

Sector financing: 1986

This note describes the financial flows between the various sectors of the economy in 1986. The annual flow of funds matrices for 1985 and 1986 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 company loan stock markets.

In this article the flow of funds data have been scaled (to 1986 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)

Unusually, in 1986 a surplus was suggested in the recorded current and capital accounts of the overseas sector and financial institutions. Their identified financial transactions did not, however, vary much from the recent trends, and appeared to indicate deficits in both sectors. This phenomenon highlights the problem of reconciliation in the national accounts. As in earlier years there was a high 'residual', both in respect of individual sectors and for the financial accounts as a whole. The figures are therefore best viewed as broad indications of changes only.

Table A
Sector financial balances^(a)

£ billions; 1986 prices; figures for identified financial transactions^(b) in italics

	1982	1983	1984	1985	1986
Public sector	- 8.9	-12.6	-14.2	-10.3	-9.6
Financial institutions	- 3.0	- 0.8	- 1.2	- 0.9	+ 1.1
Industrial and commercial companies	+ 2.4	+ 5.9	+ 8.1	+ 6.8	+ 5.3
Personal sector	+15.8	+11.7	+13.9	+11.2	+ 8.0
Overseas sector	- 4.9	- 3.8	- 1.7	- 3.6	+ 0.1
Residual error	- 1.4	- 0.4	- 4.9	- 3.2	- 4.9

(a) Line 5 Table G.

(b) Line 39 Table G.

Public sector (Table B)

The public sector's financial deficit of £9.6 billion in 1986 was marginally lower than the 1985 figure. The PSBR fell more steeply, from £7.7 billion in 1985 (at 1986 prices) to £2.3 billion in 1986. Within this, the CGBR (own account) fell by £3.8 billion to £2.3 billion, the LABR fell by £1.0 billion to £0.6 billion, and the public corporations increased their surplus by £0.5 billion to £0.7 billion.

As in 1984 and 1985, the reduction in the PSBR was in part achieved by the government's privatisation programme, which raised £3.8 billion. The flow for other financial transactions, which includes

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

£ billions; 1986 prices

	1982	1983	1984	1985	1986
Public sector financial deficit	- 8.9	-12.6	-14.2	-10.3	-9.6
Transactions in UK company securities	+ 0.1	+ 0.6	+ 2.8	+ 2.4	+ 3.8
Other transactions	+ 2.8	- 1.3	+ 0.2	+ 0.2	+ 3.5
Public sector borrowing requirement	- 6.0	-13.3	-11.2	- 7.7	- 2.3
<i>Financed by:</i>					
Government stocks	- 7.8	-10.8	- 9.4	- 9.8	- 6.7
National savings	- 4.4	- 3.4	- 3.7	- 2.6	- 2.6
Commercial bills ^(a)	+ 5.7	- 0.8	+ 3.3	+ 1.2	+ 0.5
Official reserves	- 1.7	- 0.7	- 1.0	+ 1.8	+ 2.9
Other	+ 2.2	+ 2.4	- 0.4	+ 1.7	+ 3.6

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

accruals adjustments, rose to £3.5 billion. The non-bank private sector took up £5.6 billion of central government debt, but repaid a net £2.3 billion of other public sector debt. There was a reduction in the overseas sector's net purchases of gilt-edged stocks, from £2.9 billion in 1985 to £2.1 billion in 1986.

Total sales of British government stock and national savings were £9.3 billion, exceeding the PSBR by £7.2 billion. This borrowing was offset by a net redemption of other public sector debt of £6.7 billion, and a £0.5 billion government take-up of commercial bills through the Issue Department of the Bank of England. There was a US\$4 billion UK Government floating-rate note issue in September 1986, following a similar US\$2.5 billion issue in October 1985. The proceeds were credited to the official reserves, with no direct impact on the financing of the PSBR. During the year there was a total net inflow, expressed in sterling, of £2.9 billion into the reserves.

Personal sector (Table C)

Net acquisitions of financial assets by the personal sector continued on a downward trend, falling from £11.2 billion in 1985 to £8.0 billion in 1986. The flow of deposits into the monetary sector was up by 60% in 1986, also

continuing the trend established in previous years. Building society deposits increased more slowly, by £11.9 billion, only 80% of the 1985 rate; no doubt this deceleration reflected some of the withdrawals of funds from building society accounts for investment in privatisation issues.

