Sector financing: 1983

This note sets out some of the main financial transactions between the principal sectors of the economy in 1983. Rather than just looking at these figures in isolation, the note includes some comparisons with earlier data which help to put current developments into context. In order to do this the flows are scaled by expressing them in 1983 prices to allow for the effects of inflation.

The annual flow of funds matrices for 1982 and 1983—at 1983 prices—appear at the end of the article, together with notes on definitions and seasonal adjustment. A full set of the remainder of the Bank's flow of funds tables are in the statistical annex (Table 19). These include transactions by individual groups of 'other financial institutions' and a breakdown, by type of security, of transactions by the various sectors in the equity and debenture markets.

There are several indices available for scaling to remove the effects of inflation; in this article the GDP deflator has been used. A more elaborate method of adjusting sector financial balances for the effects of inflation on stocks of monetary assets and liabilities is described in the article on 'Inflation-adjusted saving and sector balances' on page 231. That adjustment is appropriate to a set of income and expenditure accounts—not to the flow of funds accounts which are the subject of this article.

Total financial transactions (Table A)

The public sector's deficit in 1983 was roughly in line with the average of the previous ten years, after scaling for inflation. Among the other sectors only the personal sector has been consistently in surplus, although this was considerably reduced in real terms in 1983.

Table A
Total financial transactions 1973–1983

£ billions; 1983 prices

Increase in assets +/
Increase in liabilities −

	1973–1977(a)	1978–1982(a)	1983
Public sector	−13.6	−11.3	−11.1
Financial sector	− 0.8	− 1.3	− 0.6
Industrial and commercial companies	− 4.4	− 0.5	+ 2.6
Personal sector	+16.3	+16.7	+10.3
Overseas sector	+ 2.5	− 3.6	− 1.2

(a) Annual averages.

Public sector (Table B)

On 10 February 1984, the Chancellor of the Exchequer announced that, with effect from the beginning of the 1984/85 financial year, the calculation of the PSBR would be altered so that changes in the public sector's bank deposits and other liquid assets would count as finance for the PSBR rather than as a contribution to it. The

Table B
Financing of the PSBR from the OFI and personal sectors

£ billions; 1983 prices

	1973–1977(a)	1978–1982(a)	1982	1983
Contributions to the PSBR				
Central government	+12.2	+12.5	+8.3	+14.4
Local authorities	+ 3.5	+ 1.0	−2.2	− 2.4
Public corporations	+ 1.9	− 0.5	−0.9	− 0.4
PSBR	**+17.6**	**+13.0**	**+5.2**	**+11.6**
Financing the PSBR				
Purchases of BGS by:				
OFIs	+ 5.7	+ 7.4	+4.9	+ 6.7
Personal sector	+ 2.0	+ 1.8	+1.3	+ 1.3
National savings (personal sector)	+ 1.0	+ 2.9	+3.7	+ 2.9
All other financing	+ 8.9	+ 0.9	−4.7	+ 0.7
of which, purchases of commercial bills by the Issue Department	*− 0.1*	*− 1.7*	*−5.0*	*+ 0.7*

(a) Annual averages.

PSBR is thus now equal to the sum of lines 6 to 21 in the flow of funds matrix (previously it was equal to lines 6 to 20), and it is this revised definition on which the figures in this article are based.

In earlier years (see for example the period 1973–77 in Table B), sales of British government stocks (BGS) and national savings financed only about half the PSBR, with reductions in the official reserves and increased circulation of notes and coin playing a prominent part.

Since 1978, however, most of the public sector's financing needs have been met by sales of BGS and national savings. Indeed, in 1981 and 1982 the amounts raised in these forms, mostly from financial institutions other than banks (OFIs) and from the personal sector, exceeded the PSBR. Despite sales of £2 billion of Treasury bills by the banks, the resulting need for money-market assistance was such that the Issue Department of the Bank of England made total net purchases of £8 billion of commercial bills during those two years[1]. In 1983, the OFI and personal sectors

(1) The purpose of such heavy sales of public sector debt to non-banks was to mitigate the effect on the growth of £M3 of rapidly rising bank lending to the private sector. See the June 1982 *Bulletin*, page 201, for an explanation of the link between the funding position and money-market operations.

continued to finance most of the PSBR, but the Issue Department reduced its holdings of commercial bills by nearly £$\frac{3}{4}$ billion, and the monetary sector's holdings of Treasury bills barely changed.

Personal sector (Table C)

Scaled for inflation, the personal sector's financial surplus, as measured by transactions in assets and liabilities, grew less fast in 1982 and 1983,[1] but it remained quite rapid on the whole, although the inflow into bank deposits and purchases of government debt showed sizable reductions (in real terms). Borrowing for house purchase in 1983 was nearly as heavy as in 1982, despite the clearing banks cutting back the amount of new money they lent in this area after a period of rapid growth.

