th August, with £530 million [1] in market hands (of which some £300 million was presented for payment on maturity, and most of the remainder by the end of August), the proceeds were probably largely reinvested in short and medium-dated stocks. The two low-coupon stocks issued in June to replace 3% Savings Bonds 1965/75 – second tranches of 3% Treasury Stock 1977 and 3% Treasury Stock 1979 – were exhausted in August and September respectively. With a view to absorbing some of the excess liquidity in the financial sector, a third tranche of £400 million 9% Treasury Stock 1978 was announced on 19th September at £95·00 per cent. Shortly afterwards, sterling came under pressure, and both short and long-term rates began to rise. In contrast to July, the authorities considered a rise in rates was now justified on domestic, as well as external, grounds (see page 334), and they were content to see minimum lending rate raised to 12% on 3rd October. Demand for gilt-edged then revived strongly: the short tap stock, 9½% Treasury Stock 1980, was effectively exhausted on 10th October, and a new stock, £600 million 11½% Treasury Stock 1981 at £96·00 per cent, was announced on the same day; and substantial amounts of 12¾% Treasury Loan 1992 were sold around the middle of the month.

In the September quarter the authorities sold £810 million net of stock, or more than twice as much as in the previous quarter. Net sales of long-dated stocks, most of which were in July, amounted to a record £1,195 million, and the authorities also sold £510 million of stocks within one to five years of maturity, and £25 million in the five to fifteen-year category. Against these, the authorities bought £400 million of near-maturing stocks, and (as already noted) 3% Savings Bonds 1965/75 matured with £530 million in market hands, of which £10 million had still not been presented for payment by the end of the quarter.

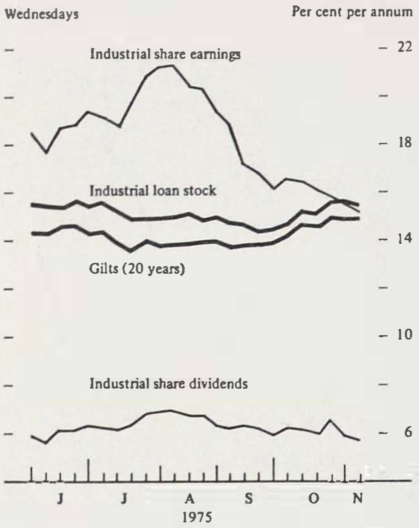
In the *equity market*, prices recovered during August to October, and the FT-Actuaries industrial (500) share price index rose from 127 at the end of July to 155 at the end of October. Turnover, which had declined steadily in the previous three months, continued to fall in August, but then revived strongly.

New equity capital raised by companies between August and October, at £460 million, nearly all in the form of rights issues, was almost exactly as large as in the previous three months, but this was mainly because of a very large issue of £214 million by British Leyland

[1] An unusually large amount because this stock, issued during the Second World War, was very widely held.

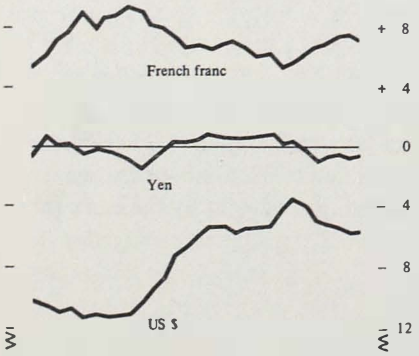
### Security yields

*Yields on long-dated gilt-edged and debentures rose in October; share earnings continued to decline.*




### Effective changes in exchange rates

*The US dollar was little changed on balance, but sterling's effective depreciation widened.*




in October. Excluding the latter, which was largely taken up by the Government, new issues in September and October were below the average of earlier months. The queue of prospective borrowers, at its longest in June, subsequently shortened considerably.

Net sales of unit trust units fell again to £40 million, compared with £49 million during May to July.

Turnover in the *debenture market* rose in the period August to October. Yields as measured by the Bank's index, which had fallen fairly steadily for several months, recovered strongly in October. Net new money raised by companies by way of loan capital and preference shares during the three months to October amounted to £55 million, predominantly in the form of convertible loan issues.

### Foreign exchange and gold markets

After a quiet spell in most of August and early September, conditions in the foreign exchange markets became as active as they had been before the holiday period. The dollar had strengthened steadily in June and July, but moved more erratically in the following months. Its improvement was checked in August by profit-taking and by some movement of accruing oil receipts into continental currencies. After strengthening appreciably in mid-September, in line with firmer US interest rates, the dollar again weakened as domestic interest rates eased back and as concern grew over the financial problems of New York City. Over the three months August to October, the dollar was slightly weaker on balance against the main continental currencies. *Sterling* weakened sharply in early August but then steadied until mid-September, before declining further. The pound's effective depreciation since the Smithsonian settlement had narrowed from 29% at the beginning of July to 26% at the end of that month, when sterling benefited temporarily from heavy demand for oil payments; but by the end of October the effective depreciation had reverted to 29%.

After the demand for oil payments had passed at the end of July, the pound came under renewed pressure and, with the dollar subsequently strengthening, the sterling rate soon eased from \$2·15 at the beginning of August to \$2·10, before steadying around this level until mid-September. The announcement of the poor July trade figures had little effect on the rate, and sentiment was helped by the decision of the Trades Union Congress to support the Government's anti-inflationary policy. From mid-September, however, sterling again lost ground as the dollar strengthened, although its effective depreciation against other currencies as a whole was initially little changed. After exaggerated reports of the Government's plans for selective action to alleviate unemployment, sterling weakened sharply, and by early October the rate against the dollar had fallen below \$2·03 while the pound's effective depreciation had widened to 29·7%. But after the increase in the Bank's minimum lending rate on 3rd October, and with the dollar rather weaker, sterling recovered to \$2·08 and an effective depreciation of 29% by the end of October.

The discount on three months' *forward sterling* narrowed by 1% in August to 3¼% per annum, reflecting a further substantial build-up of euro-sterling deposits: by early September, euro-sterling rates had reached parity with domestic sterling rates. The forward margin subsequently began to widen a little, partly in association with the weaker spot rate; and after the increase in minimum lending rate on 3rd October, it rose steadily to over 5¼% before closing the month at just below 5% per annum. The uncovered differential between three-month euro-dollars and inter-bank sterling narrowed in August and September as inter-bank sterling rates were little changed at around 10½% while corresponding euro-dollar rates strengthened in line with US domestic rates. But with euro-dollar rates easing back in October and inter-bank sterling rates rising, the uncovered differential widened to close the month at 4¾%, a rise of 1¼% over the three months.

Prices on the *London gold market* fell substantially during August and September, but then recovered somewhat. After opening the period at $167 per fine ounce, the price drifted gently downwards throughout August, partly reflecting the strength of the dollar. But when the IMF Interim Committee announced its agreement on gold at the end of August, the possibility of eventual large sales by the IMF in the free market led to nervous trading and a steep drop in the price, which fell by $10 in two days to below $150. A further bout of selling later in September, prompted partly by fears of sales by the USSR to finance imports of grain, lowered the price to $129, the lowest for over eighteen months. Thereafter, the price staged a partial but steady recovery to reach $143 at the end of October.

**Euro-currency markets**

In the second quarter the euro-currency market continued to expand. Figures published by the Bank for International Settlements[1] show that the euro-currency market rose by $8 billion (to $235 billion) measured by liabilities, and by $10 billion (to $233 billion) measured by assets. The corresponding increases in the previous quarter were $6 billion and $7 billion. However, the BIS consider that, if allowances are made for changes in currency valuation and the temporary building up of end-year and half-year positions, the market's growth probably slowed down a little in the second quarter. Unlike during the first quarter, most of the increase in activity was in US dollars.

Demand for credit came mainly from the other West European countries, from Eastern Europe, and from developing countries other than oil exporters, while the main supplier of funds to the eight reporting countries was the United States, where demand for credit was subdued. Part of the funds from the United States was placed direct with banks in the reporting countries, but most came via American banks in the Bahamas. Middle East countries on balance borrowed small amounts after having lent heavily for several quarters.

Only limited data are available for the third quarter and later, but there are signs that the market continued to grow. First, there was a rapid increase in the external foreign currency liabilities and assets of UK banks, which account for about 50% of the market as measured by the BIS. Secondly, newly-announced international medium-term credits (which will not enter the BIS figures until the loans are taken up) rose by $1·0 billion in the third quarter to $5·6 billion, the largest total since the June quarter of 1974. Most of the rise was accounted for by loans to several large oil-exporting countries and to other developing countries, particularly Latin America. The trend towards larger credits continued during the quarter, with several loans in the $250 million–$500 million range. There were also signs of a slight lengthening of loans to some borrowers within the five to seven-year range.

