

CENTRAL STATISTICAL OFFICE

Financial Statistics

NOTES AND DEFINITIONS

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INTRODUCTION

This *Supplement* gives definitions of items and units employed in the monthly publication *Financial Statistics* in more detail than is possible in the headings and footnotes to the tables in the publication itself. This issue replaces that published in April 1975. The definitions and table numbers relate to the tables as they appear in Issue No 168 for April 1976. If further new series are added or changes are made before the next issue of the *Supplement*, additional definitions will be given where necessary in footnotes to the tables or in a further supplement in the monthly publication.

In *Financial Statistics* and this *Supplement* the term British government securities covers both British government marketable securities and British government guaranteed securities.

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I. FINANCIAL ACCOUNTS

Financial accounts are designed to set out the financial transactions of the different sectors of the economy systematically and in a convenient form. They provide a statistical framework for considering financial transactions and enable the transactions of one sector to be directly related to those of other sectors.

The sector capital accounts given at the beginning of *Financial Statistics* provide the link between the traditional national income accounts (which are published quarterly in the January, April, July and October issues of *Economic Trends*) and the quarterly financial transactions accounts. Separate capital accounts are given for each of the sectors into which the economy is divided. On the receipts side of these accounts are the sectors' saving or undistributed income (before providing for depreciation, stock appreciation and additions to reserves) and capital transfers. On the payments side are gross domestic fixed capital formation and the increase in the value of stocks and work in progress. This latter item includes in the second quarter of 1973 a fall in the book value of stocks reflecting tax rebated on the introduction of VAT. The fall for all sectors totals £280 million. The balancing item in the capital account is the sector's net acquisition of financial assets or liabilities. This shows the extent to which each sector's saving (*plus* capital transfers) is on balance more than, or less than, sufficient to cover its expenditure on physical assets. The aggregate of the item Net acquisition of financial assets for all sectors, including the overseas sector, should in theory be zero, but in practice it is not. This is because there is a statistical discrepancy in the national income accounts between the estimates of total saving and of total investment by all sectors. This discrepancy is the residual error.

The financial transactions accounts continue the story. They provide details of the financial assets and liabilities acquired by each of the different sectors of the economy, and show the various ways in which the surplus in a sector's capital account is channelled directly, or indirectly, through financial intermediaries, to finance the deficits of other sectors.

Table 2 (in the April 1976 edition) brings together in the form of a matrix the various financial transactions of each of the different sectors. The matrix provides a two-way classification of assets and sectors, and gives details of the transactions in the various kinds of financial assets by each of the various sectors in the calendar quarter. Assets and liabilities are classified in a uniform way so that it is possible to relate the acquisition of a particular financial asset by one sector to the associated changes in the assets and liabilities of that sector and of each of the other sectors. The final row in the matrix is equal to the total net acquisition of financial assets by each sector, which is also the total in the financial transactions accounts of each of the various sectors. In theory, the aggregate of the various items in each sector's financial transactions account should be equal to the balancing item in the sector's capital account. But in practice it is not. The difference between the two estimates is shown against the heading Unidentified items. The difference arises partly because it is not yet possible to identify all the different transactions in financial assets, partly because of differences in valuation and timing and other

statistical discrepancies and partly because the estimates of saving and of investment in physical assets given in the various sector capital accounts are subject to error. The large unidentified items in the financial transactions accounts for the personal sector and for industrial and commercial companies represent, to some extent, unrecorded transactions in stocks and shares and also movements in trade credit. The unidentified item in the account for the overseas sector is the Balancing item in the balance of payments accounts.

A full description of the sources and methods used in compiling the financial accounts can be found in *National Accounts Statistics: Sources and Methods* (HMSO 1968).

Definition of sectors

Public sector

The public sector comprises the central government, local authorities and public corporations, except that only the Issue Department, but not the Banking Department, of the Bank of England is included. It has been found to be convenient in practice to include the transactions of the Banking Department with the banking sector, and to record all transactions between the central government and the Banking Department as a single net figure under the heading Net government indebtedness to the Bank of England, Banking Department. There are two minor disadvantages to this treatment. One is that it gives rise to a slight inconsistency, because the figures of saving and of gross fixed capital formation for public corporations include those for the whole of the Bank of England. The second is that all transactions between the Bank of England, Banking Department and the rest of the banking sector are netted out. In a similar way the National Giro in operation from 18 October 1968 is treated in the financial accounts as part of the banking sector, with a consequent discrepancy in the public sector accounts.

Transfer of functions: Following the local government reorganisation, the transfer of functions to public corporations (water and sewerage in England and Wales, and trust ports), and to central government (local health services) are reflected in the figures for the second quarter of 1974 onwards. (For further details see the paragraphs on 'Transfer of functions within the public sector' in the article National Income and Expenditure in the second quarter of 1974—*Economic Trends*, October 1974.)

The banking sector

The banking sector comprises all banks in the United Kingdom together with National Giro, the discount market and the Bank of England, Banking Department. In all about 330 separate institutions are covered (See Section VI. Banking sector).

Other financial institutions

The institutions covered by this sector are finance houses, building societies, the special investment departments of trustee savings banks, the Investment Account of the National Savings Bank and certain other deposit seeking institutions, insurance companies and superannuation

funds, unit trusts, investment trusts quoted on stock exchanges and certain special finance agencies such as the Agricultural Mortgage Corporation Ltd. and the Industrial and Commercial Finance Corporation Ltd. Property unit trusts are included but not property investment companies and other similar organisations deriving their income from ground rents or from owning and letting. Municipal banks are now included in this sector (formerly included in the local authority sub-sector of the public sector) and from March 1975 the new Central Trustee Savings Bank. The ordinary departments of National Savings Bank (formerly, the Post Office Savings Bank) and of trustee savings banks and the Exchange Equalisation Account are included in the public sector, as their activities are an integral part of the financing operations of the government. Stockbrokers and jobbers are included in the personal sector.

Industrial and commercial companies

These are the companies included within the company sector, as defined in the National Income Blue Book, other than those classified as banks and other financial institutions. They are privately controlled corporate enterprises, which are organised for making profits and which are resident in the United Kingdom.

The personal sector

This is defined as in the National Income Blue Book. It includes non-profit-making bodies, private trusts and unincorporated enterprises. The net increase in life assurance and pension funds is included in personal saving. These funds are regarded as an asset of the personal sector and as a liability of the other financial institutions sector.

Overseas sector

This is defined as in the National Income Blue Book and in the balance of payments accounts. Net acquisition of assets by this sector is equal, with sign reversed, to net investment abroad by UK residents. This is equal to the balance of payments surplus on current account *plus* capital grants from and to overseas. (*Note:* The figures of net acquisition of financial assets in the financial accounts overseas sector table are updated in March, June, September and December in line with the UK balance of payments tables. These may differ from those shown in the sector capital accounts tables because the latter are updated one month later when revised net acquisition figures are available for all other sectors.) The account for this sector covers all financial and capital flows between residents and non-residents. These transactions are recorded partly in the investment and other capital flows account of the balance of payments accounts and partly as official financing. In theory, the sum of the transactions included under these two headings should be equal, with sign reversed, to the balance of payments surplus on current account *plus* net capital transfers. In practice it is not. The difference between the two is accounted for by the Balancing item in the balance of payments accounts, which is shown as the unidentified item in the financial transactions account for the overseas sector. A detailed reconciliation between the financial and capital flows, as recorded in the

accounts of the overseas sector and the Investment and other capital flows and Official financing items, as shown in the balance of payments accounts, for the year 1974, is given as a supplementary table in the December 1975 issue of *Financial Statistics*.

Definition of items

The principal changes which have taken place to the items which make up the financial accounts since the publication of *National Accounts Statistics: Sources and Methods*, (HMSO 1968) are as follows:

Treasury bills: The counterpart of central bank assistance in support of the reserves in the form of swaps against sterling is now shown separately.

British government securities: For the period prior to 1970 no transactions in the securities were ascribed to Industrial and commercial companies. From the March 1976 issue of *Financial Statistics* the transactions from 1970 onwards reported by large companies in the Department of Industry's survey of company liquidity have been allocated to Industrial and commercial companies. Unidentified transactions are attributed to the personal sector.

Tax reserve certificates: The net purchases by other financial institutions are those reported by building societies. Issues ceased after June 1973.

Tax deposit accounts: This type of deposit introduced in the 1973 Budget to operate from April 1973 provides a rate of interest at the average Treasury bill rate *plus* a bonus of 2½ per cent per annum if the deposit is used to meet 'mainstream' corporation tax liabilities (the concession will not be available if the deposits are used to pay advance corporation tax in connection with a dividend). HM Treasury has directed that from 8 October 1974 no further deposits should be received. Deposits held in accounts after 8 October shall be applied in satisfaction of tax or withdrawn for cash within the period ended 1 January 1977.

Certificates of tax deposit: These certificates were introduced in October 1975 and are available to taxpayers generally. Minimum deposits of £2,000 are accepted by the Inland Revenue and until further notice will earn interest at 10 per cent per annum when applied to payment of income tax (other than PAYE and tax deducted from payments to sub-contractors), corporation tax (including advanced corporation tax), capital gains tax, capital transfer tax and petroleum revenue tax, and 6 per cent per annum when withdrawn for cash. The interest is paid gross and taxable.

Import deposits: The sector allocation is based on an analysis of a sample of deposits, information supplied by public corporations and balance of payments returns. The scheme was introduced in November 1969 and the last of the deposits were repaid by the end of September 1971. From the March 1976 issue of *Financial Statistics* this item is included in Other identified overseas assets.

Northern Ireland central government debt: This item, which is now shown separately, was formerly included in *Other identified home assets*. It consists of net sales of

Northern Ireland government securities, Northern Ireland Treasury bills, Ulster savings certificates and Ulster development bonds, together with the increase in bank advances to the Northern Ireland central government. Debt other than that identified as taken up by the financial institutions is allocated to the private sector.

Local authority debt: Borrowing previously unallocated is attributed to the personal sector.

Deposits with banking sector: Changes in the total of cheques in course of collection and items in transit, previously unallocated, have been assigned to industrial and commercial companies as it is believed that most of the changes in the figures arise from transactions between these companies.

Items in transit: The treatment of this item has been amended in that 60 per cent (instead of 100 per cent previously) is deducted from gross deposits while 40 per cent is added to bank advances.

Deposits with finance houses: Borrowing other than in the form of deposits is now classified to *Other identified home assets*.

Deposits with other financial institutions: Deposits with other financial institutions identified in the balance of payments accounts other than deposits from overseas residents reported by finance houses.

Bank lending: Bank loans for house purchase are excluded from this item in all tables and included under *Loans for house purchase*. Advances and loans to the Northern Ireland central government are now excluded from this item and included under *Northern Ireland central government debt*.

Trade credit (net): This item consists of:

- (i) *domestic trade debt (net) of public corporations* formerly shown as a separate item; and
- (ii) *suppliers' trade credit and associated advance and progress payments on exports and imports, identified in the balance of payments accounts from 1963 onwards, formerly included in Other identified overseas assets: short-term and long-term.*

No estimates are included for other forms of trade credit, in particular for credit extended by industrial and commercial companies to the personal sector.

Loans for house purchase: This item includes loans by banks, formerly included under *Bank lending*.

Shares of retail co-operative societies: This item is now included in *Other identified home assets* instead of in *Company and overseas securities*.

Company and overseas securities: The figures for capital issues now include capital issues overseas by UK companies, including identified private issues, and identified unlisted issues in the United Kingdom. The figures for industrial and commercial companies have also been extended to cover overseas direct investment in securities by UK companies and to distinguish overseas purchase of UK company securities as part of direct investment identified from the balance of payments accounts.

Other identified home assets: Northern Ireland central government debt is now excluded from this item and shown separately. Repayments by nationalised steel undertakings of a loan from industrial and commercial companies are included in the figures for the public sector. The counterpart of issues of stock by public corporations in Northern Ireland less other redemptions of stock by public corporations is now allocated to the personal sector. The figures for financial institutions include borrowing by finance houses other than in the form of deposits previously included in *Deposits, etc. with hire purchase finance companies*. The figures for financial institutions now exclude changes in agents' balances, etc. for insurance companies because corresponding miscellaneous liabilities are also excluded. There is no longer an adjustment in respect of the difference between identified investment in land, property and ground rents and the estimates of gross domestic fixed capital formation because the latter estimates now take into account these transactions. Following the re-organisation of the local authority sector (described under public sector above) the borrowing of regional water authorities and trust ports, other than from the public and banking sectors, is included under this heading. From 1972 special deposits of finance houses with the Bank of England, Banking Department are also included.

Foreign currency borrowing by HM Government: These are drawings on a euro-dollar facility arranged by the Bank of England with UK clearing banks and their associates on behalf of HM Government to borrow \$2,500 million for a period of up to 10 years. The 'official financing' section of the balance of payments account covers changes in official reserves, official transactions in financial assets/liabilities and governmental borrowing which are directly in support of the reserves. Therefore the transaction is allocated to the debtor (HM Government) rather than the transactor (the clearing banks). The treatment of the loan in the financial accounts differs from that of the balance of payments in that the part of the loan channelled through the UK clearing banks has been entered under deposits with, and advances by, the UK banking sector. That part of the loan not channelled through the banking sector is included in the overseas sector financial accounts table under 'other public sector assets/liabilities'.

Allocation of Special Drawing Rights: This is the UK share of the allocation by the IMF of the reserve asset Special Drawing Rights. The first allocation was taken into the reserves on 1 January 1970.

Official reserves: The fourth quarter of 1967 excludes the revaluation on devaluation of sterling. From 23 August 1971, valued in sterling at transactions rates of exchange. Therefore from the third quarter of 1971 the sterling valuation of the flow does not equal the difference between the opening and closing levels which are converted at parity in the table on Official reserves.

From July 1972 the official reserves were redefined to include the reserve position in the IMF. From end-April to end-June this stood at £292 million.

Refinanced export and shipbuilding credits: This item, formerly termed *Refinanced export credits*, has been retitled because estimates now enable a split to be made

between 'exports' (overseas sector) and 'shipbuilding' (industrial and commercial companies sector). It relates to the refinancing both by the Issue Department of the Bank of England and from voted funds; from April 1972, export credits are refinanced from voted funds together with, from September 1972, some shipbuilding credits. Prior to these dates the medium-term and long-term export credit, and loans for domestic shipbuilding provided by the London and Scottish clearing banks, were refinanced by the Issue Department of the Bank of England.

Intra-company investment overseas: This item represents private investment abroad, other than in securities, less the corresponding overseas investment in the UK private sector.

By UK companies: This is equal to the balance of payments account figures of private direct investment abroad, other than share and loan capital, and oil and miscellaneous investment less public corporations' investment abroad.

By overseas companies in the United Kingdom: This is equal to the balance of payments account figures of private direct investment in the United Kingdom, other than share and loan capital, and oil and miscellaneous investment less UK oil and private company issues.

Other identified overseas assets: This item replaces the previous two categories *Other identified overseas assets: short-term* and *long-term*. For the public sector it includes all the elements previously covered except import credit received by public corporations which now appears under *Trade credit (net)*. The figures for the public sector for 1967 and 1968 include the Exchange Equalisation Account loss on forward commitments. For the private sector this item now excludes from 1963 onwards suppliers' trade credit on exports and imports which is included in *Trade credit (net)* and excludes in all years *Intra-company investment overseas* which is now shown separately. The figures also no longer include the timing and coverage adjustment on the transactions of finance houses, which is included in *Deposits with other financial institutions*. From 1963 the private sector element of this item relates solely to other commercial short-term transactions together with the timing, coverage and valuation differences arising on other items between the figures in the financial accounts and the figures in the balance of payments accounts. (See also *Import deposits*).

Accruals adjustment: This item was formerly described as *Miscellaneous short-term home assets (net)*; its definition has not changed.

II. PUBLIC SECTOR

Public sector current, capital and financial accounts

These tables are built up from the current and capital accounts of central government and local authorities, and the appropriation account and capital account of public corporations. Transactions within the public sector have been eliminated, except where the payment by one part of the sector falls within a different economic category from the receipt by the other part (see *National Accounts Statistics: Sources and Methods* page 320).

Net lending to private sector and overseas: Comprises net lending to the private sector and to overseas governments, drawings from UK subscriptions to international lending bodies, other net lending and investment abroad, and cash expenditure on company securities, etc. (net).

Other identified financial transactions (net): Comprises transactions identified in Table 3, other than those included in the borrowing requirement.

Borrowing requirement

The public sector borrowing requirement is made up of the borrowing requirements of central government, local authorities and public corporations excluding borrowing by local authorities and public corporations from central government less net acquisition of other public sector debt by local authorities and public corporations.

Public sector borrowing and contributions to the public sector borrowing requirement. Borrowing requirement: Two seasonally adjusted series are shown for the public sector borrowing requirement; the first is constrained so that its calendar year totals are equal to the calendar year totals of the unadjusted series, as is the practice in the national accounts; and the second so that its financial year totals are equal to the financial year

totals of the unadjusted series and so is consistent with the forecasts published in the FSBR. It is conventional in the seasonal adjustment of economic series to constrain the annual totals of the seasonally adjusted series in this way to equal the totals of the unadjusted series, but in general the resulting seasonally adjusted series will vary according to the annual period chosen (for example calendar or financial year). The seasonal pattern of the central government borrowing requirement and hence of the public sector borrowing requirement is not very stable and is particularly concentrated in the first quarter of the calendar year because the major inflow of taxes to the central government occurs in this quarter. These factors mean that there are considerable differences between the calendar year and financial year constrained seasonally adjusted series. For purposes of economic analysis the calendar year constrained series will usually be preferable since most other important economic series (and all seasonally adjusted series in the national accounts) are constrained on this basis. The seasonally adjusted public sector borrowing requirement constrained to calendar year totals has been published in the *Bank of England Quarterly Bulletin* for some time. However, central government uses the financial year as its accounting year and consequently the forecasts of the public sector borrowing requirement and its components which are published each year in the *Financial Statement and Budget Report* are for financial years. The financial year, rather than calendar year, constrained seasonally adjusted series should be used when these forecasts are compared with the forecasts in the FSBR. It should be noted that the components of the public sector borrowing requirement shown in *Financial Statistics* have now been made consistent with those in the *Financial Statement and Budget Report*—see note on revised treatment of government guaranteed stock under Central government borrowing requirement (net balance).

III. CENTRAL GOVERNMENT

Consolidated Fund and National Loans Fund

Up to 31 March 1968, the Consolidated Fund was virtually synonymous with the term Exchequer which was then the Government's central cash account. From 1 April 1968, the National Loans Fund was set up with a separate cash account also at the Bank of England. From that date all the transactions relating to the national debt and most transactions connected with government lending were transferred to the new Fund from the Consolidated Fund.

These tables summarise the information given in the latest account of the Consolidated Fund and National Loans Fund transactions which is published monthly in a form comparable with that used in the *Financial Statement and Budget Report*.

