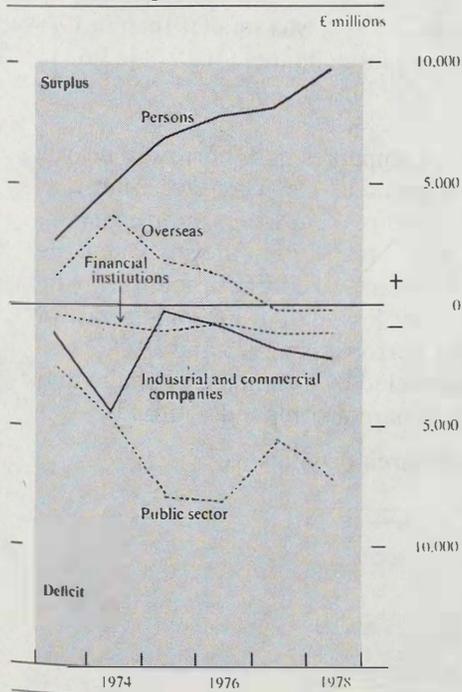


Sector financing: 1978

This article reviews the main developments in the flow of funds between sectors of the economy in 1978.[1] It also provides a full set of flow of funds tables, including transactions by individual groups of 'other financial institutions' and a breakdown by type of security of the various sectors' transactions in 'UK company and overseas securities'.[2]

As the chart and table below show, the main changes in the sectoral surpluses and deficits in 1978 were a sharp increase in the personal sector surplus (as much as 12% in real terms) and a renewed rise in the public sector deficit. The deficit of industrial and commercial companies increased for the third successive year.

Financial surpluses and deficits



Sector surpluses and deficits in 1977 and 1978

£ billions	Public sector	Overseas sector	Personal sector	Industrial and commercial companies	Financial institutions	Residual error
1977	-5.6	-0.3	+8.0	-1.8	-1.2	+0.9
1978[a]	-7.3	-0.3	+9.8	-2.3	-1.2	+1.2

[a] Numbers do not exactly sum to zero because of roundings.

Public sector

The increase in the public sector deficit represented a renewal in its growth after a temporary check in 1977, but the figure of £7.3 billion was still below the peak of £8.2 billion in 1976. Moreover, it was only 4½% of GDP at market prices, compared with 7½% in 1975. The

public sector borrowing requirement (PSBR) moved in a similar way, falling from £9.1 billion in 1976 to £6.0 billion in 1977, and going up again, to £8.3 billion, in 1978. As a proportion of GDP, it rose in 1978 from 4% to 5%, still well below the 10% recorded in 1975.

The whole of the increase in the financial deficit in 1978 was in central government transactions: the local authority deficit fell for the fourth year running and that of public corporations for the third year. The chief reason for the worsening of the central government's position was a faster rise in current expenditure than in receipts. The increase in current grants was particularly large (notably pensions, child benefits, local authority grants and contributions to the European Economic Community). The central government also paid out more in debt interest and in capital transfers. Local authorities benefited from the higher government grants and spent less on fixed investment, while public corporations, taken together, had a larger current surplus, despite losses by British Steel. The increase in the PSBR, at £2.4 billion, was £0.8 billion more than that in the public sector's financial deficit. This was partly because lending and certain other identified financial transactions resulted in a greater outflow of funds, and partly because of a swing in the unidentified items, perhaps because of timing differences between the national income and expenditure estimates and the figures for financial transactions. The central government's borrowing requirement (CGBR) was £3.9 billion larger than in 1977, a greater deterioration than that in the financial deficit (£2.2 billion). Despite this much greater need for finance, the central government borrowed much less at home than in the previous year, because its external transactions, which had increased its need for domestic finance in 1977, now resulted in a net receipt of funds. The balance of payments surplus on current account was only slightly smaller, but there were capital outflows, which were particularly large in the second quarter when the authorities intervened heavily and the reserves fell by £2.0 billion.

The non-bank private sector took up less central government debt than in 1977, but the figure was still large. National savings were again popular, helped by an increase in the limit on holdings of the fourteenth issue of national savings certificates; and sales of gilt-edged stocks, although smaller than the record figure in 1977, were again heavy. These movements offset a smaller net take-up of certificates of tax deposit, and reductions in holdings of Treasury bills.

[1] Some of the figures, particularly those derived from the national income and balance of payments accounts, are still provisional.

[2] The *Bulletin* now generally provides only a selection of flow of funds tables in the statistical annex, while the figures published in *Financial Statistics*, which are on a different classification of transactions, are not seasonally adjusted. Long runs of the Bank's full set of tables are, however, available as computer print-outs on request.

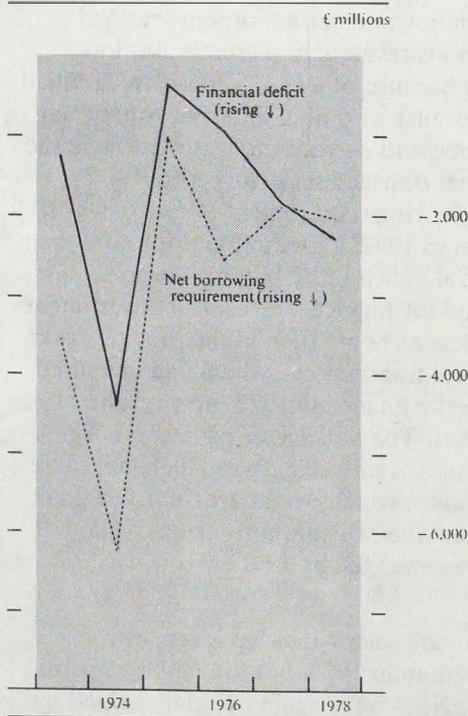
The finance from external transactions, together with the non-bank take-up of government debt, meant that the banks' holdings of central government debt actually fell.

Local authorities had a smaller borrowing requirement, but borrowed much less from the central government and more from the market than in 1977, when their market borrowing was exceptionally small. Public corporations also needed less finance, but they repaid quite large amounts of foreign currency debt and so still needed to borrow more from the central government.

Industrial and commercial companies

The financial deficit of industrial and commercial companies, which had declined in the second half of 1977, rose again in 1978, and was £0.5 billion bigger in the year as a whole. Gross trading profits of these companies, apart from stock appreciation, were 16% higher than in 1977, so, although these companies paid out 20% more in dividends and 50% more in UK taxes, they saved nearly £1.0 billion more than in 1977; on the other hand, they spent £1.4 billion more on fixed investment. Their financial deficit was particularly large in the fourth quarter, when gross trading profits fell, dividends, interest and tax payments were high, and stocks were increased.

