

Sector financing: 1987

In past years the Bulletin has contained an annual article describing the financial flows between the various sectors of the economy in the most recent year for which data have been available. The present article continues this series and, as well as describing the inter-sector flow of funds during 1987, notes the increasingly serious difficulties of assessment of the financial position of several sectors arising from the growth of the net value of errors and omissions within their accounts. A number of problems affecting the measurement of financial transactions which are thought to be among the factors contributing to these errors and omissions are described. The article does not discuss possible weaknesses in the national income and expenditure accounts, although it would be difficult plausibly to allocate all the balancing items to the financial accounts.

Introduction

In principle, the financial transactions effected by each sector represent the funding of a deficit or the deployment of surplus funds accruing to that sector by virtue of its combined current and capital account transactions. The overall financial position, calculated by accumulating all the estimated current and capital receipts and payments in the national income and expenditure accounts, is shown for each sector in line 5 of the matrix. If these receipts and payments were to be fully represented by the statistics, and if the accompanying funding and investment transactions in the financial accounts were likewise identified in full, the sum of financial transactions (line 39 in the matrix) would be equal to the recorded financial surplus or deficit. To the extent that errors and omissions exist in the identification of any part of a sector's transactions, the effect is measured in line 40, the 'balancing item'. This figure is conventionally placed as the final item in the national account entries for each sector, and thus appears adjacent to the financial transactions accounts, although the errors and omissions it reflects are not necessarily concentrated there.

The balancing item has always been larger and more volatile for some sectors than for others, and this is to be expected in the light of the widely different arrangements by which their transactions are measured; it is, for example, much easier to obtain figures for central government flows than to measure transactions by the personal sector, from which very little national accounts information is obtained directly. Nevertheless, until recently the balancing items for even the most poorly monitored sectors were not so large—in relation to the measured flows—as to give rise to doubt that the latter represented reasonably well the broad financial position. In the last few years, however, the balancing items have grown significantly and, in 1987, the net value of errors and omissions in the accounts for several sectors was greater than their surplus or deficit as measured by the sum either of capital and current account or of financial account transactions.

Table A
Sector financial balances,^(a) financial transactions^(b)
and balancing items^(c)

		£ billions				
		1983	1984	1985	1986	1987
Public sector	(a)	-10.2	-13.0	-9.6	-8.0	-4.7
	(b)	-11.0	-13.1	-10.0	-8.9	-6.0
	(c)	+0.8	+0.1	+0.4	+0.9	+1.3
Monetary sector	(a)	+2.4	+2.6	+3.3	+4.0	+4.4
	(b)	+1.2	+5.3	+4.3	+2.3	+3.9
	(c)	+1.2	-2.7	-1.0	+1.7	+0.5
Other financial institutions	(a)	-1.5	-3.6	-2.6	+0.9	+1.1
	(b)	-3.9	-3.0	-6.3	+0.6	-7.5
	(c)	+2.4	-0.6	+3.7	+0.3	+8.5
Industrial and commercial companies	(a)	+6.1	+6.9	+6.2	+5.4	+9.1
	(b)	+4.6	+4.8	+4.4	+3.4	-4.2
	(c)	+1.5	+2.1	+1.8	+2.1	+13.3
Personal sector	(a)	+8.0	+9.5	+7.1	+0.2	-6.7
	(b)	+13.4	+13.7	+16.7	+16.8	+14.9
	(c)	+5.4	+4.2	-9.6	-16.6	-21.5
Overseas sector	(a)	-3.8	-2.0	-3.3	+0.2	+2.5
	(b)	-4.3	-7.7	-9.1	-14.2	-1.0
	(c)	+0.5	+5.7	+5.8	+14.4	+3.5
Residual error		-0.9	-0.5	-1.1	-2.7	-5.7

(a) Financial surplus +/- deficit -. Line 5 Table G.

(b) Financial transactions. Line 39 Table G.

(c) Balancing item. Line 40 Table G (= Line 5-Line 39).

The extent of the problem as it affects each sector may be seen in Table A.

The public sector's financial deficit remained well identified by financial transactions in 1987. The overseas sector, too, needed only a relatively small balancing item to reconcile its financial surplus (which equals a deficit in the United Kingdom's balance of payments on current account) with identified financial transactions, in contrast to 1986 when there had been an extremely large gap. The monetary sector's balancing item was also small.