Across the range of savings instruments, deposits with building societies increased slightly less than in 1982, while personal sector deposits with banks increased by about £1 billion less than in 1982, as did national savings and British government securities. The life assurance and pension funds attracted just over £$\frac{1}{4}$ billion more from the sector than the year before. This reversed a recent trend: this form of personal sector investment, while still substantial, had gradually, but consistently, been declining since 1979, when scaled for inflation. This paralleled a decline in the employed labour force, an influence which apparently outweighed the continued growth of average earnings, but only until 1982. Fiscal advantages may explain the dominant role of life assurance and pension funds in personal sector financial investment.

By contrast, the personal sector once again reduced its direct holdings of UK company securities (Table C), but the amount of the reduction, slightly over £2$\frac{1}{4}$ billion, was the smallest in real terms since 1974. The present series of flow of funds statistics begin in 1963, and since then the personal sector has sold over £30 billion[2] of UK company securities (and over the same period OFIs have made net purchases of £26 billion[2]).

Other financial institutions

In 1983, the building societies began to look beyond the personal sector for a greater share of their deposits, and introduced two new instruments to achieve this. From the second quarter they issued certificates of deposit; these are included in the statistics for 'deposits with building societies', as are time deposits on which interest is paid gross (made available from the fourth quarter). The company sector added under £20 million to its deposits with building societies in the five years to 1982, whereas in 1983 it added £$\frac{3}{4}$ billion. In 1983 the company sector accounted for 5% of the building societies' increase in deposits, with another 6% coming from the monetary sector. Part of this, however, was in the form of certificates of deposit, which are marketable bearer documents, so the figures may not be very reliable; it is difficult to be certain which sector is holding them, a problem that does not generally arise with ordinary building society deposits.

Table C
Personal sector financial transactions 1976–1983[a]
£ billions; 1983 prices

Increase in assets +/ Increase in liabilities –	1976–1980(b)	1981	1982	1983
Borrowing for house purchase	– 8.8	–10.7	–15.0	–14.7
of which, monetary sector	*– 0.5*	*– 2.6*	*– 5.4*	*– 3.6*
Sales of UK company securities	– 4.0	– 2.8	– 3.3	– 2.3
Other borrowing from monetary sector(c)	– 2.6	– 4.5	– 5.3	– 4.9
Life assurance and pension fund contributions	+13.4	+14.5	+13.7	+14.0
Building society deposits	+ 8.7	+ 8.0	+10.9	+10.5
Deposits with monetary sector	+ 5.4	+ 4.5	+ 4.0	+ 2.9
National savings and British government stocks	+ 3.8	+ 7.0	+ 5.1	+ 4.2
Other financial transactions	+ 1.2	+ 0.2	+ 1.3	+ 0.6
Total financial transactions	**+17.1**	**+16.2**	**+11.4**	**+10.3**

(a) Different periods are illustrated in this table from those in Tables A, B and D in order to bring out more clearly the changes in the personal sector's financial transactions described in the text.
(b) Annual averages.
(c) Other than for house purchase.

Life assurance and pension funds obtained some £14 billion (net) of fresh funds in 1983, only some £2 billion more than building societies, whereas in the four years 1979 to 1982 they had obtained £20 billion more than the societies. Investment by these funds has gone into BGS (33%), UK company securities (20%), overseas securities (18%), property (9%), and other assets (20%). As the personal sector's accumulation of liabilities and assets has slowed in the last year or so, competition among financial intermediaries for the available business has intensified and much of the gain by the building societies has been at the expense of the banks.

On a somewhat smaller scale, the unit trusts made net sales of units of £1.5 billion in 1983, of which about half were taken up by long-term insurance companies and superannuation funds. The balance was virtually all taken up by the personal sector, which invested more in units in 1983 than in the whole of the previous five years. The 1983 unit trust inflow was invested in overseas securities (52%), UK company securities (19%), BGS (9%), and other assets.

Monetary sector

Traditionally, the monetary sector's position *vis-à-vis* other sectors could, after allowing for considerable year-to-year variation and netting deposits and lending, be characterised as financing the company sector by taking deposits from OFIs, persons and overseas. In 1981, however, the monetary sector became a net lender to the personal sector as well. The clearing banks began providing loans for house purchase on a much bigger scale

(1) The article on 'Inflation-adjusted saving and sectoral balances', page 231, discusses the effects of inflation on the behaviour of personal saving. Because of the erosion by inflation of personal sector net monetary assets, the sector dis-saved in 'real' terms throughout the 1970s, even though nominal saving rose steadily as a proportion of nominal personal disposable income. Since 1980, the nominal saving ratio has fallen, but the slowing in inflation has ensured that the personal sector has saved in 'real' terms.

(2) These two figures are the cash values of all the transactions, and have not been adjusted for inflation.

than previously, while losing part of their share of personal sector deposits to the building societies. Until 1980 the amount lent by the monetary sector for house purchase in any year had never gone far above £1 billion (scaled to 1983 prices), but in 1982 over £5¼ billion was lent, which was 36% of total lending to the personal sector for house purchase. In 1983, the clearing banks cut back on housing finance, and the monetary sector lent just over £3½ billion, or 24% of the total. The inflow of deposits from the personal sector fell for the fourth consecutive year, and in all the monetary sector was a net lender to persons of over £5½ billion. The company and overseas sectors each lent the monetary sector about £2½ billion net to finance this.