Industrial and commercial companies' financial deficit and net borrowing requirement



Companies' net borrowing requirement, which is a better measure of their net cash deficit, was also somewhat larger than in the previous year (see table). The reasons for the slower growth in the net borrowing requirement are not clear, for the statistics show a bigger unidentified inflow of funds.[1] The figures for

borrowing and other financing items may be more reliable than those for the components leading up to the borrowing requirement, and the movement in the unidentified may indicate, for instance, that the

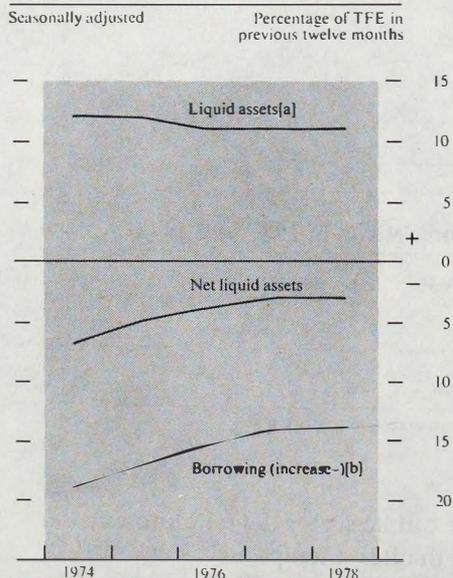
Borrowing requirement of industrial and commercial companies

£ billions	1976	1977	1978
Saving[a]	6.6	8.6	9.5
Capital transfers	0.4	0.3	0.4
Gross domestic fixed-capital formation (-)	-8.0	-9.7	-11.1
Physical increase in stocks (-)	—	-1.0	-1.1
Financial deficit (-)	-1.0	-1.8	-2.3
less			
Net unremitted profits	-1.1	-0.1	-0.3
UK trade investments and mergers	-0.5	-0.7	-0.8
Long-term investment abroad	-0.7	-0.6	-0.6
Identified trade credit etc	-0.3	+0.2	+0.3
Unidentified	+1.0	+1.2	+1.6
Net borrowing requirement (-)	-2.6	-1.8	-2.1
Financed by:			
Borrowing (+)	+4.8	+5.4	+5.4
Decrease in liquid assets (+) etc.	-2.2	-3.6	-3.3
[a] Excluding stock appreciation of:	5.2	4.0	3.2

financial deficit grew by less than the figures show or that there was a bigger net inflow from trade credit etc. It is worth noting that the borrowing requirement, although larger than in 1977, was smaller than in 1976 and far below the very large figures for 1973 (£3.6 billion) and 1974 (£6.2 billion).

In 1978, as in 1977, companies both borrowed heavily and increased their liquid assets. There were net redemptions of debentures, but issues of ordinary shares were, with some recovery in the stock markets, higher. Companies borrowed a large amount from the banks, although rather less than in 1977 and some way below the big sums borrowed in 1973 and 1974. This movement was paralleled by a similar movement in the inflow of funds from parent companies abroad.

Industrial and commercial companies' liquidity



[a] Comprises notes and coin, bank deposits, holdings of local authority temporary debt, Treasury bills, certificates of tax deposit (and their predecessors), and deposits with finance houses and building societies.

[b] Comprises bank advances, commercial bills and call money.

[1] This does not seem to have been caused by unidentified overseas transactions: the balancing item in the balance of payments represented a smaller unidentified inflow than in 1977, suggesting that companies' net borrowing from abroad was also smaller.

Companies were able to increase their liquid assets, by much the same amount as in 1977. Cash and bank deposits went up by almost as much as in the previous year, but holdings of Treasury bills were reduced by more and fewer certificates of tax deposit were acquired. As the chart on the previous page shows, neither liquid assets, nor the net liquid position, showed any improvement in relation to turnover.

Personal sector

The rise in the personal sector surplus was exceptionally large. The increase in wages and salaries, which at 10% had been small by recent standards in 1977, speeded up again to 13½% in 1978, when persons also received more government grants and larger pension contributions from employers. Personal disposable income rose by 15½%; with consumer prices 8% higher, real disposable incomes, which had fallen in 1977, now rose by 6½%. Consumers' expenditure followed a similar path, rising by 14½% in nominal terms and 5½% in real terms; the savings ratio rose to 14.4%, higher than in 1977 but much the same as in 1976.

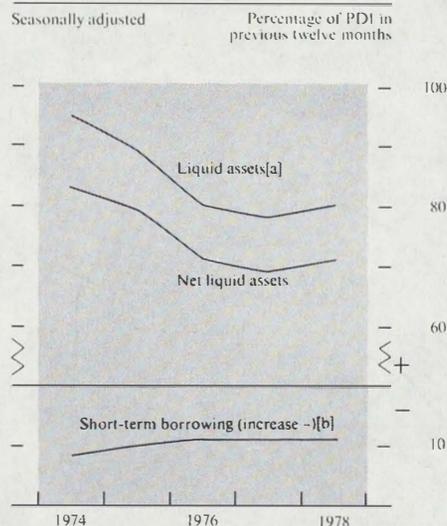
The sector received more capital transfers in 1978, notably government grants to housing associations, and, although investment in new dwellings was higher, the financial surplus rose by over 20%—as much as 12% in real terms. The surplus was particularly large in the fourth quarter, when government grants went up with the increase in national insurance benefits, and the pensioners received their Christmas bonus.

Borrowing for house purchase, which had risen strongly throughout 1977 when the inflow of funds to building societies was accelerating and mortgage rates were falling, reached a peak early in 1978 and then eased off somewhat as the inflow slackened; over the year as a whole, net new borrowing was nearly 25% greater than in 1977. Bank borrowing was 37% higher than in 1977, well above the rise in consumers' expenditure (14½%). This probably reflected the surge in spending on durable goods; such spending rose by a third, with spending on cars as much as 50% higher. The same factor affected hire-purchase credit from finance houses (outside the banking sector) and shops, and, perhaps, borrowing from other sources too.

Interest rates were rising for most of the year and, as is normal in such circumstances, the rates paid on building society shares and deposits lagged behind other rates. Consequently, the flow of personal funds into the building societies fell sharply in the first half of the year, recovering later as rates were increased. In total, however, the inflow was £1.0 billion smaller than in 1977. National savings were competitive and attracted more funds. Holdings of bank deposits and of notes and coin rose substantially, bank deposits going up by 15%, compared with 3% in 1977. This must, to a large extent, have reflected the popularity of bank deposit accounts compared with investment in building societies, when market rates were rising, as well as the personal sector's bigger financial surplus. Persons

showed less interest in securities: they bought somewhat fewer gilt-edged stocks and continued their heavy sales of UK ordinary and fixed-interest securities (see Table K). Indirectly, however, persons invested larger amounts in securities, through bigger increases in life assurance and pension funds and increased purchases of unit trust units.

Personal sector liquidity



[a] Comprises the assets listed in footnote[a] to the preceding chart, but excluding Treasury bills and including national savings.

[b] Comprises bank advances (excluding borrowing for house purchase) and hire-purchase debt.

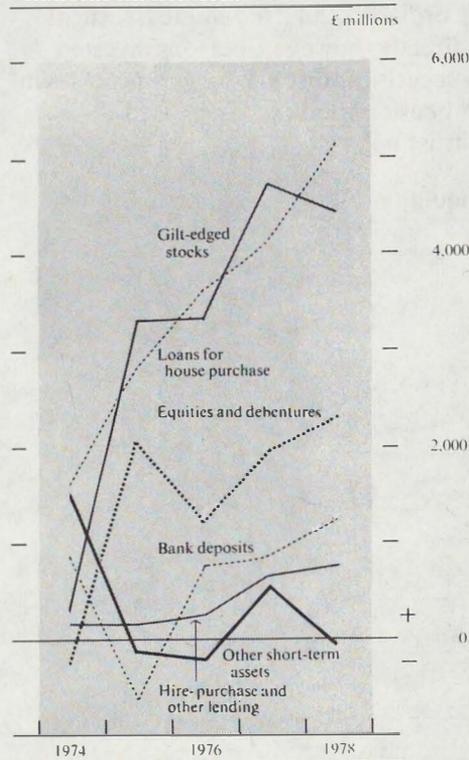
In total, the personal sector has placed a somewhat greater emphasis on liquid assets in the last two years (see chart), when the fall in liquidity seems to have eased. Short-term borrowing, however, rose as a proportion of incomes, but the fall in net liquid assets appears to have been checked.

