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FINANCIAL STATISTICS

CENTRAL STATISTICAL OFFICE

NOTES AND DEFINITIONS

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FINANCIAL STATISTICS

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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 1971. The definitions and table numbers relate to the tables as they appear in Issue No 120 for April 1972. 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 capital accounts given in Tables 1 and 2 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 given in Tables 3 to 9. 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. 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 3 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.

The banking sector

The banking sector comprises the United Kingdom offices of four main categories of banks: (*a*) deposit banks (including the Bank of England, Banking Department), (*b*) accepting houses and overseas banks, (*c*) the discount market and (*d*) the National Giro (from October 1968). In all, about 200 separate institutions are covered.

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 and the Industrial and Commercial Finance Corporation. 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. 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 United Kingdom residents. This is equal to the balance of payments surplus on current account *plus* capital grants from overseas. 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. 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, is given in the appendix on page 39.

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 in Table 10.

Tax reserve certificates: The net purchases by other financial institutions are those reported by building societies.

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.

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 financial 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;

(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 industrial and commercial companies now include *Capital issues overseas* by United Kingdom companies. The figures have also been extended to cover *Overseas direct subscriptions to issues of capital* by United Kingdom companies. These figures have been identified from balance of payments statistics.

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.

Allocation of Special Drawing Rights: This is the United Kingdom 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 4th quarter of 1967 excludes the revaluation on devaluation of sterling.

Refinanced export credits: This item relates to the refinancing by the Issue Department of the Bank of England of medium-term and long-term export credit and loans for domestic shipbuilding provided by the London and Scottish clearing banks.

Intra-company investment overseas: This new item represents private investment abroad, other than in securities, *less* the corresponding overseas investment in the United Kingdom private sector. It is equal in the balance of payments accounts to United Kingdom *Direct* private investment overseas, excluding the net acquisition of share and loan capital, and *Other (oil and miscellaneous)* private investment overseas *less* the corresponding elements of overseas investment in the United Kingdom private sector and investment abroad by public corporations. This item previously formed part of *Other identified overseas assets: long-term.*

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 and coverage differences arising on other items between the figures in the financial accounts and the figures in the balance of payments accounts.

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

Matrix analysis by sector and type of asset: Table 3 no longer includes a column for *Unallocated* items because all identified financial transactions included in the table have been allocated. See notes above.

II. PUBLIC SECTOR

Public sector current and capital 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).

Identified financial transactions (net): Comprises transactions identified in Table 4, other than those included in the borrowing requirement.

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

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 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.

This table summarises 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

Includes payments into the Consolidated Fund of broadcast receiving licence receipts, interest, dividends and other miscellaneous receipts in addition to tax revenue. 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 amounts advanced 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 reserved taxes, etc.

(iii) Other expenditure—the largest items are the repayment of post-war credits, together with interest and 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, as well as the British Overseas Airways Corporation and the British European Airways Corporation. Amongst other types of loans, those to Local Authorities include loans to harbour authorities; loans to the private sector are to housing associations, building societies and shipbuilders (under the Ship Credit Scheme); whilst lending within the central government includes advances to the Redundancy Fund, and the Northern Ireland Government as well as certain lending to Votes for capital purposes. Lending associated with the redemption of government guaranteed stock is now shown separately.

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.

Departmental balances and miscellaneous: This item comprises

(i) changes in balances on the accounts kept by government departments, mainly with the Paymaster General; and

(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.

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 (e.g. Regional Hospital Boards) 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. 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 indebtness 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 requirement.

Notes and coin: Includes both the increase in notes in circulation (i.e. 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.

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.

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 39 of the National Income Blue Book 1971:

(i) borrowing from overseas governments *less* repayments;

(ii) miscellaneous direct borrowing (net) from overseas governments and institutions;

(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;

(iii) total overseas official financing (as shown in the balance of payments accounts).

Total overseas official financing covers:

(i) net transactions with overseas monetary authorities;

(ii) 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.

Net transactions with overseas monetary authorities cover the following items which are shown in the National Income Blue Book:

(i) the counterpart issue in Treasury bills of central bank assistance in support of the reserves in the form of swaps against sterling;

(ii) net drawings from, *less* repayments to International Monetary Fund;

(iii) the change in foreign currency deposits by other overseas monetary authorities;

and also includes from 1971

(iv) amounts swapped forward in transactions with overseas monetary authorities.

Transactions arising from the write-off of debt of certain public corporations are no longer included. See note on page 15.

Treasury bill tender

The figures 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.

Market 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 marketable securities and Treasury bills in the financial accounts.

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. In December 1971, the government announced that the Tax reserve certificate scheme would be dropped. No new company certificates have been issued since December 1971 but a final personal issue is available from 3 January 1972 to 29 June 1973.

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 Post Office on behalf of the Board of Inland Revenue, such as contract note duty are included. Amounts collected by the Board of Inland Revenue on behalf of other departments, for example, national insurance graduated contributions and fee stamps are excluded. Excess profits tax post-war refunds are excluded but the income tax deducted therefrom is included; the amounts involved are now negligible.

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 is remitted to collectors during the quarter following that in which the registered traders have 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, beer duty is collected a month in arrear.

The figures shown as the cost of export rebates include also relief for shipbuilders under the Finance Act 1966, Section 2. Export rebate is not payable on goods exported after 31 March 1968 unless exported under certain contracts made before the announcement of devaluation. Shipbuilders relief under the Finance Act 1966 Section 2 continues to be payable on the delivery of a ship. The amounts shown are the combined total payments of rebate and relief; amounts received by H.M. Customs and Excise from the Department of the Environment (in respect of the motor vehicle licence duty element in the payments) are included in the 'Other' column.

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;

(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;

(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, Treasury bills, defence bonds and national development bonds. Such purchases are included in net receipts from transactions in marketable securities in the central government capital account.

There is a slight amount of double counting in Series (i) as purchases of defence bonds and national development bonds by the trustee savings banks' special investment departments are also included in the sales of bonds.

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 1965 onwards, giving the dates from which the changes were operative, are shown below. The standard rates of income tax were:

1959/60–1964/65	...	38·75 per cent
1965/66–1970/71	...	41·25 per cent
1971/72–	...	38·75 per cent

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

1963 13 May	11th issue, £1 units. Maximum holding £300. Compound interest if held for six years £3·79 per cent per annum.
1964 21 April	Maximum holding £600. Compound interest if held for a further six years £4·20 per cent per annum.
1966 28 March	12th issue, £1 units. Maximum holding £500. Compound interest if held for five years £4·56½ per cent per annum. Compound interest if held for a further four years £4·66½ 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 equal to £9·36½ per cent per annum grossed up for income tax at 38·75 per cent annually.
1971 1 April	Maximum holding £1,000

National development bonds: First issued 15 May 1964. Sold for £5 and multiples of £5. Interest, payable half-yearly is assessable for income tax and surtax; bonuses are free of income tax, surtax, capital gains tax and corporation tax.

1964 15 May	1st issue 5 per cent. Maximum holding £2,500. Bonus £2 per cent if held for five years.
1965 15 September	2nd issue 5 per cent. Maximum holding £2,500
1966 11 July	1st issue 5½ per cent. Maximum holding £2,500. Bonus £2 per cent if held for five years.
1968 30 March	Sales ceased

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

1968 1 April	1st issue 6 per cent. Maximum holding £10,000. Bonus £2 per cent if held for five years.
1969 26 April	Sales ceased.
1969 28 April	1st issue 7 per cent. Maximum holding £10,000. Bonus £2 per cent if held for five years. Equivalent to £7·60 per cent per annum grossed up net redemption yield assuming standard rate of income tax at 38·75 per cent.
1971 3 May	2nd issue 7 per cent. Maximum limit of £10,000. Bonus £3·00 per cent if held for five years. Equivalent to £7·88 per cent per annum grossed up net redemption yield assuming standard rate of income tax at 38·75 per cent.

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

Save as you Earn Scheme: Parallel schemes which commenced 1 October 1969 are operated by the Department for National Savings and the Trustee Savings Banks. Fixed monthly amounts of £1 to £10 (£1 to £20 as from 1 September 1971) are contracted for 5 years. In the case of contractors with one or more contracts registered with the Department for National Savings and/or Trustee Savings Banks, the £20 maximum is applicable to the total aggregate of each month's subscriptions on all contracts. Terms as follows: (a) 5 year bonus equal to 1 year's savings at a nominal annual rate of £6·99½ per cent (grossed-up equal to £11·42 per cent at 38·75 per cent in the £) compounded monthly. Alternatively, for savings left invested a further 2 years: (b) 7 year bonus equal to 2 years savings, at nominal annual rate £7·41 per cent (grossed-up equal to £12·10 per cent at 38·75 per cent in £) compounded monthly for 5 years and annually for 2 years: (c) No interest paid for savings withdrawn in first year of contracts' registration: (d) 2½ per cent per annum is paid on savings withdrawn after first but before the end of the fifth year (but see (f)): (e) 4½ per cent per annum is paid on savings left for remainder of full 5 years after payments have been discontinued and contracts lapse: (f) 4½ per cent per annum is paid on sums subscribed over a complete year by a deceased contractor. Terms (a) to (f) are paid free of income tax, surtax and capital gains tax.