Consolidated Fund

Revenue

In addition to tax, revenue includes payments into the Consolidated Fund of broadcast receiving licence receipts, interest, dividends and other miscellaneous receipts. Interest and dividends receipts include amounts received from the Bank of England and Cable and Wireless Ltd., to cover interest on compensation stock, as well as interest on loans from Votes and dividends on capital investment and shares. Other miscellaneous receipts consist of receipts by departments, other than interest, which they are not authorised to appropriate in aid of their Votes; and certain receipts paid direct to the Treasury. The composition of these receipts varies from year to year.

Expenditure

The bulk of expenditure is for issues to Votes on supply services. The remaining expenditure is for standing services and comprises the following items:

- (i) debt interest—reimbursement to the National Loans Fund of interest and management charges of the National Debt to the extent that they are not matched by interest received by the Fund on its own lending and by profits of the Issue Department of the Bank of England;
- (ii) payments to Northern Ireland in respect of their share of taxes, etc.;
- (iii) payments to the European Communities (from January 1973); and
- (iv) other expenditure—the largest item being the net advances made to the Contingencies Fund from time to time to finance urgent expenditure in advance of Parliamentary authority.

National Loans Fund—net lending

The loans are shown net of repayments. Loans to nationalised industries are classified by purpose; thus Electricity covers the North of Scotland Hydro-Electric Board and the South of Scotland Electricity Board, as well as the Electricity Council, whilst Aviation covers the British Airports Authority, and British Airways Board. Among other types of loans are those to other public

corporations including New Towns and regional water authorities; to local authorities and harbour authorities; to the private sector covering housing associations, building societies, the Shipbuilding Industry Board and ship builders (under the Ship Credit Scheme) and lending within the central government which includes advances to the Northern Ireland Government, and to the Redundancy Fund as well as certain lending to Votes for capital purposes. Additionally, the figures include loans to the Royal Ordnance Factories and the Royal Mint. Lending associated with the redemption of government guaranteed stock is no longer shown separately—see notes on Central government borrowing requirement (net balance).

Central government borrowing requirement (net balance)

The conventional account of the Consolidated Fund and National Loans Fund transactions is not a convenient form for the purpose of general financial analysis, because transactions are categorised by types of debt rather than by sources of borrowing. Moreover, most of the transactions of the central government are with official funds and agencies which are themselves engaged in transactions with the public. For instance, national insurance payments and contributions are brought to account in the National Insurance Funds, all of whose capital is government debt. As the balance on these funds rises and falls, so the central government's indebtedness to the funds is increased or diminished.

In order to arrive at a figure of borrowing by the central government from the figures given in the account of Consolidated Fund and National Loans Fund transactions, it is necessary to take account of changes in the central government's net indebtedness to these various official funds and agencies, known collectively as Other Central Government funds. The consolidated total represents the government's borrowing requirement which is the amount the government has to borrow *less* increase (or *plus* decrease) in its holdings of official reserves.

As from the August 1975 issue of *Financial Statistics* the treatment of the redemption of government guaranteed stock has been altered. The adjustment item Borrowing for the redemption of government guaranteed stock has been removed from the central government capital account thereby increasing the borrowing requirement by a corresponding amount. An offsetting change has been made in the capital account for public corporations and the public sector borrowing requirement is therefore unaffected. The basis of the old treatment was that all redemptions of government guaranteed stock would be financed out of specific central government loans and, as this was akin to the central government refinancing its own debt, it should not contribute to the borrowing requirement. However, nationalised industries are not obliged to borrow from central government to redeem their government guaranteed stock and for this reason a more conventional treatment has now been adopted under which all central government lending to public corporations, whether or not for the redemption

of government guaranteed stock, contributes to the borrowing requirement.

Similarly, because not all redemptions of government guaranteed stock can be linked to specific loans from central government the practice of separately identifying an element of central government lending equal to the amount of stock redeemed as being for this purpose has been dropped.

Departmental balances and miscellaneous: Among the items included are:

- (i) changes in balances on the accounts kept by government departments, mainly with the Paymaster General;
- (ii) prior to October 1969 changes in the Postmaster General's cash surplus invested with the central government and subsequently changes in cash surpluses of the Director of Savings;
- (iii) changes in valuation of assets held by Bank of England Issue Department;
- (iv) transactions by Bank of England Issue Department in refinanced bills for export and shipbuilding credits;
- (v) capital transfers abroad in respect of Sterling Area Agreements guarantees;
- (vi) sterling, gold and foreign currencies profits and losses; and
- (vii) International Development Association—interest-free notes.

Current and capital accounts of the central government

These accounts relate to the central government as defined in the national income accounts. In addition to the ordinary government departments, they include a number of bodies (for example regional health authorities) administering public policy, but without the substantial degree of financial independence which characterises the public corporations; they also include certain extra-budgetary funds and accounts controlled by departments, of which the National Insurance Funds are the most important.

The central government accounts are based mainly on cash payments and receipts but also include certain accrual items, such as those arising out of trading activities and the accrued interest on national savings certificates. For details of the revised treatment of the redemption of government guaranteed stock see note under Central government borrowing requirement (net balance) on page 8. From April 1975, following the introduction of the new system of earnings-related contributions, there is a difference between the time when the amounts are deducted by employers from pay (including employers' contributions) and when they are received by central government. For consistency reasons it is necessary to include in central government receipts the same amounts as are deducted by employers (including employers' contributions). An accruals adjustment, measured by the difference between the deductions and actual central government receipts, is therefore included in the central government capital account to reflect this time-lag. Detailed notes on the central government accounts are included in Chapter IX *National Accounts Statistics: Sources and Methods* (HMSO 1968) and in the notes to the National Income Blue Book.

Central government borrowing requirement (net balance)

The borrowing requirement is the balancing item in the central government's capital account. It is equal to the total of the financing of the total currency flow (as shown in the balance of payments accounts) *plus* other government borrowing (including borrowing by the Northern Ireland central government). The borrowing requirement can also be derived from the accounts of the Consolidated Fund and the National Loans Fund. An analysis of the borrowing requirement is given in a table following the capital account. The table is in two parts. The first part gives details of the changes in the financial assets and liabilities of the central government which in aggregate match the borrowing requirement. The second part shows the changes in the net indebtedness of the central government to each sector by giving estimates of the total amount of government debt acquired by each of the different sectors, changes in the official reserves being included in the figures for the overseas sector. The estimated changes in net indebtedness recorded in the second part of the table arise not only from transactions between the government and other sectors, but also from transactions between the various non-government sectors. These changes can be regarded as a measure of each sector's contribution towards financing the central government's borrowing requirement. In order to maintain consistency with the treatment followed in the financial accounts, notes and coin acquired by Scottish and Northern Ireland banks, to cover increases in notes issued by them, are excluded from the figures for the banking sector and included in the figures for the other sectors.

Definition of sectors

The sectors are defined as in the financial accounts.

Definition of items

Net indebtedness to the Bank of England, Banking Department: The government has a net liability to the Banking Department of the Bank of England, which holds government debt of various kinds and at the same time has liabilities to the government, in the shape of the balances of the National Loans Fund and the Paymaster General at the Bank of England.

This item comprises the sum of the increases in the assets of the Banking Department: ways and means advances; holdings of bank notes and coin; holdings of tax reserve certificates; British government securities; holdings of Treasury bills; holdings of Treasury interest-free notes; *less* increases in the liabilities of the Banking Department: the balances of the National Loans Fund and Paymaster General at the Bank of England.

The amount of the government's net liability changes as a result of the Bank of England's central banking operations. A rise in this net liability helps to finance the government's borrowing requirements.

Notes and coin: Includes both the increase in notes in circulation (that is the increase in the fiduciary note issue *less* the increase in the holding of notes in the Banking Department of the Bank of England) and the increase in issued coin.

National savings: Net receipts from the sale of national savings certificates, defence bonds, national development bonds, British savings bonds, and premium savings bonds plus the estimated increase in accrued interest on national savings certificates. It also includes the net increase in deposits (including accrued interest) with the National Savings Bank and the trustee savings banks (ordinary departments) and net receipts under the government Save As You Earn scheme. The figures record changes in savings at the time when payments and withdrawals are made by the public.

Tax reserve certificates: Net receipts from the issue of tax reserve certificates less net purchases by the Banking Department of the Bank of England.

Tax deposit accounts: Net receipts from deposits less withdrawals.

Certificates of tax deposits: Net receipts from deposits less withdrawals. These certificates were introduced in October 1975. (See definition on page 4).

Treasury bills: The change in Treasury bills outstanding other than those held by the National Debt Commissioners, the Exchange Equalisation Account, government departments, the Bank of England, and overseas monetary authorities. (The counterpart of central bank assistance in support of the reserves in the form of swaps against sterling now forms part of *Total overseas official financing*).

British government securities: Total cash issues of British government and government guaranteed securities less redemptions including the operations of government sinking funds, and less net purchases of government and government guaranteed securities by the Bank of England and the National Debt Commissioners.

Government guaranteed stock (redemptions): This represents payments to the central government by nationalised industries for the redemption of their government guaranteed stock at maturity. All redemptions of government guaranteed stock from the public are made by the central government (the Bank of England Issue Department) which may itself hold amounts of stock purchased in the market prior to redemption. All transactions with the public in government guaranteed stocks (including purchases at redemption) are included in the item British government securities.

Local authority debt and commercial bills: Market transactions by the Issue Department of the Bank of England, and from second quarter of 1975 by the National Insurance Funds.

Northern Ireland central government debt: This item consists of net sales of Northern Ireland government securities, Northern Ireland Treasury bills, Ulster saving certificates and Ulster development bonds together with the increase in bank advances to the Northern Ireland central government.

Direct borrowing (net) from overseas governments and institutions: This heading covers the following items which appear in the detailed capital account of the central government given in Table 47 of the National Income Blue Book 1975:

- (i) borrowing from overseas governments less repayments;
- (ii) miscellaneous direct borrowing (net) from overseas governments and institutions; and
- (iii) less capital subscriptions in sterling to the International Monetary Fund.

It also includes Exchange Equalisation Account's loss on forward commitments after the 1967 devaluation, which is shown as a separate item in the National Income Blue Book.

Financing of the total currency flow: This heading covers:

- (i) the allocation of Special Drawing Rights by the International Monetary Fund;
- (ii) subscription in gold to the International Monetary Fund; and
- (iii) total overseas official financing (as shown in the balance of payments accounts).

Total overseas official financing: This heading covers:

- (i) the net change in official reserves (other than the increases arising from the transfer in February 1966 and November 1967 of the government's portfolio of dollar securities). The fourth quarter of 1967 excludes the increase in the sterling value upon devaluation. From 23 August 1971 valued in sterling at transactions rates of exchange, and previously at parity; and
- (ii) Other: covers the following items which are shown in the National Income Blue Book:
 - (a) the counterpart issue in Treasury bills of central bank assistance in support of the reserves in the form of swaps against sterling;
 - (b) net drawings from, less repayments to International Monetary Fund;
 - (c) the change in foreign currency deposits by other overseas monetary authorities; it also includes from 1971
 - (d) amounts swapped forward in transactions with overseas monetary authorities; and
 - (e) net drawings in the euro-dollar facilities arranged by UK clearing banks to borrow \$2,500 million for a period of up to 10 years.

Transactions arising from the write-off of debt of certain public corporations are no longer included. (See note on page 17.)

Treasury bill tender and Bank of England's minimum lending rate

The figures for 91-day bills relate to bills issued at the weekly (normally Friday) tenders. Members of the London Discount Market Association undertake together to tender for the full amount of bills on offer. Other applications are made, for their own account or for the account of their customers in the United Kingdom or overseas, by the Banking Department of the Bank of England and by commercial banks and money-brokers in the United Kingdom.

The table includes the Bank's minimum lending rate to the market, which will normally be one half per cent higher than the average rate of discount for Treasury bills established at the most recent tender, rounded to

the nearest one quarter per cent above; the rate normally becomes effective, for lending by the Bank, from the following Monday.

Treasury bills

Market Treasury bills are the total of Treasury bills outstanding other than those held by the National Debt Commissioners (apart from the National Savings Bank Investment Fund), the Exchange Equalisation Account, other government departments and the Bank of England. They comprise bills issued at the weekly tenders, other than those issued to the Banking Department of the Bank of England for its own account, *plus* any bills—including bills originally issued outside the tender (tap bills)—sold to the market by government departments or the Bank of England *less* any bills purchased from the market by such bodies.

The groups of holders used in this table have the same coverage as those in the analysis of transactions in government marketable debt in the financial accounts.

Tax reserve certificates, tax deposit accounts and certificates of tax deposit

Tax reserve certificates

On 27 June 1966 separate certificates were introduced for persons and for companies—at different rates of interest and usable in settlement of different taxes. From that date the figures for issues relate strictly to the amounts received by the central government on account of personal and company tax reserve certificates, respectively. The figures of surrenders, however, include the amounts paid out by the central government on account of the previous type of certificate, which is still being surrendered, though now in only very small amounts. Those of the earlier type issued to, or surrendered by, individuals, partnerships and private firms have been entered under Personal and all others under Company. In December 1971, the government announced that the Tax reserve certificate scheme would be dropped. No new company certificates have been issued since 31 December 1971 but a final personal issue was made from 3 January 1972 to 29 June 1973. The rates of interest on tax reserve certificates and the nominal amount outstanding are covered in a table in the section on Exchange rates, interest rates and security prices.

Tax deposit accounts

See definition on page 4.

Certificates of tax deposit

See definition on page 4.

Inland Revenue duties

The figures show the aggregate amount of tax actually collected and brought into the department's accounts in the period shown, *less* the repayments made during the same period. They differ from the figures of amounts paid into the Consolidated Fund owing to the time taken to realise remittances. In the main the difference represents the variation between the amount of unrealised remittances brought forward from the previous

period and that carried forward to the following period.

Amounts collected by the Board of Inland Revenue on behalf of other departments, chiefly national insurance graduated contributions are excluded.

Customs and Excise duties

The figures show the aggregate amounts of duty collected and brought into the department's accounts in the period *less* drawbacks and other repayments. The difference between the net receipts and payments into the Consolidated Fund arises from changes in:

- (i) working balances held by collectors;
- (ii) remittances in transit; and
- (iii) advances out of revenue to meet expenditure under authority of the Exchequer and Audit Departments Act, 1866, Section 10.

Purchase tax was due to be remitted to collectors during the quarter following that in which the registered traders charged the tax. Accordingly, changes in tax rates, etc. are not reflected in receipts until the quarter subsequent to that in which the change became effective. Similarly, most of the duty on beer and British wine is collected a month in arrear. Purchase tax was abolished on 31 March 1973.

VAT (introduced on 1 April 1973) is generally chargeable in respect of quarterly taxable periods which are staggered so as to spread the flow of returns more evenly over the year. Thus one group (mainly retailers and partly exempt traders) has tax periods January to March, April to June, etc., a second group (mainly wholesalers) has tax periods February to April, etc. and a third group (mainly manufacturers) has tax periods March to May, etc., but special arrangements applied for the first period. The VAT is due not later than one month after the end of the period. However, a taxable person who expects his input tax to exceed his output tax regularly may have a tax period of one month.

Most traders registered for car tax (introduced on 1 April 1973) have tax periods March to May, June to August, etc. and the tax is due not later than one month after the end of the tax period.

Shipbuilders' relief, authorised under Section 2 of the Finance Act 1966, is a rebate of certain taxes which enter directly or indirectly into shipbuilding costs and is payable on delivery of a ship. The amount shown in the table is the total payment made in the month *less* the contribution due from the Department of the Environment in respect of the motor vehicle licence duty element in the original payments.

Duty deferment: With effect from 1 January 1973, under EEC Directive 69/76, importers and agents were allowed a 30-day deferment of payment of certain duties. The major items involved were protective duties and for the last three months of its operation, purchase tax on imported goods. Deferment regulations have also applied from 1 April 1973 to VAT on imported goods if it falls to be paid at importation. With the restructuring of the revenue duties, other than tobacco, on 1 January 1976, so that the former Customs duty is now charged on the basis of a fiscal element and a protective charge, the protective charge is levied under the Import Duties Act 1958 and can thus also be deferred for 30 days.

The effect of deferments will be reflected in the table.

Taxes received by other departments

Selective employment tax: payments by employers: Estimates of the amounts paid by employers in each quarter. They differ from payments into the Consolidated Fund by:

- (i) remittances in transit held by the Post Office and Department of Health and Social Security; and
- (ii) costs of collection, which are not deducted.

Selective employment payments: Cash payments made mainly by the Department of Employment. *Refunds* are repayments of the tax originally paid by employers. *Additional payments* are amounts in excess of the original tax payments which were paid in respect of tax payments in the period up to 31 March 1968 to all employers in manufacturing industry. In the following two years, to 31 March 1970, tax payments by employers in the development areas only qualified for additional payments; after which, additional payments were withdrawn altogether. *Regional employment premiums* are further payments to employers in manufacturing industry in the development areas.

Motor vehicle duties: net value of licences issued: Gross receipts less refunds of revenue from motor vehicle licences and driving licences. The figures differ from the amount paid into the Consolidated Fund by:

- (i) remittances in transit; and
- (ii) payments to HM Customs and Excise in respect of the motor vehicle licence duty element of export rebates, which are not deducted.

Betterment levy: receipts by Land Commission: Figures do not include amounts assessed on the value of purchases by the Land Commission.

National savings

There are differences between the various series concerning national savings. The series are as follows:

- (i) the series issued by the Department for National Savings; and
- (ii) national savings as shown in the central government capital account (analysis of the borrowing requirement by type of asset).

The main differences between the series arise as follows:

1. Series (i) includes figures for the trustee savings banks' special investment departments and the National Savings Bank investment accounts which are not covered by the national savings figures in the central government capital account.

Part of the funds of the special investment departments and investment accounts are invested by the trustees in British government securities and Treasury bills. Such purchases are included in net receipts from transactions in marketable securities in the central government capital account.

2. National savings in Series (i) include government stocks held by investors on the National Savings Stock register. In the central government capital account

changes in these stocks are included under marketable debt.

3. These series do not include issues of national savings stamps and gift tokens. In the central government capital account they are in Miscellaneous capital receipts.

4. The terms offered on the main forms of national savings on sale from 1963 onwards, giving the dates from which the changes were operative, are shown below. The standard/basic rates of income/unified tax were:

1959/60–1964/65	38.75 per cent
1965/66–1970/71	41.25 per cent
1971/72–1972/73	38.75 per cent
1973/74	30.00 per cent
1974/75	33.00 per cent
1975/76	35.00 per cent

National savings certificates: Interest is free of income tax and capital gains tax.

1966 28 March 12th issue, £1 units. Maximum holding £500. Compound interest if held for five years £4.56½ per cent per annum; if held for a further four years £4.66½ per cent per annum; if held for a further two years £6.77 per cent per annum.

1967 14 April Maximum holding £750.

1968 22 March Maximum holding £1,000.

1969 18 April Maximum holding £1,500.

1970 5 October Decimal issue, £1 units. Maximum holding £500. Compound interest if held for four years £5.73½ per cent per annum; if held for a further two years £6.96 per cent per annum.

1971 1 April Maximum holding £1,000.

1973 7 March Maximum holding £1,500.

1974 11 June 14th issue, £1 units. Maximum holding £1,000. Compound interest if held for four years £7.59 per cent per annum.