**Liabilities and claims by customer[a]**

*The euro-currency market in London grew rather more quickly in the third quarter.*

$ billions

| | 1974 | 1975 | | |
|---|---|---|---|---|
| | 31 Dec. | 27 Mar. | 30 June | 30 Sept. |
| Foreign currency liabilities of UK banks to: | | | | |
| Other UK banks | 40·0 | 41·7 | 41·7 | 43·3 |
| Other UK residents | 5·8 | 6·1 | 5·0 | 5·1 |
| Overseas central monetary institutions | 23·6 | 29·5 | 29·1 | 29·5 |
| Other banks overseas | 70·8 | 71·2 | 74·5 | 77·5 |
| Other non-residents | 18·3 | 16·9 | 16·4 | 16·6 |
| Other liabilities[b] | 1·5 | 1·3 | 1·4 | 1·1 |
| Total liabilities | 160·0 | 166·7 | 168·1 | 173·1 |
| Foreign currency assets of UK banks with: | | | | |
| Other UK banks[b] | 40·4 | 42·3 | 42·1 | 43·1 |
| Other UK residents | 14·9 | 15·9 | 16·3 | 16·0 |
| Banks overseas | 72·4 | 74·5 | 76·4 | 81·0 |
| Other non-residents | 30·4 | 32·4 | 31·5 | 31·7 |
| Other assets[b] | 2·6 | 2·6 | 2·3 | 1·9 |
| Total assets | 160·7 | 167·7 | 168·6 | 173·7 |

[a] Figures differ from those in Table 11; see additional notes to Tables 21 and 22.

[b] Mainly capital and other internal funds denominated in foreign currencies.

In the third quarter UK banks' gross foreign currency liabilities rose by $5 billion, compared with a rise of $1½ billion in the previous quarter (see table above). About 20% of the market's liabilities is in currencies other than the US dollar (mainly deutschemarks and Swiss francs); and if allowance is made for the depreciation of these currencies against the dollar during the quarter, the rise appears appreciably larger, at around $8½ billion. Most of the recorded increase in liabilities and claims was in deposits from, and lending to, other banks abroad; but inter-UK bank business also expanded over the quarter.

**Liabilities and claims by country or area**

*EEC countries supplied most of the new funds in the third quarter; net claims on off-shore banking countries rose sharply.*

$ billions

Net source of funds to London –/net use of London funds +

| | 1974 | 1975 | | |
|---|---|---|---|---|
| | 31 Dec. | 27 Mar. | 30 June | 30 Sept. |
| United States | + 2·9 | + 0·8 | – 0·5 | – 0·7 |
| Canada | – 2·2 | – 1·8 | – 1·6 | – 2·0 |
| European Economic Community | + 0·2 | + 0·6 | – 0·4 | – 3·0 |
| Other Western Europe | –14·2 | –14·8 | –14·3 | –13·9 |
| Eastern Europe | + 2·5 | + 3·5 | + 3·7 | + 3·9 |
| Japan | +10·6 | +12·3 | +12·4 | +12·9 |
| Oil-exporting countries[a] | –16·2 | –17·8 | –17·7 | –17·7 |
| Countries engaged in off-shore banking | + 5·5 | + 6·0 | + 3·8 | + 6·7 |
| Other countries | + 1·6 | + 1·4 | + 3·0 | + 2·8 |
| | – 9·3 | – 9·8 | –11·6 | –11·0 |

[a] Listed in footnote [a] to Table 20 of the statistical annex.

The EEC countries were the main source of new funds during the third quarter (see table). Net liabilities to oil-exporting countries were unchanged over the quarter as a whole. Among the main users of funds, net claims on off-shore banking countries (in particular the Bahamas) rose by $2·9 billion, partly reflecting the repayment of deposits

[1] Measured in terms of external foreign currency liabilities or assets of commercial banks in the eight European countries reporting to the BIS, viz., Belgium/Luxembourg, France, Western Germany, Italy, Netherlands, Sweden, Switzerland, and the United Kingdom.

## Maturity structure of net foreign currency position

*Banks' net short-term borrowing and net lending over 1 year each fell between May and August.*

$ billions

Net liabilities –/net assets +

| | 1975 | |
|---|---|---|
| | 21 May | 20 Aug. |
| Less than 8 days[a] | –11·0 | – 7·8 |
| | *– 7·4* | *– 4·4* |
| 8 days to less than 3 months | –10·8 | –11·6 |
| 3 months to less than 1 year | – 5·5 | – 7·4 |
| Net borrowing up to 1 year | –27·3 | –26·8 |
| Net lending at 1 year and over | +27·7 | +27·0 |
| | + 0·4 | + 0·2 |

[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.

## Foreign currency deposits as at 20 August 1975

*About half of total foreign currency deposits were held with only 21 banks.*

| Total foreign currency deposits per institution £ millions | Number of institutions in each category | Total deposits in each category £ millions | *Percentage of total deposits* |
|---|---|---|---|
| 1,000 and over | 21 | 38,820 | *49* |
| 500 to less than 1,000 | 23 | 16,195 | *20* |
| 250 „ „ „ 500 | 30 | 11,050 | *14* |
| 100 „ „ „ 250 | 53 | 8,565 | *11* |
| 50 „ „ „ 100 | 33 | 2,305 | *3* |
| 25 „ „ „ 50 | 40 | 1,425 | *2* |
| 10 „ „ „ 25 | 31 | 525 | *1* |
| 5 „ „ „ 10 | 22 | 165 | – |
| Less than 5 | 72 | 90 | – |
| | 325 | 79,140 | *100* |

## Estimated oil revenues of exporting countries

*In the third quarter oil exporters' revenues rose slightly.*

$ billions

| | 1974 | | 1975 | | | |
|---|---|---|---|---|---|---|
| | Year | 2nd half | 1st half | 1st qtr | 2nd qtr | 3rd qtr |
| US dollars | 75·5 | 48·1 | 44·6 | 21·9 | 22·7 | 23·6 |
| Sterling | 19·0 | 10·3 | 6·8 | 3·9 | 2·9 | 2·8 |
| | 94·5 | 58·4 | 51·4 | 25·8 | 25·6 | 26·4 |

channelled to London in the previous quarter by branches of US banks in the Bahamas.

The latest quarterly maturity analysis of the banks' foreign currency positions was completed as at 20th August (see Table 21 in the statistical annex), and showed that the trend towards longer-term deposits continued. Liabilities at less than eight days were some $2½ billion less than at mid-May and accounted for only 20% of the total – the lowest percentage for several quarters. Meanwhile, liabilities in the 3 months–1 year category rose by $3½ billion to 27% of the total outstanding. On the assets side, there was a rise in lending for up to 1 year, mainly in the 3 months–1 year category, while loans between 1–3 years also rose slightly. But longer-term lending declined by $1 billion.

With assets rising more than liabilities, the banks' net borrowing up to 1 year fell by $½ billion (see table above), partly reversing the increase in the previous three months. Within the total, a sharp fall of over $3 billion in net liabilities at less than 8 days was partly offset by a rise of nearly $2 billion in net liabilities between 3 months and 1 year. In contrast to recent quarters, net lending over 1 year also fell, by $¾ billion.

The table analyses the size of foreign currency deposits held with authorised banks and also with other institutions in the United Kingdom which have limited exchange control permission to take and on lend foreign currencies. The figures illustrate the dominant position of a small number of large banks in the London market: as at mid-August, almost half of total deposits were held with only 21 banks (out of a total of 325 banks and other institutions); and 83% of the total was held with 74 banks, of which 23 were American, 13 Japanese, 13 British, 6 consortium and 19 other foreign banks. On the other hand, as many as 125 institutions had foreign currency liabilities of less than £25 million each, accounting for only 1% of the total.

### Oil money movements

Oil revenues of the exporting countries[1] are estimated to have totalled $26·4 billion in the third quarter (see table). This is slightly higher than in each of the two preceding quarters, and may partly reflect restocking by the oil companies in anticipation of the price increase announced in September. Nevertheless, revenues were still well below the peak reached during the second half of 1974 when demand was stronger. The percentage paid in sterling during the third quarter was just over 10%.