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

1964 21 April	Maximum holding £1,000. Interest at 4½ per cent per annum free of tax.
1966 1 February	A prize of £25,000 in February, May, August and November each year in addition to monthly prizes.
1967 14 April	Maximum holding £1,250
1968 1 September	Interest at 4⅝ per cent per annum free of tax. A prize of £25,000 awarded weekly in addition to monthly prizes.
1971 1 April	Maximum holding £2,000
1 August	Interest at 4¾ per cent per annum free of tax. An additional prize of £50,000 awarded monthly.

Deposits with National Savings Bank and trustee savings banks (ordinary departments): Interest 3½ per cent per annum.

1956 6 July	Interest 2½ per cent per annum: up to £15 per annum free of income tax but not surtax
1960 2 May	Maximum deposit £5,000 on individual holdings
1969 1 July	Maximum deposit £10,000 on individual holdings
1969 21 November	Interest rate raised to 3½ per cent on TSB accounts
1970 1 January	Interest rate raised to 3½ per cent on NSB accounts

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 July	Interest 7½ per cent per annum

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

IV. LOCAL AUTHORITIES

Local authorities are defined as in the national income accounts, that is, as bodies obliged to make annual returns of income and expenditure under Part XI of the Local Government Act of 1933 and similar legislation in respect of Scotland and Northern Ireland; the local authority sector therefore includes not only authorities with general administrative functions, such as county councils and county boroughs, but also local bodies with special functions, such as water boards, harbour boards and passenger transport authorities.

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 Consolidated Fund to harbour authorities (c) the Northern Ireland Government Loans Fund (d) 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 institution.

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.

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. Borrowing by bank overdraft is measured net, that is, where an authority has more than one current bank account it is asked to report any overdraft arising on all such accounts taken together.

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 are based on quarterly returns from nearly all local authorities in the United Kingdom. The analysis by source, however, showing separate figures for negotiable bonds, quoted securities other than bonds, and Revenue bills (from first quarter 1971), and showing the sectors from which other loans and mortgages are obtained, is based on returns from a sample of authorities. This sample comprises 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 exceeds £100,000. 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 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).

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.

Stock issued less stock redeemed: Figures are in terms of cash received or paid. Issues of stock relate only to corporations in Northern Ireland. Redemptions of government-guaranteed stock which are treated as not affecting the central government borrowing requirement are shown separately.

Bank lending comprises bank loans, overdrafts and commercial bills and is obtained from the returns made by institutions classified to the United Kingdom banking sector.

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

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.

Other public sector debt: British government securities, local authority securities and import deposits.

Accruals adjustment: The difference between accruals of subsidies and bank interest charges (the basis on which these items are entered in the appropriation account) and the corresponding cash payments.

Transactions arising from the write-off of debt of certain public corporations are no longer 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

The banking sector comprises the UK offices of the deposit banks, the Banking Departments of the Bank of England, the National Giro (from October 1968), the UK offices of the accepting houses, overseas banks, and other banks and the discount houses.

Bank of England

Issue Department

Government debt (£11 million) is included in government securities.

Other securities include refinance provided by the Issue Department under the export and shipbuilding scheme (for details see *Bank of England Quarterly Bulletin* for September 1969).

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 are 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 are 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 called, under the Special Deposits Scheme announced in July 1958, from the London clearing banks and the Scottish clearing banks and not at their free disposal. The first call was made in April 1960. Amounts were calculated as percentages of the previous month's total deposits of each bank.

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

From 16 September 1971 calls for Special Deposits apply to the whole banking system; the new arrangements were described in a supplement entitled 'Reserve ratios and Special Deposits' issued with the *Bank of England Quarterly Bulletin*, September 1971.

Bankers' deposits: Include the balances, held at the Bank, of the London clearing banks, Scottish clearing banks, the offices in the United Kingdom of other deposit banks (apart from overseas central banks), accepting houses, a number of overseas and other banks and the discount market. Balances of overseas central banks are included in 'other accounts'.

Reserves and other accounts: These also include balances held at the Bank by the Crown Agents for Oversea Governments and Administrations, and the dividend accounts of stocks managed by the Bank other than the direct obligations of the British government.

Eligible liabilities, reserve assets and reserve ratios

(i) *Banks:* In the calculation of banks' reserve ratios, 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 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 Deposits), British government and Northern Ireland government Treasury bills, company tax reserve certificates, money at call with the London money market, British government stocks and stocks of nationalised industries guaranteed by HM government with one year or less to final maturity, local authority bills eligible for rediscount at the Bank of England and (up to a maximum of 2 per cent of eligible liabilities) commercial bills eligible for rediscount at the Bank of England.

(ii) *Finance houses:* In the calculation of the finance houses' reserve ratios, eligible liabilities comprise deposits with an original maturity of two years or less received from UK residents, other than banks, or from overseas. The definition of reserve assets is the same as for banks.

Full definitions of all the items in this table are contained in the article 'Reserve ratios: further definitions', in the December 1971 *Bank of England Quarterly Bulletin*, page 482.

(iii) *Discount market:* Public sector lending ratios. The discount market is here defined as the eleven discount houses, together with certain other firms carrying on an essentially similar type of business. These are the three discount brokers (Gerald Quin, Cope and Co., Norman and Bennet Ltd. and Page and Gwyther) and the money trading departments of six banks traditionally maintaining such business (Algemene Bank Nederland NV, Banque Belge Ltd., Ionian Bank Ltd., Keyser Ullmann Ltd., Leopold Joseph and Sons Ltd., and Samuel Montagu & Co. Ltd.).

In the calculation of the public sector lending ratio, borrowed funds comprise:

(a) total sterling borrowing (other than capital) from all sources, less any sterling lending to other discount houses, discount brokers, money brokers, or the six banks' money trading departments, as already defined; *plus*

(b) the excess, if any, of liabilities denominated in currencies other than sterling over the total of assets in such currencies. No deduction is allowed from the total of borrowed funds if other currency assets exceed other currency liabilities.

The categories of public sector debt included in the ratio are:

(a) UK and Northern Ireland Treasury bills;

(b) local authority bills eligible for rediscount at the Bank of England and negotiable bonds;

(c) public sector bills guaranteed by HM Government;

(d) company tax reserve certificates;

(e) British government stocks and stocks of nationalised industries guaranteed by HM Government, with not more than five years to final maturity; and

(f) local authority stocks with not more than five years to final maturity.

A general description of the new arrangements for credit control as they affect the discount market appeared in the September 1971 *Bank of England Quarterly Bulletin*, page 314.

United Kingdom banking sector

The following tables exclude transactions within the banking sector and, therefore, are not comparable with those shown in other tables in *Financial Statistics*.

Liabilities and assets

Deposit banks: These comprise the London clearing banks, the Scottish clearing banks, the Northern Ireland banks (United Kingdom offices only) and certain other banks whose business in the United Kingdom is mainly concerned with domestic banking (The Co-operative Bank Ltd., C. Hoare & Co., Isle of Man Bank Ltd., Lewis's Bank Ltd., the Scottish Co-operative Wholesale Society Ltd., Bankers and Yorkshire Bank Ltd.). The Bank of England, Banking Department is also included here.

Current and deposit accounts: Current and deposit accounts (other than those held for United Kingdom banks and discount houses) including net liabilities to offices abroad and deposits and advances from banks abroad. Banks' own internal funds are excluded. No adjustment is made for collections and items in transit. Deposits at the Bank of England, Banking Department (other than bankers' deposits and balances of the Exchequer and Paymaster General) and funds borrowed by the discount market from outside the banking sector are also included.

Net deposits: Current and deposit accounts (other than those held for institutions in the banking sector), issues of dollar and sterling certificates of deposit (from June 1966 and December 1968 respectively) other than those held for or by the banking sector, less 60 per cent of the net value of transit items between institutions within the banking sector as well as between offices of the same bank. Transit items comprise both credit and debit items and 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 to such customers. In accordance with the treatment adopted for the calculation of reserve ratios (see *Bank of England Quarterly Bulletin*, December 1971) it is assumed that 60 per cent of the total value of debit items, *less* credit items, affects deposits and is therefore deducted from gross deposits in the calculation of net deposits, and that 40 per cent affects advances.

Bank advances: Advances (including overdrafts and loans) before providing for bad and doubtful debts. They exclude transactions within the banking sector.

Sector analysis

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

In considering quarterly changes in this series, adjustments need to be made to the published figures to allow for the inclusion at December 1967 of new contributors. From that date, the new contributors are treated by other contributors as members of the banking sector and not, as previously, 'companies'. For comparison with the figures at September 1967, current and deposit accounts of previous contributors at December 1967 (the upper line in the tables) should be increased by £107 million (to £18,370 million) and advances by £66 million (to £12,297 million); deposits and advances of 'companies' should be similarly increased. (These were the amounts reported at December 1967 by the new contributors as claims on UK banks and liabilities to UK banks, respectively).

The foreign currency element of the banking sector figures at December 1967 is inflated by the revaluation of foreign currency balances at 18 November. For deposits and advances this increased the sterling equivalents by approximately the following amounts:

	Current and deposits accounts (£ million)	*Advances* (£ million)
UK residents (largely companies)	+ 35	+ 35
Overseas residents ..	+575	+535

Changes in assets and liabilities

This table shows monthly and quarterly changes in the banking sector's assets and liabilities grouped by sector and provides a link with changes in money stock. Some of the figures are partly estimated (for further information see *Bank of England Quarterly Bulletin* or *Economic Trends*—March 1972).

