

Liquid assets outside M4

In the light of the statistical discussion paper published in March 1990⁽¹⁾ and the subsequent responses to it, the August 1990 Bulletin (pages 336–37) announced the Bank's intention of replacing the monetary aggregates M4c and M5 by data for a range of liquid assets outside M4. The table which follows these notes fulfils that intention.⁽²⁾

M4 is made up of sterling cash and deposits with banks and building societies in the United Kingdom, held by the M4 private sector (ie by UK residents other than the public sector, banks and building societies). The aim of the new table is to illustrate the development of certain liquid assets outside M4: it provides data on a wider range of holder, currency, and sector or location of issuer. These series can be used as building blocks from which users of the monetary statistics can create their own aggregates if they wish. Among assets not covered by these statistics are certificates of deposit issued by banks abroad (see *Banks in the BIS area* below) and foreign currency commercial paper, foreign currency medium-term notes and other foreign currency short-term paper issued in the United Kingdom or overseas.

When using the series as building blocks to create new aggregates, care should be taken over potential double-counting: see in particular the notes below on *UK offshore institutions* and the *overseas sector's sterling deposits*. Also, in assessing the liquidity of those assets which are outside M4, it should be remembered that M4 itself contains some comparatively illiquid elements (eg M4 contains deposits of any maturity with banks and building societies and certain paper and other capital market instruments of not more than five years' original maturity—though in practice the great majority of M4 is of under three months' residual maturity).

Suggestions on the content and format of the table are welcome. They should be addressed to the Monetary Aggregates Group (BB-1), Financial Statistics Division, Bank of England, Threadneedle Street, London EC2R 8AH.

Description of the series

Sterling bank bills (line 1)

Sterling bank bills are commercial bills which are payable in sterling and have been accepted by a bank in the United Kingdom. They are thus very similar in status and liquidity to sterling certificates of deposit issued by UK banks (which are included in M4 if owned by the M4 private sector). Holdings by the M4 private sector were comparatively

sizable in the periods in the 1970s (up to June 1980) when the 'corset' was prompting disintermediation from the banking sector (see pages 74–85 of the March 1982 *Bulletin*), but have subsequently been much smaller.

UK offshore institutions (lines 2, 5 and 9)

At present about one third of the banking institutions in the Channel Islands and Isle of Man are treated as UK banks for statistical purposes, and the remainder are treated as 'other financial institutions' (OFIs) and thus as part of the M4 private sector. The distinction between the two groups is made according to whether the offshore institutions have opted to comply with the Bank of England's monetary control arrangements (in which case they are treated as UK banks for statistical purposes and deposits by the M4 private sector with these institutions are included within M4). Deposits *with* OFI offshore institutions are not included in M4; but the deposits *of* these institutions with the UK banking sector and building societies are included in M4. So, to the extent that these offshore OFIs take funds and redeposit them in the United Kingdom, there is no 'leakage' from M4, although the sectoral breakdown will record these deposits as being from the OFI sector rather than from the original source of the funds. Adding deposits placed with these institutions by the M4 private sector to M4 thus introduces an element of double counting. Moreover, because of the nature of financial activity in the Channel Islands and Isle of Man, the series for the M4 private sector's deposits (lines 2 and 5) probably include substantial amounts placed by local companies and trusts essentially on behalf of the overseas sector rather than on behalf of UK—or local—residents.

These 'OFI banks' currently report only quarterly. Coverage of institutions in the Isle of Man and in Jersey is only partial.

Banks in the BIS area (lines 3, 6 and 10)

The territorial statistics published by the Bank for International Settlements (BIS) provide comprehensive data on international banking business conducted in the financial centres making up the BIS reporting area. The number of countries within this reporting area has increased over time;

(1) 'Monetary aggregates in a changing environment: a statistical discussion paper', Bank of England *Discussion paper* No 47, March 1990.

(2) These statistics were first introduced with the monthly statistics release on 2 April 1991. A monthly version of the table is now included each month in that release.

currently the statistics cover the positions of banks in 24 countries (see the notes to Table 13.1 in the February *Bulletin*). Data are collected only on a quarterly basis. BIS data are published 4½ months after the quarter-end and hence these series will be less timely than other series in the table. The identification of the UK M4 private sector may not be precise (eg deposits from the UK offshore institutions which, as mentioned above, are part of the M4 private sector may be included in the BIS statistics as deposits from banks rather than from the M4 private sector). Holdings of certificates of deposit are generally not covered by these statistics.

