

Financial review

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

Financial markets

The money market Demand for Treasury bills was strong throughout the period, and the tender rate declined rapidly; the Bank's minimum lending rate was reduced in several stages from 12% to 10% by the end of January; it fell again to 9½% in early February, and to 9¼% by the end of that month.

Capital markets In the gilt-edged market, turnover was heavy and yields fell; the authorities sold a record amount of stock in the fourth quarter; equity prices continued to rise in the three months to end-January.

Foreign exchange and gold markets Sterling was generally steady after weakening somewhat in November; the Swiss franc rose strongly; the lira fell sharply after the Italian authorities suspended intervention in January; gold prices weakened on the prospect of sales by the International Monetary Fund.

Euro-currency markets After allowing for changes in exchange rates, the London market probably grew a little more slowly in the fourth quarter.

Oil money movements After a sharp rise in their revenues, the oil-exporting countries had a rather larger surplus in the fourth quarter; sterling investments in the United Kingdom were virtually unchanged.

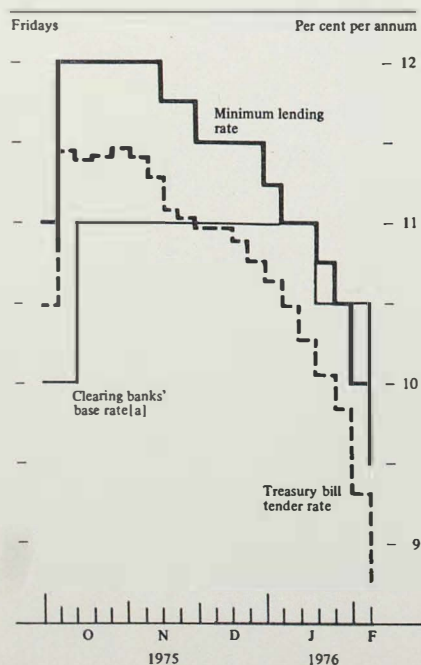
Sector financing

September quarter After seasonal adjustment, a rise in the public sector deficit was broadly matched by an increase in the surplus of both the personal and overseas sectors.

December quarter The central government borrowing requirement (seasonally adjusted) was smaller than in the third quarter and was more than offset by sales of government debt to the private sector other than banks. Inflows into building societies remained large.

Short-term interest rates in London

The Treasury bill rate fell steadily during November to January and minimum lending rate was reduced on seven occasions.



[a] Changes are recorded when at least three of the major London clearing banks have changed their rate.

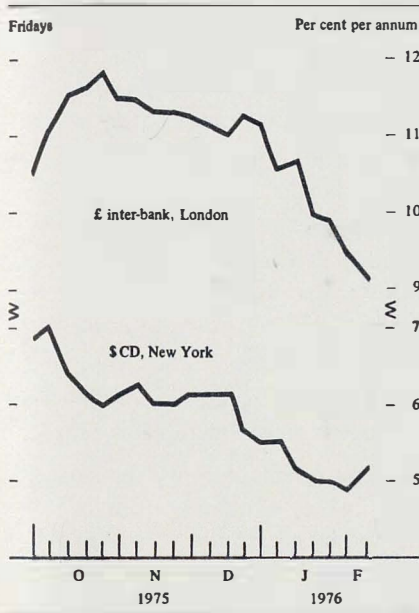
Financial markets

The money market

Conditions in the money market were tight during the last three weeks of November and again in mid-December, because of substantial official sales of gilt-edged stocks, heavy tax payments and, during the latter period, the usual pre-Christmas increase in the note circulation. During these two periods the Bank repeatedly gave help by buying Treasury bills and local authority bills, and occasionally by overnight lending at minimum lending rate. Government disbursements at the end of the year, together with a seasonal contraction of the note circulation, brought more comfortable conditions at the beginning of January, but large sales of gilt-edged continued and two successful issues of stock on 15th January caused an extreme shortage on that day. In view of these heavy sales, and with tax payments expected to be more concentrated than usual, a temporary repayment of special deposits was made from 19th January to 10th February (see page 14). Nevertheless, conditions remained tight and the Bank continued to give assistance on a large scale.

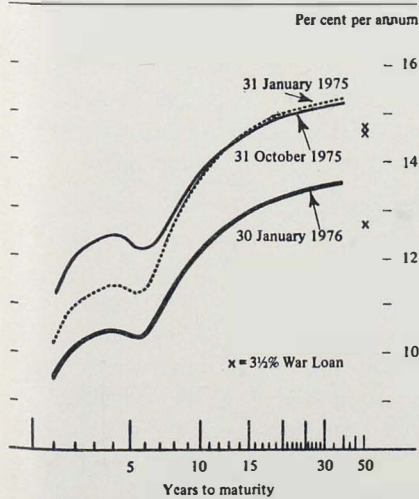
UK and US three-month interest rates

UK short-term rates followed US rates down during the three months to end-January.



Time/yield curves of British government stocks

Yields fell fairly steadily during November to January; the curve was flatter than a year earlier. [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.

Issues of Treasury bills at the weekly tender remained large in the first half of the period, and again in the second half of January. [1] Competition for bills was very keen throughout and the average rate of discount declined rapidly. The decline can be explained by a growing expectation that the downturn in US interest rates would lead to a further fall in UK rates; by the continued lack of demand for bank advances; and by increasing optimism over the outlook for inflation. The fall in the tender rate led to a series of reductions in the Bank's minimum lending rate, which lowered it from 12% at the beginning of November to 10% at the end of January. [2] The authorities did not fully adjust their dealing rates for Treasury bills after the fall in the tender rate on 14th November, but they were content with the subsequent decline in the rate. Indeed, one of the reasons for the temporary release of special deposits in January was to prevent an upward twist to short-term rates which might have resulted from the expected tightness in the money market.

The falls in Treasury bill and other short-term rates led the clearing banks to reduce their base rates by 1/2% on three occasions – to 10 1/2% early in January, to 10% at the beginning of February and to 9 1/2% a week later.

Capital markets

The *gilt-edged market* was very firm during November to January, largely under the influence of falling US and UK short-term interest rates and of growing optimism about the outlook for inflation. Turnover was heavy throughout the period, but particularly in January, when it was some 60% higher than in January 1975 (the previous record month). Yields on short-dated stocks began to decline fairly steadily from early December, followed later in the month by yields on long-dated stocks.

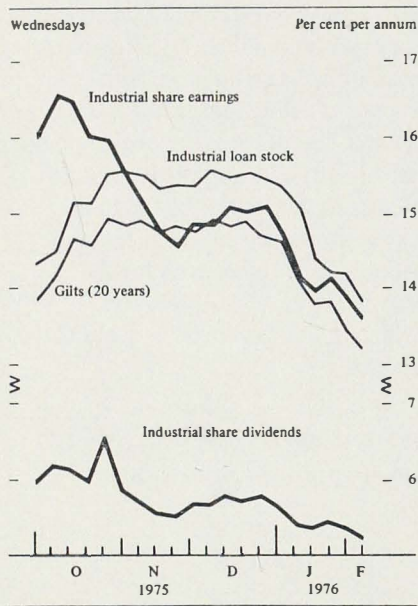
During the December quarter the authorities sold a record £2,160 million net of stock, bringing the total for the first nine months of the current financial year to £3,370 million. Net sales of stocks within one to five years of maturity amounted to £890 million in the quarter; sales of medium-dated were £575 million and of long-dated £755 million. The authorities bought £60 million of stocks within one year of maturity.