Deposit banks, accepting houses, overseas banks and other banks in the United Kingdom

This set of tables includes all banks observing the common $12\frac{1}{2}$ per cent reserve ratio introduced on 16 September 1971, together with the Northern Ireland banks (who have accepted the application of a ratio in principle). Banking institutions observing a public sector lending ratio are therefore not included, nor are the National Giro and the Banking Department of the Bank of England. 'Deposit banks' here exclude the Banking Department of the Bank of England (which is included in the UK banking sector table).

The first table, which summarises the figures of the contributors to the following tables, is thus not comparable with the table which covers the whole banking sector.

Also, the adjustments made in the banking sector table to eliminate inter-bank transactions and transit items (see the notes to the banking sector table) have not been made in this table. The figures cover the business of all offices of banks within the United Kingdom. The figures for non-sterling currencies are not comparable with those shown in the table in the section for the overseas sector. Apart from minor differences of definition, the coverage of banks is less comprehensive in this table; and currencies of overseas sterling countries are included here but excluded from Table 98.

Overseas residents are defined as overseas governments (including their diplomatic representatives in the United Kingdom) and public authorities, UK branches or agencies of international institutions, and persons, companies and other bodies whose permanent or registered address is outside the United Kingdom. This includes overseas branches of UK-registered companies and agents or agencies located in the United Kingdom acting on behalf of, or for the account of, overseas residents.

UK residents are defined as UK public authorities, persons, companies and other bodies whose permanent or registered address is within the United Kingdom. This includes branches located within the United Kingdom of overseas-registered companies and UK diplomatic and military representatives overseas.

Current and deposit accounts include, in addition to the banks' deposit liabilities, their liabilities on loans and advances (including money at call and short notice) received from other UK banks, and, where appropriate, their net sterling liabilities to their offices or to their head offices overseas.

Balances with other UK banks include money at call or short notice, and loans and advances to the UK offices of the banks contributing to these tables and to the National Giro. Cheques in course of collection on other banks in the United Kingdom are, however, excluded. For the London and Scottish clearing banks and the Northern Ireland banks the item also includes indistinguishably certain internal or impersonal accounts together with provision for bad and doubtful debts.

Money at call and short notice to the discount market comprises all sterling funds lent to the eleven members of the London Discount Market Association. Money at call and short notice to other borrowers comprises sterling funds lent for periods not exceeding one month to:

(i) Money brokers on the Stock Exchange;

(ii) Discount brokers;

(iii) Jobbers and stockbrokers;

(iv) Bullion brokers, excluding those listed as UK banks

together with reporting banks' own holdings of tax reserve certificates.

Special Deposits may be called by the Bank of England from all banks under the new arrangements for credit control which came into operation on 16 September 1971. These arrangements were described in the consultative document *Competition and credit control*, reprinted in the June 1971 *Bank of England Quarterly Bulletin*, page 189; 'Reserve ratios and Special Deposits', a supplement to the September 1971 *Bulletin;* and in 'Reserve ratios: further definitions', in the December 1971 *Bulletin*, page 482.

British government stocks are given at book value or cost.

Loans to UK local authorities comprise funds placed with, and loans and advances made to, UK local authorities. Any money placed by the banks with local authorites, where the banks are acting solely as agents and have no corresponding deposit liabilities, is excluded.

Advances comprise amounts outstanding on loan and overdrawn accounts, the banks' foreign currency balances with banks and financial institutions overseas, and net sterling claims on their offices or on their head office overseas. Loans to UK local authorities are excluded. The figures are shown without deduction of provisions for bad and doubtful debts and exclude advances to other UK banks.

Other assets include banks' own holdings of US dollar certificates of deposit, sterling securities (other than sterling bills discounted and British government stocks), trade investments, and foreign currency assets not included elsewhere (such as investments and discounted bills denominated in currencies other than sterling).

Since the introduction of the new credit control arrangements on 16 September 1971, the tables covering accepting houses, overseas and other banks in the United Kingdom include figures for mid-month reporting dates beginning with mid-September: previously these figures were reported only at end-quarter dates. Some further notes on individual tables are given below.

London clearing banks

The London clearing banks comprise the six banks (Barclays Bank Ltd., Coutts & Co., Lloyds Bank Ltd., Midland Bank Ltd., National Westminster Bank Ltd., and Williams & Glyn's Bank Ltd.) forming the membership of the Committee of London Clearing Bankers. (As from 15 December 1969, Barclays Bank Ltd. incorporates Martins Bank Ltd. National Westminster Bank Ltd. was formed by the amalgamation of District Bank Ltd., National Provincial Bank Ltd. and Westminster Bank Ltd. on 1 January 1970. Williams and Glyn's bank was formed by the amalgamation of Glyn, Mills & Co., National Bank Ltd. and Williams Deacon's Bank Ltd. on 25 September 1970.) They are the principal commercial banks operating in England and Wales.

The figures are available in this new form only since mid-October 1971 and are partly estimated. The figures according to the old presentation differ from those in the new in that they do not distinguish inter-bank transactions, assets and liabilities in currencies other than sterling and loans to local authorities. They include a few miscellaneous items under money at call and short notice which in the new presentation are included under advances: notes on this earlier series last appeared in the 1971 issue of *Notes and Definitions*. The considerations leading to the change in the form of the table and the main differences between the two series are described in the *Bank of England Quarterly Bulletin* for March 1972.

Other accounts cover such items as credits in course of transmission, and various other internal funds and accounts.

Advances and bills discounted include certain refinanceable export and shipbuilding credits (the refinance facilities, were described in the *Bank of England Quarterly Bulletins* for September 1969, page 292, December 1970, page 395 and December 1971, page 445).

Scottish clearing banks

The Scottish clearing banks are currently the three banks (Bank of Scotland, Clydesdale Bank Ltd., and the Royal Bank of Scotland Ltd.) represented on the Committee of Scottish Clearing Bankers. (The Royal Bank of Scotland Ltd., was formed by the amalgamation of National Commercial Bank of Scotland Ltd. with The Royal Bank of Scotland on 1 April 1969; the British Linen Bank merged with Bank of Scotland on 1 March 1971.) They transact virtually all the commercial banking business in Scotland, where they maintain a clearing system; they also have offices in London and a few in the northern counties of England.

As for the London clearing banks the figures are available in this form only since mid-October 1971 and are partly estimated; figures in the previous format made up to mid-January 1972, were published in the February 1972 issue of *Financial Statistics*.

Notes outstanding: By virtue of the Bank Notes (Scotland) Act, 1845, as amended by the Currency and Bank Notes Act, 1928, and the Coinage Act, 1946, each of the Scottish banks has the right to issue notes. A small part of this issue, approximately £2·7 million for all banks together, is authorised by the governing Acts; the remaining notes are covered by holdings of Bank of England notes and by coin. These form part of 'coin, notes and balances with Bank of England', which also includes the banks' holdings of each other's notes.

Other accounts cover such items as credits in course of transmission and various other internal funds and accounts.

Advances and bills discounted include certain refinanceable exports and shipbuilding credits (see London clearing banks above).

Northern Ireland banks

The table covers the following six banks: Allied Irish Banks Ltd., (formed by the merger of The Munster and Leinster Bank Ltd., The Provincial Bank of Ireland Ltd. and the Royal Bank of Ireland Ltd. on 1 April 1972), Bank of Ireland, The Hibernian Bank Ltd., The National Bank of Ireland Ltd., Northern Bank Ltd. and Ulster Bank Ltd. (Belfast Banking Co. Ltd. merged with Northern Bank Ltd. on 1 July 1970.) These banks form the Northern Ireland Bankers' Association. The Association's members are the principal commercial banks operating in Northern Ireland; all have offices in the Irish Republic, Allied Irish Banks Ltd. has offices in London and Birkenhead and the Bank of Ireland has an office in London.

The figures relate to the liabilities and assets of their banking offices situated within the United Kingdom. As for the London and Scottish clearing banks they are available in this form only since mid-October 1971 and are partly estimated. Figures in the previous format, made up to end-December 1971 were published in the February 1972 issue of *Financial Statistics*.

For operational reasons, the Northern Ireland banks' figures are reported on dates different from those of other banks in the United Kingdom. For the first two months of each calendar quarter they are usually made up a day earlier than the other banks, while for the third month they are made up on the last working day. When compiling aggregates for all the banks at mid-March, June, etc., in the summary table the Northern Ireland banks' mid-February, May, etc. figures are used in preference to the end-quarter figures.

Notes outstanding: By virtue of the Bankers (Northern Ireland) Acts, 1845 and 1928, as amended by the Currency and Bank Notes Act, 1928, and the Coinage Act, 1946, five banks (Bank of Ireland, Northern Bank Ltd., Provincial Bank of Ireland Ltd., Ulster Bank Ltd. and The National Bank Ltd.) have the right to issue notes. Part of this issue, approximately £2 million for all banks together, is authorised by the governing Acts, the remainder being covered by Bank of England notes and coin. Notes issued by The National Bank are excluded from the table.

Other deposit banks

These are the Co-operative Bank Ltd., C. Hoare & Co., Isle of Man Bank Ltd., Lewis's Bank Ltd., Scottish Co-operative Wholesale Society Ltd., Bankers and Yorkshire Bank Ltd. Separate figures for these banks are not available before mid-October 1971.

Accepting houses, overseas and other banks in the United Kingdom

The tables continue those first published in the *Memoranda of Evidence* submitted to the Committee on the Working of the Monetary System, Vol. 2, Statistical Appendix, Tables 6–9. The series was extensively revised from September 1962 and comparable figures have been obtained from some other banks.

