

# Sector financing: 1985

*This note describes the major financial flows between the various sectors of the economy in 1985. The annual flow of funds matrices for 1984 and 1985 follow the article, together with notes on definitions and seasonal adjustment. Further flow of funds tables, including those published only annually (which include transactions by the monetary sector, the overseas sector and by individual groups of 'other financial institutions') can be found in the statistical annex (Table 19). Details are also given of transactions by the various sectors in the equity and debenture markets.*

*In this article the flow of funds data have been scaled (to 1985 prices) using the GDP deflator at factor cost. This reduces the effect of inflation on the figures, making it easier to see where there have been 'real' changes.*

## Total financial transactions (Table A)

The most noticeable swing in the sectoral pattern of financial surpluses and deficits in 1985 was the reduction, by nearly a third compared with 1984, in the public sector deficit. The counterpart to this was mainly a fall in the surpluses of the personal sector and, to a lesser extent, the company sector. The United Kingdom's current account surplus (equalling the overseas sector deficit in Table A) improved slightly from 1984, essentially because of the end of the miners' dispute, but remained considerably smaller than in previous years. Table A also shows, however, not only a high residual error when the financial surpluses and deficits of the sectors are summed but also large differences between financial balances and their identified financial constituents. These differences are most marked for the company and personal sectors and warn that the aggregates should be taken as indications of broad trends rather than as precise and immutable measurements, particularly for the latest year where the numbers are most liable to revision.

## Public sector (Table B)

The public sector's financial deficit, at £10.3 billion, was £4.6 billion lower than in 1984. The public sector's borrowing requirement (PSBR) for 1985 of £7.6 billion was also substantially less than that for 1984: this

**Table A**  
**Sector financial balances<sup>(a)</sup>**

£ billions; 1985 prices; figures for identified financial transactions(b) in italics

	1981	1982	1983	1984	1985
Public sector	-10.4	-8.9	-12.6	-14.9	-10.3
	<i>-10.8</i>	<i>-8.1</i>	<i>-13.8</i>	<i>-14.4</i>	<i>-10.8</i>
Financial institutions	-1.2	—	+1.3	—	+1.2
	<i>-1.7</i>	<i>-5.0</i>	<i>-3.0</i>	<i>-4.4</i>	<i>-1.4</i>
Industrial and commercial companies	+2.2	+2.2	+5.5	+8.2	+6.2
	<i>+1.0</i>	<i>+1.1</i>	<i>+7.2</i>	<i>+5.6</i>	<i>-0.6</i>
Personal sector	+16.5	+14.1	+11.0	+12.9	+10.5
	<i>+18.4</i>	<i>+14.0</i>	<i>+13.5</i>	<i>+15.2</i>	<i>+13.6</i>
Overseas sector	-7.8	-4.7	-3.5	-1.0	-2.9
	<i>-7.9</i>	<i>-2.8</i>	<i>-4.7</i>	<i>-5.5</i>	<i>-3.2</i>
Residual error	+0.7	-2.7	-1.7	-5.4	-4.6

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

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

£ billions; 1985 prices

	1981	1982	1983	1984	1985
Public sector financial deficit	-10.4	-8.9	-12.6	-14.9	-10.3
Transactions in UK company securities	-0.6	—	+0.6	+2.7	+2.3
Other transactions	-2.3	+3.1	-0.9	+1.4	+0.4
<b>Public sector borrowing requirement</b>	<b>-13.3</b>	<b>-5.8</b>	<b>-12.9</b>	<b>-10.8</b>	<b>-7.6</b>
Financed by:					
Government stocks	-10.2	-7.5	-10.5	-9.1	-9.6
National savings	-5.2	-4.3	-3.3	-3.5	-2.6
Commercial bills(a)	+3.2	+5.5	-0.8	+3.2	+1.1
Other	-1.1	+0.5	+1.7	-1.4	+3.5

(a) ie Issue Department's transactions in commercial bills (line 15 in Table G).

