

Sector financing: 1984

This note sets out some of the main financial transactions between the principal sectors of the economy in 1984. The annual flow of funds matrices for 1983 and 1984—at 1984 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.

The evidence available to date suggests that the sectoral pattern of financial surpluses and deficits in 1984 was similar in broad terms to that of the previous year. A public sector deficit of £13 billion, compared with just under £11 billion in 1983, was financed from the non-financial private sector's surplus. The only clear difference between the two years was that the overseas sector deficit in 1983 (ie the United Kingdom's current account surplus in the balance of payments) was very nearly eliminated last year.

Table A
Sector financial balances in 1984

£ billions

	Sector financial surpluses or deficits(a)	Identified financial transactions(b)
Public sector	-13.0	-13.3
Financial institutions	- 0.4	- 0.8
Industrial and commercial companies	+ 9.6	- 1.2
Personal sector	+10.2	+16.8
Overseas sector	- 0.1	- 1.5
Residual error	- 6.3	

(a) Line 5 Table E.
(b) Line 39 Table E.

However, Table A illustrates that the figures for 1984 are more than usually tentative. The difference between income and expenditure measures of the UK's gross domestic product, which in the financial accounts is defined as the residual error, was £6.3 billion—sufficiently large for the figures as published to be consistent with a wide range of possibilities for the underlying reality.

Moreover, there are particularly large differences between the figures for the non-financial private sectors' surpluses and their identified financial transactions. The balancing item is +£10.8 billion in the case of the company sector and -£6.6 billion for the personal sector. (It would of course be wrong to assume that this necessarily implies substantial unidentified flows from the former to the latter; this is only one of several possibilities.)

Tables B, C and D, which cover the public and personal sectors and financial institutions outside the monetary sector respectively compare financial transactions in the years 1982-84 in constant 1984 prices. As in the article on sector financing in the June 1983 *Bulletin*, the effects of inflation have been removed by using the GDP deflator

Table B
The public sector's financial deficit and borrowing requirement

£ billions; 1984 prices

	1982	1983	1984
Public sector financial deficit	-8.6	-11.3	-13.0
Transactions in UK company securities	—	+ 0.5	+ 2.6
Other transactions	+3.2	- 1.3	+ 0.2
Public sector borrowing requirement	-5.4	-12.1	-10.2
<i>Financed by:</i>			
Government stocks	-7.1	- 9.9	- 8.6
National savings	-4.0	- 3.1	- 3.4
Commercial bills(a)	+5.2	- 0.8	+ 3.1
Other	+0.5	+ 1.7	- 1.3

(a) The Issue Department's transactions in commercial bills (line 15 in Table E).

which is thought to be the most appropriate scaling factor for the flow of funds accounts.

The public sector's borrowing requirement (PSBR) in 1984 was slightly lower than in the previous year in current prices and considerably less when measured at constant prices (Table B). This was partly attributable to government receipts from share sales (including the first tranche of payments for British Telecom shares) which were much higher than in 1983. The PSBR was again substantially financed by net sales of gilt-edged stock to financial institutions (£5.2 billion); but sales to persons (£2.2 billion) were also high and, together with net sales of national savings instruments, show that the government was even more successful in tapping personal sector savings directly. The government again purchased (net) a substantial volume of commercial bills through the Issue Department of the Bank of England.

Despite its acquisition of a large volume of public sector debt, the personal sector continued to channel its savings mainly into the financial institutions and to liquidate its direct holdings of company securities (Table C). Claims on life assurance and pension funds grew at an accelerating rate, although this largely reflected improved interest and dividend flows from investments rather than increased contributions. The flow of deposits into building societies also rose but was exceeded by additional borrowing for house purchase. There was a small reduction in bank lending for house purchase, which contributed to the decline in borrowing from banks overall.

Table C
Personal sector financial transactions

£ billions; 1984 prices
Increase in assets+/
Increase in liabilities-

	1982	1983	1984
Net acquisition of financial assets	+13.4	+ 8.6	+10.2
<i>of which:</i>			
Net claims on life assurance and pension funds	+15.3	+15.9	+17.3
Building societies:			
Deposits	+11.3	+10.7	+13.2
Borrowing	- 8.9	-11.4	-14.3
Monetary sector:			
Deposits	+ 4.2	+ 3.4	+ 3.3
Borrowing	-11.0	- 8.9	- 6.6
Public sector debt	+ 6.0	+ 4.9	+ 5.6
Company securities	- 3.2	- 2.1	- 2.6

The intermediary role of financial institutions outside the monetary sector is illustrated in Table D. The expansion of building societies' activity in financing house purchase contrasts with a slightly diminished role for other institutions in acquiring securities. It should also be noted that, taken as a whole, other financial institutions appear to have used the banks as intermediaries to a greater extent in 1984 than in earlier years.