A list of the individual banks covered by the figures up to 1958 appears in the Radcliffe Committee's *Memoranda of Evidence*, Vol. 2, page 200; subsequent figures cover the members at each of the reporting dates shown. Current lists of members of the various groups are given below.

Accepting houses

Comprises the seventeen current members of the Accepting Houses Committee and seven subsidiaries, namely:

Arbuthnot Latham and Company Ltd., Baring Brothers and Company Ltd., Wm. Brandt's Sons and Company Ltd., Brown, Shipley and Company Ltd., Charterhouse Japhet Ltd., Antony Gibbs and Sons Ltd., Guinness Mahon and Company Ltd., Hambros Bank Ltd., Hambros (Guernsey) Ltd., Hambros (Jersey) Ltd., Hill, Samuel and Company Ltd., Hill, Samuel and Company (Guernsey) Ltd., Hill, Samuel and Company (Jersey) Ltd., Kleinwort, Benson Ltd., Kleinwort, Benson (Channel Islands) Ltd., Kleinwort, Benson (Guernsey) Ltd., Lazard Brothers and Company Ltd., Samuel Montagu and Company Ltd., Morgan Grenfell and Company Ltd., Rea Brothers Ltd., N. M. Rothschild & Sons, Ltd., N. M. Rothschild & Sons (C.I.) Ltd., J. Henry Schroder Wagg and Company Ltd., S. G. Warburg and Company Ltd.

British overseas and Commonwealth banks

Comprises the thirty-five current members of the British Overseas and Commonwealth Banks Association and five subsidiaries/parents, namely:

Australia and New Zealand Banking Group Ltd., The Bank of Adelaide, Bank of Ceylon, Bank of Cyprus (London) Ltd., The Bank of India, Bank of London and South America Ltd., Bank of Montreal, Bank of New South Wales, Bank of New Zealand, The Bank of Nova Scotia, Barclays Bank International Ltd., The British Bank of the Middle East, Canadian Imperial Bank of Commerce, The Chartered Bank, The Commercial Bank of Australia Ltd., The Commercial Banking Company of Sydney Ltd., Commonwealth Trading Bank of Australia, Ghana Commercial Bank, The Hong Kong and Shanghai Banking Corporation, Lloyds and Bolsa Finance (Jersey) Ltd., LBI Finance (Guernsey) Ltd., Lloyds Bank Europe Ltd., Lloyds and Bolsa International Bank Ltd., Mercantile Bank Ltd., Moscow Narodny Bank Ltd., National and Grindlays Bank Ltd., The National Bank of Australasia Ltd., The National Bank of New Zealand Ltd., The National Bank of Nigeria Ltd., Pakistan Overseas Standard Bank, The Royal Bank of Canada, The Standard Bank Ltd., Standard and Chase Bank CI Ltd., Standard and Chartered Banking Group Ltd., Standard Bank of West Africa Ltd., State Bank of India, The Toronto-Dominion Bank, United Bank Ltd., Wallace Brothers Sassoon Ltd., Westminster Foreign Bank Ltd.

American banks

Currently comprises thirty-three American banks and one subsidiary in the United Kingdom, namely:

Allied Bank International, American Express International Banking Corporation, American National Bank and Trust Company of Chicago, Bank of America National Trust and Savings Association, Bank of California, The Bank of New York, Bankers Trust Company, Bank of Tokyo Trust Company, The Chase Manhattan Bank N.A., Chemical Bank, City National Bank of Detroit, Continental Illinois National Bank and Trust Company of Chicago, Crocker National Bank, Detroit Bank and Trust Company, First National Bank in Dallas, First National Bank of Boston, First National Bank of Chicago, First National City Bank, First National City Bank (Channel Islands) Ltd., First Pennsylvania Banking & Trust Company, First Wisconsin National Bank of Milwaukee, Girard Trust Bank, Harris Trust and Savings Bank, Irving Trust Company, Manufacturers Hanover Trust Company, Marine Midland Bank-New York, Mellon National Bank and Trust Company, Morgan Guaranty Trust Company of New York, National Bank of Commerce of Seattle, National Bank of Detroit, Northern Trust Company, Security Pacific National Bank, Republic National Bank of Dallas, United California Bank.

Foreign banks and affiliates

Comprises the twenty-nine current members of the Foreign Banks and Affiliates Association, namely:

Algemene Bank Nederland N.V., Anglo-Israel Bank Ltd., Anglo-Portuguese Bank Ltd., Banco de Bilbao, Banca Commerciale Italiana, Banco do Estado de São Paulo S.A., Banco Español en Londres S.A., Bank Hapoalin B.M., Bank of China, Banque Belge Ltd., Banque Belgo-Congolaise S.A., Banque de L'Indochine S.A., Banque de Paris et des Pays-Bas, British and Continental Banking Company Ltd., British and French Bank Ltd., Crédit Industriel et Commercial, Crédit Lyonnais, Discount Bank Overseas Ltd., Korea Exchange Bank, National Bank of Greece, Nedbank Ltd., Nordic Bank Ltd., Scandinavian Bank Ltd., Société Générale, Swiss Bank Corporation, Swiss-Israel Trade Bank, Trade Development Bank, Union Bank of Switzerland, Zivonstenskà Banka National Corporation.

Other overseas banks

Currently comprises eleven Japanese banks, namely: Bank of Kobe Ltd., Bank of Tokyo Ltd., Dai-Ichi Kangyo Bank Ltd., Daiwa Bank Ltd., Fuji Bank Ltd., Industrial Bank of Japan Ltd., Mitsubishi Bank Ltd., Mitsui Bank Ltd., Sanwa Bank Ltd., Sumitomo Bank Ltd., Tokai Bank Ltd.; and twenty-eight other overseas banks, namely: Afghan National Bank Ltd., African Continental Bank Ltd., Julius Baer International Ltd., Bangkok Bank Ltd., Bank of Baroda, Banco do Brasil S.A., Bank Melli Iran, Bank Saderat Iran, Central Bank of India, Chase and Bank of Ireland (International) Ltd., Commercial Bank of the Near East Ltd., Crédit Suisse, Dow Banking Corporation, Fleming, Suez, Brown Brothers Ltd., French Bank of Southern Africa Ltd., Habib Bank (Overseas) Ltd., International Credit Bank Geneva, Israel-British Bank (London) Ltd., Malayan Banking Berhall, Muslim Commercial Bank Ltd., National Bank of Pakistan, Ottoman Bank, Oversea-Chinese Banking Corporation Ltd., Overseas Union Bank Ltd., Rafidain Bank, United Bank of Kuwait Ltd., United Commercial Bank, Western American Bank (Europe) Ltd.

Other banks

(prior to June 1968 listed under other overseas banks)

Currently comprises fifty-seven other banks, namely:

Henry Ansbacher & Company Ltd., Associated Japanese Bank (International) Ltd., Atlantic International Bank Ltd., Bank of America Ltd., Bank of Scotland Finance Company Ltd., Bankers Trust International Ltd., Barclays Export and Finance Company Ltd., Barclays Bank Finance Co. (Jersey) Ltd., Barclays Bank (London and International) Ltd., Barclays Finance Co. (Guernsey) Ltd., Burston and Texas Commerce Bank Ltd., Clydesdale Bank Finance Corporation Ltd., Co-operative Commercial Bank, County Bank Ltd., Coutts Finance Co., First National Finance Corporation Ltd., Gray Dawes & Co. Ltd., Julian S. Hodge and Company Ltd., Julian S. Hodge Bank (Jersey) Ltd., Julian S. Hodge (Guernsey) Ltd., Inter-continental Banking Services Ltd., International Commercial Bank Ltd., International Marine Banking Co. Ltd., Ionian Bank Ltd., Japan International Bank Ltd., Johnson Matthey Bankers Ltd., Leopold Joseph & Sons Ltd., Keyser Ullman Ltd., Lloyds Associated Banking Co. Ltd., Lombard North Central Ltd., London Interstate Bank Ltd., London Multinational Banks Ltd., Manufacturers Hanover Ltd., Mercantile Credit Company Ltd., Midland and International Banks Ltd., Midland Bank Finance Corporation, Midland Bank Finance Corporation (Guernsey) Ltd., Midland Bank Finance Corporation (Jersey) Ltd., National Commercial and Glyns, National and Grindlays Finance and Development Corporation Ltd., National Westminister Bank Finance (C.I.) Ltd., Northern Bank Development Corporation Ltd., Old Broad Street Securities Ltd., Orion Bank Ltd., Orion Termbank Ltd., Singer and Friedlander Ltd., Singer and Friedlander (Isle of Man) Ltd., Rothschild Intercontinental Bank Ltd., Slater Walker Ltd., Slater Walker (Guernsey) Ltd., Slater Walker (Jersey) Ltd., United Dominions Trust Ltd., United International Bank Ltd., White Weld and Co., Ltd., Williams & Glyn's Bank Investments (Guernsey) Ltd., Williams & Glyn's Bank Investments (Jersey) Ltd., Williams, Glyn & Co.

The National Giro

The National Giro provides a current account banking and money transfer service. It neither provides overdraft facilities nor allows interest on deposits.

Gross deposits: Balances may be withdrawn or transferred on demand. Accounts may be operated upon by Girocheque or Giro transfer.

Net deposits: Net deposits are defined as gross deposits *less* balances with, and cheques 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.

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: These are loans to local authorities for periods over fourteen days which are liable to be repaid within one year.

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 who are not members of the London Discount Market Association. It also includes loans 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.