Other financial institutions

The inflow of funds to these institutions, which had risen by 37% in 1977, rose by a more modest 11½% in 1978. This was partly because of the reduced inflow to building societies, and partly because deposits with other institutions went down in 1978. Moreover, capital issues by these institutions, which had totalled £133 million in 1977 when insurance companies and special finance agencies raised funds in this way, came to less than £10 million in 1978. On the other hand, the increase in life assurance and pension funds was much bigger, by over 30%, with life funds having a particularly good year and pension funds growing faster than money earnings. Both life and pension funds were helped by the introduction of the new State pension scheme. Unit trusts too did well.

Building societies lent more for house purchase. As noted above, however, their inflow of funds was smaller. Consequently they had to run down their liquid assets: their holdings of local authority debt fell and they invested less in government stocks. The societies also withdrew funds from the national savings bank investment account, which, in turn, reduced its holdings of Treasury bills and local authority debt and also bought fewer gilt-edged stocks. Investment trusts, by

Acquisition of assets by other financial institutions



contrast, increased their liquid assets, particularly bank deposits; they also sold gilt-edged stocks, as well as company securities. Unit trusts had a bigger inflow of funds; they built up their holdings of liquid assets and also put more into ordinary shares. Pension funds likewise used part of their bigger inflow to increase their liquid assets, but as usual put the bulk of their available funds into gilt-edged stocks and ordinary shares. Insurance companies too, with more to invest than in 1977, bought more gilt-edged stocks. On balance, however, the other financial institutions' purchases of gilt-edged stocks were somewhat smaller.

On the other hand, the institutions bought rather more ordinary shares, for larger purchases by life assurance funds, unit trusts and others offset sales by investment trusts and by general insurance companies. Overseas shares were more popular than those of UK companies with some institutions: unit trusts concentrated their purchases on overseas shares, while pension funds increased their purchases of overseas shares, but bought

fewer UK shares than in 1977. The institutions also bought more overseas government securities.

As a result of the increases in liquid assets held by insurance companies, pension funds, investment trusts and unit trusts, the institutions as a whole built up their short-term assets, but by less than in 1977. Within the total, however, bank deposits rose by more, while holdings of other assets fell.

These institutions' financial liabilities rose by more than their financial assets in 1978, but the latter exclude investment in property (treated as gross domestic fixed-capital formation in the national accounts), which amounted to £1.3 billion in 1978, £0.2 billion more than in 1977.

Banking sector

Total domestic bank lending grew by 8% in 1978, somewhat less than the 12% rise in total final expenditure, and less than the 12% increase in lending in 1977. The fall in claims on the public sector, coupled with less growth in lending to industrial and commercial companies, more than offset bigger increases in lending to persons and to financial institutions.

Domestic deposits, however, rose by 14%, more rapidly than in the previous year (9%).

These movements—a smaller increase in domestic lending, but a bigger rise in domestic deposits than in the previous year—were matched by a big swing in the banks' external transactions, an inflow of £2.7 billion in 1977 when sterling was very strong being followed by an outflow of £1.8 billion in 1978.

Thus the change in external conditions, with outflows replacing the large inflows of 1977, eased the authorities' problems in financing the bigger PSBR. Nevertheless, with a bigger increase in sterling bank lending both to the private sector and to overseas, domestic credit expansion (DCE) was much greater, at £7.9 billion, after only £1.1 billion in 1977. Because of external outflows, sterling M_3 rose by less than DCE in 1978, whereas in 1977 it had risen by more. Nevertheless, the increase in 1978 (15%) was greater than in 1977 (10%). The increase was, however, in line with the rise of 14% in nominal GDP.

Table A
Flow of funds: 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[a]	less Capital transfers (net payments -)	less Gross fixed-capital formation	less Stockbuilding	equals Financial surplus/deficit[d]
Public sector									
1974	+ 2,706	+32,880	-16,564	-16,396	+ 2,626	+110	- 7,229	- 326	-4,819
1975	+ 3,270	+42,294	-22,962	-20,487	+ 2,115	- 34	- 9,022	- 975	-7,916
1976	+ 4,661	+49,665	-26,671	-24,820	+ 2,835	-201	-10,066	- 816	-8,248
1977	+ 5,236	+56,868	-29,173	-28,453	+ 4,478	-234	- 9,493	- 378	-5,627
1978	+ 5,576	+63,022	-32,618	-32,886	+ 3,094	-578	- 9,288	- 482	-7,254
1977 3rd qtr	+ 1,417	+14,568	- 7,427	- 7,168	+ 1,390	- 39	- 2,398	- 124	-1,171
4th ..	+ 1,174	+14,366	- 7,503	- 7,275	+ 762	- 22	- 2,360	- 36	-1,656
1978 1st qtr	+ 1,292	+15,073	- 7,905	- 7,660	+ 800	-257	- 2,298	- 42	-1,797
2nd ..	+ 1,408	+15,684	- 8,016	- 8,250	+ 826	-133	- 2,311	- 127	-1,745
3rd ..	+ 1,396	+15,629	- 8,210	- 8,262	+ 553	- 92	- 2,360	- 153	-2,052
4th ..	+ 1,480	+16,636	- 8,487	- 8,714	+ 915	- 96	- 2,319	- 160	-1,660
Overseas sector[d]									
1974					+ 3,666	+ 75			+3,741
1975					+ 1,843	—			+1,843
1976					+ 1,137	—			+1,137
1977					- 298	—			- 298
1978					- 254	—			- 254
1977 3rd qtr					- 522	—			- 522
4th ..					- 501	—			- 501
1978 1st qtr					+ 341	—			+ 341
2nd ..					- 146	—			- 146
3rd ..					- 51	—			- 51
4th ..					- 398	—			- 398
Personal sector									
1974	+52,783	+23,263	-51,997	-15,501	+ 8,548	-451	- 2,162	- 982	+4,953
1975	+68,290	+28,067	-63,385	-22,071	+10,901	-354	- 3,127	- 517	+6,903
1976	+78,241	+33,606	-73,464	-25,963	+12,420	- 28	- 3,505	-1,024	+7,863
1977	+85,861	+38,910	-83,585	-27,910	+13,276	+127	- 4,220	-1,163	+8,020
1978	+97,253	+44,731	-95,738	-30,103	+16,143	+296	- 5,737	- 939	+9,763
1977 3rd qtr	+21,612	+ 9,722	-21,496	- 6,924	+ 2,914	+ 32	- 1,075	- 245	+1,626
4th ..	+22,280	+10,310	-21,800	- 6,898	+ 3,892	+ 11	- 1,208	- 254	+2,441
1978 1st qtr	+22,897	+10,558	-22,802	- 7,459	+ 3,194	+ 75	- 1,293	- 215	+1,761
2nd ..	+24,166	+11,101	-23,474	- 7,587	+ 4,206	+ 87	- 1,343	- 261	+2,689
3rd ..	+24,760	+11,165	-24,591	- 7,276	+ 4,058	+ 66	- 1,553	- 267	+2,304
4th ..	+25,430	+11,907	-24,871	- 7,781	+ 4,685	+ 68	- 1,548	- 196	+3,009
Industrial and commercial companies									
1974	+11,058	+ 3,613		- 7,150	+ 7,521	+332	- 6,062	-6,195	-4,404
1975	+11,920	+ 3,101		- 6,514	+ 8,507	+404	- 6,734	-2,558	- 381
1976	+14,961	+ 4,150		- 7,307	+11,804	+358	- 8,014	-5,126	- 978
1977	+17,643	+ 4,182		- 9,220	+12,605	+257	- 9,678	-5,005	-1,821
1978	+19,072	+ 4,529		-10,913	+12,688	+365	-11,126	-4,226	-2,299
1977 3rd qtr	+ 4,341	+ 1,020		- 2,313	+ 3,048	+ 47	- 2,471	- 841	- 217
4th ..	+ 4,283	+ 951		- 2,233	+ 3,001	+ 49	- 2,541	- 770	- 261
1978 1st qtr	+ 4,438	+ 993		- 2,478	+ 2,953	+131	- 2,702	- 804	- 422
2nd ..	+ 4,700	+ 1,111		- 2,550	+ 3,261	+ 88	- 2,817	-1,135	- 603
3rd ..	+ 4,906	+ 1,160		- 2,728	+ 3,338	+ 68	- 2,808	- 996	- 398
4th ..	+ 5,028	+ 1,265		- 3,157	+ 3,136	+ 78	- 2,799	-1,291	- 876
Financial institutions									
1974	- 1,550	+ 7,754		- 5,420	+ 784	- 66	- 1,471	+ 13	- 740
1975	- 1,778	+ 8,167		- 5,725	+ 664	- 16	- 1,653	- 45	-1,050
1976	- 2,054	+ 9,985		- 6,568	+ 1,363	-129	- 2,012	- 24	- 802
1977	- 2,135	+10,262		- 6,798	+ 1,329	-150	- 2,417	+ 40	-1,198
1978	- 2,290	+11,577		- 7,267	+ 2,020	- 83	- 3,100	+ 6	-1,157
1977 3rd qtr	- 535	+ 2,543		- 1,642	+ 366	- 40	- 686	- 16	- 376
4th ..	- 545	+ 2,380		- 1,567	+ 268	- 38	- 682	+ 26	- 426
1978 1st qtr	- 573	+ 2,359		- 1,505	+ 281	+ 51	- 829	- 4	- 501
2nd ..	- 566	+ 2,706		- 1,663	+ 477	- 42	- 760	- 22	- 347
3rd ..	- 573	+ 3,097		- 1,913	+ 611	- 42	- 684	- 9	- 124
4th ..	- 578	+ 3,415		- 2,186	+ 651	- 50	- 827	+ 41	- 185