represented a fall of a quarter at current prices or a third at constant prices (Table B). Within the PSBR, the central government's borrowing requirement rose by £1.6 billion but included substantial borrowing for on-lending to local authorities and public corporations; own account borrowing by the central government fell by £3 billion. As a consequence of this shift in the source of their finance, local authorities and public corporations together made a negative direct contribution to the PSBR of £4.2 billion. As in 1984, the PSBR was reduced by the sale of a further £2.3 billion of shares as part of the government's privatisation programme. The non-bank private sector took up £8.5 billion of government debt in 1985, having bought £8.8 billion in 1984. The overseas sector took up over £3 billion gilt-edged stock, compared with less than £1 billion in each of the two previous years. Total sales of British government stock and national savings of £12.2 billion in 1985 exceeded the PSBR by £4.6 billion, offsetting a net redemption of other public sector debt of £3.3 billion and the take-up by the government of a further £1.1 billion of commercial bills through the Issue Department of the Bank of England. The proceeds of the US\$2.5 billion FRN issue by HMG in October 1985 were credited to the reserves, making no initial contribution to the financing of the PSBR; in the course of the year the reserves rose by £1.8 billion in transactions terms.



## Personal sector (Table C)

The personal sector made net acquisitions of financial assets worth £10.5 billion in 1985. This was a fall of nearly 20% from 1984, and a resumption of the downward trend seen in previous years. A marked feature of recent years, which continued in 1985, has been the stability, at constant prices, of the increase in the personal sector's claims on life assurance and pension funds. Net disposals of UK company sector securities by the personal sector also continued on the previous (rather erratic) trend. This does not necessarily mean that the value of the personal sector's UK equity holding fell and is not inconsistent with the widely reported increase in the number of individual share owners. Net take-up of public sector debt was a third less than in 1984, partly reflecting the fall in the PSBR. Personal sector funds instead flowed into bank deposits, which grew in 1985 by £5.2 billion, the biggest increase since 1981. This growth was also partly achieved by the banks wooing deposits from building societies, particularly in the middle part of the year. Table C

**Table C**  
**Personal sector<sup>(a)</sup> financial transactions**

£ billions; 1985 prices

Increase in assets/  
decrease in liabilities +

	1981	1982	1983	1984	1985
Net acquisition of financial assets	+16.5	+14.1	+11.0	+12.9	+10.5
of which:					
Net claims on life assurance and pension funds	+16.6	+16.4	+16.9	+18.1	+17.7
Deposits with building societies	+ 8.9	+12.1	+11.4	+14.1	+12.9
Deposits with monetary sector	+ 5.0	+ 4.4	+ 3.6	+ 3.5	+ 5.2
Public sector debt	+ 8.4	+ 6.3	+ 5.0	+ 5.5	+ 3.9
UK company securities	- 3.3	- 4.1	- 2.5	- 4.6	- 3.4
Borrowing for house purchase	-11.9	-16.6	-16.1	-18.0	-18.4
of which, from building societies	- 7.9	- 9.5	-12.1	-15.5	-14.3
Borrowing from monetary sector(b)	- 5.0	- 5.8	- 5.4	- 4.4	- 6.9

(a) Includes individuals, private non-profitmaking institutions and unincorporated businesses.

(b) Other than for house purchase.

confirms an offsetting, although smaller, fall in the growth of building society deposits; building societies made up for this by borrowing from banks and issuing their own sterling FRNs. Increases in personal sector borrowing for house purchase were sustained at 1984 volumes, with building societies taking proportionately slightly less of the growth than in 1984. The personal sector increased its net borrowing for all purposes.

## Industrial and commercial companies (Table D)

The financial surplus of industrial and commercial companies fell by a quarter at constant prices in 1985 from the previous year. Trade investments and long-term investments overseas continued at the higher rates established in 1984, leaving a net financing requirement for 1985 of £7 billion. As in previous years, however, a large balancing item of nearly £7 billion obscures the picture, and it is possible that ICCs' net financing requirements were more nearly in balance than the identified flows suggest. The main sources of finance in 1985 were capital issues, some £3 billion more than in 1984, and bank and other borrowing which, at £8 billion,

**Table D**  
**Selected transactions of industrial and commercial companies**

£ billions; 1985 prices

	1981	1982	1983	1984	1985
Financial surplus	2.2	2.2	5.5	8.2	6.2
<b>Selected financial transactions requiring financing</b>					
Trade investments, mergers	1.6	2.0	1.5	4.1	4.6
Long-term investments overseas	4.7	3.2	3.7	5.3	2.9
Balancing item	1.1	1.2	1.7	2.7	6.8
Net financing requirement (-)	-4.1	-6.1	1.0	-4.3	-7.1
<b>Selected financing items</b>					
Bank and other borrowing	7.3	8.1	2.5	7.7	8.0
Capital issues	2.1	1.1	2.5	1.8	5.0
Investment from overseas	1.7	1.8	2.2	0.1	-1.1

was slightly higher than in 1984. Overseas investment in UK industrial and commercial companies was reduced.