Discount market

The discount houses included in the table are those institutions which belong to the London Discount Market Association, currently Alexanders Discount Co. Ltd., Allen, Harvey & Ross Ltd., Cater Ryder & Co. Ltd., Clive Discount Co. Ltd., Gerrard & National Discount Co. Ltd., Gillett Bros. Discount Co Ltd., Jessel, Toynbee & Co. Ltd., King & Shaxson Ltd., Seccombe Marshall & Campion Ltd., Smith, St. Aubyn & Co. Ltd., and The Union Discount Co. of London Ltd.

Following the introduction on 16 September 1971 of new arrangements for the control of credit the table includes figures for mid-month reporting dates, beginning with mid-September 1971.

Assets

Other sterling bills: Mostly commercial bills drawn on banks and firms resident in the United Kingdom and on the London offices of overseas banks. The maximum maturity is not ordinarily longer than six months.

Treasury bills of the Northern Ireland government, and bills issued by local authorities are included.

British government securities: These are given at nominal value and are mostly with redemption dates of under five years to the final date of maturity.

Other assets: Including foreign currency bills and a small amount of cash in hand and at banks.

Borrowed funds

Very short-term interest-bearing loans, mainly from United Kingdom and overseas banks. 'Other deposit banks' in this table comprise the United Kingdom offices of the Northern Ireland banks and of certain other banks whose business is mainly in the United Kingdom: Co-operative Bank Ltd., C. Hoare & Co., Isle of Man Bank Ltd., Lewis's Bank Ltd., Scottish Co-operative Wholesale Society Ltd., Bankers and Yorkshire Bank Ltd., and from December 1968 the National Giro.

Analysis of bank advances

The figures of bank advances analysed by type of borrower which are given in this table relate to all advances made by banks operating in the United Kingdom.

The figures relate mainly to the third Wednesday in the month. Figures for the Northern Ireland banks, which relate to the third Tuesday in each quarter, are only available from February 1968. These are broadly comparable with those provided by the other contributors to the table but are in less detail.

Classification: This classification of advances, which is based so far as possible on the Standard Industrial Classification, was introduced in an article in the *Bank of England Quarterly Bulletin* for March 1967. Classification in the analysis is by industry, irrespective of ownership (i.e. private, local authority or government) and where an advance cannot be attributed to any particular activity it is classed according to the most important activity of the borrower—if necessary within the specific residual groups provided within the broad divisions of manufacturing, financial and services. Advances to merchants, brokers, importers and exporters are classed under the relevant distributive trade. The analysis includes advances both in sterling and in foreign currencies. It is intended to cover only loans and overdrafts provided by banks to their customers, and does not include funds placed through the specialised financial markets with other banks (both in the United Kingdom and overseas) or with local authorities or finance houses, bills discounted, foreign bills negotiated or bought or impersonal or internal accounts.

Currency circulation

The series showing the estimated circulation of notes and coin with the public relates to the total note issues of the Bank of England, the Scottish banks and Northern Ireland banks, *plus* the estimated total of United Kingdom coin in circulation (excluding coin in the Bank of England, Issue Department), *less* notes and coin held by the Bank of England (Banking Department), by the Scottish and Northern Ireland banks (as published in the London and Belfast Gazettes) and by the London clearing banks.

Bank clearings

Inter-bank debit clearing

The clearings reported by the London Bankers' Clearing House represent the total of bankers' effects (cheques, drafts, bills, interest warrants, etc.) passed through the 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 two 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 those passed through the Liverpool and other purely local clearings) and includes those drawn on but not paid into Town clearing offices.

Prior to January 1968 provincial clearings represented, with certain minor exceptions, cheques, bills, etc. paid into and drawn on selected branches in the following twelve towns:

Birmingham, Bradford, Bristol, Hull, Leeds, Leicester, Liverpool, Manchester, Newcastle-upon-Tyne, Nottingham, Sheffield and Southampton.

After January 1968 all provincial clearings were abolished and transferred to General clearing with the exception of the afternoon clearing at Liverpool.

Inter-bank credit clearing

A 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.

The figures exclude credit transfers between offices of the same bank.

Inter-branch clearings

These comprise cheques drawn on and paid into offices of the same bank and credit transfers between offices of the same bank. Figures are available from September 1970 only.

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) comprises holdings of notes and coin outside the banks *plus* all current accounts of private sector residents denominated in sterling *less* 60 per cent of the net value of transit items. This definition can be thought of as representing most 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) covers holding of notes and coin outside the banks, *plus* all resident deposits with the United Kingdom banking sector including current and deposit accounts in sterling or foreign currency and estimated resident holdings of sterling certificates of deposit *less* 60 per cent of the net value of transit items, and inter-bank deposits. (For further details see the August 1970 and March 1972 issues of *Economic Trends* and the *Bank of England Quarterly Bulletin* September 1970 and March 1972.)

A further definition (M_2) which comprised M_1 *plus* private sector sterling deposit accounts with the deposit banks and discount houses, drew a distinction between private sector deposit accounts with the deposit banks and the discount houses and similar deposit accounts with other banks. The former were included in M_2 because they were largely held at seven days' notice or less, while the latter were excluded because they were usually on longer maturity and less easily withdrawn at will. As some of the deposit banks now offer deposit facilities like those of other banks, this distinction is no longer tenable and the M_2 definition has been discontinued; furthermore no distinction is now made between banks in the various categories of deposits.

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 that 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.)

Monthly figures have been included in the table from mid-June 1971 for M_3 and from mid-October 1971 for M_1 (unadjusted). They have generally been compiled in the same way as the quarterly series, but in a few respects the monthly information is less comprehensive than at end quarters and a small amount of additional estimation has been necessary. The monthly and quarterly series have been seasonally adjusted separately and it is not possible therefore 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 *Bank of England Quarterly Bulletin*, March 1972).

For the purpose of comparison some estimates of monthly money stock (M_3), unadjusted and seasonally adjusted, back to April 1970, giving a breakdown between notes and coin with the public and bank deposits (both unadjusted) are published in the *Bank of England Quarterly Bulletin* for March 1972; a table of the seasonally adjusted figures is also given in the charts section of *Economic Trends* each month.

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.

Public sector borrowing requirement

The borrowing requirements of the central government (including Northern Ireland government debt), local authorities and public corporations, *less* any intra-sector debt transactions (local authority and public corporations' acquisitions of government debt and Issue Department of Bank of England and public corporations' acquisitions of local authority debt.)

Central government borrowing requirement: See page 9.

Local authority borrowing requirement: Borrowing other than from central government.

Public corporations borrowing requirement: Borrowing other than through trade credit or from the central government. 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 1972 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 £3,384 million for example in 1970, and on the assets side the increase in lending to non-residents was £2,631 million.

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 61 which 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).

Table 62 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 September 1969 *Bank of England Quarterly Bulletin* and the *Bank of England Statistical Abstract*.

DCE and public sector borrowing requirement

An alternative method of building up DCE from credit components is shown in this table. 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 60, 61 and 63. 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 1970/71, the sector accounts can be summarised as*:

Public sector 1970/71

Increase in liabilities:	£ million
1. Notes and coin	
(a) *held by banks*	*52*
(b) other	288
2. Other debt	
(a) *held by banks*	*1,126*
(b) held by other residents	574
(c) held by non-residents	−1,190
Borrowing requirement	850

Banking sector 1970/71

	£ million		£ million
3. Increase in liabilities:		4. Increase in domestic assets	
(a) residents' deposits	1,743	(a) *lending to public sector*	*1,178*
(b) non-residents' deposits (net of advances)	618	(b) lending to private sector	1,267
(c) non-deposit liabilities	84		
Total	2,445		2,445

Consolidating the two statements, the items in italics disappear to give:

Consolidated account 1970/71

Increases in:	£ million		£ million
5. Money stock		14. Public sector borrowing requirement	850
(a) notes and coin	288	15. Bank lending to private sector	1,267
(b) residents' deposits	1,743		
6. Non-residents' deposits (net of advances)	618		
7. Non-deposit liabilities	84		
8. External financing of public sector	−1,190		
9. Adjustments†	−140		
10. Total above (equals DCE)	1,404		
11. Adjustments† (contra-entry)	140		
12. Public sector debt held by non-banking private sector	574		
13. Total	2,117		2,117

*This presentation follows a suggestion of Professor Brian Tew, University of Nottingham.
†See definition of DCE, above.

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 quoted on United Kingdom stock exchanges, property unit trusts and certain special finance agencies which are quoted public companies engaged in the provision of medium and long-term finance to industry. Special Finance Agencies at 31 December 1970 comprised: Agricultural Mortgage Corporation Ltd., Commonwealth Development Finance Co. Ltd., Exporters Refinance Corporation Ltd., Finance Corporation for Industry Ltd., and Industrial and Commercial Finance 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, finance houses, and from overseas residents to other financial institutions.

Bank lending figures are obtained from the banking sector tables and include advances and loans and bills discounted.

Government loans are loans made to building societies (they are currently being repaid) and loans to special finance agencies.

Other liabilities includes short-term borrowing in the UK and short-term borrowing and intra-company investment 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 sectors' tables for other financial institutions.

Other liquid assets cover Treasury bills, tax reserve certificates, local authority temporary debt and deposits with building societies by insurance companies.

Other financial assets comprise short-term assets and other investments in the UK, the purchase of unit trust units by insurance companies and investment trusts, the net sales of property unit trust units to pension funds, overseas investment and short-term assets.