Personal sector borrowing for house purchase rose substantially, to £25.8 billion, about 30% more than in 1985, with banks and building societies sharing equally in the growth, though the building societies' share of total net new mortgage lending declined. The acceleration in borrowing for house purchase is associated with a rise in

Table C
Personal sector^(a) financial transactions

£ billions; 1986 prices

Increase in assets/
Decrease in liabilities +

	1982	1983	1984	1985	1986
Net acquisition of financial assets	+15.8	+11.7	+13.9	+11.2	+ 8.0
of which:					
Net claims on life assurance and pension funds	+17.2	+17.6	+18.9	+18.6	+19.3
Deposits with building societies	+12.4	+11.3	+14.5	+13.7	+11.9
Deposits with monetary sector	+ 4.6	+ 3.7	+ 3.6	+ 5.3	+ 8.5
Public sector debt	+ 6.5	+ 5.2	+ 5.1	+ 4.2	+ 5.1
UK company securities	- 4.3	- 2.7	- 4.6	- 4.3	- 2.2
Borrowing for house purchase	-17.1	-16.6	-18.6	-19.6	-25.8
of which, from building societies	- 9.8	-12.5	-15.9	-15.1	-19.0
Borrowing from monetary sector ^(b)	- 6.0	- 5.6	- 4.6	- 7.0	- 6.1

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

(b) Other than for house purchase.

house prices, particularly in the South-East, and a widespread rise in real incomes. Generally, borrowers obtained larger multiples of their incomes in 1986 than previously, a likely effect of competition between banks and building societies in the mortgage market. The sector did, however, borrow nearly £1 billion less from the banks than in 1985 for purposes other than house purchase.

The personal sector continued to dispose of UK company securities, although at a rather slower rate than in 1984 and 1985, as there was a substantial take-up of shares in privatised companies. Net take-up of public sector debt was £5.1 billion, up on 1985 despite a fall in the PSBR.

Industrial and commercial companies (Table D)

The financial surplus of the company sector at constant prices fell again in 1986. The flow of long-term investments overseas increased by 60%—much of the increase representing acquisitions in the United States. The higher flow of funds into trade investments and mergers since 1983 was sustained. An exceptional number of intra-company-sector transactions were offset within the figure of £3.7 billion. There were net inflows of investment from overseas in 1986, after outflows in 1984 and 1985.

Finance raised from capital issues, at £7.8 billion, was, for the first time since 1975, greater than that from bank and other borrowing (£6.2 billion) and was about 50% larger than in 1985. A more optimistic economic outlook for the

Table D
Selected transactions of industrial and commercial companies

£ billions; 1986 prices

	1982	1983	1984	1985	1986
Financial surplus	+2.4	+5.9	+8.1	+6.8	+5.3
Selected financial transactions requiring financing (increase +)					
Trade investments, mergers	+2.0	+1.6	+4.2	+4.8	+3.7
Long-term investments overseas	+2.9	+3.7	+1.8	+3.0	+4.9
Balancing item	+0.1	-1.6	+3.1	+2.3	+0.3
Net financing requirement (-)	-4.7	+1.5	-4.0	-4.7	-6.5
Selected financing items (increase -)					
Bank and other borrowing	-8.3	-2.5	-7.9	-7.9	-6.2
Capital issues	-1.1	-2.6	-1.8	-5.2	-7.8
Investment from overseas	-1.5	-1.9	+2.3	+2.1	-2.2

sector and a consequent fall in long-term interest rates led to increased activity in the fixed-rate eurobond markets, while the buoyancy of the stock market helped equity issues to become a more attractive method of raising long-term capital. The consequent tendency for a slowdown in the growth of bank borrowing was accentuated by the 1984 Budget reforms, which reduced corporation tax relief on bank borrowing. An increase in sterling bank lending to companies during the year, some of which may have been related to takeover activity, was more than offset by a net repayment of foreign currency bank lending.

Other financial institutions (Table E)

Overall, there was an unprecedented £58.8 billion inflow of funds to the sector, and uses of funds increased to £54.1 billion—both up about a third on 1985.