— nil or less than £½ million.

[a] Without deduction of depreciation or of 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] See the notes to Tables L and M (line 5).

Table B
Flow of funds: public sector

£ millions

Seasonally adjusted

	1974	1975	1976	1977	1978	1977				1978				1979
	Year	Year	Year	Year	Year	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	1st qtr	
Capital expenditure	+7,555	+9,997	+10,882	+9,871	+9,770	+2,522	+2,396	+2,340	+2,438	+2,513	+2,479			
less Saving	-2,626	-2,115	-2,835	-4,478	-3,094	-1,390	-762	-800	-826	-553	-915			
less Capital transfers (net)	-110	+34	+201	+234	+578	+39	+22	+257	+133	+92	+96			
<i>equals</i> Financial surplus -/deficit +	+4,819	+7,916	+8,248	+5,627	+7,254	+1,171	+1,656	+1,797	+1,745	+2,052	+1,660			
Lending and other transactions (increase in assets +) [a]	+1,823	+2,359	+1,432	+406	+739	+19	-161	+223	-347	+120	+743			
Unidentified	-268	+246	-573	-77	+362	-467	+125	-481	+504	-32	+371			
Borrowing requirement (increase +)	+6,374	+10,521	+9,107	+5,956	+8,355	+723	+1,620	+1,539	+1,902	+2,140	+2,774			
Financed by (borrowing -): †														
Central government:														
External transactions	-979	-189	-1,283	+7,131	-1,407	+2,676	+1,873	-156	-1,669	+102	+316	+521		
Notes and coin with the public	-709	-816	-809	-985	-1,204	-216	-301	-449	-152	-331	-267	-339		
Bank borrowing	-599	-2,375	+49	-1,838	+477	-428	-920	+93	+1,273	-346	-548	+1,222		
Other domestic transactions [b]	-1,230	-4,965	-4,743	-8,778	-6,243	-2,088	-2,233	-845	-1,816	-1,594	-1,988	-2,611		
	-3,517	-8,345	-6,786	-4,470	-8,377	-56	-1,581	-1,357	-2,364	-2,169	-2,487	-1,207		
Local authorities:														
External finance	+78	-105	+160	+76	-26	-8	-23	-68	-1	+41	+2	-40		
Bank borrowing	+175	-884	-39	-365	-424	-260	-83	-291	+60	+122	-315	-395		
Other domestic borrowing [c]	-2,377	-665	-1,220	+105	-213	-42	+344	-297	+128	-358	+314			
	-2,124	-1,654	-1,099	-184	-663	-310	+238	-656	+187	-195	+1			
Public corporations:														
External finance	-600	-447	-1,446	-1,036	+44	-160	-213	+68	-58	+38	-4	-182		
Domestic borrowing [c] [d]	-133	-75	+224	-266	+641	-197	-64	+406	+333	+186	-284			
	-733	-522	-1,222	-1,302	+685	-357	-277	+474	+275	+224	-288			
Total net borrowing	-6,374	-10,521	-9,107	-5,956	-8,355	-723	-1,620	-1,539	-1,902	-2,140	-2,774			

† of which net borrowing (-) in foreign currencies, including unguaranteed borrowing:

Central government:													
From UK banks	-506	-314	-28	-729	-27	-249	+26	+3	-	-25	-5	-4	
Direct from overseas	-138	-109	+28	-142	-164	-38	-26	-3	-191	+25	+5	+4	
Payments under the exchange cover scheme [e]	-	+8	+54	+17	+99	+2	+11	-10	+74	+18	+17	+51	
Local authorities:													
From UK banks	-270	+21	+24	-3	+146	-	+1	+26	+112	-	+8	-	
Direct from overseas	-52	-16	+1	-23	-4	-	-21	-12	+1	+4	+11	+8	
Receipts from central government under the exchange cover scheme [e]	-	-4	-13	-	-38	-	-	-6	-29	-1	-2	-2	
Public corporations:													
From UK banks	-325	+1	-430	+44	+288	-	+43	+200	+128	+85	-125	+152	
Direct from overseas	-597	-428	-1,413	-1,010	+114	-157	-185	+86	-36	+41	+23	-181	
Receipts from central government under the exchange cover scheme [e]	-	-4	-41	-17	-61	-2	-11	+16	-45	-17	-15	-49	

- nil or less than £½ million.

[a] Consisting principally of lending to overseas and private sectors (including refinancing of export and shipbuilding credits, and purchases of securities), advance payments on imports by public corporations and their identified domestic trade credit, changes in bank deposits, and accruals adjustments (for definition, see the note on line 19 to Tables L and M).

[b] Other domestic borrowing, less net acquisitions of local authority debt by the Issue Department of the Bank of England and by the National Insurance Fund, the Issue Department's purchases of commercial bills, and receipts from public corporations for the redemption of government-guaranteed stocks. Includes payments to local authorities and public corporations under the exchange cover scheme.

[c] Includes receipts from the central government under the exchange cover scheme.

[d] Includes payments to the central government for the redemption of government-guaranteed stocks.

[e] Repayments of foreign currency borrowing under the exchange cover scheme are recorded at current market rates, as are the corresponding transactions in the official reserves. The differences from the sterling actually paid (at the original borrowing rates) by the local authorities and public corporations are entered as receipts from the central government.