1975 2 June Retirement issue (index-linked). Available to people of national retirement pension age in £10 units, and may be held for five years. Maximum holding £500. Repayment value related to the movement of the UK Retail Prices Index between purchase date and repayment, except that if encashed within one year of purchase repayment at face value only. A bonus of £4 per cent of the purchase price will be added to certificates repaid on or after fifth anniversary of purchase date. At no time will repayment value be less than purchase price.

British savings bonds: First issued 1 April 1968. Sold for £5 and multiples of £5. Interest payable half-yearly, is assessable for income tax; bonuses are free of income tax, capital gains tax and corporation tax.

1969 28 April 1st issue 7 per cent. Maximum holding £10,000. Bonus £2 per cent if held for five years. Equivalent to £7.62 per cent per annum annual net redemption yield when grossed up for income tax at 41.25 per cent or £7.60 per cent at 38.75 per cent tax, or £7.53 per cent at 33 per cent tax, or £7.55 per cent at 35 per cent tax.

1971 3 May 2nd issue 7 per cent. Maximum holding £10,000. Bonus £3 per cent if held for five years. Equivalent to £7.88 per cent per annum annual net redemption yield when grossed up for income tax at 38.75 per cent, or £7.75 per cent at 30 per cent tax, or £7.80 per cent at 33 per cent tax, or £7.82 per cent at 35 per cent tax.

1973 7 May 1st issue 8½ per cent. Maximum holding £10,000. Bonus £3 per cent if held for five years. Equivalent to £9.24 per cent per annum annual net redemption yield when grossed up for income tax at 30 per cent or £9.28 per cent at 33 per cent tax, or £9.30 per cent at 35 per cent tax.

1974 3 June 1st issue 9½ per cent. Maximum holding £10,000. Bonus £3 per cent if held for five years. Equivalent to £10.27 per cent per annum annual net redemption yield when grossed up for income tax at 33 per cent, or £10.29 per cent at 35 per cent tax.

The net redemption yield is obtained by adding to the rate of interest (*less* income tax at standard rate or unified tax) the tax-free bonuses discounted over the life of the bond.

Save As You Earn Scheme: Parallel schemes are operated by the Department for National Savings and the trustee savings banks, until the introduction of the index-linked issue which is administered by the Department for National Savings only. Interest and bonuses are free of income tax and capital gains tax.

1969 1 October First issue. Fixed monthly payments of £1 to £10 contracted for five years. Terms as follows:

- (a) 5 year bonus equal to 1 year's savings at a nominal annual rate of £6.99½ per cent compounded monthly. Alternatively for savings left invested for a further 2 years;
- (b) 7 year bonus equal to 2 year's savings at nominal annual rate of £7.41 per cent compounded monthly for 5 years and annually for 2 years;

- (c) no interest paid for savings withdrawn in first year of contract's registration;
- (d) 2½ per cent per annum is paid on savings withdrawn after first but before end of fifth year (but see (f));
- (e) 4½ per cent per annum is paid on savings left for remainder of full 5 years and thereafter to 7 years after payments have been discontinued and contracts lapse; and
- (f) 4½ per cent per annum is paid on sums subscribed over a complete year by a deceased contractor.

1971 1 Sept. Maximum monthly payment increase to £20. A second contract can be taken out one month after first, but total monthly payments on all contracts must not exceed £20.

1974 1 July Second issue. Maximum monthly payment £20 in addition to amounts for earlier series. Terms as follows:

- (a) 5 year bonus equal to 14 monthly contributions at an effective annual rate of £8.32 per cent. Alternatively, for savings left invested a further 2 years;
- (b) 7 year bonus equal to 28 monthly contributions at an effective annual rate of £8.63 per cent;
- (c) no interest is paid for savings withdrawn in the first year of contract's registration;
- (d) where contributions have stopped, 6 per cent per annum is paid on savings withdrawn up to the end of the seventh year;
- (e) in case of death 8 per cent per annum is paid on savings withdrawn up to the end of the seventh year; and
- (f) interest paid after seventh year to be determined by the Treasury.

1975 1 July Third issue (index-linked). Fixed monthly payments of £4 to £20 contracted for five years, may be held in addition to amounts for earlier series. Terms as follows:

- (a) Each contribution separately revalued in line with movement of the Retail Prices Index figures applicable to the month of contribution and the fifth anniversary of the start date;
- (b) if savings withdrawn after 60 payments the revalued contributions are added together to arrive at the total repayment value of the contract;

- (c) if contract maintained a further two years, no further contributions paid, but each of the 60 payments index-linked in line with the RPI applicable to seventh anniversary of start date. In addition a bonus equal to two monthly contributions is paid;
- (d) where payment requested between fifth and seventh anniversaries of start date the amount due at fifth anniversary is payable;
- (e) no interest is paid on savings withdrawn in first year, but thereafter if contributions have stopped interest is paid at the rate of 6 per cent per annum compounded monthly on savings withdrawn up to the end of the seventh year;
- (f) in case of death, no interest is payable if repayment is made in first year, but, thereafter where repayment made on or after first anniversary of start date contributions are index-linked.

Premium savings bonds: First issued 1 November 1956. Prizes are free of income tax and capital gains tax.

1966 1 February	Maximum holding £1,000. A prize of £25,000 in February, May, August and November each year in addition to monthly prizes. Interest at 4½ per cent forms a prize fund.
1967 14 April	Maximum holding £1,250.
1968 1 September	The rate of interest forming the prize fund raised to 4½ per cent per annum and a prize of £25,000 awarded weekly in addition to monthly prizes.
1971 1 April	Maximum holding £2,000.
1971 1 August	The rate of interest forming the prize fund raised to 4¾ per cent per annum and a prize of £50,000 each month in addition to the weekly prize of £25,000.
1972 5 February	Minimum purchase £2 Bond, representing two £1 Bonds.
1973 1 July	The rate of interest forming the prize fund raised to 4¾ per cent per annum and twenty-five £1,000 weekly prizes awarded in addition to the £25,000 weekly prize.
1974 1 July	The rate of interest forming the prize fund raised to 5½ per cent per annum; monthly £50,000 prize increased to £75,000, and also an additional monthly prize of £25,000; weekly prize of £25,000 increased to £50,000.

Deposits with National Savings Bank and trustee savings bank (ordinary departments):

1969 1 July	Maximum deposit £10,000 on individual holdings. Interest 2½ per cent per annum; up to £15 per annum free of income tax but not surtax; equivalent to £4 5s 1d (£4.25) per cent grossed up annually for income tax at 41.25 per cent.
1970 21 November	Interest rate raised to 3½ per cent on trustee saving banks' accounts.
1971 1 January	Interest rate raised to 3½ per cent on NSB accounts: up to £21 per annum free of income tax but not surtax; equivalent to £5.71 per cent grossed up annually for income tax at 38.75 per cent.
1972 21 November	Interest rate raised to 4 per cent on trustee savings banks' accounts.
1973 1 January	Interest rate raised to 4 per cent on NSB accounts.
1973 1 April	Interest up to £40 per annum free of all rates of tax, from the 1974/75 year of assessment; equivalent to £5.71 per cent when grossed up for income tax at the basic rate of 30 per cent, £5.97 per cent at 33 per cent tax, of £6.15 per cent at 35 per cent tax.

Deposits with National Savings Bank Investment Account:

1966 20 June	Interest 5½ per cent per annum. Maximum deposit £5,000.
1968 1 January	Interest 6 per cent per annum.
1968 1 October	Interest 6½ per cent per annum.
1969 1 July	Maximum deposit £10,000.
1969 1 October	Interest 7 per cent per annum.
1970 1 July	Interest 7½ per cent per annum.
1973 1 January	Interest 8 per cent per annum.
1974 1 January	Interest 9 per cent per annum.
1974 1 May	Rule for £50 in Ordinary account abolished.
1974 6 June	Rule for £10,000 maximum deposit abolished.

Deposits with trustee savings banks (special investment departments): Rates of interest vary from bank to bank.

1960 1 August	Maximum deposit £3,000
1966 24 June	Maximum deposit £5,000.
1969 1 July	Maximum deposit £10,000.
1974 1 May	Rule for £50 in Ordinary account abolished.
1974 6 June	Rule for £10,000 maximum deposit abolished.

IV. LOCAL AUTHORITIES

Local authorities are defined as in the national income accounts, that is, as those authorities obliged to make annual returns of income and expenditure under S168 of the Local Government Act of 1972, S118 of the Local Government (Scotland) Act of 1973 and S77 of the Local Government (Northern Ireland) Act of 1972. Before 1 April 1974 the local authority sector included bodies in England and Wales with special functions, such as water boards, river and drainage authorities and harbour boards. Under the Local Government Act of 1972 these are no longer within the scope of the local authorities sector and have been excluded from 1 April 1974. From the same date statutory harbour boards and harbour authorities (public trust ports) in Scotland and Northern Ireland have also been excluded. All these functions are now in the public corporations sector.

Current and capital accounts of local authorities

Items in these accounts are described fully in Chapter X of *National Accounts Statistics: Sources and Methods* (HMSO 1968) and in the notes to the annual National Income Blue Book.

Local authorities' borrowing requirement

This table shows the borrowing requirement analysed by sector. The figures are supplied by certain of the sources of local authority finance in contrast to the figures in Tables 30 and 31 which are based upon returns of borrowing made by the local authorities themselves. Unlike estimates drawn from local authorities' records which can only accurately assign the source of borrowing by sector in the case of non-marketable debt, the sector allocation of lending covers all types of debt. The figures do not include loans made as an intermediary on behalf of a client.

Total net borrowing by local authorities: The figures are those based on returns from local authorities shown in the table 'Local authority borrowing'.

Loans from central government (net): Comprising net advances from (a) the Public Works Loan Board (b) the Northern Ireland Government Loans Fund (c) certain government departments, mainly for the financing of tunnels and bridges.

Other public sector: Comprises local authority bills taken up by the Issue Department of the Bank of England and lending by public corporations based on returns from local authorities, shown in the table 'Local authority borrowing'.

Banking sector: Comprises advances and loans by banks and take-up of local authority bills and securities by the banking sector.

Other financial institutions: Figures are obtained from returns by other financial institutions.

Industrial and commercial companies: The figures are based on returns from local authorities shown in the table 'Local authority borrowing'.

Personal sector: This is the residual item in the table.

Overseas sector: The figures are as estimated in the balance of payments accounts.

Contribution to public sector borrowing requirement: This comprises identified borrowing other than Loans from central government (net) less other public sector debt.

Other public sector debt comprises transactions in British government securities and from 2nd quarter 1974 loans to passenger transport executives and regional water authorities.

Local authority borrowing

Net borrowing is gross borrowing less repayments.

The figures cover borrowing from all sources outside the local authority sector, including borrowing from authorities' own superannuation funds. The figures exclude borrowing by one local authority from another, except that no allowance is made for the possible take-up of local authority quoted securities or negotiable bonds by other authorities. Inter-authority debt is however included in the analysis of temporary debt outstanding by term of repayment.

Borrowing is divided into temporary and longer-term borrowing. Temporary borrowing covers all loans repayable, other than under a stress clause or on the death of a lender, within a year of their inception, including longer-term mortgages repayable by invoking a break clause, unless they were in being at 31 October 1963; longer-term debt within one year of maturity or running on at short notice after maturity is not included.

Prior to re-organisation, the figures for total temporary borrowing, for total longer-term borrowing and for total (longer-term) borrowing from the Public Works Loan Board and the Northern Ireland Government Loans Fund were based on quarterly returns from nearly all local authorities in the United Kingdom. The analysis by source, however, showing separate figures for negotiable bonds, listed securities other than bonds, and revenue bills (from first quarter 1971), and showing the sectors from which other loans and mortgages are obtained, was based on returns from a sample of authorities. This sample comprised all the larger authorities (county councils, county boroughs, London boroughs and, in Scotland, counties of cities) and a selection of the smaller authorities, including each quarter in the case of temporary borrowing all authorities whose net temporary borrowing or repayments exceed £100,000 and similarly, in the case of longer-term borrowing, all authorities whose net longer-term borrowing or repayments exceed £100,000. From the date of reorganisation figures are based on a survey of all authorities, and estimates are included for non-respondents. The analysis by source of local authority loans relates to the immediate source, which will not in some cases be the ultimate source; loans from banks, for example, will include sums advanced by banks on behalf of their clients as well as direct advances; loans which authorities know to be from bank or other nominees are included in unclassified borrowing.

The maturity classification of temporary debt is according to the original maturity of the debt and the maturity classification of gross longer-term borrowing is according to expectation of life on the last day to which a particular quarterly return relates. Securities are classified according to date of next ensuing break at lender's option.

Where a loan or mortgage expires and is renewed it is included both as a repayment and as new borrowing.

Direct borrowing from abroad: Loans from an overseas address or in the name of a person, company or other body with an overseas address. It includes borrowing in foreign currency or sterling in overseas markets. This series forms part of the series for lending to local authorities by overseas residents shown in the table 'Local authorities' borrowing requirement'.

V. PUBLIC CORPORATIONS

Public corporations are defined as in the national income accounts. They include the Bank of England (except for transactions of the Issue Department which are treated as transactions of the central government). From 1 April 1974 they include the regional water authorities in England and Wales and public trust ports in the United Kingdom transferred from the local authority sector. See definition of local authority sector on page 15.

Appropriation account

Gross trading surplus is the total balance on trading account including subsidies, before making any charge for depreciation, interest and taxation.

Sources and uses of capital funds

Domestic trade credit (net): Changes in credit given less that received are obtained from returns made by the corporations.

Government guaranteed stock (redemptions): This item, formerly entitled Redemption of government guaranteed stock has been brought within the contribution of public corporations to the public sector borrowing requirement. See also notes on Central government borrowing requirement (net balance) on page 8.

Other sterling stock issued less redemptions: Figures are in terms of cash received or paid. Issues of stock relate only to corporations in Northern Ireland and from 2nd quarter 1974 the regional water authorities and trust ports. This item was formerly entitled Stock issued less other redemptions. Foreign currency stock issued is included in the items Bank lending and Borrowing abroad.

Bank lending: Comprises bank loans, overdrafts and commercial bills and is obtained from the returns made by institutions classified to the UK banking sector.

Borrowing abroad: Comprises net issues abroad, borrowing abroad from banks, etc. and import credit received on purchases of aircraft from overseas.

Other borrowing comprises, apart from that included elsewhere, borrowing by means of loans and mortgages, etc., by bodies transferred from the local authority sector.

Net lending to private sector: Loans (less repayments) by the Housing Corporation, National Research Development Corporation, National Film Finance Corporation and new town corporations; and advances by the nationalised industries to associated companies.

Net lending and investment abroad: Net lending by the Commonwealth Development Corporation together with investment overseas by other public corporations.

Net purchases of public sector debt: British government securities and local authority debt. Also forms part of contribution to public sector borrowing requirement.

Accruals adjustment: The difference between accruals of subsidies, bank interest charges, local authority rates and value added tax (the basis on which these items are entered in the appropriation account) and the corresponding cash receipts and payments.

Transactions arising from the write-off of debt of certain public corporations are not included in *Financial Statistics*. These transactions are however recorded in the central government and public corporations capital accounts in the National Income Blue Book.

VI. BANKING SECTOR

Bank of England

Issue Department

Other securities include refinance provided by the Issue Department under the arrangements for medium and long-term finance of exports and domestic shipbuilding (for details see *Bank of England Quarterly Bulletin* for June 1972 and March 1975).

Banking Department

As from 1 September 1970, certain sterling holdings of official institutions overseas, which had hitherto been employed on behalf of those institutions by the Bank of England under their guarantee—primarily in Treasury bills but occasionally in other liquid assets—are accounted as direct, rather than contingent, liabilities of the Bank of England; and the assets in which the funds are invested are included among the assets of the Banking Department.

From 28 February 1971, the figures reflect certain changes in the treatment of reserves in the books of the Banking Department in connection with the publication by the Bank of England of a full balance sheet and profit and loss account. The main effects of these changes were to increase the figures on the assets side for government securities and for other securities, and on the liabilities side for other accounts, as reserves hitherto earmarked against specific assets were brought together on the liabilities side of the account.

Following the publication on 28 July 1971 of the annual *Report and Accounts* of the Bank for the year ended 28 February 1971, some other minor changes were made to the figures of the Banking Department published in the weekly Bank Return. The changes were as follows: on the liabilities side, unallocated profit of the Bank formerly described as Rest was included in Reserves and other accounts which replaced the item Other accounts; on the assets side, Treasury bills discounted for customers were included in Government securities instead of in Discounts and advances, the title of which was changed to Advances and other accounts; and the title of Other securities was changed to Premises, equipment and other securities.

Public deposits: All government balances held at the Bank, including the accounts of the National Loans Fund and HM Paymaster General, the National Debt Commissioners and Dividend Accounts.

Special deposits: Until 15 September 1971 deposits had to be made with the Bank of England, under the Special Deposits Scheme announced in July 1958, by the London and Scottish clearing banks and these funds were not at the banks' free disposal. Amounts were calculated as percentages of the previous month's total deposits of each bank. The first call was made in April 1960 and all existing Special Deposits were repaid on 15 September 1971.

From 16 September 1971 calls for special deposits, which are calculated as percentages of the previous month's total eligible liabilities of each institution, apply to all banks observing the common 12½ per cent reserve ratio and to finance houses observing the 10 per cent

reserve ratio; the new arrangements were described in a supplement entitled 'Reserve ratios and Special Deposits' issued with the *Bank of England Quarterly Bulletin*, September 1971. Amendments to the scheme are described in subsequent issues, and a booklet containing the series of articles etc., published between 1971 and 1975 may be obtained from the Economic Intelligence Department, Bank of England, London EC2R 8AH, price 20p post paid.

Interest is paid on Special Deposits at a rate adjusted weekly to the nearest $\frac{1}{16}$ per cent per annum on the average rate for Treasury bills issued at the latest weekly tender.

Non-interest bearing *supplementary* (special) *deposits* became payable in July 1974 according to increases in banks' interest bearing eligible liabilities above specified rates of growth. On 28 February 1975, the supplementary deposits scheme was suspended for the time being. For further details see 'Credit control: supplementary scheme' *Bank of England Quarterly Bulletin*, March 1974 and subsequent issues of the Quarterly Bulletin.

Bankers' deposits: Include the balances, held at the Bank, of the London and Scottish clearing banks, the offices in the United Kingdom of other deposit banks, accepting houses, a number of overseas and other banks and the discount houses.

Reserves and other accounts: Include the balances of overseas central banks, the Crown Agents for Oversea Governments and Administrations, the dividend accounts of stocks managed by the Bank other than the direct obligations of the British government and some UK private sector accounts.

Premises, equipment and other securities includes all premises and equipment together with, in particular, holdings of commercial and local authority bills.

Reserve ratios, undefined assets multiple and special deposits

Banks

Eligible liabilities comprise, in broad terms, sterling deposit liabilities, excluding deposits having an original maturity of over two years, *plus* any sterling resources obtained by switching foreign currencies into sterling. Inter-bank transactions and transactions with the discount market (other than reserve assets) and sterling certificates of deposit (both held and issued) are taken into the calculation of individual banks' liabilities on a net basis, irrespective of term. Adjustments are also made in respect of transit items.