Savings banks: Investment accounts

The trustee savings bank's 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 house 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 figures are not presented as an aggregate balance sheet for the finance houses; for instance, some fixed assets such as buildings and office equipment are omitted. Also loans on inter-company account are excluded from the figures in order to give a truer picture of loans made in the ordinary way of business and to prevent the figures from being affected by these 'institutional' arrangements.

Hire purchase and other instalment credit

Coverage of the figures

The figures relate to hire purchase and other instalment credit advanced by finance houses and selected kinds of retail business. These comprise durable goods shops (i.e. 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 (e.g. 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 figures 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, i.e. the credit price of the goods less deposits. 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 provisionally based on the broad results of the 1966 Census of Distribution (see *Trade and Industry*, 16 June 1971, page 580), projected by means of monthly returns from a stratified panel of retailers. 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 85 societies, with assets amounting to 90 per cent of total building society assets; all societies with assets exceeding £50 million are included together with about 2 in 3 of societies with less than £50 million but exceeding £10 million and about 1 in 13 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 £11·42 per cent per annum with income tax at 38·75 per cent. If savings are left invested for a further two years the tax free bonus will be doubled.

SAYE statistics are based on returns from a sample of about 80 societies with assets amounting to approximately 93 per cent of the assets of societies participating in the scheme.

Property unit trusts

The statistics cover all United Kingdom property unit trusts, subscriptions to which are restricted to pension funds and charities.

Unit trusts

The returns cover virtually all unit trusts authorised by the Department of Trade and Industry under the Prevention of Fraud (Investments) Act, 1958. They are collected in the main through the Association of Unit Trust Managers but include also the returns of trusts whose managers are not members of the Association.

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 members of the British Insurance Association (BIA). Before the first quarter of 1968, figures excluded the life funds of the Commonwealth companies that were members of the BIA. Figures for Collecting Friendly Societies, the two largest of which are members of the BIA, are included.

The returns include assets held in respect of money remitted by overseas branches and subsidiaries but they exclude direct investment by a United Kingdom 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 reinsurance companies, outstanding claims and sundry creditors.

For further details see *Trade and Industry*, 12 August 1971 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, teachers, Forestry Commission, etc., which are considered to be loans to the parent organisation (central government). The pension funds of the Stationery Office and the Atomic Energy Commission are not included in this item.

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. Returns are received from funds covering about 90 per cent of the total assets and 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, National Industrial Fuel Efficiency Service superannuation scheme and Royal Seamens' 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.

Superannuation funds: local authorities

The figures of holdings are compiled from a four-yearly survey of investments and current assets and liabilities, the latest results of which relate to 31 March 1970. The survey covers all local authority superannuation funds in the United Kingdom.

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

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

Superannuation funds: private sector

The figures are compiled from returns received by the Department of Trade and 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 sample 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-1970, 255 funds (about 87 per cent of the funds submitting returns) showed their assets at current market values. The assets of the 255 funds totalled about £4,363 million, about 94 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 41 per cent of the 293 funds submitting returns of holdings at end-1970 (with about 38 per cent of the total assets of all funds submitting returns) gave figures for an accounting date other than 31 December 1970.

The assets of the funds making returns to the Department of Trade and 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*, 26 August 1971 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. The steel companies which were nationalised in 1967 are treated as public corporations after vesting day (28 July 1967). 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.

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 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 United Kingdom parent companies to these branches and subsidiaries.

Dividends on ordinary shares are the dividends paid out in the period reckoned before deduction of income tax. Payments to other companies are excluded. Dividends paid by United Kingdom subsidiaries to their overseas parent companies are also excluded, since these are included in profits due abroad and taxes paid 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.

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

Payments of United Kingdom 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. Most companies were first assessed to corporation tax during 1966/67 and the tax first became payable on 1 January 1967. Prior to that, companies had been assessed to profits tax on their whole profits *plus* income tax on their undistributed profits. Since the change, in addition to corporation tax companies have to account to the Inland Revenue for income tax on their distributed profits. 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.

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 all allowances was introduced.

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 lending 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 comprises hire purchase and other credit instalment received, loans from the public sector, loans by financial institutions, shares of retail co-operative societies and expenditure by the central government in acquiring Rolls Royce (1971) Ltd.

Intra-company investment by overseas companies comprises direct investment and 'oil and miscellaneous' in the UK 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 subscriptions to issues of capital).

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, local authority temporary debt and deposits with building societies and finance houses.

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 subsibiaries in the UK 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 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 institutions.

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.

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.

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.

Income and finance of quoted companies

The figures in these tables are derived from an analysis by the Department of Trade and Industry of the annual accounts of about 1,400 companies whose shares are quoted on a United Kingdom stock exchange.

The companies included in the current tables covering 1971 with figures for the comparable group of companies in 1970 are those with assets of £2·0 million or more, or gross income of £200,000 or more in 1968, which are mainly engaged in the United Kingdom in manufacturing, distribution, construction, transport and certain other services. This group of companies represents a revision of that used in previous analyses. 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 quoted companies in 1969; thus, if companies within this population amalgamate, their place is taken by the new company. Companies granted stock exchange quotations 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.

Some changes in presentation have been made in the tables to take advantage of additional information provided under the Companies Act, 1967.

Detailed figures for each of 22 broad industry groups are published annually by the Department of Trade and Industry in the *Business Monitor—Miscellaneous series—* M3, entitled 'Company finance', which also contains detailed explanatory notes. This is usually published in December.

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 men. 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 categories of income from employment, 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 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).

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 includes estimates of trade credit given by public corporations.

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

Unidentified is the balancing 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.

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.

XI. OVERSEAS SECTOR

Balance of payments

The items in this table are more fully defined in *United Kingdom Balance of Payments, 1971* (HMSO 1971).

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 United Kingdom government current expenditure and receipts not appropriate to visible trade or to other invisible transactions.

Transport—shipping: 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 United Kingdom residents in foreign countries and by foreign residents in the United Kingdom.

Other services: all other service transactions. 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 United Kingdom 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) whether remitted or retained for reinvestment. Components include income on direct and portfolio investment and interest on external sterling liabilities and claims, inter-government loans, bank credits and medium and long-term trade credit.

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 to or from non-residents (other than Forces abroad) and transfers of assets by migrants other than their personal or household belongings.

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 (Table 9) is given on page 39.

Official long-term capital

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

Inter-government loans cover drawings and repayments of loans made by the United Kingdom government to overseas governments and drawings and repayments of loans made to the United Kingdom government by overseas governments.

Other United Kingdom official long-term capital covers the United Kingdom capital subscriptions to the IFC, IDA, and the Regional Development Banks. Also included in this item are net changes in other overseas assets held by the United Kingdom government or such organisations as the CDC and the UKAEA, and the loan from the Deutsche Bundesbank in 1968, repaid in 1971.

Overseas investment in UK public sector

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

UK and overseas private investment

A sub-division of UK private investment overseas is made between direct, portfolio and other investment, the latter including oil investment. Overseas investment in UK private sector is sub-divided between direct investment, portfolio investment in UK company securities, and other investment.

Direct investment comprises investment by United Kingdom companies in their overseas branches, subsidiaries and associates, including the reinvestment of retained profits, and by overseas companies in their United Kingdom affiliates. Investment by insurance companies, other than that of United Kingdom companies, from 1963, is excluded from this item.

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 United Kingdom 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, CDFC and, prior to 1963, investment by United Kingdom insurance companies (*see* note under direct investment). 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.

Foreign currency borrowing (net) by United Kingdom banks to finance United Kingdom investment overseas

Non-sterling currencies on-lent by United Kingdom banks to United Kingdom residents in the form of credits to finance United Kingdom investment overseas.

Other foreign currency borrowing or lending (net) by United Kingdom banks

This item covers changes in external liabilities and claims of United Kingdom banks in non-sterling 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 United Kingdom residents referred to above.

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

For convenience import deposits paid directly from overseas firms are included in the same heading.

Export credit

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

Other short-term flows

Consists of changes in the following: total United Kingdom external sterling claims other than export bills; United Kingdom external liabilities and claims (net) in overseas sterling area currencies; 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, 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

This item records the UK allocation of SDR by the IMF.

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

United Kingdom drawings and repurchases, and drawings and repurchases in sterling by other countries, which affect the UK's repurchase obligations to the IMF.

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 (from 1971) amounts swapped forward in transactions with overseas monetary authorities.

The sum of the above two items is shewn as 'net transactions with overseas monetary authorities' in Table 18.

Transfer from dollar portfolio to reserves

The transfer of the government's portfolio of dollar securities to the official reserves.

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.

International Monetary Fund

The components of the United Kingdom 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'.

United Kingdom gold subscription to the IMF —see separate item.

United Kingdom 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 United Kingdom total tranche position is the amount which the United Kingdom may draw from the Fund without raising the Fund's holding of sterling beyond 200 per cent of quota. The quota was increased from \$1,950 million (£696 million) to \$2,440 million (£871 million) in 1966. (The sterling equivalent of the United Kingdom quota after revaluation in November 1967 was £1,017 million.) There was a further increase, to \$2,800 million (£1,167 million) in November 1970.

Official reserves

These are the sterling equivalents of the gold and convertible currencies and, from January 1970, Special Drawing Rights held in the Exchange Equalisation Account. 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.