OFIs' holdings of liquid assets continued to rise, as they had since 1981. The rise in 1986 was a substantial £10.6 billion, about a third up on 1985 at constant prices. Recorded flows into overseas securities were more than double those of the previous year; transactions by securities dealers are believed to account for a large part of this change. As net official sales of gilts declined, there was a large drop in their net acquisition by OFIs, down by £5 billion to £0.1 billion. Much of the decline was

Table E
Other financial institutions' sources and uses of funds

£ billions; 1986 prices

	1982	1983	1984	1985	1986
Sources of funds					
Building society deposits	-12.6	-13.2	-15.8	-14.3	-13.4
Bank borrowing	- 3.1	- 3.2	- 7.8	- 5.6	-18.9
Life assurance and pension funds	-16.4	-16.8	-18.0	-17.8	-18.4
Unit trust units	- 0.2	- 0.7	- 0.8	- 1.2	- 2.4
Capital issues	—	- 0.2	- 0.3	- 1.7	- 6.6
Other sources	- 0.7	- 1.6	- 0.1	- 3.4	+ 0.9
Total	-33.0	-35.7	-42.8	-44.0	-58.8
Uses of funds					
Liquid assets	+ 2.6	+ 3.8	+ 7.2	+ 7.8	+10.6
British government securities	+ 5.8	+ 7.4	+ 6.0	+ 5.1	+ 0.1
UK company securities	+ 3.8	+ 2.9	+ 4.5	+ 7.3	+ 7.6
Overseas securities	+ 5.3	+ 4.0	+ 1.9	+ 5.4	+14.3
Lending for house purchase	+ 9.9	+12.9	+16.7	+15.8	+21.6
Other uses	- 1.1	+ 1.4	+ 3.1	- 1.5	- 0.1
Total	+26.3	+32.4	+39.4	+39.9	+54.1
Net financial transactions	- 6.7	- 3.3	- 3.4	- 4.1	- 4.7

due to a portfolio switch by the building societies within their total liquid assets from gilts to bank deposits. The societies also expanded their capital issues, in order to maintain liquidity, following the reduction in the flow of cash into building society deposits in 1985 and 1986. Capital issues by OFIs increased three-fold on 1985, as did their bank borrowing, within which foreign currency borrowing by securities dealers and non-monetary-sector financial institutions in the Channel Islands was prominent.

The flow of net lending by OFIs for house purchase rose by a third, after abating marginally in 1985. Sales of unit trust units, at £2.4 billion, continued their upward trend.

Overseas sector (Table F)

Despite an estimated current account deficit in the UK balance of payments of £0.1 billion, identified capital flows indicated further large net UK acquisitions of overseas assets of £9.2 billion in 1986 (£8.3 billion in 1985). The large positive balancing item of £9.3 billion,

however, indicated unidentified inflows either in the current account, the capital account or both. As in the previous two years, total net UK take-up of overseas securities rose steeply, to £28 billion, which was 30% higher than in 1985. Most of the increased outflow was in the form of portfolio investment abroad. Since 1984, the major increases in portfolio investment have been due to transactions by securities dealers and banks, but life assurance and pension funds and unit trusts have also continued to take up substantial amounts. Securities dealers accounted for about 40%, and the monetary sector a further third, of the 1986 portfolio investment outflow (which includes take-up of overseas issuers' FRNs and fixed-rate bonds). Direct investment in overseas securities was also up by 60% on 1985. There was a similar increase in industrial and commercial companies' long-term investment overseas in 1986, to £4.8 billion. A substantial part of this increase was expenditure on US companies' securities—£1.1 billion in the third quarter of 1986.

Overseas direct investment in UK securities doubled to £1.6 billion; the increased investment was evenly spread across the monetary sector, ICCs and insurance companies. There was also a large increase throughout 1986 in portfolio investment in UK securities—much of this reflected the take-up of gilts and UK equities in the stock market boom, whereas in 1985 FRNs had accounted for most of the increase. Problems in the secondary market for perpetual FRNs towards the end of 1986 may well have contributed to a decline in their share of the market.

The rapid growth of business conducted by banks with Japan was a major feature of the London market in 1986, reflected in the doubling of overseas deposits with, and a similar increase in borrowing from, the UK monetary sector. Much of this growth was in interbank lending and reflected balance sheet competition between Japanese banks in London. In the third quarter of 1986, there was the largest ever increase in UK banks' business with Japan, reflecting mid-financial-year window-dressing by the Japanese financial and corporate sectors.