Official holdings of three stocks were effectively exhausted during November – the third tranche of 9% Treasury Stock 1978 on the 10th, followed later in the month by 11 1/2% Treasury Stock 1981 and 12 3/4% Treasury Loan 1992. A short-dated issue, a second tranche of £600 million 10 1/2% Treasury Stock 1979 at £95.50 per cent, was announced on 21st November and exhausted on 7th January; and a long-dated issue, a second tranche of £750 million 13 1/4% Treasury Loan 1997 at £88.50 per cent, was announced on 28th November and exhausted on 6th January. Two new issues were announced on 9th January – a second tranche of £500 million 9 1/2% Treasury Stock 1980 at £93.25 per cent and a new medium-dated stock, £600 million 13% Treasury Stock 1990, at £96.00 per cent. The terms of each issue were, as usual, in line with current market rates, but by choosing to issue a medium-dated stock rather than replace the exhausted long tap stock, the authorities indicated that they were content not to resist the decline in yields on long-dated stocks which was taking place. Demand for both stocks was strong: applications for 9 1/2% Treasury Stock 1980 were so large that it never came into operation as a tap stock, and 13 1/2% Treasury Stock 1990 was effectively exhausted on 23rd January. Two weeks elapsed before the announcement on 6th February of a

[1] In order to facilitate the handling of these larger issues, and subsequent market operations, Treasury bills with a denomination of £1 million were made available for the first time on 14th November. Hitherto, the largest denomination available had been for £250,000.
[2] It fell to 11 1/4% on 14th November, 11 1/2% on 28th November, 11 1/4% on 24th December, 11% on 2nd January, 10 3/4% on 16th January, 10 1/2% on 23rd January, and 10% on 30th January. The rate fell again to 9 1/2% on 6th February, and to 9 1/4% on 27th February.

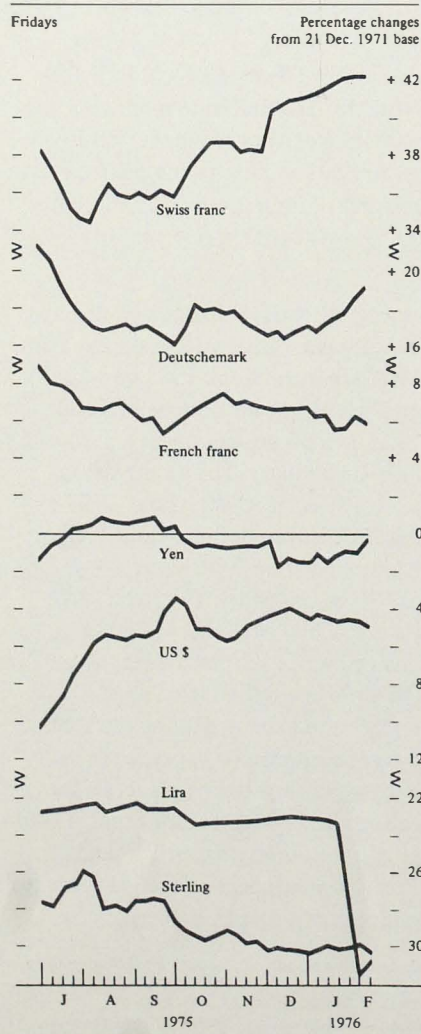
Security yields

Yields on long-dated gilt-edged stocks and on debentures fell from late December.



Effective changes in exchange rates

Sterling's effective depreciation widened further in November but thereafter remained steady.



further new issue — a second tranche of £600 million 12½% Treasury Loan 1993 at £95.25 per cent.

In the *equity market*, prices rose further during November to January and the FT-Actuaries industrial (500) share price index went up from 155 at the end of October to 179 at the end of January. Prices were then nearly three times as high as when the market was at its lowest in early January 1975. Turnover rose in November for the third successive month, fell back in December but then rose strongly again in January. Over 1975 as a whole, turnover was nearly 40% higher than in 1974.

New issues of equity capital by companies were fairly small in November and December compared with earlier in the year, but picked up in January, when the queue of prospective borrowers also began to grow again. New equity capital raised in 1975 amounted to a record £1,270 million, over ten times as much as in 1974.

Net sales of unit trust units totalled £45 million during November to January, compared with £40 million in the preceding three months.

Turnover in the *debenture market* also increased during the period, and yields, as measured by the Bank's index, fell sharply from the middle of December. New money raised by companies by way of loan capital and preference shares during the period amounted to £20 million, but redemptions were larger, at some £40 million.

Foreign exchange and gold markets

Apart from the normal lull around the turn of the year, foreign exchange markets were quite active during November to January, but exchange rates were for the most part less volatile than earlier in 1975. The dollar strengthened in the second half of November, initially in the aftermath of the summit meeting at Rambouillet, and later when New York City's financial crisis had receded. For the remainder of the period the dollar was fairly steady, in spite of the rapid fall in US interest rates, and over the three months was stronger on balance against most of the main European currencies, except the Swiss franc. The latter strengthened sharply in December when it reached parity with the deutschemark, and remained strong throughout January.

After the Italian authorities suspended official intervention on 21st January, the lira weakened very sharply. The French franc was also affected and came under heavy speculative pressure on several occasions: by February the limits of the EEC 'snake' arrangement came under strain as the deutschemark appreciated strongly and rose to the top of the band. Within the 'snake', the Belgian franc also required support to maintain the narrower margin between that currency and the guilder. Outside Europe, the Canadian dollar appreciated steadily during November to January as a result of large capital inflows, but the yen was little changed on balance over the period.

Sterling was generally steady during November to January, with the pound recovering quickly from three short bouts of pressure. The effective depreciation since the Smithsonian settlement in 1971 was 29.9% at the end of January, compared with 29% at the end of October. The pound weakened temporarily around the middle of November when substantial sterling oil receipts were sold. Later in the month, when the dollar began to strengthen, the pound came under renewed pressure: the sterling/dollar rate fell briefly below \$2.02, and in early December the effective depreciation touched 30.3%, before profit-taking restored a steadier tone to the market. The pound then continued to improve on demand for oil royalty payments and other commercial transactions. Interest rates also remained favourable to sterling in spite of reductions in minimum lending rate. Around the middle of January sterling again weakened briefly after a bout of commercial selling (including some sales of oil royalties paid in sterling). But renewed commercial demand, and the announcement of

improved trade figures for December, led to a quick recovery, after which the pound remained steady for the rest of the month.

Three-month euro-dollar rates fell by around 1½% over the period while inter-bank sterling rates declined by just over 2%, mainly reflecting the series of reductions in minimum lending rate. The uncovered comparison in favour of the pound remained between 4½% and 5% throughout the period, touching the upper end of this range at the end of December when euro-dollar rates fell more rapidly than inter-bank sterling rates, and narrowing to 4½% at the end of January. The forward discount on three months' sterling moved in line with the uncovered differential for most of the period, although the margin widened briefly to over 5% per annum in mid-December and again towards the end of January, ending the period slightly wider on balance at just over 5% per annum.

In the *London gold market* the main influence was the prospect of gold sales by the International Monetary Fund. At the beginning of November the price fluctuated narrowly between \$142 and \$146 per fine ounce, before falling to \$138 after the summit meeting at Rambouillet and the subsequent strengthening of the dollar. A tentative rally in December on reports of possible future purchases of IMF gold by central banks and the Bank for International Settlements was not sustained, and after the IMF meeting in Jamaica on 7th–8th January had confirmed that sales of gold by the Fund were imminent, the price fell back again to \$124 (the lowest for two years) before recovering slightly to \$128 at the end of January.