Industrial and commercial companies increased their borrowing from the monetary sector at a time when the sector's financial surplus was estimated to be £9.6 billion. This paradox is discussed in an article on page 224. The sector appears to have directed its savings principally

overseas, acquiring overseas company securities at an increasing rate. Direct investment abroad also rose sharply while overseas direct investment in the UK company sector fell, but most of this is attributable to Royal Dutch Shell's buying out of minority holdings in its main US subsidiary.

The overseas sector showed an increase of £3.4 billion in its acquisition of deposits with the UK monetary sector in 1984 compared with 1983 and a reduction of nearly £4 billion in its borrowing from the same sector. This was largely matched by a rise in net flows of direct and portfolio investment in securities from the United Kingdom to overseas of more than £6.0 billion over the same period.

Table D
Selected financial transactions of other financial institutions

£ billions; 1984 prices
Increase in assets +/
Increase in liabilities -

	1982	1983	1984
Contributors' claims on life assurance and pension funds	-14.7	-15.1	-16.8
Government stocks	+ 5.2	+ 6.7	+ 5.2
Company securities	+ 8.3	+ 6.1	+ 5.0
Building societies:			
Deposits	-11.4	-12.0	-14.3
Lending for house purchase	+ 8.9	+11.4	+14.3
Monetary sector:			
Borrowing	- 2.8	- 2.9	- 5.9
Deposits	+ 3.0	+ 3.1	+ 6.0

Table E
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	-5,106	+2,448	+7,528	+ 4,870	+5,515	+25,704	+22,232	- 2,543	
Taxes on capital and capital transfers	2	-1,479	- 724	+ 644	- 1,559	- 182	+ 476	+ 1,265	-	
less:										
Gross fixed capital formation at home	3	-2,465	-2,947	-7,931	-13,343	-5,210	-15,888	-14,687		
Increase in value of stocks and work in progress	4	- 322		- 452	- 774	- 38	- 3,942	- 566		
Financial surplus +/-deficit	5	-9,372	-1,223	- 211	-10,806	+ 85	+ 6,350	+ 8,244	- 2,543	-1,330
Changes in financial assets and liabilities										
Assets: increase+ /decrease-										
Liabilities: increase- /decrease+										
Notes and coin	6	- 822		-	- 822	+ 127	+ 109	+ 565	+ 21	
Market Treasury bills	7	- 154		+ 122	- 32	- 28	+ 54	- 25	+ 31	
British government securities	8	-9,490	+ 18	+ 4	- 9,468	+ 235	+ 6,451	+ 270	+ 1,571	+ 941
National savings	9	-3,032	+ 2	+ 39	- 2,991	+ 13	+ 62	+ 2,916		
Certificates of tax deposit	10	+ 101		- 105	- 4	+ 33	+ 7	+ 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		+ 17	- 1	+ 16	- 12	- 8	+ 3	+ 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	+ 133	- 27	- 110	- 13
Foreign currency	19.2		- 77		- 77					+ 77
Sterling securities	19.3		+ 233		+ 233	- 252	+ 16		+ 10	- 7
Other sterling debt	19.4	+3,681	-1,364	- 8	+ 2,309	- 1,772	- 148	- 37	- 350	- 2
Public corporation debt:										
Foreign currency	20.1			- 102	- 102	+ 115				- 13
Other	20.2	+1,650	- 46	-1,400	+ 204	- 194	- 3		+ 15	- 22
Deposits with banks:										
Sterling sight	21.1	+ 11	+ 36	+ 44	+ 91	- 4,354	+ 325	+ 1,396	+ 2,139	+ 403
Sterling time	21.2	+ 13	+ 3	+ 1	+ 17	- 8,661	+ 2,053	+ 1,649	+ 1,248	+ 3,694
Foreign currency	21.3	- 4	+ 10	- 10	- 4	-19,344	+ 557	+ 1,772	- 165	+17,184
Deposits with building societies	22					+ 694	-11,546	+ 597	+10,250	+ 5
Bank lending (excluding public sector):										
Foreign currency	24.1					+17,554	- 1,026	- 493	+ 127	-16,162
Sterling	24.2					+10,820	- 1,740	- 1,784	+ 5,018	- 2,278
Credit extended by retailers	25			+ 21	+ 21			+ 100	- 121	
Identified trade credit:										
Domestic	26.1	- 5		- 342	- 347		+ 535	- 188		
Import and export	26.2	- 233		- 38	- 271		+ 59		+ 212	
Loans for house purchase:										
Building societies	27.1						+10,928		-10,928	
Other	27.2	+ 4	- 313	+ 25	- 284	+ 3,639	+ 124		- 3,479	
Other public sector lending	28	+ 252	+ 26	+ 27	+ 305			- 83	+ 32	- 254
Other lending by financial institutions	29						+ 1,208	- 634	- 574	
Unit trust units	30						- 601		+ 601	
UK company securities	31	- 505		+ 30	- 475	+ 133	+ 2,435	- 1,312	- 2,390	+ 1,609
Overseas securities	32					+ 2,716	+ 3,447	+ 484	+ 339	- 6,986
Life assurance and pension funds	33	- 756			- 756		-14,508		+15,264	
Miscellaneous domestic instruments	34						- 90	- 48	+ 138	
Direct and other investment abroad	35					- 263	+ 140	+ 3,726		- 3,603
Overseas direct and other investment in United Kingdom	36					- 192	- 73	- 2,859		+ 3,124
Miscellaneous overseas instruments	37	+ 540		+ 39	+ 579		- 756	+ 2,197		- 2,020
Accruals adjustment	38	+ 663	+ 2	+ 402	+ 1,067	+ 5	- 59	- 1,285	+ 272	
Financial transactions	39	-9,233	-1,544	-1,019	-11,796	+ 823	- 2,672	+ 5,026	+12,211	- 3,592
Balancing item	40	- 139	+ 321	+ 808	+ 990	+1,934	+ 1,324	- 3,967	+ 1,049	-1,330