Table F
Selected overseas sector financial transactions

£ billions; 1986 prices

Increase in assets/
Decrease in liabilities+

	1982	1983	1984	1985	1986
Net acquisition of financial assets	- 4.7	- 3.8	- 1.7	- 3.5	+ 0.1
of which:					
UK direct investment in overseas securities	- 1.1	- 2.2	- 2.9	- 3.3	- 5.2
UK portfolio investment overseas	- 8.1	- 7.5	-10.4	-18.4	-22.8
of which, monetary sector	- 2.4	- 3.1	- 8.7	-10.6	- 6.5
Total UK take-up of overseas securities(a)	- 9.2	- 9.7	-13.3	-21.7	-28.0
Overseas direct investment in UK securities	+ 0.3	+ 0.6	+ 0.6	+ 0.7	+ 1.6
Overseas portfolio investment in United Kingdom	+ 0.2	+ 1.1	+ 1.1	+ 4.0	+ 4.7
Total overseas take-up of UK securities(b)	+ 0.5	+ 1.7	+ 1.7	+ 4.7	+ 6.3
Deposits with UK monetary sector(c)	+29.5	+24.4	+27.1	+30.3	+63.7
Borrowing from UK monetary sector(d)	-24.9	-21.1	-15.7	-22.7	-53.6

(a) Line 32 Table G.

(b) Line 31 Table G.

(c) Line 21 Table G.

(d) Line 24 Table G.

Table G
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
Capital account											
Saving	1	-3,343	+1,824	+5,172	+ 3,653	+7,462		+32,100	+27,171	- 3,450	
Taxes on capital and capital transfers	2	-1,123	- 126	+ 621	- 628	- 355		+ 390	+ 593	-	
less:											
Gross fixed capital formation at home	3	-3,098	-3,453	-5,718	-12,269	-7,936		-23,451	-16,398		
Increase in value of stocks and work in progress	4	- 536		- 235	- 771	-		- 2,450	- 453		
Financial surplus +/deficit	5	-8,100	-1,755	- 160	-10,015	- 829		+ 6,589	+10,913	- 3,450	-3,208
Changes in financial assets and liabilities											
<i>Assets: increase+/decrease-</i>											
<i>Liabilities: increase-/decrease+</i>											
Notes and coin	6	- 429		-	- 429	- 164	-	+ 98	+ 490	+ 5	
Market Treasury bills	7	- 68	+ 15	+ 10	- 43	+ 114	- 15	- 43	-	- 13	
British government securities	8	-9,555	+ 1	-	- 9,554	+ 268	+ 4,957	- 410	+ 1,819	+ 2,920	
National savings	9	-2,556	- 2	+ 66	- 2,492	-	- 2	+ 25	+ 2,469		
Certificates of tax deposit	10	- 556		- 36	- 592	+ 100	+ 63	+ 419	+ 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	+ 253		+ 66	+ 319	- 319	-				
Short-term assets	14.2		+ 140	- 13	+ 127		- 145	+ 7	- 2	+ 13	
Issue Department's transactions in bills	15	+1,129			+ 1,129			-1,129			
Government foreign currency debt	16	-1,723			- 1,723	+ 212	+1,189	+ 26		+ 296	
Other government overseas financing	17	+ 87			+ 87					- 87	