Table C

Flow of funds: overseas sector^[a]

£ millions

Seasonally adjusted

Claims on UK: increase +/decrease -
Liabilities to UK: increase -/decrease +

	1974	1975	1976	1977	1978	1977				1978				1979	
	Year	Year	Year	Year	Year	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr
Financial surplus+/deficit-	+3,741	+1,843	+1,137	- 298	- 254	- 522	- 501	+ 341	- 146	- 51	- 398				
Transactions with the UK private sector															
Investment flows:															
Transactions in company and overseas securities	+1,031	- 19	+ 204	+ 277	-1,118	+ 97	- 24	- 324	- 378	- 119	- 297				
Miscellaneous private investment ^[b]	+ 121	+ 495	- 225	+ 737	+ 838	+ 309	+ 123	+ 757	+ 334	- 205	- 48				
Other transactions:															
Net external transactions by															
UK banks ^[c]	+1,010	+1,182	- 390	+2,967	-1,588	+1,122	+ 914	- 777	-1,597	+ 621	+ 165	+1,384			
Other identified	+ 320	- 57	- 690	- 187	- 555	- 379	+ 117	- 160	- 166	- 214	- 15				
Balancing item	+ 323	+ 100	+ 402	+2,461	+ 847	+ 857	+ 51	+ 440	+ 87	+ 96	+ 224				
	+2,805	+1,701	- 699	+6,255	-1,576	+2,006	+1,181	- 64	-1,720	+ 179	+ 29				
Transactions with the UK public sector															
Lending etc. ^[d]	- 565	- 599	- 733	- 382	- 67	- 20	- 45	+ 249	- 154	- 49	- 113				
External finance: ^[e]															
Central government	+ 979	+ 189	+1,283	-7,131	+1,407	-2,676	-1,873	+ 156	+1,669	- 102	- 316	- 521			
Local authorities	- 78	+ 105	- 160	- 76	+ 26	+ 8	+ 23	+ 68	+ 1	- 41	- 2	+ 40			
Public corporations	+ 600	+ 447	+1,446	+1,036	- 44	+ 160	+ 213	- 68	+ 58	- 38	+ 4	+ 182			
	+ 936	+ 142	+1,836	-6,553	+1,322	-2,528	-1,682	+ 405	+1,574	- 230	- 427				

[a] It has not been possible to include in this table the balance of payments estimates for the first quarter of 1979, and revisions to previous quarters, which were released early in June.

[b] Private long-term direct, oil and miscellaneous investment abroad (-) and overseas investment in the United Kingdom (+), excluding securities.

[c] Other than net purchases of securities. Includes foreign currency borrowing from abroad to finance lending to the UK public sector.

[d] These overseas transactions of the public sector increase its borrowing requirement.

[e] These overseas transactions of the public sector are among the items financing its borrowing requirement (see Table B).

Table D
Flow of funds: personal sector

£ millions

Seasonally adjusted

	1974	1975	1976	1977	1978	1977	1978	1978	1978	1978	1979	
	Year	Year	Year	Year	Year	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr
Saving	+8,548	+10,901	+12,420	+13,276	+16,143	+2,914	+3,892	+3,194	+4,206	+4,058	+4,685	
Capital transfers (net)	- 451	- 354	- 28	+ 127	+ 296	+ 32	+ 11	+ 75	+ 87	+ 66	+ 68	
Capital expenditure	-3,144	- 3,644	- 4,529	- 5,383	- 6,676	-1,320	-1,462	-1,508	-1,604	-1,820	-1,744	
Financial surplus +/-deficit -	+4,953	+ 6,903	+ 7,863	+ 8,020	+ 9,763	+1,626	+2,441	+1,761	+2,689	+2,304	+3,009	
Borrowing (-)												
For house purchase	-2,369	- 3,647	- 3,872	- 4,282	- 5,324	-1,144	-1,281	-1,262	-1,421	-1,277	-1,364	
Bank borrowing[a]	- 24	+ 474	- 518	- 1,163	- 1,596	- 203	- 399	- 241	- 560	- 381	- 414	- 574
Instalment borrowing from retailers	+ 4	- 42	- 141	- 125	- 190	- 28	- 38	- 41	- 52	- 41	- 56	
Other[b]	- 42	- 105	- 385	- 297	- 487	- 67	- 99	- 452	+ 204	- 102	- 137	
	-2,431	- 3,320	- 4,916	- 5,867	- 7,597	-1,442	-1,817	-1,996	-1,829	-1,801	-1,971	
Acquisition of financial assets (+)												
Life assurance and pension funds	+3,493	+ 4,426	+ 5,398	+ 6,121	+ 7,976	+1,647	+1,592	+1,856	+2,013	+1,940	+2,167	
Government stocks	+ 607	+ 1,005	+ 1,744	+ 822	+ 331	+ 458	+ 42	- 186	+ 173	+ 153	+ 191	
Company and overseas securities	-1,273	- 1,383	- 1,253	- 1,881	- 1,903	- 710	- 475	- 354	- 514	- 648	- 387	
Unit trust units	+ 31	+ 100	+ 79	+ 26	+ 118	+ 11	+ 31	+ 31	+ 66	+ 9	+ 12	
Bank deposits, notes and coin	+3,326	+ 1,397	+ 1,626	+ 1,046	+ 3,840	+ 328	+ 146	+ 893	+ 975	+1,320	+ 652	+1,361
Building society shares and deposits	+1,969	+ 4,161	+ 3,301	+ 5,932	+ 4,906	+1,385	+2,029	+1,388	+ 935	+1,183	+1,400	+1,335
National savings	- 17	+ 423	+ 592	+ 1,290	+ 1,530	+ 183	+ 319	+ 385	+ 355	+ 477	+ 313	+ 440
Local authority debt	+ 743	- 222	+ 235	- 32	- 260	- 115	- 107	- 114	- 204	+ 131	- 73	
Other	- 162	+ 234	+ 222	+ 752	+ 601	+ 274	+ 263	+ 277	+ 108	- 46	+ 262	
	+8,717	+10,141	+11,944	+14,076	+17,139	+3,461	+3,840	+4,176	+3,907	+4,519	+4,537	
Identified financial transactions	+6,286	+ 6,821	+ 7,028	+ 8,209	+ 9,542	+2,019	+2,023	+2,180	+2,078	+2,718	+2,566	
Unidentified	-1,333	+ 82	+ 835	- 189	+ 221	- 393	+ 418	- 419	+ 611	- 414	+ 443	

[a] Other than for house purchase.

[b] Includes accruals adjustments, instalment borrowing from finance houses and trade credit received from public corporations.

Table E

Flow of funds: industrial and commercial companies

£ millions

Seasonally adjusted

Assets: increase +/decrease -

Liabilities: increase -/decrease +

	1974	1975	1976	1977	1978	1977	1978	1979				
	Year	Year	Year	Year	Year	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr
Capital expenditure	+12,257	+9,292	+13,140	+14,683	+15,352	-3,312	+3,311	+3,506	+3,952	+3,804	+4,090	
less Saving	-7,521	-8,507	-11,804	-12,605	-12,688	-3,048	-3,001	-2,953	-3,261	-3,338	-3,136	
less Capital transfers (net)	-332	-404	-358	-257	-365	-47	-49	-131	-88	-68	-78	
equals Financial surplus-/deficit+	+4,404	+381	+978	+1,821	+2,299	+217	+261	+422	+603	+398	+876	
less Unremitted profits (net)	+531	+622	+1,136	+91	+275	+16	+4	+79	+60	+48	+88	
Trade investments, mergers, etc. in the United Kingdom	+384	+356	+470	+683	+788	+191	+197	+199	+157	+226	+206	
Long-term investment abroad	+945	+205	+695	+646	+608	+64	+17	+2	-97	+188	+515	
Import deposits	-	-	-	-	-	-	-	-	-	-	-	
Instalment credit granted	+17	+50	+132	+109	+149	+25	+32	+31	+32	+40	+46	
Net identified trade credit [a]	+242	-95	+293	-214	+242	-80	-13	+291	+158	-51	-156	
Accruals adjustment	-510	-447	-159	-83	-719	+53	+5	-576	+103	+11	-257	
Unidentified transactions	+236	-24	-953	-1,180	-1,578	-359	-554	+233	-551	-360	-900	
Net borrowing requirement (+)	+6,249	+1,048	+2,592	+1,873	+2,064	+127	-51	+681	+465	+500	+418	
Capital issues	-74	-1,191	-853	-745	-734	-208	-97	-26	-361	-260	-87	-245
Overseas investment in UK companies	-1,557	-1,297	-1,390	-1,589	-1,530	-390	-199	-787	-58	-42	-643	
Bank borrowing	-4,411	-493	-2,204	-2,956	-2,891	-463	-840	-268	-1,154	-670	-799	-1,813
Other borrowing [b]	-131	-552	-369	-144	-256	+58	-106	-345	+191	+5	-107	
Bank deposits, notes and coin	+93	+1,457	+1,351	+2,586	+2,559	+291	+1,460	+778	+863	+65	+853	-654
Other liquid assets [c]	+104	+405	+268	+356	+312	+272	-98	-79	-37	+337	+91	
Other domestic assets [d]	+99	+59	+78	+34	+197	-11	-46	+20	+15	+55	+107	
Miscellaneous overseas transactions	-164	+564	+527	+585	+279	+324	-23	+26	+76	+10	+167	
Total financing (-)	-6,249	-1,048	-2,592	-1,873	-2,064	-127	+51	-681	-465	-500	-418	

