Recent sectoral financial behaviour

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 discusses developments in 1989 and the first three quarters of 1990. Notwithstanding the problems in measuring financial behaviour,*[1] *a number of important developments are highlighted:*

- *The personal sector moved from a record financial deficit in 1988 to a surplus in 1990. Slower growth in personal wealth resulted in a slowdown in the growth of consumers' expenditure and a rise in the saving ratio. Borrowing from banks and building societies fell sharply.*

- *With continuing strong investment and dividend growth, the financial deficit of industrial and commercial companies (ICCs) reached unprecedented levels in 1989. Continued rises in allocations appear to have resulted in a widening of the deficit last year despite a cutback in investment expenditure and destocking in the third quarter. However, with declining expenditure on both takeover activity and investment abroad, the sector's borrowing requirement, and particularly borrowing from banks, fell sharply last year.*

- *Financial institutions, other than banks and building societies, reduced their gilt holdings as the market contracted. Instead they invested overseas and, particularly, in relatively high yielding domestic liquid assets.*

Background

With growing concern over inflationary pressures, base rates had been raised during 1988 from a low of 7.5% in May to 13% by the year's end. In 1989, base rates were increased further in two steps, to 15% by October. The effect of higher interest rates was tempered for sectors competing in international markets by a decline of over 10% in the value of sterling against all other major currencies, apart from the yen. In consequence, the slowdown in economic activity was initially uneven, affecting sectors related to domestic consumer behaviour generally and the housing market in particular, such as property, construction and non-food retailing. The tightening in policy had no immediate effect on inflation, which increased gradually during the course of 1989. The current account deficit also widened further.

During 1990, and particularly from the summer, clearer signs emerged of a more pronounced and broadly based downturn in the economy. Although interest rates remained unchanged (until the United Kingdom entered the exchange rate mechanism of the EMS in October), from the spring onwards monetary conditions tightened as sterling appreciated. As a result, the slowdown in activity and demand spread to the manufacturing sector. Stocks began to be run down and non-residential investment declined; survey evidence suggests that corporate spending will decline more sharply in 1991. The weakness in demand was also evident from the acceleration in unemployment and a (slight) narrowing of the trade deficit. However, there is as yet little indication of a slowdown in either earnings growth or underlying price inflation.

Financial balances[2]

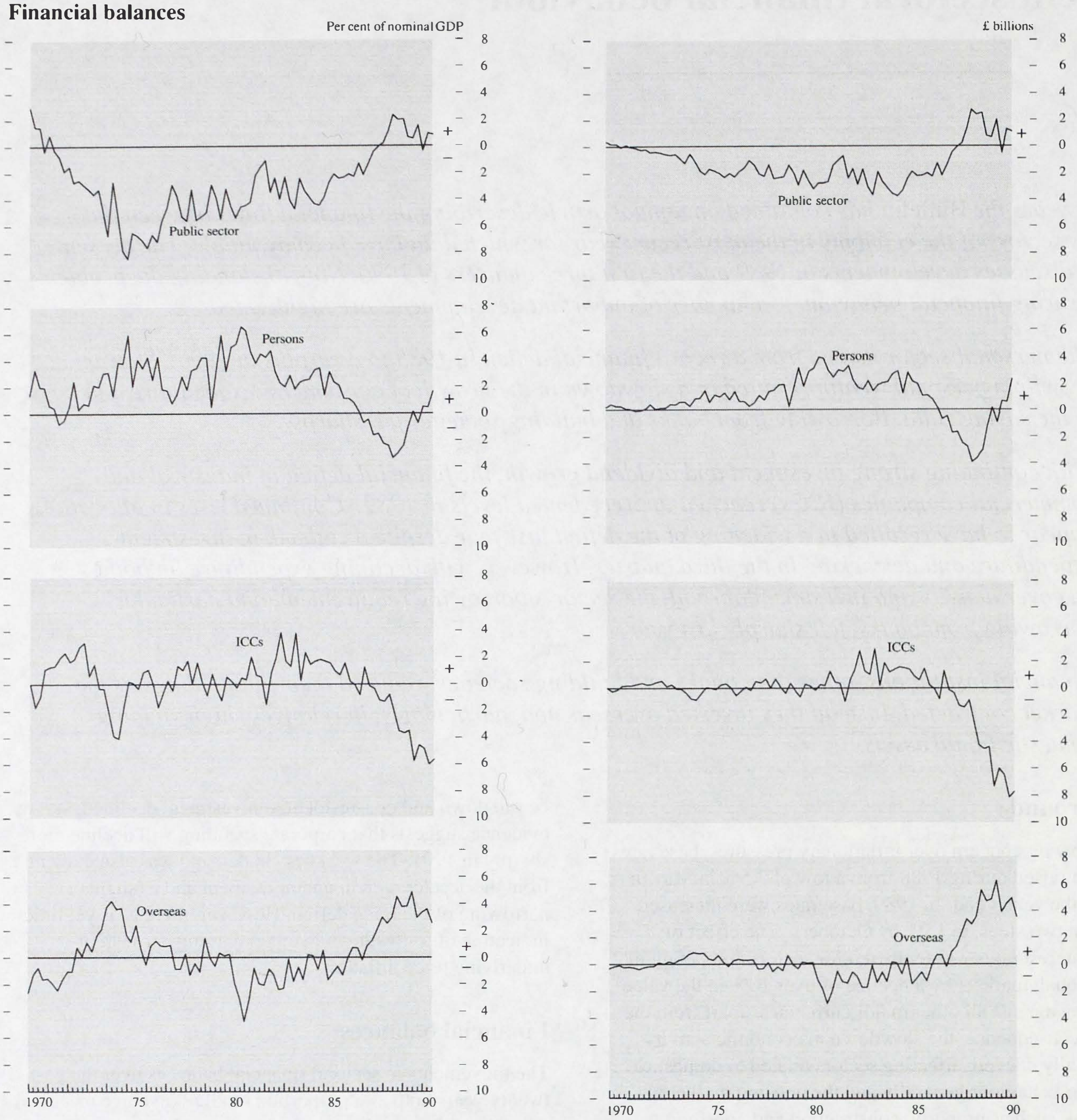
The movements in sectoral financial balances over the past twenty years both as a proportion of GDP (average measure) at market prices, and in nominal terms, are shown in Chart 1.