Industrial and commercial companies (Table D)

The company sector's recorded financial transactions are one side of what should be an accounting identity, with its surpluses and deficits as estimated from the current and capital accounts constituting the other. Although the two sides should be equal, in practice many items on both sides of the equation are calculated by, for instance, grossing up samples or, *in extremis*, by residual, and there are other errors and omissions: thus there can be substantial differences between the two sides. This difference is the balancing item. (Balancing items also arise for the other sectors and in total sum to the residual error in the national accounts.) The company sector's balancing item currently gives special cause for concern as it is £4 billion for 1983, and, after scaling for inflation, over £4½ billion for 1982.

There is no reason to believe that, in any one year, either the national income figures or the financial transactions (flow of funds) give the better indication of a sector's true position, though over a run of years it seems more likely that the majority of the differences stem from the national accounts side.(1) Work currently in hand on reconciling flows with the corresponding changes in sector balance sheet totals may lead to some reduction in the size of balancing items.(2)

Bearing this caution in mind, it appears that the company sector acquired over £2½ billion (net) of financial assets in 1983. In the previous year its net liabilities had risen by just under £1 billion. Retained profits as usual provided the major source of funds but, in sharp contrast to the previous five years (especially 1980–82), they considerably exceeded the main items of expenditure—investment in domestic capital formation (including replacement of existing investment) and stocks. Borrowing from the monetary sector was low, even though it had picked up since 1982 when it had reached its lowest since 1975 in scaled terms. And there was also a net reduction of nearly £¾ billion in the Issue

Table D
Industrial and commercial companies' sources and uses of funds 1973–1983

£ billions; 1983 prices

	1973–1977(a)	1978–1982(a)	1983
Sources of funds			
Saving	+26.3	+24.7	+24.8
Borrowing from monetary sector	+ 8.2	+ 4.6	+ 2.7
Overseas investment in the United Kingdom	+ 3.2	+ 3.2	+ 3.9
Issues of company securities	+ 1.5	+ 1.4	+ 2.2
Other inflows/outflows including capital transfers	+ 0.2	+ 0.6	− 0.4
Total	+39.4	+34.5	+33.2
Uses of funds			
Increase in value of stocks	+12.0	+ 5.5	+ 3.5
Domestic capital formation	+17.4	+18.3	+15.1
Deposits with monetary sector	+ 3.3	+ 2.8	+ 5.3
Investment overseas	+ 3.3	+ 4.2	+ 4.1
Purchases of company securities	+ 1.2	+ 1.6	+ 1.1
Balancing item	+ 2.2	+ 2.1	+ 4.1
Total	+39.4	+34.5	+33.2

(a) Annual averages.

Department's holding of commercial bills in 1983 whereas in the previous two years its holdings had risen sharply.(3)

Net issues of company securities (new issues less purchases by the sector) raised £1 billion in 1983, in marked contrast to the previous five years when, scaled for inflation, purchases had exceeded issues on average by £¼ billion a year. Overseas investment in the UK company sector nearly matched investment overseas by UK industrial and commercial companies in 1983 but there was still an outflow, as had been the case in the previous five year period.

This general improvement in the company sector position resulted in a rise in its net liquidity. In particular, deposits with the monetary sector rose by £5½ billion, almost double the (scaled) rate of increase in the previous five years, and also faster than in the period 1973–77.

Overseas sector

From 1973 to 1976 the overseas sector made net purchases of UK assets, but thereafter, with the exception of 1979, it has been a net borrower from the domestic sectors. Taking the period 1977 to 1983 as a whole, the figures for financial transactions show the overseas sector to have borrowed over £25 billion (net). This buildup in net external assets of the United Kingdom reflects the surplus in the current account of the balance of payments and is discussed in the article on page 221.

In 1983, the overseas sector lent more to the UK monetary sector than it borrowed, and direct investment into the United Kingdom exceeded the outward flow. Both these net inflows of funds to the United Kingdom were outweighed by UK residents' purchases of £7 billion of overseas securities. Such purchases have grown rapidly since the end of exchange controls in 1979. Another effect

(1) The Central Statistical Office gives reliability gradings for items in the financial accounts in its *Financial Statistics Explanatory Handbook*, HM Stationery Office February 1984, page 18. It does not however relate these to the gradings used in the current and capital accounts.

(2) In the June 1983 issue of *Economic Trends* (HM Stationery Office), M Marland describes some of the difficulties in reconciling flows and balances for the personal sector.

(3) In fact, the Issue Department's transactions in commercial bills are undertaken solely for the purpose of money-market management and merely refinance lending already provided by banks. See footnote 1 to page 212.

of the abolition of exchange controls has been an increase in the proportion of the UK monetary sector's transactions with the overseas sector that are in sterling. Transactions recorded in the flow of funds tables[1] show that in 1979 under 5% of the increase in overseas deposits and lending was denominated in sterling, whereas in 1983 the percentage had risen to just under 15%.

(1) Page 65 of the March *Bulletin* gives an account of international banking in sterling but it refers particularly to levels outstanding at end-September 1983, whereas this note refers to transactions during the whole of 1983. There are also differences of coverage.