Reserve assets comprise *balances with the Bank of England* (other than special and supplementary deposits); *money at call* (secured and immediately callable) with the listed discount market institutions (discount houses, discount brokers and the money trading departments of listed banks) and with listed brokers (money brokers and jobbers on the stock exchange); British government and Northern Ireland government *Treasury bills*; *UK local authority bills* eligible for rediscount at the Bank of

England; *commercial bills* eligible for rediscount at the Bank of England – up to a maximum of 2 per cent of eligible liabilities (these comprise bills which are payable in the United Kingdom and have been accepted by banks which are members of the Committee of London Clearing Bankers, the Committee of Scottish Clearing Bankers, the Accepting Houses Committee, British overseas banks and certain other banks having their head offices in the Commonwealth and with long-established branches in London); *British government stocks* and stocks of nationalised industries guaranteed by the Government with one year or less to final maturity; *other assets*, which were held only by the Northern Ireland banks, are defined in the article 'Competition and credit control: further developments' in the *Bank of England Quarterly Bulletin*, March 1973, page 51 – the transitional period for this item was extended to June 1975.

The *reserve ratio* is the total of reserve assets as a percentage of the total of eligible liabilities. Each bank is required to maintain reserve assets amounting to at least 12½ per cent of its eligible liabilities.

Discount market: undefined assets multiple

On 19 July 1973 public sector lending ratios were abolished (a general description of the former arrangements appeared in the *Bank of England Quarterly Bulletin*, September 1971, page 314). Since then credit control has been applied to the discount market through a limit on each institution's aggregate holding of 'undefined assets' to a maximum of 20 times its capital and reserves. Undefined assets for this purpose are all assets other than those on the following list:

- (a) balances at the Bank of England;
- (b) UK and Northern Ireland Treasury bills;
- (c) government stocks with not more than five years to final maturity.
- (d) local authority stocks with not more than five years to final maturity;
- (e) local authority and other public boards' bills eligible at the Bank;
- (f) local authority negotiable bonds; and
- (g) bank bills drawn by nationalised industries under specific government guarantee.

For further details see 'Competition and credit control: modified arrangements for the discount market' in the *Bank of England Quarterly Bulletin*, September 1973, page 306.

The capital resources base for the calculation of the multiple has been as follows:

	£ million
1973 July–Dec.	103
1974 Jan.–1975 Jan.	96
1975 Feb.–Dec.	94
1976 Jan.–Dec.	105

Finance houses

Eligible liabilities: comprise deposits with an original maturity of two years or less received from UK residents, other than banks and from overseas. The definition of *reserve assets* and the method of calculation of the *reserve ratio* are the same as for banks.

The figures shown are those of certain of the larger finance houses which have agreed to observe the common

10 per cent reserve ratio introduced on 16 September 1971. Full details of these arrangements are contained in an article 'Reserve ratios: further definitions' in the *Bank of England Quarterly Bulletin*, December 1971, page 482.

Special and supplementary deposits

For details on special deposits, see notes to table Bank of England, Banking Department above. Supplementary deposits were paid by banks and deposit-taking finance houses from July 1974, according to the growth in their interest-bearing eligible liabilities in excess of the guide line. The rates of deposit were 5 per cent of excess liabilities in the first tranche, 25 per cent in the second, and 50 per cent in the third. Up to the August/October 1974 average the tranche's were: 1st, up to 1 per cent excess; 2nd, over 1 per cent up to 3 per cent, and 3rd, above 3 per cent. Thereafter they were; 1st, up to 3 per cent excess; 2nd over 3 per cent up to 5 per cent; 3rd above 5 per cent. The same institution could therefore be penalised in one, two or all three tranches in any month. On 28 February 1975 the supplementary deposits scheme was suspended for the time being.

UK banking sector

The banking sector comprises the UK offices of all banks observing the common 12½ per cent reserve ratio (see below) together with the Banking Department of the Bank of England, the National Giro and the discount market. The figures are designed to show the position of the banking sector as a whole in relation to third parties; transactions between institutions within the sector are excluded therefore, and various adjustments are made to the figures on consolidation to avoid double counting, etc.

The banks' gross figures are adjusted to allow for sterling transit items. These items appear in an individual bank's balance sheet both as credit items (for example, standing orders) and debit items (for example, cheques in course of collection). When banks' figures are aggregated these items may give rise to double-counting of deposits received from customers outside the banking system or, where overdrawn or loan accounts are concerned, to the undervaluing of total advances made to such customers. In accordance with the treatment adopted for the calculation of reserve ratios (see 'Reserve ratios: Further definitions', in the *Bank of England Quarterly Bulletin*, December 1971, page 482), it is assumed that 60 per cent of the total value of debit items less credit items affects deposits. This proportion is therefore deducted from gross deposits in the calculation of net deposits; the remaining 40 per cent is added to advances, the full adjustment being made to the deposits and advances of industrial and commercial companies. From mid-May 1975 some other sterling accounts on both sides of banks' balance sheets, which are unclassifiable by sector, are added to transit items and treated in the same way.

Breaks are shown at various points in the series. Apart from those shown at mid-May and end-June 1975, these result from changes in the number of contributions to the banking statistics. When new contributors are included these institutions are regarded before the break

as being outside the banking sector and other banks' lending to them, for example, is included among lending to UK residents (other than banks). Subsequently, they are regarded for all purposes as part of the banking sector: their assets and liabilities are included with those of the banks, but other banks' lending to them is treated as an inter-bank transaction and excluded. At mid-May and end-June 1975 the first line of figures gives estimates for the various categories of liability and asset on the same basis as earlier figures in the series: the second line gives more accurate figures making use of new statistical returns which eliminate the need for much of the estimation which was previously necessary.

Liabilities and assets

Non-deposit liabilities (net) comprise the banking sector's capital and other non-deposit liabilities *less* investment in UK banks and other non-financial assets; before mid-May 1975 this item was also in effect a balancing item between banks' reported assets and liabilities and could therefore reflect errors and omissions in other items in the banking sector balance sheet.

Sector analysis

The sectors into which deposits and lending are analysed are generally as defined in the national income accounts except that public corporations here exclude the Bank of England, Banking Department and the company sector excludes banks and other financial institutions. Other financial institutions comprise insurance companies, finance houses, building societies, the special investment departments of trustee savings banks, investment accounts of the National Savings Bank, superannuation funds, investment trusts, unit trusts, property unit trusts and certain special finance agencies.

Overseas deposits include estimated overseas holdings of negotiable dollar and sterling certificates of deposit. The figures for overseas deposits also include some unclassified foreign currency accounts which are assumed to affect the total overseas liabilities of the UK banking sector. The allocation of negotiable dollar and sterling certificates of deposit were included, for the first time, in the second line of figures for end-March 1973.

Changes in liabilities and assets

From the month ending mid-April 1975, and the second calendar quarter of 1975, the changes in assets and liabilities in foreign currencies have been adjusted to exclude the effect of movements in exchange rates (to the extent that the total of adjustments made to foreign currency liabilities, a net adjustment is made to non-deposit liabilities). From these dates the figures may not equal the differences between the amounts outstanding but they will however more accurately reflect banks' transactions.

Banks in the United Kingdom

An article describing the main features of the series of banking statistics introduced in May 1975 may be found in the *Bank of England Quarterly Bulletin*, June 1975 and these notes refer to these statistics. Additional notes to the series up to April 1975 may be found in the *Bank of England Quarterly Bulletin*, March 1975 and in earlier

issues, or in previous editions of this supplement.

This set of tables covers all banks observing the common 12½ per cent reserve ratio introduced on 16 September 1971; it excludes the Banking Department of the Bank of England, the National Giro, and the six money trading departments of listed banks and other institutions observing an undefined assets multiple. The first table, which summarises the figures of the contributors to following tables, is thus not comparable with the table which covers the whole banking sector. Also, the adjustments made in the banking sector tables to eliminate inter-bank transactions and transit items (see the notes to the banking sector tables) have not been made in this table. The figures cover the business of all the banks' offices within the United Kingdom. Reporting day is the third Wednesday in each month, except in December when it is the second Wednesday.

Liabilities and assets are reported at the value standing in the reporting banks' books. Liabilities and assets in currencies other than sterling are converted into sterling at the closing middle market spot rate on reporting days. The figures are therefore affected by movements in exchange rates.

The residential status of an official body, body corporate or person in these statistics follows the exchange control regulations. Under them, the United Kingdom comprises Great Britain, Northern Ireland, the Isle of Man and the Channel Islands. United Kingdom residents include the Government and other UK public authorities, UK diplomatic and military representatives overseas, companies and branches (including agents and agencies acting for or on behalf of them) which are established and operating in the United Kingdom and persons of overseas origin who are in the United Kingdom and who are classified as UK residents.

Overseas residents include overseas governments and public authorities (including their diplomatic and military representatives), London offices of official monetary institutions, international organisations and their branches or representatives in the United Kingdom, companies and branches (including agents and agencies acting for or on behalf of them) which are established and operating outside the United Kingdom and persons, including those of UK origin, who have taken up residence outside the United Kingdom.

Deposit liabilities includes all credit balances on customers' accounts, including deposits by other banks (except deposits in connection with syndicated lending); overdrawn accounts with UK and overseas correspondents; and deposits by overseas offices of the reporting bank (except working capital provided by head offices overseas). It also includes certificates of deposit and all liabilities in gold bullion or gold coin except that deposited for safe custody. For the definition of UK banking sector see additional notes to the banking sector tables.

Sight deposits comprises balances as defined above, whether interest-bearing or not, which are transferable or withdrawable on demand without interest penalty (or interest indemnity). It includes money immediately at call and money placed overnight.

All other deposit liabilities as defined above (with the exception of certificates of deposit which are shown

separately) are *time deposits*. Included are promissory notes issued by the reporting bank; bills drawn by the reporting bank under an acceptance credit facility provided by another bank; and such instruments as silver and other commodity deposit receipts.

Items in suspense and transmission comprises credit balances not in customers' names but relating to customers' funds rather than to banks' internal funds or to shareholders' funds, together with standing orders and credit transfers debited to customers' accounts, and other items for which the corresponding payment has not yet been made by the reporting bank. It includes credits in course of transmission to the banks' own UK branches, the UK branches of other banks and to banks and banking offices abroad.

Capital and other funds includes shareholders' funds, working capital provided by overseas offices, together with all internal accounts (both liability and asset).

For details of *eligible liabilities*, *reserve assets*, *reserve ratios* and *special and supplementary deposits* see separate notes above to the table of Reserve ratios, undefined assets multiple and special deposits.

Market loans (other than reserve assets) includes all balances (including correspondent balances) with, and funds lent to, listed banks and to banks overseas, apart from trade or portfolio investments. For other UK institutions it includes only funds lent through brokers or in special financial markets, such as the local authority money market and the finance company deposit market, that is it does not include funds lent direct to the reporting banks' customers in the ordinary course of banking business.

Market loans to banks in the United Kingdom includes bills drawn by other listed banks under acceptance credit facilities and discounted by the reporting bank, promissory notes and other negotiable paper (excluding certificates of deposit) issued by listed banks. *Market loans to the discount market* comprises funds which are not both secured and immediately callable. It includes non-reserve asset money with the discount houses, the discount brokers and the money trading departments of listed banks. *Certificates of deposit* includes only those issued by UK listed banks. Non-reserve asset money with listed money brokers is included under *market loans to other UK residents*.

Market loans to overseas includes bills drawn under acceptance credit facilities opened by overseas banks (including overseas offices of the reporting bank) which the reporting bank has itself discounted, and certificates of deposit, promissory notes and other negotiable paper issued by overseas banks and owned by the reporting bank.

Bills (other than reserve assets) includes bills, promissory notes and other negotiable paper (excluding certificates of deposit) owned by the reporting bank. It excludes acceptances by the reporting bank which it has also discounted, bills connected with refinanceable lending under the special schemes for exports and shipbuilding and bills which the reporting bank has disposed of by rediscounting. Bills and notes are classified according to the currency in which they are drawn.

Advances includes all balances with, and lending (whether against collateral or not) direct to, customers not included elsewhere. It includes the reporting bank's own acceptances which it has also discounted, except for those drawn by another listed bank or by banks overseas, which are entered under market loans. Own acceptances discounted are shown as advances to the party on whose behalf the acceptance credit has been opened. Provisions for bad and doubtful debts are not deducted. Where the reporting bank participates in (or acts as manager or co-manager of) a loan financed by more than one institution, it includes only the reporting bank's participation for its own account, the loan being classified according to the ultimate borrower. *Advances to UK private sector* includes all medium and long-term (that is with an original maturity of two years and over) refinanceable lending at fixed rates for domestic shipbuilding under Department of Industry guarantee, less any amounts refinanced. Non-reserve asset money with jobbers on the stock exchange is included in advances to UK residents. *Advances to overseas* includes all medium and long-term refinanceable lending at fixed rates for exports under ECGD guarantee, less any amounts refinanced, and all short-term export lending (that is with an original maturity of up to two years) at rates related to base rate under ECGD comprehensive bill and open-account guarantee schemes.

Investments includes all securities beneficially owned by the reporting bank or branch. It includes securities which the reporting bank has lent (or pledged) but still beneficially owns, but excludes securities which the reporting bank has borrowed and which it does not beneficially own.

British government stocks includes all stocks issued by the Government and stocks of nationalised industries guaranteed by the Government. *Other public sector investments* includes stocks and bonds issued by local authorities, except mortgage bonds which are included in advances. Other investments includes all investments in listed banks which are subsidiaries or associates of the reporting bank, and deposits with overseas offices which have been invested in fixed assets such as premises and equipment.

Items in suspense includes all debit balances not in customers' names but related to customers' funds rather than to the banks' own internal funds, for example debit balances awaiting transfer to customers' accounts. *Collections* comprises cheques, etc., drawn on and in course of collection on banks and other institutions in the United Kingdom, and debit items in transit between UK offices of the reporting bank. It includes cheques that have been credited to customers' accounts but are held overnight before being presented or paid into another bank, but excludes cheques already passed to other listed banks for collection (these are entered as balances with UK banks). It includes all collections on banks outside the United Kingdom and items in transit to overseas offices of the reporting bank, where the reporting bank is acting as principal and not as an agent for collection and where it has already given credit or value for the items.

Assets leased includes all plant and equipment beneficially owned by the reporting bank which has been

leased out (except plant and equipment leased to branches, subsidiaries or associates overseas which are treated as overseas investments).

Other miscellaneous assets includes unallocated gold bullion and gold coin. It also includes other commodities (for example silver), land, premises, plant and equipment and other goods beneficially owned, but excluding assets leased.

Acceptances comprises all acceptances given by the reporting bank which are still outstanding, excluding any which the reporting bank has also itself discounted, but including any such discounts which have been rediscounted.

Further tables provide, for each group of banks, the same basic information, but in rather less detail.

London clearing banks

This group comprises the members of the Committee of London Clearing Bankers.

Scottish clearing banks

This group comprises the members of the Committee of Scottish Clearing Bankers.

Notes outstanding include the 'authorised' circulation, which was approximately £2.7 million at all dates shown; the remaining notes are covered by holdings of Bank of England notes and by coin. Those form part of *notes and coin*, which also includes the banks' holdings of each other's notes.

Northern Ireland banks

This group comprises the members of the Northern Ireland Bankers' Association, which includes two banks with head offices in the Republic of Ireland. The figures now relate to the liabilities and assets of their banking offices situated within Northern Ireland.

Prior to October 1975, the Northern Ireland banks' figures were reported on dates different from those of other banks in the United Kingdom. They were usually made up a day earlier than the other banks.

Notes outstanding include the 'authorised' circulation which was approximately £2 million at all dates shown.

Accepting houses

This group comprises the members of the Accepting Houses Committee together with certain of their Channel Islands and Isle of Man banking subsidiaries.

Other UK banks

All other banks with majority UK ownership (excluding consortium banks where there is foreign participation), including their Channel Islands and Isle of Man subsidiaries. It also includes the Great Britain offices of the Northern Ireland banks and the UK branches of two Republic of Ireland banks which are subsidiaries of members of the Northern Ireland Bankers' Association.

American banks

Branches and subsidiaries of American banks, including subsidiaries operating in the Channel Islands.

Japanese banks

The UK branches of Japanese banks.

Other overseas banks

All other branches and subsidiaries of foreign banks, including Channel Islands subsidiaries.

Consortium banks

Banks which are owned by other banks but in which no one bank has more than 50 per cent ownership, and in which at least one shareholder is an overseas bank.

Discount market

Before mid-May 1975 this group comprised the eleven members of the London Discount Market Association. From that date onwards, however, figures for the two discount brokers, and the money trading departments of six banks were also included. Previously the money trading departments were included indistinguishably within the figures of their parent banks. Also from mid-May 1975 new statistical returns were introduced and from then on the definition of certain items is not fully consistent with earlier dates.

Analysis of advances to UK residents by banks in the United Kingdom

The analysis is based as far as possible on the Standard Industrial Classification: there are twenty-three categories grouped under the broad headings of manufacturing, other production, financial, services, and personal. Advances are classified by industry, irrespective of owner (that is, private, local authority or government); and if an advance cannot be attributed to any particular activity, it is classed according to the main activity of the borrower – if necessary within the residual groups provided under the broad divisions. Advances to merchants, brokers, importers and exporters are included in retail distribution or other distribution, as appropriate, and advances to unincorporated businesses, etc., are allocated according to the trade or profession.

The analysis covers advances in both sterling and foreign currencies provided by banks to their customers and therefore does not include funds placed through the specialised financial markets, such as the local authority money market or the finance company deposit market. The dates and contributors are the same as for Banks in the United Kingdom.

Figures for the Northern Ireland banks are broadly comparable with those provided by the other contributors to the table, but are in slightly less details for certain classifications. Chemicals and allied industries are in-

cluded indistinguishably in Other manufacturing; metal manufacturing, electrical engineering, shipbuilding and vehicles in Other engineering and metal goods; and transport and communication in Public utilities and national government.

It is not yet possible to provide a seasonally adjusted series of the new figures. However, an estimate has been made of the value of transactions in foreign currency lending excluding the changed sterling value of existing business in foreign currency arising from fluctuations in exchange rates.

It was originally planned to provide an overlap between the new and old series, and to this end a considerable amount of additional information was obtained from banks; however, it did not prove possible to produce figures for May 1975 in the old form. No estimates are therefore possible for changes in advances with or without seasonal adjustment, between February and May 1975.

The principal changes between the old and new series are:

- (a) the definition of advances to UK residents covered by the new series has been altered to coincide with that now used in the balance sheets. In particular, export lending under the special medium-term scheme, which used to be shown in the old series as lending to the UK exporter (and was included even if refinanced by the Issue Department of the Bank of England or by the ECGD), is now regarded as lending to overseas. This produces lower figures for clearing banks' advances, particularly to manufacturing industries and to construction. Lending to banks in the United Kingdom is also now excluded from the new series and comes under the heading of market loans rather than advances.
- (b) more detailed statistics in the new series have enabled the effect of fluctuations in exchange rates to be eliminated as far as possible from the sterling value of advances in foreign currencies.
- (c) figures for Northern Ireland banks (which now cover only the Northern Ireland offices of the members of the Northern Ireland Bankers Association, the offices in Great Britain being included in Other banks) have been integrated as far as possible into the new series.