Modest balancing items, particularly for a single year, do not necessarily mean that there are few problems of identification: there may be offsetting errors present which happen to cancel each other out when the flows are

summed. There is no doubt, however, that the difficulties in 1987 centred on the UK non-bank private sector. In each sub-sector the financial position which was suggested by the current and capital account flows not only differed by a very substantial amount from the sum of financial transactions but actually went in the opposite direction. It is therefore difficult at first sight to use the results for the individual sectors which together comprise the non-bank private sector to give even the broadest indication of trend.

The Central Statistical Office has announced an exercise to test the feasibility of producing balanced accounts which would distribute the balancing items among various series in the current, capital and financial accounts according to the relative reliability of the data. The results of this exercise are expected to be published by the Central Statistical Office in 1989.

Public sector (Table B)

The balancing items for the public sector are generally modest. Accuracy is maintained because the government is able to collate statistical information which is available as a necessary part of the process of controlling the public sector. Timing differences are likely to play a particular part in the balancing item for local authorities, which has shown large offsetting errors in the first two quarters of each recent year.

The sector's financial deficit was £4.7 billion in calendar 1987 compared with £8.0 billion the previous year. The PSBR fell from £2.4 billion in 1986 to a net repayment of borrowing of £1.5 billion in 1987. Within this total, central government repaid £1.1 billion of borrowing on its own account, representing a fall of £3.6 billion in its borrowing requirement; the LABR rose slightly to £1.0 billion and the surplus generated by public corporations rose by £0.6 billion to reach £1.4 billion. As in the previous three years, the reduction in the PSBR was partly achieved by the government's privatisation programme, which raised £6.1 billion.

The non-bank private sector took up £8.9 billion of central government debt and reduced its holdings of other

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

£ billions	1983	1984	1985	1986	1987
Public sector financial deficit	-10.2	-13.0	-9.6	-8.0	-4.7
Transactions in UK company securities	-0.5	-2.6	-2.4	-3.9	-6.1
Other transactions	-0.9	+5.3	+4.5	+9.4	+12.3
Public sector borrowing requirement	-11.6	-10.3	-7.5	-2.4	+1.5
<i>Financed by:</i>					
Government stocks	-9.5	-8.6	-9.6	-6.7	-4.6
National savings	-3.0	-3.4	-2.5	-2.6	-2.4
Commercial bills(a)	-0.7	-3.1	+1.1	+0.5	-5.7
Official reserves	-0.6	-0.9	+1.8	+2.9	+12.0
Other	+2.2	+5.7	+1.7	+3.5	+2.2

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

public sector debt by a net £1.2 billion. The overseas sector's contribution to the financing of the CGBR was negative, at -£6.4 billion: exceptionally large take-ups of Treasury bills (£1.1 billion) and British government securities (£4.1 billion) were outweighed by an increase in central government's acquisition of overseas assets of £10.9 billion (within this total, increases in the UK reserves accounted for £12 billion).

Personal sector (Table C)

The personal sector includes not only individuals and trusts, but also charities and unincorporated businesses. There are inherent difficulties in measuring this sector of the economy stemming from the paucity of information on transactions, including financial transactions, reported directly by the personal sector. In their absence, counterpart sector sources are used where available. For instruments where counterpart sources are not available the personal sector flow is ascribed by residual, which in some cases is distorted by known omissions in data for other sectors.

Table C
Personal sector^(a) financial transactions

£ billions	1983	1984	1985	1986	1987
Net acquisition of financial assets	+8.0	+9.5	+7.1	+0.2	-6.7
<i>of which:</i>					
Net claims on life assurance and pension funds	+16.6	+18.5	+19.1	+19.6	+20.6
Deposits with building societies	+10.3	+13.2	+13.3	+11.8	+13.6
Deposits with monetary sector	+3.2	+3.3	+5.1	+8.5	+8.4
Public sector debt	+4.0	+4.6	+3.9	+4.6	+4.4
UK company securities	-2.0	-5.9	-4.3	-2.5	-0.2
Borrowing for house purchase	-14.5	-17.0	-19.0	-26.5	-29.6
<i>of which, from building societies</i>	<i>-10.9</i>	<i>-14.5</i>	<i>-14.6</i>	<i>-19.4</i>	<i>-15.3</i>
Borrowing from monetary sector(b)	-14.9	-14.2	-6.7	-5.3	-8.7

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

(b) Other than for house purchase.