Table E
Flow of funds: annual matrix 1982

£ millions (1983 prices)

	Line	Central government	Local authorities	Public corporations	Public sector	Monetary sector	Other financial institutions	Industrial and commercial companies	Personal sector	Overseas sector	Residual error
Capital account											
Saving	1	-3,575	+3,835	+6,257	+ 6,517	+6,655		+20,280	+21,137	- 5,887	
Taxes on capital and capital transfers	2	-1,115	- 101	+ 534	- 682	- 466		+ 619	+ 527	—	
less:											
Gross fixed capital formation at home	3	-2,270	-2,579	-7,657	-12,506	-6,176		-15,718	-10,543		
Increase in value of stocks and work in progress	4	- 148		- 926	- 1,074	+ 58		- 1,385	- 495		
Financial surplus +/deficit –	5	**-7,108**	**+1,155**	**-1,792**	**- 7,745**	**+ 71**		**+ 3,796**	**+10,626**	**- 5,887**	**-861**
Changes in financial assets and liabilities											
Assets: increase+/decrease–											
Liabilities: increase–/decrease+											
Notes and coin	6	- 491		—	- 491	- 10	—	- 216	+ 705	+ 12	
Market Treasury bills	7	+ 381		- 14	+ 367	- 595	+ 2	+ 86		+ 140	
British government securities	8	-6,847	+ 2	+ 23	- 6,822	- 156	+ 4,920	+ 252	+ 1,336	+ 470	
National savings	9	-3,809	+ 1	- 56	- 3,864		+ 8	+ 122	+ 3,734		
Certificates of tax deposit	10	-1,442		+ 368	- 1,074	- 33	+ 19	+ 1,069	+ 19		
Net government indebtedness to Banking Department	11	- 165			- 165	+ 165					
Northern Ireland central government debt	12	- 20			- 20	+ 3	- 4	—	+ 21		
Government liabilities under exchange cover scheme	13	+ 72	- 1	- 71	—						
Other public sector financing:											
Non-marketable debt	14.1	+ 178		+ 25	+ 203	- 203	—				
Short-term assets	14.2		+ 7	- 8	- 1		- 5	- 5	+ 3	+ 8	
Issue Department's transactions in commercial bills	15	+4,999			+ 4,999			- 4,999			
Government foreign currency debt	16	+ 173			+ 173	—				- 173	
Other government overseas financing	17	+ 214			+ 214					- 214	
Official reserves	18	-1,507			- 1,507					+ 1,507	
Local authority debt:											
Temporary	19.1	+ 20	+1,524	+ 91	+ 1,635	- 677	- 550	- 248	- 143	- 17	
Foreign currency	19.2		- 59		- 59	—	—			+ 59	
Sterling securities	19.3	—	+ 177	+ 2	+ 179	- 1,109	+ 56		+ 879	- 5	
Other sterling debt	19.4	+1,434	-1,305	- 3	+ 126	+ 271	+ 324	- 36	- 684	- 1	
Public corporation debt:											
Foreign currency	20.1			+ 179	+ 179	- 55	—			- 124	
Other	20.2	+2,528	- 68	-2,302	+ 158	- 67	- 9	—	- 1	- 81	
Deposits with banks:											
Sterling sight	21.1	- 107	+ 78	+ 37	+ 8	- 4,626	+ 1,068	+ 381	+ 2,441	+ 728	
Sterling time	21.2	+ 22	+ 439	+ 14	+ 475	- 8,095	+ 2,028	+ 148	+ 1,424	+ 4,020	
Foreign currency	21.3	+ 33	+ 6	+ 3	+ 42	-22,357	- 172	+ 1,168	+ 151	+21,168	
Deposits with building societies	22					—	-11,020	+ 97	+10,916	+ 7	
Bank lending (excluding public sector):											
Foreign currency	24.1					+19,442	- 722	- 929	- 210	-17,581	
Sterling	24.2					+12,432	- 2,028	- 1,032	- 5,082	- 4,290	
Credit extended by retailers	25			- 3	- 3			+ 130	- 127		
Identified trade credit:											
Domestic	26.1	- 8		+ 651	+ 643			- 613	- 30		
Import and export	26.2	- 490		+ 80	- 410		—	- 191		+ 601	
Loans for house purchase:											
Building societies	27.1						+ 8,639		- 8,639		
Other	27.2	+ 4	+ 588	+ 345	+ 937	+ 5,385	+ 6		- 6,328		
Other public sector lending	28	+ 231	—	+ 83	+ 314		—	- 100	+ 13	- 227	
Other lending by financial institutions	29			—	—		+ 555	- 366	- 189		
Unit trust units	30						- 163		+ 163		
UK company securities	31	- 66		+ 81	+ 15	- 761	+ 3,104	+ 691	- 3,334	+ 285	
Overseas securities	32	—		—	—	+ 2,125	+ 4,318	+ 817	+ 533	- 7,793	
Life assurance and pension funds	33	- 73			- 73		-13,577		+13,650		
Miscellaneous domestic instruments	34	—		—	—	—	+ 22	- 72	+ 50	—	
Direct and other investment abroad	35					- 5	+ 72	+ 3,678		- 3,745	
Overseas direct and other investment in United Kingdom	36					- 210	- 193	- 2,800		+ 3,203	
Miscellaneous overseas instruments	37	- 502		+ 39	- 463		+ 75	+ 440		- 52	
Accruals adjustment	38	-2,155	+ 43	+ 122	- 1,990	+ 33	+ 165	+ 1,635	+ 157		
Financial transactions	39	**-7,393**	**+1,432**	**- 314**	**- 6,275**	**+ 897**	**- 3,062**	**- 893**	**+11,428**	**- 2,095**	
Balancing item	40	+ 285	- 277	-1,478	- 1,470	+2,236		+ 4,689	- 802	- 3,792	-861

— nil or less than £½ million.