M4 private sector's holdings of foreign currency deposits (lines 4–6)

Foreign currency deposits held by the M4 private sector at banks in the United Kingdom or at UK offshore institutions—and even those held at banks abroad—may be destined to be spent in the United Kingdom or may represent a store of wealth which is relevant to UK economic activity. But any significant conversion of these deposits into sterling for spending in the United Kingdom would tend to raise the sterling exchange rate—subject to the constraints imposed by membership of the ERM—which in turn might have an offsetting effect on spending in the United Kingdom (see pages 525–29 of the December 1983 *Bulletin*).

Overseas sector's sterling deposits (lines 7–10)

Deposits by overseas banks with banks in the United Kingdom include deposits from central monetary institutions (ie part of other countries' official reserves) as well as deposits from commercial banks abroad. When combining series, users should be aware of potential double-counting: for example *sterling deposits at banks in the BIS area* may in turn be placed by those banks as sterling deposits in UK banks or UK offshore institutions (or indeed at other banks in the BIS area). The overseas sector's sterling deposits, particularly those held by non-banks at banks in the United Kingdom, may be destined to be spent in the United Kingdom; equally they may simply be part of the overseas sector's global liquid assets, held temporarily or for a longer term in the United Kingdom as a store of value (but their conversion into foreign currency might nonetheless affect UK economic activity via an effect on the exchange rate; see pages 525–29 of the December 1983 *Bulletin*).

Sterling Treasury bills, LA temporary debt, CTDs and gilts (lines 11–14)

Sterling Treasury bills, which are issued with an original maturity of six months or less, are marketable and are likely to be considered liquid by their holders. *LA temporary debt* covers a variety of instruments, all with an original maturity of up to one year; in general, it would probably be viewed as fairly liquid. *Certificates of tax deposit* are not marketable; the return is greater when used to pay tax, so that their holders may not consider them liquid for other purposes. All *gilts* are marketable and therefore may be considered liquid by their holders. The degree of liquidity may be affected by the degree of capital certainty—which will tend to lessen the

longer the remaining maturity. The maturity split of total gilts is shown lower in the table.

National savings (lines 15–25)

National savings certificates (both fixed interest and index-linked) are the largest single item within the national savings total. During their initial 5-year term, interest (or indexation) on certificates is at a guaranteed rate but subject to a penalty in the case of early withdrawal. However, on maturity they normally go automatically onto general extension terms under which a variable rate of interest is paid and repayment is on demand (in practice, repayment takes about eight days). In principle, this could be said to make matured certificates liquid instruments. While the figures for total *national savings certificates* are accurate, the split between *matured* and *unmatured* certificates has been estimated by the Bank of England.

Yearly plan is a fixed-interest scheme involving monthly payments for one year, after which the investor receives a certificate which has a guaranteed rate of interest for the next four years provided it is not encashed during that time. At the end of this time the certificate goes onto the same general extension terms as other certificates (see above). The minimum and maximum monthly payments are £20 and £200 respectively. Interest is free of tax.

The *Save As You Earn* scheme has undergone seven issues. All issues are free of tax. There is a penalty for premature withdrawal.

Deposits with the National Savings Bank ordinary account have a maximum balance of £10,000. The first £70 of interest is tax-free. The current interest rate on balances below £500 is 2.5%. Balances of £500 or more receive 5% interest (provided the account remains open throughout the year). Withdrawals may be made on demand at any Post Office.

Deposits with the National Savings Bank investment account have a maximum balance of £25,000. Interest is taxable, calculated daily and credited gross to accounts once a year. Repayments require one month's notice.

Premium savings bonds have a minimum purchase of £100 (except for adults buying for children under 16, for which it is £10). Prizes are free of tax. The rate of interest forming the prize fund is currently 6.5%. There are over 200,000 prizes per month. Premium bonds can be cashed in immediately.

Income bonds have a minimum initial purchase of £2,000. Additional purchases can be made in multiples of £1,000 up to a maximum of £25,000. The life of the bond is initially set at ten years. Interest is taxable, and paid gross each month. Repayments are at three months' notice. Half-rate interest is paid on withdrawals made within a year of purchase.

Deposit bonds had a minimum purchase of £100 and a maximum holding of £100,000. The life of the bond was initially set at ten years. Interest is calculated on a daily basis, starting from the date of purchase, and is added to the capital value on the anniversary of the purchase date. Interest is taxable but paid gross. Repayments are made at three months' notice. Deposit bonds were withdrawn from sale in November 1988.