Counterparty information on personal sector financial transactions showed that the sector's deposits with the monetary sector increased by £8.4 billion last year, a similar increase to that of 1986. Deposits with building societies of £13.6 billion recovered to 1985 values, after a reduced inflow of £11.8 billion in 1986, and net receipts by life assurance companies and pension funds from the personal sector increased to £20.6 billion, very much on trend.

Borrowing for house purchase continued to account for most of the increase in personal sector debt, rising by £29.6 billion, a rate of increase similar to that seen in 1986. Some of this borrowing is again likely to have been spent on consumption rather than house purchase. Borrowing from building societies rose by only £15.3 billion compared with £19 billion in 1986, but bank lending for house purchase rose by £10.0 billion, £5.3 billion more than in the previous year. Borrowing for consumption also rose steeply, by £8.7 billion.

Other transactions by the personal sector are, as mentioned above, measured by residual. The sector's transactions in UK securities at present, therefore, include transactions which properly belong in other sectors—eg transactions by securities dealers and other non-reporting financial institutions which are not currently identified and which it is hoped will be separately identified during 1989. The same problems also affect the measurement of the personal sector's transactions in British government securities and other public sector debt. Trade credit transactions between the personal and company sectors are not identified by the accounts and will also therefore feed through to the balancing items.

Industrial and commercial companies (Table D)

The company sector, too, presents major difficulties of measurement on current, capital and financial account, and the balancing item for 1987 was £13.3 billion. Direct coverage of the sector's transactions, although quite extensive, is incomplete and the financial flows which can be measured by counterparty data are relatively less important than is the case with the personal sector. The absence of data for trade credit mentioned as a problem for the personal sector accounts will affect company sector data also (but with an opposite sign).

Table D
Selected transactions of industrial and commercial companies

£ billions	1983	1984	1985	1986	1987
Financial surplus	+6.1	+6.9	+6.2	+ 5.4	+ 9.1
Selected financial transactions requiring financing (increase +)					
Trade investments, mergers	+0.7	+4.2	+4.0	+ 2.6	+ 4.0
Long-term investments overseas	+3.2	+1.4	+2.7	+ 5.6	+ 9.3
Balancing item	+1.5	+2.1	+1.8	+ 2.1	+13.3
Net financing requirement (-)	+0.7	-4.0	-4.0	-7.8	-22.1
Selected financing items (increase -)					
Bank and other borrowing	+2.2	+7.3	+7.9	+ 9.8	+13.5
Capital issues	+2.2	+1.7	+5.0	+ 7.8	+17.7
Investment from overseas	+1.7	-3.1	-0.4	+ 2.1	+ 1.4

Borrowing from banks (£15.2 billion) and capital issues, including issues abroad, (£17.7 billion) both surged in 1987. The stock market boom in much of 1987 made raising funds on the market easy and attractive and much of the money raised was undoubtedly spent on merger activity, even after the fall in equity prices in October, which made many companies cheap to acquire for cash-rich predators. The estimates of take-up of securities by the sector are not particularly reliable and may understate expenditure for this purpose.

Other financial institutions (Table E)

The balancing item for this sector was in excess of £8 billion. One major problem is that securities dealers do not yet report a full balance sheet, although they do report their transactions in overseas securities. Counterparty information for them is restricted to their bank deposits and borrowing. It is hoped that securities dealers will begin more comprehensive reporting in 1989.

Table E
Other financial institutions' sources and uses of funds

£ billions	1983	1984	1985	1986	1987
Sources of funds					
Building society deposits	-11.5	-14.4	-13.8	-13.3	-15.0
Bank borrowing	- 2.8	- 7.1	- 5.5	-15.7	-16.0
Life assurance and pension funds	-15.9	-17.8	-18.4	-18.6	-19.7
Unit trust units	- 0.6	- 0.7	- 1.1	- 2.3	- 3.7
Capital issues	- 0.1	- 0.3	- 1.7	- 6.6	- 3.8
Other sources	- 2.9	- 1.1	- 7.1	- 1.0	- 4.4
Total	-33.8	-41.4	-47.6	-57.5	-62.6
Uses of funds					
Liquid assets	+ 3.3	+ 6.5	+ 7.3	+10.5	+23.2
British government securities	+ 7.0	+ 6.3	+ 5.1	+ 1.2	- 0.8
UK company securities	+ 2.8	+ 5.2	+ 8.0	+ 9.3	+17.1
Overseas securities	+ 4.1	+ 2.2	+ 6.2	+15.7	- 9.2
Lending for house purchase	+11.3	+15.3	+15.3	+22.4	+20.1
Other uses	+ 1.4	+ 2.9	- 0.6	- 1.0	+ 4.7
Total	+29.9	+38.4	+41.3	+58.1	+55.1
Net financial transactions	- 3.9	- 3.0	- 6.3	+ 0.6	- 7.5