In spite of the slight rise in oil revenues, the exporting countries' cash surplus available for investment abroad, government loans or additions to reserves in the third quarter is provisionally estimated at only $7·1 billion (see table on following page). This compares with a revised figure of $8·9 billion in the second quarter, and suggests that expenditure on imports increased still further. A particular feature in the deployment of the surplus was the sharp rise in the share taken by the United States, from an unusually low 7% in the first quarter to 15% in the second, and to over 30% in the third (compared with an average of 20% in 1974); this was no doubt associated with higher US interest rates and the improved outlook for the dollar at that time. On the other hand, revised figures for the second quarter show a much slower rate of growth in foreign currency deposits placed outside the UK and US markets; and the latest available information suggests that no additions were made to these deposits in the third quarter.

There was a further slight fall in sterling investments in the United Kingdom during the September quarter, reflecting the acceleration in imports by oil-exporting countries referred to above; but foreign currency deposits placed direct with UK banks rose slightly.

[1] As listed in footnote [a] to Table 20 of the statistical annex.

**Estimated deployment of oil exporters' surpluses**

*The surplus in the third quarter was the lowest since the first quarter of 1974.*

$ billions

| | 1974 | | 1975 | | | |
|---|---|---|---|---|---|---|
| | Year | 2nd half | 1st half | 1st qtr | 2nd qtr | 3rd qtr (provisional) |
| **United Kingdom** | | | | | | |
| British government stocks | 0·9 | 0·4 | 0·3 | 0·2 | 0·1 | – |
| Treasury bills | 2·7 | 1·6 | 0·2 | 0·5 | –0·3 | –0·9 |
| Sterling deposits | 1·7 | 1·1 | –0·1 | 0·1 | –0·2 | 0·3 |
| Other sterling investments[a] | 0·7 | 0·4 | 0·1 | – | 0·1 | 0·1 |
| Foreign currency deposits | 13·8 | 6·8 | 2·1 | 1·8 | 0·3 | 0·1 |
| Other foreign currency lending | 1·2 | 0·7 | 0·2 | – | 0·2 | – |
| | 21·0 | 11·0 | 2·8 | 2·6 | 0·2 | –0·4 |
| **United States** | | | | | | |
| Government and agency securities | 6·0 | 4·1 | 1·7 | 0·8 | 0·9 | 1·7 |
| Bank deposits | 4·0 | 2·6 | –0·7 | –0·5 | –0·2 | – |
| Other[a] | 1·0 | 0·9 | 0·9 | 0·3 | 0·6 | 0·6 |
| | 11·0 | 7·6 | 1·9 | 0·6 | 1·3 | 2·3 |
| **Other countries** | | | | | | |
| Foreign currency deposits | 9·0 | 4·0 | 4·0 | 2·5 | 1·5 | – |
| Special bilateral facilities and other investments[a] [b] | 11·9 | 8·3 | 6·9 | 1·6 | 5·3 | 3·8 |
| | 20·9 | 12·3 | 10·9 | 4·1 | 6·8 | 3·8 |
| **International organisations** | 3·5 | 3·0 | 2·1 | 1·5 | 0·6 | 1·4 |
| Total | 56·4 | 33·9 | 17·7 | 8·8 | 8·9 | 7·1 |

[a] Includes holdings of equities and property etc.
[b] Includes loans to developed and developing countries.

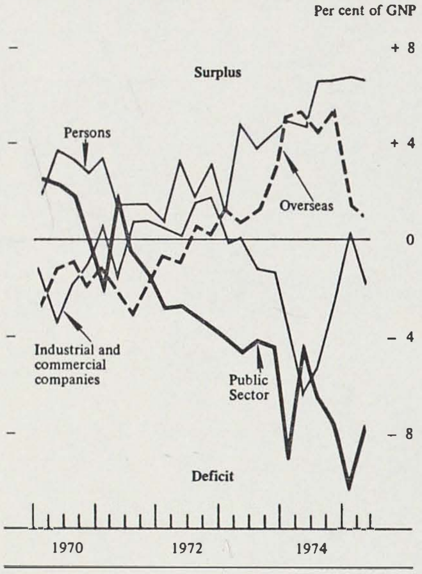
Special bilateral facilities, loans to developed and developing countries, and other investments outside the United Kingdom and the United States were less than in the second quarter, but still accounted for more than half of the total surplus. A rise in loans to international organisations mainly reflected heavier drawings on the IMF oil facility financed by oil exporters.

## Sector financing

*The following sections discuss the main features of financial flows in the second and third quarters, and should be read in conjunction with the tables at the end. Seasonally-adjusted figures are used unless otherwise stated.*

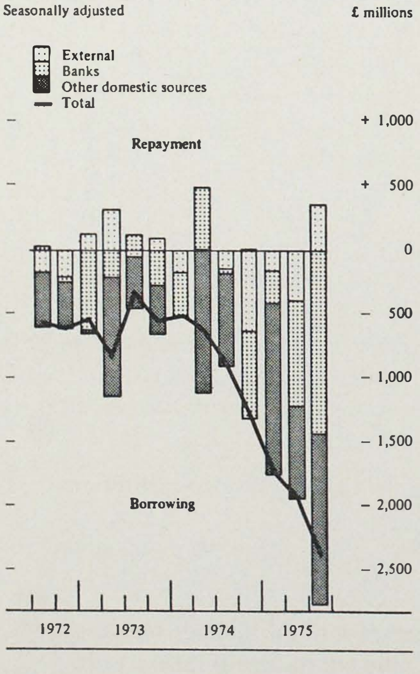
### Sector surpluses and deficits

*In the June quarter another large public sector deficit was broadly matched by a large personal sector surplus.*




### Finance of the central government borrowing requirement (–)

*In the third quarter more than half of the central government's borrowing requirement was financed by the banks.*




### Financial positions in the second quarter

There was again a large public sector deficit, with its counterpart in a large private sector surplus. The overseas surplus (mirroring the balance of payments current account deficit) was relatively small. However, these estimates are particularly uncertain because the residual error, at £430 million, is rather larger than usual.

### Public sector

As the figures stand, the public sector deficit fell in the second quarter, but this was not reflected in the borrowing requirement, which rose over the quarter. However, the deficit may prove to have been understated. Meanwhile, the discrepancy is largely reflected in an unidentified acquisition of assets by the public sector.

Of the borrowing requirement of £2,700 million, roughly a quarter (£670 million) was met by external finance: the reserves fell by £420 million, and borrowing abroad by the public sector amounted to £250 million. A further third of the borrowing requirement was financed by the purchase of various forms of public sector debt by the private sector other than banks. This left a very large balance to be financed by the banking system.

In the third quarter the central government borrowing requirement amounted to some £2,500 million. In recent quarters the net effect of external transactions has been to provide the Government with sterling finance, but in the September quarter external transactions added some £400 million to the Government's domestic borrowing requirement: although the reserves again fell (thus providing the Government with sterling), there was a much larger fall in central government debt held abroad. The private sector (other than banks) bought £700 million of gilt-edged stocks and an unusually large £400 million of Treasury bills, while notes and coin in circulation rose by nearly £200 million. This still left the Government with as much as £1,500 million to borrow from the banking system, of which £230 million was provided by purchases of gilt-edged and the remainder in the form of Treasury bills.

### Personal sector

The personal sector's surplus remained very large in the second quarter. On present figuring, saving as a percentage of personal disposable income fell from 14·2% in the first quarter to 13·4% in the second. This fall may be partly explained by heavy purchases of consumer goods in anticipation of the rise in value added tax announced in the April Budget; but it may also perhaps reflect attempts to maintain consumption in general despite a fall of 2·8% in real personal disposable income between the two quarters (prices rose faster than earnings in the second quarter, partly on account of the Budget measures). Following the introduction of the Government's counter-inflationary policy, real personal disposable income has probably continued to fall.

The most striking feature in Table D is the apparently very large fall in persons' bank deposits in the second quarter: a fall of this size is quite unprecedented, and despite the heavy purchases of durable goods mentioned above, and the relative attractiveness of building society deposits, the recorded fall is unlikely to be an accurate reflection of the sector's transactions. It may, in fact, partly reflect a once-for-all sectoral reclassification of bank deposits (from persons to companies) resulting from the introduction of new reporting returns in May.[1] The figures for bank advances to the personal sector may have been similarly affected; but these are much smaller than deposits, and the overall effect of such a reclassification would probably be to underrecord persons' net assets, and correspondingly to understate the company sector's net liabilities. This view is supported by the unidentified item: this is normally negative, but there was a very large positive figure in the June quarter, implying that assets were understated.