Euro-currency markets

In the third quarter, the euro-currency market expanded strongly (see chart). Figures published by the Bank for International Settlements[1] show that, after allowing for changes in currency valuation during the quarter, external liabilities rose by \$11 billion and external assets by \$13½ billion, equivalent to an annual rate of growth of nearly 20%. Banks in the United Kingdom accounted for more than two thirds of this increase, and their share of the market recovered to around 52% after a slight fall in the previous quarter.

In the third quarter, demand for credit from outside the eight reporting countries came mainly from Eastern Europe, Japan, and the offshore banking centres in the Caribbean. Direct borrowing by developing countries (excluding oil exporters) was little changed over the quarter, but they took more from banks in the United States and may also have borrowed some of the funds lent to offshore banking centres. The main sources of new funds were Italy (to which the liabilities of the other seven reporting countries rose by \$1¼ billion), Western European countries outside the reporting area, the United States and Eastern Europe. Liabilities to the Middle East were little changed.

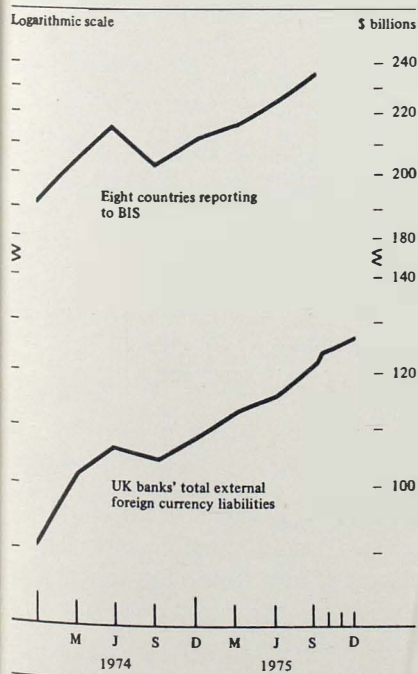
In the fourth quarter, the limited data so far available suggest that business remained active and the average size (\$65 million) and maturity (just over 5½ years) of newly announced loans were much the same as in the previous three months.

Total foreign currency liabilities (domestic and external) of banks in the United Kingdom rose by nearly \$7 billion in the fourth quarter, compared with \$5 billion in the previous quarter (see table overleaf); but after allowing for fluctuations in exchange rates, the rate of growth was probably slightly slower than in the third quarter. Most of the recorded rise in liabilities was to banks abroad (including overseas central monetary institutions).

[1] Measured in terms of the external foreign currency liabilities and assets of the 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.

External foreign currency liabilities of commercial banks in eight European reporting countries[a]

The euro-currency market as measured by the BIS has grown steadily since the summer of 1974. UK banks have broadly maintained their share of the business.



[a] Adjusted to remove the effects of changes in exchange rates.

UK banks' liabilities and claims by country or area

The main suppliers of new funds in the fourth quarter were the United States and the oil-exporting countries; the largest users were the offshore banking centres.

\$ billions

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

	1974		1975			
	31 Dec.	27 Mar.	30 June	30 Sept.	31 Dec.	
United States	+ 2.9	- 0.1	- 1.3	- 1.6	- 3.2	
Canada	- 2.2	- 1.9	- 1.6	- 2.0	- 2.4	
European Economic Community	+ 0.2	+ 0.6	- 0.4	- 3.0	- 1.2	
Other Western Europe	-14.2	-14.8	-14.2	-13.9	-13.5	
Eastern Europe	+ 2.5	+ 3.5	+ 3.7	+ 3.9	+ 4.4	
Japan	+10.6	+12.2	+12.4	+12.9	+12.7	
Oil-exporting countries[a]	-16.2	-17.8	-17.7	-17.8	-19.3	
Countries engaged in offshore banking	+ 5.5	+ 7.0	+ 4.7	+ 7.7	+ 9.7	
Other countries	+ 2.0	+ 1.8	+ 3.2	+ 2.9	+ 2.8	
	- 8.9	- 9.5	-11.2	-10.9	-10.0	

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

Maturity structure of UK banks' net foreign currency position

Net borrowing up to one year rose sharply between August and November, but within the total net borrowing at less than eight days declined.

\$ billions

Net liabilities -/net assets +

	1975	
	mid-Aug.	mid-Nov.
Less than 8 days[a]	- 7.8	- 6.5
	- 4.4	- 2.7
8 days to less than 3 months	-11.6	-14.1
3 months to less than 1 year	- 7.4	- 8.7
Net borrowing up to 1 year	-26.9	-29.3
Net lending at 1 year and over	+27.0	+29.4
	+ 0.1	+ 0.1

[a] Figures in italics include all holdings of London dollar certificates of deposit, regardless of maturity, as these are immediately realisable assets for the holding bank.

Estimated oil revenues of exporting countries

Oil revenues rose strongly in the fourth quarter, partly because of the price increase announced in September.

\$ billions

	1974		1975			
	Year	Year	1st qtr	2nd qtr	3rd qtr	4th qtr
US dollars	75.5	93.1	21.9	22.7	22.9	25.6
Sterling	19.0	12.0	3.9	2.9	2.8	2.4
	94.5	105.1	25.8	25.6	25.7	28.0

Liabilities and assets by customer[a]

After allowing for changes in exchange rates, the euro-currency market in London grew a little more slowly in the fourth quarter.

\$ billions

	1975			
	27 Mar.	30 June	30 Sept.	31 Dec.
Foreign currency liabilities of UK banks to:				
Other UK banks	42.2	42.2	43.3	44.5
Other UK residents	5.8	4.7	5.1	5.5
Overseas central monetary institutions	29.5	29.1	29.5	30.6
Other banks overseas	71.0	74.3	77.3	81.3
Other non-residents	16.9	16.5	16.7	16.6
Other liabilities[b]	1.3	1.1	1.2	1.4
Total liabilities	166.7	167.9	173.1	179.9
Foreign currency assets of UK banks with:				
Other UK banks	42.7	42.6	43.1	44.4
Other UK residents	15.4	15.8	16.0	15.8
Banks overseas	74.8	76.7	81.0	86.5
Other non-residents	32.5	31.5	31.6	32.2
Other assets[b]	2.3	1.9	1.9	2.1
Total assets	167.7	168.5	173.6	181.0

[a] Figures differ from those in Table 6; see additional notes to Tables 21 and 22.

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

The main sources of new funds to UK banks in the fourth quarter were the United States and the oil-exporting countries. The largest users were the EEC and the offshore banking centres, in each case reflecting a rise in lending by UK banks rather than a fall in the banks' liabilities to those areas. Among the main changes during 1975, the United States and the EEC each became net suppliers of funds to the London market; net lending to the offshore banking centres rose by over \$4 billion; and the net supply of funds from the oil-exporting countries rose by \$3 billion (wholly in the first and fourth quarters).

The latest quarterly maturity analysis of UK banks' foreign currency positions was completed as at 19th November (see Table 22 in the statistical annex). As in the previous three months, the trend towards longer-term deposits continued. Liabilities at less than 8 days rose slightly to \$33.2 billion but their share of the total fell to 19%, compared with 20% in August and 22% in May. At the same time, liabilities in the three months to one year category rose by \$3 billion to 28%, compared with 27% in August and 25% in May. On the assets side, the rise in lending was spread among all the maturity categories.

The banks' net borrowing up to one year rose by \$2½ billion, after falling by around \$½ billion in the previous three months. There were some large movements within this broad maturity grouping: net liabilities at less than eight days fell by \$1¼ billion to \$6½ billion and accounted for only 22% of net borrowing up to one year, compared with 29% at mid-August and 40% at mid-May; against this, net liabilities in the eight days to three months category rose by \$2½ billion to some \$14 billion, or 48% of total net borrowing up to one year, compared with 43% in August and 40% in May.