## Other financial institutions (Table E)

Liquid asset holdings by OFIs again rose in 1985, as they had in 1984, and net acquisitions of UK company securities were also sharply higher. On the other hand net acquisitions of British government securities (principally by insurance companies and building societies) continued to decline and there was also less net lending for house purchase than in 1984. The major sources of OFI funds—building society deposits and inflows to life and pension funds—both contracted in real terms in 1985, but more unit trust units were sold and, as noted earlier, building societies began using the capital markets as a substantial additional source of funds.

Securities dealers have been reclassified in the flow of funds accounts. Previously mainly subsumed within industrial and commercial companies, their identified transactions have been transferred to the 'other financial institutions' sector. At present only their transactions in overseas securities are identified; these figures, together with an estimate for their take-up of the UK Government FRN issued in October, have been counterbalanced by attributing to the securities dealers equivalent amounts of borrowing from banks in foreign currency. These adjustments are taken back to the first quarter of 1984.

**Table E**  
**Other financial institutions' sources and uses of funds**

£ billions; 1985 prices

	1981	1982	1983	1984	1985
<b>Sources of funds</b>					
Building society deposits	- 8.9	-12.2	-12.8	-15.3	-13.5
Bank borrowing	- 2.5	- 3.0	- 3.1	- 7.6	- 5.1
Life assurance and pension funds	-15.8	-15.7	-16.0	-17.5	-16.8
Unit trust units	- 0.2	- 0.2	- 0.7	- 0.6	- 1.0
Capital issues	- 0.3	—	- 0.1	- 0.3	- 1.7
Other	- 1.0	- 0.4	- 1.5	- 0.1	- 2.4
Total	-28.7	-31.5	-34.2	-41.4	-40.5
<b>Uses of funds</b>					
Liquid assets	2.2	2.6	3.7	6.9	7.4
British government securities	8.1	5.6	7.1	5.7	4.9
UK company securities	3.4	3.7	2.8	4.4	7.1
Overseas securities	3.9	5.1	3.8	1.7	4.6
Lending for house purchase	8.3	9.6	12.5	16.1	14.8
Other	1.1	0.2	1.4	2.2	0.3
Total	27.0	26.8	31.3	37.0	39.1
<b>Net financial transactions</b>	- 1.7	- 4.9	- 3.0	- 4.4	- 1.4



**Table F**  
**Selected overseas sector financial transactions**

£ billions; 1985 prices

Increase in assets/  
decrease in liabilities+

	1981	1982	1983	1984	1985
Net acquisition of financial assets	- 7.8	- 4.7	- 3.5	- 0.9	- 3.0
of which:					
UK direct investment in overseas securities	- 3.0	- 1.2	- 1.9	- 2.3	- 1.7
UK portfolio investment overseas	- 5.4	- 7.7	- 6.8	- 9.4	-15.3
of which, monetary sector	- 1.2	- 2.1	- 2.7	- 7.6	- 8.7
Total UK take-up of overseas securities(a)	- 8.4	- 8.9	- 8.7	-11.7	-17.0
Overseas direct investment in UK securities	+ 1.1	+ 0.4	+ 0.6	+ 1.2	+ 0.8
Overseas portfolio investment in United Kingdom	+ 0.4	+ 0.2	+ 1.0	+ 0.9	+ 3.1
Total overseas take-up of UK securities(b)	+ 1.5	+ 0.5	+ 1.6	+ 2.1	+ 3.9
Deposits with UK monetary sector(c)	+50.0	+28.6	+23.6	+26.4	+29.6
Borrowing from UK monetary sector(d)	-49.8	-24.1	-20.4	-15.2	-21.8

(a) Line 32 Table G.

(b) Line 31 Table G.

(c) Line 21 Table G.

(d) Line 24 Table G.

### Overseas sector (Table F)

The financial deficit of the overseas sector (equivalent to the United Kingdom's surplus on the current account of the balance of payments) rose to £3 billion in 1985.