Note: The format of this table has been altered to show the 'net borrowing requirement'. This is considered to be a more satisfactory indicator of companies' cash flow and their need for external finance than the 'total requiring financing' which has been shown hitherto. The definition is the same as that used by the Central Statistical Office and published in *Financial Statistics* (see 'Financial balances of industrial and commercial companies', by C. W. Pettigrew, *Economic Trends*, December 1978).

[a] Import credit and advance payments on exports, export credit and advance payments on imports and net trade credit with public corporations.

[b] Includes transactions in commercial bills by the Issue Department.

[c] Tax instruments, Treasury bills, British government stocks, local authority temporary debt. The figures for government stocks relate only to transactions by those large companies covered by the Department of Industry's survey of company liquidity.

[d] Includes deposits with other financial institutions and long-term local authority debt.

Table F

Flow of funds: banking sector

£ millions

Seasonally adjusted

Assets: increase +/decrease -

Liabilities: increase -/decrease +

	1974	1975	1976	1977	1978	1977	1978	1979				
	Year	Year	Year	Year	Year	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr
Changes in domestic assets												
Public sector	+701	+3,380	+299	+2,373	-341	+796	+1,080	-54	-1,472	+71	+1,119	-980
Industrial and commercial companies	+4,438	+508	+2,406	+2,990	+2,870	+466	+838	+288	+1,160	+620	+797	+1,810
Other financial institutions	+119	+26	+391	+428	+1,069	+150	+85	+277	+330	+362	+100	+276
Personal sector	+114	-414	+588	+1,293	+1,866	+254	+425	+280	+625	+461	+500	+623
	+5,372	+3,500	+3,684	+7,084	+5,464	+1,666	+2,428	+791	+643	+1,514	+2,516	+1,729
Changes in domestic deposits [a]												
Public sector	+69	-281	-122	-466	+136	-71	-43	+233	-86	+234	-245	+91
Industrial and commercial companies	+263	-1,049	-1,045	-2,102	-1,961	-183	-1,310	-554	-787	+100	-720	+824
Other financial institutions	-871	+630	-751	-843	-1,228	-47	-376	-598	-98	-55	-477	+22
Personal sector	-2,973	-989	-1,320	-561	-3,239	-220	+5	-668	-899	-1,154	-518	-1,192
	-3,512	-1,689	-3,238	-3,972	-6,292	-521	-1,724	-1,587	-1,870	-875	-1,960	-255
Changes in:												
Net claims on overseas sector [b]	-1,000	-947	+515	-2,707	+1,846	-1,053	-829	+880	+1,662	-531	-165	-1,279
Non-deposit liabilities etc. (net)	-860	-864	-961	-405	-1,018	-92	+125	-84	-435	-108	-391	-195

[a] The treatment of funds oversubscribed in the offer for sale of shares in British Petroleum Limited in 1977 is described in the additional notes to Table 6 of the statistical annex.

[b] Includes foreign currency borrowing to finance loans to UK public sector.

Table G**Flow of funds: financial institutions other than banks**

£ millions

Seasonally adjusted

	1974	1975	1976	1977	1978	1977		1978				1979
	Year	Year	Year	Year	Year	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr
Increase in financial liabilities (-)												
Life assurance and pension funds	-3,278	-4,139	-5,083	-5,873	-7,730	-1,616	-1,523	-1,813	-1,964	-1,893	-2,060	
Building society shares and deposits	-1,989	-4,166	-3,405	-6,099	-4,873	-1,425	-2,086	-1,413	-915	-1,166	-1,379	-1,335
Other deposits	-293	-429	-362	-572	-246	-50	-281	-368	+152	+157	+187	
Capital issues	-88	-329	-130	-133	8	+8	-97	-13	-26	+12	+19	3
Unit trust units	-31	-100	-79	-26	-118	-11	-31	-34	-66	-9	-12	
Other[a]	-417	+87	-536	-418	-1,638	-107	-63	-305	-371	-604	-358	
	-6,096	-9,076	-9,595	-13,121	-14,613	-3,201	-4,081	-3,943	-3,190	-3,503	-3,977	
Increase in financial assets (+)												
Short-term assets[b]	+2,397	-787	+538	+1,376	+1,128	-225	+566	+817	-338	-15	+664	
Government stocks	+290	+3,310	+3,330	+4,689	+4,776	+1,324	+1,511	+1,214	+1,601	+917	+1,044	
Company and overseas securities:												
Ordinary shares	-283	+1,873	+1,196	+1,986	+2,072	+538	+671	+492	+573	+584	+423	
Fixed-interest	-4	+137	+55	-20	+246	-	-21	-11	+38	+95	+124	
Loans for house purchase	+1,609	+2,835	+3,632	+4,120	+5,164	+1,120	+1,251	+1,317	+1,352	+1,231	+1,264	
Long-term lending to local authorities	+333	+919	+3	+794	-256	+104	+60	-51	-98	-9	-98	
Other lending	+174	+122	+206	+686	+772	+147	+210	+136	+202	+174	+260	
	+4,516	+8,409	+8,960	+13,631	+13,902	+3,008	+4,248	+3,914	+3,330	+2,977	+3,681	
Net identified financial transactions	-1,580	-667	-635	+510	-711	-193	+167	-29	+140	-526	-296	

— nil or less than £¼ million.

[a] Includes borrowing from banks and from central government.

[b] Includes bank deposits, tax instruments, Treasury bills, and local authority temporary debt.