Table E *continued*
Flow of funds: annual matrix 1983

£ millions

	Line	Central government	Local authorities	Public corporations	Public sector	Monetary sector	Other financial institutions	Industrial and commercial companies	Personal sector	Overseas sector	Residual error
Capital account											
Saving	1	-4,974	+2,650	+7,080	+ 4,756	+6,398		+24,835	+16,977	- 2,049	
Taxes on capital and capital transfers	2	-1,322	- 484	+ 618	- 1,188	- 335		+ 475	+ 1,048	—	
less:											
Gross fixed capital formation at home	3	-2,458	-2,886	-8,098	-13,442	-5,704		-15,103	-11,441		
Increase in value of stocks and work in progress	4	- 435		- 451	- 886	- 85		- 3,528	- 571		
Financial surplus +/deficit –	**5**	**-9,189**	**- 720**	**- 851**	**-10,760**	**+ 274**		**+ 6,679**	**+ 6,013**	**- 2,049**	**-157**
Changes in financial assets and liabilities											
Assets: increase+/decrease–											
Liabilities: increase–/decrease+											
Notes and coin	6	- 822		—	- 822	+ 129	—	+ 117	+ 583	- 7	
Market Treasury bills	7	- 154		+ 122	- 32	- 29	+ 75	- 47		+ 33	
British government securities	8	-9,490	+ 18	+ 4	- 9,468	+ 229	+ 6,669	+ 353	+ 1,314	+ 903	
National savings	9	-2,975	+ 2	+ 18	- 2,955		+ 11	+ 83	+ 2,861		
Certificates of tax deposit	10	+ 101		- 105	- 4	+ 33	+ 25	- 78	+ 24		
Net government indebtedness to Banking Department	11	+ 157			+ 157	- 157					
Northern Ireland central government debt	12	- 12			- 12	- 7	- 1	—	+ 20		
Government liabilities under exchange cover scheme	13	+ 88	- 3	- 85	—						
Other public sector financing:											
Non-marketable debt	14.1	- 215		+ 322	+ 107	- 107	—				
Short-term assets	14.2		+ 15	- 1	+ 14		- 12	- 8	+ 5	+ 1	
Issue Department's transactions in commercial bills	15	- 725			- 725			+ 725			
Government foreign currency debt	16	+ 37			+ 37	—				- 37	
Other government overseas financing	17	+ 100			+ 100					- 100	
Official reserves	18	- 603			- 603					+ 603	
Local authority debt:											
Temporary	19.1	+ 26	- 88	- 4	- 66	+ 83	- 45	- 27	+ 72	- 17	
Foreign currency	19.2		- 78		- 78	—	—			+ 78	
Sterling securities	19.3	—	+ 233	—	+ 233	- 254	+ 4		+ 24	- 7	
Other sterling debt	19.4	+3,678	-1,363	- 7	+ 2,308	- 1,748	- 156	- 37	- 365	- 2	
Public corporation debt:											
Foreign currency	20.1			- 101	- 101	+ 115	—			- 14	
Other	20.2	+1,646	- 46	-1,364	+ 236	- 227	- 4	—	+ 15	- 20	
Deposits with banks:											
Sterling sight	21.1	+ 11	+ 36	+ 44	+ 91	- 4,369	+ 324	+ 1,396	+ 2,138	+ 420	
Sterling time	21.2	+ 13	+ 3	—	+ 16	- 8,590	+ 1,931	+ 2,086	+ 931	+ 3,626	
Foreign currency	21.3	- 4	+ 10	- 10	- 4	-22,020	+ 499	+ 1,834	- 167	+19,858	
Deposits with building societies	22					+ 694	-11,928	+ 740	+10,489	+ 5	
Bank lending (excluding public sector):											
Foreign currency	24.1					+20,392	- 790	- 616	+ 73	-19,059	
Sterling	24.2					+10,829	- 1,498	- 2,086	- 4,992	- 2,253	
Credit extended by retailers	25			+ 21	+ 21			+ 140	- 161		
Identified trade credit:											
Domestic	26.1	- 5		- 508	- 513			+ 701	- 188		
Import and export	26.2	- 233		- 23	- 256		—	+ 75		+ 181	
Loans for house purchase:											
Building societies	27.1						+11,041		-11,041		
Other	27.2	+ 4	- 292	+ 213	- 75	+ 3,597	+ 153		- 3,675		
Other public sector lending	28	+ 434	+ 5	+ 31	+ 470		—	- 60	+ 25	- 435	
Other lending by financial institutions	29			—	—		+ 1,129	- 505	- 624		
Unit trust units	30						- 608		+ 608		
UK company securities	31	- 515		+ 34	- 481	+ 60	+ 2,371	- 1,095	- 2,335	+ 1,480	
Overseas securities	32	—		—	—	+ 2,773	+ 3,310	+ 580	+ 450	- 7,113	
Life assurance and pension funds	33	- 58			- 58		-13,945		+14,003		
Miscellaneous domestic instruments	34	—		—	—	—	- 101	+ 27	+ 74	—	
Direct and other investment abroad	35					- 282	+ 3	+ 4,062		- 3,783	
Overseas direct and other investment in United Kingdom	36					- 209	- 143	- 3,880		+ 4,232	
Miscellaneous overseas instruments	37	+ 566		+ 29	+ 595		- 96	- 698		+ 199	
Accruals adjustment	38	+ 960	- 459	+ 239	+ 740	+ 4	+ 274	- 1,200	+ 182		
Financial transactions	**39**	**-7,990**	**-2,007**	**-1,131**	**-11,128**	**+ 939**	**- 1,508**	**+ 2,582**	**+10,343**	**- 1,228**	
Balancing item	40	-1,199	+1,287	+ 280	+ 368	+ 843		+ 4,097	- 4,330	- 821	-157