If this assumption is correct, there will again have been a large acquisition of liquid assets by the personal sector, thus continuing the pattern of recent quarters. Although large, these acquisitions have not been large enough to maintain the ratio of persons' holdings of liquid assets[2] to disposable income: after remaining stable for some years, the ratio began to decline sharply in the second quarter of 1974 and has continued to do so. This is true both for gross liquid assets and, to a smaller extent, for liquid assets net of borrowing.

**Capital account of industrial and commercial companies**

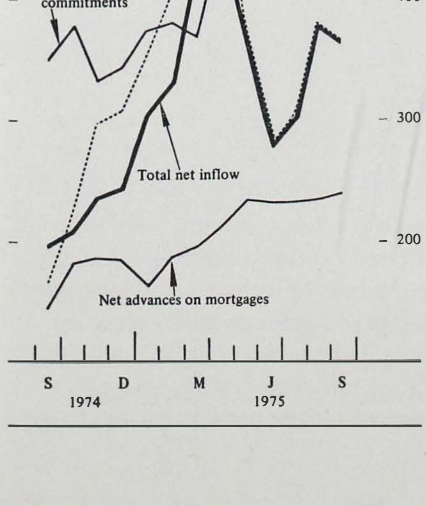
*On very provisional figures, companies moved back into deficit in the second quarter.*

£ millions: *seasonally adjusted*

| | 1974 | | | 1975 | |
|---|---|---|---|---|---|
| | 2nd qtr | 3rd qtr | 4th qtr | 1st qtr | 2nd qtr |
| Saving[a] | 700 | 1,100 | 1,050 | 950 | 690 |
| Capital transfers | 90 | 80 | 80 | 100 | 80 |
| *less:* | | | | | |
| Gross domestic capital formation[a] | −1,920 | −2,210 | −1,680 | − 990 | −1,180 |
| Financial deficit (−) | −1,130 | −1,030 | − 550 | + 60 | − 410 |
| [a] Excluding stock appreciation of: | 1,330 | 850 | 960 | 1,310 | 1,010 |

**Building society funds**

*There was another large net inflow in the third quarter; new commitments rose sharply.*




### Industrial and commercial companies

Revisions to the figures for saving (upward) and for capital formation (downward) now show industrial and commercial companies to have been in small surplus in the first quarter, confirming the suggestion made in the September *Bulletin* that their deficit was then overstated.

In the second quarter, however, these companies apparently moved back into deficit although, as mentioned earlier, the large residual error makes the figures highly suspect. Saving fell and gross domestic capital formation (after allowing for stock appreciation) rose slightly. With long-term investment abroad also rising, the total requiring financing was over twice as large (£1,210 million) as in the first quarter.

Over and above this, companies apparently built up their liquid assets by £420 million[3] and repaid miscellaneous borrowing of £260 million. There was also some short-term investment abroad. In total, therefore, companies apparently borrowed about £2,200 million. However, only a little over a third of this is identifiable: £340 million from the capital market, and £400 million from banks.[3] A large part of the unidentified balance was no doubt the corollary to the very large unidentified acquisition of assets by the personal sector mentioned above. Part of the remainder may reflect a stricter attitude on the part of companies towards granting trade credit.

### Other financial institutions

As always, there were large inflows into these institutions. Apart from the secular increase in life assurance and pension funds, there was another heavy inflow into the building societies. The building societies repaid almost the whole of their outstanding loans from the central government; and their lending for house purchase rose sharply, after remaining subdued for two years.

After a large take-up of gilts in the first quarter, the institutions showed a preference for equities in the second quarter. They also rebuilt their bank deposits by £350 million, and bought £90 million of short-term, and £390 million of long-term local authority debt.

There was another very large inflow into the building societies in the third quarter, and their liquidity ratio was as high as 20% in both August and September. New commitments rose sharply, to £510 million, in September.

[1] In the new returns the personal sector is defined precisely, whereas previously it formed the residual category.

[2] Notes and coin+bank deposits+building society deposits+finance house deposits+national savings+tax reserve certificates+local authority temporary debt.

[3] The figure is less reliable than usual: see previous section.

## Banking sector

The introduction of new reporting forms for banks earlier this year has made it possible to estimate more accurately the extent to which monthly and quarterly changes in the sterling value of the banking sector's foreign currency assets and liabilities reflect movements in exchange rates, as distinct from transactions in foreign currencies undertaken during the period. This has made it possible to improve some of the banking statistics published in this *Bulletin*. The foreign currency element of all banking sector figures which aim to measure transactions, or flows, is now adjusted to remove as far as possible any changes in valuation. This applies to Table 11 / 3 in the statistical annex and to the sector figures at the end of this review (but not to Table 8, which relates solely to amounts outstanding). Although the new returns were not introduced until May, an attempt has been made to adjust the figures for the second quarter, because of the large movements in exchange rates between sterling and other currencies in that period. The monthly series of banking sector transactions in Table 11 / 3 has been similarly amended back to mid-March.

From the same date, changes in the sterling value of UK residents' foreign currency deposits (the only foreign currency component in the money stock) which reflect exchange rate movements are separately identified in Table 12 / 2 of the statistical annex. If such changes are excluded from the total change in $M_3$ during any period, it is possible to obtain the total value of transactions in the various components which make up $M_3$. For some purposes this may be a more relevant measure of the change in the money stock (e.g. for linking up with flow of funds statistics) than the change in the sterling value outstanding.

The figures shown for the various 'influences' on the money stock in Table 12 / 3 represent flows, or transactions, rather than changes in amounts outstanding and have also been adjusted, where appropriate, to remove the effects of exchange rate movements. The effect on $M_3$ itself is included under the heading 'other' so that the sum of 'influences', or counterparts, equals the total change in the sterling value of $M_3$. The measurement of domestic credit expansion is also improved by these adjustments. DCE is essentially a 'flow' concept and can perhaps best be described as a measure of the main domestic influences on $M_3$. In statistical terms, it is equal, apart from two special adjustments,[1] to the sum of that part of the public sector borrowing requirement not met by purchases of public sector debt by the private sector (other than banks), and the increase in bank lending to the private sector.

After rising relatively little over the previous six months, total bank deposits (adjusted as described above) rose by £1,300 million during the third quarter. With building societies continuing to attract a large net inflow of funds, the personal sector's deposits rose by only £370 million, but industrial and commercial companies added no less than £870 million to their deposits. At the same time, the private sector's demand for bank credit remained weak during the quarter, and there was a small net repayment of bank borrowing. Bank lending to the public sector was therefore very large.

[1] The deduction of foreign currency lending by banks to the private sector for overseas investment and the addition of bank lending to overseas residents in sterling.