United Kingdom external banking and money market liabilities in sterling: exchange reserves in sterling

External banking and money market liabilities in sterling: This table gives figures of cash or near cash funds held in the United Kingdom by overseas residents. Such funds are the most liquid, and normally the most variable, of all the different types of sterling liabilities. Those held by non-sterling countries are particularly sensitive to interest rate differentials and to changes in confidence in sterling; movements in these holdings often have a direct impact on the UK reserves. The holdings of the overseas sterling countries may also be affected by the same factors, but fluctuations in these holdings more usually reflect the financing of balance of payment flows, or movements between cash balances and marketable investments not included in this table. In addition to funds held for investment and reserve purposes, the figures include the more stable working balances of overseas banks and commercial concerns.

These liabilities comprise:

(*a*) Deposits, certificates of deposit and Treasury bills (see below) held for banks overseas (including overseas offices of United Kingdom banks), central banks and other account holders abroad, by banks and their nominees companies in the United Kingdom (including the Bank of England, accepting houses, discount houses, the United Kingdom offices of Commonwealth and foreign banks, and certain other financial institutions). Similar sterling funds held with the Crown Agents and by currency boards are also included. The outstanding amounts of sterling certificates of deposit, included in the table under external deposits with banks, are given separately in the additional notes to the corresponding table in the *Bank of England Quarterly Bulletin* (e.g. on page 156 of the March 1972 issue).

(*b*) Temporary loans to and bills drawn on local authorities, and deposits with finance houses, whether made direct by overseas residents or by United Kingdom banks and other United Kingdom agents for account of overseas residents.

(*c*) Non-interest bearing notes (which are included in the table under Treasury bills). The outstanding amounts are given in the *Bank of England Quarterly Bulletin* (e.g. page 156 of the March 1972 issue).

Liabilities to the International Monetary Fund are excluded; the United Kingdom's outstanding drawings on the Fund since 1964 are shown in the table on 'UK official short and medium-term borrowing', and the amount of accumulated charges paid in sterling (less IMF expenditure in sterling) as at end-June 1971 is shown in a footnote to that table.

Exchange reserves in sterling: The sum of UK external banking and money market liabilities in sterling to *central monetary institutions*, and central monetary institutions' holdings of British government stocks. Represents the sterling reserves of overseas countries and international organisations (other than the IMF) as reported by UK banks, etc., but excludes the following official funds, totalling about £690 million in September 1971; trust, pension and other earmarked funds, holdings of equities and funds held locally with commercial banks.

Also excluded are about £150 million of Commonwealth sterling securities known to be held as part of overseas countries' sterling reserves.

A description of this revised presentation of external liabilities in sterling appeared in the *Bank of England Quarterly Bulletin* for December 1970.

External advances and overdrafts in sterling

This table shows the extent to which UK banks provide financial accommodation in the form of cash to overseas residents. The greater part is believed to represent advances and overdrafts given by UK banks to their own branches and correspondents overseas.

A description of this revised presentation appeared in the *Bank of England Quarterly Bulletin* for December 1970.

External liabilities and claims of United Kingdom banks in non-sterling currencies

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

Liabilities: Deposits and advances received from overseas residents; commercial bills drawn on United Kingdom residents and held by the banks on behalf of their overseas customers; and, from June 1966, negotiable dollar certificates of deposit issued in London.

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 owned by the reporting institutions or held by them on behalf of their United Kingdom customers; and claims on overseas customers arising from acceptances.

A description of the contents and definitions of this series appeared in the June 1964 issue of the *Bank of England Quarterly Bulletin.*

Official liabilities in non-sterling currencies arising from short-term loans to the UK government and drawings on central bank facilities are not included.

United Kingdom government economic aid

This table shows the economic aid given from public funds by the United Kingdom government to developing countries under the British Aid Programme. A description is given in a series of Departmental Papers entitled *An Account of the British Aid Programme*, *Text of the United Kingdom Memorandum to the Development Assistance Committee of the Organisation for Economic Co-operation and Development* (*OECD*), which is published annually by HMSO. An analysis by recipient country or institution is also included in the *Annual Abstract of Statistics*. A detailed analysis of British Aid Programme and other official flows is published annually by the Overseas Development Administration of the Foreign and Commonwealth Office in *British Aid—Statistics of Economic Aid to Developing Countries* (HMSO).

Bilateral aid

British bilateral economic aid is extended in two ways; financial aid for capital development and technical assistance.

Financial aid is given in the form of grants and loans for development projects, general development programmes, relief and reconstruction following natural disasters, assistance during emergencies and for budget support. The loans include Exchequer advances to the Commonwealth Development Corporation, but not total investment overseas by the Corporation.

Technical assistance includes education and training in Britain for persons from overseas; assistance towards the training of overseas nationals in their own countries; the supply of advisers, teachers and other operational personnel to work overseas and to maintain overseas public services; the supply of equipment and the conduct of surveys and research. It does not include expenditure in the fields of training and teacher supply by the British Council as part of its own overseas activities prior to 1 April 1967 (when such expenditure was included within the 'aid programme').

The loans figures are gross, but figures of grants and technical assistance are reported net of minor receipts and overissues.

Multilateral aid

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

Agencies offering financial aid include the International Bank for Reconstruction and Development, the International Development Association, the United Nations Relief and Works Agency, the United Nations Fund for Civil Assistance in the Congo, the United Nations World Food Programme, the Asian Development Bank and the Caribbean Development Bank.

Agencies offering technical assistance consist mainly of the United Nations Development Programme and the United Nations Children's Fund. The figures do not include contributions to the United Nations and its specialised agencies, only part of whose budgets are spent on technical assistance.

Developing countries

The definition of developing countries used in constructing this table is that adopted by the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD). This comprises all countries except members of OECD (other than Greece, Spain and Turkey, which are treated as developing countries), the Sino/Soviet countries (except Yugoslavia—also treated as a developing country), Australia, New Zealand, South Africa and Finland.

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 quoted public companies and local authorities in the United Kingdom and by overseas companies and public authorities (including local authorities and international organisations). The estimates include United Kingdom 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 United Kingdom 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 or share 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. United Kingdom 'local authorities' include, in addition to local governments, such public bodies as water, dock and harbour boards. 'Special finance agencies' are quoted public companies engaged in the provision of medium and long-term finance to industry (e.g. 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. No statistics are available for the other stock exchanges.

XIII. EXCHANGE RATES, INTEREST RATES AND SECURITY PRICES

Foreign exchange rates

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

Australia: Until 13 February 1966 the selling rate was £A125 = £100. On 14 February 1966 a new unit—the dollar—was extablished 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. Since 22 December 1971 the Australian dollar has been on a fixed relationship with the US dollar and is therefore fluctuating against sterling. The present calculated 'middle rate' against sterling is \$A 2·1878 = £1.

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, but since 22 December 1971 the NZ dollar has been on a fixed relationship with the US dollar and is therefore fluctuating against sterling. The present calculated 'middle rate' against sterling is \$NZ 2·1801 = £1.

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 1971 the Rand was allowed to float against sterling but was repegged on 22 December 1971 with a selling rate of £100 = R 196·1613.

India (Bombay): The rupee-sterling equivalent of the par value of the Indian rupee was 1 rupee = 1s 6d until 5 June 1966. After the devaluation of the rupee, a new rate of 1 rupee = 11$\frac{3}{7}$d came into force on 6 June. After the devaluation of sterling in November 1967, the new rate was 1 rupee = 1s 1$\frac{1}{3}$d, and the Reserve Bank adopted buying and selling rates of £5·5556 = 100 rupees and £5·5380 = 100 rupees respectively, on which the buying and selling rates for sterling of the Indian authorized dealers were fixed. The authorized dealers' selling rate for telegraphic transfers was fixed at £5·53 in November 1967, but has fluctuated recently owing to the general currency realignment. The new central rate of £5·2721 = 100 rupees was declared on 20 December 1971.

Pakistan (Karachi): Pakistan authorised dealers' buying and selling rates were 1 rupee = 1s 6$\frac{1}{32}$d and 1 rupee = 1s 5$\frac{31}{32}$d respectively up to 17 November 1967. After the sterling devaluation of 1967, new rates of 1 rupee = 1s 9$\frac{1}{32}$d and 1 rupee = 1s 8$\frac{31}{32}$d were declared on 18 November. The basis of quotation was revised from 15 July 1968 to give buying and selling rates of 100 rupees = £8·7630 and 100 rupees = £8·7370. The rates at which authorised dealers are buying and selling sterling since the December 1971 currency realignment are not known. The State Bank is dealing only in dollars with authorised dealers. The rupee-sterling equivalent of the new rupee-dollar rate declared by the State Bank is 12·408 rupees = £1·00.

British government securities: prices and yields

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 (currently 38·75 per cent). 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 (e.g. 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 (e.g. pension funds) or pay tax on income and capital profits at the same rate (e.g. security dealers). It provides a convenient means of comparing the annual return on dated securities with 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 (currently at 30% for individuals) 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. After March 1969 the deduction for capital gains tax is made only on stocks with less than one year to redemption.

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, e.g. deposits, or on which the capital gain or loss cannot be calculated in advance, e.g. equities.

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

Tax reserve certificates

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	1$\frac{1}{4}$%
		21 March	1$\frac{1}{2}$%
		11 July	1$\frac{3}{4}$%
		10 September	2$\frac{1}{2}$%
	1956	29 February	3%
	1957	25 September	3$\frac{1}{2}$%
	1958	29 March	3$\frac{1}{4}$%
		7 June	3%
		20 August	2$\frac{1}{2}$%
		29 November	2$\frac{1}{4}$%

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%

The Tax Reserve Certificate scheme is to cease. The last issue of company certificates was withdrawn on 31 December 1971 but a final personal issue will be available from 3 January 1972 until 29 June 1973. No interest will be paid on personal certificates after 1 January 1974.