Capital bonds have a minimum purchase of £100 and a maximum holding of £100,000. Additional purchases can be made in multiples of £100. The life of the bonds is five years. Interest at a guaranteed overall rate is added in graduated steps. Interest is taxable and is paid gross. Repayments are at three months' notice. Bonds repaid in the first year do not earn interest.

Sterling commercial paper (line 26)

Sterling commercial paper is marketable paper issued with maturities of up to and including one year. The series here excludes paper issued by banks and building societies (because these issues are included in M4 if owned by the M4 private sector, and in the overseas sector's sterling deposits if owned by the overseas sector). It also excludes paper owned by banks and building societies. The series may include a small element owned by the overseas sector but is likely to be owned predominantly by the M4 private sector.

Sterling medium-term notes (line 27)

Sterling medium-term notes are marketable securities issued with original maturities of over one year and up to (and including) five years. Sterling medium-term notes have been issued only recently and hence the liquidity of this market is difficult to assess. They include both fixed and floating-rate notes; floating-rate assets are more capital-certain and therefore may be considered more liquid than fixed-rate assets. The series published here is the total of all issues except those by banks and building societies (which are included in M4 if owned by the M4 private sector and in the overseas sector's sterling deposits if identified as being owned by the overseas sector). There are no data distinguishing bank, building society, public or overseas sector holdings of this instrument; hence this series comprises all sectors' holdings.

Other sterling paper maturing within one year (line 28)

This series comprises all holdings of sterling (including eurosterling) bonds issued by the UK private sector and the overseas sector of original maturity of more than five years,

which are due to mature within one year. The original maturities of the bonds can be long, and few are due to mature in the next few years. But the 'liquidity' represented by such bonds approaching maturity will build up in due course. The liquidity of these issues before maturity varies with the size of the issue and with the issuer. For example, a large long-term issue by a quasi-sovereign institution may remain liquid and marketable with the issuer perhaps adding stock by tap at later dates. On the other hand, a small issue with a shorter maturity by a company may soon become illiquid after its first year. For some issuers there may also be the risk of default. The majority are floating-rate issues; floating-rate assets are more capital-certain and therefore may be considered more liquid than fixed-rate assets. There are no data distinguishing bank, building society, public or overseas sector holdings of this instrument; hence this series comprises all sectors' holdings.

Residual maturity breakdown of gilts (line 29-30)

The maturity breakdown cannot be allocated into sectors and hence both series cover all holders of gilts (the M4 private sector's total holdings of gilts are shown in line 14).

Sterling unused credit facilities (line 31)

It is sometimes argued that unused credit facilities may be seen by the potential borrower as a form of liquidity. However, the reported series may be misleading as an indicator of liquidity. Coverage is incomplete—notably, the unused portion of credit card holders' limits is not included. Some banks report no unutilised facilities (although requests by borrowers to increase the credit limits are often met, and borrowers would probably expect them to be met). On the other hand, borrowers may have facilities with several institutions without ever intending to draw on them all simultaneously. Where a facility may be drawn in either sterling or foreign currency at the borrower's option, it is reported in foreign currency facilities—so that potential sterling facilities may be larger than the sterling facilities figures suggest. The series here covers all sterling unused credit facilities reported by UK banks (except to other UK banks). A quarterly (end-February etc) series is also available, which shows that at end-February 1991 £140 billion of the total was to the M4 private sector and virtually all of the remaining £10 billion to the overseas sector. At end-February 1991 foreign currency unused credit facilities were £77 billion, of which £46 billion were to the M4 private sector and virtually all of the remaining £31 billion to the overseas sector.