— nil or less than £½ million.

Notes on definitions and seasonal adjustment

Introduction

A complete set of financial transactions tables and accompanying notes appear in the *Bulletin* only in the June issue each year. Annual flow of funds matrices accompany this article; the notes that follow relate particularly to these matrices. The other annual tables appear in the statistical annex as tables 19.6 to 19.10. They follow the quarterly matrix and financial transactions of the public, industrial and commercial companies, personal and OFI sectors, which are updated in each issue and are numbered 19.1 to 19.5. Much of the data in tables 19.6 to 19.10 is updated regularly in the CSO's *Financial Statistics* (albeit mostly not seasonally adjusted and classified somewhat differently).

Further notes on the accounts, including information on sources, are provided annually in the *Financial Statistics Explanatory Handbook*.

Definitions

Central government
Government departments, bodies and accounts (including Northern Ireland government departments), national insurance and other social security funds, the Exchange Equalisation Account, and the Issue Department of the Bank of England.

Local authorities
Public authorities and bodies making returns under the Local Government Acts.

Public corporations
Public enterprises having a substantial degree of independence, including the nationalised industries, other public corporations and their UK subsidiaries (except for those of the National Enterprise Board), government trading funds and companies which are publicly owned and controlled.

Monetary sector
As in Table 6 in the statistical annex. From the beginning of 1982 this sector (previously called the 'banking sector') was enlarged to include all recognised banks, licensed deposit-taking institutions and certain other institutions, eg the trustee savings banks. (See the article on page 531 of the December 1981 *Bulletin*.) The general term 'banks' is still used for statistics for the sector, so 'bank deposits' or 'bank lending' cover transactions by all monetary sector institutions.

Other financial institutions
Trustee savings banks (up to the end of 1981, when they became monetary sector institutions—the ordinary department was treated as a central government account until the end of September 1979); National Savings Bank investment account (until the end of 1980, when it became a central government account); certain finance houses and other consumer credit grantors (those licensed to take deposits became monetary sector institutions from the beginning of 1982); specialist finance leasing companies; building societies; investment trusts; unit trusts; property unit trusts; insurance companies; pension funds; special finance agencies; the Crown Agents (until the end of 1979, when they were reconstituted as two public corporations); the Central Trustee Savings Bank (until the end of 1981, when it became a monetary sector institution); and, from the beginning of 1982, other miscellaneous institutions—those banking institutions in the Channel Islands and Isle of Man which are not in the monetary sector, gold dealers not in the monetary sector, and certain institutions which lend abroad but do not take deposits from the public.

Industrial and commercial companies
All corporate bodies other than public enterprises, monetary sector institutions and other financial institutions.

Personal sector
Individuals, unincorporated businesses, and private non-profit-making bodies.

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

Lines 1–4[1] 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
Changes in Bank of England notes (treated as liabilities of the central government), in banks' liabilities on account of issues of Scottish and Northern Irish notes, and in coin (treated as liabilities of the central government), other than changes in notes and coin held by the Banking Department. From the September 1983 issue, changes in holdings of sterling notes and coin by overseas residents have been included. At the same time, changes in holdings of notes and coin by the non-bank private sector were divided in the ratio 1:5 between industrial and commercial companies and persons. Previously they were divided in the ratio 1:1

Lines 7 and 8
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 government securities under persons are residuals and include unidentified changes in holdings by industrial and commercial companies and by overseas residents.

Line 9
Defined as in Table 7 in the statistical annex.

Line 10
Certificates of tax deposit, tax reserve certificates and tax deposit accounts.

Line 11
Foreign currency borrowing by central government and net transactions with overseas monetary authorities. Foreign currency borrowing by local authorities and public corporations under the exchange cover scheme is not included.