Counterparty information from banks is used for the OFI bank borrowing and bank deposits cells in the matrix. Where these details differ in aggregate from the less comprehensive information provided by the OFI reporting populations, a balancing item is thrown up. There are other problems caused by timing, currency valuation, and differences in grossing up. Work towards reducing all these difficulties is continuing.

OFIs withdrew from holding overseas securities (-£9.2 billion), mainly in the fourth quarter (and perhaps following sharp falls in world equity markets in October), but they continued to acquire UK securities throughout the year, accumulating an unprecedented £17.1 billion. Net official sales of gilts continued to decline in 1987, and OFIs disposed of £0.8 billion. Pension funds sold £2 billion, switching a total of £4 billion into short-term assets from other instruments, and building societies also added substantially to their liquid assets (+£5.5 billion), partly at the expense of gilts (-£1.2 billion). Deposits made by other sectors with the societies were £15.8 billion, higher than 1986 and being particularly strong after the fall in equity prices. The societies' lending for house purchase, at £15.4 billion, was, however, less than in the previous year and they had much less recourse than in 1986 to wholesale funding and capital issues. Unit trusts showed exceptional sales over the year (+ £6.3 billion, including £2.5 billion subscribed by insurance companies and other OFIs), mainly before October. Like other OFIs, they moved unusually strongly into short-term assets, which rose by £3.4 billion, largely representing new bank deposits.

Overseas sector (Table F)

In common with other sectors of the national accounts, the overseas sector has revealed large net errors and omissions over the last ten years. These have indicated missing inflows or overstated outflows in each of these years except 1982, giving a cumulative net error over this period of £31.3 billion.

Table F
Selected overseas sector financial transactions

£ billions

Increase in assets/
decrease in liabilities+

	1983	1984	1985	1986	1987
Net acquisition of financial assets(a)	- 4.3	- 7.7	- 9.1	-14.2	- 1.0
of which:					
UK direct investment in overseas securities	- 1.9	- 2.6	- 3.1	- 6.6	- 4.6
UK portfolio investment overseas	- 7.2	- 9.9	-19.4	-25.2	+ 7.0
Total UK take-up of overseas securities(b)	- 9.1	-12.5	-22.5	-31.8	+ 2.4
Overseas direct investment in UK securities	+ 0.6	+ 0.3	+ 0.7	+ 1.4	+ 2.2
Overseas portfolio investment in United Kingdom	+ 0.9	+ 1.0	+ 3.9	+ 5.2	+ 7.4
Total overseas take-up of UK securities(c)	+ 1.5	+ 1.3	+ 4.6	+ 6.6	+ 9.6
Deposits with UK monetary sector(d)	+21.3	+24.8	+29.4	+63.7	+52.9
Borrowing from UK monetary sector(e)	-16.8	-13.7	-22.4	-52.7	-51.4

(a) Line 39 Table G.

(b) Line 32 Table G.

(c) Line 31 Table G.

(d) Line 21 Table G.

(e) Line 24 Table G.

Some commentators have linked this trend to the global current account deficit investigated by the International Monetary Fund (IMF); in theory the sum of all countries' current balances should be zero but in practice there has recently been a substantial deficit. In 1983 this was more than US \$100 billion, though it has since shrunk. The IMF, when investigating the global discrepancy, came to the conclusion that the major cause was understated investment income, particularly among the industrial

countries. One of the largest factors was the failure of most countries to record fully, if at all, interest flows on their residents' deposits with and borrowing from banks abroad. Some 80% of non-bank credits were estimated to be missing in the aggregate figures. The United Kingdom, however, has always included this item in the accounts and the coverage of our statistics has recently been improved. It is possible, nevertheless, that the United Kingdom may be a contributor to the global discrepancy and that the balancing item, therefore, to some extent reflects missing current account inflows. The implication is that the present estimate overstates the deficit on current account (£2.5 billion for 1987).