Official reserves	18	+1,758			+ 1,758					- 1,758	
Local authority debt:											
Temporary	19.1	- 148	+ 237	+ 208	+ 297	- 5	- 442	- 26	+ 178	- 2	
Foreign currency	19.2		+ 81		- 81	+ 8				+ 89	
Sterling securities	19.3		+ 629	+ 1	+ 630	- 206	- 66		- 355	- 3	
Other sterling debt	19.4	+4,956	-3,165	- 3	+ 1,788	- 1,157	- 128	+ 8	- 509	- 2	
Public corporation debt:											
Foreign currency	20.1			+ 255	- 255	+ 200	-			+ 55	
Other	20.2	+ 697	- 19	+ 245	+ 923	- 847	- 8		+ 15	- 83	
Deposits with banks:											
Sterling sight	21.1	- 40	+ 150	+ 32	+ 142	-10,215	+ 1,649	+ 738	+ 6,473	+ 1,213	
Sterling time	21.2	+ 52	+ 518	+ 52	+ 622	- 9,167	+ 4,797	+2,392	- 1,579	+ 2,935	
Foreign currency	21.3	- 138	+ 8	+ 42	- 88	-27,784	+ 1,040	+1,281	+ 245	+25,306	
Deposits with building societies	22					+ 42	-13,835	+ 498	+13,314	- 19	
Bank lending (excluding public sector):											
Foreign currency	24.1					+24,180	- 926	-2,124	- 930	-20,200	
Sterling	24.2					+16,317	- 4,528	-4,076	- 5,898	- 1,815	
Credit extended by retailers	25			+ 39	+ 39			+ 163	- 202		
Identified trade credit:											
Domestic	26.1	- 38		- 42	- 80		- 20	+ 218	- 118		
Import and export	26.2	- 59		+ 5	- 54			+ 164		- 110	
Loans for house purchase:											
Building societies	27.1						+14,711	- 84	-14,627		
Other	27.2		- 465	+ 62	- 403	+ 4,223	+ 625		- 4,445		
Other public sector lending	28	- 8	+ 43	+ 35	+ 70			+ 61	+ 26	- 157	
Other lending by financial institutions	29						+ 854	- 180	- 674		
Unit trust units	30						- 1,118		+ 1,118		
UK company securities	31	-2,344		+ 5	- 2,339	- 2,771	+ 5,415	- 665	- 4,209	+ 4,569	
Overseas securities	32					+10,904	+ 5,235	+2,357	+ 2,538	-21,034	
Life assurance and pension funds	33	- 719			- 719		-17,310		+18,029		
Miscellaneous domestic instruments	34		- 23	+ 23			+ 293	- 111	- 182		
Direct and other investment abroad	35					+ 509	- 127	+5,269	+ 13	- 5,664	
Overseas direct and other investment in United Kingdom	36					- 318	- 500	-2,839	- 90	+ 3,747	
Miscellaneous overseas instruments	37	+ 17		+ 66	+ 83		- 4,558	+2,785		+ 1,690	
Accruals adjustment	38	+1,127	- 166	- 203	+ 758	- 141	- 1,072	- 485	+ 940		
Financial transactions	39	-8,162	-2,189	+ 182	-10,169	+ 4,091	- 3,978	+4,327	+13,838	- 8,109	
Balancing item	40	+ 62	+ 434	- 342	+ 154	- 942		+2,262	- 2,925	+ 4,659	-3,208