Although the trend began to emerge earlier, the charts clearly show the movement into deficit of the UK private sector, both persons and companies, in the second half of the 1980s. The counterpart of this, at least in an accounting sense, was the movement into surplus of the public sector and, more particularly, the overseas sector (ie the emergence of a large current account deficit). However, this shift in the pattern of deficits and surpluses was probably a response, in large part, to a common set of economic factors. The strong and continuous growth of domestic demand in the second half of the 1980s boosted private sector spending while

(1) In theory the various 'real' sectoral balances should sum to zero. However, in practice there is a residual which sometimes can be large. As discussed in the appendix, there are also marked differences between sectoral accounts according to whether they are measured from the real or financial side of the national accounts. These 'balancing items' are, in some cases, larger than the sectoral deficits/surpluses.

(2) The overall financial positions of the sectors are calculated from the national income and expenditure accounts and are shown in line 5 of the flow of funds matrix.

Chart 1
Financial balances



simultaneously reducing the public sector deficit and the current account surplus. The unprecedented size and duration of the private sector deficit were due to the sustaining of demand by an expectation on the part of individuals and companies that strong economic growth and increases in asset prices would continue in the future and because financial liberalisation meant that planned expenditures could be financed more easily through borrowing than in the past.

It has taken some time for the private sector to adjust to the policy tightening which began in the spring of 1988. However, clear signs have now emerged of an adjustment, at least by the personal sector, which moved from a record deficit in 1988 to surplus in the first three quarters of 1990. Partly owing to the slowdown in the economy, this has been mirrored by a corresponding erosion of the public sector surplus and a modest improvement in the current account. In contrast, the deficit of industrial and commercial companies actually rose further in the first three quarters of last year. Provisional data for the fourth quarter show both a slight narrowing of the current account deficit and a further reduction in the public sector surplus, suggesting perhaps that the private sector is continuing to readjust its financial position.[1] In particular, this may indicate that the corporate sector is at last beginning to reduce its deficit.

(1) This conclusion is tentative as it assumes that the residual error in the national accounts remained constant between quarters.

Table A
Personal sector[a] financial transactions

£ billions (seasonally adjusted)
Increase in assets/decrease in liabilities +

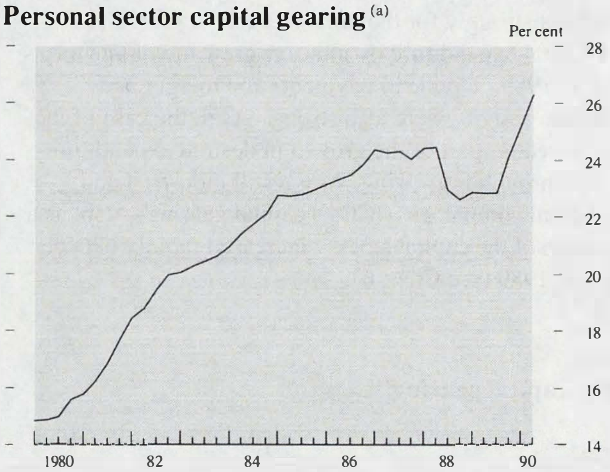
	1986	1987	1988	1989	1990 Q1	Q2	Q3
Financial surplus/deficit	+3.0	-4.6	-12.8	-5.1	+0.7	+0.6	+2.3
of which:							
Net claims on life assurance and pension funds	+21.0	+21.7	+22.4	+30.5	+7.6	+7.0	+7.8
Deposits with building societies	+11.8	+13.6	+20.2	+17.3	+4.0	+4.5	+4.3
Deposits with UK banks	+8.4	+8.4	+16.9	+22.2	+5.1	+6.0	+1.8
Public sector debt	+4.4	+3.6	-1.9	-4.3	-1.2	+0.4	+0.6
UK company securities	+2.0	+3.2	-0.3	-0.7	+0.1	+0.1	-0.5
Borrowing for house purchase	-27.1	-29.1	-40.3	-33.7	-8.9	-8.3	-7.0
of which, from building societies	*-19.5*	*-14.6*	*-23.7*	*-24.0*	*-6.4*	*-5.8*	*-5.8*
Borrowing from UK banks(b)	-5.2	-8.7	-12.9	-13.6	-3.0	-1.8	-1.4

(a) Includes individuals, private non-profit-making institutions and unincorporated businesses.
(b) Other than for house purchase.

Personal sector (Table A)

Borrowing by the personal sector against equity held in housing became easier during the 1980s as financial liberalisation fostered greater competition among banks and building societies. Generally, individuals were able to obtain loans representing a greater proportion of the value of their house or higher multiples of their income. Owner occupation also rose, allowing more people to borrow against property. As shown in Chart 2, there was a steady rise in persons' capital gearing (ie the value of debt for house purchase as a proportion of the owner-occupied housing stock) throughout the early and middle 1980s.

Chart 2
Personal sector capital gearing [a]

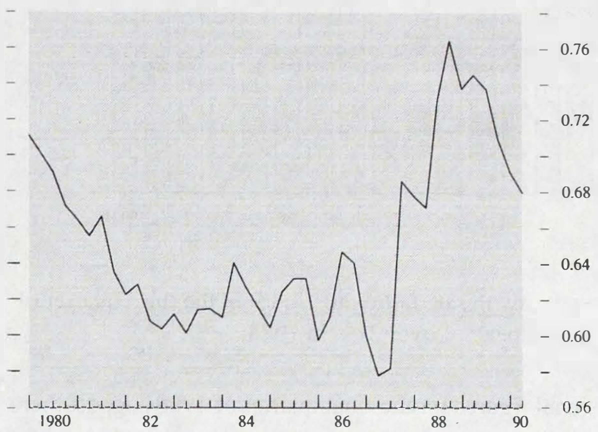


(a) Stock of lending to persons for house purchase as a proportion of the value of owner-occupied housing stock.