Table H**Flow of funds: all financial institutions**

£ millions

Seasonally adjusted

	1974	1975	1976	1977	1978	1977		1978				1979
	Year	Year	Year	Year	Year	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr
Net identified financial transactions:												
Banks	+1,065	+622	+572	+231	+607	+115	-150	-81	+316	+13	+359	-43
Other financial institutions	-1,580	-667	-635	+510	-711	-193	+167	-29	+140	-526	-296	
Unidentified transactions												
Total	-515	-45	-63	+741	-104	-78	+17	-110	+456	-513	+63	
Financial surplus +/-deficit -	-225	-1,005	-739	-1,939	-1,053	-298	-443	-391	-803	+389	-248	
	-740	-1,050	-802	-1,198	-1,157	-376	-426	-501	-347	-124	-185	

Table J

Financial institutions other than banks, 1978: detail by institutional group

£ millions

	Total	Insurance companies	Pension funds and property unit trusts	Building societies	Finance houses	Savings banks investment accounts	Investment and unit trusts	Others and unallocated
Increase in financial liabilities (-)								
Inflow to life assurance and pension funds	- 7,730	-7,730						
Deposits	- 4,903			-4,879	-151	-100		+227
Capital issues	- 8	- 21					+ 25	- 12
Sales of units	- 331		- 95[a]				-236	
Bank borrowing	- 1,124	- 65	- 117		-364		-182	-396
Other borrowing	- 514	- 4	- 238	- 105	- 83		- 10	- 74
	-14,610	-8,270		-4,984	-598	-100	-403	-255
Increase in financial assets (+)								
Bank deposits, notes and coin	+ 1,228	+ 244	+ 229	+ 173	+ 3	+123	+179	+277
Deposits with other financial institutions	- 216	+ 23	- 34			- 25	+ 14	-194
Local authority temporary debt	+ 110	+ 35	+ 126	- 147		- 40		+136
Treasury bills and tax instruments	- 357	- 5	- 16	- 1		-344	- 5	+ 14
Government stocks	+ 4,776	+2,644	+1,310	+ 382		+520	- 27	- 53[c]
UK company securities:[b]								
Ordinary shares	+ 1,663	+ 644	+1,155				- 12	-124[c]
Fixed-interest		+ 66	- 63					- 3[c]
Overseas securities:[b]								
Ordinary shares	+ 409		+ 302				+107	
Fixed-interest	+ 246	+ 145	+ 68				+ 33	
Investment in units	+ 213	+ 100	+ 114[a]					
Loans for house purchase	+ 5,164	+ 73		+5,096				- 1
Long-term lending to local authorities	- 256	+ 57	- 26	- 223		- 55		- 5
Other lending	+ 919	+ 298	+ 233	- 366	+597		+ 38	+119
	+13,899	+4,324	+3,398	+4,914	+600	+179	+327	+157
Net identified financial transactions	- 711	-548		- 70	+ 2	+ 79	- 76	- 98

Note: Differences from Table G arise through the inclusion here of intra-sector transactions (mainly involving deposits, and property and other unit trust units) netted out when the sector is considered as a whole.

[a] Pension funds bought £95 million of property unit trust units.

[b] The breakdown by type of security has been partly estimated. The insurance companies' figures for UK company securities include transactions in overseas company securities (estimates of which are not yet available) while their figures for overseas fixed-interest securities relate only to overseas government, provincial, and municipal issues.

[c] These figures include adjustments for the cost of transactions (the institutions generally record sales net of costs and purchases including costs). The amounts are -45 for government stocks, -178 for UK ordinary shares, -6 for UK fixed-interest securities and -6 for long-term lending to local authorities.

Table K

UK company and overseas securities

£ millions

	Capital issues (line 23)				Other transactions (line 24)[a]					
	Overseas sector	Industrial and commercial companies	Banking sector	Other financial institutions	Public sector	Overseas sector	Personal sector	Industrial and commercial companies	Banking sector	Other financial institutions
UK ordinary shares		- 119	- 15	- 68	+ 33	+ 578	- 678	+ 19	+ 81	+ 169
UK fixed-interest		+ 45	+ 8	- 20		+ 78	- 206	+ 83	+ 28	- 16
Overseas ordinary shares						+ 433	- 425	+ 361	+ 73	- 442
Overseas fixed-interest	+58					- 116	+ 36	+ 19	+ 1	+ 2
1974 Total	+58	- 74	- 7	- 88	+ 33	+ 973	-1,273	+ 482	+183	- 287
UK ordinary shares		-1,128	-116	-263	+572	+ 186	- 858	- 89	+150	+1,546
UK fixed-interest		- 63	- 27	- 66		+ 78	- 129	+ 83	+ 46	+ 78
Overseas ordinary shares	-14					- 254	- 324	+ 222	+ 50	+ 320
Overseas fixed-interest	+51					- 66	- 72	+ 12	+ 9	+ 66
1975 Total	+37	-1,191	-143	-329	+572	- 56	-1,383	+ 228	+255	+2,010
UK ordinary shares		- 807	-245	- 97	+262	+ 395	- 853	+ 181	+ 1	+1,163
UK fixed-interest		- 46	-121	- 33		+ 100	- 38	+ 109	+ 17	+ 12
Overseas ordinary shares	- 2					- 356	- 197	+ 437	+ 82	+ 36
Overseas fixed-interest	+76					- 9	- 165	+ 23	+ 35	+ 40
1976 Total	+74	- 853	-366	-130	+262	+ 130	-1,253	+ 750	+135	+1,251
UK ordinary shares		- 746	-114	- 77	-439	+ 360	-1,227	+ 290	+ 67	+1,886
UK fixed-interest		+ 1	- 53	- 56		+ 242	- 205	+ 159	+ 36	- 124
Overseas ordinary shares						- 372	- 123	+ 363	+ 32	+ 100
Overseas fixed-interest	+42					+ 5	- 326	+ 19	+ 156	+ 104
1977 Total	+42	- 745	-167	-133	-439	+ 235	-1,881	+ 831	+291	+1,966
UK ordinary shares		- 797	- 99	- 28	+463	+ 122	-1,501	+ 356	-113	+1,597
UK fixed-interest		+ 63	-203	+ 20		+ 237	- 342	+ 185	+ 63	- 23
Overseas ordinary shares						-1,075	- 28	+ 580	+ 48	+ 475
Overseas fixed-interest	+61					- 463	- 32	+ 30	+135	+ 269
1978 Total	+61	- 734	-302	- 8	+463	-1,179	-1,903	+1,151	+133	+2,318

- nil or less than £½ million.

[a] The breakdown by type of security has been partly estimated and some of the figures are very rough, particularly those for the personal sector, which are residuals. See also footnote [b] to Table J.

Table L
Flow of funds: annual figures

£ millions

	Line	Public sector			Overseas sector [a]		
		1976	1977	1978	1976	1977	1978
Capital account							
Saving	1	+ 2,835	+4,478	+3,094	+1,137	- 298	- 254
Taxes on capital and capital transfers	2	- 201	- 234	- 578	-	-	-
less:							
Gross fixed-capital formation at home	3	-10,066	-9,493	-9,288			
Increase in value of stocks and work in progress	4	- 816	- 378	- 482			
Financial surplus +/deficit - [b]	5	- 8,248	-5,627	-7,254	+1,137	- 298	- 254
Changes in financial assets and liabilities							
<i>Assets: increase +/decrease -</i>							
<i>Liabilities: increase -/decrease+</i>							
Government debt to Banking Department	6	- 412	+ 264	- 150			
Life assurance and pension funds	7	- 315	- 248	- 246			
Loans by the UK Government	8	+ 1	+ 33	+ 96	- 17	+ 6	- 23
Central government external transactions:							
Direct official financing	9.1	- 1,809	+8,333	-1,477	+1,809	-8,333	+1,477
Other	9.2	+ 526	-1,202	+ 70	- 526	+1,202	- 70
Other public sector direct official financing	9.3	- 1,391	- 290	- 59	+1,391	+ 290	+ 59
Banks' net external transactions (excluding securities):							
Borrowing for official financing	10.1				+ 428	+ 682	- 407
Other	10.2				- 818	+2,285	-1,181
Miscellaneous investment overseas (net)	11	+ 662	- 381	+ 147	-1,656	+ 871	+ 592
Notes and coin	12	- 837	-1,044	-1,286			
Bank deposits of domestic sectors	13	+ 122	+ 466	- 136			
Deposits with other financial institutions	14	+ 6	- 52	+ 74	+ 79	+ 60	- 456
National savings	15.1	- 592	-1,290	-1,530			
Tax instruments	15.2	- 4	- 711	- 306			
Bank lending to domestic sectors	16	- 320	- 894	+ 264			
Instalment lending by retailers	17	+ 9	+ 16	+ 41			
Loans for house purchase	18	+ 170	+ 32	- 110			
Other loans and accruals	19	+ 903	- 137	+ 459			
Marketable government debt held by domestic sectors:							
Treasury bills	20	+ 876	- 898	+1,248			
Stocks	21	- 5,265	-6,308	-5,045			
Other local authority debt	22	- 267	- 800	- 133	- 159	- 99	+ 26
UK company and overseas securities:							
Capital issues	23				+ 74	+ 42	+ 61
Other transactions	24	+ 262	- 439	+ 463	+ 130	+ 235	-1,179
Unit trust units	25						
Identified financial transactions	26	- 7,675	-5,550	-7,616	+ 735	-2,759	-1,101
Unidentified [b]	27	- 573	- 77	+ 362	+ 402	+2,461	+ 847
Total = Financial surplus +/deficit - [b]	28	- 8,248	-5,627	-7,254	+1,137	- 298	- 254

- nil or less than £½ million.