— nil or less than £½ million.

Table G continued
Flow of funds: annual matrix 1986

£ 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										
Capital account										
Saving	1	-4,508	+2,293	+5,533	+ 3,318	+8,826	+32,180	+27,802	+ 120	
Taxes on capital and capital transfers	2	- 860	+ 144	+ 552	- 164	- 478	+ 526	+ 116	-	
less:										
Gross fixed capital formation at home	3	-3,282	-4,044	-5,480	-12,806	-7,243	-24,997	-19,307		
Increase in value of stocks and work in progress	4	- 6		+ 86	+ 80	-	- 2,400	- 614		
Financial surplus +/-deficit -	5	-8,656	-1,607	+ 691	- 9,572	+1,105	+ 5,309	+ 7,997	+ 120	-4,959
Changes in financial assets and liabilities										
<i>Assets: increase+/-decrease-</i>										
<i>Liabilities: increase-/decrease+</i>										
Notes and coin	6	- 674	-	-	- 674	- 19	+ 382	+ 271	+ 40	
Market Treasury bills	7	- 253	- 14	- 10	- 277	+ 16	+ 57		+ 207	
British government securities	8	-6,870	+ 7	+ 132	- 6,731	+ 1,292	- 210	+ 3,413	+ 2,104	
National savings	9	-2,509	-	- 96	- 2,605	+ 14	+ 81	+ 2,510		
Certificates of tax deposit	10	- 124	-	+ 158	+ 34	+ 293	- 506	+ 43		
Net government indebtedness to										
Banking Department	11	+ 28			+ 28	- 28				
Northern Ireland central government debt	12	+ 15			+ 15	- 2	- 4	- 7		
Government liabilities under exchange cover scheme	13	+ 186	- 5	- 162	+ 19		- 19			
Other public sector marketing:										
Non-marketable debt	14.1	+ 581		- 474	+ 107	- 107				
Short-term assets	14.2		+ 601	+ 175	+ 776	- 673	- 40	- 31	- 32	
Issue Department's transactions in bills	15	+ 522			+ 522		- 522			
Government foreign currency debt	16	-2,695			- 2,695	+ 133	+ 1,402		+ 1,187	
Other government overseas financing	17	+ 87			+ 87				- 87	
Official reserves	18	+2,891			+ 2,891				- 2,891	
Local authority debt:										
Temporary	19.1	- 74	+1,144	- 109	+ 961	- 398	- 207	- 74	- 281	- 1
Foreign currency	19.2		- 103		- 103					+ 103
Sterling securities	19.3		+ 202		+ 202	- 176	- 34		+ 9	- 1
Other sterling debt	19.4	+5,867	-3,688	- 7	+ 2,172	- 1,259	- 112	- 5	- 794	- 2
Public corporation debt:										
Foreign currency	20.1			+ 127	+ 127	- 99				- 28
Other	20.2	+ 386	+ 18	+ 61	+ 465	- 425	+ 21		- 19	- 42
Deposits with banks:										
Sterling sight	21.1	+ 288	+ 137	+ 169	+ 594	-14,101	+ 1,905	+ 3,572	+ 6,925	+ 1,105
Sterling time	21.2	+ 33	+1,030	+ 720	+ 1,783	-16,240	+ 3,684	+ 4,803	+ 1,507	+ 4,463
Foreign currency	21.3	- 10	+ 16	+ 55	+ 61	-65,674	+ 4,432	+ 3,010	+ 33	+58,138
Deposits with building societies	22					+ 420	-13,359	+ 540	+11,893	+ 506
Bank lending (excluding public sector):										
Foreign currency	24.1					+55,783	-10,704	+ 3,419	- 663	-47,835
Sterling	24.2					+27,414	- 8,150	- 8,062	- 5,427	- 5,775
Credit extended by retailers	25			+ 27	+ 27			+ 22	- 49	
Identified trade credit:										
Domestic	26.1	+ 435		-1,250	- 815		- 20	+ 732	+ 103	
Import and export	26.2	- 12		+ 124	+ 112			+ 15		- 127
Loans for house purchase:										
Building societies	27.1						+19,072	- 114	-18,958	
Other	27.2	+ 1	- 493	+ 92	- 400	+ 4,666	+ 2,552		- 6,818	
Other public sector lending	28	+ 139	+ 41	+ 32	+ 212			- 36	+ 12	- 188
Other lending by financial institutions	29						+ 1,111	- 168	- 943	
Unit trust units	30						- 2,391		+ 2,391	
UK company securities	31	-3,809		- 10	- 3,819	+ 3,365	+ 990	- 4,695	- 2,150	+ 6,309
Overseas securities	32					+ 6,502	+14,287	+ 3,762	+ 3,462	-28,013
Life assurance and pension funds	33	- 857			- 857		-18,442		+19,299	
Miscellaneous domestic instruments	34		- 23	+ 23		+ 61	- 398	- 651	+ 915	+ 73
Direct and other investment abroad	35					+ 775	+ 64	+ 4,802	+ 8	- 5,649
Overseas direct and other investment in United Kingdom	36					- 132	+ 173	- 3,606	- 140	+ 3,705
Miscellaneous overseas instruments	37	+ 89		+ 48	+ 137	+ 60	- 1,858	- 1,877		+ 3,538
Accruals adjustment	38	-2,246	- 610	+ 105	- 2,751	+ 26	+ 1,533	+ 409	+ 783	
Financial transactions	39	-8,585	-1,740	- 70	-10,395	+ 1,989	- 4,690	+ 4,992	+17,297	- 9,193
Balancing item	40	- 71	+ 133	+ 761	+ 823	+3,806	+ 317	- 9,300	+ 9,313	-4,959

— nil or less than £½ million.

Notes on definitions and seasonal adjustment

Introduction

A complete set of financial transactions tables and accompanying notes appears in the *Bulletin* only in the August issue⁽¹⁾ 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 arranged 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 478 of the December 1986 *Bulletin*.

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⁽²⁾

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. Changes in holdings of notes and coin by the non-bank private sector are divided in the ratio 1:5 between industrial and commercial companies and persons.

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 February 1987 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, up to their privatisation in December 1986 and February 1987 respectively, deposits by the British Gas Corporation and British Airways 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) June issue prior to 1987.

(2) 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) and holdings of sterling commercial paper (line 34 if issued by UK residents, line 37 if by overseas residents). 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 (up to their privatisation) 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, sterling commercial paper, 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 estimated 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 M3c	= 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 1985.

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.