The house price boom of the late 1980s considerably increased the wealth of the personal sector. In conjunction with strong real income growth, this seems to have triggered a consumption boom financed by borrowing, and the personal sector moved into financial deficit. The magnitude of this deficit (£13 billion in 1988) was unprecedented.

Despite the credit-financed consumption boom, personal sector capital gearing fell in 1988, marking a sharp departure from the trend increase in persons' capital gearing which characterised the early part of the decade. The ratio of the personal sector's housing to non-housing wealth, which had been reasonably stable throughout the 1980s (see Chart 3), rose sharply. The financial behaviour of the personal sector since the downturn in the housing market may partly be explained as a readjustment of the wealth portfolio in response to these imbalances.[1]

Chart 3
Personal sector: ratio of housing to non-housing wealth



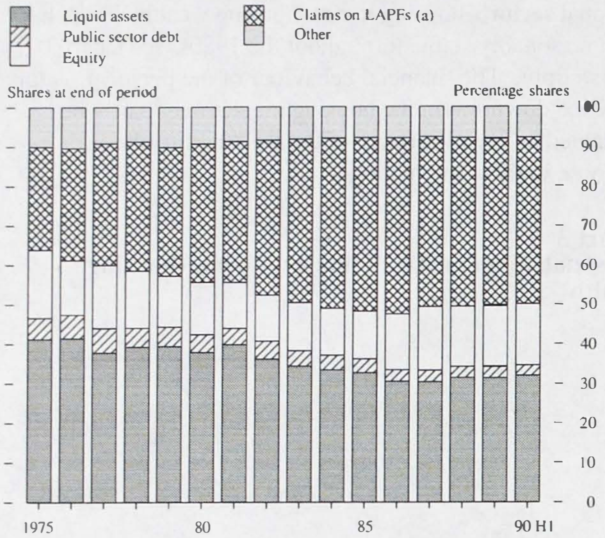
On the real side, the sectoral financial balance recovered in 1989–90 because of an increase in the saving ratio from the extremely low level of 1988. The stagnation of the property market following the raising of interest rates reduced consumption growth and, with continued strong growth of real personal income, increased the saving ratio. With wealth growing much more slowly, continuing equity withdrawal[2] may have been used more to build up financial assets than to finance consumption.

Personal income and wealth withdrawn from housing found a ready home in high yielding liquid assets, enabling personal deposits with banks and building societies to be maintained at a relatively high level during 1990. Contributions to life assurance and pension funds also remained large. Overall, the shares of different types of financial assets in the personal sector's portfolio have remained relatively constant since the mid-1980s (see Chart 4).

While it appears that financial asset accumulation was maintained by equity withdrawal and income growth, higher interest rates reduced net personal borrowing and consequently improved the sectoral financial balance. This effect was most apparent in borrowing for consumption. The annual growth rate of borrowing for consumption by individuals fell to 8.9% in the third quarter of 1990, after peaking at almost 23% in the third quarter of 1988. M4 lending to individuals for house purchase was also subdued,

(1) Relative rates of return may also have also been important in prompting the switch of wealth from low yielding housing assets into higher yielding liquid financial assets. However, empirical work undertaken at the Bank suggests that rates of return may be of secondary importance in determining the distribution of wealth, at least between financial assets. Furthermore, the lower risk associated with a diversified wealth portfolio would moderate any tendency to switch into the highest yielding assets.
(2) Equity withdrawal is the difference between the net increase in the stock of loans for house purchase and the private sector's net expenditure on housing.

Chart 4
Personal sector assets



(a) Life assurance and pension funds.

its annual growth rate falling to 14.8% in the third quarter of 1990 from a peak of over 21% in 1988.

Provisional figures for the final quarter of 1990 suggest there may have been some recovery in personal sector M4 lending for consumption. In part, this may be accounted for by 'distress borrowing'. Evidence of patches of distress within the personal sector, for example, is provided by the rise in arrears and repossessions. A recovery in borrowing may result in a deterioration of the personal sector's present financial position, moving it towards a position of broad balance.

Industrial and commercial companies (Table B)

In 1989 the financial deficit of the corporate sector reached an unprecedented £22 billion. However, industrial and commercial companies' profits continued to grow, at least in nominal terms, while corporate profitability (profits as a proportion of the capital stock), although falling, remained buoyant and much higher than in the previous two cyclical downturns of 1974–75 and 1980–81 (see Chart 5). Moreover, the impact of the slowdown in the growth of domestic demand was not widespread but was concentrated on particular sectors, notably property, construction and non-food retailing. In contrast, manufacturing output growth remained strong, helped by buoyant export markets.

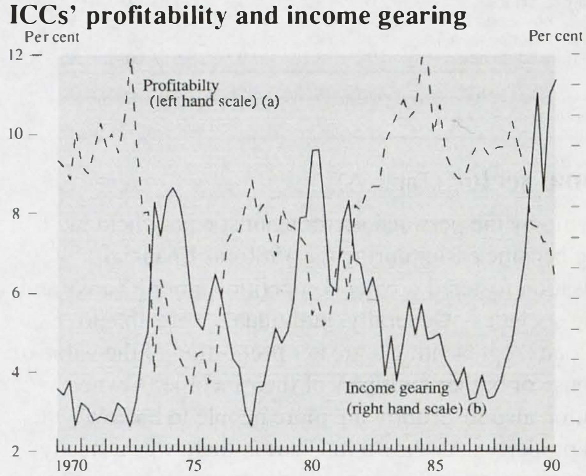
Table B
Industrial and commercial companies' financial transactions