Company security prices and yields

F.T.—Actuaries share indices

This new 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 *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, e.g. rights issues, or when constituents change, e.g. 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 over 150 ordinary shares of financial and property companies is combined with the Industrial 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, 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% up to 5 December 1967, at 42½% up to 7 May 1969, at 45% up to 29 November 1970, at 42½% up to 30 March 1971 and then at 40%. 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.

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.

A fuller description of the composition and compilation of the index is given in the *Financial Times*, 5 March 1960, page 7.

'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 averages of working days.

Short-term money rates

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 hire purchase finance houses for new deposits of a fixed term of three or six months. These 'fixed' rates do not vary automatically with Bank rate during the currency of the deposit. Rates are to some extent subject to negotiation and different rates may be paid on large amounts.

Bank rate

Minimum rate at which members of the discount market have a right to discount British government Treasury bills or other approved bills at the Bank of England. In practice bills are usually discounted at market rates, but the Bank, acting as a lender of last resort, lends at the official discount rate to the discount market against security of such bills or of short-term British government stocks with five years or less to final maturity.

Bank rate for the period 1932 to end-1962 was as follows:

From 1932	30 June	2%
1939	24 August	4%
	28 September	3%
	26 October	2%
1951	8 November	2½%
1952	12 March	4%
1953	17 September	3½%
1954	13 May	3%
1955	27 January	3½%
	24 February	4½%
1956	16 February	5½%
1957	7 February	5%
	19 September	7%
1958	20 March	6%
	22 May	5½%
	19 June	5%
	14 August	4½%
	20 November	4%
1960	21 January	5%
	23 June	6%
	27 October	5½%
	8 December	5%
1961	25 July	7%
	5 October	6½%
	2 November	6%
1962	8 March	5½%
	22 March	5%
	26 April	4½%

Finance Houses 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 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 calculated monthly. It became necessary to introduce such a rate because the cost of money to finance houses had 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 week averages of the three month inter-bank rate in the preceding eight weeks.

Clearing banks: rates of interest on advances

The rates of interest charged by the clearing banks for their advances are in general linked to base rate. The rates charged depend on the nature and status of the customer, but most lending is currently at rates between base rate +1% and base rate +3%; the rates so calculated may not, however, fall below a specified minimum.

The following are the only uniform rates paid on unsecured overdrafts and loans from the clearing banks:

Customer	*Rate*
Nationalised industries (with Treasury guarantee)	Syndicated base rate +½% or 1%
	Minimum rate
Export loans other than for ships (EGCD guaranteed)	(i) Up to 2 years. base rate +½% (4½% minimum) (ii) Over 2 years. 6%
Loans for domestic shipbuilding	7% (term loans)

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%. Changes in the rates by individual societies which are members of the Association are not made simultaneously.

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 0·05 lower than mean nominal rates.

APPENDIX

The following reconciliation updates that for the year 1966 given in *National Accounts Statistics: Sources and Methods* and is in terms of the headings given in the financial accounts and based on the figures shown in *National Income and Expenditure 1971* and *United Kingdom Balance of Payments* 1971.

Reconciliation between the financial accounts and the balance of payments accounts, 1970

£ million

	Transactions in financial assets: overseas sector[1]		Balance of payments accounts[2]		*Table No. in UK Balance of Payments 1971*
1	Treasury bills:		Official financing: Other monetary authorities: Sterling	−1,011	*32*
	Counterpart of central bank assistance	−1,011	Exchange reserves in sterling and other external banking and money market liabilities in sterling: Treasury bills	−7[3]	*37*
	Other	−9	Rounding differences(a)	−2	contra 19
		−1,020		−1,020	
2	British government securities	49	Overseas investment in UK public sector: British government stocks	−10	*25*
			Exchange reserves in sterling: British government stocks	59	*3*
				49	
3	Import deposits	−32	Import deposits paid directly from overseas	−32	*30*
4	Local authority debt	−38	Exchange reserves in sterling and other external banking and money market liabilities in sterling: Local authorities	−40	*37*
			Overseas investment in UK public sector: Local authorities, securities and mortgages	2	*25*
			Local authorities: borrowing abroad from banks etc.	—	*25*
				−38	
5	Allocation of Special Drawing Rights	171	Allocation of Special Drawing Rights	171	*3*
6	Official reserves	−125	Official reserves	−125	*3*
7	Inter-government loans (net)	−178	Inter-government loans (net)	−178	*23*
8	UK subscriptions to International Monetary Fund	−150	Sterling subscription to International Monetary Fund	−113	contra 10
			Gold subscription to International Monetary Fund	−38	*33*
			Rounding difference (b)	1	contra 19
				−150	
9	Drawings from UK subscriptions to international lending bodies	−12	Other official long-term capital: UK subscriptions to international lending bodies	−24	*24*
			Exchange reserves in sterling: liabilities to international organisations (other than the IMF): non-interest bearing notes	15[3]	*37*
			Timing and rounding differences (c)	−3	contra 19
				−12	

	Transactions in financial assets: overseas sector([1])		Balance of payments accounts([2])		*Table No. in UK Balance of Payments 1971*
10	Holdings of interest-free notes by International Monetary Fund	−23	Official financing: Net transactions with overseas monetary authorities: IMF	−134	*32*
			IMF expenditure and receipts in sterling	—	*31*
			less Sterling subscription to IMF	113	contra 8
			less IMF deposits with the UK banking sector	−2	contra 13
				−23	
11	Refinanced export credits	−160	Refinanced export credits	−160	contra 15
12	Other public sector assets and liabilities	−132	Official financing: Net transactions with overseas monetary authorities: other monetary authorities, foreign currency	−150	*32*
			Other short-term flows: Official assets and liabilities (n.e.i.)	22	*31*
			Other official long-term capital: other than subscriptions to international lending bodies	−2	*24*
			Overseas investment in UK public sector: Public corporations net issues abroad	—	*25*
			Public corporations: Net borrowing abroad from banks, etc.	−2	*25*
				−132	
13	Deposits with banking sector	3,394	Foreign currency liabilities of UK banks	3,149	*31*
			Exchange reserves in sterling and other external banking and money market liabilities in sterling: external desposits with UK banks	365	*41*
			External liabilities and claims (net) in OSA currencies	−7	*31*
			less Identified deposits with other financial institutions	−12	contra 14
			Other capital flows:		
			IMF gold deposits in UK	−4	*31*
			IMF deposits with the UK banking sector	2	contra 10
			Timing and coverage differences (d)([4])	−99	contra 19
				3,394	
14	Deposits with other financial institutions	54	UK external banking and money market liabilities in sterling: finance houses (HPFC)	42	*37*
			Identified deposits with other financial institutions (net)	12	contra 13
				54	
15	Bank lending:		Foreign currency claims of UK banks	−2,670	*31*
	Advances and loans	−2,541	External sterling claims	64	*31*
	Commercial bills	−24	Export credit extended by UK banks	−290	*30*
	Money at call and short notice		*less* Refinanced export credits	160	contra 11
		−30	Timing and coverage differences (e)([4])	141	contra 19
		−2,595		−2,595	
16	Suppliers trade credit (net)		Import credit: Credit extended by UK business	63	*30*
		111	Advance and progress payments	−8	*30*
			Export credit: Suppliers' credit	−51	*30*
			Advance and progress payments	107	*30*
				111	

	Transactions in financial assets: overseas sector (1)		Balance of payments accounts(2)		*Table No. in UK Balance of Payments 1971*
17	Company and overseas securities	−85	Inward and outward investment:		
			UK private sector: direct		
			Net acquisition of share and loan capital by the UK	−178	*29*
			Net acquisition of share and loan capital in the UK	82	*29*
			Overseas investment in UK company securities:		
			Issues abroad (net)	35	*26*
			Other securities	49	*26*
			Oil and miscellaneous capital issues	6	contra 18
			Portfolio investment by UK	−79	*26*
				−85	
18	Intra-company investment	98	Outward investments by UK private sector:		
			Direct	−486	*29*
			less share and loan capital	178	*29*
			Oil and miscellaneous	−149	*26*
			Inward investment in UK private sector:		
			Direct	317	*29*
			less net acquisition of share and loan capital	−82	*29*
			Oil and miscellaneous	326	*26*
			less capital issues	−6	contra 17
				98	
19	Other private sector assets	1	Other short term flows: other commercial short-term transactions (net)	39	*31*
			less Timing, coverage and rounding differences in other items (a)+(b)+(c)+(d)+(e)	−38	contra 1, 8, 9, 13 and 15
				1	
20	Unidentified items	93	Balancing item	93	*3*
	Net acquisition of financial assets	−579	Current balance (sign reversed)	−579	*3*

(1)Acquisition of assets or reduction in liabilities by the overseas sector is shown positive; sale of assets or increase in liabilities negative.

(2) United Kingdom assets: increase −, decrease +. United Kingdom liabilities: increase +, decrease −.

(3) These two figures are combined in Table 37, *United Kingdom Balance of Payments 1971*.

(4) The differences in the bank deposits and lending figures arise partly because some institutions contribute to the external liabilities and claims series but are not included in the banking sector figures (for further details see *National Accounts Statistics: Sources and Methods, HMSO 1968*).

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