Line 12
Northern Ireland government securities, Ulster savings certificates and Ulster development bonds (including accrued interest outstanding), and advances from banks (including trustee savings banks). Northern Ireland borrowing from the European Investment Bank is in line 16.

Line 13
Entries here represent differences between the sterling originally obtained by local authorities and public corporations through foreign currency borrowings under the exchange cover scheme and the cost to the reserves of repayments at current market rates, which are treated as reductions in central government liabilities to local authorities and public corporations.

Line 14
The line has been retitled 'other public sector financing' and divided in two. Line 14.1 (non-marketable debt) contains what hitherto comprised the whole of line 14; while 14.2 (short-term assets) consists of local authority liquid claims on industrial and commercial companies, other financial institutions and persons, plus public corporations' liquid claims on industrial and commercial companies, other financial institutions and overseas. The change follows an announcement by the Chancellor of the Exchequer on 10 February 1984 that the PSBR would be redefined with effect from the beginning of the 1984/85 financial year to exclude changes in public sector bank deposits and certain other liquid assets. It is these liquid assets which now appear in 14.2. Further information about the

(1) Line numbers refer only to Table E.

Chancellor's statement is given in the February issue of *Economic Trends*, page 88.

Line 15
Market transactions in commercial bills by the Issue Department of the Bank of England are treated as increases or decreases in central government claims on industrial and commercial companies (matched by reductions or increases in banks' claims on these companies).

Line 16
Foreign currency borrowing by the central government from banks in the United Kingdom or from overseas under eurodollar facilities and from central monetary institutions abroad (including foreign currency deposits), transactions in British government foreign currency bonds, drawings from the IMF, and borrowing by the Northern Ireland Government from the European Investment Bank under the exchange cover scheme.

Line 17
All transactions with overseas which finance the central government borrowing requirement and which are not included elsewhere. This line includes sterling borrowing from governments or central monetary institutions with a sterling counterpart invested in Treasury bills, changes in IMF holdings of non-interest-bearing notes (other than those arising from drawings or subscriptions), allocations of special drawing rights and part of 'official short-term transactions' in the balance of payments.

Line 18
The sterling equivalent of changes in the gold and convertible currencies and special drawing rights held in the Exchange Equalisation Account, together with changes in the UK reserve position in the IMF.

Line 19
Borrowing from the central government largely comprises loans from the Public Works Loan Board but also includes transactions in local authority debt by the Issue Department of the Bank of England and by the National Insurance Fund. Temporary borrowing is money originally borrowed for less than twelve months, but includes all bills and bank overdrafts. Sterling securities comprise local authority listed stocks and bonds. Returns from monetary sector institutions do not provide a breakdown of market loans between temporary debt and other; figures for their transactions in temporary debt are from local authority returns and are thus suspect, for they may include transactions by the institutions acting as agents. Figures for industrial and commercial companies exclude any transactions in sterling securities. Transactions by the personal sector are residuals.

Line 20
Figures for the central government include public corporations' payments for the redemption of government-guaranteed stocks as well as central government lending to public corporations.

Line 21
Changes in sterling sight and time deposits and in foreign currency deposits of UK and overseas residents. The entries for the monetary sector and industrial and commercial companies have been adjusted by deducting 60% of the change in sterling net debit transit items. Transactions in certificates of deposit and other negotiable paper issued by monetary sector institutions are included here. In the quarterly seasonally adjusted matrix (Table 19.1), line 21.4 consists of overseas deposits less lending to overseas, excluding banks' transactions in overseas securities.

Public sector borrowing requirement
Lines 6 to 21 are transactions financing the public sector borrowing requirement, so their total is equal to the PSBR. See also note to line 14.

Line 22
This covers shares, deposits, and receipts of SAYE by building societies, and represents receipts by the societies, together with interest credited, less withdrawals. From the second quarter of 1983 net issues by building societies of certificates of deposit are also covered, as are time deposits, on which interest is paid gross, from the fourth quarter of 1983.

Line 23
Deposits with the National Savings Bank investment account were included in this line until the end of 1980; those with the ordinary departments of the trustee savings banks from the fourth quarter of 1979 and the new departments up to the end of 1981; and those with the Central Trustee Savings Bank also up to the end of 1981. The finance houses and consumer credit companies were the only other contributors to line 23, but after the fourth quarter of 1981, those institutions which remained outside the monetary sector were no longer able to accept deposits as defined in the Banking Act 1979. Since deposits from banks with these institutions are in line 24, there are no transactions in line 23 from 1982.

Line 24
Advances and overdrafts, market loans and transactions in commercial bills; excludes ways and means advances (by the Banking Department, line 11), loans for house purchase (included in line 27), lending to the Northern Ireland Government (line 12), to local authorities (line 19), and to public corporations (line 20). Recorded advances to industrial and commercial companies are adjusted by adding 40% of the change in sterling net debit transit items (see also line 21).

Line 25
Changes in hire purchase and certain other forms of credit granted by department stores, durable goods retailers, general mail-order houses and other general stores. The figures exclude what are probably large amounts of unpaid bills (trade credit) and credit extended by other types of retailer. The figures for the public sector relate to credit granted by gas and electricity showrooms.