There are, however, strong reasons to suspect as well the capital account data (ie, in sector financing terminology, the financial transactions data) in the United Kingdom. In particular, data relating to trade credit, portfolio investment and the funding of outward portfolio investment by securities dealers are incomplete and unreliable. Inward portfolio investment statistics are also known to be of poor quality, particularly in respect of overseas investment in new issues of UK company securities.

Regular comprehensive statistical reporting from securities dealers should help to resolve the first of these problems, but it should be borne in mind that identification of missing capital inflows would cause estimates for current account outflows of interest, profits and dividends (IPD), which are compiled on the basis of the volume of inward investment, to be revised upwards.

Table G
Flow of funds: annual matrix 1986

£ millions

Line	Central government	Local authorities	Public corporations	Public sector	Monetary sector	Other financial institutions	Industrial and commercial companies	Personal sector	Overseas sector	Residual error	
Capital account											
Saving											
1	-4,486	+2,350	+6,032	+ 3,896	+ 5,000	+ 7,374	+33,873	+18,743	+ 199		
Taxes on capital and capital transfers											
2	- 450	+ 274	+ 456	+ 280	- 16	- 203	- 34	- 27	-		
less:											
Gross fixed capital formation at home											
3	-3,317	-3,690	-5,545	-12,552	- 977	- 6,316	-26,062	-17,890			
Increase in value of stocks and work in progress											
4	+ 237		+ 160	+ 397	-	-	- 2,360	- 614			
Financial surplus +/-deficit	- 5	-8,016	-1,066	+1,103	- 7,979	+ 4,007	+ 855	+ 5,417	+ 212	+ 199	-2,711
Changes in financial assets and liabilities											
<i>Assets: increase+ /decrease-</i>											
<i>Liabilities: increase- /decrease+</i>											
Notes and coin	6	- 674		- 95	- 769	- 51	-	+ 101	+ 667	+ 52	
Market Treasury bills	7	- 253	- 14	- 10	- 277	+ 15	- 1	+ 56		+ 207	
British government securities	8	-6,870	+ 7	+ 132	- 6,731	+ 1,293	+ 1,181	- 210	+ 2,363	+ 2,104	
National savings	9	-2,509		- 96	- 2,605		+ 14	+ 81	+ 2,510		
Certificates of tax deposit	10	- 124		+ 158	+ 34	+ 136	+ 349	- 562	+ 43		
Net government indebtedness to											
Banking Department	11	+ 28			+ 28	- 28					
Northern Ireland central government debt	12	+ 15			+ 15	+ 1	- 4	- 4	- 8		
Government liabilities under exchange cover scheme	13	+ 186	- 6	- 162	+ 18		- 18				
Other public sector financing:											
Non-marketable debt	14.1	+ 589		- 482	+ 107	- 107	-				
Short-term assets	14.2		+ 601	+ 155	+ 756		- 673	- 40	- 31	- 12	