Oil money movements

Total estimated oil revenues of the exporting countries in the fourth quarter, at \$28 billion, were much larger than in any of the preceding quarters of 1975 (see table): the volume of exports was higher, and the 10% increase in prices announced in September affected receipts in December. The percentage paid in sterling in the fourth quarter declined further to 8½%.

The exporting countries' cash surplus available for investment abroad, government loans or additions to reserves in the fourth quarter is provisionally estimated at \$7.6 billion - larger than in the third quarter but less than in each of the two preceding quarters. Although oil revenues rose by nearly \$11 billion during the year as a whole, the estimated surplus (\$31½ billion) was only a little over half as large as in 1974, and underlines the unexpectedly fast rate at which some of these countries were able to absorb imports.

Estimated deployment of oil exporters' surpluses

After a sharp rise in their revenues, the oil-exporting countries had a rather larger surplus in the fourth quarter.

	1974		1975			
	Year	Year	1st qtr	2nd qtr	3rd qtr	4th qtr
United Kingdom						
British government stocks	0.9	0.4	0.2	0.1	—	0.1
Treasury bills	2.7	-0.9	0.5	-0.3	-0.9	-0.2
Sterling deposits	1.7	0.2	0.1	-0.2	0.3	—
Other sterling investments[a]	0.7	0.3	—	0.1	0.1	0.1
Foreign currency deposits	13.8	4.1	1.8	0.3	0.2	1.8
Other foreign currency borrowing	1.2	0.2	—	0.2	—	—
	<u>21.0</u>	<u>4.3</u>	<u>2.6</u>	<u>0.2</u>	<u>-0.3</u>	<u>1.8</u>
United States						
Government and agency securities	6.0	3.6	0.8	0.9	0.7	1.2
Bank deposits	4.0	—	-0.5	-0.2	1.2	-0.5
Other[a]	1.0	2.5	0.4	0.7	0.7	0.7
	<u>11.0</u>	<u>6.1</u>	<u>0.7</u>	<u>1.4</u>	<u>2.6</u>	<u>1.4</u>
Other countries						
Foreign currency deposits	9.0	5.0	2.5	1.5	-0.5	1.5
Special bilateral facilities and other investments[a] [b]	11.9	12.1	1.6	4.6	3.5	2.4
	<u>20.9</u>	<u>17.1</u>	<u>4.1</u>	<u>6.1</u>	<u>3.0</u>	<u>3.9</u>
International organisations						
	3.5	4.0	1.5	0.6	1.4	0.5
Total	<u>56.4</u>	<u>31.5</u>	<u>8.9</u>	<u>8.3</u>	<u>6.7</u>	<u>7.6</u>

[a] Includes holdings of equities and property etc.

[b] Includes loans to developed and developing countries.

The amount of sterling investments outstanding in the United Kingdom was virtually unchanged during the December quarter. But foreign currency deposits placed direct with UK banks rose by over \$1¼ billion (a quarter of the total surplus during this period), and available information suggests that there was also a rise, of \$1½ billion, in deposits placed with other countries outside the United States. On the other hand, investments in the United States were less than in the previous quarter.

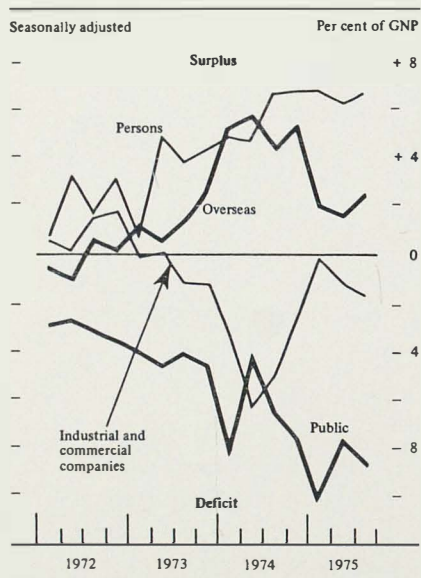
Special bilateral facilities, loans to developed and developing countries, and other investments outside the United Kingdom and the United States were again smaller in the fourth quarter but still accounted for a third of the total surplus. Drawings on the IMF oil facility financed by oil exporters were small.

Sector financing

The following sections discuss the main features of financial flows in the third quarter of 1975, and should be read in conjunction with the tables at the end. Seasonally-adjusted figures are used unless otherwise stated.

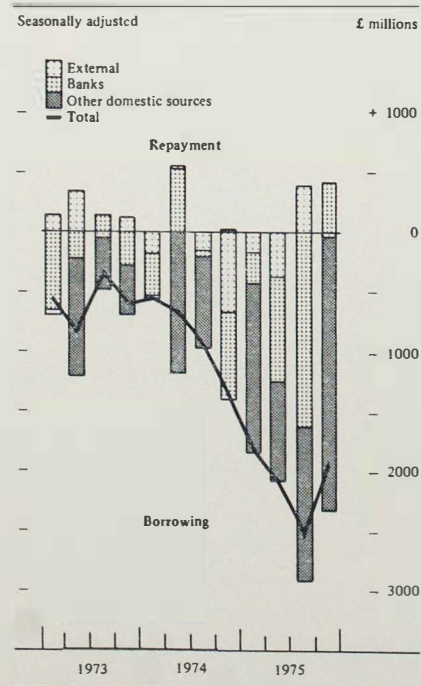
Sector surpluses and deficits

In the third quarter an increase in the public sector deficit was broadly matched by a rise in the surplus of the personal and overseas sectors.



Finance of the central government borrowing requirement (-)

In the fourth quarter the Government's borrowing requirement was more than offset by purchases of central government debt by the general public.



Financial positions in the third quarter

An increase in the public sector deficit was matched by a rise in the surplus of both the private and overseas sectors. Within the private sector, companies' deficit widened somewhat, but this was more than offset by a large rise in the personal sector's surplus. However, a large residual error again underlines the uncertainty of these estimates.

Public sector

The increase in the public sector deficit in the third quarter brought it back almost to the record first quarter figure, and the total for the first three quarters of 1975 was well above that for the whole of 1974. Local authorities and public corporations together lent over £200 million for house purchase, and the central government took up nearly £100 million of company securities; but 'lending and other transactions' as a whole contributed less to the borrowing requirement than in the second quarter, largely because local authorities and, to a lesser extent, public corporations ran down their bank deposits by an unusually large amount, reversing the sharp rise in the previous quarter.

Public sector borrowing requirement

The public sector borrowing requirement fell in the third quarter, the first decline since the first quarter of 1974.

£ millions: seasonally adjusted

	1974		1975		
	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr
Financial deficit	1,260	1,510	2,190	1,735	2,080
Lending and other transactions	480	120	430	500	150
Unidentified	- 80	540	- 260	515	480
Borrowing requirement (increase +)	+1,660	+2,170	+2,360	+2,750	+2,710

Details of the financing of the central government borrowing requirement in the third quarter were given in the December 1975 issue of the *Bulletin* (page 344). It was noted that the Government had to borrow some £1,500 million from the banking system, but the effect on the money supply was partly offset by the private sector's net repayment of bank borrowing. In unadjusted terms, recourse to the banks was almost as large, and the banks' combined reserve asset ratio rose to 16% in September. However, after heavy official sales of gilt-edged stocks to the general public, the ratio declined to around 15% by December.