Seasonally adjusted changes for previous periods in the old series are shown in a separate table.

National Giro

The National Giro provides a current account banking and money transfer service. It does not allow interest on deposits.

Gross deposits: From May 1975 these are defined as balances held in current accounts together with credit items in course of transmission to other banks in the United Kingdom and the Republic of Ireland. Accounts may be operated upon by Girocheque and Giro transfer.

Net deposits: From May 1975 these are gross deposits less debit balances awaiting transfer to current accounts, and balances with and debit items in course of collection

on, other banks in the United Kingdom and the Republic of Ireland.

Total liquid assets: Comprises coin, notes and balances with the Bank of England, balances with other banks, etc., money at call and short notice, and Treasury and other bills. The ratio of total liquid assets to deposits (the liquidity ratio) is the statutory measure of the liquidity.

Coin, notes and balances at Bank of England, etc: The cash holdings of the National Giro.

Money at call and short notice: Money at call, etc., comprises all loans to members of the London Discount Market Association, primarily for the carrying of bills of exchange, Treasury bills and other short-term government securities. Other money at call, etc., includes loans to members of the Stock Exchange, on the security of readily marketable stocks and to bill brokers and similar money market institutions who are not members of the London Discount Market Association. It also includes loans to nationalised industries and to local authorities in the United Kingdom. Short notice is defined as not exceeding fourteen days.

Bills discounted: These are normally held until maturity and ordinarily the maximum maturity is slightly under three months. Treasury bills are those issued by the Government of the United Kingdom. Other bills include bills of the Government of Northern Ireland and of local authorities in the United Kingdom and other bills eligible for rediscount at the Bank of England.

Investments: These are given at book value or cost. British government securities have definite and, on average, relatively early redemption dates. Other investments comprise securities issued by local authorities in the United Kingdom.

Advances: Prior to June 1975, these were loans to nationalised industries and to local authorities for periods over fourteen days liable to be repaid within one year. Afterwards they comprise those loans and amounts outstanding on customers' loan and overdrawn accounts.

Currency circulation

The series showing estimated average weekly circulation of notes and coin with the public relates to the total note issues of the Bank of England, the Scottish clearing banks and Northern Ireland banks, plus the estimated total of UK coin in circulation (excluding any coin in the Bank of England, Issue Department), less notes and coin held by the Bank of England, Banking Department, by the Scottish clearing and Northern Ireland banks (as published in the *London* and *Belfast Gazettes*) which are largely Bank of England notes held as cover for their note issue in excess of the authorised circulation, and by the London clearing banks. The equivalent series on specific dates excludes holdings of notes and coin by all banks.

The figures for the amount of coin in circulation are provided by the Royal Mint and make allowance for coin which has been lost, destroyed or otherwise wasted.

Bank clearings

The figures cover inter-bank clearings reported by the London Bankers' Clearing House.

Debit clearing

Inter-bank clearings represent the total of bankers' effects (cheques, drafts, bills, interest warrants, etc.) passed through the London Bankers' Clearing House for collection from the banks. They exclude cheques, bills, etc. drawn on and paid into offices of the same bank.

The figures are published under three regions: (a) Town, restricted to cheques, bills, etc. paid into and drawn on Town clearing offices in the City of London, and (b) General, which covers cheques, bills, etc. drawn on offices in the rest of England and Wales apart from (c) the afternoon clearing at Liverpool.

Credit clearing

An inter-bank credit clearing, similar to the debit clearing (see above), was instituted at the London Bankers' Clearing House in April 1960, to cover, in the first instance, payment by traders' credit (including salary and pension payments effected through the traders' credit machinery) and standing order payments. In October 1960, the scheme was extended to include credits paid in over the counter by customers for transmission to accounts at other banks. In March 1961, a further stage was introduced enabling credits to be paid in at any clearing bank by a member of the public (whether having a banking account or not) for transmission to a banking account anywhere in the United Kingdom; for certain organisations this stage was delayed until October 1961.

In December 1969, January 1970 and, to a lesser extent, in September 1970, the values of inter-bank clearings were reduced (and those of the corresponding branch clearings increased) by mergers among the London clearing banks. The total effect on inter-bank clearings is estimated to have been: Town—8 per cent, General—10 per cent and Credit—11 per cent.

VII. MONEY STOCK AND DOMESTIC CREDIT EXPANSION

The tables in this section present estimates of the broad monetary indicators and show their relation to each other within a financial accounting framework.

Money stock

There is no single, universally accepted, definition of money. Any definition must, therefore, to some extent be arbitrary, and different monetary aggregates will be useful for different purposes.

The current definitions of money stock (M_1 and M_3) are as follows:

The narrower definition (M_1) consists of notes and coin in circulation with the public *plus* sterling sight deposits held by the private sector only. This definition can be thought of as representing more closely the function of money as a medium of exchange, and as including the generally acceptable means of payment in the system.

The other definition (M_3) comprises notes and coin in circulation with the public together with all deposits (including certificates of deposit), whether denominated in sterling or other currencies held by UK residents in both the public and private sectors. In both definitions deposits are confined to deposits with institutions included in the UK banking sector, and 60 per cent of the net value of sterling transit items is deducted — see notes to UK banking sector.

Until October 1971 various assumptions were used to isolate sterling 'current accounts' held by the private sector (the category of bank deposits then included in M_1), and therefore in the calculation of the quarterly figures of M_1 . These were described in an article in the *Bank of England Quarterly Bulletin*, September 1970 page 324. Additional statistical information provided mainly by the London and Scottish clearing banks from October 1971 facilitated a substantial modification of these assumptions. This reduced the amount of estimation involved in calculating quarterly M_1 and, therefore, a break is shown in the series between September and December 1971. The new information also made it possible to produce a monthly series of M_1 ; this involved some small degree of estimation above that necessary for the quarterly series. Dollar certificates of deposit held by UK residents (other than banks), so far as they can be identified, are included from the second line of figures for end-March 1973.

With the introduction of new statistical returns in mid-May 1975, (see the *Bank of England Quarterly Bulletin*, June 1975, page 162), the estimation previously necessary to calculate both M_1 and M_3 and their component parts was further reduced. At the same time, the definition of M_1 was clarified by the replacement of 'current accounts', a term which had different meanings for different banks, by 'sight deposits' which is more precisely defined as funds available on demand including money at call and money placed overnight. The two lines of figures at mid-May and end-June 1975 show the money stock and its component parts on the old and new basis respectively. The first line of figures and the

changes for the month ended mid-May and the quarter ended June are as far as possible consistent with the earlier series, but include a large degree of estimation.

Other breaks shown at various points in the series result from changes in the number of contributors — see notes to UK banking sector.

The changes in the money stock may not equal the differences between the amounts outstanding. This is because changes in bank liabilities arising directly from alterations in the composition of the banking sector, or from the use of new sources of information (as in the fourth quarter of 1971 — see above), are excluded from the changes tables. Small discrepancies in the quarterly figures also arise because the changes in notes and coin in circulation with the public do not allow for wastage and hoarding of coin as do the amounts outstanding. Also, the seasonally-adjusted changes in M_1 and M_3 may not be the same as the differences between seasonally adjusted amounts outstanding, because the latter are rounded whereas the former are not.

From the month ending mid-April and the second calendar quarter 1975, all figures which include foreign currency items apart from the change in M_3 have been adjusted to exclude the effect of movements in exchange rates. The direct effect of exchange rate changes on the sterling value of M_3 is shown in column 9 (Table 57 (continued)).

Seasonally adjusted estimates of quarterly changes in the money stock are derived from a process of adjustment of the whole of the financial transactions matrix and therefore take account of the additional constraints imposed by the process. In particular:

- (i) in any quarter, the sum of the adjustments of all sectors for a particular asset or liability is zero; and
- (ii) in any quarter, the sum of the adjustments for the identified assets and liabilities of a particular sector is related, where possible, to the adjustment for the net acquisition of financial assets for that sector.

In addition, adjustments have been made to allow for the effect of varying days of the week on which a quarter begins and ends. These will not usually cancel out over the year since successive years end on different days of the week. (For a further explanation see pages 416–7 of the *Bank of England Quarterly Bulletin*, December 1969 and pages xli–xlvii of *Economic Trends*, March 1972).

The seasonal adjustments for the monthly series for M_1 and M_3 are less reliable than those for the quarterly series; also, because the monthly and quarterly series have been seasonally adjusted separately, it is not possible to draw conclusions about the underlying change in the money stock in the short period between a mid-monthly reporting date and the end of the quarter. (For further details see the *Bank of England Quarterly Bulletin*, March 1972).

Money stock and public sector borrowing requirement

The table sets out the accounting identities between the money supply and the public sector borrowing requirement. It is based broadly upon an analysis by G. L. Bell

and L. S. Berman, 'Changes in the money supply in the United Kingdom, 1954 to 1964', published in *Economica*, May 1966, except that the concept of public sector borrowing requirement replaces that of the central government borrowing requirement. The figures shown for the various 'influences' on the money stock represent flows, or transactions, rather than changes in amounts outstanding and have also been adjusted, where appropriate, to remove the effects of exchange rate movements. The effect on M_3 itself is shown separately under Net deposits of UK residents so that the 'influences', or counterparts, can be summed to equal the total change in the sterling value of M_3 .

Public sector borrowing requirement

The borrowing requirements of the central government (including Northern Ireland government debt), local authorities and public corporations. An adjustment for intra-sector debt is no longer required as the borrowing requirement of each sector already incorporates the appropriate adjustment.

Central government borrowing requirement: See page 9.

Local authority borrowing requirement: Borrowing other than from central government (net) less net purchases of British government securities and loans to public corporations.

Public corporations borrowing requirement: Borrowing other than through trade credit or from the central government less net purchase of British government securities and local authority debt. The composition of the borrowing requirement is shown in the sources and uses of funds table relating to public corporations (Table 34 in the April 1976 issue).

Money stock and domestic credit expansion

The table shows the relationship between changes in money stock and the newer concept of domestic credit expansion (DCE, for definition see next section) *via* the accounting identity of the banking sector's liabilities and assets. As transactions with non-residents are now so large (reflecting in the main the growth of the Euro-dollar market) the presentation shows only increase in deposits by (less lending to) non-residents, to avoid swamping the figures of direct relevance to the domestic sectors. Shown gross, the increase in non-residents' deposits was £9,266 million for example in 1974 and, on the assets side the increase in lending to non-residents was £8,088 million. The figures have been adjusted where appropriate to remove the effects of exchange rate movements. DCE is essentially a 'flow' concept and can perhaps best be described as a measure of the main domestic influences on M_3 and it is therefore preferable to measure it in terms of transactions.

Domestic credit expansion

DCE can be regarded as either an adjusted money stock concept or as a credit creation concept. The first approach is presented in Table 59. This shows that the connection between money stock on the one hand and DCE on the other is affected by the adjustment for the external financing of the public sector, by the net change in the banking sector's position with regard to non-residents, and by changes in banks' non-deposit liabilities (in particular, liabilities to shareholders). See also the above reference to the adjustment to remove exchange rate movements.

Table 60 builds up to the DCE total from its various credit components, the principal ones being changes in notes and coin in circulation, bank lending to the public and private sectors, and external financing of the public sector. In addition two further detailed adjustments are made; bank lending in sterling to non-residents is included within DCE, while lending to residents in foreign currencies for purposes of investment overseas is excluded (see 'Money supply and domestic credit', *Economic Trends*, May 1969, in particular the Notes to the Annex). This method of presentation makes it clear that DCE does not measure the *total* volume of credit provided by financial institutions as part of the process of channelling funds from surplus to deficit units, but includes only such funds as flow across the frontiers of the public and banking sectors.

A long run of annual data was published in the *Bank of England Quarterly Bulletin*, September 1969 and the *Bank of England Statistical Abstract*.

DCE and public sector borrowing requirement

An alternative method of building up DCE from credit components is given in the table shown opposite. This proceeds from the consolidation of public sector and banking sector flow-of-funds accounts, which can conveniently be made because of the banking sector's position as lender of last resort to the central government.

This consolidation, with rearrangement of some of the items, forms the basis for Tables 58, 59 and 61. The total on the right-hand side, less item 12 (public sector debt held by the non-banking private sector) can be regarded as showing the credit-creating activities of the public sector and banking sector combined.

Using estimates for 1974/75, the sector accounts can be summarised as shown on the facing page. When the public and banking sector statements are consolidated, the items in italics disappear. This presentation follows a suggestion of Professor Brian Tew, University of Nottingham.

Public sector 1974/75*

Increase in liabilities:

	£ million
1. Notes and coin	
(a) held by banks	47
(b) other	874
2. Other debt	
(a) held by banks	1,186
(b) held by other residents	4,289
(c) held by non-residents	1,516
	<hr/>
Borrowing requirement	7,912
	<hr/>

Banking sector 1974/75

	£ million
3. Increase in liabilities:	
(a) residents' deposits	2,610
(b) non-residents' deposits (net of advances)	1,261
(c) non-deposit liabilities	626
	<hr/>
Total	4,497
	<hr/>

4. Increase in domestic assets:

	£ million
(a) lending to public sector	1,233
(b) lending to private sector	3,264
	<hr/>
Total	4,497
	<hr/>

Consolidated account 1974/75

	£ million
Increases in:	
5. Money stock	
(a) notes and coin	874
(b) residents' deposits	2,610
6. Non-residents' deposits (net of advances)	1,261
7. Non-deposit liabilities	626
8. External financing of public sector ...	1,516
9. Adjustments†	45
	<hr/>
10. Total above (equals DCE)	6,932
11. Adjustments† (contra-entry)	-45
12. Public sector debt held by non-banking private sector	4,289
	<hr/>
13. Total	11,176
	<hr/>

	£ million
14. Public sector borrowing requirement ..	7,912
15. Bank lending to private sector	3,264
	<hr/>
Total	11,176
	<hr/>

*Financial Statistics, March 1976.

†See definition of DCE, opposite.

VIII. OTHER FINANCIAL INSTITUTIONS

Sources and uses of funds of other financial institutions

The institutions covered by this table are finance houses, building societies, the Investment Account of the National Savings Bank, special investment departments of trustee savings banks, and certain other deposit seeking institutions, insurance companies, superannuation funds, unit trusts, investment trusts listed on UK stock exchanges, property unit trusts and certain special finance agencies which are listed public companies engaged in the provision of medium and long-term finance to industry. In addition municipal banks are now included in this sector (formerly included in the local authority sector) and from March 1975 the new Central Trustee Savings Bank. Special Finance Agencies at 31 December 1975 comprised: Agricultural Mortgage Corporation Ltd., Commonwealth Development Finance Co. Ltd., Crown Agents for Oversea governments and Administrations, Exporters Refinance Corporation Ltd., Finance For Industry Ltd., and Scottish Agricultural Securities Corporation Ltd. The table shows the sources and uses of the capital funds of these institutions.

Sources of funds

Other deposits comprises deposits received by savings banks (including the Central Trustee Savings Bank) finance houses, and the Crown Agents.

Bank lending includes advances and loans and bills discounted.

Official loans consist of loans to building societies advanced during 1959 to 1961 under the House Purchase and Housing Act 1959 and the £500 million loan under the scheme announced by the Secretary of State for the Environment on 10 April 1974, also loans to special finance agencies.

Other liabilities includes short-term borrowing in the United Kingdom and short-term borrowing and intra-company investments overseas.

Accruals adjustment is the difference between accruals of interest (the basis on which these items are entered in the national income accounts) and the corresponding cash flows.

Uses of funds

Bank deposits are those shown in the banking sector tables for other financial institutions.

Other liquid assets cover Treasury bills, tax reserve certificates, local authority temporary debt, deposits with building societies by insurance companies and sight deposits by trustee savings banks (special investment departments) with the Central Trustee Savings Bank.

Other financial assets comprise short-term assets and other investments in the United Kingdom, the purchase of unit trust units by insurance companies and investment trusts, the net sales of property unit trust units to pension funds, time deposits by trustee savings banks (SID) with the Central Trustee Savings Bank, overseas investment and short-term assets.

Savings banks: investment accounts

The trustee savings banks' special investment departments and the National Savings Bank Investment Account are not included in the Exchequer group nor in the central government sector. Deposits received by these departments are included in the figures of national savings by the personal sector, but are not included in the figures of receipts of national savings by the public sector. The figures are shown as part of the series provided by the Department for National Savings.

Finance houses

The series on finance houses are based on the results of an inquiry taken in respect of business in the year 1965. This inquiry was designed to provide new benchmark figures for the monthly series of new credit and debt and the quarterly series of assets and liabilities.

In the assets and liabilities table, the figures for hire purchase debt outstanding relate to agreements entered into directly by finance houses *plus* amounts owed on agreements discounted with them by retailers. The increases in debt shown in the table for hire purchase and other instalment credit business, on the other hand, relate only to amounts owed on direct agreements with the finance houses.

The statistics of assets and liabilities of finance houses (Table 65) now exclude finance houses recognised as banks. Changes in coverage of the figures occurred during the first quarter of 1972, first quarter of 1973, second quarter of 1974 and first quarter of 1975. The figures of hire purchase and other instalment credit business in Table 66 continue to include the credit extended by these institutions.

Hire purchase and other instalment credit

Coverage of the figures

The figures relate to hire purchase and other instalment credit advanced by finance houses (including those recognised or confirmed as banks since January 1972) and selected kinds of retail business. These comprise durable goods shops (that is furniture shops, radio and electrical goods shops, cycle and perambulator shops, radio and TV rental specialists, the showrooms of gas and electricity boards and the durable goods departments of co-operative societies), department stores, other general stores, general mail order houses and the non-durable goods departments of co-operative societies.

Retailers directly finance most of their instalment credit sales themselves, the balance being financed directly by finance houses. The main business of finance houses, however, is the direct financing of instalment credit sales of motor vehicles and caravans, together with a substantial amount of farm, industrial and building plant and equipment and other non-household goods.

The figures relate not only to hire purchase agreements but also to other forms of instalment credit, for example credit sale agreements and personal loans repayable by instalments. Credit advanced by retailers in the form of trading checks exchangeable only in their own

shops is included, but credit advanced by check traders as such is not covered by the figures. Credit advanced other than on instalment terms (for example monthly account credit) is also not included.

The figures do not include the instalment credit business of kinds of retailer not listed above.

Debt

The estimates of debt outstanding relate to the balance of instalments remaining to be paid at the end of the period. Some of the debt owing directly to retailers is discounted with finance houses but this discounted debt is included in the figure for retailers. The figures for finance houses comprise only the debt on agreements entered into by them directly with the customer, and they exclude debt on their other financing activities (discounting of retailers' agreements, financing of dealers' stocks, etc.).

New credit extended

New credit extended is the total amount advanced including charges. As with the figures of debt, the figures for finance houses relate only to agreements entered into by them directly with the customer: the figures for retailers include agreements subsequently discounted with finance houses.