Liquid assets outside M4

£ millions

	1988				1989				1990				1991	Level as at 3.13.90(a)	Flow code (e)	Level code (e)
	4th	1st	2nd	3rd	4th	1st	2nd	3rd	4th	1st						
Changes(b)																
M4 private sector's deposits etc																
1 £ bank bills	-521	128	222	125	14	-196	294	-754	-378	158	—	LQQAUZL	LQQAUYP			
2 £ deposits at UK offshore institutions(c)	231	67	162	1,593	229	306	812	1,104	655	..	10,190	LQQVSTH	LQQVSTZ			
3 £ deposits at banks in BIS area(d)	71	590	231	292	760	469	213	626	..	..	7,066	LQQVSTF	LQQVSTX	
4 FC deposits at UK banks & bsocs	2,209	619	3,366	29	4,144	4,676	2,363	4,567	230	352	51,287	LQQVSTE	LQQVSTW			
5 FC deposits at UK offshore institutions(c)	-32	244	123	101	490	521	431	-476	497	..	32,54	LQQVSTI	LQQVSUA			
6 FC deposits at banks in BIS area(d)	-924	1,306	3,340	-488	-58	1,384	-671	390	..	..	18,270	LQQVSTG	LQQVSTY	
Overseas sector's sterling deposits																
7 at UK banks and bsocs: by overseas non-banks	2,727	1,949	587	1,992	-537	2,106	2,395	491	1,048	1,113	43,419	LQQVSTJ	LQQVSUB			
8 by overseas banks	-3,632	1,689	2,670	2,177	111	3,061	-1,103	837	3,738	-559	43,277	LQQVSVP	LQQVSUQ			
9 at UK offshore institutions(c)	64	103	64	603	135	98	100	979	-83	..	3,068	LQQVSTL	LQQVSUD			
10 at banks in BIS area(d)	100	700	500	1,300	1,000	300	500	500	..	..	11,000	LQQVSTK	LQQVSUC	
M4 private sector's public sector debt																
11 Sterling Treasury bills	298	-92	650	87	87	67	459	140	158	-129	2,150	LQQAUZK	LQQAUYO			
12 Local authority temporary debt	-223	142	95	-40	107	-219	373	211	95	-146	1,400	LQQAUMZ	LQQAUYQ			
13 Certificates of tax deposit	-268	-98	29	97	129	-31	207	-26	135	-232	1,781	LQQAGLW	LQQAGKW			
14 Gilts	-2,444	-4,496	-3,883	-3,243	-278	-758	285	146	-883	802	..	LQQVRDY	LQQVSUE			
15 National savings	-103	-54	-152	-769	-534	-227	250	423	397	283	36,941	LQQVST5	LQQVSUL			
16 of which: matured certificates	-1,100	-500	-200	-100	-600	-500	-500	-300	-300	-200	4,800	LQQVSTR	LQQVSUK			
17 unmatured certificates	767	109	-91	-854	-36	-160	146	426	450	216	8,342	LQQVSTQ	LQQVSUJ			
18 yearly plan and SAYE	28	30	29	25	-22	-18	-15	1	-42	-5	947	LQQACVY	LQQACTC			
19 ordinary account	-2	-13	-25	-19	-9	-24	-25	-25	-8	-19	1,478	QQACYX	LQQACUX			
20 investment account	17	41	15	44	24	168	222	155	155	85	8,622	LQQVSTO	LQQVSHH			
21 stamps and gift tokens	1	-1	—	—	—	—	—	—	—	—	2	LQQACVI	LQQACUG			
22 premium savings bonds	50	40	29	25	6	3	-7	-1	-5	3	2,324	LQQACVK	LQQACUI			
23 income bonds	122	54	30	60	81	247	424	136	96	127	8,995	LQQVSTP	LQQVSUI			
24 deposit bonds	14	-14	-28	-27	-20	-25	-25	-13	-4	—	737	LQQACXK	LQQACUW			
25 capital bonds	—	200	89	77	42	82	30	44	55	76	694	LQQACXO	LQQACXI			
Other assets etc																
26 Sterling commercial paper	-282	612	-218	-14	-588	165	1,289	548	-1,240	737	4,318	LQQVSTU	LQQVSUN			
27 Sterling medium-term notes	—	—	—	—	—	—	46	—	74	90	210	LQQVSTV	LQQVSUO			
28 Other £ paper, maturing within one year	23	55	-12	134	77	120	195	-74	-45	165	815	LQQVSUQ	LQQVSUP			
29 Gilts maturing within one year	-1,279	2,020	-1,568	-3,416	1,606	-2,116	-338	-364	514	1,016	7,543	LQQVSTM	LQQVSUF			
30 Gilts maturing in one to five years	145	-1,943	1,795	610	-1,422	163	-565	1,505	-2,001	-1,357	27,390	LQQVSTN	LQQVSUG			