In the fourth quarter, the central government borrowing requirement was some £1,900 million (seasonally adjusted). This was rather less than in the previous quarter, partly because direct borrowing abroad by the nationalised industries reduced their need for central government finance. The net effect of external transactions was to provide the Government with only £25 million of finance, but the private sector (other than banks) took up as much as £2,285 million of central government debt, of which £1,680 million was in the form of gilt-edged stocks and £165 million by way of Treasury bills; holdings of notes and coin rose by £330 million. The Government's debt to the banking system was reduced by some £370 million.

Personal sector

The personal sector's financial surplus rose sharply in the third quarter, after falling in the second. Capital expenditure — mostly on housing — rose to a new peak, but saving was even larger and, as a proportion of persons' disposable income, rose from 13.0% in the second quarter to 13.7% in the third. Nevertheless, the ratio of persons' holdings of liquid assets to disposable income has continued to fall, as has the ratio of liquid assets net of personal borrowing. The personal saving ratio is discussed in an article on page 53.

Persons borrowed a very large amount for house purchase (over £1,000 million): local authorities, as well as building societies, were substantial lenders. But repayments to banks were again heavy, and total borrowing by the personal sector rose less than in the previous quarter.

On the assets side, the new index-linked saving schemes launched in June and July were responsible for the unusually large inflow (£140 million) into national savings in the third quarter. Also, personal bank deposits reverted to the usual pattern of substantial increase after the sharp fall recorded in the previous quarter (perhaps partly associated with the introduction of new reporting returns — see page 344 in the December 1975 issue of the *Bulletin*).

Personal selling of equities and debentures continued as usual, though on a smaller scale than in the two previous quarters; and there were also net sales of gilt-edged stocks and of local authority debt.

Industrial and commercial companies

Net of stock appreciation, saving by industrial and commercial companies was again large in the third quarter, but their financial deficit widened slightly because of a sharp rise in domestic capital formation, largely reflecting deliveries of production platforms for North Sea oil. Nevertheless, with long-term investment abroad much less than usual, the total requiring financing was well below the second quarter figure. Almost half of the total was obtained through capital issues, in sharp contrast to the third quarter of 1974, when the proportion so financed was under 1%. Moreover, there were substantial inflows from abroad, partly in connection with North Sea oil investment. As a result, companies were able to rebuild their liquid assets by £1,220 million. Bank deposits and holdings of notes and coin rose by £950 million and, unusually, companies also bought as much as £270 million of Treasury bills, which for most of the quarter offered a slightly higher yield than sterling certificates of deposit of similar maturity. Companies also repaid £70 million (net) of bank borrowing (the first net repayments since the fourth quarter of 1969).

Other financial institutions

Total liabilities of these institutions rose sharply in the third quarter. Inflows into life assurance and pension funds were again heavy, partly reflecting the large rise in personal disposable income but also, perhaps, attempts by companies to offset the effects of inflation on their pension funds. Building society shares and deposits rose strongly despite some recovery in competing interest rates. The institutions also obtained nearly £300 million from the banking system.

As in most recent quarters, there was a preference for government stocks rather than equities and debentures: net purchases of gilt-edged by the institutions in the first three quarters of 1975 amounted to over £2,000 million. Lending for house purchase by the building societies, although amounting to no less than £700 million (almost twice as much as a year earlier), was not as large as their inflows could have supported: the societies also invested heavily in gilt-edged stocks, and their liquidity ratio rose to over 20%.

Capital account of industrial and commercial companies

Despite an increase in saving, companies' deficit widened in the third quarter because of a rise in capital spending.

£ millions: seasonally adjusted

	1974		1975		
	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr
Saving[a]	1,100	1,050	850	900	1,080
Capital transfers	80	80	100	80	100
less:					
Gross domestic capital formation[a]	-2,210	-1,680	-1,000	-1,260	-1,620
Financial deficit (-)	-1,030	-550	-50	-280	-440
[a] Excluding stock appreciation of:	850	960	1,310	1,020	920

In the fourth quarter, inflows into building societies were rather less than in any of the three preceding quarters, but were still large at £990 million. December was a particularly good month for the societies, as competing interest rates moved downwards. Over the year as a whole, inflows into the societies amounted to £4,240 million, more than twice as much as in 1974. Net lending rose strongly in the December quarter, and with commitments also increasing sharply, lending in the early months of 1976 is likely to remain high.

Banking sector

Domestic bank deposits fell slightly in the fourth quarter: a rise of £240 million in public sector deposits was more than offset by a fall of £320 million in private deposits. A fall in domestic deposits, even as small as this, is very unusual – the average quarterly rise in the first three quarters of 1975 was nearly £600 million – but public sector debt provided a particularly attractive alternative during the quarter. The fall in domestic deposits was matched by small net repayments of bank borrowing by the private sector; lending to the public sector as a whole was little changed. Within the private sector, persons and companies each borrowed slightly more, but other financial institutions repaid an unusually large amount.

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 4th qtr	+ 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	+ 719	+ 9,036	- 5,260	-4,317	+ 178	-2,380	+ 7	-2,195
2nd "	+ 653	+ 9,869	- 5,421	-4,628	+ 473	-2,221	+15	-1,733
3rd "	+ 515	+10,517	- 5,887	-4,872	+ 273	-2,323	-28	-2,078
Overseas sector [f]								
1972 4th qtr					+ 11			+ 11
1973 1st qtr					+ 125		+38	+ 163
2nd "					+ 63		+19	+ 82
3rd "					+ 217		+ 1	+ 218
4th "					+ 430		+ 1	+ 431
1974 1st qtr					+ 845		-	+ 845
2nd "					+ 948		+29	+ 977
3rd "					+ 823		+40	+ 863
4th "					+1,052		+ 6	+1,058
1975 1st qtr					+ 432		-	+ 432
2nd "					+ 343		-	+ 343
3rd "					+ 584		-	+ 584
Personal sector								
1972 4th qtr	+ 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	+15,783	+ 6,073	-14,575	-4,897	+2,384	- 823	-94	+1,467
2nd "	+16,307	+ 6,741	-15,537	-5,196	+2,315	- 841	-80	+1,394
3rd "	+17,347	+ 7,083	-16,105	-5,771	+2,554	- 928	-54	+1,572
Company sector [g]								
1972 4th qtr	+ 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	+ 2,524	+ 3,001		-3,084	+2,441	-2,579	+87	- 51
2nd "	+ 2,370	+ 3,042		-3,227	+2,185	-2,594	+65	- 344
3rd "	+ 2,233	+ 3,116		-3,044	+2,305	-2,956	+82	- 569