Sources of the figures

The estimates for retailers are based on the results of the 1966 Census of Distribution (see *Trade and Industry*, during May 1973), projected by means of monthly returns from a stratified panel of retailers. The estimates will be rebased as soon as possible after the detailed results of the 1971 Census of Distribution become available. The basic data collected are debt outstanding and the value of instalment credit sales: the estimates of new credit are derived by making an allowance for deposits and (since the figures of sales relate to all sales on instalment credit, whether financed directly by the retailer or by a finance house) then deducting the credit extended by finance houses for household goods to allow for duplication.

The estimates for finance houses are based on the results of an inquiry taken in respect of business in the year 1965 (see *Board of Trade Journal*, 10 December 1969). As in the case of retailers, these are projected by means of monthly returns from a panel of finance houses, comprising all the largest houses and a sample of the smaller ones. The data collected from finance houses include the actual amounts of credit extended.

For both retailers and finance houses the estimates of repayments are derived from the figures of new credit extended and the change in debt.

The latest summary statistics (in seasonally adjusted terms) are published each month in *Trade and Industry*. Detailed statistics appear each month in the Business Monitor series.

Building societies

The statistics are based on returns from a sample of about 77 societies, with assets amounting to 95 per cent of total building society assets; all societies with assets

exceeding £50 million are included, together with about 1 in 2 societies with less than £50 million but exceeding £10 million and about 1 in 20 of all other societies. Each year the figures of assets and liabilities are reconciled with the statutory returns made to the Registrar of Friendly Societies by all building societies.

The pre-1965 statistics are based on annual and quarterly samples smaller than the sample now used, together with the annual statistics of the Registrar of Friendly Societies based on the annual statutory returns made to the Registrar of all building societies.

The estimates of the net acquisition of other liabilities are obtained as the residual in the table and therefore do not allow for differences between book and cash values of securities; they also include bank loans and sundry creditors. The liquidity ratio is the holdings of cash and investments as a percentage of total assets, including interest accrued on investments.

The Save As You Earn scheme commenced as from 1 October 1969. Fixed monthly payments of £1 to £10 (£1 to £20 from September 1971) are contracted for 5 years and at the end of that period a bonus is received equivalent to one year's savings free of tax. The bonus is equivalent to a compound rate of interest of £6.99½ per cent per annum representing a gross return of £9.99 per cent per annum with income tax at 30.00 per cent. If savings are left invested for a further two years the tax free bonus will be doubled. For further details see page 12. (Note that index-linked schemes are not available through Building societies.)

SAYE statistics are based on returns from a sample of about 73 societies with assets amounting to approximately 95 per cent of the assets of societies participating in the scheme.

Property unit trusts

The statistics cover all UK property unit trusts, subscriptions to which are restricted to pension funds and charities. An article describing the origins and nature of these institutions appeared in the *Bank of England Quarterly Bulletin*, September 1969.

Unit trusts

The statistics cover virtually all unit trusts authorised by the Department of Trade under the Prevention of Fraud (Investments) Act, 1958. From the first quarter of 1975 responsibility for the collection of the quarterly and annual unit trust statistics passed from the Association of Unit Trust Managers to the Bank of England.

Investment trust companies

With the exception of some thirty small investment trust companies, returns are made by members of the Association of Investment Trust Companies and other companies listed as investment trusts by the London Stock Exchange.

Net current assets exclude contingent assets and liabilities such as claims on, or sums due to, the Inland Revenue or the liability for accrued loan interest and for dividends proposed but not yet paid. They include (in

other short-term assets or borrowing) sums due from, or to, stockbrokers on account of securities sold or purchased and still awaiting settlement. The figures include the investment currency premium where appropriate.

Insurance companies

The figures cover all insurers operating in the United Kingdom. Prior to 1974 they covered only members of the British Insurance Association (BIA) and collecting friendly societies, and the information was provided to the Department of Industry by the BIA. In 1974 the Department of Industry began to collect information from a sample of insurance companies who are not members of the BIA. This information combined with that supplied by the BIA has enabled estimates of investments and holdings of financial assets to be made for all insurers operating in the United Kingdom.

The returns include assets held in respect of money remitted by overseas branches and subsidiaries but they exclude direct investment by a UK company in its overseas branches or subsidiaries as well as financial assets held by or on behalf of these branches, even if held in the United Kingdom.

Agents' balances, etc.: Consist of agents' balances, outstanding premiums, re-insurance balances, accrued interest, outstanding interest, dividends and rents, and life interests and reversions. Inward treaty balances and amounts due from re-insurers are included when due by overseas companies as well as by companies in the United Kingdom. Marine department inward treaty balances are also included, but not amounts due from overseas agents. No deduction has been made for amounts due to re-insurance companies, outstanding claims and sundry creditors.

For further details see *Trade and Industry*, 22 August 1975 and *Business Monitor* M5, 'Insurance companies' and private pension funds' investment'.

Superannuation funds: summary

The estimates cover the funded schemes of local authorities, the public sector (excluding local authorities) and the private sector, as separately analysed in subsequent tables, together with the superannuation funds of co-operative societies and net receipts by the central government from certain pension funds, such as those of the National Health Service (including from 2nd quarter 1974, the local health services transferred from local authorities), teachers, Forestry Commission, Atomic Energy Authority, etc., which are considered to be loans to the parent organisation (central government).

Superannuation funds: public sector (excluding local authorities)

The figures are based on quarterly and annual returns received from funded schemes which are managed by their trustees. Estimates are included for non-responding funds. As the main superannuation arrangements in the central government sector are unfunded, these are excluded from the statistics. The schemes included

cover mainly employees currently employed in the nationalised industries but also include some pre-nationalisation funds and certain other funds (these are: British Council superannuation scheme, Commonwealth War Graves Commission superannuation scheme, Indian family pension funds, and Royal Seamen's Pension Fund). From the fourth quarter of 1967 the estimates include the funded schemes of nationalised steel companies and from the fourth quarter of 1969 the Post Office Staff Superannuation Scheme.

In addition the figures from 2nd quarter 1974 reflect the transfer of assets in respect of the funds of water, sewerage and drainage boards in England and Wales, and trust ports, from local authorities to public corporations.

Superannuation funds: local authorities

Prior to local authority re-organisation the figures of holdings were compiled from a four-yearly survey of investments and current assets and liabilities, the latest results of which relate to 31 March 1970. Estimates for the intervening years were made by reference to a sample survey of holdings of public sector debt and company securities together with transactions in other investments taken from the quarterly survey.

The quarterly figures were based on returns from a sample covering over 90 per cent of the assets of these funds. Estimates were included for non-reporting funds.

Information on the maturity classification of holdings of public sector securities was provided annually at 31 March by the funds and published as a supplementary table, normally in September.

Following reorganisation, the four-yearly survey has been replaced by annual surveys of the assets and liabilities of all funds and the quarterly survey of investments also covers all funds.

The figures from 2nd quarter 1974 reflect the transfer of assets in respect of the funds of water, sewerage and drainage boards in England and Wales, and all trust ports from local authorities to public corporations and local health services to central government.

Superannuation funds: private sector

The figures are compiled from returns received by the Department of Industry from a sample of self-administered superannuation and pension funds of the private sector. They relate to holdings of, and transactions in, the assets of private sector funds, including those of companies (including funds of any subsidiary companies) and non-profit-making bodies, whose investment policy is managed from within the United Kingdom. Estimates are included for funds not included in the samples or which have not responded. Funds which operate primarily through insurance companies and funds of local authorities, public corporations or central government are not included.

All funds approached are asked to give their holdings of assets at end-year at current market values. For end-1974, 220 funds (about 86 per cent of the funds submitting returns) showed their assets at current market values. The assets of the 220 funds totalled about

£4,299 million, about 92 per cent of the total value of holdings of all funds submitting returns. The remainder showed their assets at book or at cost values. About 32 per cent of the 256 funds submitting returns of holdings at end-1974 (with about 26 per cent of the total assets of all funds submitting returns) gave figures for an accounting date other than 31 December 1974.

The assets of the funds making returns to the Department of Industry are estimated to amount to about 80 per cent of the assets of all private sector self-administered pension funds.

For further details see *Trade and Industry*, 22 August 1975 and *Business Monitor* M5, 'Insurance companies' and private pension funds' investment'.

IX. COMPANY SECTOR

Appropriation account of companies

The estimates in this table refer to privately controlled corporate enterprises organised for profit and resident in the United Kingdom. They cover registered public companies, private companies, co-operative societies and building societies. The area covered by the company sector changes substantially over time, because of nationalisation and denationalisation, the transfer of residence between this country and abroad, and because of the incorporation of unincorporated businesses. For further details of the sources and methodology of estimates contained in the income and appropriation account see *National Accounts Statistics: Sources and Methods* (HMSO 1968) Chapter VII.

Total gross trading profits relate to profits before providing for depreciation and stock appreciation and before deduction of tax and interest payments. The estimates seek to measure the actual profits made during the period. Annual estimates are based upon tax data and quarterly estimates on returns from a sample of companies.

Rent and non-trading income refers solely to income arising in the United Kingdom. It consists mainly of interest paid on public debt held by companies; interest accruing on hire purchase debt, building society mortgages and on bank advances made to the personal and public sectors; and rent received by property companies from letting land and buildings. Income from investments in other companies is excluded.

Income from abroad is calculated after deduction of depreciation but before payment of taxes. Company income from abroad consists of income on portfolio investment abroad, on direct investment and on other investment including oil. Income on direct investment includes the earnings (whether remitted to the United Kingdom or not) of non-resident branches; the dividends and parent companies' share of undistributed income of non-resident subsidiaries; and interest on loans by UK parent companies to these branches and subsidiaries.

Dividends on ordinary shares: Up to 5 April 1973 the figures relate to dividends paid before deduction of income tax. With the introduction of the imputation system of corporation tax on 6 April 1973 companies paying dividends, instead of deducting income tax (which had to be accounted for to the Inland Revenue) and paying the dividend net, have been liable to pay advance corporation tax (ACT) to the Inland Revenue in respect of the total dividend paid. The rate of advance corporation tax was three-sevenths of the dividend paid up to the first quarter of 1974, thirty-three sixty-sevenths up to the first quarter of 1975 and thirty-five sixty-fifths thereafter. This change in the taxation system is reflected in the company sector appropriation account so that payments of dividends, previously shown gross of income tax, appear from 6 April 1973 as actual payments while the ACT in respect of those dividends is included in Payment of UK taxes on income.

Payments to other companies are excluded. Dividends paid by UK subsidiaries to their overseas parent companies are also excluded, since these are included in profits due abroad.

Other interest payments, etc., consist largely of debenture interest and interest accruing on bank and building society deposits. Also included in this item are dividends on preference shares, companies' current transfers to charities and co-operative society dividends and interest. Dividends on preference shares are also subject to ACT (see *Dividends on ordinary shares*).

Profits due abroad include the whole of the profits of UK subsidiaries—whether distributed or not—accruing to non-resident parent companies. Profits are reckoned after deducting depreciation. Included with these UK branches and subsidiaries are those of non-resident oil companies.

Taxes paid abroad: The estimates are partly based on direct information from certain companies, and partly derived by applying the appropriate rates of tax to an analysis of other property income from abroad.

Payments of UK taxes on income: The taxes covered by this item were changed by the Finance Act 1965, under which companies became subject to corporation tax instead of income tax and profits tax. Prior to that, companies had been assessed to profits tax on their whole profits *plus* income tax on their undistributed profits. Most companies were first assessed to corporation tax during 1966/67 and the tax first became payable on 1 January 1967. Since the change, in addition to corporation tax, companies had to account to the Inland Revenue for income tax on their distributed profits until the introduction of the imputation system of corporation tax on 6 April 1973. From that date, in addition to corporation tax, this item includes advance corporation tax paid by companies (see *Dividends on ordinary shares*) and, for the financial year 1974/75, also includes the 50 per cent surcharge on ACT imposed by the Finance Act 1974. Payments of ACT (and the surcharge) are made mainly in the first month following the end of the quarter in which dividends were paid and can subsequently be counted towards companies' ordinary corporation tax liability.

During the 1973/74 and 1974/75 accounting years companies are allowed to reduce the closing value of their stocks and work in progress by an amount by which the increase in their book value of stocks exceeds 10 per cent of trading profits.

The series is affected by the introduction of investment grants and the changes in initial allowances with the withdrawal of investment allowances from 17 January 1966 and the ending of investment grants, effective from 26 October 1970, when a revised system of allowances was introduced.

For a further discussion of the tax estimates and the treatment of overspill relief, etc., see *National Accounts Statistics: Sources and Methods* (HMSO 1968) especially pages 211–213.

Undistributed income is the balancing item in the table and is equivalent to company saving before providing for depreciation, stock appreciation, and additions to tax and dividend reserves.

Sources and uses of capital funds of industrial and commercial companies

Industrial and commercial companies are defined as in the financial accounts; they relate to all companies other than those classified as banks and other financial institutions. This table brings together, in summary form, the various series which are set out in full in the capital and financial accounts of industrial and commercial companies.

Bank borrowing covers advances, commercial bills and money at call after addition of 40 per cent of the excess of debit over credit transit items.

Other loans and mortgages comprise hire purchase and other credit instalment received, loans from the public sector (including refinanced shipbuilding credits), loans by financial institutions, shares of retail co-operative societies and expenditure by the central government in acquiring Rolls Royce (1971) Ltd.

Overseas direct investment in securities include only net purchases from UK industrial and commercial companies of share and loan capital of UK subsidiaries and associates of overseas companies included in the balance of payments estimates under the heading Overseas direct investments in UK private sector.

Intra-company investment by overseas companies comprises 'direct investment' and 'oil and miscellaneous' in the United Kingdom by overseas companies from the balance of payments accounts, other than identified investment in other financial institutions. It excludes, however, intra-company investment taking the form of acquisition of UK securities (shown as part of UK capital issues and overseas direct investment in securities).

Bank deposits are gross deposits less 60 per cent of the excess of debit over credit transit items.

Other liquid assets comprise Treasury bills, tax reserve certificates, tax deposit accounts, local authority temporary debt and deposits with building societies and finance houses.

British government securities (see page 4).

Cash expenditure on acquiring subsidiaries and on trade investments: These figures include a small allowance for cash purchases of unincorporated businesses as going concerns. The series is based largely on reports of bids and deals published in the press. Included are estimates of expenditure on acquiring subsidiaries in the United Kingdom together with estimates from balance of payments statistics of overseas share and loan capital.

Other domestic assets comprise domestic trade debt of the public corporations, Northern Ireland central government debt, local authorities longer term debt, accruals adjustment—the difference between accruals of

local authority rates, purchase tax, selective employment tax, value added tax and interest flows (the basis on which these items are entered in the national accounts) and the corresponding cash payments—the repayment of loans made by industrial and commercial companies to the British Steel Corporation, hire purchase and other instalment credit extended by retailers and other identified home assets.

Intra-company investments by UK companies overseas covers 'direct investment' and 'oil and miscellaneous' overseas by UK companies from the balance of payments accounts less investment abroad by public corporations. It excludes, however, intra-company investment taking the form of acquisition of overseas securities (shown as part of cash expenditure on acquiring subsidiaries and on trade investments).

Other identified overseas assets: The figures cover other commercial short-term assets (net) and timing and coverage adjustments on other items between the figures in the financial accounts and the balance of payments accounts other than those allocated to other financial companies.

Unidentified items (residual) is the balancing item in the table. This represents to some extent, unrecorded acquisitions of stocks and shares (trade investments and marketable securities) and movements in trade credit. The statistical errors in the appropriation and capital accounts of companies are also reflected in this item.

Selected liquid assets of industrial and commercial companies

This table shows holdings by industrial and commercial companies of selected liquid assets as defined in the financial transactions accounts. No estimates of holdings of notes and coin are available.

Treasury bills: Obtained as a residual after other holders of market Treasury bills have been identified and therefore includes unidentified holdings by other sectors.

Tax reserve certificates: Based on estimates of holdings by quoted companies and includes unidentified holdings by financial institutions.

Tax deposit accounts: Based on Inland Revenue records of deposits all of which are assumed to have been made by industrial and commercial companies.

Deposits with the banking sector are obtained from the sector analysis of gross deposits of the banking sector. No adjustment is made for cheques in course of collection and items in transit.

Bank advances: The figures for end-June 1972 include £204 million refinanceable credits (see notes to Banking sector).

In this table two sets of figures are shown for the end of the first quarter of 1972 and 1973. In the second set identified assets held with institutions recognised or confirmed as banks are classified as held with the banking sector; in the first set assets held with institutions then classified as finance houses are included as such.

Selected current assets and liabilities of large industrial and commercial companies

This table shows the holdings reported directly by the large industrial and commercial companies that take part in the Department of Industry's quarterly survey of company liquidity. These companies are not a representative sample; not all large companies are included and no small ones. The companies are asked to state, at book values, only assets and liabilities that can be realized or that are due to be paid (formally, at least) within twelve months.

Current assets includes only assets held within the United Kingdom.

Deposits with finance houses includes deposits with hire purchase finance companies and other deposit taking institutions.

Other current assets: Few companies have reported holdings of Treasury bills, tax reserve certificates and tax deposit accounts; these are combined with notes and coins in other current assets to prevent any possibility of disclosure.

Current liabilities includes only advances and loans from banks and other financial institutions in the United Kingdom. From the beginning of 1975, loans from deposit banks and other banks exclude loans with an initial term of over twelve months. Loans from other financial institutions has excluded loans with an initial term of over twelve months from the start of the series.

A description of the survey, and a review of the results from its start at the beginning of 1970 to the second quarter of 1974, was published in *Economic Trends*, November 1974. From the third quarter of 1974, the results have been published quarterly in *Trade and Industry* in articles which have included comments on the results and a breakdown between the companies engaged mainly in manufacturing and the other, mainly non-manufacturing companies.

Acquisitions and mergers of companies within the United Kingdom

This table is based on acquisitions and mergers reported in the financial press supplemented by special enquiries to companies to determine the form, value and timing of particular acquisitions. Additional details in respect of industrial and commercial companies are published quarterly in *Trade and Industry* and further information,

including analysis by industry and size, is published quarterly in *Business Monitor M7*.

For a description of the series for financial companies see *Bank of England Quarterly Bulletin* for September 1971.

Company liquidations and receiving orders in England and Wales

For a description of this series, see *Economic Trends*, March 1975. Additional details, including an industrial analysis, are given quarterly in *Trade and Industry*.

Income and finance of listed companies

The figures in these tables are derived from an analysis by the Department of Industry of the annual accounts of about 1,200 companies whose shares are listed on a UK stock exchange.

The companies included in the current tables covering 1975 with figures for the comparable group of companies in 1974 are those with assets of £2.0 million or more, or gross income of £200,000 or more, in 1968, which are engaged mainly in the United Kingdom in manufacturing, distribution, construction, transport and certain other services. Companies whose main interests are in agriculture, shipping, insurance, banking, finance and property and those operating wholly or mainly overseas are not included.