# 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 3rd qtr | + 484 | +5,565 | − 2,968 | −2,375 | + 706 | −1,175 | +22 | − 447 |
| 4th „ | + 506 | +5,843 | − 3,098 | −2,566 | + 685 | −1,227 | +14 | − 528 |
| 1973 1st qtr | + 533 | +6,038 | − 3,186 | −2,582 | + 803 | −1,424 | −23 | − 644 |
| 2nd „ | + 535 | +6,103 | − 3,265 | −2,739 | + 634 | −1,355 | −11 | − 732 |
| 3rd „ | + 543 | +6,461 | − 3,387 | −2,829 | + 788 | −1,472 | + 7 | − 677 |
| 4th „ | + 584 | +6,745 | − 3,502 | −3,085 | + 742 | −1,517 | +16 | − 759 |
| 1974 1st qtr | + 569 | +6,756 | − 3,747 | −3,406 | + 172 | −1,728 | +11 | −1,545 |
| 2nd „ | + 655 | +7,532 | − 3,909 | −3,344 | + 934 | −1,655 | −34 | − 755 |
| 3rd „ | + 662 | +8,203 | − 4,304 | −3,948 | + 613 | −1,843 | −34 | −1,264 |
| 4th „ | + 659 | +8,755 | − 4,681 | −4,149 | + 584 | −2,091 | − 8 | −1,515 |
| 1975 1st qtr | + 716 | +8,957 | − 5,253 | −4,297 | + 123 | −2,385 | + 5 | −2,257 |
| 2nd „ | + 641 | +9,876 | − 5,376 | −4,596 | + 545 | −2,259 | −15 | −1,729 |
| **Overseas sector**[f] | | | | | | | | |
| 1972 3rd qtr | | | | | + 90 | | | + 90 |
| 4th „ | | | | | + 10 | | | + 10 |
| 1973 1st qtr | | | | | + 150 | | +38 | + 188 |
| 2nd „ | | | | | + 78 | | +19 | + 97 |
| 3rd „ | | | | | + 198 | | + 1 | + 199 |
| 4th „ | | | | | + 409 | | + 1 | + 410 |
| 1974 1st qtr | | | | | + 849 | | − | + 849 |
| 2nd „ | | | | | + 918 | | +29 | + 947 |
| 3rd „ | | | | | + 829 | | +40 | + 869 |
| 4th „ | | | | | +1,072 | | + 6 | +1,078 |
| 1975 1st qtr | | | | | + 316 | | − | + 316 |
| 2nd „ | | | | | + 235 | | − | + 235 |
| **Personal sector** | | | | | | | | |
| 1972 3rd qtr | + 9,485 | +4,110 | −10,085 | −2,480 | +1,030 | − 694 | −88 | + 248 |
| 4th „ | + 9,881 | +4,417 | −10,408 | −2,597 | +1,293 | − 753 | −84 | + 456 |
| 1973 1st qtr | +10,276 | +4,606 | −10,985 | −2,820 | +1,077 | − 844 | −93 | + 140 |
| 2nd „ | +10,633 | +4,892 | −11,026 | −2,933 | +1,566 | − 752 | −68 | + 746 |
| 3rd „ | +10,945 | +4,943 | −11,413 | −2,974 | +1,501 | − 801 | −84 | + 616 |
| 4th „ | +11,307 | +5,118 | −11,717 | −3,125 | +1,583 | − 776 | −74 | + 733 |
| 1974 1st qtr | +11,602 | +5,439 | −12,058 | −3,322 | +1,661 | − 754 | −88 | + 819 |
| 2nd „ | +12,331 | +5,496 | −12,566 | −3,626 | +1,635 | − 754 | −64 | + 817 |
| 3rd „ | +13,489 | +5,915 | −13,233 | −4,116 | +2,055 | − 710 | −65 | +1,280 |
| 4th „ | +14,579 | +5,990 | −13,813 | −4,576 | +2,180 | − 788 | −61 | +1,331 |
| 1975 1st qtr | +15,784 | +6,057 | −14,545 | −4,896 | +2,400 | − 843 | −92 | +1,465 |
| 2nd „ | +16,270 | +6,684 | −15,475 | −5,081 | +2,398 | − 876 | −50 | +1,472 |
| **Company sector**[g] | | | | | | | | |
| 1972 3rd qtr | + 1,791 | +1,540 | | −1,840 | +1,491 | −1,389 | +66 | + 168 |
| 4th „ | + 1,944 | +1,637 | | −1,890 | +1,691 | −1,548 | +70 | + 213 |
| 1973 1st qtr | + 2,109 | +1,892 | | −2,184 | +1,817 | −1,968 | +78 | − 73 |
| 2nd „ | + 2,110 | +2,094 | | −2,339 | +1,865 | −2,014 | +60 | − 89 |
| 3rd „ | + 2,205 | +2,241 | | −2,376 | +2,070 | −2,406 | +76 | − 260 |
| 4th „ | + 2,290 | +2,758 | | −2,698 | +2,350 | −2,670 | +57 | − 263 |
| 1974 1st qtr | + 2,481 | +2,952 | | −3,016 | +2,417 | −3,150 | +77 | − 656 |
| 2nd „ | + 2,440 | +3,047 | | −3,273 | +2,214 | −3,526 | +69 | −1,243 |
| 3rd „ | + 2,443 | +2,961 | | −3,229 | +2.175 | −3,354 | +59 | −1,120 |
| 4th „ | + 2,342 | +3,035 | | −3,128 | +2,249 | −2,940 | +63 | − 628 |
| 1975 1st qtr | + 2,662 | +2,979 | | −3,018 | +2,623 | −2,574 | +87 | + 136 |
| 2nd „ | + 2,288 | +3,000 | | −3,245 | +2,043 | −2,515 | +65 | − 407 |

− 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 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | +1,175 | +1,227 | +1,424 | +1,355 | +1,472 | +1,517 | +1,728 | +1,655 | +1,843 | +2,091 | +2,385 | +2,259 | |
| *less* Saving | – 706 | – 685 | – 803 | – 634 | – 788 | – 742 | – 172 | – 934 | – 613 | – 584 | – 123 | – 545 | |
| *less* Capital transfers (net) | – 22 | – 14 | + 23 | + 11 | – 7 | – 16 | – 11 | + 34 | + 34 | + 8 | – 5 | + 15 | |
| *equals* Financial surplus –/deficit + | + 447 | + 528 | + 644 | + 732 | + 677 | + 759 | +1,545 | + 755 | +1,264 | +1,515 | +2,257 | +1,729 | |
| Lending and other transactions (increase in assets +)[a] | + 159 | + 280 | + 209 | + 399 | + 433 | + 406 | + 100 | + 543 | + 476 | + 114 | + 432 | + 449 | |
| Unidentified | + 22 | – 26 | – 184 | – 79 | + 116 | + 106 | – 581 | + 124 | – 58 | + 527 | – 326 | + 545 | |
| Borrowing requirement (increase +) | + 628 | + 782 | + 669 | +1,052 | +1,226 | +1,271 | +1,064 | +1,422 | +1,682 | +2,156 | +2,363 | +2,723 | |
| *Financed by (borrowing –):*† | | | | | | | | | | | | | |
| *Central government:* | | | | | | | | | | | | | |
| *External transactions* | *– 184* | *– 221* | *+ 136* | *+ 341* | *– 55* | *+ 106* | *– 191* | *+ 9* | *– 151* | *– 672* | *– 169* | *– 390* | *+ 396* |
| *Notes and coin with the public* | *– 93* | *– 123* | *– 152* | *– 117* | *+ 7* | *– 209* | *– 76* | *– 125* | *– 255* | *– 253* | *– 200* | *– 80* | *– 185* |
| *Bank borrowing* | *+ 31* | *– 42* | *– 667* | *– 220* | *+ 128* | *– 294* | *– 352* | *+ 521* | *– 42* | *– 726* | *– 263* | *– 872* | *–1,626* |
| *Other domestic transactions* [b] [c] | *– 362* | *– 252* | *+ 123* | *– 879* | *– 438* | *– 193* | *+ 75* | *–1,056* | *– 508* | *+ 259* | *–1,217* | *– 746* | *–1,100* |
| | *– 608* | *– 638* | *– 560* | *– 875* | *– 358* | *– 590* | *– 544* | *– 651* | *– 956* | *–1,392* | *–1,849* | *–2,088* | *–2,515* |
| *Local authorities:* | | | | | | | | | | | | | |
| *External finance* | *– 61* | *– 50* | *– 68* | *– 28* | *– 97* | *– 125* | *+ 10* | *+ 23* | *– 38* | *+ 81* | *+ 31* | *– 69* | *+ 1* |
| *Bank borrowing* | *– 40* | *+ 4* | *+ 69* | *+ 63* | *– 51* | *– 102* | *+ 231* | *+ 23* | *+ 108* | *– 187* | *– 293* | *– 263* | *– 126* |
| *Other domestic borrowing* | *– 46* | *– 102* | *– 209* | *– 401* | *– 161* | *– 235* | *– 667* | *– 725* | *– 504* | *– 430* | *– 244* | *– 186* | |
| | *– 147* | *– 148* | *– 208* | *– 366* | *– 309* | *– 462* | *– 426* | *– 679* | *– 434* | *– 536* | *– 506* | *– 518* | |
| *Public corporations:* | | | | | | | | | | | | | |
| *External finance* | *+ 10* | *+ 1* | *– 27* | *– 11* | *+ 22* | *– 88* | *– 9* | *– 226* | *– 152* | *– 174* | *– 73* | *– 177* | *– 59* |
| *Domestic borrowing* [c] | *+ 117* | *+ 3* | *+ 126* | *+ 200* | *– 581* | *– 131* | *– 85* | *+ 134* | *– 140* | *– 54* | *+ 65* | *+ 60* | |
| | *+ 127* | *+ 4* | *+ 99* | *+ 189* | *– 559* | *– 219* | *– 94* | *– 92* | *– 292* | *– 228* | *– 8* | *– 117* | |
| Total net borrowing | – 628 | – 782 | – 669 | –1,052 | –1,226 | –1,271 | –1,064 | –1,422 | –1,682 | –2,156 | –2,363 | –2,723 | |
| †Including borrowing in foreign currencies: | | | | | | | | | | | | | |
| Central government: | | | | | | | | | | | | | |
| From UK banks | | | | | | | | | | + 506 | + 314 | – | – |
| Direct from overseas | | | | | | | | | | + 138 | + 109 | – | – |
| Local authorities: | | | | | | | | | | | | | |
| From UK banks | – | + 1 | + 20 | + 57 | + 5 | + 6 | + 97 | + 170 | + 1 | + 2 | – 7 | – 11 | – |
| Direct from overseas | – | – | + 10 | + 38 | + 25 | + 62 | + 34 | + 18 | – 1 | + 2 | + 7 | + 11 | – 5 |
| Public corporations: | | | | | | | | | | | | | |
| From UK banks | – 5 | + 4 | + 19 | + 183 | + 342 | + 201 | + 180 | + 93 | + 52 | – | – | – 1 | – |
| Direct from overseas | – | – | + 50 | + 10 | – 9 | + 86 | + 28 | + 219 | + 163 | + 185 | + 69 | + 165 | + 52 |

– 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] Mainly borrowing; net central government purchases of local authority debt and commercial bills, which are classified as financing the borrowing requirement, have been deducted.