Issue Department's transactions in bills	15	+ 522			+ 522	- 14	- 76	- 397		- 35	
Government foreign currency debt	16	-2,694			- 2,694	+ 133	+ 1,402			+ 1,159	
Other government overseas financing	17	+ 86			+ 86					- 86	
Official reserves	18	+2,891			+ 2,891					- 2,891	
Local authority debt:											
Temporary	19.1	- 74	+1,144	- 109	+ 961	- 398	- 460	- 74	- 28	- 1	
Foreign currency	19.2		- 103		- 103					+ 103	
Sterling securities	19.3		+ 230		+ 230	- 176	- 113		+ 60	- 1	
Other sterling debt	19.4	+5,865	-3,731	- 7	+ 2,127	- 1,262	- 182	- 5	- 676	- 2	
Public corporation debt:											
Foreign currency	20.1			+ 117	+ 117	- 99	-			- 18	
Other	20.2	+ 207	+ 18	+ 208	+ 433	- 393	+ 21		- 19	- 42	
Deposits with banks:											
Sterling sight	21.1	+ 270	+ 137	+ 187	+ 594	-14,101	+ 1,905	+3,551	+ 6,926	+ 1,125	
Sterling time	21.2	+ 33	+1,028	+ 720	+ 1,781	-16,240	+ 3,738	+4,751	+ 1,507	+ 4,463	
Foreign currency	21.3	- 10	+ 16	+ 53	+ 59	-65,618	+ 4,448	+2,976	+ 34	+58,101	
Deposits with building societies	22					+ 420	-13,293	+ 523	+11,847	+ 503	
Bank lending (excluding public sector):											
Foreign currency	24.1					+55,843	- 6,950	-1,023	- 8	-47,862	
Sterling	24.2					+26,471	- 8,786	-7,543	- 5,293	- 4,837	
Credit extended by retailers	25			+ 27	+ 27			+ 68	- 95		
Identified trade credit:											
Domestic	26.1	+ 5		- 354	- 349		- 20	+ 266	+ 103		
Import and export	26.2	- 12		+ 43	+ 31			+ 37		- 68	
Loans for house purchase:											
Building societies	27.1						+19,541	- 114	-19,427		
Other	27.2	+ 68	- 506	- 6	- 444	+ 4,671	+ 2,888		- 7,115		
Other public sector lending	28	+ 224	+ 41	+ 77	+ 342			- 196	+ 12	- 158	
Other lending by financial institutions	29						+ 908	- 20	- 888		
Unit trust units	30						- 2,275		+ 2,275		
UK company securities	31	-3,810		- 49	- 3,859	+ 3,218	+ 2,709	-6,104	- 2,545	+ 6,581	
Overseas securities	32					+ 7,813	+15,720	+5,240	+ 3,068	-31,841	
Life assurance and pension funds	33	- 884			- 884		-18,756		+19,640		
Miscellaneous domestic instruments	34		- 316	+ 316		+ 61	- 9	- 341	+ 216	+ 73	
Direct and other investment abroad	35					+ 819	+ 81	+3,929	+ 8	- 4,837	
Overseas direct and other investment in United Kingdom	36					- 135	- 78	-2,419	- 150	+ 2,782	
Miscellaneous overseas instruments	37	+ 87		+ 45	+ 132	+ 60	- 2,001	+ 571		+ 1,238	
Accruals adjustment	38	-1,252	- 173	- 45	- 1,470	+ 29	- 664	+ 270	+ 1,835		
Financial transactions	39	-8,090	-1,627	+ 823	- 8,894	+ 2,349	+ 564	+3,350	+16,831	-14,200	
Balancing item	40	+ 74	+ 561	+ 280	+ 915	+ 1,658	+ 291	+2,067	-16,619	+14,399	-2,711