- 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				
	4th qtr	1st qtr	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	3rd qtr	4th qtr
Capital expenditure	+1,227	+1,424	+1,355	+1,472	+1,517	+1,728	+1,655	+1,843	+2,091	+2,380	+2,221	+2,323					
less Saving	- 685	- 803	- 634	- 788	- 742	- 172	- 934	- 613	- 584	- 178	- 473	- 273					
less Capital transfers (net)	- 14	+ 23	+ 11	- 7	- 16	- 11	+ 34	+ 34	+ 8	- 7	- 15	+ 28					
<i>equals</i> Financial surplus -/deficit +	+ 528	+ 644	+ 732	+ 677	+ 759	+1,545	+ 755	+1,264	+1,515	+2,195	+1,733	+2,078					
Lending and other transactions (increase in assets +)[a]	+ 280	+ 209	+ 399	+ 433	+ 407	+ 93	+ 547	+ 478	+ 116	+ 427	+ 501	+ 153					
Unidentified	- 26	- 184	- 79	+ 116	+ 105	- 574	+ 161	+ 80	+ 541	- 259	+ 513	+ 479					
Borrowing requirement (increase +)	+ 782	+ 669	+1,052	+1,226	+1,271	+1,064	+1,463	+1,662	+2,172	+2,363	+2,747	+2,710					
<i>Financed by (borrowing -):</i> †																	
Central government:																	
External transactions	- 221	+ 136	+ 341	- 55	+ 106	- 191	+ 9	- 151	- 672	- 169	- 390	+ 396	- 24				
Notes and coin with the public	- 123	- 152	- 117	+ 7	- 209	- 76	- 125	- 255	- 253	- 200	- 80	- 185	- 331				
Bank borrowing	- 42	- 667	- 220	+ 128	- 294	- 352	+ 521	- 42	- 726	- 263	- 872	-1,626	+ 366				
Other domestic transactions[b] [c]	- 252	+ 123	- 879	- 438	- 193	+ 75	-1,056	- 508	+ 259	-1,217	- 746	-1,110	-1,921				
	- 638	- 560	- 875	- 358	- 590	- 544	- 651	- 956	-1,392	-1,849	-2,088	-2,525	-1,910				
Local authorities:																	
External finance	- 50	- 68	- 28	- 97	- 125	+ 10	+ 23	- 38	+ 81	+ 25	- 62	+ 12	- 69				
Bank borrowing	+ 4	+ 69	+ 63	- 51	- 102	+ 231	+ 23	+ 108	- 187	- 293	- 261	- 126	- 184				
Other domestic borrowing	- 102	- 209	- 401	- 161	- 235	- 667	- 766	- 484	- 446	- 239	- 222	- 47					
	- 148	- 208	- 366	- 309	- 462	- 426	- 720	- 414	- 552	- 507	- 545	- 161					
Public corporations:																	
External finance	+ 1	- 27	- 11	+ 22	- 88	- 9	- 226	- 152	- 174	- 72	- 174	- 52	- 136				
Domestic borrowing[c]	+ 3	+ 126	+ 200	- 581	- 131	- 85	+ 134	- 140	- 54	+ 65	+ 60	+ 28					
	+ 4	+ 99	+ 189	- 559	- 219	- 94	- 92	- 292	- 228	- 7	- 114	- 24					
Total net borrowing	- 782	- 669	-1,052	-1,226	-1,271	-1,064	-1,463	-1,662	-2,172	-2,363	-2,747	-2,710					
† 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	+ 10	- 5	-				
Public corporations:																	
From UK banks	+ 4	+ 19	+ 183	+ 342	+ 201	+ 180	+ 93	+ 52	-	-	- 1	-	-				
Direct from overseas	-	+ 50	+ 10	- 9	+ 86	+ 28	+ 219	+ 163	+ 185	+ 69	+ 165	+ 52	+ 135				

- 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			
	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr
Financial surplus +/deficit -	+ 11	+163	+ 82	+218	+431	+845	+977	+863	+1,058	+432	+343	+ 584	
Transactions with the UK private sector													
Investment flows:													
Transactions in company and overseas securities	- 88	+ 81	+ 90	+ 24	+121	+200	+107	+255	+ 478	+ 37	- 49	+ 25	
Miscellaneous private investment	- 88	- 91	- 75	- 83	-315	+358	+182	+110	- 628	-307	-609	+ 197	
Other transactions:													
Net external transactions by UK banks[b]	+ 48	+423	+319	+153	+665	+196	+311	- 39	+ 542	+424	+969	- 39	+ 59
Other identified	+300	-128	+ 35	-130	+ 66	+105	+257	- 23	- 7	-	-453	+ 444	
Balancing item	-349	+ 30	+ 92	+196	-123	-100	+ 66	+369	+ 65	+177	+ 36	+ 441	
	-177	+315	+461	+160	+414	+759	+923	+672	+ 450	+331	-106	+1,068	
Transactions with the UK public sector													
Lending etc.[c]	- 82	-111	- 77	- 72	- 90	-104	-140	-150	- 157	-115	-177	- 128	
External finance:[d]													
Central government	+221	-136	-341	+ 55	-106	+191	- 9	+151	+ 672	+169	+390	- 396	+ 24
Local authorities	+ 50	+ 68	+ 28	+ 97	+125	- 10	- 23	+ 38	- 81	- 25	+ 62	- 12	+ 69
Public corporations	- 1	+ 27	+ 11	- 22	+ 88	+ 9	+226	+152	+ 174	+ 72	+174	+ 52	+136
	+188	-152	-379	+ 58	+ 17	+ 86	+ 54	+191	+ 608	+101	+449	- 484	

[a] It has not been possible to include in this table the balance of payments estimates for the 4th quarter of 1975, and revisions to previous quarters, which were released in March.

[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				
	4th qtr	1st qtr	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	3rd qtr	4th qtr
Saving	+1,293	+1,077	+1,566	+1,501	+1,583	+1,661	+1,635	+2,055	+2,180	+2,384	+2,315	+2,554					
Capital transfers (net)	- 84	- 93	- 68	- 84	- 74	- 88	- 64	- 65	- 61	- 94	- 80	- 54					
Capital expenditure	- 753	- 844	- 752	- 801	- 776	- 754	- 754	- 710	- 788	- 823	- 841	- 928					
Financial surplus +/-deficit -	+ 456	+ 140	+ 746	+ 616	+ 733	+ 819	+ 817	+1,280	+1,331	+1,467	+1,394	+1,572					
Borrowing (-)																	
For house purchase	- 721	- 807	- 710	- 747	- 539	- 483	- 433	- 635	- 748	- 747	- 932	-1,013					
Bank borrowing[a]	- 675	- 490	- 252	- 316	+ 31	- 76	- 40	+ 123	- 31	+ 156	+ 142	+ 273	-125				
Hire-purchase debt	- 50	- 88	- 38	- 25	- 32	+ 38	+ 12	+ 13	+ 3	- 15	- 51	- 5					
Other[b]	- 32	- 83	- 100	- 27	- 61	+ 31	- 171	- 60	- 41	+ 233	- 107	- 54					
	-1,478	-1,468	-1,100	-1,115	- 601	- 490	- 632	- 559	- 817	- 373	- 948	- 799					
Acquisition of financial assets (+)																	
Life assurance and pension funds	+ 673	+ 842	+ 720	+ 660	+ 735	+ 846	+ 695	+ 716	+ 858	+ 920	+1,050	+1,150					
Government stocks	+ 40	+ 117	+ 212	+ 180	+ 223	+ 193	+ 303	+ 231	- 155	+ 517	- 30	- 62					
Company and overseas securities	- 369	- 527	- 354	- 680	- 670	- 556	- 363	- 251	- 72	- 735	- 425	- 259					
Unit trust units	+ 64	+ 57	+ 47	+ 31	+ 15	- 1	- 2	+ 7	+ 8	+ 36	+ 36	+ 33					
Bank deposits, notes and coin	+ 542	+ 605	+ 904	+ 992	+1,115	+ 995	+ 781	+ 717	+ 834	+ 280	- 547	+ 464	+121				
Building society shares and deposits	+ 524	+ 480	+ 787	+ 536	+ 385	+ 228	+ 455	+ 633	+ 684	+1,095	+1,087	+1,045	+994				
National savings	+ 88	+ 75	+ 63	+ 45	- 39	- 38	- 26	+ 12	+ 61	+ 91	+ 75	+ 136	+113				
Local authority debt	+ 48	+ 62	+ 5	+ 137	+ 145	+ 404	+ 372	+ 24	- 35	+ 55	- 208	- 155					
Other	+ 66	+ 67	- 18	+ 21	+ 13	- 52	- 15	- 21	+ 72	- 36	+ 104	+ 77					
	+1,676	+1,778	+2,366	+1,922	+1,922	+2,019	+2,200	+2,068	+2,255	+2,223	+1,142	+2,429					
Identified financial transactions	+ 198	+ 310	+1,266	+ 807	+1,321	+1,529	+1,568	+1,509	+1,438	+1,850	+ 194	+1,630					
Unidentified	+ 258	- 170	- 520	- 191	- 588	- 710	- 751	- 229	- 107	- 383	+1,200	- 58					