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

## Table C

### Overseas sector [a]

£ millions

*Seasonally adjusted*

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

| | 1972 | | 1973 | | | | 1974 | | | | 1975 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 –** | + 90 | + 10 | +188 | + 97 | +199 | +410 | +849 | +947 | +869 | +1,078 | +316 | +235 | |
| **Transactions with the UK private sector** | | | | | | | | | | | | | |
| Investment flows: | | | | | | | | | | | | | |
| Transactions in company and overseas securities | – 68 | – 88 | + 81 | + 90 | + 24 | +121 | +200 | +107 | +255 | + 478 | + 65 | – 69 | |
| Miscellaneous private investment | – 10 | – 88 | – 91 | – 75 | – 83 | –319 | +327 | +174 | +110 | – 642 | –315 | –635 | |
| Other transactions: | | | | | | | | | | | | | |
| Net external transactions by UK banks [b] | – 2 | + 48 | +423 | +319 | +153 | +665 | +196 | +311 | – 39 | + 542 | +424 | +969 | – 61 |
| Other identified | – 57 | +300 | –128 | + 36 | –130 | + 66 | + 82 | +260 | – 52 | + 42 | + 11 | –423 | |
| Balancing item | + 56 | –350 | + 55 | +106 | +177 | –140 | – 33 | + 41 | +404 | + 50 | + 35 | – 67 | |
| | – 81 | –178 | +340 | +476 | +141 | +393 | +772 | +893 | +678 | + 470 | +220 | –225 | |
| **Transactions with the UK public sector** | | | | | | | | | | | | | |
| Lending etc. [c] | – 64 | – 82 | –111 | – 77 | – 72 | – 90 | –113 | –140 | –150 | – 157 | –115 | –176 | |
| External finance: [d] | | | | | | | | | | | | | |
| Central government | +184 | +221 | –136 | –341 | + 55 | –106 | +191 | – 9 | +151 | + 672 | +169 | +390 | –396 |
| Local authorities | + 61 | + 50 | + 68 | + 28 | + 97 | +125 | – 10 | – 23 | + 38 | – 81 | – 31 | + 69 | – 1 |
| Public corporations | – 10 | – 1 | + 27 | + 11 | – 22 | + 88 | + 9 | +226 | +152 | + 174 | + 73 | +177 | + 59 |
| | +171 | +188 | –152 | –379 | + 58 | + 17 | + 77 | + 54 | +191 | + 608 | + 96 | +460 | |

[a] It has not been possible to include in this table the balance of payments estimates for the 3rd quarter of 1975, and revisions to previous quarters, which were released in December.

[b] Other than net purchases of securities.

[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 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | +1,030 | +1,293 | +1,077 | +1,566 | +1,501 | +1,583 | +1,661 | +1,635 | +2,055 | +2,180 | +2,400 | +2,398 | |
| Capital transfers (net) | − 88 | − 84 | − 93 | − 68 | − 84 | − 74 | − 88 | − 64 | − 65 | − 61 | − 92 | − 50 | |
| Capital expenditure | − 694 | − 753 | − 844 | − 752 | − 801 | − 776 | − 754 | − 754 | − 710 | − 788 | − 843 | − 876 | |
| Financial surplus +/deficit − | + 248 | + 456 | + 140 | + 746 | + 616 | + 733 | + 819 | + 817 | +1,280 | +1,331 | +1,465 | +1,472 | |
| **Borrowing (−)** | | | | | | | | | | | | | |
| For house purchase | − 777 | − 721 | − 807 | − 710 | − 747 | − 539 | − 483 | − 433 | − 635 | − 748 | − 771 | − 953 | |
| Bank borrowing[a] | − 222 | − 675 | − 490 | − 252 | − 316 | + 31 | − 76 | − 40 | + 123 | − 31 | + 156 | + 142 | + 273 |
| Hire-purchase debt | − 58 | − 50 | − 88 | − 38 | − 25 | − 32 | + 38 | + 12 | + 13 | + 3 | − 15 | − 47 | |
| Other[b] | − 55 | − 32 | − 83 | − 100 | − 27 | − 61 | + 33 | − 169 | − 59 | − 42 | + 122 | − 65 | |
| | −1,112 | −1,478 | −1,468 | −1,100 | −1,115 | − 601 | − 488 | − 630 | − 558 | − 818 | − 508 | − 923 | |
| **Acquisition of financial assets (+)** | | | | | | | | | | | | | |
| Life assurance and pension funds | + 630 | + 673 | + 842 | + 720 | + 660 | + 735 | + 846 | + 695 | + 716 | + 858 | + 920 | +1,050 | |
| Government stocks | + 57 | + 47 | + 120 | + 222 | + 190 | + 239 | + 193 | + 287 | + 212 | − 159 | + 507 | + 46 | |
| Company and overseas securities | − 400 | − 369 | − 511 | − 339 | − 666 | − 672 | − 576 | − 383 | − 273 | − 92 | − 754 | − 383 | |
| Unit trust units | + 60 | + 64 | + 57 | + 47 | + 31 | + 15 | − 1 | − 2 | + 7 | + 8 | + 30 | + 34 | + 18 |
| Bank deposits, notes and coin | + 476 | + 542 | + 605 | + 904 | + 992 | +1,115 | + 995 | + 781 | + 717 | + 834 | + 280 | − 547 | + 464 |
| Building society shares and deposits | + 465 | + 524 | + 480 | + 787 | + 536 | + 385 | + 228 | + 455 | + 633 | + 684 | +1,060 | +1,079 | +1,043 |
| National savings | + 88 | + 88 | + 75 | + 63 | + 45 | − 39 | − 38 | − 26 | + 12 | + 61 | + 91 | + 75 | + 126 |
| Local authority debt | − 45 | + 48 | + 62 | + 5 | + 137 | + 145 | + 404 | + 331 | + 44 | − 51 | + 80 | − 240 | |
| Other | + 79 | + 66 | + 67 | − 18 | + 21 | + 13 | − 52 | − 15 | − 21 | + 72 | − 1 | + 175 | |
| | +1,410 | +1,683 | +1,797 | +2,391 | +1,946 | +1,936 | +1,999 | +2,123 | +2,047 | +2,215 | +2,213 | +1,289 | |
| Identified financial transactions | + 298 | + 205 | + 329 | +1,291 | + 831 | +1,335 | +1,511 | +1,493 | +1,489 | +1,397 | +1,705 | + 366 | |
| *Unidentified* | *− 50* | *+ 251* | *− 189* | *− 545* | *− 215* | *− 602* | *− 692* | *− 676* | *− 209* | *− 66* | *− 240* | *+1,106* | |