£ billions (seasonally adjusted)
Increase is assets/decrease in liabilities +

	1986	1987	1988	1989	1990 Q1	Q2	Q3
Financial surplus/deficit	+0.9	-0.5	-9.1	-22.2	-6.5	-8.2	-7.7
Unremitted profits	-2.6	-3.6	-6.2	-5.2	-1.7	-1.1	-1.6
Financial transactions requiring financing							
Trade investments, mergers	+2.8	+3.7	+10.6	+15.9	+0.7	+2.8	-2.4
Long-term investments overseas	+5.5	+15.2	+14.1	+17.0	+2.0	+2.6	+2.0
Other	+0.4	—	+0.6	-1.0	+0.1	-1.4	-0.1
Balancing item	+2.6	-2.1	+1.1	-15.5	-1.5	-14.4	-2.6
Net financing requirement (a)	-13.1	-21.0	-41.7	-43.8	-9.6	+1.1	-6.2
Financing items							
Bank borrowing	+8.7	+15.0	+30.4	+35.3	+5.8	+5.1	+0.8
Capital issues	+8.9	+17.7	+8.9	+10.3	+3.2	+2.5	+1.7
Investment from overseas	+2.5	+2.2	+3.7	+9.7	+2.5	+1.0	+4.4
Bank deposits	-10.7	-8.8	-6.5	-11.5	-4.3	-3.1	-5.3
Other	+3.8	-5.1	+5.2	—	+2.4	-6.6	+4.5

(a) Financial surplus/deficit, *plus* unremitted profits, *less* financial transactions requiring financing, *less* balancing item.

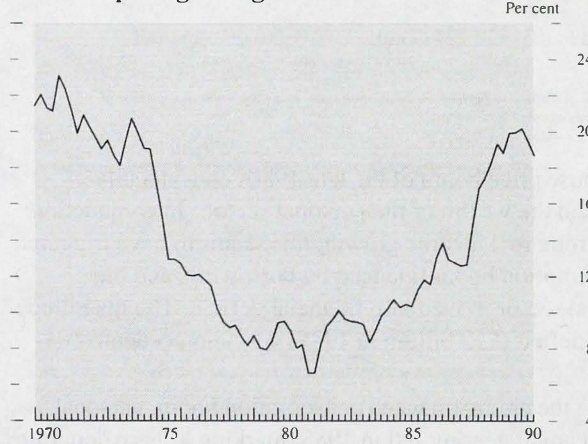
Chart 5
ICCs' profitability and income gearing



(a) Pre-tax rate of return on capital employed.
(b) Interest payments as a percentage of non-interest income after stock appreciation and tax payments.

The expectation of continuing strong growth in demand was reflected in the corporate sector's willingness to expand investment strongly for the third successive year. Gross fixed capital expenditure by industry grew in volume terms by 8% in 1989. Dividend payments and merger and acquisition activity were also strong. As in the case of the personal sector, part of the growth in desired expenditure was met through borrowing. As a result industrial and commercial companies' (ICCs') capital gearing—debt as a proportion of the capital stock—increased rapidly between 1987 and 1989 (see Chart 6).

Chart 6
ICCs' capital gearing (a)



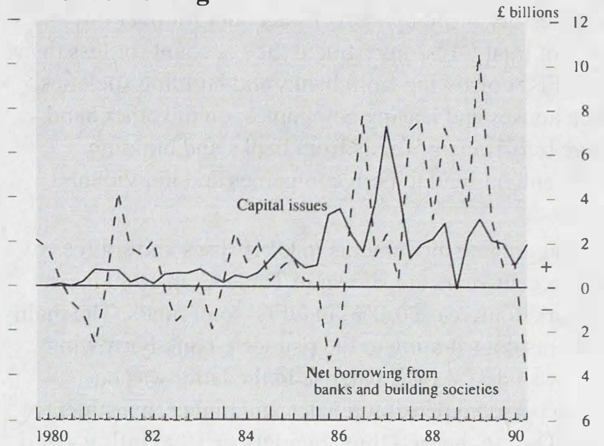
(a) Net debt at book value as a proportion of net capital stock at replacement cost.

During 1990 the corporate financial deficit widened further. The cumulative deficit in the first three quarters of the year, at £22 billion, was already on a par with the deficit for the whole of 1989. More importantly, the general financial position facing the corporate sector appeared to worsen markedly during the course of last year, particularly from June onwards. The deficit widened over the year despite a curtailment of capital expenditure. The volume of investment for both manufacturing (including leasing) and for total (private sector) business fell by over 1% in the first nine months of 1990 compared with the same period a year earlier. During the third quarter alone manufacturing and total business investment fell by 4.4% and 4% respectively. The decline in corporate spending was more than offset by a fall in income. Profitability of non-oil ICCs is estimated to have fallen to 6% in the third quarter of last year—the lowest for four years—having reached a peak of 10% in 1988. In the third quarter of the year ICCs' profits net of stock appreciation were 3% lower than a year earlier and 8% lower than in the second quarter. Declining profits coupled with rising interest payments meant that ICCs' net income gearing (net interest payments as a proportion of income) rose to a record 34.3% in the third quarter compared with 26.1%, on average, in 1989 and 15.3% in 1988 (see Chart 5).

In 1989 the ICCs' borrowing requirement was enlarged by a record amount of takeover activity and large-scale long-term investment overseas. In contrast, during 1990 both acquisitions and overseas investment were on a modest scale. Although since the October 1987 stock market crash the majority of takeover activity has continued to be cash financed, total expenditure and the number of acquisitions fell markedly during last year. This meant that cash expenditure on domestic mergers and acquisitions fell from a record £22.4 billion in 1989 (40% up on the previous peak in 1988) to £5.4 billion in the first nine months of last year. This slowdown reflects, in part, the corporate sector's lack of funds and perhaps also greater caution on the part of banks. Long-term investment overseas, which includes overseas acquisitions, also fell, from £17 billion in 1989 to £6.6 billion in the first three quarters of 1990. Inward investment from overseas held up rather better, amounting to an estimated £7.9 billion up to the third quarter of last year compared with £9.7 billion in 1989.