Wherever possible the analysis is based on the consolidated accounts of groups of companies, including the balance sheets and profit and loss accounts of subsidiary companies within each group. The statistics are not therefore confined to activities in the United Kingdom but include the activities of some subsidiaries operating overseas whose accounts are consolidated with those of the group. The figures relate to a fixed population of listed companies in 1969; thus, if companies within this population amalgamate, their place is taken by the new company. Companies granted stock exchange listing subsequently are not included. The figures relate to companies' accounting years ending between 6 April of the year shown and 5 April of the following year.

Detailed figures for each of 23 broad industry groups are published annually by the Department of Industry in the *Business Monitor—Miscellaneous series—M3*, entitled 'Company finance', which also contains detailed explanatory notes. The most recent issue was published in January 1976.

X. PERSONAL SECTOR

The personal sector is made up mainly of households and individuals resident in the United Kingdom as distinct from corporate businesses or organs of government. It includes individuals living in hostels and other institutions as well as those living in private households. The sector extends beyond households and individuals to include unincorporated private businesses of sole traders and partnerships such as farms, retail shops and independent professional people. It also includes private non-profit-making bodies serving persons and private trusts.

Personal income, expenditure and saving

Personal income is shown, before tax, divided into wages and salaries, Forces' pay, employers' contributions to national insurance and pension funds, current grants from public authorities and other personal income (income from self-employment, rent, dividends, and net interest and transfers to charities from companies). Income is estimated before providing for depreciation and stock appreciation. Deduction from total personal income of payments of taxes on income, national insurance, etc., contributions and transfers and taxes paid abroad gives personal disposable income. The figure for personal saving is obtained by subtracting consumers' expenditure from personal disposable income. Resulting as it does from the difference between two large aggregates, the figure for personal saving is subject to a wide margin of error. The quarterly estimate of saving is before providing for stock appreciation, depreciation and additions to tax reserves.

The personal income and expenditure account is described in detail in Chapter VI (particularly pages 101–112) of *National Accounts Statistics: Sources and Methods* (HMSO 1968). The description is brought up to date, and more detailed annual figures are published in the annual Blue Book on national income and expenditure. (The most recent edition was published in September 1975).

Sources and uses of funds of the personal sector

This table brings together various series which are set out in full in the capital and financial accounts of the personal sector.

Capital transfers from 1967 includes a small amount of investment grants in respect of capital expenditure after 17 January 1966.

Bank advances exclude loans for house purchase.

Other loans and mortgages include estimates of trade credit given by public corporations.

Accruals adjustment is the difference between accruals of local authority rates, subsidies, interest flows and value added tax (the basis on which these items are entered in the national income accounts) and the corresponding cash payments.

Unidentified is the balance item in the table. It is thought that one of the main omissions in the accounts represents trade credit granted to the personal sector by industrial and commercial companies. The statistical errors in the personal income and expenditure accounts and in the capital accounts are also reflected in this item.

British government securities (see page 4).

Other local authority debt is derived from the analysis of total borrowing by the local authorities (Table 30). The unidentified element of that borrowing is allocated to the personal sector together with identified borrowing from persons.

Selected liquid assets of the personal sector

The table shows the personal sector's holdings of selected liquid assets as defined in the financial transactions accounts.

National savings comprises all national savings outstanding on the National Savings register.

Deposits with the banking sector are obtained from the sector analysis of gross deposits of the banking sector.

Two sets of figures are shown for the end of the first quarters of 1972 and 1973. In the second set identified assets held with institutions recognised or confirmed as banks are classified as held with the banking sector; in the first set assets held with institutions then classified as finance houses are included as such.

XI. OVERSEAS SECTOR

Balance of payments

The items in these tables are more fully defined in *United Kingdom Balance of Payments 1964-74* (HMSO 1975).

Current account

Exports f.o.b., imports f.o.b.: The *Overseas Trade Statistics of the United Kingdom* are the basis of the balance of payments figures, but certain adjustments are made in respect of valuation and coverage. The principal adjustment is the deduction of freight and insurance from the *Trade Statistics* figures of imports.

Invisibles

Government: This covers all UK government current expenditure and receipts not appropriate to visible trade or to other invisible transactions.

Transport—sea transport: Receipts and payments for freight, charter hire, port disbursements and passage money. The figures relate to both tankers and dry cargo vessels.

Transport—civil aviation: Receipts and payments for passenger fares, freight, charter hire and airport disbursements.

Travel: Personal expenditure by UK residents in foreign countries and by foreign residents in the United Kingdom.

Other services: All other service transactions, including services rendered by related companies. Components include payments and receipts in respect of films, telecommunications, education, royalties, commissions and banking (excluding interest earnings), overseas government agencies' expenditure in the United Kingdom, including United States forces' expenditure other than payments to UK government departments, and net earnings in respect of insurance and merchanting transactions.

Interest, profits and dividends: This covers investment income remitted from, or to, the United Kingdom for payment of interest and dividends (after deduction of local taxes) plus profits (after deduction of depreciation). Components include income on direct and oil company investment (whether remitted or retained for reinvestment), interest and dividends on portfolio investment, interest on external sterling liabilities and claims, inter-government loans, bank credits, medium and long-term trade credit, official reserves and on liabilities and assets in overseas currencies.

Private transfers: The net value of private assets passing from resident to non-resident ownership, or vice-versa, without a *quid pro quo*. The item includes private gifts of money and of goods sent by parcel post and transfers of assets by migrants other than their personal or household belongings.

Capital transfers

This item comprises the payments made by the UK government in implementation of the guarantee clauses of the Sterling Agreements.

Investment and other capital flows account

A detailed reconciliation between the items described below, as shown in the balance of payments accounts, and the items in the financial accounts of the overseas sector is given as a supplementary table in the December issue of *Financial Statistics*.

Official long-term capital

This consists of inter-government loans and other UK official long-term capital.

Inter-government loans cover drawings and repayments of loans between the UK government and overseas governments.

Other UK official long-term capital covers all long-term capital transactions with overseas residents by the central government and public corporations, other than inter-government loans and overseas borrowing recorded elsewhere. It includes capital subscriptions to international lending bodies, other than the IMF, and net loans and investments overseas by the CDC; repayments (as guarantor) to the IBRD of loans to Rhodesia; a loan from the Deutsche Bundesbank in 1968, repaid in 1971; and a capital contribution to the reserves of the European Coal and Steel Community and to the European Investment Bank.

Overseas investment in UK public sector

This consists of changes in the holdings by overseas residents of UK government and government guaranteed stocks (excluding changes in holdings by international organisations and central monetary institutions), local authority securities and mortgages, public corporations and local authorities, net issues abroad and direct borrowing abroad from banks, etc.

UK and overseas private investment

UK private investment overseas covers direct, portfolio and other investment. Overseas investment in UK private sector covers direct investment, portfolio investment in UK company securities, and other investment.

Direct investment comprises investment by UK companies in their overseas branches, subsidiaries and associates, including the reinvestment of retained profits, and by overseas companies in their UK affiliates. Government departments, oil companies and foreign owned insurance companies are excluded. Certain transactions of a number of public corporations are included.

UK portfolio investment overseas consists mainly of net purchases and sales of overseas government, municipal and company securities.

Overseas investment in UK company securities represents the changes in the holdings by overseas residents of UK company securities, including securities issued abroad.

Other (oil and miscellaneous) investment includes UK oil companies' investment abroad and overseas oil companies' investment in the United Kingdom on a basis comparable with the estimates of other direct investment. Other overseas investment by UK residents includes investment in real estate and by the CDFC. Other overseas investment in the UK private sector includes borrowing by UK companies direct from banks and commercial companies overseas and identified investment in real estate and in the insurance industry in the United Kingdom.

Overseas currency borrowing or lending (net) by UK banks

Borrowing to finance UK investment overseas: Overseas currencies on-lent by UK banks to UK residents in the form of credits to finance UK investment overseas.

Borrowing to finance lending to UK public sector: Overseas currencies borrowed by UK banks for on-lending to UK public corporations and local authorities for domestic use. Prior to 1973 borrowing of this type was not separately distinguished but was probably small.

Other borrowing or lending (net): This item covers changes in external liabilities and claims of UK banks in overseas currencies other than liabilities as commercial bills and claims in the form of bills lodged with the banks (which are included in trade credit) and excluding borrowing reflected in amounts on-lent to UK residents referred to above. Since the September 1973 issue of *Financial Statistics* includes changes in UK net external liabilities and claims in overseas sterling currencies. Previously they were included in Other short-term flows. Up to the end of 1974, this item included claims on overseas customers arising from acceptances; subsequently they are excluded.

Exchange reserves in sterling

This item provides a broad measure of the changes in sterling reserves of overseas countries and international organisations (other than the International Monetary Fund) as reported by UK banks, etc. Transactions in British government stocks and banking and money market liabilities in sterling are shown separately.

Other external banking and money market liabilities in sterling

This item consists of the changes in UK external banking and money market liabilities in sterling to overseas residents other than central monetary institutions and international organisations.

Import credit

This item consists of the net change in trade credit received by UK businesses from overseas businesses other than affiliates and parent companies, *less* advance and progress payments from the United Kingdom.

For convenience, import deposits paid direct to HM Customs and Excise by overseas firms in the years 1968 to 1971, were included in this heading.

Export credit

The entries consist of the net changes in credit extended by banks in the United Kingdom and trade credit extended by UK businesses to overseas businesses other than affiliates and parent companies, *less* advance and progress payments (including advances by UK banks).

Other short-term flows

Consists of changes in the following: total UK external sterling claims other than export bills; official assets and liabilities (n.e.i.) other than import deposits paid directly from overseas; other commercial short-term transactions (net); IMF administrative and operational expenditure and receipts in sterling, and IMF gold deposits in the United Kingdom.

Balancing item

Represents the net total of errors and omissions in other items.

EEA loss on forwards

Records the loss arising from the fact that the Exchange Equalisation Account's forward commitments with the market entered into before the devaluation in 1967 were recorded as settled on maturity at the new parity.

Total currency flow

The total currency flow resulting from all external transactions comprises the current balance, capital transfers, the net balance of investment and other capital flows and the net total of unidentified transactions reflected in the balancing item. (In 1967 and 1968 the total currency flow also included the EEA loss on forwards).

Allocation of Special Drawing Rights

The UK share of the allocation by the IMF of the reserve asset, Special Drawing Rights. From 1 January 1970, UK holdings of SDR's are included in the official reserves.

Gold subscription to the IMF

That part of the UK subscription which is payable in gold on the occasion of an increase in the UK share of the IMF quota.

Official financing

IMF

UK drawings and repurchases, and drawings and repurchases in sterling by other countries, which affect the UK's repurchase obligations to the IMF. From July 1972 includes credit tranche transactions only: transactions affecting the UK reserve position in the Fund are treated as changes in the official reserves.

Other monetary authorities

Net borrowing from Switzerland (with a sterling counterpart) in parallel with drawings from the IMF under the General Arrangements to Borrow, other net borrowing from monetary authorities in the form of assistance with a sterling counterpart and net borrowing from other monetary authorities (and a consortium of Swiss banks in 1967) in the form of foreign currency deposits, and in 1971 and 1972 amounts swapped forward to later months with overseas monetary authorities.

Foreign currency borrowing by HM Government

These are drawings on a euro-dollar facility arranged by the Bank of England with UK clearing banks and their associates on behalf of HM Government to borrow \$2,500 million for a period of up to 10 years. The transaction is allocated to the debtor (HM Government) rather than the transactor (the clearing banks).

The sum of the above three items is shown as Other in Table 18.

Transfer from dollar portfolio to reserves

The transfer of the government's portfolio of dollar securities to the official reserves in 1966 and 1967.

Official reserves

Changes in the gold, IMF Special Drawing Rights and convertible currencies held in the Exchange Equalisation Account valued in sterling at transactions rates of exchange from 23 August 1971, and at parity previously. From July 1972 includes the UK reserve position in the IMF.

International Monetary Fund

The components of the UK account with the IMF are entered into the Analysis of total currency flow and official financing as follows:

IMF gold deposits in the United Kingdom to alleviate the impact of gold purchases from the United Kingdom by other Fund members in order to pay the increase in their gold subscriptions, and other IMF sterling transactions, are part of Investment and other capital flows—other short-term flows.

UK gold subscription to the IMF—see separate item.

UK drawings and repurchases, and net drawings/repurchases in sterling from the Fund by other countries are brought together as one item of Official financing.

The UK drew its outstanding gold tranche on 16 January 1976 by purchasing SDR 304 million (£173 million).

The UK total tranche position is the amount, valued at parity, which the United Kingdom may draw from the Fund without raising the Fund's holding of sterling beyond 200 per cent of quota, which has stood at SDR 2,800 million (£1,167 million) since November 1970.

Official reserves

These are the sterling equivalents of the gold and convertible currencies and, from 1 January 1970, Special Drawing Rights held in the Exchange Equalisation Account, together with, from July 1972, the reserve position in the IMF. Prior to the currency realignment in December 1971, currencies were valued at parity and Special Drawing Rights at the same parity as the US dollar. Gold was valued at £14.5833 per fine ounce; prior to the November 1967 devaluation gold was valued at £12.5000 per fine ounce. Following the realignment, currencies are converted at the new 'middle' or 'central' rates or new parities as applicable but the value of gold and Special Drawing Rights in sterling terms remains unchanged.

Exchange reserves in sterling; and banking and money market liabilities in sterling to holders other than central monetary institutions

This table brings together those figures which bear on the reserve role of sterling and also figures of cash or near-cash funds held in the United Kingdom by other overseas holders (for example commercial banks, companies and individuals).

Exchange reserves in sterling are funds held by central monetary institutions and international organisations. The detailed breakdown illustrates the extent to which countries choose to hold banking and money market assets as distinct from readily marketable investments in the form of government stocks.

There are, of course, other holdings of sterling which countries may regard as part of their reserves. Some are included in banking and money market liabilities to other holders; others are in types of assets—equities for example—which are not covered by the table.

Banking and money market liabilities to other overseas holders, like those held as part of sterling reserves, are the most liquid and normally the most variable of all the different types of sterling investments. They include the working balances of banks and commercial concerns overseas.

Banking and money market liabilities comprise:

- (a) Deposits and Treasury bills held for banks overseas (including overseas offices of UK banks) and other overseas residents by banks and their nominee companies in the United Kingdom and by certain other financial institutions including the Crown Agents for Overseas Governments and Administrations.
- Sterling certificates of deposit included under external deposits with banks, and non-interest-bearing notes held by international organisations (other than the IMF) are included under Treasury bills. The relative amounts are given in the additional notes to the corresponding table in the *Bank of England Quarterly Bulletin*.
- (b) Temporary loans to and bills drawn on local authorities, and deposits with some other companies, whether made direct by overseas residents or by UK banks and other UK agents for account of overseas residents.

Liabilities to the International Monetary Fund are excluded; the UK's drawings on the Fund from 1966 are shown in the table on Official short and medium-term borrowing.

The break in the series for deposits with banks and hire-purchase finance companies after February 1972 arises from the reclassification of several hire-purchase companies as banks after that date.

A modified reporting system for external liabilities and claims in sterling was introduced at the end of 1974 giving rise to some changes of definition and coverage. The main difference from earlier data is that holdings of British government stocks are shown at approximate market value instead of at nominal value. There has also been some improvement in coverage and consistency of reporting. Data are now normally collected as at the close of business on the third Wednesday of each month and at the end of each calendar quarter (although,

exceptionally, information for mid-March 1975 is not available). The difference between the end-December 1974 figures published there and those now shown gives a broad indication of the effects of changes in the reporting system. A further improvement in coverage increased deposits with banks by some £180 million from mid-May 1975.

The table showing external loans and advances in sterling has been discontinued. Figures of sterling lending by banks in the United Kingdom to overseas residents are included in the banking tables under the headings Market loans and Advances. The breakdown between the European Economic Community, oil-exporting countries and other countries is available on application to the Economic Intelligence Department, Bank of England.

External liabilities and claims of UK banks and certain other financial institutions in overseas currencies

The categories of liabilities and claims included in the series are as follows:—

Liabilities: Deposits and advances received from overseas residents and, from June 1966, negotiable dollar certificates of deposit issued in London. Until December 1971 it also included commercial bills drawn on UK residents and held by the banks on behalf of their overseas customers.

Official liabilities in overseas currencies arising from short-term loans to the UK government and drawings on central bank facilities are not included. Includes those drawings arranged by UK banks under the \$2,500 million facility.

Claims: Deposits with, and advances to, overseas residents; notes and coin; Treasury bills and similar short-term paper; commercial bills drawn on overseas residents and claims on overseas customers arising from acceptances. Until December 1971 the series also included commercial bills drawn on overseas residents and held by the banks on behalf of their overseas customers. Up to the end of 1974, claims on overseas customers arising from acceptances were included; subsequently they are excluded.

UK public expenditure on overseas aid

This table shows expenditure from public funds by the UK government on overseas aid to developing countries—programme 2.5 as defined in the annual White Paper on public expenditure (the latest, issued in February 1976, being Cmnd. 6393) and Supply Estimates. An analysis by recipient country or institution is included in the *Annual Abstract of Statistics*. A detailed presentation is also given annually in the Ministry of Overseas Development's *British Aid Statistics*. The latter additionally presents a reconciliation with data as reported to the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development.

The OECD publishes comparative information on the performance of DAC members in its annual *Development Co-operation: Efforts and Policies of the Members of the Development Assistance Committee*, available from HMSO. The memorandum which the UK government submits to this body annually is published as a White Paper (Cmnd. 6223 issued in September 1975, being the latest).

Bilateral aid

British bilateral economic aid is extended in two ways: financial aid, providing resources for physical development; and technical assistance, the supply of 'know-how'.

Financial aid is given in the form of grants and loans for development projects, general development programmes, budget support, and relief and reconstruction following natural disasters and emergencies. The total for loans includes overseas investment by the Commonwealth Development Corporation.

Technical assistance includes education and training in Britain for persons from overseas; assistance towards the education and training of overseas nationals in their own countries; the supply of advisers and operational personnel to work overseas and to maintain overseas public services; the provision of equipment for educational and training purposes; and the conduct of surveys and research.

The loan figures and totals, except where otherwise stated, are gross, but figures of grants (in the form both of financial aid and technical assistance) are reported net of minor receipts from overseas.

Multilateral aid

The figures show the total contributions to multilateral aid-giving agencies.

Agencies offering financial aid include the United Nations High Commission for Refugees (UNHCR), the United Nations Relief and Works Agency (UNRWA), the United Nations World Food Programme (WFP), the International Bank for Reconstruction and Development (IBRD), European Economic Community (EEC), the International Development Association (IDA), the African Development Fund, the Asian Development Bank, the Caribbean Development Bank and the Inter-American Development Bank.

Agencies offering technical assistance include the United Nations Children's Fund (UNICEF), the United Nations Development Programme (UNDP) and the United Nations Fund for Population Activities (UNFPA).

The figures do not include general contributions to the United Nations and its specialized agencies only part of whose budgets are spent on developmental activities.

Developing countries

The definition of developing countries used in constructing this table is that adopted by DAC. This comprises all countries except members of OECD (other than Greece, Portugal, Spain and Turkey), the Sino-Soviet countries (other than Cuba, North Vietnam and Yugoslavia) and South Africa.