— nil or less than £½ million.

Table E continued
Flow of funds: annual matrix 1984

£ millions

		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	Line										
Saving	1	-5,025	+2,021	+5,388	+ 2,384	+6,313	+31,989	+25,210	- 51		
Taxes on capital and capital transfers	2	-1,340	- 970	+ 627	- 1,683	- 196	+ 358	+ 1,521	-		
less:											
Gross fixed capital formation at home	3	-2,776	-3,831	-7,654	-14,261	-6,532	-18,495	-15,900			
Increase in value of stocks and work in progress	4	+ 147		+ 415	+ 562	- 24	- 4,298	- 618			
Financial surplus +/-deficit	5	-8,994	-2,780	-1,224	-12,998	- 439	+ 9,554	+10,213	- 51	-6,279	
Changes in financial assets and liabilities											
<i>Assets: increase+ /decrease-</i>											
<i>Liabilities: increase- /decrease+</i>											
Notes and coin	6	- 617		-	- 617	+ 295	-	+ 114	+ 180	+ 28	
Market Treasury bills	7	- 9		- 62	- 71	- 2	+ 2	- 73		+ 144	
British government securities	8	-8,576	+ 13	- 20	- 8,583	+ 182	+ 5,244	+ 3	+ 2,185	+ 969	
National savings	9	-3,468	+ 1	+ 49	- 3,418		+ 18	+ 60	+ 3,340		
Certificates of tax deposit	10	- 475		- 13	- 488	- 3	+ 173	+ 296	+ 22		
Net government indebtedness to											
Banking Department	11	- 51			- 51	+ 51					
Northern Ireland central government debt	12	- 9			- 9	- 20	- 2	-	+ 31		
Government liabilities under exchange cover scheme	13	+ 293	- 3	- 288	+ 2			- 2			
Other public sector financing:											
Non-marketable debt	14.1	+ 338		- 124	+ 214	- 214	-	+ 8	- 9	- 23	
Short-term assets	14.2		+ 106	+ 60	+ 166		- 142				
Issue Department's transactions in commercial bills	15	+3,062			+ 3,062			- 3,062			
Government foreign currency debt	16	- 273			- 273	+ 272				+ 1	
Other government overseas financing	17	+ 446			+ 446					- 446	
Official reserves	18	- 913			- 913					+ 913	
Local authority debt:											
Temporary	19.1	- 75	- 769	- 75	- 919	+ 473	+ 507	+ 44	- 98	- 7	
Foreign currency	19.2		- 51		- 51					+ 51	
Sterling securities	19.3		+ 338		+ 338	+ 60	- 243		- 151	- 4	
Other sterling debt	19.4	+2,774	-2,037	- 27	+ 710	- 648	- 136	- 8	+ 84	- 2	
Public corporation debt:											
Foreign currency	20.1			+ 244	+ 244	+ 19	-			- 263	
Other	20.2	+ 529	+ 18	-1,278	- 731	+ 718	+ 4	-	- 1	+ 10	
Deposits with banks:											
Sterling sight	21.1	+ 109	- 51	+ 79	+ 137	- 7,682	+ 2,020	+ 1,361	+ 3,212	+ 952	
Sterling time	21.2	- 10	+ 123	+ 386	+ 499	- 8,675	+ 2,112	+ 1,113	- 252	+ 5,203	
Foreign currency	21.3	+ 8	- 15	+ 67	+ 60	-19,731	+ 1,895	- 1,171	+ 358	+18,589	
Deposits with building societies	22					+ 595	-14,269	+ 435	+13,208	+ 31	
Bank lending (excluding public sector):											
Foreign currency	24.1					+14,202	- 3,433	- 1,101	- 122	- 9,546	
Sterling	24.2					+15,211	- 2,424	- 3,804	- 4,051	- 4,932	
Credit extended by retailers	25			+ 29	+ 29			+ 73	- 102		
Identified trade credit:											
Domestic	26.1	- 4		- 406	- 410			+ 581	- 171		
Import and export	26.2	- 7		- 50	- 57			- 150		+ 207	
Loans for house purchase:											
Building societies	27.1						+14,271		-14,271		
Other	27.2	+ 4	- 175	- 88	- 259	+ 2,314	+ 208		- 2,263		
Other public sector lending	28	+ 215	+ 25	+ 21	+ 261			- 58	+ 15	- 218	
Other lending by financial institutions	29						+ 988	- 477	- 511		
Unit trust units	30						- 653		+ 653		
UK company securities	31	-2,430		- 151	- 2,581	- 250	+ 4,241	- 97	- 3,444	+ 2,131	
Overseas securities	32					+ 7,333	+ 754	+ 1,367	+ 836	-10,290	
Life assurance and pension funds	33	- 437			- 437		-16,834		+17,271		
Miscellaneous domestic instruments	34						- 378	+ 217	+ 161		
Direct and other investment abroad	35					- 385	+ 68	+ 5,214		- 4,897	
Overseas direct and other investment in United Kingdom	36					- 240	+ 239	- 1,047		+ 1,048	
Miscellaneous overseas instruments	37	+ 139		+ 85	+ 224		+ 1,764	- 833		- 1,155	
Accruals adjustment	38	+ 679	- 394	- 96	+ 189	+ 6	- 682	- 240	+ 727		
Financial transactions	39	-8,758	-2,871	-1,658	-13,287	+ 3,881	- 4,688	- 1,237	+16,837	- 1,506	
Balancing item	40	- 236	+ 91	+ 434	+ 289	+ 368	+10,791	- 6,624	+ 1,455	-6,279	