— nil or less than £½ million.

Table G continued
Flow of funds: annual matrix 1987

£ 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	-1,883	+1,991	+4,968	+ 5,076	+5,770	+8,000	+45,691	+14,875	+ 2,504	
Taxes on capital and capital transfers	2	- 73	+ 384	+ 662	+ 973	- 26	- 256	- 363	- 328	—	
less:											
Gross fixed capital formation at home	3	-3,314	-3,597	-4,605	-11,516	-1,313	-6,692	-30,773	-20,473		
Increase in value of stocks and work in progress	4	+ 612		+ 135	+ 747	—	—	- 5,484	- 748		
Financial surplus +/deficit -	5	-4,658	-1,222	+1,160	- 4,720	+4,431	+1,052	+ 9,071	- 6,674	+ 2,504	-5,664
Changes in financial assets and liabilities											
<i>Assets: increase+/-decrease-</i>											
<i>Liabilities: increase-/decrease+</i>											
Notes and coin	6	-1,089		+ 18	- 1,071	+ 264	—	+ 390	+ 426	- 9	
Market Treasury bills	7	-2,182	—	—	- 2,182	+ 505	+ 27	+ 546		+ 1,104	
British government securities	8	-4,648	+ 24	+ 29	- 4,595	- 923	- 836	- 380	+ 2,647	+ 4,087	
National savings	9	-2,465	+ 1	+ 70	- 2,394		+ 38	+ 172	+ 2,184		
Certificates of tax deposit	10	+ 577		+ 42	+ 619	+ 99	- 410	- 380	+ 72		
Net government indebtedness to											
Banking Department	11	- 281			- 281	+ 281					
Northern Ireland central government debt	12	+ 8			+ 8	- 5	—	+ 5	- 8		
Government liabilities under exchange cover scheme	13	+ 147	- 6	- 108	+ 33		- 33				
Other public sector marketing:											
Non-marketable debt	14.1	- 215		+ 244	+ 29	—	—	- 29			
Short-term assets	14.2		+ 554	- 25	+ 529		- 543	- 11	+ 6	+ 19	
Issue Department's transactions in bills	15	-5,735			- 5,735	+ 961	+ 898	+ 2,813		+ 1,063	
Government foreign currency debt	16	+ 161			+ 161	- 263	+ 712	—		- 610	
Other government overseas financing	17	+ 69			+ 69					- 69	
Official reserves	18	+12,012			+12,012					-12,012	
Local authority debt:											
Temporary	19.1	- 341	+ 849	- 138	+ 370	- 196	+ 168	- 71	- 269	- 2	
Foreign currency	19.2		- 248		- 248	+ 140	—			+ 108	
Sterling securities	19.3		+ 139		+ 139	- 4	- 94		- 40	- 1	
Other sterling debt	19.4	+5,553	-4,311	- 8	+ 1,234	- 313	- 150	- 13	- 754	- 4	
Public corporation debt:											
Foreign currency	20.1			+ 460	+ 460	- 225	—			- 235	
Other	20.2	- 444	+ 50	+ 317	- 77	+ 115	+ 42	—	- 34	- 46	
Deposits with banks:											
Sterling sight	21.1	- 127	+ 547	+ 85	+ 505	-19,471	+ 4,420	+ 4,759	+ 7,159	+ 2,628	
Sterling time	21.2	- 14	+1,279	+ 294	+ 1,559	-25,036	+11,269	+ 5,177	+ 1,050	+ 5,981	
Foreign currency	21.3	+ 74	- 3	+ 88	+ 159	-51,258	+ 7,082	- 409	+ 151	+44,275	
Deposits with building societies	22					+ 407	-15,007	+ 63	+13,626	+ 911	
Bank lending (excluding public sector):											
Foreign currency	24.1			—	—	+56,074	- 6,958	- 3,313	- 140	-45,663	
Sterling	24.2					+35,205	- 9,026	-11,931	- 8,535	- 5,713	
Credit extended by retailers	25							+ 357	- 357		
Identified trade credit:											
Domestic	26.1	- 1		+ 125	+ 124		- 20	- 55	- 49		
Import and export	26.2			- 34	- 34			+ 278		- 244	
Loans for house purchase:											
Building societies	27.1						+15,390	- 118	-15,272		
Other	27.2	+ 62	- 445	- 6	- 389	+10,041	+ 4,721		-14,373		
Other public sector lending	28	+ 144	+ 41	+ 38	+ 223			- 106	+ 9	- 126	
Other lending by financial institutions	29						+ 1,303	- 446	- 857		
Unit trust units	30						+ 3,717		+ 3,717		
UK company securities	31	-5,929		- 140	- 6,069	- 1,964	+13,333	-14,738	- 197	+ 9,635	
Overseas securities	32					- 488	- 9,151	+ 4,867	+ 2,329	+ 2,443	
Life assurance and pension funds	33	- 905			- 905		-19,669		+20,574		
Miscellaneous domestic instruments	34		- 168	+ 168		+ 367	+ 294	- 1,596	+ 38	+ 897	
Direct and other investment abroad	35					- 312	+ 71	+11,106	+ 8	-10,873	
Overseas direct and other investment in United Kingdom	36					- 29	- 100	- 3,323	- 290	+ 3,742	
Miscellaneous overseas instruments	37	- 383		+ 7	- 376	+ 1	+ 719	+ 1,981		- 2,325	
Accruals adjustment	38	+ 508	- 158	- 234	+ 116	- 61	- 2,295	+ 200	+ 2,040		
Financial transactions	39	-5,444	-1,855	+1,292	- 6,007	+ 3,912	- 7,489	- 4,238	+14,861	- 1,039	
Balancing item	40	+ 786	+ 633	- 132	+ 1,287	+ 519	+ 8,541	+13,309	-21,535	+ 3,543	-5,664

— 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 annually.⁽¹⁾ 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 institutions); 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 the February 1988 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) 1988 November issue, 1987 August issue, prior to 1987 June issue.

(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. Represents changes in central government claims on industrial and commercial companies, banks, other financial institutions and overseas residents. Such claims in respect of commercial bills are allocated by sector in the same proportions as reported bank acceptances.

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 1986.

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.