Among financing flows, the take-up of overseas securities by UK residents held fairly constant in the early 1980s, running, at 1985 prices, at just under £9 billion per annum, but rose steeply over the last two years to £17 billion in 1985. The increase was concentrated in portfolio

investment abroad. Bank lending in the form of fixed-rate bonds and FRNs is subsumed within this figure. Half of the 1985 flow (£8.7 billion) can be ascribed to this type of banking activity, reflecting the securitisation of lending and the way in which the new instruments are being issued and traded by international banks; UK banks' liabilities reflected similar trends, with banks taking more of their borrowing from overseas in non-deposit form, notably by the issue of dollar FRNs and fixed rate bonds. Deposits from overseas and non-securitised lending abroad showed signs of modest growth in 1985 after several years of reduced flows. The flows were nevertheless much lower than in 1981 before the international debt problems emerged.

### Major revisions to past figures

Improved data which have become available since the publication of last year's article, and the reclassification of securities dealers described above have led to the following revisions to line 5 in Table G for 1984:

Line 5: financial surplus+/deficit- for 1984  
£ billions

	As in June 1985 article	As in Table G overleaf
Public sector	-13.0	-14.0
Financial sector	- 0.4	—
Industrial and commercial companies	+ 9.6	+ 7.8
Persons	+10.2	+12.2
Overseas	—	- 0.9
Residual error	- 6.3	- 5.1



**Table G**  
**Flow of funds: annual matrix 1984**

£ millions; current prices

		Central government	Local authorities	Public corporations	Public sector	Monetary sector	Other financial institutions	Industrial and commercial companies	Personal sector	Overseas sector	Residual error
Line											
<b>Capital account</b>											
Saving	1	- 6,831	+1,970	+6,132	+ 1,271	+6,936		+31,131	+27,032	- 879	
Taxes on capital and capital transfers	2	- 1,330	- 943	+ 622	- 1,651	- 215		+ 357	+ 1,509	—	
less:											
Gross fixed capital formation at home	3	- 2,771	-3,707	-7,502	-13,980	-6,661		-18,999	-15,792		
Increase in value of stocks and work in progress	4	+ 153		+ 191	+ 344	- 24		- 4,737	- 583		
<b>Financial surplus +/deficit -</b>	<b>5</b>	<b>-10,779</b>	<b>-2,680</b>	<b>- 557</b>	<b>-14,016</b>	<b>+ 36</b>		<b>+ 7,752</b>	<b>+12,166</b>	<b>- 879</b>	<b>-5,059</b>
<b>Changes in financial assets and liabilities</b>											
Assets: increase+/decrease-											
Liabilities: increase-/decrease+											
Notes and coin	6	- 617		—	- 617	+ 295	—	+ 114	+ 167	+ 41	
Market Treasury bills	7	- 9	—	- 62	- 71	- 2	- 7	- 64		+ 144	
British government securities	8	- 8,576	+ 13	- 20	- 8,583	+ 183	+ 5,418	- 100	+ 1,979	+ 1,103	