[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 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | +1,187 | +1,376 | +1,768 | +1,777 | +2,118 | +2,375 | +2,868 | +3,252 | +3,055 | +2,638 | +2,304 | +2,196 | |
| *less* Saving | −1,320 | −1,543 | −1,665 | −1,702 | −1,834 | −2,072 | −2,234 | −2,027 | −1,950 | −2,009 | −2,255 | −1,699 | |
| *less* Capital transfers (net) | − 81 | − 85 | − 97 | − 79 | − 95 | − 76 | − 93 | − 85 | − 76 | − 80 | − 104 | − 82 | |
| *equals* Financial surplus −/deficit + | − 214 | − 252 | + 6 | − 4 | + 189 | + 227 | + 541 | +1,140 | +1,029 | + 549 | − 55 | + 415 | |
| Trade investments, mergers, etc. in the United Kingdom | + 186 | + 243 | + 215 | + 183 | + 298 | + 237 | + 231 | + 121 | + 97 | + 85 | + 92 | + 97 | |
| Long-term investment abroad | + 199 | + 248 | + 416 | + 493 | + 446 | + 808 | + 472 | + 237 | + 406 | + 733 | + 567 | + 699 | |
| **Total requiring financing (+)** | + 171 | + 239 | + 637 | + 672 | + 933 | +1,272 | +1,244 | +1,498 | +1,532 | +1,367 | + 604 | +1,211 | |
| Capital issues (including euro-currency issues) | − 214 | − 179 | − 111 | − 101 | − 29 | − 30 | + 7 | − 3 | − 13 | + 10 | − 5 | − 336 | −352 |
| Overseas investment in UK companies | − 148 | − 123 | − 200 | − 347 | − 217 | − 394 | − 755 | − 328 | − 442 | − 187 | − 263 | − 46 | |
| Import credit and advance payments on exports | − 94 | − 103 | − 59 | − 71 | − 69 | − 188 | − 59 | − 73 | − 63 | − 175 | + 2 | − 25 | |
| Export credit and advance payments on imports | + 44 | + 31 | + 123 | + 14 | + 38 | + 107 | + 78 | + 118 | + 20 | + 60 | + 9 | − 58 | |
| Bank borrowing | − 592 | − 816 | − 675 | − 617 | −1,611 | −1,767 | − 983 | −1,295 | −1,536 | − 597 | − 355 | − 414 | +107 |
| Other borrowing[a] | + 51 | − 50 | − 288 | − 187 | − 419 | − 345 | − 134 | + 58 | + 4 | − 218 | − 351 | + 262 | |
| Bank deposits, notes and coin | + 554 | + 744 | + 587 | + 277 | + 969 | + 833 | − 49 | + 262 | + 3 | − 124 | + 571 | + 454 | +964 |
| Other liquid assets[b] | + 14 | + 31 | + 9 | + 81 | + 20 | − 9 | + 2 | + 29 | + 106 | − 91 | − 82 | − 38 | |
| Other items[c] | − 24 | + 2 | + 97 | + 39 | + 48 | − 20 | + 5 | − 23 | + 57 | + 226 | − 118 | + 89 | |
| Other overseas transactions (including the balance of payments balancing item)[d] | + 57 | + 98 | − 20 | − 91 | + 1 | + 134 | − 44 | − 303 | − 244 | + 86 | + 61 | + 563 | |
| *Unidentified domestic transactions*[d] | *+ 181* | *+ 126* | *− 100* | *+ 331* | *+ 336* | *+ 407* | *+ 688* | *+ 60* | *+ 576* | *− 357* | *− 73* | *−1,662* | |
| **Total financing (−)** | − 171 | − 239 | − 637 | − 672 | − 933 | −1,272 | −1,244 | −1,498 | −1,532 | −1,367 | − 604 | −1,211 | |

[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 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | + 98 | + 57 | + 491 | + 294 | + 516 | + 528 | + 213 | – 548 | + 66 | + 970 | +526 | +1,085 | +1,771 |
| Industrial and commercial companies | + 600 | + 827 | + 689 | + 619 | +1,649 | +1,863 | +1,049 | +1,268 | +1,550 | + 571 | +390 | + 411 | – 114 |
| Other financial institutions | + 186 | + 226 | + 242 | + 117 | + 190 | + 288 | + 139 | + 169 | + 63 | – 252 | – 66 | – 105 | + 285 |
| Personal sector | + 322 | + 775 | + 560 | + 347 | + 406 | + 24 | + 106 | + 75 | – 98 | + 31 | –166 | – 102 | – 253 |
| Total domestic lending | +1,206 | +1,885 | +1,982 | +1,377 | +2,761 | +2,703 | +1,507 | + 964 | +1,581 | +1,320 | +684 | +1,289 | +1,689 |
| **Deposits** | | | | | | | | | | | | | |
| Public sector | + 35 | – 135 | – 10 | – 30 | + 62 | – 122 | – 8 | + 112 | – 2 | – 33 | – 30 | – 186 | + 176 |
| Industrial and commercial companies | – 507 | – 682 | – 511 | – 218 | – 973 | – 728 | + 87 | – 199 | + 124 | + 251 | –471 | – 414 | – 871 |
| Other financial institutions | + 4 | – 275 | – 275 | – 222 | – 325 | – 194 | + 38 | + 98 | – 464 | – 543 | +554 | – 351 | – 224 |
| Personal sector | – 430 | – 481 | – 529 | – 846 | – 995 | –1,011 | – 957 | – 719 | – 589 | – 708 | –180 | + 587 | – 372 |
| Total domestic deposits | – 898 | –1,573 | –1,325 | –1,316 | –2,231 | –2,055 | – 840 | – 708 | – 931 | –1,033 | –127 | – 364 | –1,291 |
| Net lending to overseas sector[a] | + 25 | – 107 | – 340 | – 324 | – 161 | – 643 | – 166 | – 262 | + 8 | – 580 | –328 | – 889 | – 10 |
| Non-deposit liabilities (net) | – 333 | – 205 | – 317 | + 263 | – 369 | – 5 | – 501 | + 6 | – 658 | + 293 | –229 | – 36 | – 388 |

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

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## Table G
## Financial institutions other than banks

£ millions

*Seasonally adjusted*

| | 1972 | | 1973 | | | | 1974 | | | | 1975 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | – 630 | – 673 | – 842 | – 720 | – 660 | – 735 | – 846 | – 695 | – 716 | – 858 | – 920 | –1,050 | |
| Building society shares and deposits | – 465 | – 524 | – 475 | – 804 | – 511 | – 370 | – 217 | – 455 | – 633 | – 684 | –1,060 | –1,089 | –1,043 |
| Other deposits | – 102 | – 63 | – 167 | + 4 | – 103 | – 16 | – 7 | – 28 | – 12 | – 182 | – 54 | – 58 | |
| Capital issues | – 78 | – 32 | – 46 | – 4 | – 4 | – 7 | – 6 | – 8 | – 18 | – 61 | – 55 | – 179 | – 43 |
| Sales of unit trust units | – 60 | – 64 | – 57 | – 47 | – 31 | – 15 | + 1 | + 2 | – 7 | – 8 | – 30 | – 34 | – 18 |
| Other borrowing[a] | – 185 | – 226 | – 241 | – 116 | – 189 | – 288 | – 138 | – 268 | – 381 | + 306 | + 252 | + 221 | |
| | –1,520 | –1,582 | –1,828 | –1,687 | –1,498 | –1,431 | –1,213 | –1,452 | –1,767 | –1,487 | –1,867 | –2,189 | |
| **Increase in financial assets (+)** | | | | | | | | | | | | | |
| Short-term assets[b] | – 37 | + 319 | + 293 | + 432 | + 307 | + 243 | + 117 | + 208 | + 784 | +1,026 | – 845 | + 431 | |
| Government stocks | + 12 | + 98 | + 83 | + 281 | + 128 | + 211 | + 34 | + 392 | + 129 | – 246 | +1,145 | + 302 | |
| Company and overseas securities: | | | | | | | | | | | | | |
| Ordinary shares | + 474 | + 371 | + 139 | + 93 | + 92 | + 130 | + 3 | + 68 | – 138 | – 218 | + 324 | + 774 | |
| Fixed-interest | + 50 | + 83 | + 32 | + 10 | + 21 | + 33 | – 3 | + 20 | + 5 | – 27 | + 40 | + 26 | |
| Loans for house purchase | + 629 | + 557 | + 661 | + 532 | + 542 | + 385 | + 347 | + 275 | + 447 | + 541 | + 554 | + 673 | |
| Long-term lending to local authorities | + 54 | + 8 | + 17 | + 29 | + 54 | – 3 | + 2 | + 50 | + 119 | + 173 | + 308 | + 388 | |
| Hire-purchase claims | + 26 | + 44 | + 75 | + 32 | + 36 | + 23 | – 34 | – 7 | – 14 | – 5 | – 1 | – 6 | |
| Other lending | + 40 | + 71 | + 65 | + 122 | + 166 | + 154 | + 55 | + 101 | + 188 | + 317 | – 2 | + 48 | |
| | +1,248 | +1,551 | +1,365 | +1,531 | +1,346 | +1,176 | + 521 | +1,107 | +1,520 | +1,561 | +1,523 | +2,636 | |
| Net identified financial transactions | – 272 | – 31 | – 463 | – 156 | – 152 | – 255 | – 692 | – 345 | – 247 | + 74 | – 344 | + 447 | |