[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				
	4th qtr	1st qtr	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	3rd qtr	4th qtr
Capital expenditure	+1,376	+1,768	+1,777	+2,118	+2,375	+2,868	+3,252	+3,055	+2,638	+2,309	+2,286	+2,532					
less Saving	-1,543	-1,665	-1,702	-1,834	-2,072	-2,234	-2,027	-1,950	-2,009	-2,157	-1,924	-1,998					
less Capital transfers (net)	- 85	- 97	- 79	- 95	- 76	- 93	- 85	- 76	- 80	- 104	- 82	- 99					
equals Financial surplus -/deficit +	- 252	+ 6	- 4	+ 189	+ 227	+ 541	+1,140	+1,029	+ 549	+ 48	+ 280	+ 435					
Trade investments, mergers, etc. in the United Kingdom	+ 243	+ 230	+ 198	+ 313	+ 252	+ 211	+ 101	+ 77	+ 65	+ 72	+ 77	+ 82					
Long-term investment abroad	+ 248	+ 416	+ 493	+ 446	+ 808	+ 472	+ 237	+ 406	+ 733	+ 567	+ 677	+ 231					
Total requiring financing (+)	+ 239	+ 652	+ 687	+ 948	+1,287	+1,224	+1,478	+1,512	+1,347	+ 687	+1,034	+ 748					
Capital issues (including euro-currency issues)	- 179	- 111	- 101	- 29	- 30	+ 7	- 3	- 13	+ 10	- 5	- 336	- 354	-342				
Overseas investment in UK companies	- 123	- 200	- 347	- 217	- 398	- 786	- 336	- 442	- 201	- 256	- 37	- 428					
Import credit and advance payments on exports	- 103	- 59	- 71	- 69	- 188	- 59	- 73	- 63	- 175	+ 2	- 16	- 38					
Export credit and advance payments on imports	+ 32	+ 123	+ 14	+ 38	+ 107	+ 78	+ 118	+ 20	+ 60	+ 9	- 43	- 20					
Bank borrowing	- 816	- 675	- 617	-1,611	-1,767	- 983	-1,295	-1,536	- 597	- 355	- 414	+ 68	- 9				
Other borrowing[a]	- 50	- 287	- 186	- 421	- 343	- 134	+ 43	- 4	- 168	- 307	+ 226	- 66					
Bank deposits, notes and coin	+ 744	+ 587	+ 277	+ 969	+ 833	- 49	+ 262	+ 3	- 124	+ 571	+ 454	+ 945	+ 68				
Other liquid assets[b]	+ 38	+ 12	+ 91	+ 30	+ 7	+ 2	+ 13	+ 87	- 95	- 40	+ 50	+ 278					
Other items[c]	+ 2	+ 97	+ 39	+ 48	- 20	+ 5	- 23	+ 57	+ 226	- 111	+ 144	+ 57					
Other overseas transactions (including the balance of payments balancing item)[d]	+ 96	+ 5	- 76	- 18	+ 117	-	- 325	- 238	+ 120	- 34	+ 509	- 829					
Unidentified domestic transactions[d]	+ 120	- 144	+ 290	+ 332	+ 395	+ 695	+ 141	+ 617	- 403	- 161	-1,571	- 361					
Total financing (-)	- 239	- 652	- 687	- 948	-1,287	-1,224	-1,478	-1,512	-1,347	- 687	-1,034	- 748					

[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, British government stocks, local authority debt, tax reserve certificates, tax deposit accounts, certificates of tax deposit, and deposits with other financial institutions. The figures for government stocks relate only to transactions by those large companies covered by the Department of Industry's survey of company liquidity.

[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				
	4th qtr	1st qtr	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	3rd qtr	4th qtr
Lending																	
Public sector	+ 57	+ 491	+ 294	+ 516	+ 528	+ 213	- 548	+ 66	+ 970	+526	+1,083	+1,770	+ 29				
Industrial and commercial companies	+ 827	+ 689	+ 619	+1,649	+1,863	+1,049	+1,268	+1,550	+ 571	+366	+ 411	- 63	+ 48				
Other financial institutions	+ 226	+ 242	+ 117	+ 190	+ 288	+ 139	+ 169	+ 63	- 252	- 42	- 105	+ 299	-297				
Personal sector	+ 775	+ 560	+ 347	+ 406	+ 24	+ 106	+ 75	- 98	+ 31	-166	- 102	- 253	+135				
Total domestic lending	+1,885	+1,982	+1,377	+2,761	+2,703	+1,507	+ 964	+1,581	+1,320	+684	+1,287	+1,753	- 85				
Deposits																	
Public sector	- 135	- 10	- 30	+ 62	- 122	- 8	+ 112	- 2	- 33	- 30	- 186	+ 175	-243				
Industrial and commercial companies	- 682	- 511	- 218	- 973	- 728	+ 87	- 199	+ 124	+ 251	-471	- 414	- 852	+ 98				
Other financial institutions	- 275	- 275	- 222	- 325	- 194	+ 38	+ 98	- 464	- 543	+554	- 351	- 235	+179				
Personal sector	- 481	- 529	- 846	- 995	-1,011	- 957	- 719	- 589	- 708	-180	+ 587	- 372	+ 44				
Total domestic deposits	-1,573	-1,325	-1,316	-2,231	-2,055	- 840	- 708	- 931	-1,033	-127	- 364	-1,284	+ 78				
Net lending to overseas sector[a]	- 107	- 340	- 324	- 161	- 643	- 166	- 262	+ 8	- 580	-328	- 889	+ 10	- 63				
Non-deposit liabilities (net)	- 205	- 317	+ 263	- 369	- 5	- 501	+ 6	- 658	+ 293	-229	- 34	- 479	+ 70				

[a] Claims on overseas sector net of overseas deposits (including foreign currency deposits taken to finance loans to UK public sector).