— 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; 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 and in coin (both treated as liabilities of the central government) and in banks' liabilities on account of issues of Scottish and Northern Irish notes, other than changes in notes and coin held by the Banking Department which are included in line 11. From the September 1983 issue of the *Bulletin*, 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 (see March 1985 edition of the *Bulletin*).

Line 10

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

Line 11

The Banking Department's holdings of government debt and bank notes, less its deposit liabilities to the National Loans Fund and the Paymaster General.

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 (ECS) 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. Where certain of these public corporations were privatised subsequent to obtaining the ECS guarantee, the contra entry is attributed to the industrial and commercial companies sector.

Line 14

Line 14.1 includes ways and means advances by the National Coal Board and (up to the fourth quarter of 1980) the National Savings Bank investment account, repayments by the Fund for Banks for Savings to the trustee savings banks, and deposits by the British Gas Corporation with the National Loans Fund. Line 14.2 includes 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.

(1) Line numbers refer only to Table E.

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

Temporary borrowing is money originally borrowed for less than twelve months, but includes all bills and bank overdrafts. Foreign currency borrowing includes lending by UK banks and overseas residents (both under the exchange cover scheme and non-guaranteed borrowing) including bonds. Sterling securities comprise local authority listed stocks and bonds. Other sterling debt includes borrowing from local authority pension funds, 'over-the-counter' bonds, mortgages, syndicated loans and borrowing from the Public Works Loan Board.

Borrowing from 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. Borrowing from public corporations is mainly temporary deposits. Monetary sector transactions are generally based on monetary sector returns but these 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

This line at one time included deposits with the National Savings Bank investment account, with the ordinary and new departments of the trustee savings banks and those with the Central Trustee Savings Bank but these institutions were reallocated to the central government and monetary sectors over the period 1979 to 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 and other public sector bodies for house purchase and improvements, 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 monetary sector figures treat certain issues of loan stock by overseas subsidiaries, the proceeds of which are immediately repatriated to the parent, as if they had been issued in the United Kingdom. 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 1983.

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.