Total identified financing items (the net financing requirement) amounted to £14.7 billion in the first three quarters of 1990 compared with £43.8 billion for 1989 as a whole.[1] Within total (sterling and foreign currency) financing there was a marked change in the pattern of company behaviour during 1990 compared with the previous two years (see Chart 7). In the aftermath of the stock market crash companies met their large-scale financing requirement mainly through recourse to the banks rather than by issuing capital. In 1989 net recourse (lending minus deposits) to banks and building societies was £23 billion, compared with net capital issues of £10.3 billion. Although total net new borrowing grew more slowly in the first three quarters of 1990, as in the early stages of the last recession, there was a

Chart 7
ICCs' borrowing



more marked reduction in borrowing from banks and building societies than in capital issues.

Within total borrowing, sterling may be more important than foreign currency in reflecting economic activity in the United Kingdom. In particular, the sharp decline in foreign currency borrowing from the banks last year may reflect, in part, the reduction in ICCs' investment activity overseas. Nonetheless, the sterling figures also show net recourse to the banks fell sharply last year. This was attributable to a decline in lending and probably represents a reduction in the demand for credit as there is no clear evidence of widespread credit constraints. In fact, the recovery in lending in the fourth quarter may suggest that the banks are to a degree supporting companies facing cash flow problems. Moreover, with companies finding it increasingly difficult to raise funds on the capital markets they may have to rely more heavily on the banks this year.

Other financial institutions (Table C)

The 'other financial institutions' sector includes a heterogeneous group of organisations with diverse roles in the economy. For example, some institutions such as life

Table C
Other financial institutions' sources and uses of funds

£ billions (seasonally adjusted)

	1986	1987	1988	1989	1990 Q1	Q2	Q3
Sources of funds							
Bank borrowing	-14.1	-16.6	-10.0	-20.2	-2.1	-2.9	-2.0
Life assurance and pension funds	-20.3	-21.1	-21.5	-30.2	-7.6	-7.0	-7.7
Unit trust units	-2.0	-3.2	+0.3	+0.7	-0.1	-0.1	+0.5
Capital issues	-3.1	-3.8	-5.4	-4.7	-1.2	-0.4	-1.3
Other sources	-4.2	-3.9	-7.6	-17.9	-2.0	-0.9	-1.9
Total	-43.8	-48.7	-44.2	-72.2	-13.1	-11.3	-12.3
Uses of funds							
Liquid assets	+9.9	+18.0	+12.8	+22.0	+6.3	+4.5	+2.6
British government securities	+3.2	+0.8	—	-8.6	-0.1	+0.6	-0.3
UK company securities	+9.6	+15.6	+11.4	+9.5	+1.9	+1.9	+6.1
Overseas securities	+14.9	-7.6	+6.0	+20.8	—	-0.6	-2.0
Lending for house purchase	+2.8	+4.7	+5.9	+2.6	+0.4	+0.2	—
Other uses	+2.2	+4.4	+1.0	+6.1	+1.7	+0.8	+2.7
Total	+42.6	+36.0	+37.0	+52.5	+10.2	+7.3	+9.1
Net identified financial transactions	-1.1	-12.7	-7.2	-19.8	-3.9	-4.1	-3.0

(1) The balancing item remains large at £18.5 billion in the first three quarters of 1990, compared with £15.5 billion for 1989 as a whole.

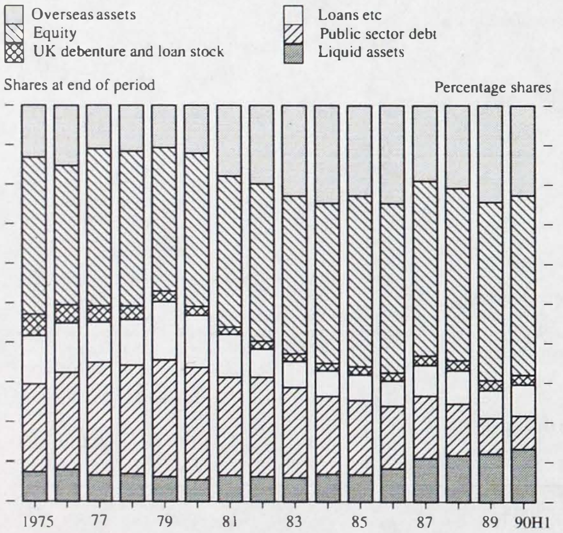
assurance and pension funds (LAPFs) and unit trusts use funds obtained from the personal sector to invest in various financial assets. Although LAPFs account for over three quarters of total OFIs' investment they account for less than 5% of OFIs' borrowing from banks and building societies. Finance houses and leasing companies, on the other hand, are large borrowers of funds from banks and building societies and on-lend to both companies and individuals.

The key aggregate movements in OFIs' uses and sources of funds in recent years are shown in Table C. In 1989 there was a marked increase (60%) in OFIs' total funds. The main components contributing to the rise were bank borrowing and inflows into LAPFs. The rise in the latter was due mainly to personal pension rebates and higher investment income. During the first three quarters of 1990 inflows into LAPFs were broadly maintained at this higher level, whereas bank borrowing fell sharply, perhaps reflecting the deterioration in financial asset markets.

The trends in the sources of funds have been broadly reflected in the disposition of funds, with a large rise in 1989 followed by a marked slowdown in the first nine months of last year. There were also some notable movements within the total portfolio. In 1989 and, to a lesser extent, last year there was a marked switch of investment away from public sector debt and towards investments overseas and, in particular, liquid assets.