Table G
Financial institutions other than banks

£ millions
Seasonally adjusted

	1972				1973				1974				1975				
	4th qtr	1st qtr	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	3rd qtr	4th qtr
Increase in financial liabilities (-)																	
Life assurance and pension funds	- 673	- 842	- 720	- 660	- 735	- 846	- 695	- 716	- 858	- 920	-1,050	-1,150					
Building society shares and deposits	- 524	- 475	- 804	- 511	- 370	- 217	- 455	- 633	- 684	-1,095	-1,097	-1,050	-994				
Other deposits	- 63	- 167	+ 4	- 103	- 16	- 7	- 28	- 12	- 182	- 101	- 31	- 84					
Capital issues	- 32	- 46	- 4	- 5	- 24	- 6	- 8	- 20	- 61	- 46	- 180	- 43	- 55				
Sales of unit trust units	- 64	- 57	- 47	- 31	- 15	+ 1	+ 2	- 7	- 8	- 36	- 36	- 33					
Other borrowing[a]	- 226	- 241	- 116	- 189	- 289	- 138	- 270	- 381	+ 306	+ 252	+ 223	- 294					
	-1,582	-1,828	-1,687	-1,499	-1,449	-1,213	-1,454	-1,769	-1,487	-1,946	-2,171	-2,654					
Increase in financial assets (+)																	
Short-term assets[b]	+ 319	+ 293	+ 432	+ 307	+ 243	+ 117	+ 208	+ 784	+1,026	- 828	+ 464	+ 258					
Government stocks	+ 98	+ 83	+ 281	+ 128	+ 211	+ 34	+ 392	+ 129	- 246	+1,141	+ 309	+ 772					
Company and overseas securities:																	
Ordinary shares	+ 371	+ 139	+ 93	+ 92	+ 130	+ 3	+ 68	- 138	- 218	+ 329	+ 805	+ 403					
Fixed-interest	+ 83	+ 32	+ 10	+ 21	+ 33	- 3	+ 20	+ 5	- 27	+ 40	+ 25	+ 75					
Loans for house purchase	+ 557	+ 661	+ 532	+ 542	+ 385	+ 347	+ 275	+ 447	+ 541	+ 554	+ 673	+ 786					
Long-term lending to local authorities	+ 8	+ 17	+ 29	+ 54	- 3	+ 2	+ 50	+ 119	+ 173	+ 308	+ 359	+ 140					
Hire-purchase claims	+ 44	+ 75	+ 32	+ 36	+ 23	- 34	- 7	- 14	- 5	- 1	+ 4	- 3					
Other lending	+ 71	+ 64	+ 121	+ 168	+ 152	+ 55	+ 116	+ 195	+ 264	- 182	- 25	+ 167					
	+1,551	+1,364	+1,530	+1,348	+1,174	+ 521	+1,122	+1,527	+1,508	+1,361	+2,614	+2,598					
Net identified financial transactions	- 31	- 464	- 157	- 151	- 275	- 692	- 332	- 242	+ 21	- 585	+ 443	- 56					

[a] Includes bank borrowing and borrowing by building societies from official bodies.

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

Table H
Flow of funds: third 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	+ 15	+568	+2,467	+1,953		+539	
Taxes on capital and capital transfers	2	- 54		- 54	+ 117		- 9	
<i>less:</i>								
Gross fixed-capital formation at home	3	-2,196		- 738	-1,967		-361	
Increase in value of stocks and work in progress	4	- 177		- 171	- 533		- 30	
Financial surplus +/-deficit -	5	-2,412	+568	+1,504	- 430		+139	+ 631
Changes in financial assets and liabilities								
<i>Assets: increase +/-decrease -</i>								
<i>Liabilities: increase -/decrease +</i>								
Government debt to Banking Department	6	- 157				+ 157		
Life assurance and pension funds	7			+1,150			-1,150	
Loans by the UK Government	8	+ 12	- 6	- 1	- 10		+ 5	
Central government external transactions:								
Direct financing of currency flow	9.1	- 167	+167					
Other	9.2	+ 573	-573					
Banks' net external transactions	10		- 77			+ 77		
Miscellaneous investment overseas (net)	11	+ 68	+559		- 658		+ 31	
Notes and coin	12	- 132		+ 55	+ 56	+ 21		
Bank deposits of domestic sectors	13	- 175		+ 224	+ 985	-1,196	+ 162	
Deposits with other financial institutions	14	- 6	+ 31	+1,062	- 9		-1,078	
National savings	15.1	- 138		+ 138				
Tax reserve certificates/tax deposit accounts	15.2	+ 4		- 3	- 1			
Bank lending to domestic sectors:								
In foreign currency to central government	16.1	-				-		
Other	16.2	- 2		+ 303	+ 398	- 449	- 250	
Hire-purchase and other instalment debt	17	- 3		- 8	+ 12		- 1	
Loans for house purchase	18	+ 207		-1,013		+ 20	+ 786	
Other loans and accruals	19	- 169		+ 64	- 170	+ 203	+ 72	
Marketable government debt held by domestic sectors:								
Treasury bills	20	-1,505			+ 274	+1,092	+ 139	
Stocks	21	- 933		- 62	- 7	+ 230	+ 772	
Local authority debt	22	- 43	- 5	- 155	+ 17	+ 162	+ 24	
UK company and overseas securities:								
Capital issues	23		+ 3		- 354	-	- 43	
Other transactions	24	+ 97	+ 22	- 259	+ 80	- 24	+ 478	
Unit trust units	25			+ 27			- 27	
Identified financial transactions	26	-2,469	+121	+1,522	+ 613	+ 293	- 80	
Unidentified	27	+ 57	+447	- 18	-1,043		- 74	+ 631
Total=Financial surplus +/-deficit -	28	-2,412	+568	+1,504	- 430		+139	+ 631

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

Table J
Flow of funds: third 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	+ 273	+ 584	+2,554	+1,998	+307		
Taxes on capital and capital transfers	2	- 28		- 54	+ 99	- 17		
less:								
Gross fixed-capital formation at home	3							
Increase in value of stocks and work in progress	4	-2,323		- 928	-2,532	-424		
Financial surplus +/deficit -	5	-2,078	+ 584	+1,572	- 435	-134		+491
Changes in financial assets and liabilities								
<i>Assets: increase +/decrease -</i>								
<i>Liabilities: increase -/decrease +</i>								
Government debt to Banking Department	6	- 262				+ 262		
Life assurance and pension funds	7			+1,150			-1,150	
Loans by the UK Government	8	+ 14	- 8	- 1	- 10		+ 5	
Central government external transactions	9	+ 396	- 396					
Banks' net external transactions	10		- 39			+ 39		
Miscellaneous investment overseas (net)	11	+ 68	+ 542		- 641		+ 31	
Notes and coin	12	- 225		+ 92	+ 93	+ 40		
Bank deposits of domestic sectors	13	- 175		+ 372	+ 852	-1,284	+ 235	
Deposits with other financial institutions	14	- 6	+ 31	+1,125	- 16		-1,134	
National savings	15.1	- 136		+ 136				
Tax reserve certificates/tax deposit accounts	15.2	+ 4		- 3	- 1			
Bank lending to domestic sectors	16	- 17		+ 273	+ 68	- 25	- 299	
Hire-purchase and other instalment debt	17	- 3		- 5	+ 11		- 3	
Loans for house purchase	18	+ 207		-1,013		+ 20	+ 786	
Other loans and accruals	19	- 62		- 53	- 10	- 11	+ 136	
Marketable government debt held by domestic sectors:								
Treasury bills	20	-1,513			+ 274	+1,100	+ 139	
Stocks	21	- 933		- 62	- 7	+ 230	+ 772	
Local authority debt	22	- 11	- 12	- 155	+ 28	+ 126	+ 24	
UK company and overseas securities:								
Capital issues	23		+ 3		- 354		- 43	
Other transactions	24	+ 97	+ 22	- 259	+ 80	- 24	+ 478	
Unit trust units	25			+ 33			- 33	
Identified financial transactions	26	-2,557	+ 143	+1,630	+ 367	+ 473		- 56
<i>Unidentified</i>	<i>27</i>	<i>+ 479</i>	<i>+ 441</i>	<i>- 58</i>	<i>- 802</i>	<i>-551</i>		<i>+491</i>
Total=Financial surplus +/deficit -	28	-2,078	+ 584	+1,572	- 435	-134		+491

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

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 6 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, Crown Agents for Oversea Governments and Administrations, etc.

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 7 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 entered in line 16.1.

Line 9.2

All the other central government 'external transactions' included in Table 7 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.

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 6 of the annex). Changes in domestic holdings of 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 7 of the annex.

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 refinancing 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 8 / 1 and 8 / 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 unidentified changes in holdings by industrial and commercial companies (see footnote [b] to Table E) and by overseas residents.

Line 22

Total 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 allow for purely seasonal adjustments and certain other factors.

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.

[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).