31 Sterling unused credit facilities	7,805	1,305	8,246	5,316	6,445	-1,671	-5,425	-2,965	-821	-922	149,489	LQQVSUS	LQQVSUT			
12 month growth rates (%)																
M4 private sector's deposits etc																
32 £ deposits at UK offshore institutions(c)	23.7	29.0	16.3	23.0	40.4	39.5	49.1	46.6	31.2	..	..	LQQVSUU	LQQVSUU	
33 £ deposits at banks in BIS area(d)	19.1	26.9	29.3	31.0	48.2	39.1	36.8	41.4	..	..	..	LQQVSUV	LQQVSUV
34 FC deposits at UK banks and bsocs	9.0	10.1	21.9	19.0	22.4	33.0	27.7	39.7	27.4	16.0	..	LQQVSUW	LQQVSUW			
35 FC deposits at UK offshore institutions(c)	-7.2	35.9	26.6	28.8	80.2	75.9	87.9	55.3	34.2	..	..	LQQVSUX	LQQVSUX	
36 FC deposits at banks in BIS area(d)	6.8	21.2	28.4	23.1	31.4	29.1	0.9	6.1	..	..	..	LQQVSUY	LQQVSUY
Overseas sector's sterling deposits																
37 at UK banks and bsocs: by overseas non-banks	36.3	31.9	21.3	21.8	8.0	11.2	14.8	9.0	19.7	7.2	..	LQQVSUZ	LQQVSUZ			
38 by overseas banks	21.1	22.8	7.3	10.6	26.2	25.5	14.0	10.6	14.6	13.0	..	LQQVSVR	LQQVSVR			
39 at UK offshore institutions(c)	20.1	37.9	42.3	47.3	81.6	67.0	62.9	54.4	14.7	..	..	LQQVSVY	LQQVSVY	
40 at banks in BIS area(d)	26.5	16.9	34.5	42.6	56.4	44.9	41.9	26.4	..	..	..	LQQVSVB	LQQVSVB
M4 private sector's public sector debt																
41 Sterling Treasury bills	-8.7	-2.8	119.0	241.9	105.7	148.5	54.4	55.0	56.6	41.3	..	LQQVSVC	LQQVSVC			
42 Local authority temporary debt	-2.8	-3.5	14.4	-2.6	38.9	-6.2	21.7	48.2	42.4	61.5	..	LQQVSVD	LQQVSVD			
43 Certificates of tax deposit	-19.0	-14.6	-2.8	-13.0	10.0	15.2	26.8	17.4	16.5	4.9	..	LQQVSVE	LQQVSVE			
44 Gilts	-4.0	-8.8	-11.8	-13.8	-12.0	-8.7	-4.4	-0.6	-1.5	0.4	..	LQQVSUF	LQQVSUF			
45 National savings	4.2	1.7	0.1	-2.9	-4.0	-4.5	-3.4	-0.2	2.3	3.8	..	LQQVSVM	LQQVSVM			
46 of which: matured certificates	-13.5	-25.7	-27.7	-20.9	-17.5	-18.7	-23.3	-26.4	-24.2	-21.3	..	LQQSVGN	LQQSVGN			
47 unmatured certificates	4.3	22.4	26.8	-0.9	-10.7	-13.8	-11.1	5.1	11.9	17.4	..	LQQSVH	LQQSVH			
48 ordinary account	-0.8	-1.6	-2.5	-3.6	-4.0	-4.7	-4.8	-5.2	-5.2	-4.9	..	LQQSVI	LQQSVI			
49 investment account	10.4	5.1	2.6	1.5	1.6	3.2	5.9	7.3	8.9	7.7	..	LQQSVJ	LQQSVJ			
50 premium savings bonds	9.6	8.6	7.7	6.6	4.5	2.8	1.2	—	-0.4	-0.4	..	LQQSVK	LQQSVK			
51 income bonds	18.7	11.2	5.4	3.5	2.9	5.4	10.4	11.3	11.3	9.5	..	LQQSVL	LQQSVL			
Other assets etc																
52 Sterling commercial paper	84.7	56.1	19.7	3.0	-6.9	-18.0	24.9	41.5	27.0	44.7	..	LQQSVN	LQQSVN			
53 Sterling unused credit facilities	28.4	21.6	18.1	17.4	15.4	13.1	3.1	-2.3	-6.8	-6.4	..	LPMVSVO	LPMVSVO			

.. not available.

(a) Or at the latest date for which figures are available.

(b) Excludes valuation effects, as far as possible. Thus foreign currency series exclude the estimated effects of exchange rate movements, both here and in the growth rates shown below.

(c) Comprises deposits at banking institutions in the Channel Islands and Isle of Man which are not included within the UK banking sector.

(d) Data are available only four and a half months after the quarter-end.

(e) For explanation of series codes see 'Notes and definitions' in the February 1991 Bulletin.