Line 26
Domestic trade credit includes amounts owing on unpaid gas and electricity accounts and telephone bills, as well as credit given by central government trading bodies. Import and export credit comprises suppliers' trade credit and advance and progress payments on exports and imports and that part of export credit extended by UK banks which is refinanced by the central government, the trustee savings banks and the Central Trustee Savings Bank. No estimates are available for other kinds of trade credit.

Line 27
New loans less repayments by building societies, by local authorities for house purchase and improvements, by the central government to housing associations, by insurance companies and pension funds, and by monetary sector institutions (including trustee savings banks).

Line 28
Net lending by the central government to building societies, industrial and commercial companies, persons, overseas governments and international lending bodies. It also includes net lending by public corporations to the private sector (other than for house purchase).

Line 29
Includes instalment credit and other loans and advances by finance houses and other consumer credit companies; loans made to their parent organisation by private sector superannuation funds; and loans by insurance companies and special finance agencies. Loans by local authority and public corporation pension funds to their parent bodies are in lines 19 and 20.

Line 30
Net sales of units to persons by authorised unit trusts.

Line 31
All transactions in UK securities, including capital issues and inward direct investment in the form of securities. The central government figures include special asset sales when these take the form of company securities. They also include purchases from the National Enterprise Board of shares in Rolls Royce (£234 million in the third quarter of 1980) and British Leyland (£1,228 million in the first quarter of 1981), when the Board repaid the same amounts of public dividend capital. The figures for the personal sector are residuals, obtained as the difference between total capital issues and aggregate transactions by all other sectors. They are therefore subject to a wide margin of error.

Line 32
All transactions in overseas securities, including UK direct investment abroad in the form of securities. The figures for the personal sector are residuals and are thus subject to considerable error.

Line 33
In the national accounts, the net income of life insurance and pension funds is treated as belonging to the policy holders and contributors, and is therefore included in personal saving, whereas the funds themselves are classified as financial institutions. The net income is thus attributed to the personal sector, and is matched by entries in this line, representing increases in net claims on the funds by policy holders and contributors.

There are also entries for net personal claims on the central government in respect of increases in funds under certain public sector schemes which are contributory, but where separate funds are not maintained.

Line 34
Transactions in domestic instruments not included elsewhere. For the public sector this comprises advance receipts for oil by the British National Oil Corporation. For financial institutions the entries include amounts due to and from stockbrokers, borrowing by finance houses (except in the form of deposits), property unit trust units sold to charities, and assets and liabilities not separately identified in the reporting forms. Transactions in shares in retail co-operative societies between persons and companies are also included.

Line 35
Private direct investment abroad (other than in the form of securities—line 32), and oil and miscellaneous investment as in the balance of payments (less identified transactions in securities), less public corporations' investment abroad (line 37).

Line 36
Private direct investment in the United Kingdom (other than in the form of securities—line 31), and oil and miscellaneous investment in the United Kingdom as in the balance of payments, less UK oil company issues (also line 31).

Line 37
Miscellaneous transactions in the balance of payments which are not allocated elsewhere; comprising part of 'other official long-term capital (net)' and 'other official short-term transactions' in the balance of payments, net lending and investment abroad by public corporations, various short-term transactions overseas by other financial institutions, and discrepancies between figures from balance of payments and other sources (entered under industrial and commercial companies).

Line 38
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 flows) and the corresponding cash payments.

Line 39
The sum of lines 6 to 38.

Line 40
One estimate of gross domestic product is obtained by adding estimated factor incomes; another is obtained by adding expenditures on goods and services. Although in concept these estimates are identical, the sources for these calculations are different, and the totals differ by what is called the residual error. In the national accounts a balance is struck for each sector between current income plus capital transfers received and current plus capital expenditure; this is the financial surplus or deficit. Transfer items net out over all sectors, so the sum of the financial surpluses and deficits in line 5 is equal to the residual error. The corresponding totals of transactions in financial assets and liabilities for each sector are entered in line 39, where they sum to zero, because the entries for each of the constituent lines (6 to 38) have been made to sum to zero. (The entries in each line frequently stem from a common source—when two sources are available and provide different figures for the same sector, the one considered to be the best source is used, and one sector is sometimes used for a residual entry.) The differences between the financial surplus or deficit for each sector and its identified financial transactions are named 'balancing item'. The net total of the balancing items for all sectors equals the residual error. The balancing items may arise from errors and omissions either in income and expenditures or in financial transactions, and include the results of misallocations by sector.

Money stock
In the matrix:

the change in M1	=	line 6 (persons and industrial and commercial companies) plus line 21.1 (persons, other financial institutions and industrial and commercial companies);
the change in £M3	=	the change in M1 plus line 21.2 (persons, other financial institutions and industrial and commercial companies);
the change in total M3	=	the change in £M3 plus line 21.3 other financial institutions, persons, and industrial and commercial companies).

Seasonal adjustments

The adjustments allow for purely seasonal movements and certain other factors, taking full account of the data up to the end of 1982.

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. Unlike the purely seasonal adjustments, the other adjustments may not add up to zero over a calendar year.