National savings	9	- 3,447	+ 1	+ 119	- 3,327		+ 18	+ 60	+ 3,249		
Certificates of tax deposit	10	- 475		- 13	- 488	- 4	+ 185	+ 285	+ 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	—				
Short-term assets	14.2		+ 106	+ 60	+ 166		- 142	+ 8	- 9	- 23	
Issue Department's transactions in 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	- 908			- 908					+ 908	
Local authority debt:											
Temporary	19.1	- 75	- 769	- 75	- 919	+ 473	+ 332	+ 44	+ 77	- 7	
Foreign currency	19.2	—	- 51	—	- 51	—	—	—	—	+ 51	
Sterling securities	19.3	—	+ 338	—	+ 338	+ 60	- 280	—	- 114	- 4	
Other sterling debt	19.4	+ 2,774	-2,038	- 26	+ 710	- 648	+ 149	- 8	- 201	- 2	
Public corporation debt:											
Foreign currency	20.1			+ 244	+ 244	+ 19	—	—		- 263	
Other	20.2	+ 529	+ 42	-1,301	- 730	+ 718	+ 4	—	- 1	+ 9	
Deposits with banks:											
Sterling sight	21.1	+ 109	- 51	+ 79	+ 137	- 7,682	+ 2,022	+1,359	+ 3,212	+ 952	
Sterling time	21.2	- 10	+ 123	+ 386	+ 499	- 8,675	+ 2,068	+1,157	- 252	+ 5,203	
Foreign currency	21.3	+ 8	- 15	+ 67	+ 60	-19,797	+ 1,857	-1,171	+ 358	+18,693	
Deposits with building societies	22					+ 595	-14,439	+ 564	+13,249	+ 31	
Bank lending (excluding public sector):											
Foreign currency	24.1					+14,266	- 4,456	- 249	- 121	- 9,440	
Sterling	24.2					+15,439	- 2,682	-3,765	- 4,060	- 4,932	
Credit extended by retailers	25			+ 31	+ 31			+ 85	- 116		
Identified trade credit:											
Domestic	26.1	- 3		- 439	- 442		- 20	+ 633	- 171		
Import and export	26.2	- 7		- 125	- 132		—	- 38		+ 170	
Loans for house purchase:											
Building societies	27.1						+14,572		-14,572		
Other	27.2	+ 3	- 195	- 89	- 281	+ 2,043	+ 638		- 2,400		
Other public sector lending	28	+ 133	+ 49	+ 57	+ 239		—	- 117	+ 19	- 141	
Other lending by financial institutions	29			—	—		+ 544	- 147	- 397		
Unit trust units	30						- 608		+ 608		
UK company securities	31	- 2,431		- 151	- 2,582	- 250	+ 3,839	+1,367	- 4,368	+ 1,994	
Overseas securities	32	—		—	—	+ 7,983	+ 1,615	+1,288	+ 181	-11,067	
Life assurance and pension funds	33	- 539			- 539		-16,520		+17,059		
Miscellaneous domestic instruments	34	—	- 23	+ 23	—	—	- 308	+ 213	+ 95	—	
Direct and other investment abroad	35					- 1,634	+ 105	+5,815		- 4,286	
Overseas direct and other investment in United Kingdom	36					- 119	+ 229	-1,387		+ 1,277	
Miscellaneous overseas instruments	37	+ 125		+ 84	+ 209	—	+ 2,317	+2,625		- 5,151	
Accruals adjustment	38	- 711	- 124	+ 909	+ 74	+ 1	- 593	- 265	+ 783		
<b>Financial transactions</b>	<b>39</b>	<b>-10,321</b>	<b>-2,597</b>	<b>- 654</b>	<b>-13,572</b>	<b>+ 3,353</b>	<b>- 4,145</b>	<b>+5,242</b>	<b>+14,307</b>	<b>- 5,185</b>	
Balancing item	40	- 458	- 83	+ 97	- 444	+ 828		+2,510	- 2,141	+ 4,306	-5,059