Since late 1988 the yield curve has remained steeply downward-sloping, with short-term money rates maintaining a premium of 3–5 percentage points over long-term yields. The relative attractiveness of short-term assets meant that the flow of liquid deposits reached a record £21.9 billion in 1989 and despite falling back somewhat subsequently, remained higher in the first three quarters of 1990 than in any full year prior to 1989 other than 1987. As a result, by the middle of last year the stock of liquid deposits accounted for a record 13.3% of the total value of OFIs' assets (see Chart 8).

Chart 8
OFIs' assets



Helped by a rally in world stock prices in 1989, the shares of OFIs' holdings of overseas securities and UK equities in their total assets have both risen since the end of 1988. The flow of OFIs' investment overseas was also at a record level in 1989 (£20.8 billion), reflecting uncertainty over prospects for the United Kingdom and sterling and perhaps the attractiveness of Europe in the build-up to the single European market.

In contrast, by the second quarter of last year, and following two years of gilt disinvestment, the share of public debt in OFIs' total portfolio fell to 8.5%, compared with 13.1% at the end of 1988 and 15.8% at the end of 1987. This occurred, for the main part, because of a general contraction of the gilts market. Over the past two years the government has been a net repurchaser of debt. The public sector moved into surplus during 1987 (with a peak being reached in 1988) and, although the public sector accounts moved back towards balance last year, the financial position was still much stronger than it had been before 1987. In addition, the government has pursued a full-fund policy which meant debt sales were set to ensure the public sector had a neutral impact on the liquidity in the economy. This resulted in a particularly large disinvestment in government securities in 1989 (£8.6 billion) when the public sector was in record surplus.

The overseas sector (Table D)

The existence of a large current account deficit together with recorded net outflows of capital from UK residents (notably ICCs' direct investment overseas and UK banks' and OFIs' acquisitions of overseas assets) implies that large amounts of foreign capital have had to be attracted into the United Kingdom in recent years. The recorded overseas take-up of UK securities has provided a significant proportion of this requirement, but equally important, in the past, have been the net inflows through the banking sector, maintained by high UK interest rates. However, in recent quarters, this role has been reduced and there appears to have been a movement towards 'disintermediated' financing of the

Table D
Selected overseas sector financial transactions

£ billions (seasonally adjusted)
Increase in assets/decrease in liabilities +

	1986	1987	1988	1989	1990 Q1	Q2	Q3
Net identified financial transactions (a)	-7.0	+4.6	+7.6	+4.7	+6.1	-3.9	+2.5
of which:							
UK direct investment in overseas securities	-6.6	-7.0	-7.4	-6.9	+0.8	-1.6	-1.0
UK portfolio investment overseas	-23.1	+3.3	-9.9	-35.9	-2.2	-0.6	+0.2
Total UK take-up of overseas securities(b)	-29.7	-3.7	-17.3	-43.2	-2.8	-1.3	-2.9
Overseas direct investment in UK securities	+8.9	+17.1	+13.0	+13.3	+2.2	+1.9	+2.7
Overseas portfolio investment in the United Kingdom	+1.5	+3.1	+3.3	+6.2	+3.5	+1.0	+2.8
Total overseas take-up of UK securities(c)	+10.4	+20.4	+16.3	+19.6	+7.0	+4.0	+3.4
Net deposits with UK banks(d)	+9.9	+3.8	+14.0	+15.4	+0.1	+0.1	-5.9

(a) Line 39 Table F.
(b) Line 32 Table F.
(c) Line 31 Table F.
(d) Lines 21+24 Table F.

current account deficit through the non-bank private sector's direct borrowing from overseas.

Table D shows the recorded net flows of securities—both direct and portfolio—to and from the overseas sector, together with the net flow of lending to UK banks. Overseas take-up of UK securities remained strong in 1990, while UK portfolio investment overseas fell from its high 1989 figure, inflated by a building-up of overseas equities to levels prevailing before the collapse in world stock prices. Thus, following net outflows of £1 billion in 1988 and £23.6 billion in 1989, there was a net inflow of investment in securities (estimated at £7.4 billion) in the first three quarters of 1990. In addition, there was a strong net inflow of direct investment (excluding securities) from overseas (especially by ICCs) of £11 billion in the first three quarters of 1990, reflecting the expectation of high real returns in the medium term, perhaps resulting from the benefits of enhanced European integration.

Net banking inflows in the first three quarters of 1990 were thus significantly reduced from their 1989 figure (an outflow of £5.7 billion as against an inflow of £15.4 billion), highlighting their currently diminished role in financing the current account deficit.

Appendix

Sources and implications of measurement error[1]

In principle, the financial transactions of each sector represent the funding of a deficit or deployment of surplus funds obtained by transactions on the real side of the economy. Thus the real side sectoral financial surplus should equal the sector's identified accumulation of financial assets. In practice, this is seldom the case and the inevitable errors and omissions are captured in a residual 'balancing item'. As shown in Table E this balancing item may be considerable in some instances. In 1989, for example, the personal sector's balancing item exceeded total recorded transactions.

These errors occur on both the real and financial sides of the economy. Efforts are being made to improve the data, though these do not always result in reductions of the balancing items. The real side data are generally thought to be more reliable, particularly for the overseas sector; thus this article concentrates on the real side measures, as shown in Chart 1.

Some financial data are reasonably accurate. The public sector accounts are a necessary tool for management of government finances and thus have to be well maintained. Statistical reporting by M4 institutions is comprehensive; much information is also collected from OFIs. In contrast, direct reporting by the personal, corporate and overseas sectors is limited and there is scope for very large errors to arise. At present, the problem appears particularly acute for ICCs, which have a large and erratic balancing item.