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

[b] Financial surpluses/deficits for all sectors combined do not in practice sum to zero, although in principle they should do so. The discrepancy arises because the respective estimates of gross domestic product derived from income sources and from expenditure sources do not match. The net total of the 'unidentified' entries for all sectors is the counterpart of this discrepancy (the residual error), which in the years shown in this table was as follows:

1976	1977	1978
+1,028	+924	+1,201

Table M
Flow of funds accounts

£ millions

Seasonally adjusted

	Line	1978: 4th quarter					
		Public sector	Overseas sector[a]	Personal sector	Industrial and commercial companies	Banking sector	Other financial institutions
Capital account							
Saving	1	+ 915	- 398	+4,685	+3,136	+ 651	
Taxes on capital and capital transfers	2	- 96	—	+ 68	+ 78	- 50	
less:							
Gross fixed-capital formation at home	3	-2,319		-1,548	-2,799	- 827	
Increase in value of stocks and work in progress	4	- 160		- 196	-1,291	+ 41	
Financial surplus +/-deficit -	5	-1,660	- 398	+3,009	- 876	- 185	+ 110
Changes in financial assets and liabilities							
<i>Assets: increase +/decrease -</i>							
<i>Liabilities: increase -/decrease +</i>							
Government debt to Banking Department	6	+ 171				- 171	
Life assurance and pension funds	7	- 107		+2,167			-2,060
Loans by the UK Government	8	+ 30	- 7		- 24		+ 1
Direct official financing and other central government external transactions	9	+ 242	- 242				
Banks' net external transactions (excluding securities)	10		+ 165			- 165	
Miscellaneous investment overseas (net)	11	+ 182	- 226		- 39	- 7	+ 90
Notes and coin	12	- 508		+ 134	+ 133	+ 241	
Bank deposits of domestic sectors	13	+ 245		+ 518	+ 720	-1,960	+ 477
Deposits with other financial institutions	14	+ 16	- 19	+1,610	- 41		-1,566
National savings	15.1	- 313		+ 313			
Tax instruments	15.2	- 206		+ 6	+ 114	+ 43	+ 43
Bank lending to domestic sectors	16	- 260		- 414	- 799	+1,574	- 101
Instalment lending by retailers	17	+ 10		- 56	+ 46		
Loans for house purchase	18	+ 14		-1,364		+ 86	+1,264
Other loans and accruals	19	+ 298		- 91	- 210	- 15	+ 18
Marketable government debt held by domestic sectors:							
Treasury bills	20	- 394			- 11	+ 409	- 4
Stocks	21	-1,250		+ 191	- 11	+ 26	+1,044
Other local authority debt	22	- 212	+ 4	- 73	+ 22	+ 315	- 56
UK company and overseas securities:							
Capital issues	23		+ 20		- 87	+ 8	+ 19
Other transactions	24	+ 11	- 317	- 387	+ 211	- 25	+ 547
Unit trust units	25			+ 12			- 12
Identified financial transactions	26	-2,031	- 622	+2,566	+ 24	+ 359	- 296
Unidentified	27	+ 371	+ 224	+ 443	- 900	- 248	+ 110
Total = Financial surplus +/-deficit -	28	-1,660	- 398	+3,009	- 876	- 185	+ 110

— nil or less than £½ million.

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

Notes on sources, definitions, seasonal adjustment and valuation

The complete set of flow of funds tables now only appear in this annual article each June. However, the Bank will supply quarterly data on computer printout from 1963 onwards for all sectors on application to the Economic Intelligence Department at the address given on the reverse of the contents page.

Fuller notes on all the flow of funds accounts, including details on the content of the alternative presentation for each sector and a detailed account of the method of seasonal adjustment, are given in *United Kingdom flow of funds accounts: 1963-1976* published by the Bank of England in May 1978.

Line numbers only refer to Tables L and M.

Sources

The main statistical series used in compiling the tables appear in the statistical annex or in the Central Statistical Office's *Financial Statistics or Economic Trends*. Most of the seasonally-adjusted figures are not published elsewhere.

Definitions

Public sector

The central government, local authorities, nationalised industries and other public corporations.

Overseas sector

Non-residents as defined for the balance of payments estimates.

Personal sector

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.

Banking sector

As in Table 6 in the statistical annex.

Other financial institutions

Insurance companies, pension funds, building societies, finance houses and other consumer credit companies, the National Savings Bank investment account, trustee savings banks: new departments, investment trust companies, authorised unit trusts, property unit trusts, special finance agencies, Central Trustee Savings Bank 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.

Line 6

See footnote [e] to Table 7 in the annex.

Line 7

The increase in policyholders' net claims on these funds. The entry under public sector is for public sector schemes which are contributory but not funded.

Line 8

All loans by the UK government except those to private housing associations (line 18); those to international organisations and private companies abroad (line 11); and those to refinance export and shipbuilding credits (lines 11 and 19).

Line 9.1

Central government transactions, apart from foreign currency borrowing from the UK banks (indirect financing), included in the

counterpart of the balance for official financing in the balance of payments (the sum of lines 9.1, 9.3 and 10.1 is equal to the total balance for official financing).

Line 9.2

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

Line 11

Those parts of the balance of payments items classified as 'investment and other capital transactions' 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 sight and time deposits 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). 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.

Line 15.1

As in Table 7 in the annex.

Line 15.2

Tax reserve certificates, tax deposit accounts and certificates of tax deposit.

Line 16

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 17

Changes in hire purchase and other instalment credit granted by department stores etc.

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 hire purchase and other instalment credit extended by finance houses, trade credit given or received by public corporations, central government refinance of fixed-rate bank credit for domestic shipbuilding, domestic transactions in public corporations' foreign currency bonds, and transactions by the Issue Department of the Bank of England in commercial bills (treated as lending by the central government to industrial and commercial companies). The differences between the figures entered in the national income accounts on an accruals basis (such as local authority rates, various royalties and taxes, subsidies and other public sector receipts and expenditure, and interest charges) and the corresponding cash payments are also included here.

Lines 20 and 21

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

Line 22

Borrowing by local authorities from outside the public sector, except for direct borrowing abroad under the exchange cover scheme (line 9).

Line 23

Net issues in the United Kingdom (including identified unlisted issues) 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, taking full account of the data up to the end of 1977.

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 adjustment 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. It should be noted that, unlike the purely seasonal adjustments, the other adjustments may not add to zero over a calendar year.

Valuation

From the second quarter of 1975 all figures of transactions by UK banks in foreign currencies have been adjusted to exclude changes in value arising from movements in exchange rates (before that only transactions with overseas were adjusted through an entry in line 11).