— nil or less than £½ million.



**Table G continued**  
**Flow of funds: annual matrix 1985**  
 £ millions

		Central government	Local authorities	Public corporations	Public sector	Monetary sector	Other financial institutions	Industrial and commercial companies	Personal sector	Overseas sector	Residual error
Line											
<b>Capital account</b>											
Saving	1	-4,020	+1,508	+5,451	+ 2,939	+9,466		+30,953	+27,770	- 2,952	
Taxes on capital and capital transfers	2	-1,046	- 134	+ 647	- 533	- 370		+ 410	+ 493	—	
less:											
Gross fixed capital formation at home	3	-3,137	-3,443	-5,588	-12,168	-7,924		-22,281	-17,237		
Increase in value of stocks and work in progress	4	- 596		+ 58	- 538	—		- 2,878	- 537		
<b>Financial surplus +/-deficit -</b>	<b>5</b>	<b>-8,799</b>	<b>-2,069</b>	<b>+ 568</b>	<b>-10,300</b>	<b>+1,172</b>		<b>+ 6,204</b>	<b>+10,489</b>	<b>- 2,952</b>	<b>-4,613</b>
<b>Changes in financial assets and liabilities</b>											
Assets: increase+ /decrease-											
Liabilities: increase- /decrease+											
Notes and coin	6	- 429		—	- 429	- 164	—	+ 98	+ 487	+ 8	
Market Treasury bills	7	- 68	+ 15	+ 10	- 43	+ 114	- 33	- 25		- 13	
British government securities	8	-9,555	+ 1	—	- 9,554	+ 268	+ 4,917	- 270	+ 1,730	+ 2,909	
National savings	9	-2,564	- 1	- 1	- 2,566		- 2	+ 25	+ 2,543		
Certificates of tax deposit	10	- 556		- 36	- 592	+ 100	+ 62	+ 420	+ 10		
Net government indebtedness to Banking Department	11	- 122			- 122	+ 122					
Northern Ireland central government debt	12	+ 23			+ 23	+ 2	- 6	—	- 19		
Government liabilities under exchange cover scheme	13	+ 242	- 9	- 223	+ 10			- 10			
Other public sector financing:											
Non-marketable debt	14.1	+ 262		+ 57	+ 319	- 319	—	+ 7	- 1	+ 13	
Short-term assets	14.2		+ 136	- 13	+ 123		- 142				
Issue Department's transactions in bills	15	+1,129			+ 1,129			- 1,129			
Government foreign currency debt	16	-1,723			- 1,723	+ 212	+ 1,216			+ 295	
Other government overseas financing	17	+ 87			+ 87					- 87	
Official reserves	18	+1,758			+ 1,758					- 1,758	
Local authority debt:											
Temporary	19.1	- 148	+ 212	+ 207	+ 271	+ 11	- 323	- 23	+ 66	- 2	
Foreign currency	19.2		- 81		- 81	- 8	—			+ 89	
Sterling securities	19.3	—	+ 631	+ 1	+ 632	- 206	- 108		- 315	- 3	
Other sterling debt	19.4	+4,956	-3,162	- 3	+ 1,791	- 1,171	+ 1	+ 8	- 627	- 2	
Public corporation debt:											
Foreign currency	20.1			- 239	- 239	+ 204	—			+ 35	
Other	20.2	+ 684	- 17	+ 220	+ 887	- 847	- 10	—	+ 17	- 47	
Deposits with banks:											
Sterling sight	21.1	- 40	+ 150	+ 32	+ 142	-10,213	+ 1,647	+ 738	+ 6,473	+ 1,213	
Sterling time	21.2	+ 52	+ 519	+ 51	+ 622	- 9,169	+ 4,747	+ 2,413	- 1,548	+ 2,935	
Foreign currency	21.3	- 138	+ 8	+ 42	- 88	-27,893	+ 1,037	+ 1,295	+ 247	+25,402	
Deposits with building societies	22					+ 42	-13,479	+ 518	+12,938	- 19	
Bank lending (excluding public sector):											
Foreign currency	24.1					+24,067	- 706	- 2,372	- 909	-20,080	
Sterling	24.2					+16,323	- 4,380	- 4,202	- 5,995	- 1,746	
Credit extended by retailers	25			+ 39	+ 39			+ 163	- 202		
Identified trade credit:											
Domestic	26.1	—		+1,207	+ 1,207		- 20	- 1,069	- 118		
Import and export	26.2	- 59		- 231	- 290		—	+ 140		+ 150	
Loans for house purchase:											
Building societies	27.1						+14,321		-14,321		
Other	27.2	- 1	- 475	+ 11	- 465	+ 4,090	+ 467		- 4,092		
Other public sector lending	28	+ 43	+ 53	+ 48	+ 144		—	- 15	+ 28	- 157	
Other lending by financial institutions	29			—	—		+ 965	- 268	- 697		
Unit trust units	30						- 950		+ 950		
UK company securities	31	-2,288		+ 5	- 2,283	- 2,662	+ 5,440	- 1,012	- 3,364	+ 3,881	
Overseas securities	32	—		—	—	+ 9,223	+ 4,582	+ 1,065	+ 2,087	-16,957	
Life assurance and pension funds	33	- 916			- 916		-16,823		+17,739		
Miscellaneous domestic instruments	34	—	- 23	+ 23	—	—	+ 964	- 207	- 757	—	
Direct and other investment abroad	35					+ 395	- 113	+ 4,701		- 4,983	
Overseas direct and other investment in United Kingdom	36					- 253	- 409	- 1,721		+ 2,383	
Miscellaneous overseas instruments	37	- 38		+ 66	+ 28	—	- 3,211	- 163		+ 3,346	
Accruals adjustment	38	- 391	- 432	+ 219	- 604	+ 6	- 1,002	+ 341	+ 1,259		
<b>Financial transactions</b>	<b>39</b>	<b>-9,800</b>	<b>-2,475</b>	<b>+1,492</b>	<b>-10,783</b>	<b>+ 2,274</b>	<b>- 1,351</b>	<b>- 554</b>	<b>+13,609</b>	<b>- 3,195</b>	
Balancing item	40	+1,001	+ 406	- 924	+ 483	+ 249		+ 6,758	- 3,120	+ 243	-4,613

— 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. Securities dealers are also now classified as 'other financial institutions'; see page 246.

#### 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<sup>(1)</sup>

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 1986 issue 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 G and Table 19.1 of the statistical annex.



**Line 15**

Market transactions by the Issue Department of the Bank of England in commercial bills, ECGD backed paper and DTI shipbuilding scheme lending. 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 and floating-rate notes, 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, pension funds and miscellaneous financial institutions, 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 and various transferred debts. 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 1984.

**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.