Table E
Sector financial balances,[a] financial transactions[b] and balancing items[c]

£ billions (seasonally adjusted)

		1986	1987	1988	1989	1990 Q1	Q2	Q3
Public sector	(a)	-7.7	-4.1	+6.7	+6.0	-0.5	+1.3	+1.1
	(b)	-8.5	-5.0	+5.0	+6.5	-0.1	+0.6	+0.9
	(c)	+0.8	+0.9	+1.7	-0.5	-0.4	+0.7	+0.3
Financial institutions(d)	(a)	+3.8	+3.8	+1.0	+1.6	+1.8	+1.3	+0.8
	(b)	+5.2	-7.3	+2.4	-7.8	-3.2	-6.5	-1.5
	(c)	-1.4	+11.2	-1.4	+9.4	+5.0	+7.8	+2.3
Industrial and commercial companies	(a)	+0.9	-0.5	-9.1	-22.2	-6.5	-8.2	-7.7
	(b)	-1.8	+1.6	-10.2	-6.7	-5.0	+6.3	-5.2
	(c)	+2.6	-2.1	+1.1	-15.5	-1.5	-14.4	-2.6
Personal sector	(a)	+3.0	-4.6	-12.8	-5.1	+0.7	+0.6	+2.3
	(b)	+12.1	+6.2	-4.8	+3.4	+2.2	+3.6	+3.3
	(c)	-9.1	-10.8	-8.0	-8.5	-1.6	-3.0	-1.0
Overseas sector	(a)	+0.1	+4.3	+15.3	+19.6	+4.5	+4.9	+3.5
	(b)	-7.0	+4.6	+7.6	+4.7	+6.1	-3.9	+2.5
	(c)	+7.1	-0.3	+7.8	+14.9	-1.6	+8.9	+1.0
Residual error		—	+1.1	-1.2	+0.1	—	—	—

(a) Financial surplus +/deficit -. Line 5 Table F.
(b) Financial transactions. Line 39 Table F.
(c) Balancing item. Line 40 Table F (= Line 5-Line 39).
(d) Banks, building societies and other financial institutions.

(1) For a more detailed discussion of these issues see the February 1990 *Bulletin*, pages 152–3.

Table F
Flow of funds: annual matrix 1988

£ millions

	Line	Central government	Local authorities	Public corporations	Public sector	Banks	Building societies	Other financial institutions	Industrial and commercial companies	Personal sector	Overseas sector	Residual error
Capital account												
Saving	1	+8,909	+1,594	+5,979	+16,482		+13,476		+40,061	+16,625	+15,334	
Taxes on capital and capital transfers	2	-131	+240	+805	+914		-152		+465	-1,227	—	
less:												
Gross fixed capital formation at home	3	-3,731	-2,399	-4,608	-10,738		-12,284		-40,038	-26,984		
Increase in value of stocks and work in progress	4	+322		-258	+64		—		-9,553	-1,234		
Financial surplus+/deficit -	5	**+5,369**	**-565**	**+1,918**	**+6,722**		**+1,040**		**-9,065**	**-12,820**	**+15,334**	**-1,211**
Changes in financial assets and liabilities												
Assets: increase+/decrease-												
Liabilities: increase -/decrease+												
Notes and coin	6	-1,475		-2	-1,479	+270	+120	+4	+94	+945	+46	
Sterling Treasury bills	7	-1,335	+2	+120	-1,215	+1,243	+10	+4	-68		+25	
British government securities	8	+5,031	+29	-4	+5,058	-2,366	+560	-34	-420	-3,641	+842	
National savings	9	-1,529	—	+39	-1,488		—	+1	+73	+1,416		
Certificates of tax deposit	10	+998		+64	+1,059	-312	-379	+1	-398	+29		
Net government indebtedness to Banking Department	11	-137			-137	+137						
Northern Ireland central government debt	12	+8			+8	—	—	—	-5	-2		
Government liabilities under exchange cover scheme	13	-188	-6	+179	-15				+15			
Other public sector financing:												
Non-marketable debt	14.1	-450		+450	—	-1	—	—	—			
Short-term assets	14.2		+1,078	+1	+1,078		-758	-248	-68	-3	+1	
Issue Department's transactions in bills	15	+436			+436	+657		-691	-582		+181	
Government foreign currency debt	16	+449			+449	+171	—	-1,924	—		+1,303	
Other government overseas financing	17	+74			+74						-74	
Official reserves	18	+2,761			+2,761						-2,761	
Local authority debt	19	+4,859	-3,408	-34	+1,418	-443	-402	+162	-64	-659	-12	
Public corporation debt	20	+716	+47	+110	+872	-523	—	-14	—	-26	-311	
Deposits with banks:												
Sterling sight	21.1	+83	-107	+106	+83	-12,542	—	+1,958	+1,897	+8,606		
Sterling time	21.2	+94	+1,748	+880	+2,721	-27,039	+4,658	+7,221	+4,349	+8,092		
Foreign currency	21.3	-99	+9	+2	-89	-2,729	—	+2,370	+228	+220		
Banks' net external transactions	21.4					-13,973					+13,973	
Deposits with building societies	22					+403	-21,599	+201	+351	+20,167	+477	
Bank lending (excluding public sector):												
Foreign currency	24.1					+9,633	—	-1,047	-8,294	-292		
Sterling	24.2					+44,134	-391	-8,972	-22,139	-12,633		
Credit extended by retailers	25			—	—				+190	-190		
Identified trade credit:												
Domestic	26.1	+7		-727	-719			+396	+347	-25		
Import and export	26.2	+1		-31	-33			—	+258		-225	
Loans for house purchase:												
Building societies	27.1						+23,691		—	-23,691		
Other	27.2	+153	-329	-9	-185	+10.908		+5,934		-16,657		
Other public sector lending	28	+307	+68	+1	+376	—	—	—	-153	-33	-189	
Other lending by financial institutions	29			—	—		+1,134	+1,153	-1,573	-717		
Unit trust units	30							+264		-264		
UK company securities	31	-6,194	+113	-73	-6,154	-2,302	-3,140	+5,947	+1,171	-11,850	+16,326	
Overseas securities	32	—		—	—	+1,758	—	+5,975	+8,393	+1,218	-17,344	
Life assurance and pension funds	33	-908			-908			-21,488		+22,396		
Miscellaneous domestic instruments	34	+56	-70	+70	+56	-122	+633	-2,576	-1,238	+1,541	+1,708	
Direct and other investment abroad	35					-563	—	-33	+13,917	-30	-13,291	
Overseas direct and other investment in the United Kingdom	36					-347		+36	-5,186	-445	+5,941	
Miscellaneous overseas instruments	37	-128		+48	-78	-40	—	+291	-1,128		+953	
Accruals adjustment	38	+1,645	-309	-263	+1,073	-51	-484	-2,089	-159	+1,709		
Financial transactions	39	**+5,235**	**-1,139**	**+922**	**+5,019**	**+ 5,962**	**+ 3,653**	**- 7,195**	**- 10,195**	**- 4,819**	**+ 7,575**	
Balancing item	40	+134	+574	+996	+1,703		-1,379		+1,130	-8,001	+7,759	-1,211