XII. CAPITAL ISSUES AND STOCK EXCHANGE TRANSACTIONS

Capital issues

The estimates relate to new money raised by issues of ordinary, preference and loan capital (public issues, offers for sale, issues by tender, placings, and issues to shareholders and employees) by listed public companies and local authorities in the United Kingdom and by overseas companies and public authorities (including local authorities and international organisations). Issues by UK public authorities are included, except domestic issues guaranteed by the Government. The estimates include UK local authority negotiable bonds (of not less than one year) issued to, or through the agency of banks, discount houses, issuing houses or brokers. Mortgages, bank advances and any other loans redeemable in less than twelve months are excluded, as also are loans from UK government funds—but not government subscriptions to company issues made *pari passu* with the market. Issues to shareholders are included only if the sole or principal share register is maintained in the United Kingdom. Estimates of the amounts raised are based on the prices at which securities are offered to the market. Subscriptions are recorded under the periods in which they are due to be paid. Redemptions relate to fixed-interest securities of the kinds included as issues; conversion issues in lieu of cash repayment are included in the gross figures of both issues and redemptions. No allowance is made for company liquidations or other repayments of share capital. The figures for Convertibles relate to debentures and loan stock carrying the right of conversion into, or subscription to, equity capital. As the series relates only to new money raised, bonus issues, share exchanges and issues for other forms of consideration are excluded, as are issues in which the cash raised

accrues not to the borrowing company but to its existing shareholders.

The division between United Kingdom and overseas company borrowers is determined by the location of the registered office. On 1 April 1974 water, dock and harbour boards were reclassified as public corporations rather than local authorities. 'Special finance agencies' are listed public companies engaged in the provision of medium and long-term finance to industry (for example ICFC). The industrial classification in the third part of the table is according to the primary occupation of the borrowing company or group and is based on the Standard Industrial Classification.

An article in the *Bank of England Quarterly Bulletin* for June 1966 presented annual figures in broadly the present form back to 1954 together with an earlier series going back to 1927, and described the differences between the series.

Stock exchange transactions

The figures for the London stock exchange represent the sum of brokers' purchases on behalf of clients *plus* the sum of their sales on behalf of clients; that is, the transfer of a security from one holder to another counts as two deals. The Scottish figures are not comparable because any such transfer negotiated between two Scottish brokers is regarded as one deal. There is also an unknown element of duplication between the two series. With effect from 25 March 1973 the British and Irish stock exchanges (including Dublin) gave up their individual identities and united to become The Stock Exchange. A new series for The Stock Exchange first appeared in the *Financial Statistics*, May 1973.

XIII. EXCHANGE RATES, INTEREST RATES AND SECURITY PRICES

Foreign exchange rates

The exchange rates for Australia, New Zealand, South Africa and India are:

Australia: Until 13 February 1966 the selling rate was £A125 = £100. On 14 February 1966 a new unit—the dollar—was established on the basis of £A1 = \$A2 with a selling rate of \$A 2.50 = £1. After the sterling devaluation of November 1967 the rate was \$A 2.1429 = £1. Between the Smithsonian Agreement of December 1971 and 25 September 1974 the Australian dollar was tied to the US dollar; during this time it was revalued three times, by 7.05 per cent (23 December 1972), 11.1 per cent (13 February 1973) and by 5 per cent (9 September 1973). On 25 September 1974, the Australian dollar was devalued by 12 per cent and since that date the exchange rate has been adjusted daily to maintain a stable effective value in terms of a trade-weighted basket of currencies.

New Zealand: The selling rate was £NZ 100.375 = £100 until 10 July 1967 when a new unit—the dollar—was introduced on the basis of £NZ1 = \$NZ2. After the sterling and New Zealand dollar devaluations of November 1967 the rate was \$ NZ 2.1367 = £1. Between the Smithsonian Conference and 9 July 1973, the New Zealand dollar was pegged to the US dollar during which time it was revalued by 11.1 per cent (February 1973). On 9 July 1973, the New Zealand dollar was revalued by 3 per cent and since that date, the exchange rate has been adjusted daily to maintain a stable effective value in terms of a trade-weighted basket of currencies. During this time, the New Zealand dollar has been revalued by 10 per cent (10 September 1973) and devalued twice, by 9 per cent (25 September 1974) and by 15 per cent (10 August 1975).

South Africa: From 14 February 1961 a new unit—the Rand—with a selling rate (Rand to £100) of 199.75 was established on the basis of £SA1 = Rand 2. After the sterling devaluation of November 1967 the selling rate was £100 = R 171.214. On 18 August 1972 the Rand was allowed to float against sterling but was repegged on 22 December 1971 with a selling rate of £100 = R 194.6955. The Rand was allowed to float with sterling from 23 June 1972 until 25 October 1972 when it was pegged on the US dollar. In the February 1973 realignment the Rand appreciated by 11.1 per cent against the US dollar, and it was revalued by a further 5 per cent on 5 June of that year. Between 24 June 1974 and 26 June 1975, ten small adjustments were made to maintain the effective value of the Rand stable against a trade-weighted basket of currencies. On 27 June 1975 the Rand was devalued by 4.76 per cent and pegged once again to the US dollar. Subsequently on 22 September 1975 the Rand was devalued by 17.9 per cent to R1 = US\$ 1.15.

India: The link with sterling was continued until 25 September 1975 when the exchange system was altered to one in which the exchange value of the rupee is determined on a daily basis in relation to a weighted basket of currencies of India's main trading partners.

British government securities: prices and yields

The gross flat yield on a security is the annual amount receivable in interest expressed as a percentage of the purchase price. The net flat yield is the gross flat yield less income tax at the standard rate. These yields are used mainly for irredeemable or undated stocks, where the absence of a fixed redemption date does not permit the calculation of any certain capital gain or loss; and they are comparable with rates of interest obtainable on deposits, mortgages and other investments that offer no capital gain or loss. For investors whose only concern is annual receivable income (for example life interests) these yields are a measure of their return on dated securities also; but most investors in these stocks will be concerned, in addition to the annual income, with the capital gain or loss arising from the difference between the price at which they were purchased and the price at which they will be redeemed at a known date (or range of dates).

The gross redemption yield comprises the gross flat yield together with an apportionment of the calculated capital gain or loss on dated securities held to redemption: more precisely it is the rate of interest which if used to discount future dividends and the sum due at redemption will make their present value equal to the present price of the stock. It is an appropriate measure of the gross annual return on these securities, if held to maturity, for investors who either pay no tax (for example pension funds) or pay tax on income and capital profits at the same rate (for example security dealers). It provides a convenient means of comparing the annual return on dated securities with different nominal rates of interest.

The net redemption yield is similar to the gross redemption yield except that income tax at the standard rate is deducted from dividends. From April 1965 to March 1969 the net redemption yield allows also for tax on capital gains to redemption. From May 1965 to March 1969, however, it ignores any appreciation between the lowest price at which the stock was issued and its redemption price; such appreciation was exempt from capital gains tax. From March 1969 to April 1971 the deduction for capital gains tax (currently at 30 per cent for persons) was made only on stocks with less than one year to redemption and since then it has been made only on stocks disposed of within one year of acquisition.

The net redemption yield grossed up at the standard rate of income tax is not an actual return to any class of holder. It provides, for those who pay tax only on income, a notional gross return on dated securities which can be compared with other gross returns containing no tax-free or low-taxed element, such as income (before tax) on investments which offer no capital gain or loss, for example deposits, or on which the capital gain or loss cannot be calculated in advance, for example equities.

In calculating the yield on stocks with alternative redemption dates, redemption is assumed at the later date when the price (excluding gross accrued interest) was below par, that is when the flat yield is above the nominal rate, and at the earlier date when the price was above par.

Calculated gross redemption yields are derived from yield maturity curves fitted mathematically. The series was broken in 1970 due to a change in method. An article in the *Bank of England Quarterly Bulletin*, December 1972, described the new method of calculating the curve which is based on the prices and coupons for all stocks except a few with special features. This was modified in 1973 (see the Bulletin for September 1973); before 1971, the curve was fitted to yields on stocks with coupons of 5 per cent or more. (The old method was described in the *Bank of England Quarterly Bulletin* for March 1967). The yearly figures are averages of end of month yields. The monthly figures relate to averages of Wednesdays, except for 1971 where they are for end-months.

Grossed-up net yields on national savings are shown in notes on Section III.

Tax reserve certificates

Interest on tax reserve certificates which are no longer issued was paid free of tax. The rates of interest for the Personal issue have been grossed up to take into account only the standard rate of income tax, whereas in fact the true gross return would frequently have been affected by surtax, and hence been higher. The rates of interest for the Company issue have been grossed up to take into account the rate of corporation tax. On 18 November 1967 it was announced that the rate of corporation tax would be increased from 40 per cent to 42½ per cent and, on 15 April 1969, that this rate would be further increased to 45 per cent. On 27 October 1970 it was announced that the rate would be decreased to 42½ per cent. A further reduction to 40 per cent was announced on 30 March 1971.

The rates of interest (free of tax) paid on tax reserve certificates for the period from 1955 to end-1964 were as follows:

Company and personal issues

From 1954	14 July	1%
1955	21 February	1¼%
	21 March	1½%
	11 July	1¾%
	10 September	2½%
1956	29 February	3%
1957	25 September	3½%
1958	29 March	3¼%
	7 June	3%
	20 August	2½%
	29 November	2¼%
1960	27 January	2½%
	28 May	2¾%
	29 June	3¼%
	26 November	3%
1961	12 August	3½%
	25 November	3¼%
1962	24 March	3%
	28 April	2¾%
	25 August	2½%
1963	19 January	2¼%
1964	28 March	2¾%
	28 November	3½%

On 27 June 1966 separate certificates were introduced for persons and for companies at different rates of interest as follows:

Company issue

From 1966	27 June	3⅜%
	2 August	3¾%

Personal issue

From 1966	27 June	3½%
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The tax reserve certificate scheme has ceased. The last issue of company certificates was withdrawn on 31 December 1971 but a final personal issue was available from 3 January 1972 until 29 June 1973. Payments of interest on personal certificates ceased after 1 January 1974.

Tax deposit accounts

See definition on page 4.

Certificates of tax deposit

See definition on page 4.

Company security prices and yields

F.T.—Actuaries share indices

This series has been published from 26 November 1962. The figures are taken from the F.T.—Actuaries share indices which are published daily in the *Financial Times*. Details of the constituents and computation of the indices are given in the booklet *Guide to the F.T.—Actuaries Share Indices* (The Financial Times Limited). The prices taken are middle market prices at close of business. The base date is 10 April 1962 (the starting date of the short-term capital gains tax). Monthly and annual figures are arithmetic averages of those for working days.

Ordinary shares

These indices are weighted arithmetic averages of the percentage price changes of the constituent shares since 10 April 1962; weights for each constituent are the total market values of the shares issued at the base date modified to maintain continuity when capital changes occur, for example rights issues, or when constituents change, for example when companies disappear owing to take-overs or new companies become large enough to qualify for the indices.

The Industrial share index of 500 shares comprises three main groups (capital goods, consumer durable goods and consumer non-durable goods) together with chemical, oil, shipping and miscellaneous groups. To form the All Classes Index an index of 100 ordinary shares of financial and property companies is combined with an index of 50 Investment Trust company shares and the Industrial (500) share index.

Dividend yields: These are the totals of the last year's dividends, up to the most recently declared, payable on the capital of constituents expressed as percentages of total market valuation.

Earnings yields: Earnings, as calculated from the latest available reports and accounts and interim statements, are expressed as percentages of total market valuation. From August 1965 earnings are taken as gross profit less corporation tax and other charges and gross

preference dividends; the yields given relate to earnings with corporation tax at 40 per cent up to 5 December 1967, at 42½ per cent up to 7 May 1969, at 45 per cent up to 29 November 1970, at 42½ per cent up to 30 March 1971 and then at 40 per cent. Previously earnings were taken as net profit (gross profit less income tax, profits tax and other charges and net preference dividends) grossed up for income tax. The average of yields in the first week of August 1965, on the old basis was 10.83 per cent compared with 8.43 per cent on the new.

In anticipation of the new imputation system of corporation tax (effective on 6 April 1973), from February 1973 until April 1974, the earnings yield was calculated on the assumption of corporation tax at 50 per cent and full distribution of earnings, but from April 1974 Corporation Tax increased to 52 per cent.

Preference stocks: The prices used are middle market prices at close of business adjusted for accrued interest less income tax at the standard rate. There are 20 component stocks and the price index is 1/20th of the sum of the percentage changes in prices of these stocks. Yields are the arithmetic averages of those calculated on each stock.

Debenture and loan stocks: The index and yield for debenture and loan stocks are calculated from the price changes of fifteen stocks with an average term to maturity of about twenty years. The stocks are divided into three groups according to redemption date and the price factors and yields for the three groups are combined in a weighted average to provide a price index and gross redemption yield appropriate to a stock of exactly twenty years duration. The weights for the various groups change daily.

Financial Times index of industrial ordinary shares

This is a geometric index, calculated and published by the *Financial Times* at hourly intervals during the day and at the close of Stock Exchange business for the day. Figures shown in the table are closing figures. The base date is 1 July 1935, which equals 100. Constituents of the index are thirty market leaders, representing a cross-section of British industry. Dividend and earnings yield calculations are also geometric. (See also notes above).

A fuller description of the composition and compilation of the index is given in 'Guide to FT Statistics', last published by the *Financial Times* in 1975.

The Times indices of industrial ordinary share prices

These figures are taken from *The Times* daily index numbers of Stock Exchange security prices. Full details of the composition and compilation of the index numbers are given in the booklet, *The history, method of calculation and first revision of The Times Stock Exchange indices* (The Times Publishing Company Ltd.).

The base date for index numbers before 1964 is 2 June 1959 and thereafter 2 June 1964. Each index number is a weighted arithmetic average of the prices of all shares included in that index. The weight given to each share is proportionate to the market value of the issue on 31 March 1964 (or, before June 1964, to the average

market value on two dates: 1 July 1958 and 27 October 1959).

The index for all classes covers 150 shares: 50 large companies (over £30 million market capitalisation) and 100 smaller companies. The indices for capital goods and consumer goods each relate to 43 companies producing wholly or mainly capital goods or consumer goods respectively.

The prices used for computation of the indices are the daily closing prices given in the Stock Exchange price list in the City columns of *The Times*. Where any price is affected by a new issue of shares through a 'rights' issue, capitalisation of reserves, etc., the price used for computation of the index number is adjusted accordingly.

Monthly and annual figures are the average of working days.

Short-term money rates

Bank of England's minimum lending rate: Previously known as Bank rate. The minimum rate at which the Bank, acting as lender of last resort, normally lends to members of the discount market against security of Treasury bills, other approved bills, or government stocks with five years or less to maturity. From 13 October 1972, the rate is automatically set one half per cent higher than the average rate of discount for Treasury bills established at the weekly tender rounded to the nearest quarter per cent above. The rate becomes effective for lending by the Bank from the following working day. Special changes in the rate are not excluded under this system, in which event the operation of the formula is temporarily suspended until market rates have adjusted themselves to the new rate.

Bank rate for the period 1932 to 12 October 1972 is published in the *Supplement of Definitions and Explanatory Notes to the Monthly Digest of Statistics* (revised January 1976) and the minimum lending rate at dates of change from 13 October 1972 is published in the *Monthly Digest of Statistics*.

Commercial bills: discount market buying rates: trade bills (3 months): the rate at which trade bills are discounted depends on their quality. The figures shown are market rates for bills of good average quality. Some trade bills are discounted at lower rates.

Deposits with hire purchase finance houses: The spread of rates quoted are those given by some of the main finance houses (other than those granted banking status) for new deposits of a fixed term of three months. These 'fixed' rates do not vary automatically with minimum lending rate during the currency of the deposit. Rates are to some extent subject to negotiation and different rates may be paid on large amounts.

London clearing banks base rate

Each bank has a single base rate, which may sometimes differ from those of other banks. Since the beginning of October 1971 the rates of interest charged by the London clearing banks for their advances to customers and their discounting of trade bills have been, in general, linked to their own individually declared base rates. The

rates charged for advances depend on the nature and status of the customer. Most lending is between 1 per cent and 5 per cent higher than base rate. In December 1973, however, the clearing banks announced that, in order to curtail arbitrage transactions by their customers, they proposed to indicate to certain customers (in particular local authorities, finance houses and other banks) that advances would in future be related to market rates instead of to base rates. The following are now the only uniform rates paid on unsecured overdrafts and loans made by the clearing banks:

<i>Customer</i>	<i>Rate</i>
Nationalised industries, with Treasury guarantee	Syndicated base rate (1) +½% or 1%
Export loans other than for ships, with ECGD guarantee:	
up to two years	Base rate +½% (4½% minimum)
two to five years	7% minimum
over five years	7½% minimum
Term loans for exports of ships, with ECGD guarantee, and domestic shipbuilding, with Department of Industry guarantee:	
over two years	7½%

The rates for exports and domestic shipbuilding exclude management and commitment charges and negotiation fees. Such additional charges are not made on overdrafts.

Finance House base rate

The base rate was introduced by the Finance Houses Association for the benefit of those of its members who require an alternative to the Bank of England's minimum lending rate (previously known as bank rate) as a basis on which to calculate certain charges to their customers. The rate was first published on 1 September 1970 and is

(1) The syndicated rate is agreed by the banks from time to time in the light of their declared base rates.

calculated monthly. It became necessary to introduce such a rate because the cost of money to finance houses has ceased to follow the broad trend of bank rate, which was thus no longer suitable for use as a basis on which to calculate lending rates in certain long-term agreements in which it is appropriate to vary the rates during the term of the agreement. The rate is calculated by averaging the weekly averages of the three month inter-bank rate in the preceding eight weeks, and rounding to the nearest one half per cent above.

Building societies: rates of interest

The quoted rates on shares and deposits are net of income tax where this is paid by societies at the agreed composite rate. The latest composite rates for fiscal years are as follows: 1959/60, 25.62%; 1960/61, 26.67%; 1961/62, 27.08%; 1962/63, 27.50%; 1963/64, 27.08%; 1964/65, 29.17%; 1965/66, 30.83%; 1966/67 and 1967/68, 31.25%; 1968/69, 32.08%; 1969/70, 32.25%; 1970/71, 32.75%; 1971/72, 31.00%; 1972/73, 30.00%; 1973/74, 23.50%; 1974/75, 26.25%; 1975/76, 27.75%. Changes in the rates by individual societies which are members of the Association are not made simultaneously.

Local authorities interest rates

Mortgages are formally secured on the revenue of the borrowing authorities. Interest is received after deduction of income tax at the standard rate of 35 per cent. An individual not chargeable to tax (an overseas resident, for example) may obtain a repayment, whilst an individual liable to tax at a higher rate will have his tax adjusted for the following year.

Trustee savings banks: special investment departments

Mean nominal deposit rates are higher than the actual average rates paid because interest is paid on complete pounds deposited for full monthly periods reckoned to the 20th day of each calendar month. It is estimated that the average rates paid are about 0.15 lower than mean nominal rates.

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