[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: second 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 | 1 | + 430 | + 336 | +2,097 | +1,990 | +594 | | |
| Taxes on capital and capital transfers | 2 | – 10 | | – 56 | + 79 | – 13 | | |
| *less:* | | | | | | | | |
| Gross fixed-capital formation at home | 3 | –1,897 | | – 824 | –1,644 | –302 | | |
| Increase in value of stocks and work in progress | 4 | – 240 | | – 114 | – 506 | – 4 | | |
| Financial surplus +/deficit – | 5 | –1,717 | + 336 | +1,103 | – . 81 | +275 | | +84 |
| **Changes in financial assets and liabilities** | | | | | | | | |
| *Assets: increase +/decrease –* | | | | | | | | |
| *Liabilities: increase –/decrease +* | | | | | | | | |
| Government debt to Banking Department | 6 | – 107 | | | | + 107 | | |
| Life assurance and pension funds | 7 | | | +1,050 | | | –1,050 | |
| Loans by the UK Government | 8 | – 132 | – 1 | + 1 | + 16 | | + 116 | |
| Central government external transactions: | | | | | | | | |
| Direct financing of currency flow | 9.1 | – 419 | + 419 | | | | | |
| Other | 9.2 | + 38 | – 38 | | | | | |
| Banks' net external transactions | 10 | | +1,188 | | | –1,188 | | |
| Miscellaneous investment overseas (net) | 11 | – 13 | –1,007 | | +1,062 | | – 42 | |
| Notes and coin | 12 | – 163 | | – 38 | – 41 | + 242 | | |
| Bank deposits of domestic sectors | 13 | + 186 | | – 424 | + 459 | – 645 | + 424 | |
| Deposits with other financial institutions | 14 | – 7 | – 61 | +1,301 | – 11 | | –1,222 | |
| National savings | 15.1 | – 85 | | + 85 | | | | |
| Tax reserve certificates/tax deposit accounts | 15.2 | + 6 | | – 4 | – 2 | | | |
| Bank lending to domestic sectors: | | | | | | | | |
| In foreign currency to central government | 16.1 | | | | | | | |
| Other | 16.2 | + 34 | | – 26 | – 594 | + 428 | + 158 | |
| Hire-purchase and other instalment debt | 17 | – 2 | | – 4 | + 9 | | – 3 | |
| Loans for house purchase | 18 | + 240 | | – 953 | | + 40 | + 673 | |
| Other loans and accruals | 19 | – 397 | | + 87 | + 408 | – 216 | + 118 | |
| Marketable government debt held by domestic sectors: | | | | | | | | |
| Treasury bills | 20 | – 960 | | | + 60 | + 908 | – 8 | |
| Stocks | 21 | – 375 | | + 46 | | + 27 | + 302 | |
| Local authority debt | 22 | – 581 | + 58 | – 240 | – 33 | + 320 | + 476 | |
| UK company and overseas securities: | | | | | | | | |
| Capital issues | 23 | | + 20 | | – 336 | – 76 | – 179 | |
| Other transactions | 24 | + 20 | – 89 | – 383 | + 124 | + 99 | + 800 | |
| Unit trust units | 25 | | | + 39 | | | – 39 | |
| Identified financial transactions | 26 | –2,717 | + 489 | + 537 | +1,121 | + 46 | + 524 | |
| ***Unidentified*** | 27 | *+1,000* | *– 153* | *+ 566* | *–1,202* | *–295* | | *+84* |
| Total=Financial surplus +/deficit – | 28 | –1,717 | + 336 | +1,103 | – 81 | +275 | | +84 |

[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 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 | + 545 | + 235 | +2,398 | +1,699 | +344 | | |
| Taxes on capital and capital transfers | 2 | – 15 | | – 50 | + 82 | – 17 | | |
| *less:* | | | | | | | | |
| Gross fixed-capital formation at home | 3 | –2,259 | | – 876 | –2,196 | –319 | | |
| Increase in value of stocks and work in progress | 4 | | | | | | | |
| Financial surplus +/deficit – | 5 | –1,729 | + 235 | +1,472 | – 415 | + 8 | | +429 |
| **Changes in financial assets and liabilities** | | | | | | | | |
| *Assets: increase +/decrease –* *Liabilities: increase –/decrease +* | | | | | | | | |
| Government debt to Banking Department | 6 | – 27 | | | | + 27 | | |
| Life assurance and pension funds | 7 | | | +1,050 | | | –1,050 | |
| Loans by the UK Government | 8 | – 121 | – 12 | + 1 | + 16 | | + 116 | |
| Central government external transactions | 9 | – 390 | + 390 | | | | | |
| Banks' net external transactions | 10 | | + 969 | | | – 969 | | |
| Miscellaneous investment overseas (net) | 11 | – 13 | – 984 | | +1,039 | | – 42 | |
| Notes and coin | 12 | – 171 | | + 40 | + 40 | + 91 | | |
| Bank deposits of domestic sectors | 13 | + 186 | | – 587 | + 414 | – 364 | + 351 | |
| Deposits with other financial institutions | 14 | – 7 | – 61 | +1,258 | – 43 | | –1,147 | |
| National savings | 15.1 | – 75 | | + 75 | | | | |
| Tax reserve certificates/tax deposit accounts | 15.2 | + 6 | | – 4 | – 2 | | | |
| Bank lending to domestic sectors | 16 | + 49 | | + 142 | – 414 | + 118 | + 105 | |
| Hire-purchase and other instalment debt | 17 | – 2 | | – 47 | + 55 | | – 6 | |
| Loans for house purchase | 18 | + 240 | | – 953 | | + 40 | + 673 | |
| Other loans and accruals | 19 | – 300 | | – 66 | + 280 | – 4 | + 90 | |
| Marketable government debt held by domestic sectors: | | | | | | | | |
| Treasury bills | 20 | – 779 | | | + 60 | + 727 | – 8 | |
| Stocks | 21 | – 375 | | + 46 | | + 27 | + 302 | |
| Local authority debt | 22 | – 515 | + 69 | – 240 | – 53 | + 263 | + 476 | |
| UK company and overseas securities: | | | | | | | | |
| Capital issues | 23 | | + 20 | | – 336 | – 76 | – 179 | |
| Other transactions | 24 | + 20 | – 89 | – 383 | + 124 | + 99 | + 800 | |
| Unit trust units | 25 | | | + 34 | | | – 34 | |
| Identified financial transactions | 26 | –2,274 | + 302 | + 366 | +1,180 | – 21 | + 447 | |
| *Unidentified* | 27 | *+ 545* | *– 67* | *+1,106* | *–1,595* | *–418* | | *+429* |
| Total=Financial surplus +/deficit – | 28 | –1,729 | + 235 | +1,472 | – 415 | + 8 | | +429 |

[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, finance houses, savings banks' investment accounts, investment trust companies, 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 [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. See also the note on valuation.

*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. See also the note on valuation.

*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.

[1] Fuller notes are given in the Bank of England *Statistical Abstract* Number 2, 1975. A general description of flow of funds accounts is given in *An introduction to flow of funds accounting: 1952–70* (Bank of England, 1972).

*Line 16.1*
See note to line 9.1.

*Line 16.2*
Other advances and overdrafts, market loans 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

The adjustments are a combination of purely seasonal adjustments and other adjustments.

*Purely seasonal adjustments* For each item which displays seasonality, preliminary seasonal adjustments are obtained which sum to zero over the four quarters in each calendar year. Consistent adjustments are then estimated by a system of balancing under which, in any quarter, the sum of the adjustments for all sectors in any line entry is zero, and the sum of the adjustments for all line entries in any sector is zero.

*Other adjustments* These are made to certain series (such as notes and coin) in order to remove recurrent variations not adequately measured by moving average seasonal adjustments (for example, the half-yearly crediting of interest on some bank deposits), distortions due to the calendar (such as the effect of the particular days of the week on which a quarter begins and ends, and of the proximity of Easter to the last working day in March), and distortions due to tax changes (for example, the introduction of value added tax). It should be noted that, unlike the purely seasonal adjustments, the other adjustments may not add to zero over a calendar year.

The adjustments take full account of the data up to the end of 1974.

### Valuation

From the second quarter of 1975, all figures of transactions by UK banks in foreign currencies, both with domestic sectors and with the overseas sector, have been adjusted to exclude changes in value arising from movements in exchange rates. Prior to the second quarter, only net transactions with the overseas sector and lending to the central government were so adjusted; the adjustment for the overseas sector was entered in line 11, rather than in line 10, so that the latter remained consistent with the relevant figures in Tables 11 / 3 and 12 / 3 of the annex.