Table F *continued*
Flow of funds: annual matrix 1989

£ millions

	Line	Central government	Local authorities	Public corporations	Public sector	Banks	Building societies	Other financial institutions	Industrial and commercial companies	Personal sector	Overseas sector	Residual error
Capital account												
Saving	1	+12,678	+1,287	+5,125	+19,090		+16,269		+32,048	+23,288	+19,624	
Taxes on capital and capital transfers	2	-1,687	+1,725	+1,276	+1,314		-264		-313	-737	—	
less:												
Gross fixed capital formation at home	3	-5,071	-3,877	-5,312	-14,260		-14,384		-45,203	-26,326		
Increase in value of stocks and work in progress	4	+164		-331	-167		—		-8,769	-1,313		
Financial surplus+/deficit-	5	**+6,084**	**-865**	**+758**	**+5,977**		**+1,621**		**-22,237**	**-5,088**	**+19,624**	**+103**
Changes in financial assets and liabilities												
Assets: increase+/decrease-												
Liabilities: increase-/decrease+												
Notes and coin	6	-1,246		-27	-1,273	+263	+54	+4	+83	+817	+53	
Sterling Treasury bills	7	-2,936	+9	+6	-2,921	+455	+846	-21	+752		+888	
British government securities	8	+18,327	+4	-10	+18,321	-1,905	-2,617	-8,560	-250	-3,089	-1,900	
National savings	9	+1,547	—	-33	+1,514		-6	+2	+2	-1,512		
Certificates of tax deposit	10	-149		-45	-195	+77	-40	-2	+134	+27		
Net government indebtedness to Banking Department	11	-370			-370	+370						
Northern Ireland central government debt	12	+16			+16	—	—	—	—	-15		
Government liabilities under exchange cover scheme	13	-86	-10	+103	+5				-5			
Other public sector financing:												
Non-marketable debt	14.1	+97		-97	—	—	—	—	—			
Short-term assets	14.2		+1,014	—	+1,013		-739	-240	-1	-34	—	
Issue Department's transactions in bills	15	-3,598			-3,598	+201		+1,027	+2,006		+363	
Government foreign currency debt	16	-1,258			-1,258	-45	—	-56	-98		+1,358	
Other government overseas financing	17	+83			+83						-83	
Official reserves	18	-5,438			-5,438						+5,438	
Local authority debt	19	+2,590	-1,385	-43	+1,159	-917	-194	+472	+29	-483	-66	
Public corporation debt	20	+1,797	-84	+699	+2,413	-180	—	-31	—	+29	-2,233	
Deposits with banks:												
Sterling sight	21.1	+60	+16	-15	+61	-17,432	—	+4,266	+2,136	+10,970		
Sterling time	21.2	+107	-168	-199	-260	-28,897	+2,293	+8,543	+7,355	+10,968		
Foreign currency	21.3	-2	+21	-43	-23	-8,135	—	+5,885	+2,054	+218		
Banks' net external transactions	21.4					-15,397					+15,397	
Deposits with building societies	22					+1,061	-22,817	+570	+3,499	+17,340	+350	
Bank lending (excluding public sector):												
Foreign currency	24.1					+16,145	—	-7,424	-8,385	-335		
Sterling	24.2					+51,978	+922	-12,798	-26,900	-13,202		
Credit extended by retailers	25			—	—				+5	-5		
Identified trade credit:												
Domestic	26.1	+4		+642	+646			+322	-931	-36		
Import and export	26.2	—		-60	-61			—	+61		—	
Loans for house purchase:												
Building societies	27.1						+24,000		—	-24,000		
Other	27.2	+137	-202	-8	-74	+7,186		+2,587		-9,698		
Other public sector lending	28	+1,166	+76	+269	+1,512	—	—	-390	-742	-42	-338	
Other lending by financial institutions	29			—	—		+2,401	+1,139	-2,378	-1,161		
Unit trust units	30							+718		-718		
U K company securities	31	-4,655	+149	-8	-4,514	-1,882	-2,486	+4,815	+2,776	-18,265	+19,555	
Overseas securities	32	—		—	—	+6,560	—	+20,803	+13,836	+2,007	-43,205	
Life assurance and pension funds	33	-325			-325			-30,157		+30,483		
Miscellaneous domestic instruments	34	+100	-118	+118	+100	+19	+2,238	-9,699	-2,733	+798	+9,278	
Direct and other investment abroad	35					+182	—	+186	+12,180	-32	-12,517	
Overseas direct and other investment in the United Kingdom	36					-179		-10	-10,745	-1,236	+12,171	
Miscellaneous overseas instruments	37	-169		+62	-105	-4	—	+375	-436		+169	
Accruals adjustment	38	+252	-14	-153	+86	-111	-1,351	-2,072	-144	+3,592		
Financial transactions	39	**+6,051**	**-696**	**+1,161**	**+6,515**	**+9,415**	**+ 2,503**	**-19,743**	**-6,743**	**+ 3,381**	**+ 4,675**	
Balancing item	40	+33	-169	-403	-538		+9,448		-15,494	-8,469	+14,949	+103